

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

FORM 10-Q

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

For the quarterly period ended December 31, 2012

OR

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

For the transition period from _____ to _____

Commission File Number 001-31668

INTEGRATED BIOPHARMA, INC.

(Exact name of registrant, as specified in its charter)

Delaware

(State or other jurisdiction of
incorporation or organization)

22-2407475

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

225 Long Ave., Hillside, New Jersey

(Address of principal executive offices)

07205

(Zip Code)

(888) 319-6962

(Registrant's telephone number, including Area Code)

Not Applicable

(Former name, former address and former fiscal year, if changed since last report)

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

Yes No

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

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

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

Yes No

Applicable only to Corporate Issuers:

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

Class
Common Stock, \$0.002 par value

Outstanding at February 14, 2013
21,080,174 Shares

INTEGRATED BIOPHARMA, INC. AND SUBSIDIARIES

**FORM 10-Q QUARTERLY REPORT
For the Six Months Ended December 31, 2012
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Disclosure Regarding Forward-Looking Statements

Certain statements in this Quarterly Report on Form 10-Q may constitute “forward-looking” statements as defined in Section 27A of the Securities Act of 1933, as amended (the “Securities Act”), Section 21E of the Securities Act of 1934, as amended (the “Exchange Act”), the Private Securities Litigation Reform Act of 1995 (the “PSLRA”) or in releases made by the Securities and Exchange Commission, 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. (the “Company”) 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 Items 1 and 1A of the Company’s Annual Report filed on Form 10-K for the year ended June 30, 2012 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 the forward-looking statements and are subject to change due inherent risks and uncertainties. The forward-looking statements contained in this Quarterly Report on Form 10-Q are made only as of the date hereof and the Company does not have or undertake any obligation to update or revise any forward-looking statements whether as a result of new information, subsequent events or otherwise, unless otherwise required by law.

ITEM 1. FINANCIAL STATEMENTS

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

	Three months ended		Six months ended	
	December 31,		December 31,	
	2012	2011	2012	2011
Sales, net	\$ 7,395	\$ 10,241	\$ 15,875	\$ 21,117
Cost of sales	6,256	7,749	13,171	15,872
Gross profit	1,139	2,492	2,704	5,245
Selling and administrative expenses	1,108	1,973	2,305	4,115
Operating income	31	519	399	1,130
Other income (expense), net				
Change in fair value of derivative liabilities	656	5	(428)	15
Forbearance fee	-	(1,000)	-	(1,000)
Other income, net	380	3	374	6
Interest expense	(239)	(286)	(487)	(547)
Other income (expense), net	797	(1,278)	(541)	(1,526)
Income (loss) before income taxes	828	(759)	(142)	(396)
Income tax expense, net	11	26	13	26
Net income (loss)	817	(785)	(155)	(422)
Interest expense on Convertible debt-CD Financial, LLC	82	-	-	-
Accretion of Convertible debt - CD Financial, LLC	27	-	-	-
Diluted net income (loss)	<u>\$ 926</u>	<u>\$ (785)</u>	<u>\$ (155)</u>	<u>\$ (422)</u>
Basic net income (loss) per common share	<u>\$ 0.04</u>	<u>\$ (0.04)</u>	<u>\$ (0.01)</u>	<u>\$ (0.02)</u>
Diluted net income (loss) per common share	<u>\$ 0.03</u>	<u>\$ (0.04)</u>	<u>\$ (0.01)</u>	<u>\$ (0.02)</u>
Weighted average common shares outstanding - basic	21,080,174	20,986,813	21,080,174	20,975,944
Add: Stock options	219,581	-	-	-
Shares issuable upon conversion of				
Convertible Debt - CD Financial, LLC	8,230,769	-	-	-
Weighted average common shares outstanding - diluted	<u>29,530,524</u>	<u>20,986,813</u>	<u>21,080,174</u>	<u>20,975,944</u>

See accompanying notes to condensed consolidated financial statements.

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

	December 31, 2012	June 30, 2012
Assets		
Current Assets:		
Cash	\$ 124	\$ 145
Accounts receivable, net	2,958	2,035
Inventories	6,493	5,290
Investment in iBio, Inc. - restricted	823	823
Other current assets	332	391
Total current assets	10,730	8,684
Intangible assets, net	1,085	1,154
Property and equipment, net	1,289	1,449
Security deposits and other assets	483	590
Total Assets	\$ 13,587	\$ 11,877
Liabilities and Stockholders' Deficiency:		
Current Liabilities:		
Advances under revolving credit facility	\$ 3,851	\$ 2,677
Accounts payable (includes \$127 and \$72 due to related party)	7,028	6,481
Accrued expenses and other current liabilities	1,438	1,549
Current portion of long term debt	875	1,496
Total current liabilities	13,192	12,203
Long term debt	5,093	4,698
Subordinated convertible note, net - CD Financial LLC	4,849	4,796
Derivative liabilities	991	563
Total liabilities	24,125	22,260
Commitments and Contingencies		
Stockholders' Deficiency:		
Common Stock, \$0.002 par value; 50,000,000 shares authorized; 21,115,074 and 21,080,174 shares issued and outstanding, respectively	42	42
Additional paid-in capital	44,568	44,568
Accumulated deficit	(55,049)	(54,894)
Less: Treasury stock, at cost, 34,900 shares	(99)	(99)
Total Stockholders' Deficiency	(10,538)	(10,383)
Total Liabilities and Stockholders' Deficiency	\$ 13,587	\$ 11,877

See accompanying notes to condensed consolidated financial statements.

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

	Six months ended	
	December 31,	
	2012	2011
Cash flows used in operating activities:		
Net loss	\$ (155)	\$ (422)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	213	240
Accretion of financing instruments	113	-
Forbearance fee payable	-	1,000
Financing costs for stock issued in connection with Convertible Note Payable	-	6
Change in fair value of derivative liabilities	428	(15)
Loss (gain) on sale of fixed assets	6	(5)
Compensation expense for employee stock options	-	10
Changes in assets and liabilities:		
Decrease (increase) in:		
Accounts receivable	(923)	(75)
Inventories	(1,203)	1,714
Other current assets	59	(27)
Security deposits and other assets	47	(3)
(Decrease) increase in:		
Accounts payable	547	(3,204)
Accrued expenses and other liabilities	(111)	525
Net cash used in operating activities	(979)	(256)
Cash flows from investing activities:		
Purchase of property and equipment	(8)	(7)
Proceeds from sale of property and equipment	18	5
Net cash provided by (used in) investing activities	10	(2)
Cash flows from financing activities:		
Advances under revolving credit facility	17,076	-
Repayments under revolving credit facility	(15,902)	-
Payments under term notes	(226)	-
Payments under capital lease obligations	-	(20)
Net cash provided by (used in) financing activities	948	(20)
Net decrease in cash	(21)	(278)
Cash at beginning of period	145	725
Cash at end of period	\$ 124	\$ 447
Supplemental disclosures of cash flow information:		
Cash paid during the periods for:		
Interest	\$ 298	\$ 513
Income taxes	\$ 13	\$ -

See accompanying notes to condensed consolidated financial statements.

Note 1. Principles of Consolidation and Basis of Presentation

Basis of Presentation of Interim Financial Statements

The accompanying condensed consolidated financial statements for the interim periods are unaudited and include the accounts of Integrated BioPharma, Inc., a Delaware corporation (together with its subsidiaries, the “Company”). The interim condensed consolidated financial statements have been prepared in conformity with Rule 10-01 of Regulation S-X of the Securities and Exchange Commission (“SEC”) and therefore do not include information or footnotes necessary for a complete presentation of financial position, results of operations and cash flows in conformity with accounting principles generally accepted in the United States of America. However, all adjustments (consisting only of normal recurring adjustments) which are, in the opinion of management, necessary for a fair presentation of the financial position and operating results for the periods presented have been included. These condensed consolidated financial statements should be read in conjunction with the financial statements and notes thereto, together with Management’s Discussion and Analysis of Financial Condition and Results of Operations, contained in the Company’s Annual Report on Form 10-K for the fiscal year ended June 30, 2012 (“Form 10-K”), as filed with the SEC. The June 30, 2012 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 and six months ended December 31, 2012 are not necessarily indicative of the results for the full fiscal year ending June 30, 2013 or for any other period.

Nature of Operations

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

The Company’s 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.

Significant Accounting Policies

There have been no material changes during fiscal year 2013 in the Company’s significant accounting policies to those previously disclosed in the Company’s Annual Report on Form 10-K for the fiscal year ended June 30, 2012.

Investment in iBio, Inc.- Restricted. 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 each of the three and six month periods ended December 31, 2012 and 2011. The market value of the iBio Stock as of December 31, 2012 was approximately \$0.8 million. Pursuant to the

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Company's Loan Agreement with PNC Bank, National Association ("PNC"), the Company is required to sell the iBio Stock when the trading price of the iBio Stock is less than \$0.88 per share for a period of fifteen (15) consecutive trading days on the applicable exchange and utilize all proceeds from such sale to prepay the outstanding principal of the term loan outstanding under the Loan Agreement at such time. In the three month period ended December 31, 2012, the trading price of the iBio Stock was less than \$0.88 for a period of fifteen (15) consecutive trading days. (See Note 5. Senior Credit Facility, Subordinated Convertible Note Payable, net - CD Financial, LLC and other Long Term Debt). As of February 19, 2013, the Company has not sold any shares of the iBio Stock; however, the Company will be selling shares in the near term and using such net proceeds to prepay the term note with PNC.

Earnings Per Share. Basic earnings per common share amounts are based on the 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, and warrants, subject to anti-dilution limitations using the treasury stock method and the assumed conversion shares of all potentially dilutive convertible notes payable subject to anti-dilution limitations using the if converted method.

The following options, warrants and potentially dilutive shares of convertible notes payable (see Note 5. Senior Credit Facility, Subordinated Convertible Note Payable, net - CD Financial, LLC and other Long Term Debt) were not included in the computation of weighted average diluted common shares outstanding as the effect of doing so would be anti-dilutive for the three and six months ended December 31, 2012 and 2011:

	Three Months Ended		Six Months Ended	
	December 31,		December 31,	
	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>
Anti-dilutive stock options	2,176,588	2,942,505	2,811,088	2,942,505
Anti-dilutive warrants	500,000	500,000	500,000	500,000
Potentially dilutive shares				
of convertible notes payable	-	2,250,000	8,230,769	2,250,000
Total anti-dilutive shares	<u>2,676,588</u>	<u>5,692,505</u>	<u>11,541,857</u>	<u>5,692,505</u>

Stock options to purchase or otherwise obtain 634,500 shares of common stock, however, were included in the diluted earnings per share computation for earnings per share in the three month period ended December 31, 2012 as their exercise prices were less than the market price of the common shares as of December 31, 2012.

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Note 2. Inventories

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

	December 31, 2012	June 30, 2012
Raw materials	\$ 3,006	\$ 2,502
Work-in-process	1,541	1,344
Finished goods	1,946	1,444
Total	\$ 6,493	\$ 5,290

Note 3. Intangible Assets, net

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

	December 31, 2012			June 30, 2012		
	Gross Carrying	Accumulated	Net	Gross Carrying	Accumulated	Net
	Amount	Amortization		Amount	Amortization	
Trade names and patents	\$ 1,525	\$ 701	\$ 824	\$ 1,525	\$ 663	\$ 862
Unpatented technology	547	440	107	547	420	127
License agreement	347	193	154	347	182	165
Total	\$ 2,419	\$ 1,334	\$ 1,085	\$ 2,419	\$ 1,265	\$ 1,154

Amortization expense recorded on intangible assets for each of the three and six months ended December 31, 2012 and 2011 was \$34 and \$69, respectively. Amortization expense is recorded on the straight-line method over periods ranging from 10 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, remaining	\$ 68
2014	137
2015	137
2016	104
2017	97
2018	97
Thereafter	445
Total	\$ 1,085

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Note 4. Property and Equipment, net

Property and equipment, net consists of the following as of:

	December 31, 2012	June 30, 2012
Land and building	\$ 1,250	\$ 1,250
Leasehold improvements	1,132	1,132
Machinery and equipment	4,837	5,017
Transportation equipment	59	59
	<u>7,278</u>	<u>7,458</u>
Less: Accumulated depreciation and amortization	(5,989)	(6,009)
Total	<u>\$ 1,289</u>	<u>\$ 1,449</u>

Depreciation and amortization expense was \$73 and \$86 for the three and six months ended December 31, 2012 and 2011, respectively. In the three and six months ended December 31, 2012, the Company disposed of property and equipment with an original cost of \$188 for net proceeds of \$18. For the three and six months ended December 31, 2011, the Company disposed of fully depreciated property and equipment with an original cost of \$6 for net proceeds of \$5.

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

As of December 31 and June 30, 2012, the Company had the following debt outstanding:

	Principal Amount		Interest Rate	Maturity Date
	As of December 31, 2012	As of June 30, 2012		
Revolving advances under Senior Credit Facility with PNC Bank, National Association	\$ 3,851	\$ 2,677	3.25%	6/27/2017
Installment Note with PNC Bank	3,505	3,727	3.75%	6/27/2017
Promissory Note with CD Financial, LLC	1,714	1,714	6.00%	7/7/2017
Promissory Note with Vitamin Realty, LLC	686	686	4.00%	7/7/2017
Promissory Note with E. Gerald Kay	27	27	4.00%	7/7/2017
Promissory Note with Acura Financial Services	36	40	1.90%	4/15/2017
Total outstanding debt	<u>9,819</u>	<u>8,871</u>		
Less: Revolving Advances	(3,851)	(2,677)		
Current portion of long term debt	(875)	(1,496)		
Long term debt	<u>\$ 5,093</u>	<u>\$ 4,698</u>		
Convertible Note payable - CD Financial, LLC	\$ 5,350	\$ 5,350	6.00%	7/7/2017
Discount for embedded derivative	(501)	(554)		
Convertible Note payable, net - CD Financial, LLC	<u>\$ 4,849</u>	<u>\$ 4,796</u>		

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SENIOR CREDIT FACILITY

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

The Loan Agreement provides for a total of \$11,727 in senior secured financing (the “Senior Credit Facility”) as follows: (i) discretionary advances (“Revolving Advances”) based on eligible accounts receivable and eligible inventory in the maximum amount of \$8,000 (the “Revolving Credit Facility”) and (ii) a term loan in the amount of \$3,727 (the “Term Loan”). The Senior Credit Facility is secured by all assets of the Borrowers, including, without limitation, machinery and equipment, real estate owned by IHT Properties, and the iBio Stock 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 December 31 and 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 December 31 and 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”).

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

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aggregate amount of payments made with 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. As of December 31, 2012, the Company is in compliance with the fixed charge coverage ratio maintenance requirement.

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

In addition, in connection with the Senior Credit Facility, the following loan documents were executed: (i) 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”). 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 as the undiscounted cash flows of the restructured debt was greater than the carrying amount of the debt prior to the restructuring.

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

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Liquidity Note may only be repaid if certain conditions under the Loan Agreement are satisfied, and (iii) interest in respect of the CD Notes may only be paid if certain conditions under the Intercreditor Agreement are satisfied.

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

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

As of December 31 and June 30, 2012, the related embedded derivative liability with respect to conversion price protection provisions on the CD Convertible Note has an estimated fair value of \$988 and \$555, respectively.

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

	December 31, 2012	June 30, 2012	Issuance Date- June 27, 2012
Risk Free Interest Rate	0.72%	0.72%	0.72%
Volatility	140.30%	144.10%	144.10%
Term	4.5 years	5 years	5 years
Dividend Rate	0.00%	0.00%	0.00%
Closing Price of Common Stock	\$ 0.16	\$ 0.09	\$ 0.09

OTHER LONG TERM DEBT

On June 27, 2012, MDC and the Company entered into separate promissory notes with (i) Vitamin Realty Associates, LLC (“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, and (ii) 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 7. 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. The Related Party Notes mature on July 7, 2017 and accrue interest at an annual rate of 4% per annum. Interest in respect of the Related Party Notes is payable on the first business day of each calendar month. Pursuant to the terms of the Loan Agreement, during the effectiveness of the Senior Credit Facility, the Related Party Notes may only be repaid or prepaid if certain conditions set forth in the Loan Agreement are satisfied.

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Note 6. Significant Risks and Uncertainties

(a) Major Customers. For the three and six months ended December 31, 2012, approximately 73% and 72%, respectively of total net sales were derived from two customers as compared to approximately 84% and 81% of total net sales derived from two customers in the three and six months ended December 31, 2011, respectively. Accounts receivable as of December 31, 2012 from these customers represented approximately 47% of total accounts receivable. The loss of any of these customers would have an adverse affect on the Company's operations. Major customers are those customers who account for more than 10% of net sales.

(b) Other Business Risks. Approximately 61% the Company's employees are covered by a union contract and are employed in its New Jersey facilities. The union contract was renewed in May 2012 and expires in August 2015.

Note 7. Commitments and Contingencies

(a) Leases

Related Party Leases. Warehouse and office facilities are leased from Vitamin Realty. 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.

Rent expense for the three and six months ended December 31, 2012 and 2011 on these leases were \$196 and \$172 and \$391 and \$355, respectively, and are included in both cost of sales and selling and administrative expenses in the accompanying Condensed Consolidated Statements of Operations. As of December 31, 2012 and June 30, 2012, the Company had an outstanding obligation to Vitamin Realty of \$838 and \$776, respectively, included in accounts payable and long term debt in the accompanying Condensed Consolidated Balance Sheet.

Other Lease Commitments. The Company has entered into certain non-cancelable operating lease agreements expiring up through January 31, 2026, related to office and warehouse space, equipment and vehicles.

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

Year ending June 30,	Lease Commitment	Related Party Lease Commitment	Total
2013, remaining	\$ 25	\$ 281	\$ 306
2014	27	563	590
2015	12	563	575
2016	13	563	576
2017	4	563	567
2018	-	563	563
Thereafter	-	4,060	4,060
Total	\$ 81	\$ 7,156	\$ 7,237

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Total rent expense, including real estate taxes and maintenance charges, was approximately \$239 and \$267 and \$500 and \$543 for the three and six months ended December 31, 2012 and 2011, respectively. Rent expense is included in cost of sales and selling and administrative expenses in the accompanying Condensed Consolidated Statements of Operations.

(b) Legal Proceedings.

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

(c) Other Claims.

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

On May 30, 2012, the Company sent a letter responding to the Demand Letter and setting forth the Company's position that it has no obligation to indemnify Cedarburg as demanded. On June 18, 2012, Cedarburg responded to the Company's letter and, on July 27, 2012, the Company sent another letter to Cedarburg reiterating its position that the Company has no obligation to indemnify Cedarburg as demanded. On December 18, 2012, Cedarburg responded to the Company's letter and, on January 15, 2013, the Company sent another letter to Cedarburg reiterating its position that the Company has no obligation to indemnify Cedarburg as demanded. As of February 19, 2013, the Company has not received any further communication from Cedarburg with respect to its demand for indemnification as set forth in the Demand Letter. The Company intends to vigorously contest Cedarburg's demand as set forth in the Demand Letter.

Note 8. Related Party Transactions

On June 27, 2012, Carl DeSantis, a director and major shareholder of the Company and a member of CD Financial and E. Gerald Kay, the Company's Chief Executive Officer, Chairman of the Board, President and a major shareholder each entered into Limited Guaranty Agreements with PNC in the amount of \$1.0 million each. (See Note 5. Senior Credit Facility, Subordinated Convertible Note 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 5. Senior Credit Facility, Subordinated Convertible Note Payable, net - CD Financial, LLC and other Long Term Debt for related party securities transactions.

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

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

Certain statements set forth under this caption constitute "forward-looking statements." See "Disclosure Regarding Forward-Looking Statements" on page 1 of this Quarterly Report on Form 10-Q for additional factors relating to such statements. The following discussion should also be read in conjunction with the condensed consolidated financial statements of the Company and Notes thereto included herein and the Company's Annual Report on Form 10-K for the fiscal year ended June 30, 2012.

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

Business Outlook

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

Our management team continues to focus on expanding our customer base to decrease our financial reliance on our historical major customers. In the three and six months ended December 31, 2012, our sales to our major customers decreased to approximately 73% and 72%, respectively, of net sales from approximately 84% and 80% of net sales in the three and six months ended December 31, 2011, respectively. We believe that this expansion in our customer base may lead to more sales as each of these new customers should increase the volume of business in the future. We experienced this in the six month period ended December 31, 2012 with the decline of sales from one major customer, Costco Wholesale Corporation, being replaced with a new major customer, Life Extensions. Additionally, if our anticipated sales volumes growth is met, our fixed overhead costs will be allocated over more sales and ultimately decrease as a percentage of sales.

In the three months ended December 31, 2012, we recovered approximately \$0.4 million in gross profits, among other refunded costs of inventory purchased from our contract manufacturer in the branded nutraceutical product line and non reimbursable promotional discounts charged by our customers (aggregating approximately \$0.7 million), as a result of manufacturing defects in our products purchased from the contract manufacturer that we could not sell through to our customers. We have worked with our current manufacturer to ascertain that they have corrected the issues we encountered in this three month period and began modifying the taste of our product, as well as the manufacturing process, to meet the changing demand of our customers. These changes are expected to occur in the three months ending March 31, 2013.

In the six months ended December 31, 2012, our income from operations was approximately \$0.4 million, which, along with the \$0.4 million of gross profits recovered from our contract manufacturer, covered our debt service requirements and provided additional cash flows to pay our suppliers in a more timely manner than in the past and improve relations with them.

Critical Accounting Policies and Estimates

There have been no changes to our critical accounting policies in the six months ended December 31, 2012. Critical accounting policies and the significant estimates made in accordance with them are regularly discussed by management with our Audit Committee. Those policies are discussed under "Critical Accounting Policies" in our

“Management’s Discussion and Analysis of Financial Condition and Results of Operations” included in Item 7 of our Annual Report on Form 10-K for the year ended June 30, 2012.

Results of Operations

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

	For the three months ended December 31,		For the six months ended December 31,	
	2012	2011	2012	2011
Sales, net	100.0%	100.0%	100.0%	100.0%
Costs and expenses:				
Cost of sales	84.6%	75.7%	83.0%	75.2%
Selling and administrative	15.0%	19.3%	14.5%	19.5%
	<u>99.6%</u>	<u>94.9%</u>	<u>97.5%</u>	<u>94.6%</u>
Income from operations	<u>0.4%</u>	<u>5.1%</u>	<u>2.5%</u>	<u>5.4%</u>
Other income (expense), net				
Change in fair value of derivative liabilities	8.9%	0.0%	(2.7%)	0.1%
Interest expense	(3.2%)	(2.8%)	(3.1%)	(2.6%)
Forbearance fee	-	(9.8%)	-	(4.7%)
Other income, net, primarily recovery	5.1%	0.0%	2.4%	0.0%
Other income (expense), net	<u>10.8%</u>	<u>(12.5%)</u>	<u>(3.4%)</u>	<u>(7.2%)</u>
Income (loss) before income taxes	11.2%	(7.4%)	(0.9%)	(1.9%)
Federal and state income taxes, net	<u>0.2%</u>	<u>0.3%</u>	<u>0.1%</u>	<u>0.1%</u>
Net income (loss)	<u>11.0%</u>	<u>(7.7%)</u>	<u>(1.0%)</u>	<u>(2.0%)</u>

For the six months ended December 31, 2012 compared to the six months ended December 31, 2011

Sales, net. Sales, net, for the six months ended December 31, 2012 and 2011 were \$15.9 million and \$21.1 million, respectively, a decrease of 25%, and are comprised of the following:

	Six months ended December 31,		Dollar Decrease	Percentage Change
	2012	2011	2012 vs 2011	2012 vs 2011
	<i>(amounts in thousands)</i>			
Nutraceuticals - U.S. Customers	\$10,232	\$13,207	\$ (2,975)	(22.5%)
Nutraceuticals - International Customers	5,643	7,910	(2,267)	(28.7%)
Total	<u>\$15,875</u>	<u>\$21,117</u>	<u>\$ (5,242)</u>	<u>(24.8%)</u>

For the six months ended December 31, 2012, approximately 72% of total net sales were derived from two customers as compared to approximately 81% of total net sales from two customers for the six months ended December 31, 2011. The loss of any 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 of (i) \$3.9 million to one of our significant customers, Costco Wholesale Corporation, in our proprietary branded nutraceutical product line (this includes a reduction in sales of approximately \$0.6 million as a result of returns of product purchased from a contract manufacturer that were not manufactured in accordance with our manufacturing specifications – see Other expense, net), (ii) \$0.1 million to other customers in our branded nutraceutical product line and (iii) approximately \$0.8 million in our contract manufacturing product sales primarily due to decreased sales volumes

to our major customer, Herbalife of \$2.7 million, offset in part, by increases in sales to a new customer, Life Extensions, of \$1.8 million.

Cost of sales. Cost of sales decreased by \$2.7 million to \$13.2 million for the six months ended December 31, 2012, as compared to \$15.9 million for the six months ended December 31, 2011. Cost of sales increased as a percentage of sales to 83.0% for the six months ended December 31, 2012 as compared to 75.2% for the six months ended December 31, 2011. The decrease in the cost of sales 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, which has a higher cost of goods sold percentage (approximately 85%) as compared to the proprietary branded nutraceutical product line (approximately 67%).

Selling and Administrative Expenses. Selling and administrative expenses were \$2.3 million for the six months ended December 31, 2012, as compared to \$4.1 million for the six months ended December 31, 2011, a decrease of approximately \$1.8 million or 44%. As a percentage of sales, net, selling and administrative expenses were 14.5% for the six months ended December 31, 2012 and 19.5% for the prior comparable period.

The net decrease in selling and administrative expenses of \$1.8 million is mainly due to decreases in advertising and other marketing expenses of \$1.1 million and compensation and employee benefits of \$0.2 million. Other selling and administrative expenses such as warehouse, office expenses, professional fees, commissions and other expenses as a group decreased by approximately \$0.5 million, each individual classification decreased by less than \$0.1 million from the prior comparable period.

Our advertising and marketing costs decreased by approximately \$1.1 million in the six months ended December 31, 2012 compared to the six months ended December 31, 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 1.9% in the six months ended December 31, 2012 compared to 6.9% in the six months ended December 31, 2011. The decrease in marketing and advertising expenses is a direct result of the decreases in sales of approximately \$3.6 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 compensation and employee benefits decreased by \$0.2 million as a result of decreasing our staff primarily as a result of closing our warehouse facility in Texas.

Other expense, net. Other expense, net was approximately \$0.5 million for the six months ended December 31, 2012 compared to \$1.5 million for the six months ended December 31, 2011, and is composed of:

	Six months ended December 31,	
	2012	2011
	(dollars in thousands)	
Interest expense	\$ (487)	\$ (547)
Other (expense) income:		
Change in fair value of derivative instruments	(428)	15
Forbearance fee	-	(1,000)
Other income, net, primarily recovery	374	7
Other expense, net	<u>\$ (541)</u>	<u>\$ (1,525)</u>

The change in fair value of derivative liabilities was mainly the result of the increase in the trading price of our common stock from \$0.09 as of June 30, 2012 to \$0.16 as of December 31, 2012. The closing trading price of our stock is one of the variables used to calculate the estimated fair value of our derivative liabilities associated with the underlying derivative instruments. The forbearance fee was incurred in connection with the Forbearance

Agreement dated as of October 4, 2011 (the “Forbearance Agreement”), between the Company and the collateral agent for holders of certain notes payable of the Company which have been refinanced with the PNC loan facility (see Note 5 to the accompanying financial statements). In the six months ended December 31, 2012, we recovered approximately \$0.4 million in gross profits as a result of manufacturing defects in our products purchased from the contract manufacturer that we could not sell through to our customers.

Federal and state income tax, net. For the six months ended December 31, 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 six months ended December 31, 2012 was \$0.2 million as compared to a net loss of \$0.4 million for the six months ended December 31, 2011. The change in net loss of approximately \$0.2 million is primarily the result of the decrease in other expense of approximately \$1.0 million and offset, in part, by a decrease in income from operations of approximately \$0.7 million.

For the three months ended December 31, 2012 compared to the three months ended December 31, 2011

Sales, net. Sales, net, for the three months ended December 31, 2012 and 2011 were \$7.4 million and \$10.2 million, respectively, a decrease of 28%, and are comprised of the following:

	Three months ended December 31,		Dollar Decrease	Percentage Change
	2012	2011	2012 vs 2011	2012 vs 2011
	<i>(amounts in thousands)</i>			
Nutraceuticals - U.S. Customers	\$ 4,270	\$ 5,639	\$ (1,369)	(24.3%)
Nutraceuticals - International Customers	3,125	4,602	(1,477)	(32.1%)
Total	\$ 7,395	\$10,241	\$ (2,846)	(27.8%)

For the three months ended December 31, 2012, approximately 73% of total net sales were derived from two customers as compared to approximately 84% of total net sales from two customers for the three months ended December 31, 2011. The loss of any of these customers could have an adverse affect on our operations.

The decrease in our net sales of approximately \$2.8 million is primarily the result of the decrease in the volume of sales of (i) \$2.3 million to one of our significant customers, Costco Wholesale Corporation, in our proprietary branded nutraceutical product line (this includes a reduction in sales of approximately \$0.6 million as a result of returns of product purchased from a contract manufacturer that were not manufactured in accordance with our manufacturing specifications – see Other income (expense), net), (ii) \$0.1 million to other customers in our branded nutraceutical product line and (iii) approximately \$0.4 million in our contract manufacturing product sales primarily due to decreased sales volumes to our major customer, Herbalife of \$1.5 million, offset in part, by increases in sales to a new customer of \$1.1 million.

Cost of sales. Cost of sales decreased by \$1.5 million to \$6.3 million for the three months ended December 31, 2012, as compared to \$7.7 million for the three months ended December 31, 2011. Cost of sales increased as a percentage of sales to 84.6% for the three months ended December 31, 2012 as compared to 75.7% for the three months ended December 31, 2011. The decrease in the cost of sales 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, which has a higher cost of goods sold percentage (approximately 86%) as compared to the proprietary branded nutraceutical product line (approximately 72%).

Selling and Administrative Expenses. Selling and administrative expenses were \$1.1 million for the three months ended December 31, 2012, as compared to \$2.0 million for the three months ended December 31, 2011, a decrease of approximately \$0.9 million or 44%. As a percentage of sales, net, selling and administrative expenses were 15.0% for the three months ended December 31, 2012 and 19.3% for the prior comparable period.

The net decrease in selling and administrative expenses of \$0.9 million is mainly due to decreases in advertising and other marketing expenses of \$0.5 million. Other selling and administrative expenses such as employee costs, warehouse, office expenses, professional fees, commissions and other expenses as a group decreased by approximately \$0.4 million, with each individual classification decreasing by less than seventy thousand dollars from the prior comparable period.

Our advertising and marketing costs decreased by approximately \$0.5 million in the three months ended December 31, 2012 compared to the three months ended December 31, 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 4.5% in the three months ended December 31, 2012 compared to 18.4% in the three months ended December 31, 2011. The decrease in marketing and advertising expenses is a direct result of the decreases in sales of approximately \$1.6 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.

All other selling and administrative expenses decreased by an aggregate amount of \$0.4 million in the three months ended December 31, 2012 from the three month period ended December 31, 2011, primarily from the closing of our Texas warehouse facility in Dallas and secondarily from the decrease in sales as certain of our selling expenses, such as commissions, are variable expenses based on a percentage of sales. Other costs such as professional fees are also lower as a result of no longer being in default of our debt.

Other income (expense), net. Other income (expense), net was approximately \$0.8 million of other income, net for the three months ended December 31, 2012 compared to approximately \$1.3 million other expense, net for the three months ended December 31, 2011, and is composed of:

	Three months ended December 31,	
	2012	2011
	(dollars in thousands)	
Interest expense	\$ (239)	\$ (286)
Other (expense) income:		
Change in fair value of derivative instruments	656	5
Forbearance fee	-	(1,000)
Other income, net, primarily recovery	380	3
Other income (expense), net	<u>\$ 797</u>	<u>\$ (1,278)</u>

The change in fair value of derivative liabilities was mainly the result of the decrease in the trading price of our common stock from \$0.25 as of September 30, 2012 to \$0.16 as of December 31, 2012. The closing trading price of our stock is one of the variables used to calculate the estimated fair value of our derivative liabilities associated with the underlying derivative instruments. The forbearance fee was incurred in connection with the Forbearance Agreement. In the three months ended December 31, 2012, we recovered approximately \$0.4 million in gross profits, as a result of manufacturing defects in our products purchased from the contract manufacturer that we could not sell through to our customers.

Federal and state income tax, net. For the three months ended December 31, 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 income (loss). Our net income for the three months ended December 31, 2012 was \$0.8 million as compared to net loss of \$0.8 million for the three months ended December 31, 2011. The change in net income (loss) of approximately \$1.6 million is primarily the result of the decrease in other income (expense) of \$2.1 million and a decrease in income from operations of approximately \$0.5 million.

Seasonality

The nutraceutical business tends to be seasonal. We have found that in our first fiscal quarter ending on September 30th of each year, orders for our branded proprietary nutraceutical products usually slow (absent the addition of new customers or a new product launch with a significant first time order), as buyers in various markets may have purchased sufficient inventory to carry them through the summer months. Conversely, in our second fiscal quarter, ending on December 31st of each year, orders for our products increase as the demand for our branded nutraceutical products 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 used in operating, investing and financing activities, its period end cash and cash equivalents and other operating measures:

	For the six months ended December 31,	
	2012	2011
	<i>(dollars in thousands)</i>	
Net cash used in operating activities	\$ (979)	\$ (256)
Net cash provided by (used in) investing activities	\$ 10	\$ (2)
Net cash provided by (used in) financing activities	\$ 948	\$ (20)
Cash at end of period	\$ 124	\$ 447

At December 31, 2012, our working capital deficit was approximately \$2.5 million, a decrease of approximately \$1.0 million in our working capital deficit of approximately \$3.5 million at June 30, 2012. Our current assets increased by approximately \$2.0 million and our current liabilities increased by approximately \$1.0 million.

Net cash used in operating activities of \$1.0 million in the six months ended December 31, 2012, includes net loss of approximately \$0.2 million. After excluding the effects of non-cash expenses, including depreciation and amortization, and changes in the fair value of derivative liabilities, the adjusted cash provided from operations before the effect of the changes in working capital components was \$0.6 million. Cash was used in operations from our working capital assets and liabilities in the amount of approximately \$1.5 million and was primarily the result of increases in accounts receivable of \$0.9 million and inventories of \$1.2 million offset, in part, by a net increase in accounts payable and accrued expenses and other liabilities of approximately \$0.4 million.

Net cash used in operating activities of \$0.3 million in the six months ended December 31, 2011, includes a net loss of \$0.4 million. After excluding the effects of non-cash expenses, including depreciation and amortization, compensation expense for employee stock options and consultants and changes in the fair value of derivative liabilities, the adjusted cash provided from operations before the effect of the changes in working capital components was \$0.8 million. Cash was used in operations from our working capital assets and liabilities in the amount of approximately \$1.1 million and was primarily the result of a decrease in accounts payable and accrued expenses of \$2.6 million, offset, in part, by a decrease in inventories of approximately \$1.7 million.

Cash provided by investing activities was from the sale of machinery and equipment of \$18,000 and \$5,000, offset by the use of cash for the purchase of fixed assets of approximately \$8,000 and \$7,000 in the six months ended December 31, 2012 and 2011, respectively.

Cash provided by financing activities was approximately \$0.9 million for the six months ended December 31, 2012, \$17.0 million from advances under our revolving credit facility offset by payments under our revolving credit facility of \$15.9 million and repayments of principal under our term note in the amount of \$0.2 million. Cash used in financing activities was approximately \$20,000 for the six months ended December 31, 2011 for payments under our capitalized lease obligation.

As of December 31, 2012, we had cash of \$0.1 million, funds available under our revolving credit facility of approximately \$0.8 million and a working capital deficit of \$2.5 million. Our working capital deficit includes \$3.8 million outstanding under our revolving line of credit which is not due until July 2017 but classified as current due to a subjective acceleration clause that could cause the advances to become currently due. (See Note 5 to the condensed consolidated financial statements included in this Quarterly Report on Form 10-Q). Furthermore, although we had a loss for the six months ended December 31, 2012, we had income from operations of approximately \$0.4 million in the six months ended December 31, 2012. After taking into consideration our interim results and current projections, management believes that operations, together with the revolving credit facility will support our working capital requirements through the period ending December 31, 2013.

Our total annual commitments at December 31, 2012 for long term non-cancelable leases of approximately \$591,000 consists of obligations under operating leases for facilities and operating lease agreements for the rental of warehouse equipment, office equipment and automobiles.

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

On May 30, 2012, we sent a letter responding to the Demand Letter and setting forth our position that we have no obligation to indemnify Cedarburg as demanded. On June 18, 2012, Cedarburg responded to our letter and, on July 27, 2012, we sent another letter to Cedarburg reiterating our position that we have no obligation to indemnify Cedarburg as demanded. On December 18, 2012, Cedarburg responded to our letter and, on January 15, 2013, we sent another letter to Cedarburg reiterating our position that we have no obligation to indemnify Cedarburg as demanded. As of February 19, 2013, 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 six months ended December 31, 2012 and 2011 were approximately \$8,000 and \$7,000, 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 and from lease financing.

Off-Balance Sheet Arrangements

The Company has no off-balance sheet arrangements.

Recent Accounting Pronouncements

None.

Impact of Inflation

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

Item 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Not applicable.

Item 4. CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

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

Under the supervision and with the participation of management, including the Chief Executive Officer and Chief Financial Officer, the Company has evaluated the effectiveness of its disclosure controls and procedures (as such term is defined in Rule 13a-15(e) and 15d-15(e) under the Exchange Act) as of December 31, 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

No change in our internal control over financial reporting occurred during the three and six months ended December 31, 2012 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II – OTHER INFORMATION

Item 1. LEGAL PROCEEDINGS

None.

Item 1A. Risk Factors

The risks described in Item 1A, Risk Factors, in our Annual Report on Form 10-K for the year ended June 30, 2012, could materially and adversely affect our business, financial condition and results of operations. The risk factors discussed in that Form 10-K do not identify all risks that we face because our business operations could also be affected by additional factors that are not presently known to us or that we currently consider to be immaterial to our operations. There have been no material changes to our risk factors from those disclosed in our Form 10-K for the year ended June 30, 2012.

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

None.

Item 3. DEFAULTS UPON SENIOR SECURITIES

None.

Item 4. MINE SAFETY DISCLOSURE

Not Applicable.

Item 5. OTHER INFORMATION

None.

Item 6. EXHIBITS

(a) Exhibits

Exhibit Number

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.
101	The following financial information from Integrated BioPharma, Inc.'s Quarterly Report on Form 10-Q for the quarter ended December 31, 2012, formatted in XBRL (eXtensible Business Reporting Language): (i) Condensed Consolidated Statements of Operations for the three and six months ended December 31, 2012 and 2011, (ii) Condensed Consolidated Balance Sheets as of December 31, 2012 and June 30, 2012, (iii) Condensed Consolidated Statements of Cash Flows for the six months ended December 31, 2012 and 2011, and (iv) the Notes to Condensed Consolidated Statements.

SIGNATURES

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

INTEGRATED BIOPHARMA, INC.

Date: February 19, 2013

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

Date: February 19, 2013

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

Certification of Chief Executive Officer

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

I, E. Gerald Kay certify that:

1. I have reviewed this quarterly report on Form 10-Q of Integrated BioPharma, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting.
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 19, 2013

By: /s/ E. Gerald Kay

Name: E. Gerald Kay

Title: President and Chief Executive Officer

Certification of Chief Financial Officer

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

I, Dina L. Masi, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Integrated BioPharma, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting.
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 19, 2013

By: /s/ Dina L. Masi

Name: Dina L. Masi

Title: Chief Financial Officer & Senior Vice President

CERTIFICATION OF PERIODIC REPORT

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

In connection with the Quarterly Report on Form 10-Q for the first quarter ended December 31, 2012 of Integrated BioPharma, Inc. (the “Company”) as filed with the Securities and Exchange Commission on the date hereof (the “Report”), E. Gerald Kay, the President and Chief Executive Officer of Integrated BioPharma, Inc. certifies, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. Section 1350, that to his knowledge:

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

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

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

Dated: February 19, 2013

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

CERTIFICATION OF PERIODIC REPORT

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

In connection with the Quarterly Report on Form 10-Q for the first quarter ended December 31, 2012 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: February 19, 2013

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