INTEGRATED BIOPHARMA INC
Form 10QSB
May 14, 2004

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington D. C. 20549

FORM 10-QSB

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

For the quarterly period ended March 31, 2004 Commission File Number 000-28876

INTEGRATED BIOPHARMA, INC.
(Exact name of registrant as specified in its charter)

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

Registrant's telephone number, including area code: (973) 926-0816

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

Yes | X | No | |

The number of shares outstanding of the issuer's common stock, as of May 3, 2004 was 10,620,890.

INTEGRATED BIOPHARMA, INC.
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Independent Accountants' Review Report

We have reviewed the accompanying condensed consolidated balance sheet of Integrated BioPharma, Inc. and Subsidiaries (formerly Integrated Health Technologies, Inc.) as of March 31, 2004, and the related condensed consolidated statements of operations for the three and nine months ended March 31, 2004 and 2003, and condensed consolidated statements of cash flows for the nine months ended March 31, 2004 and 2003, and condensed consolidated statement of stockholders' equity for the nine months ended March 31, 2004. These condensed consolidated financial statements are the responsibility of the company's management.

We conducted our review in accordance with standards established by the American Institute of Certified Public Accountants. A review of interim financial information consists principally of applying analytical procedures to financial data and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with generally accepted auditing standards, 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 financial statements in order for them to be in conformity with generally accepted accounting principles.

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

May 3, 2004
Edison, New Jersey

Part 1-FINANCIAL INFORMATION

Item 1. Financial Statements

INTEGRATED BIOPHARMA, INC.
CONSOLIDATED BALANCE SHEET AS OF MARCH 31, 2004
[UNAUDITED]

Assets:	
Current Assets:	
Cash and Cash Equivalents	$ 1,333,878
Accounts Receivable - Net	2,732,561
Deferred Income Taxes	61,000
Inventories	6,455,967
Deposit on Inventories	1,348,507
Loan Receivable	137,500
Refundable Federal Income Taxes	19,420
Prepaid Expenses and Other Current Assets	1,026,037
Total Current Assets	13,114,870
Property and Equipment - Net	6,784,338
Other Assets:	
Deferred Tax Asset	96,000
Intellectual Property	1,077,455
Patents and Unpatented Technological Expertise-Net	1,447,000
Prepaid Rent	130,000
Investment in Joint Venture	94,999
Goodwill	1,643,138
Security Deposits and Other Assets	114,947
Total Other Assets	4,603,539
Total Assets	$ 24,502,747

See accompanying notes to condensed consolidated financial statements.

INTEGRATED BIOPHARMA, INC.
CONSOLIDATED BALANCE SHEET AS OF MARCH 31, 2004
[UNAUDITED]

Liabilities and Stockholders' Equity:	
Current Liabilities:	
Accounts Payable	$ 3,616,699
Note Payable-Bank	4,500,000
Accrued Expenses and Other Current Liabilities	624,091
Federal and State Income Taxes Payable	45,178
Customer Advances	59,518
Capital Lease Obligation	43,914
Loan Payable - Trade Investment Services, LLC, related party	172,260

Total Current Liabilities	9,061,660
Commitments and Contingencies	--
Stockholders' Equity:	
Preferred Stock - Authorized 1,000,000 Shares, $.002 Par Value, No Shares Issued	--
Series A non-redeemable Convertible Preferred Stock- Authorized 20,000 shares $.002 Par Value, 9,500 Shares Issued and Outstanding, Liquidation preference of $9,595,000	19
Common Stock - Authorized 25,000,000 Shares, $.002 Par Value, 10,646,690 Shares Issued, 10,620,890 Outstanding	21,293
Additional Paid-in-Capital	15,616,500
Deficit	(167,894)
	15,469,918
Less, Treasury Stock at cost, 25,800 shares	(28,831)
Total Stockholders' Equity	15,441,087
Total Liabilities and Stockholders' Equity	$ 24,502,747

See accompanying notes to condensed consolidated financial statements.

INTEGRATED BIOPHARMA, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS
[UNAUDITED]

	Three months ended March 31,	
	2004	2003
Sales	$ 6,560,784	$ 6,670,254
Cost of Sales	4,982,793	5,290,233
Gross Profit	1,577,991	1,380,021
Selling and Administrative Expenses		
Paxis Pharmaceuticals, Inc. Start Up Costs	1,557,100	--
Selling and Administrative Expenses	1,192,466	1,088,029

Total Selling & Administrative Expenses	2,749,566	1,088,029
Operating [Loss] Income	(1,171,575)	291,992
Other Income [Expense]:		
Other Income	63,461	91,982
Consulting Fee Income	12,000	12,000
Interest Expense	(36,432)	(840)
Interest and Investment Income	3,919	4,491
Total Other Income	42,948	107,633
[Loss] Income Before Income Taxes	(1,128,627)	399,625
Federal and State Income Tax	12,905	181,871
Net [Loss] Income	(1,141,532)	217,754
Accretion of Preferred Stock Dividends	(95,000)	--
Net [Loss] Income applicable to common shareholders	$(1,236,532)	$ 217,754
Net [Loss] Income Per Common Share:		
Basic	$ (.12)	$ .03
Diluted	$ (.12)	$ .02
Average Common Shares Outstanding	10,635,924	7,543,034
Dilutive Potential Common Shares:		
Warrants and Options	--	2,533,775
Average Common Shares Outstanding-assuming dilution	10,635,924	10,076,809

See accompanying notes to condensed consolidated financial statements.

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INTEGRATED BIOPHARMA, INC.
CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY FOR THE NINE MONTHS
ENDED MARCH 31, 2004
[UNAUDITED]

Common Stock	Preferred	Convertible Preferred	Additional Paid-In	Retained

	Shares	Par Value	Stock	Stock	Capital	Earnings	S
Balance - July 1, 2003	10,241,439	$20,483	--	$19	$15,882,080	$2,381,684	2
Exercise of Stock Options for cash	135,500	271	--	--	137,889	--	
Reduction of paid in capital due to common control accounting related to in acquisition of 47% of Paxis, Inc.					(2,956,068)		
Preferred Stock-Accretion of Dividends					285,000	(285,000)	
Acquisition of 3% of Paxis Inc.	66,666	133			542,595		
Acquistion of new product lines	203,085	406			1,725,004		
Net Loss for the nine months ended March 31, 2004	--	--	--	--	--	(2,264,578)	
Balance- March 31, 200	10,646,690	$21,293	--	$19	$15,616,500	$(167,894)	2

See accompanying notes to condensed consolidated financial statements.

INTEGRATED BIOPHARMA, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
[UNAUDITED]

Nine

2004

Operating Activities:	
Net [Loss] Income	$ (2,264,578
Adjustments to Reconcile Net Income (Loss) to Net Cash [Used for] Provided by Operating Activities:	
Depreciation and Amortization	480,98
Deferred Income Taxes	(20,000
Allowance for Inventory	7,50
Gain on Sale of Fixed Assets	-
Bad Debt Expense	7,50
Changes in Assets and Liabilities (Net of Acquisition Costs):	
[Increase] Decrease in:	
Refundable Federal Income Taxes	(19,420
Accounts Receivable	(876,155
Inventories	(2,163,442
Deposit for Inventory	108,00
Due From Paxis Pharmaceuticals, Inc. - Related Party	(908,000
Prepaid Expenses and Other Current Assets	(400,910
Security Deposits and Other Assets	207,19
[Decrease] Increase in:	
Accounts Payable	1,198,56
Federal and State Income Taxes Payable	(8,591
Accrued Expenses and Other Liabilities	108,03
Total Adjustments	(2,278,750
Net Cash - Operating Activities - Forward	(4,543,328
Investing Activities:	
Purchase of Intangible Assets	(775,000
Proceeds from Sale of Fixed Assets	-
Investment in Joint Venture	(94,999
Patents	-
License Fee	(90,000
Loans to Stockholders	-
Acquisition of Paxis Pharmaceuticals, Inc., less cash received	(483,256
Purchase of Property and Equipment	(3,136,556
Net Cash-Investing Activities - Forward	(4,579,811
Financing Activities:	
Proceeds from Exercise of Stock Options	138,16
Proceeds from Notes Payable	36,52
Repayment of Notes Payable	(124,058
Net Cash-Financing Activities - Forward	50,62

See accompanying notes to condensed consolidated financial statements.

INTEGRATED BIOPHARMA, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS

[UNAUDITED]

		Nine
		2004
Net Cash - Operating Activities - Forwarded	$	(4,543,328
Net Cash - Investing Activities - Forwarded		(4,579,811
Net Cash - Financing Activities - Forwarded		50,62
Net Increase / [Decrease] in Cash and Cash Equivalents		(9,072,512
Cash and Cash Equivalents - Beginning of Periods		10,406,39
Cash and Cash Equivalents - End of Periods	$	1,333,87
Supplemental Disclosures of Cash Flow Information:		
Cash paid during the periods for:		
Interest	$	67,18
Income Taxes	$	98,62
Supplemental Schedule of Investing and Financial Activities:		
Common stock issued for acquisition of NuCycle Therapy, Inc.		
Common stock issued for acquisition of Natex, LLC		
Common stock issued for acquisition of 3% Paxis Pharmaceutical, Inc.	$	542,72
Common stock issued for acquisition of new product line	$	1,725,41

See accompanying notes to condensed consolidated financial statements.

INTEGRATED BIOPHARMA, INC.
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 Company's annual report to stockholders incorporated by reference in the Company's annual report on Form 10-KSB for the fiscal year ended June 30, 2003. The results of operations for the nine months ended March 31, 2004 are not necessarily indicative of the results for the entire fiscal year ending June 30, 2004.

Integrated BioPharma, Inc. [the "Company"] is engaged primarily in the manufacturing, marketing and sales of vitamins, nutritional supplements and herbal products. Its customers are located primarily throughout the United States. The Company considers all subsidiaries as one segment of business.

On July 22, 2003 the Company acquired ninety-seven (97%) percent of the shares of common stock of Paxis Pharmaceuticals, Inc. ("Paxis"). Paxis manufactures and distributes Paclitaxel, which is the primary chemotherapeutic agent in the treatment of breast cancer.

Paxis acquired from Hauser Inc. ("Hauser") its cGMP-(company good manufacturing practices) compliant Paclitaxel production facilities, processing equipment, and intellectual assets. Paxis also purchased Paclitaxel intellectual property ("Technology") from Hauser.

On October 8, 2003 the Company acquired the remaining three (3%) percent of Paxis in exchange for 66,666 shares of its common stock valued at $542,728. The stock was valued on the basis of the average closing price as reported on the American Stock Exchange for the five (5) trading days immediately preceding the closing date and five (5) trading days after.

To date, Paxis has devoted the majority of its efforts to setting up the manufacturing operation. Paxis is subject to various risks associated with a start-up operation, including, among others, setting up and operating manufacturing facilities, complying with regulatory requirements for manufacturing pharmaceutical products, manufacturing cGMP API Paclitaxel, marketing and selling the cGMP Paclitaxel to customers, and operating profitably. The Company can give no assurance that it can be operated profitably. The manufacturing facility is now complete and the Company has built up a raw material inventory of approximately $1,800,000 to support manufacturing.

On October 22, 2003, the Company completed the acquisition of various assets related to the Naturally Aloe(TM), Naturally Noni(TM) and Avera Sport(TM) product lines from Aloe Commodities International, Inc. ("Aloe"). The assets included trademarks, copyrights, art work, formula for the products, labels, customer lists, goodwill, inventories and books and records. Pursuant to the terms of a purchase agreement dated October 22, 2003 by and between the Company and Aloe, the purchase price for the Transferred Assets was $2,597,880, with $872,470 paid at closing and $1,725,410 paid in 203,085 shares of the Company's common stock valued on the basis of the average closing price as reported on the American Stock Exchange for the five (5) trading days immediately preceding the closing date and five (5) trading days after. Such shares shall be held in escrow for a period of one (1) year from the closing date and released pursuant to the terms of and Escrow Agreement between and among the Company, Aloe and Vial, Hamilton, Koch & Knox, L.L.P.

The sales by type for the nine months ended March 31,		2004	
Nutraceutical Contract Manufacturing and Distribution Sales	$	15,737,499	$
Raw Material Distribution Sales	$	2,443,615	$
Other	$	209,502	$

INTEGRATED BIOPHARMA, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Sheet #2
[UNAUDITED]

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[1] Business [Continued]

Stock-Based Compensation - The Company has adopted the disclosure-only provisions of SFAS No.123, "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, 2004 and 2003, 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, 2004	2003
Net (loss), income as reported	$ (2,264,578)	$ 731,086
Add: Stock based employee compensation expense included in net (loss), income 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	(2,790,722)	--
Pro forma net (loss) income	$ (5,055,300)	$ 731,086
Earnings per share:		
Basic-as reported	$ (.24)	$ .11
Basic-pro forma	$ (.48)	$ .11
Diluted-as reported	$ (.24)	$ .09
Diluted-pro forma	$ (.48)	$ .09

[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. 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.

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INTEGRATED BIOPHARMA, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Sheet #3
[UNAUDITED]

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[2] Summary of Significant Accounting Policies [Continued]

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	15 Years
Machinery and Equipment	7 Years
Machinery and Equipment Under Capital Leases	7 Years
Transportation Equipment	5 Years

Machinery and equipment are depreciated using accelerated methods while leasehold improvements are amortized on a straight-line basis. Depreciation expense was $450,982 and $291,766 for the nine months ended March 31, 2004 and 2003, respectively and amortization of patents and unpatented technology was $30,000 and $50,000 for the nine months ended March 31, 2004 and 2003, respectively. Amortization of equipment under capital leases is included with the depreciation expense.

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 or 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's Paxis subsidiary has completed its renovation of the

manufacturing facilities as of March 31, 2004 but Paxis has not recognized any income to date. The Company believes that recognizing revenue at shipment is appropriate because the Company's sales policies meet the four criteria of SAB 101 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 realized fee income from managing warehouse and office operations for an unrelated company of $180,000 and $186,721 for the nine months ended March 31, 2004 and 2003 respectively. Such is included in "Other income."

License of Technology - The Company has a limited, non-exclusive license to use the Technology acquired from Hauser for a term of ten years. The Company is obligated to pay a License Fee of $90,000 payable within ten days from the date Hauser provides the Company with written notice that it has demonstrated that the Technology can be used to manufacture lab scale Paclitaxel from taxus canadensis, or Canadian yew trees. In addition the Company is obligated to pay a fee of $50,000 upon the commercial sale by the Company of products comprising Paclitaxel extracted, isolated or purified using the Technology. The Company is also obligated to pay an annual license maintenance fee of $250,000 (the annual maintenance fee) one year after the first commercial sale. The Company is further obligated to pay a royalty fee based on a percentage of sales, less the annual maintenance fee. In December 2003, the Company made the required license fee payment of $90,000.

At the conclusion of the License Term the Technology License shall be considered fully paid and the Company shall have the rights granted under the Technology License without further payment of an annual royalty.

Intellectual Property-As of March 31, 2004, $577,455 has been paid to Hauser under the License agreement which has been recorded as intellectual property. The Company has not amortized this amount since operations have not commenced, but will begin amortizing over the remaining period of the 10 year agreement when operations have commenced.

On January 1, 2004 the Company acquired intellectual property developed by the Center for Molecular Biotechnology (CNB) of Fraunhofer USA, Inc. for a cash payment of $500,000.

Advertising - Costs incurred for producing and communicating advertising are expensed when incurred. Advertising expense was $165,322, of which $77,000 has been charged to cost of goods sold, and $5,837 for the nine months ended March 31, 2004 and 2003 respectively.

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[3] Inventories

Inventories consist of the following at March 31, 2004:

Raw Materials	$ 4,332,510
Work-in-Process	601,533
Finished Goods	1,521,924
Total	$ 6,455,967

[4] Deposits on Inventory

The Company has advanced $1,348,507 to Natex Georgia LLC, for the purchase of biomass to be used by the Company for the production of Paclitaxel.

[5] Property and Equipment

Land and Building	$ 1,250,000
Leasehold Improvements	2,249,180
Machinery and Equipment	6,654,155
Machinery and Equipment Under Capital Leases	195,653
Transportation Equipment	37,714
Total	10,386,702
Less: Accumulated Depreciation and Amortization	3,602,364
Total	$ 6,784,338

[6] Intangibles

At March 31, 2004 intangible assets are made up of the following:

	Gross Carrying Amount	Accumulated Amortization	Net
Unamortized intangible assets			
	$ 90,000	$ -	$ 90,000
License Fee			
Aloe acquisition	$ 900,000	$ -	$ 900,000
Amortized intangible assets			
Unpatented Technology	$ 547,000	$ 90,000	$ 457,000
Intangible assets Total	$ 1,537,000	$ 90,000	$ 1,447,000

Aggregate Amortization Expense	
For the nine months ended March 31, 2004	$ 30,000
For the three months ended March 31, 2004	$ 10,000

The annual amortization expense for Intangible Assets is as follows:

June 30,	Amortization Expense
2004	40,000
2005	40,000
2006	40,000
2007	40,000
2008	40,000

Total	$ 200,000

All other intangible assets-net are being amortized over their estimated useful lives.

[7] Goodwill

Goodwill - Paxis acquisition	$ 542,728
Goodwill - Aloe acquisition	1,100,410
	$ 1,643,138

[8] Notes Payable

Notes Payable are summarized as follows at March 31, 2004:

Commerce Bank (a)	$ --
Bank of America (b)	4,500,000
Total	4,500,000
Less: Current Portion	4,500,000
Non-current Portion	$ -0-

(a) Under the terms of a revolving credit note which expires on June 10, 2005, the Company may borrow up to $1,000,000 at the prime lending rate. The loan is collateralized by the inventory, receivables and equipment of Integrated BioPharma, Inc. and its operating subsidiaries, and by the personal guarantee of E. Gerald Kay, the chairman of the board of the Company. At March 31, 2004 there were no borrowings under the revolving credit note. On April 20, 2004 the Company terminated the revolving credit note.

On November 14, 2003 the Company signed a letter of credit agreement in the amount of three hundred thousand dollars ($300,000) in favor of the Royal Bank of Canada. The principal amount of the letter of credit agreement has been carved out of the revolving credit note of $1,000,000. On April 20, 2004 the Company terminated the revolving credit note.

The loan agreement with Commerce Bank contains certain financial covenants relating to the maintenance of tangible net worth as defined and Debt Service Coverage Ratios. At March 31, 2004 the Company was in compliance with its tangible net worth covenant but not its debt service coverage ratio.

(b) Revolving line of credit loan provided by Bank of America dated August 6, 2003 in the amount of $4,500,000 with interest at a variable rate. The loan is due on September 4, 2004. The loan is guaranteed by Mr. Carl DeSantis, a

shareholder and director of the Company. At March 31, 2004 the interest rate was 2.34%.

[9] Loan Payable-Trade Investment Services

Demand loan in the amount of $172,260 provided by Trade Investment Services, LLC ("TIS"), a former shareholder of Paxis Pharmaceuticals, Inc, dated July 1, 2002 with interest at 9%. Interest for the nine months ended March 31, 2004 has been waived.

[10] Research and Development Expense

The Company incurred $37,583 in research and development expenses due to the acquisition of NuCycle Therapy, Inc. in February of 2003. Such costs are expensed as incurred and included in selling and administrative expenses.

[11] Capital Lease

The Company acquired laboratory equipment under the provisions of two (2) short-term leases. The leases expire in January 2004 and December 2004, respectively. The equipment under the capital leases as of March 31, 2004 has a

[11] Capital Lease [Continued]

cost of $195,653 and accumulated depreciation of $7,348 with a net book value of $188,305.

The future minimum lease payments under capital leases and the net present value of the future minimum lease payments at March 31, 2004 are as follows:

Total Minimum Lease Payments	$ 39,052
Amount Representing Interest	(731)
Present Value of Net Minimum Lease Payment	38,321
Current Portion	(38,321)
Long-Term Capital Lease Obligation	$ -0-

[12] Significant Risks and Uncertainties

[A] 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, 2004 the Company's uninsured cash balances totaled approximately $857,655. The Company does not require collateral in relation to cash credit risk.

[B] Concentrations of Credit Risk - Receivables - The Company routinely assesses the financial strength of its customers and, based upon factors surrounding the credit risk of its customers, establishes an allowance for uncollectible accounts and, as a consequence, believes that its accounts receivable credit

risk exposure beyond such allowances is limited. The Company does not require collateral in relation to its trade accounts receivable credit risk.

The amount of the allowance for uncollectible accounts at March 31, 2004 is $36,197.

[13] Major Customer

For the nine months ended March 31, 2004 and 2003 approximately 63% and 68% of revenues were derived from one customer. The loss of this customer would have an adverse effect on the Company's operations. Two other customers accounted for 18% of consolidated sales for the nine months ended March 31, 2004 and 11% of consolidated sales for the nine months ended March 31, 2003. Accounts receivable from these customers comprised approximately 64% and 58% of total accounts receivable at March 31, 2004 and 2003, respectively.

[14] Commitments and Contingencies

[A] Leases

Related Party Leases - Warehouse and office facilities are leased from Vitamin Realty Associates, L.L.C., a limited liability company, which is 90% owned by the Company's Chairman of the Board and principal stockholder and certain family members and 10% owned by the Company's Chief Financial Officer. The lease was effective on January 10, 1997 and provides for a minimum annual rental of $346,000 through January 10, 2002 plus increases in real estate taxes and building operating expenses. At its option, the Company has the right to renew the lease for an additional five year period. On April 28, 2000 the lease was amended reducing the square footage and extending the lease to May 31, 2015. Rent expense for the nine months ended March 31, 2004 and 2003 on this lease was approximately $370,000 and $350,000 respectively.

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.

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[14] Commitments and Contingencies [Continued]

At its option, the Company has the right to renew the lease for an additional five year period. On August 27, 2002 the lease was amended reducing the square footage from approximately 32,500 to 22,500 and reducing the monthly rent to $22,483 per month for the balance of the lease. Rent expense for the nine months ended March 31, 2004 was $238,184. There were no corresponding expenses in 2003 because the manufacturing and office facility was not a part of the consolidated group.

The Company leases warehouse and office facilities through March 31, 2006. The lease was effective on March 15, 2004 and provides for a minimum monthly rental of $3,625 in year one and $3,833 in year two.

The Company leases warehouse equipment for a five-year period providing for an

annual rental of $15,847, telephone equipment for a five-year period providing for an annual rental of $13,142 and office equipment for a five year period providing for 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:

March 31,	Lease Commitment	Related Party Lease Commitment	Total
2005	$ 321,544	$ 323,559	$ 645,103
2006	311,374	323,559	634,933
2007	13,988	323,559	337,547
2008	--	323,559	323,559
2009	--	323,559	323,559
Thereafter	--	1,963,318	1,963,318
Total	$ 646,906	$ 3,581,113	$ 4,228,019

Total rent expense, including real estate taxes and maintenance charges, was approximately $692,000 and $420,000 for the nine months ended March 31, 2004 and 2003, respectively. Rent expense is stated net of sublease income of approximately $7,975 and $6,700 for the nine months ended March 31, 2004 and 2003, respectively.

[B] Development and Supply Agreement - On March 13, 1998, the Company signed a development and supply agreement with Herbalife International of America, Inc. ["Herbalife"] whereby the Company will develop, manufacture and supply certain nutritional products to Herbalife through December 31, 2002. On December 31, 2002 the agreement was modified extending the term of the agreement to December 31, 2005 and providing that Herbalife is required to purchase a minimum quantity of Supplied Products each year of $18,000,000 for the term of the agreement. If Herbalife purchases the minimum amount then it will be entitled to certain rebates of an amount not exceeding $300,000. Accrual of these rebates are done quarterly. On August 1, 2003 the development supply agreement was extended through December 31, 2006.

[C] Employment Agreement - Effective February 24, 2003 the Company entered into an employment agreement with an executive, which expires on December 31, 2004 and provides for an aggregate annual salary of $100,000. The agreement was terminated on February 20, 2004.

[D] Consultant Agreements- On February 10, 2004, the Company entered into a one year consultant agreement with an investor relation's consultant. The Company is obligated to pay $10,000 per month for the length of the agreement. In addition, the Company will issue to the consultant 36,000 shares of Common stock on a quarterly basis.

The Company has oral agreements with subcontractors to supply labor on an as needed basis.

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[14] Commitments and Contingencies [Continued]

[E] Collaboration Agreement-Effective December 23, 2003 the Company entered into a collaboration agreement with the Institute For Cancer Prevention, Inc. (the "Institute"). The Company and the Institute will jointly research, develop and test compounds for anti-carcinogenic activity. Under the agreement, the Company has the exclusive rights to commercialize the compounds resulting from the research and development collaboration. The Institute will receive a fee payment of one percent (1%) of net sales for any products developed pursuant to this agreement.

[F] Intellectual Property Agreement-In connection with the acquisition in January 2004 of intellectual property developed by the Center for Molecular Biotechonlogy of Faunhofer 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.

[15] 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 for the nine months ended March 31, 2004 and 2003 was $9,900 respectively.

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

[16] New Accounting Pronouncements

In April 2002, the Financial Accounting Standard Board ("FASB") issued SFAS No. 145, "Rescission of FASB Statements No. 4, 44, and 64, Amendment of FASB Statement No. 13 and Technical Corrections." SFAS No. 145 provides guidance for income statement classification of gains and losses of debt and accounting for certain lease modifications that have economic effects that are similar to sale-leaseback transactions. SFAS No. 145 requires that gains and losses from extinguishment of debt be classified as extraordinary items only if they meet the criteria in Accounting Principles Board Opinion No. 30 ("Opinion No. 30"). SFAS No. 145 is effective for years beginning after December 15, 2002. There was no impact from adoption of this statement.

In June 2002, the FASB issued SFAS No. 146, "Accounting for Costs Associated with Exit of Disposal Activities," which addresses financial accounting and reporting for costs associated with exit or disposal activities and supersedes EITF Issue 94-3, "Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring)." SFAS 146 requires that a liability for a cost associated with an exit or disposal activity be recognized when the liability is incurred. There was no impact from the adoption of this statement.

In December 2002, the FASB issued SFAS No. 148, "Accounting for Stock Based Compensation", which amends SFAS No. 123 to provide alternative methods of transition for an entity that voluntarily changes to the fair value method of accounting for stock based compensation. It also amends the disclosure provisions of SFAS No. 123 to require prominent disclosure about the effects on reported net income of an entity's accounting policy decisions with respect to stock based employee compensation. Finally, SFAS No. 148 amends APB Opinion No. 28, "Interim Financial Reporting", to require disclosure of those effects in interim financial statements. SFAS No. 148 is effective for fiscal years ended after December 15, 2002, but early adoption is permitted. Accordingly, the

Company has adopted the applicable disclosure requirements of this statement within this report.

In November 2002, the FASB issued interpretation No. ("FIN") 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others", which requires that guarantees within the scope of FIN 45 issued or amended after December 31, 2002, a liability for the fair value of the obligation undertaken in issuing the guarantee, be recognized at the inception of the guarantee. Disclosures required by FIN 45 are included in the accompanying consolidated financial statements.

In January 2003, the FASB issued FIN 46, "Consolidation of Variable Interest Entities," which is effective for interim periods beginning after June 15, 2003. This interpretation changes the method of determining whether certain entities additional subordinated financial support from other parties, or (2) equity investors that cannot make significant decisions about the entity's operations

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[16] New Accounting Pronouncements [Continued]

or that do not absorb the expected losses or receive the expected returns of the entity. All other entities are evaluated for Subsidiaries." A VIE is consolidated by its primary beneficiary, which is the party involved with the VIE that has a majority of the expected losses or a majority of the expected residual returns or both. The Company is currently evaluating the impact of FIN 46.

On April 30, 2003, the FASB issued SFAS No. 149, "Amendment of SFAS 33 on Derivative Instruments and Hedging Activities." SFAS 149 is intended to result in more consistent reporting of contracts as either freestanding derivative instruments subject to SFAS 133 in its entirety, or as hybrid instruments with debt host contracts and embedded derivative features. In addition, SFAS 149 clarifies the definition of a derivative by providing guidance on the meaning of initial net investments related to derivatives. SFAS 149 is effective for contracts entered into or modified after June 30, 2003. The adoption of SFAS 129 did not have a material effect on our consolidated financial position, results of operations, or cash flows.

On May 15, 2003, the FASB issued SFAS No. 150, "Accounting for Certain Financial Instruments with Characteristics of Both Liabilities and Equity." SFAS 150 establishes standards for classifying and measuring as liabilities certain financial instruments that embody obligations of the issuer and have characteristics of both liabilities and equity. SFAS 150 represents a significant change in practice in the accounting for a number of financial instruments, including mandatorily redeemable equity instruments and certain equity derivatives that frequently are used in connection with share repurchase programs. SFAS 150 is effective for all financial instruments created or modified after May 31, 2003. We currently do not have any such instruments. The preferred stock issuance as discussed in Note 18 - Subsequent Events, will be treated in accordance with this pronouncement.

[17] Equity Transactions

On October 6, 2003, the Company granted 41,666 incentive stock options for a

term of ten years at an exercise price equal to the market price of $7.90 on the date of grant.

On December 4, 2003, the Company granted 103,500 incentive stock options and 682,500 non-statutory stock options for a period of ten years at an exercise price equal to the market price of $9.90 and 9,182 incentive stock options for a term of five years at $10.89 representing 110% of the market price and 90,818 non-statutory stock options for a period of ten years at $10.89 representing 110% of the market price.

Paxis Acquisition- On July 22, 2003 the Company completed its acquisition of ninety-seven (97%) percent of the shares of common stock of Paxis Pharmaceuticals, Inc. a Delaware corporation ("Paxis") based in Boulder, Colorado. Paxis was organized to manufacture and distribute cGMP API Paclitaxel, a leading cancer therapy drug. The Company acquired 47% of the shares of Paxis in exchange for its 50% interest in Natex Georgia LLC, a company organized in the Republic of Georgia to harvest from Gerogian government lands organic biomass from which Paclitaxel is made. The Company acquired 50% of the shares of Paxis from Trade Investment Services, LLC, which funded Paxis's and Natex's development pursuant to the terms of a certain Purchase Agreement dated as of February 1, 2003 (the "Purchase Agreement"), in consideration for TIS receiving from the Company $500,000 and twenty-five (25%) of the after-tax profits of Paxis until TIS has received an additional $49,500,000.

In addition, TIS assigned to the Company a loan receivable from Paxis, and the Company assumed Paxis' loan payable in the principal amount of $4,500,000 to the Bank of America, pursuant to an Assignment and Assumption Agreement dated as of July 1, 2003 by and among the Company, TIS and Paxis. The Company also assumed an obligation of $172,260 advanced by TIS to Paxis.

The accounting for the Paxis acquisition followed controlled related party carryover basis accounting. The excess of the debt of $4,500,000 assumed plus the $500,000 cash paid plus the $172,260 obligation assumed totaling ($5,172,260) over the net assets acquired of $2,216,171 was recorded as a reduction of additional paid-in capital of $2,956,068. At this time, the Company is unable to estimate the amount or timing of any potential contingent payments.

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[17] Equity Transactions [Continued]

On October 8, 2003, the Company acquired the remaining three (3%) percent of Paxis Pharmaceuticals, Inc. ("Paxis") in exchange for 66,666 shares of its common stock valued at $542,728. The stock was valued on the basis of the average closing price as reported on the American Stock Exchange for the five (5) trading days immediately preceding the closing date and five (5) trading days after.

E. Gerald Kay, the Chief Executive Officer of INB and beneficial owner of approximately fifty percent (50%) of the stock of INB (or, approximately sixty-two percent (62%) if family trusts of which he is a trustee are attributed to him), is the owner of one-third (1/3) of the equity of TIS. Robert Kay, the brother of E. Gerald Kay a DeSantis who is a director of INB, is the owner of one-third (1/3) of the equity of TIS.

Acquisition of new product lines- On October 22, 2003, the Company completed the acquisition of various assets related to the Naturally Aloe(TM), Naturally Noni(TM), and Avera Sport(TM) product lines from Aloe Commodities International, Inc. ("Aloe"). The assets included trademarks, copyrights, art work, formula for the products, labels, customer lists, goodwill, inventories and books and records. Pursuant to the terms of a purchase agreement dated October 22, 2003 by and between the Company and Aloe, the purchase price for the Transferred Assets was $2,597,880, with $872,470 paid at closing and $1,725,410 paid in 203,085 shares of the Company's common stock valued on the basis of the average closing price as reported on the American Stock Exchange for the five (5) trading days immediately preceding the closing date and five (5) days after the closing date. Such shares shall be held in escrow for a period of one (1) year from the closing date and released pursuant to the terms of and Escrow Agreement between and among the Company, Aloe and Vial, Hamilton, Koch & Knox, L.L.P. The allocation of the purchase price was as follows:

Inventory, Trade Receivables and Prepaid Items	$ 597,470
Trademark	50,000
Brand Names	500,000
Artwork	100,000
Formulas	200,000
Customer List	50,000
Goodwill	1,100,410
Total	$ 2,597,880

[18] Subsequent Events

On April 21, 2004 the Company completed a private placement transaction for $8.5 million in gross proceeds with a group of institutional investors led by Alexandra Investment Management, LLC.

In the Offering, the Investors purchased an aggregate of 850 shares of the Company's Series B Redeemable Preferred Stock, par value $.002 per share (the "Series B Preferred Shares"), for $10,000 per share. Dividends of the Series B Preferred Shares are 7% per annum, payable by the Company in cash or, in certain instances, in shares of the Company's Common Stock, par value $.002 per share (the "Common Stock"). The Series B Preferred Shares are convertible at the option of each Investor into shares of Common Stock at a conversion price of $10.00 per share, subject to anti-dilution and other customary adjustments. Upon conversion, the Investors would receive an aggregate of 850,000 shares of Common Stock. The Company also has the option to force such conversion in the event that it meets certain performance milestones. The Series B Preferred Shares are redeemable by the Company on the third anniversary of issuance. The Investors can also force redemption upon the occurrence of certain events of default.

The Company also issued to the Investors warrants (the "Warrants") to purchase an aggregate of 425,000 shares of Common Stock, exercisable over a five-year period. The exercise price is $14.00 per share, subject to anti-dilution and other customary adjustments. Assuming no such adjustments, the exercise of all Warrants could result in additional gross proceeds to the Company of $5,950,000. The Warrants are callable by the Company in the event that it meets certain performance milestones.

Finally, the Company issued Additional Investment Rights to the Investors, entitling them over the next 18 months to purchase an aggregate of 425 additional Series B Preferred Shares (convertible into 425,000 shares of Common Stock) and Warrants to purchase an additional 212,500 shares of Common Stock. The Series B Preferred Shares and Warrants issuable upon exercise of the

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INTEGRATED BIOPHARMA, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Sheet #11
[UNAUDITED]

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[18] Subsequent Events [Continued]

Additional Investment Rights have the same terms as the securities issued at closing. Assuming no anti-dilution or other adjustments, the exercise of all Additional Investment Rights followed by the exercise of all Warrants issuable upon exercise of the Additional Investment Rights could result in additional gross proceeds to the Company of $7,225,000.

The Company has agreed to register the Common Stock underlying the Series B Preferred Shares and the Warrants, including the Series B Preferred Shares and the Warrants issuable upon exercise of the Additional Investment Rights, for resale under the Securities Act of 1933 and applicable state securities laws.

On May 3, 2004 the Company completed a private placement transaction for $5,000,000 with one investor. The placement provided for the purchase of 500,000 shares of common stock at a price of $10 per share and warrants to purchase 50,000 shares of common stock at a price of $14 per share.

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Item 2.
INTEGRATED BIOPHARMA, INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS OR PLAN OF OPERATIONS

The following discussion should be read in conjunction with the historical information 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, and only produces finished goods or purchases raw materials on a purchase order basis. Consequently, the Company has minimal risk for slow-moving or obsolete inventory. Raw materials are ordered from suppliers when needed to complete customer's orders. 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

Other purchased intangibles consisting of patents and unpatented technological expertise, 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 life of the patents (15 years).

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.

Intangible Assets [Continued]

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

Deferred income taxes are provided in accordance with SFAS No. 109, "Accounting for Income Taxes" for differences between financial statement and income tax bases of assets and liabilities using enacted tax rates in effect in the years

in which the differences are expected to reverse. The Company provides a valuation allowance on net deferred tax assets when it is more likely than not that these assets will not be realized.

Results of Operations

Nine months ended March 31, 2004 Compared to nine months ended March 31, 2003

The Company's net loss for the nine months ended March 31, 2004 was $(2,264,578) as compared to net income of $731,086 for the nine months ended March 31, 2003. This decrease in net income of approximately $3,000,000 is primarily the result of an approximately $3,500,000 decrease in operating income resulting from a corresponding increase in gross profit of approximately $644,000, an increase in selling and administrative expenses of approximately $4,140,000 of which approximately $3,200,000 are made up of Paxis Pharmaceuticals, Inc. start up costs, and a decrease in Federal and state income taxes of approximately $500,000.

Sales for the nine months ended March 31, 2004 and 2003 were $18,390,616 and $17,464,163, respectively, an increase of $926,453 or 5%. Gross profit for the nine months ended March 31, 2004 was $643,686 higher than the gross profit for the nine months ended March 31, 2003. Both the increase in sales and gross profit can be primarily attributed to the change in the product mix. For the nine months ended March 31, 2004 the Company had sales to one customer, who accounted for 63% of net sales in 2004 and 68% in 2003. The loss of this customer would have an adverse affect on the Company's operations.

Manufacturing sales for the quarter ended March 31, 2004 and 2003 were $15,737,499 and $14,628,272 respectively, an increase of $1,109,227 or 8%. The increase in sales can be primarily attributed to the acquisition of new product lines from Aloe Commodities International, Inc. ("Aloe").

Retail and mail order sales for the nine months ended March 31, 2004 totaled $47,978 as compared to $80,290 for the nine months ended March 31, 2003, a decrease of 40%. The Company has been experiencing a decline in mail order sales due to increased competition.

The Company has an agreement with DSM Nutritional Products, Inc. (a successor to Roche Vitamins, Inc.). Sales under this agreement were $1,700,337 for the nine months ended March 31, 2004 as compared to $1,687,244 for the nine months ended March 31, 2003, an increase of $13,093 or 1%.

The Company offers distribution and sale of fine chemicals through a subsidiary, IHT Health Products, Inc. Sales for the nine months ended March 31, 2004 totaled $1,145,802 as compared to $1,537,835 for the nine months ended March 31, 2003, a decrease of $392,033 or 25%.

Results of Operations [Continued]

On February 21, 2003 the Company acquired NuCycle Therapy, Inc. ("NuCycle"). NuCycle is engaged in the development and sale of nutritional formulations based on plant-derived minerals through patented hyperaccumulation technology. Sales for the nine months ended March 31, 2004 were $15,433 and grant proceeds received for the nine months ended March 31, 2004 totaled $146,091.

Cost of sales increased to $13,924,860 for the nine months ended March 31, 2004 as compared to $13,642,093 for the nine months ended March 31, 2003. Cost of sales decreased as a percentage of sales to 76% for the nine months ended March 31, 2004 from 78% for the nine months ended March 31, 2003. The decrease in cost of sales as a percentage of sales is due to the Company's change in product mix.

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

	Nine Months Ended March 31,		
	2004	2003	
Advertising Expense	$ 88,322	$ 5,837	$
Bad Debt Expense	7,342	5,024	
Royalty & Commission Expense	79,985	48,613	
Officers Salaries	358,702	361,531	
Auto, Travel & Entertainment	595,541	394,762	
Office Salaries	705,604	584,853	
Depreciation & Amortization	156,650	179,432	
Consulting Fees	256,449	323,056	
Regulatory Fees	19,250	-0-	
Professional Fees	518,141	192,834	
Research & Development Expense	37,583	-0-	
Other selling and administrative expenses	878,522	695,059	
Paxis Pharmaceuticals, Inc.	3,228,454	-0-	
Total	$ 6,930,545	$ 2,791,001	$

The increase in advertising expense is due to an increase in print advertising. Royalty & Commission expense increased as a result of the sales of the Naturally Noni(TM), Naturally Aloe(TM) and Avera Sport(TM) lines. Auto, travel and entertainment expenses have increased because of substantially increased travel in connection with its acquisition of Paxis and its facility located in Boulder, Colorado, and the formation of its Canadian-based joint venture. Office salaries have increased due to the addition of two new sales and marketing employees. The decrease in consulting fees can be attributed to the hiring of a consulting firm for a new water filtration system during the period ending March 31, 2003. Regulatory fees have increased due to the Company's listing on the American Stock Exchange in April of 2003. Professional fees have increased largely due to increased legal fees related to recent acquisitions and to increased auditing and accounting fees related to SEC filings. Research and development expenses have increased due to the acquisition of NuCycle Therapy, Inc. in February 2003. The Paxis selling and administrative expenses represent expenditures made by Paxis for the eight months ended March 31, 2004.

Results of Operations [Continued]

Other income [expense] was $287,241 for the nine months ended March 31, 2004 as compared to $285,478 for the six months ended March 31, 2003, an increase of $1,763.

Three months ended March 31, 2004 Compared to three months ended March 31, 2003

The Company's net loss for the three months ended March 31, 2004 was $(1,141,532) as compared to net income of $217,754 for the three months ended March 31, 2003. This decrease in net income of approximately $1,359,000 is primarily the result of an approximately $1,460,000 decrease in operating income resulting from a corresponding increase in gross profit of approximately $198,000, an increase in selling and administrative expenses of approximately $1,662,000 (of which approximately $1,560,000 are due to Paxis start up costs) and a decrease in Federal and state income taxes of approximately $170,000.

Sales for the three months ended March 31, 2004 and 2003 were $6,560,784 and $6,670,254, respectively, a decrease of approximately $110,000 or 2%, but because of the change in the product mix, gross profit for the three months ended March 31, 2004 was $197,970 higher than the gross profit for the three months ended March 31, 2003. For the three months ended March 31, 2004 the Company had sales to one customer, who accounted for 53% of net sales in 2004 and 72% in 2003. The loss of this customer would have an adverse affect on the Company's operations.

Manufacturing sales for the quarter ended March 31, 2004 and 2003 were $5,581,884 and $5,718,933, respectively, a decrease of $137,049 or 2%.

Retail and mail order sales for the three months ended March 31, 2004 totaled $14,417 as compared to $26,465 for the three months ended March 31, 2003, a decrease of 46%. The Company has been experiencing a decline in mail order sales due to increased competition.

The Company has an agreement with DSM Nutritional Products, Inc. (a successor to Roche Vitamins, Inc.). Sales under this agreement were $533,896 for the three months ended March 31, 2004 as compared to $679,096 for the three months ended March 31, 2003, a decrease of $145,200 or 21%.

The Company offers distribution and sale of fine chemicals through a subsidiary, IHT Health Products, Inc. Sales for the three months ended March 31, 2004 totaled $451,546 as compared to $570,567 for the three months ended March 31, 2003, a decrease of $119,021 or 21%.

On February 21, 2003 the Company acquired NuCycle Therapy, Inc. ("NuCycle"). NuCycle is engaged in the development and sale of nutritional formulations based on plant-derived minerals through patented hyperaccumulation technology. Sales for the three months ended March 31, 2004 were $6,422 and grant proceeds received for the three months ended March 31, 2004 totaled $37,470.

Cost of sales decreased to $4,982,793 for the three months ended March 31, 2004 as compared to $5,290,233 for the three months ended March 31, 2003. Cost of sales decreased as a percentage of sales to 76% for the three months ended March 31, 2004 from 79% for the three months ended March 31, 2003. The decrease in cost of sales is due to the Company's change in product mix.

Results of Operations (Continued)

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

	Three Months Ended March 31, 2004	Three Months Ended March 31, 2003	
Advertising Expense	$ 38,112	$ 1,200	$
Bad Debt Expense	2,500	(1,869)	
Royalty & Commission Expense	40,364	-0-	
Officers Salaries	111,138	117,077	
Auto, Travel & Entertainment	175,158	123,301	
Office Salaries	257,260	188,319	
Depreciation & Amortization	53,639	-0-	
Consulting Fees	84,062	197,128	
Regulatory Fees	5,000	-0-	
Professional Fees	125,686	87,029	
Other selling and administrative expenses	299,547	375,844	
Paxis Pharmaceuticals, Inc.	1,557,100	-0-	
Total	$ 2,749,566	$ 1,088,029	$

The increase in advertising expense is due to an increase in print advertising. The increase in royalty and commission expense can be attributed to the sales of the Naturally Noni(TM), Naturally Aloe(TM) and Avera Sport(TM) lines. Auto, travel and entertainment expenses have increased because of substantially increased travel in connection with its acquisition of Paxis and its facility located in Boulder, Colorado, and the formation of its Canadian-based joint venture. Office salaries have increased due to the addition of two new sales and marketing employees. The decrease in consulting fees can be attributed to the hiring of a consulting firm for a new water filtration system during the period ending March 31, 2003. Regulatory fees have increased due to the Company's listing on the American Stock Exchange in April of 2003. Professional fees have increased largely due to increased legal fees related to recent acquisitions and to increased auditing and accounting fees related to SEC filings. The Paxis selling and administrative expenses represent the expenditures made by Paxis for the three months ended March 31, 2004. There were no corresponding expenses in the quarter ended March 31, 2003 because the Paxis acquisition was completed on July 22, 2003.

Other income [expense] was $42,948 for the three months ended March 31, 2004 as compared to $107,633 for the three months ended March 31, 2003, a decrease of $64,685. The decrease can be attributed to an increase in interest expense of $35,592 due to the assumption of the Bank of America debt of $4,500,000 in the Paxis transaction as well as a $24,346 gain on the sale of fixed assets made during the period ending March 31, 2003.

Inventories

The inventory at March 31, 2004 increased by $2,155,942 from the inventory at June 30, 2003. The increase in inventory can be attributed to an increase in raw material inventory of approximately $2,600,000. The increase in raw material inventory is a direct result of Paxis Pharmaceuticals, Inc. completing its manufacturing facility which has resulted in a build up of raw materials to support production as well as the introduction of new product lines, and a

decrease in work-in-process inventory of approximately $332,000.

Prepaid Expenses

Prepaid expenses and other current assets increased by $277,010 from June 30, 2003. The increase is primarily attributable to an increase in prepaid commissions of $132,085, an increase in prepaid regulatory fees of $23,750 due to the Company's listing on the American Stock exchange, and an increase in prepaid expenses of approximately $61,000.

Liquidity and Capital Resources

At March 31, 2004 the Company's working capital was $4,053,210, a decrease of $14,843,706 over working capital at June 30, 2003. Cash and cash equivalents were $1,333,878 at March 31, 2004, a decrease of $9,072,512 from June 30, 2003. The Company utilized $4,543,328 and generated $75,238 from operations for the nine months ended March 31, 2004 and 2003, respectively.

The primary reasons for the decrease in cash used in operations for the nine months ended March 31, 2004 are net loss of approximately $2,200,000, an increase in accounts receivable of approximately $876,000, an increase in inventories of approximately $2,163,000, an advance to Paxis Pharmaceuticals, Inc., a related party of $908,000 and an increase in accounts payable of approximately $1,200,000.

The Company utilized $4,579,811 and $649,565 in investing activities for the nine months ended March 31, 2004 and 2003, respectively. The Company generated $50,627 and $87,215 from debt financing activities for the nine months ended March 31, 2004 and 2003, respectively.

The Company has a $1,000,000 revolving line of credit agreement which bears interest at the prime interest rate and expires on June 10, 2005. At March 31, 2004 there was no balance due under the revolving line of credit. At March 31, 2004 the Company was in compliance with its tangible net worth covenant but not its debt service coverage ratio covenant. On April 20, 2004 the Company terminated its revolving credit agreement.

On April 21, 2004 the Company completed a private placement transaction for $8,500,000 with a group of investors. The placement provided for the purchase of 850 shares of Series B Redeemable Convertible Preferred Stock at a price of $10,000 per share. The Series B Redeemable Convertible Preferred Stock is convertible at $10 per share into shares of the Company's common stock at the option of each investor.

On May 3, 2004 the Company completed a private placement transaction for $5,000,000 with one investor. The placement provided for the purchase of 500,000 shares of common stock at a price of $10 per share and warrants to purchase 50,000 shares of common stock at a price of $14 per share.

The Company's total annual commitment at March 31, 2004 for the next five years of $4,228,019 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, 2004 and 2003 were $3,136,556 and $325,060 respectively. The capital expenditures during these periods are primarily attributable to the purchase of machinery and equipment.

The Company has budgeted approximately $300,000 for capital expenditures for the remaining three months of fiscal 2004. Such amount includes capital expenditures of approximately $200,000 for the Paxis facility. Such amount will be funded from working capital.

Off-Balance Sheet Arrangements

The Company has no off-balance sheet arrangements.

Item 3.

INTEGRATED BIOPHARMA, INC.

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

INTEGRATED BIOPHARMA, INC.

Item 1: Legal Proceedings

None

Item 2: Changes in Securities

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 Rule 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 Rule 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 17, 2004 pursuant to Item 7 (Financial Statements and Exhibits) and Item 9 (Regulation FD Disclosure).

SIGNATURES

In accordance with 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 14, 2004	By: /s/ E. Gerald Kay --------------------- E. Gerald Kay Chief Executive Officer
Date: May 14, 2004	By: /s/ Eric Friedman --------------------- Eric Friedman, Chief Financial Officer