INTEGRATED BIOPHARMA INC
Form 10QSB
May 16, 2005

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-QSB

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal quarter ended March 31, 2005   Commission file number: 000-28876

INTEGRATED BIOPHARMA, INC.
(Exact name of small business issuer as specified in its charter)

Delaware	22-2407475
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

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

Check whether the issuer filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the preceding 12 months (or for such shorter period that the issuer was required to file such reports), and (2) has been subject to the filing requirements for the past 90 days. Yes [X] No [ ]

The number of shares outstanding of the issuer's Common Stock as of April 30, 2005 was 12,630,790 shares.

INTEGRATED BIOPHARMA, INC.

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Report of Independent Registered Public Accounting Firm

We have reviewed the accompanying consolidated balance sheets of Integrated BioPharma, Inc. and consolidated subsidiaries as of March 31, 2005 and the related consolidated statements of operations for the three-month and nine-month period ended March 31, 2005, consolidated statement of stockholders' equity for the nine-months ended March 31, 2005 and consolidated cash flows for the nine-months ended March 31, 2005. These interim financial statements are the responsibility of the Company's management.

We conducted our review in accordance with the standards of the Public Company Accounting Oversight Board (United States). A review of interim financial information consists principally of applying analytical procedures and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with the standards of the Public Company Accounting Oversight Board, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our review, we are not aware of any material modifications that should be made to the accompanying interim financial statements for them to be in conformity with U.S. generally accepted accounting principles.

/s/ Amper, Politziner & Mattia P.C.

May 5, 2005
Edison, New Jersey

Part 1-FINANCIAL INFORMATION

Item 1. Financial Statements

INTEGRATED BIOPHARMA, INC.

CONSOLIDATED BALANCE SHEET AS OF MARCH 31, 2005
(UNAUDITED)

Assets:	
Current Assets:	
Cash and Cash Equivalents	$ 2,906,396
Accounts Receivable - Net	4,099,875
Inventories - Net	10,310,569
Prepaid Expenses and Other Current Assets	1,299,126
Other Assets	192,529
Deferred Income Taxes	85,000
Total Current Assets	18,893,495
Property and Equipment - Net	7,450,370
Other Assets:	
Goodwill	688,138
Intangible Assets, Net	3,843,908
Investment in Joint Venture	121,388
Deferred Income Taxes	48,000
Security Deposits and Other Assets	181,547
Total Other Assets	4,882,981
Total Assets	$31,226,846

See accompanying notes to condensed consolidated financial statements.

INTEGRATED BIOPHARMA, INC.

CONSOLIDATED BALANCE SHEET AS OF MARCH 31, 2005
(UNAUDITED)

Liabilities and Stockholders' Equity:	
Current Liabilities:	
Note Payable - Bank	$ 4,500,000
Accounts Payable	3,506,945
Accrued Expenses and Other Current Liabilities	1,187,500
Federal and State Income Taxes Payable	28,500
Loan Payable-Trade Investment Services, LLC, related party	172,260
Total Current Liabilities	9,395,205
Commitments and Contingencies (See Note 11)	--
Series B 7% Redeemable Convertible Preferred Stock net of beneficial conversion feature, warrants issued and issuance costs - $.002 Par Value; 1,250 shares authorized; 700 shares issued and outstanding - Liquidation Preference of $7,000,000	2,209,000
Minority interest	370,978
Stockholders' Equity:	
Preferred Stock - Authorized 1,000,000 Shares, $.002 Par Value, No Shares Issued	--
Common Stock - Authorized 25,000,000 Shares, $.002 Par Value, 12,640,690 Shares Issued	25,281
Additional Paid-in-Capital	28,268,892
Accumulated Deficit	(8,943,171)
Less, Treasury Stock at cost, 34,900 shares	(99,339)
Total Stockholders' Equity	19,251,663
Total Liabilities and Stockholders' Equity	$31,226,846

See accompanying notes to condensed consolidated financial statements.

INTEGRATED BIOPHARMA, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS
(UNAUDITED)

	Three Months Ended March 31, 2005	Three Months Ended March 31, 2004	Nine Mont Marc 2005
Sales	$ 8,868,295	$ 6,560,784	$ 21,286,889
Cost of Sales	6,749,833	4,982,793	18,508,770

Gross Profit	2,118,462	1,577,991	2,778,119
Selling and Administrative Expenses			
Paxis Pharmaceuticals, Inc. Start Up Costs	--	1,557,100	--
Selling and Administrative Expenses	3,039,363	1,192,466	8,043,650
Total Selling & Administrative Expenses	3,039,363	2,749,566	8,043,650
Operating (Loss)	(920,901)	(1,171,575)	(5,265,531)
Other Income (Expense):			
Gain on settlement of Lawsuit	2,475,322	--	2,475,322
Other Income	31,804	75,461	105,902
Interest Expense	(32,787)	(36,432)	(106,339)
Interest and Investment Income	8,467	3,919	47,801
Total Other Income	2,482,806	42,948	2,522,686
Income (Loss) Before Income Taxes and minority interest	1,561,905	(1,128,627)	(2,742,845)
Federal and State Income Tax	65,230	12,905	42,357
Net Income (Loss) before minority interest	1,496,675	(1,141,532)	(2,785,202)
Minority interest in (income)/loss of consolidated subsidiary	8	--	(20,978)
Net Income (Loss)	1,496,683	(1,141,532)	(2,806,180)
Accretion of Preferred Stock Dividends	--	(95,000)	--
Deemed dividend from beneficial conversion feature of Series B Preferred Stock	(583,000)	--	(1,749,000)
Series B Preferred Stock Dividend	(120,822)	--	(367,836)
Net Income (Loss) applicable to common shareholders	$ 792,861	$(1,236,532)	$(4,923,016)
Net Income (Loss) Per Common Share:			
Basic	$ .06	(.12)	(.39)
Diluted	$ .05	(.12)	(.39)
Average Common Shares Outstanding	12,621,468	10,635,924	12,589,920
Dilutive Potential Common Shares:			
Warrants and Options	3,998,978	--	--
Average Common Shares Outstanding-assuming dilution	16,620,446	10,635,924	12,589,920

See accompanying notes to condensed consolidated financial statements.

INTEGRATED BIOPHARMA, INC.

CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY FOR THE NINE MONTHS
ENDED MARCH 31, 2005
(UNAUDITED)

	Common Stock Shares	Common Stock Par Value	Preferred Stock	Convertible Preferred Stock	Additional Paid-In Capital	(Accumulated Deficit)	Treasu Shares
Balance - July 1, 2004	12,510,690	$25,021	$ --	$ --	$27,961,003	$(4,020,155)	25,800
Exercise of Stock Options For cash	103,000	206			121,643		
Issuance of Common Stock for consulting fees	27,000	54			186,246		
Deemed dividend from beneficial conversion feature of Series B Preferred Stock						(1,749,000)	
Dividends Paid on Series B Preferred Stock						(367,836)	
Stock Repurchase Plan							9,100
Net Loss for the nine months ended March 31, 2005						(2,806,180)	
Balance- March 31, 2005	12,640,690	$25,281	$ --	$ --	$28,268,892	$(8,943,171)	34,900

See accompanying notes to condensed consolidated financial statements.

INTEGRATED BIOPHARMA, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS
(UNAUDITED)

	Nine Months Ended March 31, 2005	Nine Months Ended March 31, 2004
Operating Activities:		
Net (Loss)	$ (2,806,180)	$ (2,264,578)
Adjustments to Reconcile Net (Loss) to Net Cash (Used for) Provided by Operating Activities:		
Depreciation and Amortization	1,150,323	480,982
Deferred Income Taxes	(4,000)	(20,000)
Allowance for Inventory	7,500	7,500
Bad Debt Expense	7,500	7,500
Issuance of Common Stock for consulting services	186,300	--
Minority Interest	20,978	--
Changes in Assets and Liabilities:		
(Increase) Decrease in:		
Refundable Federal Income Taxes	--	(19,420)
Accounts Receivable	(1,682,021)	(876,155)
Inventories	(3,169,269)	(2,163,442)
Deposit for Inventory	--	108,000
Due From Paxis Pharmaceuticals, Inc. - Related Party	--	(908,000)
Prepaid Expenses and Other Current Assets	(286,536)	(400,910)
Security Deposits and Other Assets	51,433	207,194
(Decrease) Increase in:		
Accounts Payable	1,569,912	1,198,560
Federal and State Income Taxes Payable	(47,025)	(8,591)
Accrued Expenses and Other Liabilities	475,587	108,032
Total Adjustments	(1,719,318)	(2,278,750)
Net Cash - Operating Activities	(4,525,498)	(4,543,328)
Investing Activities:		
Purchase of Intangible Assets	(250,000)	(775,000)
Investment in Joint Venture	(25,366)	(94,999)
License Fee	--	(90,000)
Goodwill	--	(483,256)
Purchase of Property and Equipment	(1,504,636)	(3,136,556)
Net Cash - Investing Activities	(1,780,002)	(4,579,811)
Financing Activities:		
Proceeds from Exercise of Stock Options	121,849	138,160
Dividends Paid	(367,836)	--
Treasury stock	(70,508)	--
Proceeds from Notes Payable	--	36,525
Repayment of Notes Payable	(19,655)	(124,058)
Net Cash - Financing Activities	(336,150)	50,627

Net (Decrease) in Cash and Cash Equivalents	(6,641,650)	(9,072,512)
Cash and Cash Equivalents - Beginning of Periods	9,548,046	10,406,390
Cash and Cash Equivalents - End of Periods	$ 2,906,396	$ 1,333,878

See accompanying notes to condensed consolidated financial statements.

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INTEGRATED BIOPHARMA, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS
(UNAUDITED)

	Nine Months Ended March 31, 2005	2004
Supplemental Disclosures of Cash Flow Information:		
Cash paid during the periods for:		
Interest	$ 115,731	$ 67,187
Income Taxes	$ 46,138	$ 98,625

See accompanying notes to condensed consolidated financial statements.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

1. Business

Basis of Reporting - The accompanying unaudited interim financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions to Form 10-QSB and Item 310(b) of Regulation S-B. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, such interim statements include all adjustments, which are considered necessary in order to make the interim financial statements not misleading. It is suggested that these financial statements 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 Annual Report on Form 10-KSB of Integrated BioPharma, Inc. (the "Company") for the fiscal year ended June 30, 2004. Certain prior period financial statement amounts have been reclassified to be consistent with the presentation of the current period. The results of operations for the three and nine month periods ended March 31, 2005 are not necessarily indicative of the results for the entire fiscal year ending June 30, 2005.

The Company is engaged primarily in the manufacturing, 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 technical services through its recently acquired contract research organization, InB: Hauser Pharmaceutical Services, Inc. ("Hauser"). The Company's customers are located primarily throughout the United States.

InB: Paxis Pharmaceuticals, Inc. ("Paxis"), the Company's paclitaxel manufacturing and distribution subsidiary, completed setting up its manufacturing facilities prior to the end of fiscal 2004. The operating results of Paxis for the nine months ended March 31, 2005 have been included in the consolidated sales, gross profit, and selling and administrative expenses. Because the Paxis subsidiary was a start up operation for the three and nine months ended March 31, 2004, the start up expenses were shown separately for the comparative period.

On September 16, 2004, the Company completed the purchase of substantially all of the assets of Hauser Technical Services, Inc. and Hauser, Inc., including substantially all of its laboratories, development and manufacturing facilities and equipment; its intellectual property, including that related to paclitaxel and other taxanes; goodwill, professional staff and certain of its ongoing contracts. As part of the transaction, the Company also acquired Hauser's rights under a prior contract to receive royalties and other payments from Paxis for Hauser intellectual property used by Paxis in the manufacture of paclitaxel. Transactions for the period beginning September 10, 2004 through March 31, 2005 have been included in the Company's consolidated financial statements. The acquisition price of $1,697,076 was allocated as follows:

Inventory	$ 780,524
Machinery & Equipment	916,552
Total	$ 1,697,076

On October 1, 2004, the Company acquired a 51% interest in Micro Nutrition Inc. (a newly formed entity) for a cash payment of $362,486. The accounts of Micro Nutrition are consolidated with those of the Company. Micro Nutrition, Inc. is a California corporation in the mail order business selling primarily nutritional specialty food items.

2. Summary of Significant Accounting Policies

Principles of Consolidation - The accompanying consolidated financial statements include the accounts of the Company and its subsidiaries, all of which are wholly-owned or majority owned with an offset to minority interest. Intercompany transactions and balances have been eliminated in consolidation.

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

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

Cash and Cash Equivalents - Cash equivalents are comprised of certain highly liquid investments with a maturity of three months or less when purchased.

Inventories - Inventory is valued by the first-in, first-out method, at the lower of cost or market.

Depreciation - The Company follows the general policy of depreciating the cost of property and equipment over the following estimated useful lives:

Building	15 Years
Leasehold Improvements	Various
Machinery and Equipment	7 Years
Machinery and Equipment Under Capital Leases	7 Years
Transportation Equipment	5 Years

Leasehold improvements are being amortized over various periods not to exceed its useful lives or the lease terms whichever is shorter.

Machinery and equipment are depreciated on a straight-line basis while leasehold improvements are amortized on a straight-line basis. Depreciation expense was $324,998 and $244,902 for the three months ended March 31, 2005 and 2004 and $920,245 and $450,982 for the nine months ended March 31, 2005 and 2004, respectively.

Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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. Actual results could differ from those estimates.

Revenue Recognition - The Company recognizes revenue upon shipment of the product. The Company believes that recognizing revenue at shipment is appropriate because the Company's sales policies meet the four criteria of SAB 104, which are: (i) persuasive evidence that an arrangement exists, (ii) delivery has occurred, (iii) the seller's price to the buyer is fixed and determinable, and (iv) collectability is reasonably assured. The Company's sales policy is to require customers to provide purchase orders establishing selling prices and shipping terms, which are F.O.B shipping point with the title and risk of loss passing to the customer at point of shipment. The Company evaluates the credit risk of each customer and establishes an allowance of doubtful accounts for any credit risk. Sales returns and allowances are estimated upon shipment. The Company recognizes income in its Hauser subsidiary upon monthly customer invoicing. The invoice amount is based upon on time and materials spent in the month.

The Company realized fee income from managing warehouse and office operations for an unrelated company of $30,000 and $60,000 for the three months ended March 31, 2005 and 2004 and $100,000 and $180,000 for the nine months ended March 31, 2005 and 2004, respectively. Such amounts are included in "Other income."

Investment in Joint Venture - Paxis entered into a joint venture as of July 16, 2003 with Chatham Biotec, Ltd. ("Chatham"), a Canadian company which harvests and dries biomass, to form a Canadian-based joint venture to produce extract and intermediate precursor paclitaxel from Canadian Taxus biomass. Chatham supplies the Canadian biomass and the joint venture processes it, using Paxis' extraction expertise in a facility currently controlled by the joint venture. The joint venture supplies Paxis' requirements for extract at cost, from which Paxis produces its paclitaxel and related products. The joint venture may sell extract and intermediate products to third parties. The Company has a 50% interest in this joint venture. The management agreement provides for profits and losses to be allocated based on the Company's 50% interest. As of March 31, 2005, the $121,388 represents the Company's investment. The investment in the joint venture is reflected using the equity method. The results of operations were not significant for the nine months ended March 31, 2005. The Company can give no assurance that the joint venture can be operated successfully.

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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. The Company performed the annual test as of May 11, 2005, and determined that there were no indications of goodwill impairment.

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. As of March 31, 2005, the Company believes that there is no impairment to intangibles.

Other intangible assets consist of intellectual property, trade names, license fees, license agreements, and unpatented technology. Amortization is being recorded on the straight line basis over periods ranging from 10 years to 20 years based on contractual or estimated lives.

Long-Lived Assets - The Company reviews the carrying values of its long-lived assets for possible impairment on an annual basis and whenever circumstances indicate the carrying amount of an asset may not be recoverable.

Advertising - Costs incurred for producing and communicating advertising are expensed when incurred. Advertising expense was $139,097 and $38,112 for the three months ended March 31, 2005 and 2004 and $476,736 and $88,322 for the nine months ended March 31, 2005 and 2004, respectively.

Stock-Based Compensation - The Company has adopted the disclosure-only provisions of SFAS No.148, "Accounting for Stock-Based Compensation." Accordingly, no compensation cost has been recognized for the stock option plan because the exercise price of employee stock options equals the market prices of the underlying stock on the date of grant. Had compensation cost been determined based on the fair value at the grant date for awards in the nine months ended March 31, 2005 and 2004, respectively, consistent with the provision of SFAS No. 123, the Company's net income and earnings per share would have been reduced to the pro forma amounts indicated below.

	Nine Months Ended March 31,	
	2005	2004

Net loss available to common stockholders, as reported	$ (4,923,016)	$ (2,264,578)
Add: Stock-based employee compensation expense included in net loss, net of related tax effects	--	--
Deduct: Total stock-based employee compensation expense determined under fair value-based method for all awards, net of related tax effects	(839,147)	(2,790,722)
Pro forma net loss available to common stockholders	$ (5,762,163)	$ (5,055,300)
Earnings per share:		
Basic-as reported	$ (0.39)	$ (0.24)
Basic-pro forma	$ (0.46)	$ (0.48)
Diluted-as reported	$ (0.39)	$ (0.24)
Diluted-pro forma	$ (0.46)	$ (0.48)

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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.

As of March 31, 2005, stock options and warrants with exercise prices below average market price in the amount of 4,642,595 shares and Series B Convertible Preferred Stock in the amount of 700 shares were not included in the computation of diluted earnings per share as they are antidilutive as a result of net losses during the periods presented.

As of March 31, 2005, options and warrants to purchase 1,563,666 shares of common stock were outstanding but were not included in the computation of diluted earnings per share because their exercise price was greater that the average market price of the common shares.

3. Goodwill and other Intangible Assets

In accordance with SFAS No. 142, goodwill is not amortized. The Company completed its annual impairment test prescribed by SFAS 142 at May 11, 2005 and concluded that no impairment of goodwill existed.

At March 31, 2005, goodwill consisted of:

Goodwill - Paxis acquisition	$ 542,728
Goodwill - Aloe acquisition	145,410
Total	$ 688,138

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At March 31, 2005, intangible assets were made up of the following:

	Gross Carrying Amount	Accumulated Amortization	Net
Intellectual Property	$ 1,577,455	$ 196,887	$ 1,380,568
License Fee	90,000	15,750	74,250
Trade Names	1,508,000	106,817	1,401,183
Unpatented Technology	547,000	130,000	417,000
License Agreement	611,730	40,823	570,907
Total	$ 4,334,185	$ 490,277	$ 3,843,908

Amortization expense recorded on the intangible assets was $86,825 and $10,000 for the three months ended March 31, 2005 and 2004 and $230,078 and $30,000 for the nine months ended March 31, 2005 and 2004, 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 twelve months is as follows:

March 31,	Amortization Expense
2006	$ 329,649
2007	329,649
2008	329,649
2009	329,649
2010	329,649
Thereafter	2,195,663
Total	$ 3,843,908

The Company records impairment losses on other intangible assets when events and circumstances indicate that such assets might be impaired and the estimated fair value of the asset is less than its recorded amount in accordance with 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.

4. Inventories

Inventories consisted of the following at March 31, 2005:

Raw Materials	$ 5,501,877
Work-in-Process	1,678,648
Finished Goods	3,130,044
Total	$10,310,569

5. Property and Equipment

Property and equipment comprised the following at March 31, 2005:

Land and Building	$ 1,250,000
Leasehold Improvements	2,140,253
Machinery and Equipment	8,506,107
Machinery and Equipment Under Capital Leases	162,827
Transportation Equipment	37,714
Total	12,096,901
Less: Accumulated Depreciation and Amortization	(4,646,531)
Total	$ 7,450,370

6. Notes Payable

Notes Payable are summarized as follows at March 31, 2005:

Promissory note provided by Bank of America dated August 6, 2003 in the amount of $4,500,000 with interest at a variable rate based on 1.25% over the current LIBOR rate. The loan was due on September 4, 2004 and was subsequently renewed through September 2005. The loan is guaranteed by Mr. Carl DeSantis, a shareholder and director of the Company. At March 31, 2005, the interest rate was 4.1%.

7. Loan Payable-Trade Investment Services

Demand loan provided by Trade Investment Services, LLC ("TIS"), a former shareholder of Paxis, dated July 1, 2002 with interest at 9%.

8. Research and Development Expense

Research and development costs are expensed as incurred. The Company incurred $87,823 and $0 for the three months ended March 31, 2005 and 2004 and $215,797 and $37,583 for the nine months ended March 31, 2005 and 2004, respectively. Such costs are included in selling and administrative expenses.

9. Significant Risks and Uncertainties

Concentrations of Credit Risk - Cash - The Company maintains balances at several financial institutions. Accounts at each institution are insured by the Federal Deposit Insurance Corporation up to $100,000. At March 31, 2005 the Company's uninsured cash balances totaled approximately $2,019,255.

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 at March 31, 2005 was $51,113.

10. Major Customer

Approximately 72% and 53% of revenues were derived from two customers for the three months ended March 31, 2005 and 2004 and approximately 71% and 75% for the nine months ended March 31, 2005 and 2004, respectively. The loss of either customer would have an adverse effect on the Company's operations. Accounts receivable from these customers comprised approximately 61% of total accounts receivable at March 31, 2005.

11. Commitments and Contingencies

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 of the Board and principal stockholder and certain family members, and 10% owned by the Company's Senior Vice President of Administration and Operations and former Chief Financial Officer. The lease was effective on January 10, 1997 and provides for a 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 on this lease was approximately $248,000 and $135,000 for the three months ended March 31, 2005 and 2004 and $626,000 and $370,000 for the nine months ended March 31, 2005 and 2004, respectively, and is included in both manufacturing and selling and administrative expenses. The increase in rent is due primarily to an increase in utility charges.

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 (5) 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 was $61,195 and $87,713 for the three months ended March 31, 2005 and 2004 and $243,235 and $238,184 for the nine months ended March 31, 2005 and 2004, respectively, and is included in cost of goods sold.

The Company leases warehouse and office facilities through March 31, 2006. The lease was effective on March 6, 2004, and provides for a minimum monthly rental of $9,967. The Company leases office space through September 30, 2005. The lease was effective on June 1, 2004, and provides for a minimum monthly rental of $2,248.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 $8,365.

The Company leases automobiles under non-cancelable operating lease agreements which expire through 2006.

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

	Lease	Related Party Lease

March 31,	Commitment	Commitment	Total
2006	$ 645,549	$ 323,559	$ 969,108
2007	220,570	323,559	544,129
2008	3,102	323,559	326,661
2009	--	323,559	323,559
2010	--	323,559	323,559
Thereafter	--	1,802,612	1,802,612
Total	$ 869,221	$ 3,420,407	$ 4,289,628

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Total rent expense, including real estate taxes and maintenance charges, was approximately $441,000 and $246,000 for the three months ended March 31, 2005 and 2004 and $1,200,000 and $692,000 for the nine months ended March 31, 2005 and 2004, respectively. Rent expense is stated net of sublease income of approximately $800 and $2,300 for the three months ended March 31, 2005 and 2004 and $2,000 and $7,975 for the nine months ended March 31, 2005 and 2004, respectively.

Litigation - On October 14, 2004, the Company was served with a product liability complaint. The complaint is in the early stages of discovery and has been turned over to the Company's insurance carrier for defense.

Development and Supply Agreement - On March 13, 1998, the Company signed a development and supply agreement with Herbalife International of America, Inc. ("Herbalife") under which the Company develops, manufactures, and supplies certain nutritional products to Herbalife. The agreement has been renewed through December 31, 2006. The agreement provides that Herbalife is required to purchase a minimum quantity of products each year for the term of the agreement in order to be eligible for rebate incentives. If Herbalife purchases the minimum amount, then Herbalife will be entitled to certain rebates of an amount not exceeding $300,000 per year. For the nine months ended March 31, 2005, there were no rebates due.

Consultant Agreement - On October 20, 2003, the Company entered into a one year consultant agreement with an investor relations consultant. The Company paid $80,000 over the term of the agreement. In addition, the Company initially agreed to issue to the consultant 36,000 shares of its common stock. On July 13, 2004, the Company terminated the agreement. Under the terms of the termination agreement, the Company will not be obligated to pay the $10,000 per month fee after July 15, 2004. Additionally the Company issued to the consultant 27,000 shares of common stock valued at the fair market price on the date of issuance in lieu of the original 36,000 shares. The 27,000 shares of common stock were valued at $186,300 and are included in selling and administrative expenses.

Intellectual Property Agreement - In connection with the acquisition in January 2004 of intellectual property developed by the Center for Molecular Biotechnology of Fraunhofer USA, Inc., the Company will pay up to a maximum of $2,500,000 for services to be performed by Fraunhofer USA, Inc. over a five year period. As of March 31, 2005 $1,000,000 has been paid.

12. Related Party Transactions

The Company has two consulting agreements with the brothers of the Company's Chairman of the Board. One agreement is on a month to month basis for $1,100 per month. The total consulting expense recorded per this verbal agreement was $3,300 for the three months ended March 31, 2005 and 2004 and $9,900 for the nine months ended March 31, 2005 and 2004, respectively.

The second agreement is with EVJ, LLC, a limited liability company controlled by Robert Kay, a director of the Company. The total consulting expense under this agreement was $45,000 for the three months ended March 31, 2005 and 2004 and $135,000 for the nine months ended March 31, 2005 and 2004, respectively.

13. New Accounting Pronouncements

In April 2004, the Emerging Issues Task Force issued Statement No. 03-06 ("EITF 03-06"), "Participating Securities and the Two-Class Method Under FASB Statement No. 128, Earnings Per Share." EITF 03-06 addresses a number of questions regarding the computation of earnings per share by companies that have issued securities other than common stock that contractually entitle the holder to participate in dividends and earnings of the company when, and if, it declares dividends on its common stock. The issue also provides further guidance in applying the two-class method of calculating earnings per share, clarifying what constitutes a participating security and how to apply the two-class method of computing earnings per share once it is determined that a security is participating, including how to allocate undistributed earnings to such a security. EITF 03-06 is effective for fiscal periods beginning after March 31, 2004. The Company does not expect the adoption of this statement to have a material impact on its financial position or results of operations.

In November 2004, the FASB issued SFAS No. 151, "Inventory Costs." SFAS 151 amends ARB No. 43, "Inventory Pricing", to clarify the accounting for certain costs as period expense. The Statement is effective for fiscal years beginning after June 15, 2005; however, early adoption of this Statement is permitted. The Company does not anticipate an impact from the adoption of this Statement.

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In December 2004, the FASB issued SFAS No. 123(R), "Share-Based Payment, "which is a revision of SFAS No. 123, "Accounting for Stock-Based Compensation". SFAS 123(R) requires that the compensation cost relating to share-based payment transactions be recognized in financial statements. The compensation cost will be measured based on the fair value of the equity or liability instruments issued. The Statement is effective as of the beginning of the first interim or annual period beginning after December 15, 2005. The Company does not yet know the impact that any future share-based payment transactions will have on its financial position or results of operations.

14. Equity Transactions

Stock Option Plan and Warrants - On March 24, 2005, the Company granted 34,723 incentive stock options and 9,277 non-statutory stock options to certain of its directors and employees for a period of ten years at an exercise price equal to the market price of $6.36.

Treasury Stock Purchases - Through the Company's stock repurchase plan, the Company purchased an aggregate of 9,100 shares of its common stock for a purchase price of $70,508 during July 2004.

15. Gain on Settlement of Lawsuit - In January 2005 the Company received a $2,475,322 cash payment in connection with a multidistrict class action brought on behalf of direct purchases of vitamin products, in which the plaintiffs alleged violations of Section 1 of the Sherman Antitrust Act and other wrongful anti-competitive conduct violation of various federal and state laws.

16. 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 FASB 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: Sales of vitamins and nutritional supplements, sales of its active pharmaceutical ingredient paclitaxel and sales of technical services through its Hauser subsidiary. The international sales for the nine months ended March 31, 2005 were $4,107,363.

Financial information relating to the nine months ending March 31, 2005 operations by business segment follows:

	Nutraceutical	Pharmaceutical	Technical Services	Total
Sales				
U.S. Customers	$ 16,091,648	$ 547,507	$ 540,371	$ 17,179,526
International	4,107,363	--	--	4,107,363
Total Revenues	$ 20,199,011	$ 547,507	$ 540,371	$ 21,286,889
Segment operating profit/(loss)	$ (164,206)	$ (3,964,621)	$ (1,136,704)	$ (5,265,531)
Depreciation	$ 323,340	$ 525,983	$ 70,922	$ 920,245
Capital Expenditures	$ 52,166	$ 456,503	$ 995,967	$ 1,504,636
Total assets	$ 21,131,733	$ 8,089,101	$ 1,906,012	$ 31,226,846

Financial information relating to the three months ending March 31, 2005 operations by business segment follows:

	Nutraceutical	Pharmaceutical	Technical Services	Total
Sales				
U.S. Customers	$ 6,785,012	$ --	$ 298,877	$ 7,014,889
International	1,853,406	--	--	1,853,406
Total Revenues	$ 8,638,418	$ --	$ 298,877	$ 8,868,295
Segment operating profit/(loss)	$ 1,155,835	$ (1,577,920)	$ (498,816)	$ (920,901)
Depreciation	$ 109,830	$ 182,435	$ 32,733	$ 324,998
Capital Expenditures	$ 23,335	$ 142,247	$ 63,820	$ 229,402

17. Subsequent Events

On April 20, 2005, Gregory A. Gould was appointed Chief Financial Officer and Senior Vice President of the Company. At the same time, Mr. Eric Friedman, the former Chief Financial Officer, was appointed Chief Executive Officer of the Agrolabs, Inc. subsidiary and Senior Vice President of Administration and Operations for the Company.

Item 2: MANAGEMENT'S DISCUSSION AND ANALYSIS OR PLAN OF OPERATION

The following discussion should be read in conjunction with the accompanying financial statements of the Company and notes thereto.

Critical Accounting Estimates

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 sales policy is to require customers to provide purchase orders establishing selling prices and shipping terms. Shipping terms are F.O.B. shipping point, with title and risk of loss passing to the customer at point of shipment.

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.

Inventory Valuation

Inventories are stated at the lower of cost or market ("LCM"), which reflects management's estimates of net realizable value. The Company is a contract manufacturer and distributor. Detail inventory levels and composition are reviewed and evaluated for potential overstock or obsolescence in light of current operations and sales. Any appropriate reserve is recorded on a current 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.

Intangible 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 indicate 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.

Income Taxes

Net operating loss carryforwards of approximately $3,013,000 will expire in 2024 for federal purposes and 2011 for state purposes. Until sufficient taxable income to offset the temporary timing differences attributable to operations and the tax deductions attributable to options are assured, a valuation allowance equaling the net operating loss is being provided.

Results of Operations

Nine months ended March 31, 2005 compared to nine months ended March 31, 2004

The Company's net loss for the nine months ended March 31, 2005 was $(2,806,180) as compared to net loss of $(2,264,578) for the nine months ended March 31, 2004. This increase in net loss of approximately $540,000 was primarily the result of a decrease in gross profit of approximately $1,690,000, an increase in selling and administrative expenses of approximately $1,100,000 including Paxis start up costs, an increase in other income of approximately $2,240,000, and a decrease in federal income and state income taxes of approximately $45,000.

Sales for the nine months ended March 31, 2005 and 2004 were $21,286,889 and $18,313,616, respectively, an increase of approximately $3,000,000 or 16%. This increase was due to the introduction of new nutraceutical products and the increase in sales related to the Paxis Pharmaceuticals, Inc. and Hauser, Inc. subsidiaries. Gross profit for the nine months ended March 31, 2005 was $1,687,637 lower than gross profit for the nine months ended March 31, 2004. This decrease in gross profit was attributable to the inclusion of Paxis manufacturing expenses. Exclusive of the Paxis subsidiary, the gross profit percentage for the nine months ended March 31, 2005 was 27% as compared to 24% for the nine months ended March 31, 2004. For the nine months ended March 31, 2005 and 2004, approximately 71% and 75% of revenues were derived from two customers. The loss of these customers would have an adverse affect on the Company's operations.

Nutraceutical sales for the nine months ended March 31, 2005 and 2004 were $20,199,011 and $18,222,113, respectively, an increase of $1,976,898 or 11%.

On September 16, 2004 the Company completed the purchase of substantially all of the assets of Hauser Technical Services, Inc. and Hauser, Inc. Sales for the six months ended March 31, 2005 were $540,371.

Paxis completed setting up its manufacturing facilities and operations and began production in the fourth quarter of 2004. In anticipation of fulfilling orders, Paxis has built up raw material and work in process inventories of approximately $3,000,000. Sales for the nine months ended March 31, 2005 totaled $547,507.

Cost of sales increased to $18,508,770 for the nine months ended March 31, 2005 as compared to $13,847,860 for the nine months ended March 31, 2004. Cost of sales increased as a percentage of sales to 87% for the nine months ended March 31, 2005 as compared to 76% for the nine months ended March 31, 2004. The increase in cost of sales was due to the inclusion of $3,565,987 attributable to both Paxis and Hauser. Exclusive of Paxis and Hauser, cost of sales would have been 74% for the nine months ended March 31, 2005 as compared to 76% for the nine months ended March 31, 2004.

A tabular presentation of the changes in selling and administrative expenses is as follows:

	Nine Months Ended March 31,		
	2005	2004	Change
Advertising Expense	$ 476,736	$ 88,322	$ 388,414
Bad Debt Expense	(3,553)	7,342	(10,895)
Royalty & Commission Expense	259,363	79,985	179,378
Officers Salaries	310,866	358,702	(47,836)
Auto, Travel & Entertainment	718,065	595,541	122,524
Office Salaries	1,522,047	705,604	816,443
Depreciation & Amortization	434,244	156,650	277,594
Consulting Fees	749,792	256,449	493,343
Regulatory Fees	22,864	19,250	3,614
Professional Fees	552,671	518,141	34,530
Research & Development Expense	215,797	37,583	178,214
Other selling and administrative expenses	2,784,758	878,522	1,906,236
Paxis Pharmaceuticals, Inc.	--	3,228,454	(3,228,454)
Total	$ 8,043,650	$ 6,930,545	$ 1,113,105

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The increase in advertising expense was due to an increase in advertising relating to the sales of new nutraceutical products. Royalty and commission expense increased as a result of the sales of new nutraceutical products. Office salaries increased due to the addition of two new sales and marketing employees and the inclusion of Paxis salary expenses reflected in the nine months. In previous quarters these costs were included in Paxis startup expenses. The increase in depreciation and amortization expenses was a result of the inclusion of Paxis expenses. Consulting fees increased as a result of the termination of the agreement made on July 8, 2004, which resulted with the issuance of 27,000 shares of common stock and an increase in sales promotion costs. The increase in research and development expense was attributable to the inclusion of Paxis expenses reflected in the nine months.

Other income (expense) was $2,522,686 for the nine months ended March 31, 2005 as compared to $287,241 for the nine months ended March 31, 2004, an increase of $2,235,445. The increase was due to a $2,475,322 cash payment in connection with a multidistrict class action brought on behalf of the Company and other direct purchasers of vitamin products, in which the plaintiffs alleged violations of Section 1 of the Sherman Antitrust Act and other wrongful anti-competitive conduct in violation of various federal and state laws.

Three months ended March 31, 2005 compared to three months ended March 31, 2004

The Company's net income for the three months ended March 31, 2005 was $1,496,683 as compared to net loss of $(1,141,532) for the three months ended March 31, 2004. This increase in net income of approximately $2,600,000 was primarily the result of an increase in gross profit of approximately $540,000, an increase in selling and administrative expenses of approximately $290,000 including the Paxis start up costs, an increase in other income of approximately $2,400,000, and an increase in federal income and state income taxes of approximately $52,000.

Sales for the three months ended March 31, 2005 and 2004 were $8,868,295 and $6,560,784, respectively, an increase of approximately $2,300,000 or 35%. This increase was due to the introduction of new nutraceutical products and the increase in sales related to the Paxis Pharmaceuticals, Inc. and Hause, Inc. subsidiaries. Gross profit for the three months ended March 31, 2005 was $540,471 higher than gross profit for the three months ended March 31, 2004. The increase in gross profit was attributable to an increase in sales with higher profit margins. Exclusive of the Paxis subsidiary, the gross profit percentage for the three months ended March 31, 2005 was 37% as compared to 24% for the three months ended March 31, 2004. For the three months ended March 31, 2005, the Company had sales to two customers, who accounted for 78% of net sales in 2005 and 65% in 2004. The loss of these customers would have an adverse affect on the Company's operations.

Nutraceutical sales for the three months ended March 31, 2005 and 2004 were $8,638,418 and $6,389,987, respectively, an increase of $2,248,431 or 35%.

On September 16, 2004 the Company completed the purchase of substantially all of the assets of Hauser Technical Services, Inc. and Hauser, Inc. Sales for the three months ended March 31, 2005 were $229,877.

Paxis completed setting up its manufacturing facilities and operations and began production in the fourth quarter of 2004. In anticipation of fulfilling orders, Paxis has built up raw material and work in process inventories of approximately $3,000,000.

Cost of sales increased to $6,749,833 for the three months ended March 31, 2005 as compared to $4,982,793 for the three months ended March 31, 2004. Cost of sales remained constant as a percentage of sales at 76% for the three months ended March 31, 2005 and for the three months ended March 31, 2004. Exclusive of Paxis and Hauser, cost of sales would have been 58% for the three months ended March 31, 2005.

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A tabular presentation of the changes in selling and administrative expenses is as follows:

	Three Months Ended March 31, 2005	Three Months Ended March 31, 2004	Change
Advertising Expense	$ 139,097	$ 38,112	$ 100,985
Bad Debt Expense	2,494	2,500	(6)
Royalty & Commission Expense	148,523	40,364	108,159
Officers Salaries	114,069	111,138	2,931
Auto, Travel & Entertainment	245,558	175,158	70,400
Office Salaries	505,148	257,260	247,888

Depreciation & Amortization	163,947	53,639	110,308
Consulting Fees	115,249	84,062	31,187
Regulatory Fees	12,610	5,000	7,610
Professional Fees	79,338	125,686	(46,348)
Research & Development Expense	87,823	--	87,823
Other selling and administrative expenses	1,425,507	299,547	1,125,960
Paxis Pharmaceuticals, Inc.	--	1,557,100	(1,557,100)
Total	$ 3,039,363	$ 2,749,566	$ 289,797

The increase in advertising expense was due to an increase in in-store advertising relating to the sales of new nutraceutical products. Royalty and commission expense increased as a result of the sales of new nutraceutical products. Office salaries increased due to the addition of two new sales and marketing employees and the inclusion of Paxis salary expenses reflected in the three months. In previous quarters these costs were included in Paxis startup expenses. The increase in depreciation and amortization expenses was a result of the inclusion of Paxis. Consulting fees increased as a result of sales promotion costs. The increase in research and development expense was attributable to the inclusion of Paxis expenses reflected in the nine months.

Other income (expense) was $2,482,806 for the three months ended March 31, 2005 as compared to $42,948 for the three months ended March 31, 2004, an increase of $2,439,858. The increase was due to a $2,475,322 cash payment in connection with a multidistrict class action brought on behalf of the Company and other direct purchasers of vitamin products, in which the plaintiffs alleged violations of Section 1 of the Sherman Antitrust Act and other wrongful anti-competitive conduct in violation of various federal and state laws.

Inventories

The inventory at March 31, 2005 increased by $3,169,269 from the inventory at June 30, 2004. The increase was attributable to an increase in new nutraceutical products of approximately $950,000, an increase in Manhattan Drug Inc.'s inventory of approximately $995,000, an increase in Paxis' inventory of approximately $160,000, and the acquisition of the Hauser inventory of approximately $800,000.

Liquidity and Capital Resources

At March 31, 2005 the Company's working capital was $9,498,290, a decrease of $3,415,371 in working capital from June 30, 2004. Cash and cash equivalents were $2,906,396 at March 31, 2005, a decrease of $6,641,650 from June 30, 2004. The Company utilized $4,525,498 and $4,543,328 from operations for the nine months ended March 31, 2005 and 2004, respectively.

The primary reasons for the decrease in cash used in operations for the nine months ended March 31, 2005 was net loss of approximately $2,800,000, an increase in accounts receivable of approximately $1,700,000, an increase in inventories of approximately $3,200,000, and an increase in accounts payable of approximately $1,600,000. Based upon the increase in the Company's vitamin and supplement sales and the commencement of the Company's Pharmaceutical and Technical Services operating segments, the Company anticipates that cash flows from operations and existing cash balances will be sufficient to fund operations through fiscal 2006. The Company anticipates that it will be able to renew the existing promissory note with terms similar to the existing facility.

The Company utilized $1,780,002 and $4,579,811 in investing activities for the nine months ended March 31, 2005 and 2004, respectively. The Company utilized $336,150 and generated $50,627 from debt financing activities for the nine months ended March 31, 2005 and 2004, respectively.

The Company's total annual commitment at March 31, 2005 for the next five years of $3,999,609 consists of obligations under operating leases for facilities and lease agreements for the rental of warehouse equipment, office equipment, and automobiles.

Capital Expenditures

The Company's capital expenditures for the nine months ended March 31, 2005 and 2004 were $1,504,636 and $3,136,556 respectively. The capital expenditures during these periods were primarily attributable to the purchase of machinery and equipment.

The Company has budgeted approximately $100,000 for capital expenditures for the remaining three months of fiscal 2005. Such amount will be funded from current cash balances.

Off-Balance Sheet Arrangements

The Company has no off-balance sheet arrangements.

Item 3. Controls and Procedures

(a) Evaluation of disclosure controls and procedures. An evaluation was performed under the supervision and with the participation of the Company's management, including the Chief Executive Officer (CEO) and Chief Financial Officer (CFO), of the effectiveness of the design and operation of the Company's disclosure controls and procedures within 45 days before the filing date of this Form 10-QSB. Based on their evaluation, the Company's principal executive officer and principal financial officer have concluded that the Company's disclosure controls and procedures (as defined in Rules 13a-14(c) and 15d-14(c) under the Securities Exchange Act of 1934 (the "Exchange Act") are effective to ensure that information required to be disclosed by the Company in reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in Securities and Exchange Commission rules and forms.

(b) Changes in Internal Control Over Financial Reporting. There have been no significant changes in the Company's internal controls over financial reporting or in other factors that could significantly affect internal controls subsequent to their evaluation. There were no significant deficiencies or material weaknesses, and therefore there were no corrective actions taken.

Part II: OTHER INFORMATION

Item 1: Legal Proceedings

Of the three separate actions against the Company brought by NatEx Georgia LLC, Wolfe Axelrod Weinberger Associates, LLC and Body Systems Technology, Inc., respectively, each described in the Company's Annual Report on Form 10-KSB for the year ended June 30, 2004, filed with the U.S. Securities and Exchange Commission on September 28, 2004, only the NatEx Georgia LLC action is still pending. This action has been remanded to state court, and the Company has filed a motion to dismiss the action. The remaining two actions have been settled with no material financial impact upon the Company.

On October 14, 2004 the Company was served with a product liability complaint. The complaint is in the early stages of discovery and has been turned over to the Company's insurance carrier for defense.

Item 2: Unregistered Sales of Equity Securities and Use of Proceeds

None

Item 3: Defaults Upon Senior Securities

None

Item 4: Submission of Matters to a Vote of Security Holders

None

Item 5: Other Information

None

Item 6: Exhibits and Reports on Form 8-K

(a) Exhibits

31.1 Certification of Periodic Report by Chief Executive Officer Pursuant to Rules 13a-14 and 15d-14 of the Securities and Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

31.2 Certification of Periodic Report by Chief Financial Officer Pursuant to Rules 13a-14 and 15d-14 of the Securities and Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

32.1 Certification of Periodic Report by Chief Executive Officer Pursuant to 18 U.S.C Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

32.2 Certification of Periodic Report by Chief Financial Officer Pursuant to 18 U.S.C Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

(b) Reports on Form 8-K

Current Report on Form 8-K filed on February 11, 2005 pursuant to Item 7.01 (Regulation FD) and Item 9.01 (Financial Statements and Exhibits)

Current Report on Form 8-K filed on April 20, 2005 pursuant to Item 5.02 (Departure of Directors or Principal Officers) and Item 9.01 (Financial Statements and Exhibits)

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

INTEGRATED BIOPHARMA, INC.

Date: May 16, 2005

By: /s/ E. Gerald Kay

E. Gerald Kay
Chief Executive Officer

Date: May 16, 2005

By: /s/ Gregory A. Gould

Gregory A. Gould
Senior Vice President and Chief Financial Officer