

INTEGRATED BIOPHARMA INC  
Form 10-K  
September 08, 2014

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

FORM 10-K

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

For the fiscal year ended June 30, 2014      Commission File Number 001-31668

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

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

225 Long Ave., Hillside, New Jersey      07205  
(Address of principal executive offices)      (Zip code)

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

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

Title of Each Class	Name of Each Exchange on Which Registered
None	None

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

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.  
Yes  No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.  
Yes  No

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities and Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.  
Yes  No

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

Yes  No

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

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

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).  
Yes  No

The aggregate market value of the voting stock held by non-affiliates of the Registrant based on the trading price of the Registrant's Common Stock on December 31, 2013 was \$1,544,341.

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

Class	Outstanding at September 8, 2014
Common Stock, \$.002 par value	21,105,174 Shares

#### DOCUMENTS INCORPORATED BY REFERENCE

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

INTEGRATED BIOPHARMA, INC. AND SUBSIDIARIES

FORM 10-K ANNUAL REPORT

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### CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

Certain statements in this Annual Report on Form 10-K may constitute forward-looking statements as defined in Section 27A of the Securities Act of 1933 (the “Securities Act”), Section 21E of the Securities Exchange Act of 1934 (the “Exchange Act”), the Private Securities Litigation Reform Act of 1995 (the “PSLRA”) or in releases made by the Securities and Exchange Commission (“SEC”), all as may be amended from time to time. Such forward-looking statements involve known and unknown risks, uncertainties and other important factors that could cause the actual results, performance or achievements of Integrated BioPharma, Inc. and its subsidiaries (the “Company”) or industry results, to differ materially from any future results, performance or achievements expressed or implied by such forward-looking statements. Such factors including, among others, changes in general economic and business conditions; loss of market share through competition; introduction of competing products by other companies; the timing of regulatory approval and the introduction of new products by the Company; changes in industry capacity; pressure on prices from competition or from purchasers of the Company's products; regulatory changes in the pharmaceutical manufacturing industry and nutraceutical industry; regulatory obstacles to the introduction of new technologies or products that are important to the Company; availability of qualified personnel; the loss of any significant customers or suppliers; and other factors both referenced and not referenced in this Annual Report. Statements that are not historical fact are forward-looking statements. Forward looking-statements can be identified, by among other things, the use of forward-looking language, such as the words “plan”, “believe”, “expect”, “anticipate”, “intend”, “estimate”, “project”, “may”, “will”, “would”, “could”, “should”, “seeks”, or “scheduled to”, or other similar negative of these terms or other variations of these terms or comparable language, or by discussion of strategy or intentions. These cautionary statements are being made pursuant to the Securities Act, the Exchange Act and the PSLRA with the intention of obtaining the benefits of the “safe harbor” provisions of such laws. The Company cautions investors that any forward-looking statements made by the Company are not guarantees or indicative of future performance. Important assumptions and other important factors that could cause actual results to differ materially from those forward-looking statements with respect to the Company include, but are not limited to, the risks and uncertainties affecting their businesses described in Item 1A of this Annual Report on Form 10-K and in other securities filings by the Company.

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

## PART I

### Item 1. Description of Business

#### General

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

The Company’s business segments include: (a) Contract Manufacturing operated by InB:Manhattan Drug Company, Inc. (“MDC”), which manufactures vitamins and nutritional supplements for sale to distributors, multilevel marketers and specialized health-care providers; (b) Branded Proprietary Products operated by AgroLabs, Inc. (“AgroLabs”), which distributes healthful nutritional products for sale through major mass market, grocery, drug and vitamin retailers, under the following brands: Naturally Noni, Coconut Water, Aloe Pure, Peaceful Sleep, Green Envy, ACAI Extra, ACAI Cleanse, Wheatgrass and other products which are being introduced into the market (these are referred to as our branded proprietary nutraceutical business and/or products); and (c) Other Nutraceutical Businesses which includes the operations of (i) The Vitamin Factory (the “Vitamin Factory”), which sells private label MDC products, as well as our AgroLabs products, through the Internet, (ii) IHT Health Products, Inc. (“IHT”) a distributor of fine natural botanicals, including multi minerals produced under a license agreement and (iii) Chem International, Inc., a distributor of certain raw materials for DSM Nutritional Products LLC.

#### Significant Revenues from Major Customers

For the fiscal years ended June 30, 2014 and 2013 a significant portion of our consolidated net sales, approximately 80% and 76%, respectively, were concentrated among two customers, Herbalife International of America, Inc. (“Herbalife”) and Life Extension Quality Supplements and Vitamins, Inc. (“Life Extensions”), each customers in our Contract Manufacturing Segment. Herbalife and Life Extensions represented approximately 67% and 22% and 71% and 16%, respectively, of our Contract Manufacturing Segment’s net sales in the fiscal years ended June 30, 2014 and 2013, respectively. Costco Wholesale Corporation (“Costco”) (a customer of our Branded Proprietary Products Segment), while not a significant customer of our consolidated net sales represented approximately 60% and 50% of net sales in the fiscal years ended June 30, 2014 and 2013, respectively, of the Branded Propriety Products Segment. The loss of any of these customers could have a significant adverse impact on our financial condition and results of operations.

#### Raw Materials

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

#### Development and Supply Agreement

Effective July 15, 2009, the Company entered into a development and supply agreement with Herbalife and certain of its affiliates, pursuant to which the Company develops, manufactures and supplies certain nutritional products to Herbalife. This agreement was amended on December 28, 2012 to extend the term through December 31, 2015. This agreement does not, however, obligate the Company to supply any particular amount of goods to Herbalife, nor does it obligate Herbalife to commit to a minimum order, if any. In its ordinary course of business, the Company has similar agreements with other customers in connection with its contract manufacturing business.

### Seasonality

The nutraceutical business tends to be seasonal. We have found that in our first fiscal quarter ending on September 30th of each year, orders for our branded proprietary nutraceutical products usually slow (absent the addition of new customers or a new product launch with a significant first time order), as buyers in various markets may have purchased sufficient inventory to carry them through the summer months. Conversely, in our second fiscal quarter, ending on December 31st of each year, orders for our products increase as the demand for our branded nutraceutical products, as well as sales orders from our customers in our contract manufacturing segment, seem to increase in late December to early January as consumers become health conscious as they enter the new year.

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

### Variability of Quarterly Results and Impact of Advertising

Advertising and promotional spending for our branded nutraceutical business in the fiscal year ended June 30, 2013 was curtailed as a result of the decline in sales to the club retail chains market and resulted in advertising and promotional expenses of \$0.7 million in the fiscal year ended June 30, 2013. Advertising and promotional spending decreased substantially to \$0.2 million in the fiscal year ended June 30, 2014 as a result of the lack of sales to customers in the domestic club store chains where we supported the sales of our branded proprietary nutraceutical products with in store demos as well as promotional discounts. As we continue to support our branded nutraceutical business we may incur increased advertising and promotional expenses. Such expenses include promotional activities conducted through the retail trade, distributors or directly with consumers, including in-store displays, product placement programs, coupons, radio and print advertising, and other similar activities. Since such expenses may occur in fiscal quarters before increases, if any, in revenues occur as a result of the advertising and promotion, the program may increase variability of our quarterly results. Other factors that also may influence the variability of quarterly results include general economic and industry conditions that affect consumer spending, changing consumer demands and current news on nutritional supplements. Accordingly, a comparison of our results of operations from consecutive periods is not necessarily meaningful, and our results of operations for any period are not necessarily indicative of future periods.

### Government Regulations

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



The Dietary Supplement Health and Education Act of 1994 (“DSHEA”) was enacted on October 25, 1994. The Dietary Supplement Act amends the Federal Food, Drug and Cosmetic Act (“FFD&CA”) by defining dietary supplements, which include vitamins, minerals, nutritional supplements and herbs, and by providing a regulatory framework to ensure safe, quality dietary supplements and the dissemination of accurate information about such products. The FDA is generally prohibited from regulating the active ingredients in dietary supplements as food additives, or as drugs unless product claims trigger drug status. The DSHEA requires the FDA to regulate dietary supplements so as to guarantee consumer access to beneficial dietary supplements, allowing only truthful and proven claims. Generally, dietary ingredients that were on the market before October 15, 1994 may be sold without FDA pre-approval and without notifying the FDA. However, new dietary ingredients (those not used in dietary supplements marketed before October 15, 1994) require pre-market submission to the FDA of evidence of a history of their safe use, or other evidence establishing that they are reasonably expected to be safe. There can be no assurance that the FDA will accept the evidence of safety for any new dietary ingredient we may decide to use. The FDA’s refusal to accept such evidence could result in regulation of such dietary ingredients as food additives, requiring the FDA pre-approval based on newly conducted, costly safety testing.

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

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

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

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

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



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

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

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

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

#### Competition

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

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

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

#### Research and Development Activities

We do not conduct any significant research and development activities.



## Environmental Compliance

We are subject to regulation under Federal, state and local environmental laws. While we believe we are in material compliance with applicable environmental laws, continued compliance may require substantial capital expenditures. We have not incurred any major costs for any environmental compliance during the years ended June 30, 2014 and 2013.

## Employees

As of September 8, 2014, we had approximately 120 full time employees of whom 75 belong to the local unit of the Teamsters Union and are covered by a collective bargaining agreement which expires on August 30, 2015. The 45 employees not covered by a collective bargaining agreement consisted of approximately 17 administrative and professional personnel, 14 laboratory personnel, 5 sales and marketing personnel and 9 production and shipping personnel. We consider our relations with our employees to be good.

In November 2013, we entered into an agreement with a Professional Employer Organization (“PEO”) and terminated our agreement with the previous PEO. The PEO agreements established a three-way relationship between our non union employees, the PEO and us. We and the PEO are co-employers of our non-union employees. The PEO has taken responsibility for our Human Resources administration and compliance, which allows us to continue to exercise control over our business while accessing quality employee benefits. We have been using PEOs since January 2007.

## Available Information

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

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

Integrated BioPharma, Inc.  
225 Long Avenue  
PO Box 278  
Hillside, New Jersey 07205  
Attn: Investor Relations  
Tel: 888-319-6962

## Item 1A. Risk Factors

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

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

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

In the current fiscal year ended June 30, 2014, we had net income of approximately \$0.1 million and had cash flows from our operating activities of approximately \$1.9 million. At June 30, 2014, we had cash of approximately \$451,000 and a working capital deficit of approximately \$2.5 million. Our working capital deficit includes \$4.1 million outstanding under our revolving line of credit with PNC Bank, National Association which is not due until July 2017, but is classified as current due to a subjective acceleration clause that could cause the advances to become currently due. (See Note 6 to the financial statements included in this Annual Report on Form 10-K). Although we were able to achieve profitability, we did not do so until the fourth quarter of our fiscal year ended June 30, 2013. We cannot assure that we will remain profitable, although we have taken several actions to correct the continued losses, including reducing our selling and administrative expenses by approximately \$3.7 million or 46% in the fiscal year ended June 30, 2013 and another \$0.9 million or 20% in the fiscal year ended June 30, 2014 and refinancing our debt to, among other things, provide for a maturity of 5 years, with approximately 3 years remaining as of June 30, 2014.

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

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

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

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

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

obtain additional or alternative financing. For example, PNC's ongoing obligation to extend credit under the Loan Agreement is dependent upon our compliance with these covenants and restrictions.

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

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

A significant portion of our revenues are concentrated among three customers, Herbalife, Life Extensions (customers in our Contract Manufacturing Segment) and Costco (a customer of our Branded Proprietary Products Segment). For the fiscal years ended June 30, 2014 and 2013, approximately 80% and 76%, respectively, of our net sales were derived from the two customers in our Contract Manufacturing Segment. The loss of these customers could have a significant adverse impact on our financial condition and results of operations.

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

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

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

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

In the United States and abroad, non-compliance with relevant legislation can result in regulators bringing administrative or, in some cases, criminal proceedings. As manufacturers of nutraceutical products, our products are regulated by various governments and it is common for regulators to prosecute retailers and manufacturers for non-compliance with legislation governing foodstuffs and medicines. Failures by us or our subsidiaries to comply

with applicable legislation could occur from time to time and prosecution for any such violations could have a material adverse effect on our business, results of operations, financial condition and cash flows. Additionally, we are subject, from time to time, to claims by third parties under various legal theories. The defense of such claims, or any adverse outcome relating to any such claims, could have a material adverse effect on our liquidity, financial condition and cash flows.

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

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

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

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

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

We have several agreements and arrangements, described in our previous SEC filings and to be described in our proxy statement for our 2014 annual meeting of stockholders, including the lease of real property from Vitamin Realty Associates, L.L.C. (“Vitamin Realty”), the sale of our financial debt securities, and issuance of our common stock, which involved transactions with entities significantly owned by members of the Kay family and other of our significant shareholders and/or executive officers, who collectively own a majority of our shares of common stock. Although we believe that these transactions were advantageous to us and were on terms no less favorable to us than could have been obtained from unaffiliated third parties, transactions with related parties can potentially pose a conflict of interest.

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

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

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

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



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

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

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

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

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

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

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

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

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

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

Other issues and uncertainties may include:

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

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Item 1B. Unresolved Staff Comments

Not applicable.

Item 2. Properties

Warehouse and office facilities are leased from Vitamin Realty Associates, LLC. (“Vitamin Realty”). On January 5, 2012, MDC, a wholly-owned subsidiary of the Company, entered into a second amendment of the lease (the “Second Lease Amendment”) with Vitamin Realty for its office and warehouse space in Hillside, New Jersey increasing its rentable square footage from an aggregate of 74,898 square feet to 76,161 square feet and extending the expiration date to January 31, 2026. Also on January 5, 2012, AgroLabs, a wholly-owned subsidiary of the Company, entered into a lease agreement with Vitamin Realty (the “AgroLabs Lease”) for an additional 2,700 square feet of warehouse space in Hillside, New Jersey. The term of this lease was originally to expire on January 31, 2019, however, this lease was amended on May 19, 2014 to extend the term thereof to January 1, 2024. These facilities are leased from Vitamin Realty, which is 100% owned by our Chairman of the Board, President, Chief Executive Officer and principal stockholder and certain of his family members who are also executive officers and directors of the Company. The Second Lease Amendment provides for minimum annual rental payments of \$533,000, plus increases in real estate taxes and building operating expenses and the AgroLabs Lease provides for minimum annual lease payments of \$27,000 with annual increases plus the proportionate share of operating expenses.

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

On August 1, 2012, AgroLabs entered into a lease agreement for three office suites located in Dallas, Texas which expired on July 31, 2013. On August 1, 2013, AgroLabs renewed the lease for two office suites with minimum annual payments of approximately \$26,000 and in October 2013, decreased the lease to one office suite which will expire in January 2015, with a remaining commitment of approximately \$9,000 as of June 30, 2014.

Item 3. Legal Proceedings

None.

Item 4. Mine Safety Disclosure

Not Applicable.

## PART II

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

#### Market Information

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

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

#### Holdings

As of June 30, 2014 there were approximately 110 holders of record of the Company's common stock. This number does not include beneficial owners holding shares through nominee names.

#### Dividends

We have not declared or paid a dividend with respect to our common stock during the fiscal years ended June 30, 2014 and 2013, nor do we anticipate paying dividends in the foreseeable future.



#### Equity Compensation Plans

The following table provides information, as of June 30, 2014, about the Company's equity compensation plans:

#### Recent Sales of Unregistered Securities

None.

#### Item 6. Selected Financial Data and Supplementary Data

Not applicable.

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

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

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

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

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

For the fiscal year ended June 30, 2014, our net sales from operations were substantially the same as our fiscal year ended June 30, 2013, approximately \$33.7 million versus \$33.6 million, respectively. For the fiscal year ended June 30, 2014 we had operating income of \$1.4 million compared to an operating income of \$1.1 million for the fiscal year ended June 30, 2013. In the fiscal year ended June 30, 2014, our gross profit decreased by approximately \$0.6 million, from \$5.5 million in the fiscal year ended June 30, 2013 to \$4.9 million in the fiscal year ended June 30, 2014. Our profit margins decreased as a result of the continuing decline in net sales in our branded proprietary products segment of \$0.9 million, this segment's decline in gross profits was approximately \$0.3 million. We continued to cut our selling and administrative expenses by approximately \$0.9 million to \$3.5 million in the fiscal year ended June 30, 2014, compared to \$4.4 million in the fiscal year ended June 30, 2013. One of the significant declines in our selling and administrative expenses were advertising costs primarily associated with sales in the club store retail stores by approximately \$0.3 million.

We continue to focus on our core businesses and push forward in maintaining our cost structure in line with our sales. In our branded product segment, we are developing new customer relationships focused on the international markets in Canada, Mexico and Asia. We are also developing new products to include branded products for solid dosage which will be manufactured by MDC and sold using our AgroLabs brand or to our customer contacts developed through selling our branded product for private label. We believe that this will increase sales and further leverage our fixed manufacturing and selling costs in each of these segments as we diversify our branded product offerings to our existing and developing customers.

#### Critical Accounting Policies and Estimates

##### Estimates

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

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

On a continual basis, management reviews its estimates utilizing currently available information, changes in facts and circumstances, historical experience and reasonable assumptions. After such reviews, and if deemed appropriate, those estimates are adjusted accordingly. Actual results could differ from those estimates.

Allowances for Doubtful Accounts and Sales Returns

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

If the historical data we use to calculate the allowance provided for doubtful accounts does not reflect the future ability to collect outstanding receivables, additional provisions for doubtful accounts may be needed and the future results of operations could be materially affected. In recording any additional allowances, a respective charge against income is reflected in the general and administrative expenses, and would reduce the operating results in the period in which the increase is recorded.

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

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

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

#### Trade Marketing and Merchandising

In order to support the Company's proprietary nutraceutical product lines, various promotional activities are conducted through the retail trade, distributors or directly with consumers, including in-store display and product placement programs, feature price discounts, coupons, and other similar activities. The Company regularly reviews and revises, when it deems necessary, estimates of costs to the Company for these promotional programs based on estimates of what will be redeemed by the retail trade, distributors, or consumers. These estimates are made using various techniques, including historical data on performance of similar promotional programs. Differences between estimated expense and actual performance are generally not material and are recognized as a change in management's estimate in a subsequent period. Our total promotional expenditures, including amounts classified as a reduction of net sales, represent approximately 1% and 2% of consolidated net sales in the financial statements contained in this Annual Report on Form 10-K, for the fiscal year ended June 30, 2014 and 2013, respectively.

#### Inventory Valuation

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



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

#### Long Lived Assets

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

We record impairment losses on other intangible assets when events and circumstances indicate that such assets might be impaired and the estimated fair value of any such asset is less than its recorded amount. The Company reviews the value of its long-lived assets for impairment whenever events or changes in business circumstances indicate that the carrying amount of the assets may not be fully recoverable or that the useful lives of these assets are no longer appropriate. Conditions that would necessitate an impairment assessment include material adverse changes in operations, significant adverse differences in actual results in comparison with initial valuation forecasts prepared at the time of acquisition, a decision to abandon certain acquired products, services, or marketplaces, or other significant adverse changes that would indicate the carrying amount of the recorded asset might not be recoverable. Tests for impairment or recoverability are performed at least annually and require significant management judgment and the use of estimates which the Company believes are reasonable and appropriate at the time of the impairment test. Future unanticipated events affecting cash flows and changes in market conditions could affect such estimates and result in the need for an impairment charge. The Company also re-evaluates the periods of amortization to determine whether circumstances warrant revised estimates of current useful lives. No impairment losses were identified or recorded in the fiscal years ended June 30, 2014 and 2013 on the Company's other intangible assets.

#### Deferred Taxes

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

In each of the fiscal years ended June 30, 2014 and 2013, we recorded a valuation reserve in the amount equal to 100% of our deferred tax assets and liabilities generated in each of the taxable periods ended June 30, 2014 and 2013. Our management, based on current factors relating to our past results of operations, determined that it is more likely than not that we will not have future federal taxable income which would allow us to realize our net deferred tax assets in the near future.

#### General Litigation

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

## Revenue Recognition

The Company recognizes product sales revenue, the prices of which are fixed and determinable, when title and risk of loss have transferred to the customer, when estimated provisions for product returns, rebates, charge-backs and other sales allowances are reasonably determinable, and when collectability is reasonably assured. Accruals for these items are presented in the consolidated financial statements as reductions to sales. The Company's net sales represent gross sales invoiced to customers, less certain related charges for discounts, returns, rebates, charge-backs and other allowances. Cost of sales includes the cost of raw materials and all labor and overhead associated with the manufacturing and packaging of the products. Gross margins are affected by, among other things, changes in the relative sales mix among our products and valuation and/or charge off of slow moving, expired or obsolete inventories.

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## Recent Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board issued ASU No. 2014-09, “Revenue from Contracts with Customers”, Topic 606. This Update affects any entity that either enters into contracts with customers to transfer goods or services or enters into contracts for the transfer of nonfinancial assets, unless those contracts are within the scope of other standards. The guidance in this Update supersedes the revenue recognition requirements in Topic 605, Revenue Recognition and most industry-specific guidance. The core principle of the guidance is that an entity should recognize revenue to illustrate the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The new guidance also includes a cohesive set of disclosure requirements that will provide users of financial statements with comprehensive information about the nature, amount, timing, and uncertainty of revenue and cash flows arising from a reporting organization’s contracts with customers. This ASU is effective retrospectively for fiscal years, and interim periods within those years beginning after December 15, 2016 for public companies and 2017 for non-public entities. We are evaluating the effect, if any, on our financial position and results of operations.

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

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



Year ended June 30, 2014 Compared to the Year ended June 30, 2013

Sales, net. Net sales for the fiscal year ended June 30, 2014 and 2013 were \$33,683 and \$33,623, respectively, an increase of \$60 or 0.2%. The increase is comprised of the following:

For the fiscal years ended June 30, 2014 and 2013 a significant portion of our consolidated net sales, approximately 80% and 76%, respectively, were concentrated among two customers, Herbalife and Life Extensions, customers in our Contract Manufacturing Segment. Herbalife and Life Extensions represented approximately 67% and 22% and 71% and 16%, respectively of our Contract Manufacturing Segment's net sales in the fiscal years ended June 30, 2014 and 2013, respectively. Costco Wholesale Corporation ("Costco") (a customer of our Branded Proprietary Products Segment), while not a significant customer of our consolidated net sales represented approximately 60% and 50% of net sales in the fiscal years ended June 30, 2014 and 2013, respectively of the Branded Proprietary Products Segment. The loss of any of these customers could have a significant adverse impact on our financial condition and results of operations.

The increase in net sales of approximately \$60 was primarily the result of:

- Net sales increased in our Contract Manufacturing Segment by \$0.8 million primarily due to increased sales volumes to one of our major customers in the fiscal year ended June 30, 2014, Life Extensions, of approximately \$2.0 million compared to the prior period, offset in part by a decrease in net sales volume to Herbalife of approximately \$0.6 million (primarily in the international markets for Herbalife).
- Net sales in our Branded Nutraceutical Segment decreased by approximately \$0.9 million in the fiscal year ended June 30, 2014, primarily as a result of the decreased sales volume of \$0.6 million to our club stores, comprised of \$0.3 million from our significant customer in this segment, Costco, and \$0.3 million to a different club store customer.
- Net sales in our Other Nutraceutical segments increased by \$0.2 million primarily as a result of increased sales volumes to customers under our distributor agreement with DSM Nutritional Products, LLC.

Cost of sales. Cost of sales increased by \$0.7 million to \$28.8 million for the fiscal year ended June 30, 2014, as compared to \$28.1 million for the fiscal year ended June 30, 2013. Cost of sales increased as a percentage of sales to 85.5% for the fiscal year ended June 30, 2014 as compared to 83.7% for the fiscal year ended June 30, 2013. The increase in the cost of goods sold amount, as well as the cost of goods sold as a percentage of net sales, was primarily the result of the increased sales to Life Extension. The cost of the raw materials for the Life Extension finished goods, on average, cost more per bottle than our other customers in the Contract Manufacturing Segment as they tend to use raw materials with trademarked characteristics which limits the ability to negotiate pricing. A secondary cause is the production of more capsules than tablets in the manufacturing process as there is a higher loss factor in the production of capsules than in tablets. Our Contract Manufacturing Segment had a \$1.2 million increase in the cost of goods sold with the Branded Nutraceutical Segment decreasing by \$0.7 million (primarily as the result of decreased sales) and an increase of \$0.2 million in the Other Nutraceutical Segment as a result of increased sales.

**Selling and Administrative Expenses.** Selling and administrative expenses were \$3.5 million for the fiscal year ended June 30, 2014, as compared to \$4.4 million for the fiscal year ended June 30, 2013, a decrease of \$0.9 million or 19.5%. As a percentage of sales, net, selling and administrative expenses were 10.5% for the fiscal year ended June 30, 2014 and 13.0% for the prior comparable period.

The net decrease in selling and administrative expenses of \$0.9 million is mainly due to decreases in advertising and marketing (\$0.3 million), compensation and employee benefits (\$0.2 million), operating costs relating to the Dallas, Texas warehouse and office facility (\$0.2 million) and professional fees (\$0.1 million).

Our advertising and marketing costs decreased by approximately \$0.3 million in the fiscal year ended June 30, 2014 compared to the fiscal year ended June 30, 2013 primarily as a result of a decrease in in-store demonstrations (“demos”) of our products at one of our customer’s store locations. As a percentage of sales, our advertising and marketing costs represented 0.2% in the fiscal year ended June 30, 2014 compared to 1.0% in the fiscal year ended June 30, 2013. The decrease in marketing and advertising expenses is a direct result of the decreases in sales of approximately \$0.9 million in the fiscal year ended June 30, 2014 in our Branded Nutraceutical Segment to the domestic club store chains. Sales in this channel were supported with in-store demos of our products.

Our compensation and employee benefits decreased by \$0.2 million primarily as a result of further reducing our staff in the Branded Nutraceutical Segment in the Dallas, Texas location and to a lesser extent from the internal promotion of one our operations manager in the Contract Manufacturing Segment at a lower annual salary than his predecessor.

Our operating expenses relating to the warehouse and office facility in Dallas, Texas were greatly reduced as we did not renew our lease when it was scheduled to terminate in August 2012. Upon termination of the 39,000 square foot lease, we entered into a lease for three office suites also located in Dallas, Texas (further reduced in the fiscal year ended June 30, 2014 to one office) which resulted in decreased costs in utilities, property taxes, warehouse and office rent and other costs associated with the terminated lease, aggregating approximately \$0.2 million compared to the fiscal year ended June 30, 2013.

Our professional fees decreased by approximately \$0.1 million as we had no significant legal matters in the fiscal year ended June 30, 2014, compared to the fiscal year ended June 30, 2013.

Other expense, net. Other expense, net was approximately \$1.1 million for the fiscal year ended June 30, 2014 compared to \$1.0 million for the fiscal year ended June 30, 2013, and is composed of:

The change in fair value of derivative liabilities was mainly the result of the increase in the trading price of our common stock from \$0.15 as of June 30, 2013 to \$0.25 as of June 30, 2014. The closing trading price of our stock is one of the variables used to calculate the estimated fair value of our derivative liabilities associated with the underlying derivative instruments. The impairment charge on the investment in common stock of iBio, Inc. (“iBio Stock”) was the result of our review of our carry value of iBio Stock in March, 2013, at which time there was deemed to be an impairment of the carrying value in the amount of approximately \$0.1 million and again in the quarter ended June 30, 2014 for approximately \$0.2 million. In the fiscal year ended June 30, 2013, we recovered approximately \$0.2 million in gross profits as a result of manufacturing defects in our products purchased from the contract manufacturer that we could not sell through to our customers, which is included in other income, net.

Federal and state income tax, net. For the fiscal years ended June 30, 2014 and 2013, we had a state tax expense of approximately \$89 and \$17, respectively. We continue to maintain a full reserve on our deferred tax assets as it has been determined that based upon past losses, the Company’s past liquidity concerns and the current economic environment, that it is “more likely than not” the Company’s deferred tax assets may not be realized. The increase in the state tax expense from 2013 to 2014 was the result of MDC using all of its state net operating losses in the current tax period, all of our other subsidiaries still have adequate net operating losses for state income tax purposes to absorb any taxable income for state tax purposes.

Net income (loss). Our net income was approximately \$0.1 million in each of the fiscal years ended June 30, 2014 and 2013.

#### Liquidity and Capital Resources

The following table sets forth, for the periods indicated, the Company’s net cash flows provided by or used in operating, investing and financing activities:

At June 30, 2014 and 2013, the Company’s working capital deficit was approximately \$2.5 million. Our current assets and current liabilities each decreased by approximately \$0.8 million from June 30, 2013 to June 30, 2014.

Net cash provided by operating activities of \$1.9 million in the fiscal year ended June 30, 2014 includes net income of approximately \$0.1 million. After excluding the effects of non-cash expenses, including depreciation and amortization, compensation expense for employee stock options, accretion of financial instruments and changes in the fair value of derivative liabilities and the impairment charge on our investment in iBio, the adjusted cash used in operations before the effect of the changes in working capital components was an increase of approximately \$0.9 million. Cash in the amount of approximately \$1.0 million from our working capital assets and liabilities was provided by operating activities and was primarily the result of decreases in inventory of \$0.7 million and accounts receivable of approximately \$0.2 million.

Net cash used in operating activities of \$1.4 million in the fiscal year ended June 30, 2013 includes net income of approximately \$0.1 million. After excluding the effects of non-cash expenses, including depreciation and amortization, compensation expense for employee stock options, accretion of financial instruments and changes in the fair value of derivative liabilities and the impairment charge on our investment in iBio, the adjusted cash used in operations before the effect of the changes in working capital components was an increase of approximately \$1.0 million. Cash in the amount of approximately \$2.5 million from our working capital assets and liabilities was used in operating activities and was the result of increases in inventory of \$1.1 million and accounts receivable of approximately \$0.4 million and decreases in accounts payable and accrued expenses and other liabilities of aggregating approximately \$1.0 million.

Cash used in investing activities was used for the purchase of machinery and equipment for approximately \$0.2 million in the fiscal year ended June 30, 2014, compared to using approximately \$30 for the purchase of machinery and equipment, offset by proceeds received from the sale of machinery and equipment of \$19, a net use of cash \$11 in the fiscal year ended June 30, 2013.

Cash used in financing activities was approximately \$1.3 million for the fiscal year ended June 30, 2014; (i) payments under our revolving credit facility of \$32.8 million, (ii) repayments of principal under our term note in the amount of \$0.8 million and (iii) payments of \$47 under our capitalized lease obligations, offset in part by \$32.3 million received from advances under our revolving credit facility. Cash provided by financing activities was approximately \$1.4 million for the fiscal year ended June 30, 2013, \$34.7 million from advances under our revolving credit facility offset by (i) payments under our revolving credit facility of \$32.8 million, (ii) repayments of principal under our term note in the amount of \$0.5 million and (iii) payments of \$11 under our capitalized lease obligations.

As of June 30, 2014, we had cash of approximately \$0.5 million, funds available under our revolving credit facility of approximately \$0.5 million and a working capital deficit of \$2.5 million. Our working capital deficit includes \$4.1 million outstanding under our revolving line of credit which is not due until July 2017 but classified as current due to a subjective acceleration clause that could cause the advances to become currently due. (See Note 6 to the consolidated financial statements included in this Annual Report on Form 10-K). Furthermore, we had income from operations of approximately \$1.4 million in the fiscal year ended June 30, 2014 and net income of approximately \$0.1 million. After taking into consideration our interim results and current projections, management believes that operations, together with the revolving credit facility and equipment financing will support our working capital requirements through the fiscal year ending June 30, 2015.

Our total annual commitments at June 30, 2014 for long term non-cancelable leases of approximately \$0.6 million consists of obligations under operating leases for facilities and operating lease agreements for the rental of warehouse equipment, office equipment and automobiles.

On May 15, 2012, Cedarburg Pharmaceuticals, Inc. ("Cedarburg") sent us a letter (the "Demand Letter") setting forth a demand for indemnification under the Stock Purchase Agreement, dated March 17, 2009 (the "Cedarburg SPA"), by and among Cedarburg, InB: Hauser Pharmaceutical Services, Inc., InB: Paxis Pharmaceuticals, Inc. and the

Company. In the Demand Letter, Cedarburg demanded payment by us of \$0.6 million in respect of the Company's indemnification obligations under the Cedarburg SPA. In addition, in the Demand Letter, Cedarburg informed us that there are also environmental issues pending which may lead to additional costs to Cedarburg which will likely be in excess of \$0.3 million.

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On May 30, 2012, we sent a letter responding to the Demand Letter and setting forth our position that we have no obligation to indemnify Cedarburg as demanded. On June 18, 2012, Cedarburg responded to our letter and, on July 27, 2012, we sent another letter to Cedarburg reiterating our position that we have no obligation to indemnify Cedarburg as demanded. On December 18, 2012, Cedarburg responded to our letter and, on January 15, 2013, we sent another letter to Cedarburg reiterating our position that we have no obligation to indemnify Cedarburg as demanded. As of September 8, 2014, we have not received any further communication from Cedarburg with respect to its demand for indemnification as set forth in the Demand Letter. We intend to vigorously contest Cedarburg's demand as set forth in the Demand Letter.

#### Capital Expenditures

The Company's capital expenditures for the fiscal years ended June 30, 2014 and 2013 were approximately \$0.3 million (\$76 funded with capitalized lease financing) and \$0.1 million (\$68 funded with capitalized lease financing), respectively. The Company has budgeted approximately \$0.5 million for capital expenditures for fiscal 2015. The total amount is expected to be funded from cash provided from the Company's operations and from lease financing.

#### Off-Balance Sheet Arrangements

The Company has no off-balance sheet arrangements.

#### Impact of Inflation

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

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

Not applicable to smaller reporting companies.

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

For a list of financial statements filed as part of this Annual Report on Form 10-K, see the index to consolidated financial statements on page 30.

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

Not Applicable

#### Item 9A. Controls and Procedures

##### Disclosure Controls and Procedures

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

Under the supervision and with the participation of management, including the Chief Executive Officer and Chief Financial Officer, the Company has evaluated the effectiveness of its disclosure controls and procedures (as such term is defined in Rule 13a-15(e) and 15d-15(e) under the Exchange Act) as of June 30, 2014, and, based upon this evaluation, the Chief Executive Officer and Chief Financial Officer have concluded that these controls and procedures are effective in providing reasonable assurance of compliance.

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#### Changes in Internal Control over Financial Reporting

Under the supervision and with the participation of management, including the Chief Executive Officer and Chief Financial Officer, the Company has evaluated changes in internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) that occurred during the quarter ended June 30, 2014 and have concluded that no change has materially affected, or is reasonably likely to materially affect, internal control over financial reporting.

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

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

The Company's management, including the Chief Executive Officer and Chief Financial Officer, has conducted an evaluation of the effectiveness of its internal control over financial reporting as of June 30, 2014 based on the framework in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission from 1992. Based on that evaluation, management concluded that our internal control over financial reporting was effective as of June 30, 2014.

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

#### Item 9B. Other Information

None.

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PART III

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

Incorporated by reference from the Company's Proxy Statement for Annual Meeting of Stockholders to be filed with the Securities and Exchange Commission within 120 days after the close of the fiscal year ended June 30, 2014 .

Item 11. Executive Compensation

Incorporated by reference from the Company's Proxy Statement for Annual Meeting of Stockholders to be filed with the Securities and Exchange Commission within 120 days after the close of the fiscal year ended June 30, 2014 .

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

Incorporated by reference from the Company's Proxy Statement for Annual Meeting of Stockholders to be filed with the Securities and Exchange Commission within 120 days after the close of the fiscal year ended June 30, 2014 .

Item 13. Certain Relationships and Related Transactions and Director Independence

Incorporated by reference from the Company's Proxy Statement for Annual Meeting of Stockholders to be filed with the Securities and Exchange Commission within 120 days after the close of the fiscal year ended June 30, 2014 .

Item 14. Principal Accountant Fees and Services

Incorporated by reference from the Company's Proxy Statement for Annual Meeting of Stockholders to be filed with the Securities and Exchange Commission within 120 days after the close of the fiscal year ended June 30, 2014 .

## PART IV

## Item 15. Exhibits and Financial Statement Schedules

## (a) Exhibits and Index

(1) A list of the financial statements filed as part of this Annual Report on Form 10-K is set forth in the index to consolidated financial statements on Page 30 and is incorporated herein by reference.

(2) An index of exhibits incorporated by reference or filed with this Annual Report on Form 10-K is provided below.

Number	Description
3.1	Certificate of Incorporation of Integrated BioPharma, Inc., as amended (8)
3.2	By-Laws of Registrant (6)
4.1	Certificate of Designation of Series and Determination of Rights and Preferences of Series A Convertible Preferred Stock of Integrated BioPharma, Inc. dated June 25, 2003 (1)
4.2	Certificate of Designation of Series C and Determination of Rights and Preferences of Series C Convertible Preferred Stock of Integrated BioPharma, Inc. dated February 21, 2008 (7)
10.1	Lease Agreement, dated August 3, 1994, between the Company and Hillside 22 Realty Associates, L.L.C. (2)
10.2	Lease Agreement between the Company and Vitamin Realty Associates, dated January 10, 1997 (3)
10.3	Second Amendment of Lease, dated as of January 5, 2012, between Vitamin Realty Associates, L.L.C. and InB: Manhattan Drug Company, Inc. (11)
10.4	Lease Agreement, dated as of January 5, 2012, between Vitamin Realty Associates, L.L.C. and AgroLabs, Inc. (11)
10.4.1	Amendment of Lease Agreement, dated as of May 19, 2014, between Vitamin Realty Associates, L.L.C. and AgroLabs, Inc. (13)
10.5	Integrated Health Technologies, Inc. 2001 Stock Option Plan, as amended (10)
10.6	Separation and Distribution Agreement dated November 14, 2007, with our subsidiary INB:Biotechnologies (5)
10.7	Warrant to Purchase Common Stock of Integrated BioPharma, Inc. by and between Integrated BioPharma, Inc. and the note holders of the Amended and Restated First Amendment to Amended and Restated Securities Purchase Agreement and 8% Senior Secured Notes dated October 14, 2008 (9)
10.8	Registration Rights Agreement by and between Integrated BioPharma, Inc. and the each of the named Investors in such agreement dated October 14, 2008 (9)
10.9	Stock Purchase Agreement, dated as of March 17, 2009, by and among Cedarburg Pharmaceuticals, Inc., Purchaser, INB: Hauser Pharmaceutical Services, Inc., Company, INB: Paxis Pharmaceuticals, Inc., and Integrated BioPharma, Inc., Seller. (11)
10.10	Revolving Credit, Term Loan and Security Agreement, dated as of June 27, 2012, by and among Integrated BioPharma, Inc., InB:Manhattan Drug Company, Inc., Agrolabs, Inc., IHT Health Products, Inc., IHT Properties Corp. and Vitamin Factory, Inc. and PNC Bank, National Association. (12)

- 10.11 Term Note, dated as of June 27, 2012, by and among Integrated BioPharma, Inc., InB:Manhattan Drug Company, Inc., Agrolabs, Inc., IHT Health Products, Inc., IHT Properties Corp. and Vitamin Factory, Inc. and PNC Bank, National Association, in the original principal amount of \$3,727,000. (12)
- 10.12 Revolving Credit Note, dated as of June 27, 2012, by and among Integrated BioPharma, Inc., InB:Manhattan Drug Company, Inc., Agrolabs, Inc., IHT Health Products, Inc., IHT Properties Corp. and Vitamin Factory, Inc. and PNC Bank, National Association, in the original principal amount of \$8,000,000. (12)
- 10.13 Continuing Limited Guaranty, dated as of June 27, 2012, made by Carl DeSantis, in favor of PNC Bank, National Association. (12)
- 10.14 Continuing Limited Guaranty, dated as of June 27, 2012, made by E. Gerald Kay, in favor of PNC Bank, National Association. (12)

- 10.15 Stock Pledge Agreement, dated as of June 27, 2012, between Integrated BioPharma, Inc. and PNC Bank, National Association. (12)
- 10.16 Intercreditor and Subordination Agreement, dated as of June 27, 2012, between CD Financial, LLC and PNC Bank, National Association, and acknowledged by Integrated BioPharma, Inc., InB:Manhattan Drug Company, Inc., Agrolabs, Inc., IHT Health Products, Inc., IHT Properties Corp. and Vitamin Factory, Inc. (12)
- 10.17 Mortgage and Security Agreement, dated as of June 27, 2012, by IHT Properties, Inc. in favor of PNC Bank, National Association. (12)
- 10.18 Environmental Indemnity Agreement, dated as of June 27, 2012, by and among Integrated BioPharma, Inc., InB:Manhattan Drug Company, Inc., Agrolabs, Inc., IHT Health Products, Inc., IHT Properties Corp. and Vitamin Factory, Inc. and PNC Bank, National Association  
Amended and Restated Securities Purchase Agreement, dated as of June 27, 2012, by and among Integrated BioPharma, Inc., and CD Financial, LLC. (12)
- 10.19 Amended and Restated Securities Purchase Agreement, dated as of June 27, 2012, by and among Integrated BioPharma, Inc., and CD Financial, LLC. (12)
- 10.20 Amended and Restated Subsidiary Guarantee, dated as of June 27, 2012, by and among Integrated BioPharma, Inc., InB:Manhattan Drug Company, Inc., Agrolabs, Inc., IHT Health Products, Inc., IHT Properties Corp. and Vitamin Factory, Inc. and CD Financial, LLC. (12)
- 10.21 Amended and Restated Convertible Secured Promissory Note, dated as of June 27, 2012, by Integrated BioPharma, Inc. and payable to the order of CD Financial, LLC, in the original principal amount of \$5,350,000. (12)
- 10.22 Promissory Note, dated as of June 27, 2012, by Integrated BioPharma, Inc. and payable to the order of CD Financial, LLC, in the original principal amount of \$1,714,000. (12)
- 10.23 Promissory Note, dated as of June 27, 2012, by InB:Manhattan Drug Company and Integrated BioPharma, Inc., and payable to the order of Vitamin Realty Associates, LLC, in the original principal amount of \$685,985.61. (12)
- 14 Code of Ethics (4)
- 21 Subsidiaries of the Registrant (13)
- 23.1 Consent of Independent Registered Public Accounting Firm (13)
- 31.1 Certification of Periodic Report by Chief Executive Officer Pursuant to Rule 13a-14 and 15d-14 of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (13)
- 31.2 Certification of Periodic Report by Chief Financial Officer Pursuant to Rule 13a-14 and 15d-14 of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (13)
- 32.1 Certification by Chief Executive Officer Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (13)
- 32.2 Certification by Chief Financial Officer Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (13)
- 101 The following financial information from Integrated BioPharma, Inc.'s Annual Report on Form 10-K for the fiscal year ended June 30, 2014, formatted in XBRL (extensible Business Reporting Language): (i) Consolidated Statements of Operations for the fiscal years ended June 30, 2014 and 2013, (ii) Consolidated Balance Sheets as of June 30, 2014 and 2013, (iii) Consolidated Statements of Changes in Stockholders' Deficiency for the fiscal years ended June 30, 2014 and 2013 , (iv) Consolidated

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Statements of Cash Flows for the fiscal years ended June 30, 2014 and 2013, and (v)  
the Notes to Consolidated Statements. (13)

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- (1) Incorporated herein by reference to the Company's Annual Report on Form 10-KSB for the fiscal year ended June 30, 2003, filed with the SEC on September 29, 2003.
- (2) Incorporated herein by reference to Amendment No. 1 to the Company's Registration Statement on Form SB-2, Registration No. 333-5240-NY.
- (3) Incorporated herein by reference to the Company's Annual Report on Form 10-KSB for the fiscal year ended June 30, 1997, filed with the SEC on September 29, 1997.

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

Item 8: Financial Statements

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

Report of Independent Registered Public Accounting Firm	31
Consolidated Statements of Operations for the fiscal years ended June 30, 2014 and 2013	32
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Consolidated Statements of Stockholders' Deficiency for the fiscal years ended June 30, 2014 and 2013	34
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Report of Independent Registered Public Accounting Firm

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

We have audited the accompanying consolidated balance sheets of Integrated BioPharma, Inc. and Subsidiaries (the “Company”), as of June 30, 2014 and June 30, 2013 and the related consolidated statements of operations, changes in stockholders’ deficiency and cash flows for the fiscal years then ended. These consolidated financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Integrated BioPharma, Inc. and Subsidiaries as of June 30, 2014 and June 30, 2013, and the results of their operations and their cash flows for each of the two fiscal years in the period ended June 30, 2014, in conformity with accounting principles generally accepted in the United States of America.

/s/ Friedman LLP

East Hanover, New Jersey  
September 8, 2014











INTEGRATED BIOPHARMA, INC. AND ITS SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
(in thousands, except share and per share amounts)

Note 1. Business

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

The Company’s business segments include: (a) Contract Manufacturing operated by InB:Manhattan Drug Company, Inc. (“MDC”), which manufactures vitamins and nutritional supplements for sale to distributors, multilevel marketers and specialized health-care providers; (b) Branded Proprietary Products operated by AgroLabs, Inc. (“AgroLabs”), which distributes healthful nutritional products for sale through major mass market, grocery, drug and vitamin retailers, under the following brands: Naturally Noni, Coconut Water, Aloe Pure, Peaceful Sleep, Green Envy, ACAI Extra, ACAI Cleanse, Wheatgrass and other products which are being introduced into the market (these are referred to as our branded proprietary nutraceutical business and/or products); and (c) Other Nutraceutical Businesses which includes the operations of (i) The Vitamin Factory (the “Vitamin Factory”), which sells private label MDC products, as well as our AgroLabs products, through the Internet, (ii) IHT Health Products, Inc. (“IHT”) a distributor of fine natural botanicals, including multi minerals produced under a license agreement and (iii) Chem International, Inc., a distributor of certain raw materials for DSM Nutritional Products LLC.

Note 2. Summary of Significant Accounting Policies

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

**Reclassifications.** Certain reclassifications have been made to the amounts reported in these notes to consolidated financial statements for the prior year to conform to the current year presentation.

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

- sales returns and allowances;
- trade marketing and merchandising;

- allowance for doubtful accounts;
- inventory valuation;
- valuation and recoverability of long-lived and intangible assets;
- income taxes and valuation allowance on deferred income taxes, and;
- accruals for, and the probability of, the outcome of any current litigation.

On a continual basis, management reviews its estimates utilizing currently available information, changes in facts and circumstances, historical experience and reasonable assumptions. After such reviews, and if deemed appropriate, those estimates are adjusted accordingly. Actual results could differ from those estimates.

**Derivative Liabilities.** The Company generally does not use derivative financial instruments to hedge exposures to cash flow or market risks. However, certain other financial instruments, such as warrants and embedded conversion features on the subordinated convertible debt, are classified as derivative liabilities due to protection provisions within the agreements. Such financial instruments are initially recorded at fair value using the Black Scholes model and subsequently adjusted to fair value at the close of each reporting period. The Company accounts for derivative instruments and debt instruments in accordance with the interpretative guidance of ASC 815 and associated pronouncements related to the classification and measurement of warrants and instruments with conversion features.

INTEGRATED BIOPHARMA, INC. AND ITS SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
(in thousands, except share and per share amounts)

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

**Shipping and Handling Costs.** Shipping and handling costs were approximately \$256 and \$452 for the fiscal years ended June 30, 2014 and 2013, respectively, and are included in cost of sales in the accompanying Consolidated Statements of Operations.

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

**Advertising.** Advertising costs are expensed as incurred. Advertising expense was approximately \$4 and \$278 for the fiscal years ended June 30, 2014 and 2013, respectively.

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

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

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

tax positions taken on our tax returns are accounted for as liabilities for unrecognized tax benefits. The Company recognizes interest and penalties, if any, related to unrecognized tax benefits in general and administrative expenses in the Consolidated Statements of Operations. There were no liabilities recorded for uncertain tax positions at June 30, 2014 or 2013.

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INTEGRATED BIOPHARMA, INC. AND ITS SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
(in thousands, except share and per share amounts)

**Earnings Per Share.** Basic earnings per common share amounts are based on weighted average number of common shares outstanding. Diluted earnings per share amounts are based on the weighted average number of common shares outstanding, plus the incremental shares that would have been outstanding upon the assumed exercise of all potentially dilutive stock options, warrants and convertible debt, subject to anti-dilution limitations using the treasury stock method.

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

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

**Accounts Receivable and Allowance for Doubtful Accounts.** In the normal course of business, the Company extends credit to customers. Accounts receivable, less the allowance for doubtful accounts, reflect the net realizable value of receivables, and approximate fair value. The Company believes there is no concentration of credit risk with any single customer whose failure or nonperformance would materially affect the Company's results other than as discussed in Note 10(c) – Significant Risks and Uncertainties – Major Customers. On a regular basis, the Company evaluates its accounts receivables and establishes an allowance for doubtful accounts based on a combination of specific customer circumstances, credit conditions, and historical write-offs and collections. The allowance for doubtful accounts as of June 30, 2014 and 2013 was \$91 and \$98, respectively. Accounts receivable are charged off against the allowance after management determines that the potential for recovery is remote.

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

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

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

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

generated by such assets. If such assets are considered to be impaired, the impairment to be recognized is the amount by which the carrying amount of the assets exceeds the fair value of the assets. Assets to be disposed of by sale are recorded as held for sale at the lower of carrying value or estimated net realizable value. Tests for impairment or recoverability are performed at least annually and require significant management judgment and the use of estimates which the Company believes are reasonable and appropriate at the time of the impairment test. Future unanticipated events affecting cash flows and changes in market conditions could affect such estimates and result in the need for an impairment charge. The Company also re-evaluates the periods of amortization to determine whether circumstances warrant revised estimates of current useful lives. No impairment losses were identified or recorded in the fiscal years ended June 30, 2014 and 2013 on the Company's other intangible assets.

INTEGRATED BIOPHARMA, INC. AND ITS SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
(in thousands, except share and per share amounts)

Other intangible assets consist of trade names, license fees, and unpatented technology. Amortization is being recorded on the straight-line basis over periods ranging from 13 years to 20 years based on contractual or estimated lives.

Investment in iBio, Inc. The Company accounts for its investment in iBio, Inc. (“iBio”) common stock on the cost basis as it retained approximately 6% of its interest in iBio (1,266,706 common shares) (the “iBio Stock”) at the time of the spin-off of this subsidiary in August 2008. The Company reviews its investment in iBio for impairment and records a loss when there is deemed to be an impairment of the investment. There were impairment charges of \$152 and \$139 recorded in the fiscal years ended June 30, 2014 and 2013, respectively. The market value of the iBio Stock as of June 30, 2014, was approximately \$0.5 million. Pursuant to the Company’s Loan Agreement with PNC Bank, National Association (“PNC”), the Company is required to sell the iBio Stock when the trading price of the iBio Stock is less than \$0.88 per share for a period of fifteen (15) consecutive trading days on the applicable exchange and utilize all proceeds from such sale to prepay the outstanding principal of the term loan outstanding under the Loan Agreement at such time. In the fiscal years ended June 30, 2014 and 2013, the trading price of the iBio Stock was less than \$0.88 for a period of fifteen (15) consecutive trading days. (See Note 6. Senior Credit Facility, Subordinated Convertible Note Payable, net - CD Financial, LLC and other Long Term Debt). As of September 8, 2014, the Company has not sold any shares of the iBio Stock.

#### Recent Accounting Pronouncements.

In May 2014, the Financial Accounting Standards Board issued ASU No. 2014-09, “Revenue from Contracts with Customers”, Topic 606. This Update affects any entity that either enters into contracts with customers to transfer goods or services or enters into contracts for the transfer of nonfinancial assets, unless those contracts are within the scope of other standards. The guidance in this Update supersedes the revenue recognition requirements in Topic 605, Revenue Recognition and most industry-specific guidance. The core principle of the guidance is that an entity should recognize revenue to illustrate the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The new guidance also includes a cohesive set of disclosure requirements that will provide users of financial statements with comprehensive information about the nature, amount, timing, and uncertainty of revenue and cash flows arising from a reporting organization’s contracts with customers. This ASU is effective retrospectively for fiscal years, and interim periods within those years beginning after December 15, 2016 for public companies and 2017 for non-public entities. The Company is evaluating the effect, if any, on the Company’s financial position and results of operations.

#### Note 3. Inventories

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



INTEGRATED BIOPHARMA, INC. AND ITS SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
(in thousands, except share and per share amounts)

Note 4. Intangible Assets, net

Intangible assets consist of trade names, license fees from the Branded Proprietary Products Segment, and unpatented technology from the Other Nutraceutical Businesses Segment. The carrying amount of other intangible assets, net is as follows as of:

Amortization expense recorded on intangible assets for each of the fiscal years ended June 30, 2014 and 2013 was \$137. Amortization expense is recorded on the straight-line method over periods ranging from 13 years to 20 years based on contractual or estimated lives and is included in selling and administrative expenses. Tests for impairment or recoverability are performed at least annually and require significant management judgment and the use of estimates which the Company believes are reasonable and appropriate at the time of the impairment test. Future unanticipated events affecting cash flows and changes in market conditions could affect such estimates and result in the need for an impairment charge. The Company also re-evaluates the periods of amortization to determine whether circumstances warrant revised estimates of current useful lives. No impairment losses were identified or recorded in the fiscal years ended June 30, 2014 and 2013 on the Company's other intangible assets.

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

Note 5. Property and Equipment

Property and equipment consists of the following:

Depreciation and amortization expense was \$253 and \$289 for the fiscal years ended June 30, 2014 and 2013, respectively. In the fiscal year ended June 30, 2014, the Company disposed of fully depreciated property and equipment with an original cost of \$72 as with a trade in value of \$4, recognizing a gain on disposition. For the fiscal year ended June 30, 2013, the Company disposed of property and equipment with an original cost of \$198 for net proceeds of \$19, recognizing a loss on disposition of approximately \$6.

INTEGRATED BIOPHARMA, INC. AND ITS SUBSIDIARIES  
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(in thousands, except share and per share amounts)

Note 6. Senior Credit Facility, Subordinated Convertible Note Payable, net - CD Financial, LLC and other Long Term Debt

As of June 30, 2014 and 2013, the Company had the following debt outstanding:

SENIOR CREDIT FACILITY

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

The Loan Agreement provides for a total of \$11,727 in senior secured financing (the “Senior Credit Facility”) as follows: (i) discretionary advances (“Revolving Advances”) based on eligible accounts receivable and eligible inventory in the maximum amount of \$8,000 (the “Revolving Credit Facility”) and (ii) a term loan in the amount of \$3,727 (the “Term Loan”). The Senior Credit Facility is secured by all assets of the Borrowers, including, without limitation, machinery and equipment, real estate owned by IHT Properties, and common stock of iBio owned by the Company. Revolving Advances bear interest at PNC’s Base Rate or the Eurodollar Rate, at Borrowers’ option, plus 2.75% (3.25% as of June 30, 2014 and 2013). The Term Loan bears interest at PNC’s Base Rate or the Eurodollar Rate, at Borrowers’ option, plus 3.25% (3.75% as of June 30, 2014 and 2013). Upon and after the occurrence of any event of default under the Loan Agreement, and during the continuation thereof, interest shall be payable at the interest rate then applicable plus 2%. The Senior Credit Facility matures on June 27, 2017 (the “Senior Maturity Date”).

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The principal balance of the Revolving Advances is payable on the Senior Maturity Date, subject to acceleration, based upon a material adverse event clause, as defined, subjective accelerations for borrowing base reserves, as defined or upon the occurrence of any event of default under the Loan Agreement or earlier termination of the Loan Agreement pursuant to the terms thereof. The Term Loan shall be repaid in sixty (60) consecutive monthly installments of principal, the first fifty nine (59) of which shall be in the amount of \$44, commencing on the first business day of August, 2012, and continuing on the first business day of each month thereafter, with a final payment of any unpaid balance of principal and interest payable on the first business day of July, 2017. The foregoing is subject to customary mandatory prepayment provisions and acceleration upon the occurrence of any event of default under the Loan Agreement or earlier termination of the Loan Agreement pursuant to the terms thereof.

The Revolving Advances are subject to the terms and conditions set forth in the Loan Agreement and are made in aggregate amounts at any time equal to the lesser of (x) \$8.0 million or (y) an amount equal to the sum of: (i) up to 85%, subject to the provisions in the Loan Agreement, of eligible accounts receivables (“Receivables Advance Rate”), plus (ii) up to the lesser of (A) 65%, subject to the provisions in the Loan Agreement, of the value of the eligible inventory (“Inventory Advance Rate” and together with the Receivables Advance Rate, collectively, the “Advance Rates”), (B) 85% of the appraised net orderly liquidation value of eligible inventory (as evidenced by the most recent inventory appraisal reasonably satisfactory to PNC in its sole discretion exercised in good faith) and (C) the inventory sublimit in the aggregate at any one time (“Inventory Advance Rate” and together with the Receivables Advance Rate, collectively, the “Advance Rates”), minus (iii) the aggregate Maximum Undrawn Amount of all outstanding Letters of Credit, minus (iv) such reserves as Agent may reasonably deem proper and necessary from time to time.

The Loan Agreement contains customary mandatory prepayment provisions, including, without limitation, (i) the requirement that if the trading price per share of the iBio Stock falls below a certain amount, the Company must sell the iBio Stock and use the proceeds to repay the Term Loan and (ii) the outstanding amount of all loans in an amount equal to fifty percent (50%) of Excess Cash Flow for each fiscal year commencing with the fiscal year ending June 30, 2014, payable upon delivery of the financial statements to PNC referred to in and required by the Loan Agreement for such fiscal year but in any event not later than one hundred twenty (120) days after the end of each such fiscal year, which prepayment amount shall be applied ratably to the outstanding principal installments of the Term Loan in the inverse order of the maturities thereof until the aggregate amount of payments made with regard to the Term Loan pursuant to Loan Agreement equals \$1.0 million. The Loan Agreement also contains customary representations and warranties, covenants and events of default, including, without limitation, (i) a fixed charge coverage ratio maintenance requirement and (ii) an event of default tied to any change of control as defined in the Loan Agreement.

During certain periods in the fiscal year ended June 30, 2013 and continuing into the fiscal year ended June 30, 2014, the trading price of the iBio Stock was less than \$0.88 for a period of fifteen (15) consecutive trading days. However, PNC has temporarily waived the requirement to sell the iBio Stock due to certain trading rules and restrictions under Rule 144 under the Securities Act of 1933, as amended. As of September 8, 2014, PNC has not required the Company to sell any of the iBio Stock but reserves the right to do so at any time in the future.

In October, 2013, when the Company delivered its annual financial statements for the fiscal year ended June 30, 2013 to PNC, as required under the Loan Agreement, the Company was required to make a prepayment in respect of loans outstanding under the Loan Agreement of approximately \$293, representing 50% of Excess Cash Flows for the fiscal year ended June 30, 2013. This payment, along with the scheduled monthly principal payments of \$44 made by the

Company in respect of the Term Loan through November 1, 2013 provided for principal payments of \$1.0 million in the aggregate.

In connection with the Senior Credit Facility, each of E. Gerald Kay, an officer, director and major stockholder of the Company, and Carl DeSantis, a director and major stockholder of the Company (collectively, the “Guarantors”), entered into Continuing Limited Guarantees (collectively, the “Individual Guarantees”) with PNC whereby each Guarantor irrevocably and unconditionally guarantees the full, prompt and unconditional payment, when due, whether by acceleration or otherwise, of any and all obligations of the Borrowers under the Loan Agreement and the other loan documents. The liability of each Guarantor under his respective Individual Guarantee is limited to a maximum of \$1.0 million. The Individual Guarantees automatically terminate upon the satisfaction of certain conditions set forth in the Loan Agreement. These conditions included the Company repaying an aggregate amount of \$1.0 million of principal on the Term Loan and the Company meeting a minimum EBITDA, as defined in the Loan Agreement, of \$1.5 million for the fiscal year ended June 30, 2013. The Company met these requirements on November 1, 2013 and Mr. DeSantis and Mr. Kay were released as guarantors under the Individual Guarantees.

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Also, in connection with the Senior Credit Facility, PNC and CD Financial entered into the Intercreditor and Subordination Agreement (the “Intercreditor Agreement”), which was acknowledged by the Borrowers, pursuant to which, among other things, (a) the lien of CD Financial on assets of the Borrowers is subordinated to the lien of PNC on such assets during the effectiveness of the Senior Credit Facility, and (b) priorities for payment of the debt for the Company and its subsidiaries (as described in this Note 8) are established.

In addition, in connection with the Senior Credit Facility, the following loan documents were executed: (i) a Stock Pledge Agreement with PNC, pursuant to which the Company pledged to PNC the iBio Stock; (ii) a Mortgage and Security Agreement with PNC with IHT Properties; and (iii) an Environmental Indemnity Agreement with PNC.

#### CD FINANCIAL, LLC TROUBLED DEBT RESTRUCTURING

On June 27, 2012, the Company also entered into an Amended and Restated Securities Purchase Agreement (the “CD SPA”) with CD Financial, which amended and restated the Securities Purchase Agreement, dated as of February 21, 2008, between the Company and CD Financial, pursuant to which the Company issued to CD Financial a 9.5% Convertible Senior Secured Note in the original principal amount of \$4,500 (the “Original CD Note”). Pursuant to the CD SPA, the Company issued to CD Financial (i) the Amended and Restated Convertible Promissory Note in the principal amount of \$5,350 (the “CD Convertible Note”) and (ii) the Promissory Note in the principal amount of \$1,714 (the “Liquidity Note”, and collectively with the CD Convertible Note, the “CD Notes”). The CD Notes mature on July 7, 2017.

The proceeds of the CD Notes were used to refinance (a) the Original CD Note, (b) the CD MDC Note which was assigned by MDC to the Company, (c) past due interest in the aggregate amount of \$333 and (d) other expenses owed to CD Financial by the Company in the aggregate amount of approximately \$217.

The CD Notes are secured by all assets of the Borrowers, including, without limitation, machinery and equipment, real estate owned by IHT Properties, and iBio Stock owned by the Company. The CD Notes bear interest at an annual rate of 6% and have a default rate of 10%.

The CD Convertible Note is convertible at the option of CD Financial into common stock of the Company at a conversion price of \$0.65 per share, subject to customary adjustments including conversion price protection provisions.

Pursuant to the terms of the Loan Agreement and the Intercreditor Agreement, during the effectiveness of the Senior Credit Facility, (i) the principal of the CD Convertible Note may not be repaid, (ii) the principal of the Liquidity Note may only be repaid if certain conditions under the Loan Agreement are satisfied, and (iii) interest in respect of the CD Notes may only be paid if certain conditions under the Intercreditor Agreement are satisfied.

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

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



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As of June 30, 2014 and 2013, the related embedded derivative liability with respect to the CD Convertible Note has an estimated fair value of \$717 and \$696.

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

#### OTHER LONG TERM DEBT

On June 27, 2012, MDC and the Company entered into separate promissory notes with Vitamin Realty Associates, LLC (“Vitamin Realty”) and E. Gerald Kay, the Company’s Chief Executive Officer, Chairman of the Board, President and a majority shareholder, in the principal amounts of approximately \$686 (the “Vitamin Note”) and \$27 (the “Kay Note”), respectively (collectively the “Related Party Notes”). The principal amount of the Vitamin Note represents the aggregate amount of unpaid, past due rent owing by MDC under the Lease Agreement, dated as of January 10, 1997, between MDC, as lessor, and Vitamin Realty, as landlord, pertaining to the real property located at 225 Long Avenue, Hillside, New Jersey. (See Note 11. Commitments and Contingencies (a) Leases – Related Parties). The Kay Note represents amounts owed to Mr. Kay for unreimbursed business expenses incurred by Mr. Kay in the fiscal year ended June 30, 2008. (See Note 12. Related Party Transactions). The Related Party Notes mature on July 7, 2017 and accrue interest at an annual rate of 4% per annum. Interest in respect of the Related Party Notes is payable on the first business day of each calendar month. Pursuant to the terms of the Loan Agreement, during the effectiveness of the Senior Credit Facility, the Related Party Notes may only be repaid or prepaid if certain conditions set forth in the Loan Agreement are satisfied.

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

On March 5, 2013, the Company entered into a capitalized lease obligation with Marlin Leasing in the amount of \$68, which lease is secured by a certain machinery and equipment and matures on February 28, 2015. The monthly lease payment amount of approximately \$2 is payable monthly and has an imputed interest rate of 7.1%.

On December 5, 2013, the Company entered into a capitalized lease obligation with De Lage Landen Financial Services in the amount of \$72, which lease is secured by a certain machinery and equipment and matures on November 20, 2016. The monthly lease payment amount of approximately \$2 is payable monthly and has an imputed interest rate of 5.3%.

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Note 7. Interest Expense

The components of interest expense for the fiscal years ended June 30, 2014 and 2013 are presented below:

The weighted average interest rate paid was 4.68% and 4.73% in the fiscal years ended June 30, 2014 and 2013, respectively. As of June 30, 2014 and 2013, the Company had accrued unpaid interest of approximately \$88 and \$80, respectively.

Note 8. Income Taxes

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

Net operating losses ("NOL") of approximately \$38,200 will expire beginning in 2024 for federal purposes. State NOL's of approximately \$22,900 expire beginning in 2015 through 2031 depending on the state in which the NOL's were generated. The Company also had capital losses of \$2,868 which expired unused in 2014. The Company files a consolidated U.S. federal income tax return; however, the various state tax returns are filed on a stand-alone basis for the Company and its subsidiaries. MDC will fully utilize its remaining state NOL's to offset a portion of its taxable income in the fiscal year ended June 30, 2014 state tax return. This utilization of the NOL deferred tax asset and the release of the corresponding valuation allowance resulted in a state income tax expense of approximately \$81 for MDC, representing substantially all of the Company's income tax expense of \$89 in the fiscal year ended June 30, 2014.

Realization of the NOL carryforwards and other deferred tax temporary differences is contingent on future taxable earnings. The Company's deferred tax asset was reviewed for expected utilization using a "more likely than not" approach by assessing the available positive and negative evidence surrounding its recoverability. Accordingly, a valuation allowance has been recorded against the Company's deferred tax asset, as it was determined based upon past and present taxable losses that it was "more likely than not" that the Company's deferred tax assets would not be realized. The valuation allowance was increased to the full carrying amount of the Company's deferred tax assets in the fiscal year ended June 30, 2009. In future years, if the deferred tax assets are determined by management to be "more likely than not" to be realized, the recognized tax benefits relating to the reversal of the valuation allowance as of June 30, 2014 will be recorded. The Company will continue to assess and evaluate strategies that will enable the deferred tax asset, or portion thereof, to be utilized, and will reduce the valuation allowance appropriately as such time when it is determined that the "more likely than not" criteria is satisfied.



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

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

There were no significant uncertain tax positions taken, or expected to be taken, in a tax return that would be determined to be an unrecognized tax benefit taken or expected to be taken in a tax return that should have been recorded on the Company's consolidated financial statements for the year ended June 30, 2014. Additionally, there were no interest or penalties outstanding as of or for each of the fiscal years ended June 30, 2014 and 2013.

The latest three years of Federal and four years of state tax returns filed for the fiscal years ended through June 30, 2013 are currently open. The tax returns for the year ended June 30, 2014 will be filed by March 15, 2015.

Note 9. Profit-Sharing Plan

The Company maintains a profit-sharing plan, which qualifies under Section 401(k) of the Internal Revenue Code, covering all nonunion employees meeting age and service requirements. Contributions are determined by matching a percentage of employee contributions. As of January 1, 2009, the Company curtailed the Company's matching percentage of employee contributions into the profit-sharing plan for the benefit of the employees. As of January 1, 2013, the Company reinstated the discretionary employer match in the profit-sharing plan for the benefit of the employees. For the fiscal years ended June 30, 2014 and 2013, the Company contributed approximately \$71 and \$20, respectively, into to the plan for the benefit of the eligible employees participating in the plan.

Note 10. Significant Risks and Uncertainties

(a) Concentrations of Credit Risk-Cash. The Company maintains balances at several financial institutions. Deposits at each institution are insured by the Federal Deposit Insurance Corporation up to \$250. As of June 30, 2014, the Company had \$134 of uninsured deposits at these financial institutions.

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(b) Concentrations of Credit Risk-Receivables. The Company routinely assesses the financial strength of its customers and, based upon factors surrounding the credit risk of its customers, establishes an allowance for uncollectible accounts and, as a consequence, believes that its accounts receivable credit risk exposure beyond such allowances is limited. The Company does not require collateral in relation to its trade accounts receivable credit risk.

(c) Major Customers. For the fiscal years ended June 30, 2014 and 2013 approximately 80% and 76%, respectively of consolidated net sales, were derived from two customers. These two customers are in the Company's Contract Manufacturing Segment and represent approximately 67% and 22% and 71% and 16% of this Segment's net sales in the fiscal years ended June 30, 2014 and 2013, respectively. A third customer in the Branded Nutraceutical Segment, while not a significant customer of the Company's consolidated net sales represented approximately 60% and 50% of net sales in the fiscal years ended June 30, 2014 and 2013, respectively of the Branded Nutraceutical Segment. Accounts receivable from these customers represented approximately 74% and 73% of total net accounts receivable as of June 30, 2014 and 2013, respectively. The loss of any of these customers could have an adverse affect on the Company's operations. Major customers are those customers who account for more than 10% of net sales.

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

The raw materials used by the Company are primarily commodities and agricultural-based products. Raw materials used by the Company in the manufacture of its nutraceutical products are purchased from independent suppliers. Raw materials are available from numerous sources and the Company believes that it will continue to obtain adequate supplies.

Approximately 63% the Company's employees are covered by a union contract and are employed in its New Jersey facilities. The contract was renewed in May 2012 and expires in August 2015.

#### Note 11. Commitments and Contingencies

##### (a) Leases

Related Party Leases. Warehouse and office facilities are leased from Vitamin Realty, which is 100% owned by the Company's chairman, president and major stockholder and certain family members, who are also executive officers and directors of the Company. On January 5, 2012, MDC, a wholly-owned subsidiary of the Company, entered into a second amendment of lease (the "Second Lease Amendment") with Vitamin Realty for its office and warehouse space in New Jersey increasing its rentable square footage from an aggregate of 74,898 square feet to 76,161 square feet and extending the expiration date to January 31, 2026. This Second Lease Amendment provides for minimum annual rental payments of \$533, plus increases in real estate taxes and building operating expenses. On May 19, 2014, AgroLabs entered into an Amendment to the lease agreement entered into on January 5, 2012, with Vitamin Realty for an additional 2,700 square feet of warehouse space in New Jersey, the term of which expires on January 31, 2019, to extend the expiration date to January 1, 2024. This additional lease provides for minimum lease payments of \$27 with annual increases plus the proportionate share of operating expenses.

Rent expense for the fiscal years ended June 30, 2014 and 2013 on these leases were \$854 and \$776, respectively, and are included in both cost of sales and selling and administrative expenses in the accompanying Consolidated Statements of Operations. For the fiscal years ended June 30, 2014 and 2013, the Company had outstanding rent obligations to Vitamin Realty of \$902 and \$918, respectively, included in accounts payable and long term debt in the accompanying Consolidated Balance Sheet. (See Note 6. Senior Credit Facility, Subordinated Convertible Note Payable, net - CD Financial, LLC and other Long Term Debt).



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Other Lease Commitments. The Company has entered into certain non-cancelable operating lease agreements expiring up through January 31, 2026, related to office and warehouse space, equipment and vehicles (inclusive of the related party lease with Vitamin Realty).

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

Total rent expense, including real estate taxes and maintenance charges, was approximately \$1.0 million and \$985 for the fiscal years ended June 30, 2014 and 2013, respectively.

(b) Legal Proceedings.

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

(c) Other Claims.

On May 15, 2012, Cedarburg Pharmaceuticals, Inc. ("Cedarburg") sent the Company a letter (the "Demand Letter") setting forth a demand for indemnification under the Stock Purchase Agreement, dated March 17, 2009 (the "Cedarburg SPA"), by and among Cedarburg, InB: Hauser Pharmaceutical Services, Inc., InB: Paxis Pharmaceuticals, Inc. and the Company. In the Demand Letter, Cedarburg demanded payment by the Company of \$0.6 million in respect of the Company's indemnification obligations under the Cedarburg SPA. In addition, in the Demand Letter, Cedarburg informed the Company that there are also environmental issues pending which may lead to additional costs to Cedarburg which will likely be in excess of \$300.

On May 30, 2012, the Company sent a letter responding to the Demand Letter and setting forth the Company's position that it has no obligation to indemnify Cedarburg as demanded. On June 18, 2012, Cedarburg responded to the Company's letter and, on July 27, 2012, the Company sent another letter to Cedarburg reiterating its position that the Company has no obligation to indemnify Cedarburg as demanded. On December 18, 2012, Cedarburg responded to the Company's letter and, on January 15, 2013, the Company sent another letter to Cedarburg reiterating its position that the Company has no obligation to indemnify Cedarburg as demanded. As of September 8, 2014, the Company has not received any further communication from Cedarburg with respect to its demand for indemnification as set forth in the Demand Letter. The Company intends to vigorously contest Cedarburg's demand as set forth in the Demand Letter.

Note 12. Related Party Transactions

On June 27, 2012, Carl DeSantis, a director and major shareholder of the Company and a member of CD Financial entered into a Limited Guaranty Agreement with PNC in the amount of \$1.0 million. (See Note 6. Senior Credit Facility, Subordinated Convertible Note Payable, net - CD Financial, LLC and other Long Term Debt).



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On June 27, 2012, E. Gerald Kay, the Company's Chief Executive Officer, Chairman of the Board, President and a major shareholder entered into a Limited Guaranty Agreement with PNC in the amount of \$1.0 million and a promissory note with the Company in the amount of \$27. (See Note 6. Senior Credit Facility, Subordinated Convertible Note Payable, net - CD Financial, LLC and other Long Term Debt).

Neither Mr. DeSantis nor Mr. Kay received any compensation from the Company in connection with these guarantees. The Individual Guarantees automatically terminated upon the satisfaction of certain conditions set forth in the Loan Agreement which included the Company repaying an aggregate amount of \$1.0 million of principal on the Term Loan and the Company meeting a minimum EBITDA, as defined in the Loan Agreement, of \$1.5 million for the fiscal year ended June 30, 2013. The Company met these requirements on November 1, 2013.

See Note 6. Senior Credit Facility, Subordinated Convertible Note Payable, net - CD Financial, LLC and other Long Term Debt for related party securities transactions.

See Note 11(a) - Leases for related party lease transactions.

Note 13. Equity Transactions

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

The following options, warrants and potentially dilutive shares for convertible notes payable (see Note 6. Senior Credit Facility, Subordinated Convertible Note Payable, net - CD Financial, LLC and other Long Term Debt) were not included in the computation of weighted average diluted common shares outstanding as the effect of doing so would be anti-dilutive for fiscal years ended June 30, 2014 and 2013:

During the fiscal year ended June 30, 2014 and 2013, the Company did not incur any stock compensation expense.

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The intrinsic value of options outstanding and exercisable at June 30, 2014 and 2013 was \$68 and \$74, respectively.

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

The following table summarizes the range of exercise prices and weighted-average exercise prices for stock options outstanding and exercisable as of June 30, 2014 under the Company's stock option plans:

(b) Warrants. As of June 30, 2013, the Company had 500,000 warrants outstanding to purchase shares of common stock at \$0.80. These warrants expired unexercised in October 2013.

Note 14. 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 GAAP which establishes standards for reporting information about a company's operating segments.

The Company has divided its operations into three reportable segments as follows: Contract Manufacturing, Branded Proprietary Products and Other Nutraceutical Businesses. The international sales, concentrated primarily in Europe and Canada, for the fiscal years ended June 30, 2014 and 2013 were \$10,970 and \$12,264, respectively.

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Financial information relating to the fiscal years ended June 30, 2014 and 2013 operations by business segment are as follows:

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SIGNATURES

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

INTEGRATED BIOPHARMA, INC.

Date: September 8, 2014

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

Date: September 8, 2014

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