INTEGRATED BIOPHARMA INC
Form 10QSB
February 13, 2004

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington D. C. 20549

FORM 10-QSB

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

For the quarterly period ended December 31, 2003	Commission File Number 000-28876

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

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

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

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

Yes|X| No |_|

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Class	Outstanding as of January 31, 2004
Common Stock, Par Value	10,597,790

INTEGRATED BIOPHARMA, INC.

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Independent Accountants' Review Report

We have reviewed the accompanying condensed consolidated balance sheet of Integrated BioPharma, Inc. and Subsidiaries (formerly Integrated Health Technologies, Inc.) as of December 31, 2003, and the related condensed consolidated statements of operations for the three and six months ended December 31, 2003 and 2002, and condensed consolidated statements of cash flows for the six months ended December 31, 2003 and 2002, and condensed consolidated statement of stockholders' equity for the six months ended December 31, 2003. These condensed consolidated financial statements are the responsibility of the company's management.

We conducted our review in accordance with standards established by the American Institute of Certified Public Accountants. A review of interim financial information consists principally of applying analytical procedures to financial data and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with generally accepted auditing standards, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

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

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

January 31, 2004
Edison, New Jersey

Part 1-FINANCIAL INFORMATION

Item 1. Financial Statements

INTEGRATED BIOPHARMA, INC.
CONSOLIDATED BALANCE SHEET AS OF DECEMBER 31, 2003
[UNAUDITED]

Assets:	
Current Assets:	
Cash and Cash Equivalents	$ 3,863,875
Accounts Receivable - Net	2,134,197
Deferred Income Taxes	62,000
Inventories	3,945,164
Deposit on Inventories	3,064,737
Loan Receivable	137,500
Refundable Federal Income Taxes	14,640
Prepaid Expenses and Other Current Assets	1,088,238
Total Current Assets	14,310,351
Property and Equipment - Net	5,942,680
Other Assets:	
Deferred Tax Asset	78,000
Intellectual Property	577,455
Patents and Unpatented Technological Expertise-Net	557,000
Prepaid Rent	130,000
Investment in Joint Venture	123,879
Intangible Assets	2,543,138
Security Deposits and Other Assets	217,125
Total Other Assets	4,226,597
Total Assets	$ 24,479,628

See accompanying notes to condensed consolidated financial statements.

INTEGRATED BIOPHARMA, INC.
CONSOLIDATED BALANCE SHEET AS OF DECEMBER 31, 2003
[UNAUDITED]

Liabilities and Stockholders' Equity:	
Current Liabilities:	
Accounts Payable	$ 2,482,024
Note Payable-Bank	4,500,000
Accrued Expenses and Other Current Liabilities	573,475
Federal and State Income Taxes Payable	60,375
Customer Advances	59,518
Capital Lease Obligation	90,807
Loan Payable - Trade Investment Services, LLC, related party	172,260
Total Current Liabilities	7,938,459
Commitments and Contingencies	--
Stockholders' Equity:	
Preferred Stock - Authorized 1,000,000 Shares, $.002 Par Value, No Shares Issued	--
Series A non-redeemable Convertible Preferred Stock- Authorized 20,000 shares $.002 Par Value, 9,500 Shares Issued and Outstanding, Liquidation preference of $9,595,000	19
Common Stock - Authorized 25,000,000 Shares, $.002 Par Value, 10,623,590 Shares Issued, and 10,597,790 Outstanding	21,247
Additional Paid-in-Capital	15,480,096
Retained Earnings	1,068,638
	16,570,000
Less, Treasury Stock at cost, 25,800 shares	(28,831)
Total Stockholders' Equity	16,541,169
Total Liabilities and Stockholders' Equity	$ 24,479,628

See accompanying notes to condensed consolidated financial statements.

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

	Three months ended December 31,		Six m De
	2003	2002	2003
Sales	$ 6,849,826	$ 5,945,719	$ 11,829,83
Cost of Sales	4,804,299	4,405,182	8,766,97
Gross Profit	2,045,527	1,540,537	3,062,85
Selling and Administrative Expenses			
Paxis Pharmaceuticals, Inc. Start Up Costs	1,051,047	--	1,671,35
Selling and Administrative Expenses	1,421,646	1,030,105	2,684,71
Total Selling & Administrative Expenses	2,472,693	1,030,105	4,356,06
Operating [Loss] Income	(427,166)	510,432	(1,293,214
Other Income [Expense]:			
Other Income	144,659	70,039	204,65
Consulting Fee Income	12,000	12,000	24,00
Interest Expense	(16,489)	(1,580)	(40,168
Interest and Investment Income	17,545	14,353	55,80
Total Other Income	157,715	94,812	244,29
[Loss] Income Before Income Taxes	(269,451)	605,244	(1,048,921
Federal and State Income Tax	97,300	278,422	74,12
Net [Loss] Income	(366,751)	326,822	(1,123,046
Accretion of Preferred Stock Dividends	(95,000)	--	(190,000
Net [Loss] Income applicable to common shareholders	$ (461,751)	$ 326,822	$(1,313,046
Net [Loss] Income Per Common Share:			
Basic	$ (.04)	$ .05	$ (.13

Diluted	$ (.04)	$ .04	$ (.13
Average Common Shares Outstanding	10,521,942	6,228,720	10,413,64
Dilutive Potential Common Shares: Warrants and Options	--	1,212,765	-
Average Common Shares Outstanding-assuming dilution	10,521,942	7,441,485	10,413,64

See accompanying notes to condensed consolidated financial statements.

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INTEGRATED BIOPHARMA, INC.
CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY FOR THE SIX MONTHS
ENDED DECEMBER 31, 2003
[UNAUDITED]

	Common Stock Shares	Common Stock Par Value	Preferred Stock	Convertible Preferred Stock	Additional Paid-In Capital	Retained Earnings	S
Balance - July 1, 2003	10,241,439	$ 20,483	--	$ 19	$ 15,882,080	$ 2,381,684	2
Exercise of Stock Options for cash	112,400	225	--	--	96,485	--	
Reduction of paid in capital due to common control accounting related to in acquisition of 47% of Paxis, Inc.					(2,956,068)		
Preferred Stock-Accretion of Dividends					190,000	(190,000)	
Acquisition of							

3% of Paxis Inc.	66,666	133			542,595		
Acquistion of new product lines	203,085	406			1,725,004		
Net Loss for the six months ended December 31, 2003	--	--	--	--	--	(1,123,046)	
Balance- December 31, 2003	10,623,590	$ 21,247	--	$ 19	$ 15,480,096	$ 1,068,638	2

See accompanying notes to condensed consolidated financial statements.

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

	Six months ended December 31, 2003	Six months ended December 31, 2002
Operating Activities:		
Net [Loss] Income	$ (1,123,046)	$ 513,332
Adjustments to Reconcile Net Income (Loss) to Net Cash [Used for] Provided by Operating Activities:		
Depreciation and Amortization	226,080	228,236
Deferred Income Taxes	(3,000)	7,000
Allowance for Inventory	5,000	--
Bad Debt Expense	5,000	--
Changes in Assets and Liabilities (Net of Acquisition Costs):		
[Increase] Decrease in:		
Refundable Federal Income Taxes	(14,640)	--
Accounts Receivable	(275,291)	400,310
Inventories	349,861	(1,126,153)
Deposit for Inventory	(1,608,230)	--
Due From Paxis Pharmaceuticals, Inc. - Related Party	(908,000)	87,088
Prepaid Expenses and Other Current Assets	(463,111)	(120,006)
Security Deposits and Other Assets	105,016	10,811
[Decrease] Increase in:		
Accounts Payable	63,885	775,123

Federal and State Income Taxes Payable	6,606	(75,020)
Accrued Expenses and Other Liabilities	50,400	(18,401)
Total Adjustments	(2,460,424)	168,988
Net Cash - Operating Activities	(3,583,470)	682,320
Investing Activities:		
Purchase of Intangible Assets	(275,000)	--
Investment in Joint Venture	(123,879)	--
License Fee	(90,000)	(355,000)
Loans to Stockholders	--	3,564
Acquisition of Paxis Pharmaceuticals, Inc., less cash received	(483,256)	--
Purchase of Property and Equipment	(2,049,996)	(240,104)
Net Cash-Investing Activities	(3,022,131)	(591,540)
Financing Activities:		
Proceeds from Exercise of Stock Options	96,710	--
Proceeds from Notes Payable	36,525	2,255,954
Repayment of Notes Payable	(70,149)	(2,293,864)
Net Cash-Financing Activities	63,086	(37,910)
Net [Decrease]/Increase in Cash and Cash Equivalents	(6,542,515)	52,870
Cash and Cash Equivalents - Beginning of Periods	10,406,390	2,063,323
Cash and Cash Equivalents - End of Periods	$ 3,863,875	$ 2,116,193

See accompanying notes to condensed consolidated financial statements.

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

	Six months ended December 31,	
	2003	2002

Supplemental Disclosures of Cash Flow Information:		
Cash paid during the periods for:		
Interest	$ 30,839	$ 3,629
Income Taxes	$ 85,376	$ 459,771

See accompanying notes to condensed consolidated financial statements.

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

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[1] Business

Basis of Reporting - The accompanying unaudited interim financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions to Form 10-QSB and Item 310(b) of Regulation S-B. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, such interim statements include all adjustments, which are considered necessary in order to make the interim financial statements not misleading. It is suggested that these financial statements be read in conjunction with the financial statements and notes thereto, together with management's discussion and analysis of financial condition and results of operations, contained in the Company's annual report to stockholders incorporated by reference in the Company's annual report on Form 10-KSB for the fiscal year ended June 30, 2003. The results of operations for the six months ended December 31, 2003 are not necessarily indicative of the results for the entire fiscal year ending June 30, 2004.

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

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

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

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

To date, Paxis has devoted the majority of its efforts to setting up the manufacturing operation. Paxis is subject to various risks associated with a

start-up operation, including, among others, setting up and operating manufacturing facilities, complying with regulatory requirements for manufacturing pharmaceutical products, manufacturing cGMP API Paclitaxel, marketing and selling the cGMP Paclitaxel to customers, and operating profitably. The Company can give no assurance that it can be operated profitably.

On October 22, 2003, the Company completed the acquisition of various assets related to the Naturally Aloe(TM), Naturally Noni(TM) and Avera Sport(TM) product lines from Aloe Commodities International, Inc. ("Aloe"). The assets included trademarks, copyrights, art work, formula for the products, labels, customer lists, goodwill, inventories and books and records. Pursuant to the terms of a purchase agreement dated October 22, 2003 by and between the Company and Aloe, the purchase price for the Transferred Assets was $2,597,879.83, with $872,469.83 paid at closing and $1,725,410.00 paid in 203,085 shares of the Company's common stock valued on the basis of the average closing price as reported on the American Stock Exchange for the five (5) trading days immediately preceding the closing date and five (5) trading days after. Such shares shall be held in escrow for a period of one (1) year from the closing date and released pursuant to the terms of and Escrow Agreement between and among the Company, Aloe and Vial, Hamilton, Koch & Knox, L.L.P.

The sales by type for the six months ended December 31,

	2003	2002
Manufacturing Sales	$ 9,813,217	$ 8,568,827
Distribution Sales	$ 1,860,697	$ 1,975,416
Other	$ 240,577	$ 249,666

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

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[2] Summary of Significant Accounting Policies

Principles of Consolidation - The accompanying consolidated financial statements include the accounts of the Company and its subsidiaries, all of which are wholly-owned. Intercompany transactions and balances have been eliminated in consolidation. Minority interest is insignificant.

Fair Value of Financial Instruments

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

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

Company could borrow funds with similar remaining maturities and approximates fair value.

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

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

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

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

Machinery and equipment are depreciated using accelerated methods while leasehold improvements are amortized on a straight-line basis. Depreciation expense was $206,080 and $188,236 for the six months ended December 31, 2003 and 2002, respectively and amortization of patents and unpatented technology was $20,000 and $40,000 for the six months ended December 31, 2003 and 2002, respectively. Amortization of equipment under capital leases is included with the depreciation expense.

Estimates -The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts or revenues and expenses during the reporting period. Actual results could differ from those estimates.

Revenue Recognition - The Company recognizes revenue upon shipment of the product. The Company's Paxis subsidiary had not completed its renovation of the manufacturing facilities as of December 31, 2003 and has not recognized any income to date. The Company believes that recognizing revenue at shipment is appropriate because the Company's sales policies meet the four criteria of SAB 101 which are: (i) persuasive evidence that an arrangement exists, (ii) delivery has occurred, (iii) the seller's price to the buyer is fixed and determinable and (iv) collectability is reasonably assured. The Company's sales policy is to require customers to provide purchase orders establishing selling prices and shipping terms, which are F.O.B shipping point with the title and risk of loss

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[2] Summary of Significant Accounting Policies (Continued)

passing to the customer at point of shipment. The Company evaluates the credit risk of each customer and establishes an allowance of doubtful accounts for any credit risk. Sales returns and allowances are estimated upon shipment.

The Company realized fee income from managing warehouse and office operations for an unrelated company of $120,000 and $140,166 for the six months ended December 31, 2003 and 2002 respectively. Such is included in "Other income."

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

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

As of December 31, 2003, $577,455 has been paid to Hauser under this agreement which has been recorded as intellectual property. The Company has not amortized this amount since operations have not commenced, but will begin amortizing over the remaining period of the 10 year agreement when operations have commenced.

Advertising - Costs incurred for producing and communicating advertising are expensed when incurred. Advertising expense was $127,210 and $4,637 for the six months ended December 31, 2003 and 2002 respectively.

[3] Inventories
Inventories consist of the following at December 31, 2003:

Raw Materials	$ 2,111,607
Work-in-Process	671,444
Finished Goods	1,162,113
Total	$ 3,945,164

[4] Deposits on Inventory

The Company has advanced $1,348,507 to Natex Georgia LLC, and $1,716,230 to Chatham Biotech Ltd. for the purchase of biomass to be used by the Company for the production of Paclitaxel.

INTEGRATED BIOPHARMA, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Sheet #4
[UNAUDITED]

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[5] Property and Equipment

Land and Building	$ 1,250,000
Leasehold Improvements	2,075,331

Machinery and Equipment	5,741,444
Machinery and Equipment Under Capital Leases	195,653
Transportation Equipment	37,714
Total	9,300,142
Less: Accumulated Depreciation and Amortization	3,357,462
Total	$ 5,942,680

[6] Patented and Unpatented Technological Expertise

	Gross Carrying Amount	Accumulated Amortization	Net
Unamortized intangible assets			
License Fee	$ 90,000	$ -0-	$ 90,000
Amortized intangible assets			
Unpatented Technology	$ 547,000	$ 80,000	$ 467,000
Total	$ 637,000	$ 80,000	$ 557,000

Aggregate Amortization Expense:	
For the six months ended December 31, 2003	$ 20,000
For the three months ended December 31, 2003	$ 10,000

[7] Intangible Assets

All other intangible assets-net are being amortized over their estimated useful lives. At December 31, 2003 intangible assets are made up of the following:

Goodwill -Paxis acquisition	$ 542,728
Intangible assets - Aloe acquisition	900,000
Goodwill - Aloe acquisition	1,100,410
	$ 2,543,138

[8] Notes Payable

Notes Payable are summarized as follows at December 31, 2003:

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

INTEGRATED BIOPHARMA, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Sheet #5
[UNAUDITED]

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[8] Notes Payable (Continued)

(a) Under the terms of a revolving credit note which expires on June 10, 2005, the Company may borrow up to $1,000,000 at the prime lending rate. The loan is collateralized by the inventory, receivables and equipment of Integrated BioPharma, Inc. and its operating subsidiaries, and by the personal guarantee of E. Gerald Kay, the chairman of the board of the Company. At December 31, 2003 there were no borrowings under the revolving credit note.

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

The loan agreement with Commerce Bank contains certain financial covenants relating to the maintenance of tangible net worth as defined and Debt Service Coverage Ratios. At December 31, 2003 the Company was in compliance with its tangible net worth covenant but not its debt service coverage ratio.

(b) Revolving line of credit loan provided by Bank of America dated August 6, 2003 in the amount of $4,500,000 with interest at a variable rate. The loan is due on September 4, 2004. The loan is guaranteed by Mr. Carl DeSantis, a shareholder and director of the Company. At December 31, 2003 the interest rate was 2.39%.

[9] Loan Payable-Trade Investment Services

Demand loan provided by Trade Investment Services, LLC ("TIS"), a former shareholder of Paxis Pharmaceuticals, Inc, dated July 1, 2002 with interest at 9%. Interest for the six months ended December 31, 2003 has been waived.

[10] Research and Development Expense

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

[11] Capital Lease

The Company acquired laboratory equipment under the provisions of two (2) short-term leases. The leases expire in January 2004 and December 2004, respectively. The equipment under the capital leases as of December 31, 2003 has a cost of $195,653 and accumulated depreciation of $-0- with a net book value of $195,653.

The future minimum lease payments under capital leases and the net present value of the future minimum lease payments at December 31, 2003 are as follows:

Total Minimum Lease Payments	$ 93,000
Amount Representing Interest	(2,193)

Present Value of Net Minimum Lease Payment	90,807
Current Portion	(90,807)
Long-Term Capital Lease Obligation	$ -0-

[12] Significant Risks and Uncertainties

[A] Concentrations of Credit Risk - Cash - The Company maintains balances at several financial institutions. Accounts at each institution are insured by the Federal Deposit Insurance Corporation up to $100,000. At December 31, 2003 the Company's uninsured cash balances totaled

[12] Significant Risks and Uncertainties (Continued)

approximately $3,426,000. The Company does not require collateral in relation to cash credit risk.

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

The amount of the allowance for uncollectible accounts at December 31, 2003 is $42,158.

[13] Major Customer

For the six months ended December 31, 2003 and 2002 approximately 67% and 66% of revenues were derived from one customer. The loss of this customer would have an adverse effect on the Company's operations. Two other customers accounted for 11% of consolidated sales for the six months ended December 31, 2003 and 12% of consolidated sales for the six months ended December 31, 2002. Accounts receivable from these customers comprised approximately 67% and 74% of total accounts receivable at December 31, 2003 and 2002, respectively.

[14] Commitments and Contingencies

[A] Leases

Related Party Leases - Warehouse and office facilities are leased from Vitamin Realty Associates, L.L.C., a limited liability company, which is 90% owned by the Company's Chairman of the Board and principal stockholder and certain family members and 10% owned by the Company's Chief Financial Officer. The lease was effective on January 10, 1997 and provides for a minimum annual rental of

$346,000 through January 10, 2002 plus increases in real estate taxes and building operating expenses. At its option, the Company has the right to renew the lease for an additional five year period. On April 28, 2000 the lease was amended reducing the square footage and extending the lease to May 31, 2015. Rent expense for the six months ended December 31, 2003 and 2002 on this lease was approximately $235,000 and $228,000 respectively.

Other Lease Commitments - The Company leases manufacturing and office facilities through March 31, 2007. The lease was effective on April 1, 2002 and provided for minimum monthly rental of $32,500 per month through March 31, 2007 plus increases in real estate taxes and building operating expenses. Rent expense has been straight-lined over the life of the lease. At its option, the Company has the right to renew the lease for an additional five year period. On August 27, 2002 the lease was amended reducing the square footage from approximately 32,500 to 22,500 and reducing the monthly rent to $22,483 per month for the balance of the lease. Rent expense for the six months ended December 31, 2003 was $150,471. There were no corresponding expenses for in 2002 because the manufacturing and office facility was not a part of the consolidated group.

The Company leases warehouse equipment for a five-year period providing for an annual rental of $15,847, telephone equipment for a five-year period providing for an annual rental of $13,142 and office equipment for a five year period providing for an annual rental of $8,365.

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

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[14] Commitments and Contingencies (Continued)

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

December 31,	Lease Commitment	Related Party Lease Commitment	Total
2004	$ 327,717	$ 323,559	$ 651,276
2005	309,054	323,559	632,613
2006	89,356	323,559	412,915
2007	705	323,559	324,264
2008	--	323,559	323,559
Thereafter	--	2,049,208	2,049,208
Total	$ 726,832	$ 3,667,003	$ 4,393,835

Total rent expense, including real estate taxes and maintenance charges, was approximately $446,000 and $275,000 for the six months ended December 31, 2003 and 2002, respectively. Rent expense is stated net of sublease income of approximately $5,700 and $2,600 for the six months ended December 31, 2003 and 2002, respectively.

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

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

[D] Consultant Agreement-The Company has oral agreements with subcontractors to supply labor on an as needed basis.

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

[15] Related Party Transactions

The Company has two consulting agreements with the brothers of the Company's Chairman of the Board. One agreement is on a month to month basis for $1,100 per month. The total consulting expense recorded per this verbal agreement for the six months ended December 31, 2003 and 2002 was $6,600 respectively.

The second agreement is with EVJ, LLC a limited liability company controlled by Robert Kay, an employee of the Company. The total consulting expense under this agreement was $75,000 for the six months ended December 31, 2003.

INTEGRATED BIOPHARMA, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Sheet #8
[UNAUDITED]

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[16] New Accounting Pronouncements

In July 2001,S FAS No. 141, "Business Combinations" (SFAS 141) and SFAS No. 142 "Goodwill and Other Intangible Assets" (SFAS 142) were issued. SFAS 141 requires that the purchase method of accounting be used for all business combinations initiated after June 30, 2001. SFAS 141 also specifies the criteria that intangible assets acquired in a purchase method business combination must meet to be recognized and reported apart from goodwill. SFAS 142 requires that goodwill and intangible assets with indefinite useful lives no longer be amortized, but instead be tested for impairment, at least annually, in accordance with the provisions of SFAS 142.

The Company adopted SFAS No. 142, "Goodwill and Other Intangible Assets", effective July 1, 2002. Under SFAS 142, goodwill is not amortized but is tested for impairment on an annual basis. The impairment test is a two-step process. The first step identifies potential impairment by comparing an entity's fair value, including goodwill, to its carry amount. If the entity's carrying amount exceeds its fair value, a second step is performed which compares the fair value of the entity's goodwill to the carrying amount of that goodwill. If the carrying amount of goodwill exceeds the fair value, an impairment loss is recognized. Upon adoption, any impairment loss identified is presented as a change in accounting principle and recorded as of the beginning of the fiscal year adoption. After adoption, any impairment loss recognized is recorded as a charge to income from operations. The adoption of SFAS 142 did not have a significant impact on the Company's financial statements.

Effective July 1, 2002, the Company adopted SFAS No. 144, "Accounting for the Impairment Or Disposal of Long Lived Assets," which is effective for financial statements issued for fiscal years beginning after December 15, 2001. SFAS 144 supersedes SFAS No. 121, "Accounting for the Impairment or Disposal of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of." The adoption of SFAS 144 did not have a significant impact on the Company's financial statements.

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

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

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

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

in the accompanying consolidated financial statements.

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[16] New Accounting Pronouncements (Continued)

In January 2003, the FASB issued FIN 46, "Consolidation of Variable Interest Entities," which is effective for interim periods beginning after June 15, 2003. This interpretation changes the method of determining whether certain entities additional subordinated financial support from other parties, or (2) equity investors that cannot make significant decisions about the entity's operations or that do not absorb the expected losses or receive the expected returns of the entity. All other entities are evaluated for consolidation under SFAS No. 94, "Consolidation of All Majority-Owned Subsidiaries." A VIE is consolidated by its primary beneficiary, which is the party involved with the VIE that has a majority of the expected losses or a majority of the expected residual returns or both. The Company is currently evaluating the impact of FIN 46.

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

On May 15, 2003, the FASB issued SFAS No. 150, "Accounting for Certain Financial Instruments with Characteristics of Both Liabilities and Equity." SFAS 150 establishes standards for classifying and measuring as liabilities certain financial instruments that embody obligations of the issuer and have characteristics of both liabilities and equity. SFAS 150 represents a significant change in practice in the accounting for a number of financial instruments, including mandatorily redeemable equity instruments and certain equity derivatives that frequently are used in connection with share repurchase programs. SFAS 150 is effective for all financial instruments created or modified after May 31, 2003. We currently do not have any such instruments. There was no impact from the adoption of this statement.

[17] Equity Transactions

On October 6, 2003, the Company granted 41,666 incentive stock options for a term of ten years at an exercise price equal to the market price of $7.90 on the date of grant.

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

Stock-Based Compensation - The Company has adopted the disclosure-only provisions of SFAS No.123, "Accounting for Stock-Based Compensation." Accordingly, no compensation cost has been recognized for the stock option plan because the exercise price of employee stock options equals the market prices of the underlying stock on the date of grant. Had compensation cost been determined based on the fair value at the grant date for awards in the six months ended December 31, 2003 and 2002, respectively, consistent with the provision of SFAS No. 123, the Company `s net income and earnings per share would have been reduced to the pro forma amounts indicated below.

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INTEGRATED BIOPHARMA, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Sheet #10
[UNAUDITED]

[17] Equity Transactions [Continued]

	Six months ended December 31, 2003	Six months ended December 31, 2002
Net (loss), income as reported	$ (1,123,046)	$ 513,332
Add: Stock based employee compensation expense included in net (loss), income net of related tax effects	--	--
Deduct: Total stock based employee Compensation expense determined under fair value based method for all awards, net of related tax effects	(1,542,101)	--
Pro forma net (loss) income	$ (2,665,147)	$ 513,332
Earnings per share:		
Basic-as reported	$ (.11)	$ .08
Basic-pro forma	$ (.26)	$ .08
Diluted-as reported	$ (.11)	$ .08
Diluted-pro forma	$ (.26)	$ .08

Paxis Acquisition- On July 22, 2003 the Company completed its acquisition of ninety-seven (97%) percent of the shares of common stock of Paxis Pharmaceuticals, Inc. a Delaware corporation ("Paxis") based in Boulder,

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

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

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

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

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

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[17] Equity Transactions [Continued]

the brother of E. Gerald Kay, is also the owner of one-third (1/3) of the equity of TIS. Carl DeSantis, the father of Dean DeSantis who is a director of INB, is the owner of one-third (1/3) of the equity of TIS.

Acquisition of new product lines- On October 22 2003, the Company completed the acquistion of various assets related to the Naturally Aloe(TM), Naturally Noni(TM), and Avera Sport(TM) product lines from Aloe Commodities International, Inc. ("Aloe"). The assets included trademarks, copyrights, art work, formula for the products, labels, customer lists, goodwill, inventories and books and records. Pursuant to the terms of a purchase agreement dated October 22, 2003 by and between the Company and Aloe, the purchase price for the Transferred Assets was $2,597,879.83, with $872,469.83 paid at closing and $1,725,410.00 paid in 203,085 shares of the Company's common stock valued on the basis of the average

closing price as reported on the American Stock Exchange for the five (5) trading days immediately preceding the closing date and five (5) days after the closing date. Such shares shall be held in escrow for a period of one (1) year from the closing date and released pursuant to the terms of and Escrow Agreement between and among the Company, Aloe and Vial, Hamilton, Koch & Knox, L.L.P. The allocation of the purchase price was as follows:

Inventory, Trade Receivables and Prepaid Items	$ 597,469.83
Trademark	50,000.00
Brand Names	500,000.00
Artwork	100,000.00
Formulas	200,000.00
Customer List	50,000.00
Goodwill	1,100,410.00
Total	$ 2,597,879.83

[18] Subsequent Events

On January 13, 2004, the Company acquired intellectual property developed by the Center for Molecular Biotechnology (CBM) of Fraunhofer USA, Inc. The agreement covers exclusive rights to proprietary technology and intellectual property in the area of expression, engineering, testing, production and validation of human therapeutic proteins in plants.

The agreement between INB and CMB grants INB exclusive rights and eventual ownership of all of the intellectual property and proprietary know-how in the field of vaccine, therapeutic protein and antibody production for human use. The Agreement will result in cash and royalties paid to CMB by INB in exchange for broad rights to the technology.

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

The following discussion should be read in conjunction with the historical information of the Company and notes thereto.

Critical Accounting Estimates

Allowances for Doubtful Accounts and Sales Returns

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

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

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

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

Inventory Valuation

Inventories are stated at the lower of cost or market ("LCM"), which reflects management's estimates of net realizable value. The Company is a contract manufacturer and distributor, and only produces finished goods or purchases raw materials on a purchase order basis. Consequently, the Company has minimal risk for slow-moving or obsolete inventory. Raw materials are ordered from suppliers when needed to complete customer's orders. Detail inventory levels and composition are reviewed and evaluated for potential overstock or obsolescence in light of current operations and sales. Any appropriate reserve is recorded on a current basis.

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

Intangible Assets

Other purchased intangibles consisting of patents and unpatented technological expertise, purchased as part of business acquisitions are presented net of related accumulated amortization and are being amortized on a straight-line basis over the remaining useful life of the patents (15 years).

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

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Intangible Assets [Continued]

SFAS No 144, "Accounting for the Impairment or Disposal of Long-Lived Assets." The Company reviews the value of its long-lived assets for impairment whenever events or changes in business circumstances indicate that the carrying amount of the assets may not be fully recoverable or that the useful lives of these assets are no longer appropriate. Conditions that would necessitate an impairment assessment include material adverse changes in operations, significant adverse differences in actual results in comparison with initial valuation forecasts prepared at the time of acquisition, a decision to abandon certain acquired

products, services or marketplaces, or other significant adverse changes that would indicate the carrying amount of the recorded asset might not be recoverable.

Income Taxes

Deferred income taxes are provided in accordance with SFAS No. 109, "Accounting for Income Taxes" for differences between financial statement and income tax bases of assets and liabilities using enacted tax rates in effect in the years in which the differences are expected to reverse. The Company provides a valuation allowance on net deferred tax assets when it is more likely than not that these assets will not be realized.

Results of Operations

Six months ended December 31, 2003
Compared to six months ended December 31, 2002

The Company's net loss for the six months ended December 31, 2003 was $(1,123,046) as compared to net income of $513,332 for the six months ended December 31, 2002. This decrease in net income of approximately $1,636,000 is primarily the result of approximately $2,033,000 decrease in operating income resulting from a corresponding increase in gross profit of approximately $567,000, an increase in selling and administrative expenses of approximately $2,600,000 and a decrease in Federal and state income taxes of approximately $329,000.

Sales for the six months ended December 31, 2003 and 2002 were $11,829,832 and $10,793,909, respectively, an increase of approximately $1,036,000 or 10%. Gross profit for the six months ended December 31, 2003 was $566,640 higher than the gross profit for the six months ended December 31, 2002. Both the increase in sales and gross profit can be primarily attributed to the acquisition of various product lines from Aloe Commodities International, Inc. ("Aloe"). For the six months ended December 31, 2003 the Company had sales to one customer who accounted for 67% of net sales in 2003 and 66% in 2002. The loss of this customer would have an adverse affect on the Company's operations.

Contract manufacturing sales for the quarter ended December 31, 2003 and 2002 were $9,144,415 and $8,943,783 respectively, an increase of $200,623 or 2%. The increase in sales is due to a change in the product mix. The Company is selling higher priced separately packaged products in 2003 in contrast to bulk sales.

Retail and mail order sales for the six months ended December 31, 2003 totaled $33,561 as compared to $53,825 for the six months ended December 31, 2002, a decrease of 38%. The Company has been experiencing a decline in mail order sales due to increased competition.

The Company has an agreement with DSM Nutritional Products, Inc. (a successor to Roche Vitamins, Inc.). Sales under this agreement were $1,166,441 for the six months ended December 31, 2003 as compared to $1,008,148 for the six months ended December 31, 2002, an increase of $158,293 or 16%.

Results of Operations [Continued]

The Company offers distribution and sale of fine chemicals through a subsidiary, IHT Health Products, Inc. Sales for the six months ended December 31, 2003 totaled $694,256 as compared to $967,268 for the six months ended December 31, 2002, a decrease of $273,012 or 28%.

On February 21, 2003 the Company acquired NuCycle Therapy, Inc. ("NuCycle"). NuCycle is engaged in the development and sale of nutritional formulations based on plant-derived minerals through patented hyperaccumulation technology. Sales for the six months ended December 31, 2003 were $13,736 and grant proceeds received for the six months ended December 31, 2003 totaled $108,621.

On October 22, 2003 the Company completed the acquisition of various assets related to Naturally Aloe(TM), Naturally Noni(TM), and Avera Sport(TM) product lines from Aloe Commodities International, Inc. ("Aloe"). Sales for the two months were $1,169,400 with a corresponding gross profit of $826,875.

Cost of sales increased to $8,766,979 for the six months ended December 31, 2003 as compared to $8,297,696 for the six months ended December 31, 2002. Cost of sales decreased as a percentage of sales to 74% for the six months ended December 31, 2003 from 77% for the six months ended December 31, 2002. The decrease in cost of sales is due to the Company's change in product mix. The Naturally Noni(TM), Naturally Aloe(TM) and Avera Sport(TM) product lines percentage cost of sales for the period from acquistion (October 22, 2003) through December 31, 2003 was approximately 30%

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

	Six Months Ended December 31,		
	2003	2002	Change
Advertising Expense	$ 127,210	$ 4,637	$ 122,573
Bad Debt Expense	4,842	6,893	(2,051)
Royalty & Commission Expense	39,621	39,798	(177)
Officers Salaries	247,564	244,454	3,110
Auto, Travel & Entertainment	420,383	271,461	148,922
Office Salaries	448,344	396,534	51,810
Freight Out	98,088	54,164	43,924
Depreciation & Amortization	103,011	125,919	(22,908)
Consulting Fees	172,387	125,928	46,459
Regulatory Fees	14,250	-0-	14,250
Professional Fees	392,455	105,805	286,650
Research & Development Expense	37,583	-0-	37,583
Other selling and administrative expenses	578,975	381,543	197,432
Paxis Pharmaceuticals, Inc.	1,671,354	-0-	1,671,354
Total	$ 4,356,067	$ 1,757,136	$ 2,598,931

The increase in advertising expense is primarily attributed to the acquisition of the Naturally Noni(TM), Naturally Aloe(TM) and Avera Sport(TM) lines. The decrease in bad debt expense is due to greater emphasis on the Company's credit policies. Auto, travel and entertainment expenses have increased because of substantially increased travel in connection with its acquisition of Paxis and its facility located in Boulder, Colorado, and the formation of its Canadian-based joint venture. Office salaries have increased due to the addition

of two new sales and marketing employees. The increase in freight charges is due to the increased sales of Naturally Noni(TM), Naturally Aloe(TM) and Avera Sport(TM) lines. The increase in consulting fees is due to consulting fees of $33,000 in the NuCycle Therapy, Inc. subsidiary which was aquired in February of 2003, and to the increase in the fees paid for a review of the Company's cGMP-(company good manufacturing practices). Regulatory fees have increased due to the Company's listing on the American Stock Exchange in April of 2003. Professional fees have increased largely due to increased legal fees related to

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Results of Operations [Continued]

recent acquisitions and to increased auditing and accounting fees related to SEC filings. Research and development expenses have increased due to the acquisition of NuCycle Therapy, Inc. in February 2003. The Paxis selling and administrative expenses represent the expenditures made by Paxis for the five months ended December 31, 2003. There were no corresponding expenses in 2002 because the Paxis acquisition was completed on July 22, 2003.

Other income [expense] was $244,293 for the six months ended December 31, 2003 as compared to $177,845 for the six months ended December 31, 2002, an increase of $66,448. The increase can be attributed to an increase in interest expense of $36,539 due to the assumption of the Bank of America debt of $4,500,000 in the Paxis transaction offset against the increase in interest and investment income of $38,494 due to the increase in cash from the proceeds from the issuance of non-redeemable Convertible Preferred Stock and Warrants on June 25, 2003 and an increase in other income of $64,493, primarily attributable to the $84,659 sale of a state operating loss by NuCycle Therapy Inc. ("NuCycle").

Three months ended December 31, 2003
Compared to three months ended December 31, 2002

The Company's net loss for the three months ended December 31, 2003 was $(366,751) as compared to net income of $326,822 for the three months ended December 31, 2002. This decrease in net income of approximately $694,000 is primarily the result of a $937,598 decrease in operating income resulting from a corresponding increase in gross profit of approximately $505,000, an increase in selling and administrative expenses of approximately $1,443,000 and a decrease in Federal and state income taxes of approximately $181,000.

Sales for the three months ended December 31, 2003 and 2002 were $6,849,826 and $5,945,719, respectively, an increase of approximately $900,000 or 15%. Gross profit for the three months ended December 31, 2003 was $504,990 higher than the gross profit for the three months ended December 31, 2002. Both the increase in sales and gross profit can be primarily attributed to the acquisition of various product lines from Aloe. For the three months ended December 31, 2003 the Company had sales to one customer, who accounted for 67% of net sales in 2003 and 74% in 2002. The loss of this customer would have an adverse affect on the Company's operations.

Contract manufacturing sales for the quarter ended December 31, 2003 and 2002 were $5,091,093 and $5,179,586, respectively, a decrease of $88,493 or 2%.

Retail and mail order sales for the three months ended December 31, 2003 totaled $13,681 as compared to $24,785 for the three months ended December 31, 2002, a decrease of 45%. The Company has been experiencing a decline in mail order sales due to increased competition.

The Company has an agreement with DSM Nutritional Products, Inc. (a successor to Roche Vitamins, Inc.). Sales under this agreement were $557,430 for the three months ended December 31, 2003 as compared to $497,416 for the three months ended December 31, 2002, an increase of $60,014 or 12%.

The Company offers distribution and sale of fine chemicals through a subsidiary, IHT Health Products, Inc. Sales for the three months ended December 31, 2003 totaled $239,756 as compared to $468,186 for the three months ended December 31, 2002, a decrease of $228,430 or 49%.

On February 21, 2003 the Company acquired NuCycle Therapy, Inc. ("NuCycle"). NuCycle is engaged in the development and sale of nutritional formulations based on plant-derived minerals through patented hyperaccumulation technology. Sales for the three months ended December 31, 2003 were $9,011 and grant proceeds received for the six months ended December 31, 2003 totaled $108,621.

Results of Operations (Continued)

On October 22, 2003 the Company completed the acquisition of various assets related to Naturally Aloe(TM), Naturally Noni(TM), and Avera Sport(TM) product lines from Aloe. Sales for the three months ended were $1,169,400 with a corresponding gross profit of $826,875.

Cost of sales increased to $4,804,299 for the three months ended December 31, 2003 as compared to $4,405,182 for the three months ended December 31, 2002. Cost of sales decreased as a percentage of sales to 70% for the three months ended December 31, 2003 from 74% for the three months ended December 31, 2002. The decrease in cost of sales is due to the Company's change in product mix. The Naturally Noni(TM), Naturally Aloe(TM) and Avera Sport(TM) product lines percentage cost of sales for the period from acquistion (October 22, 2003) through December 31, 2003 was approximately 30%.

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

	Three Months Ended December 31,		
	2003	2002	Change
Advertising Expense	$ 110,160	$ 44	$ 110,116
Bad Debt Expense	7,874	6,893	981
Royalty & Commission Expense	35,063	18,929	16,134
Officers Salaries	123,782	162,238	(38,456)
Auto, Travel & Entertainment	172,618	190,059	(17,441)
Office Salaries	264,079	204,710	59,369

Freight Out	73,442	17,798	55,644
Depreciation & Amortization	53,259	82,912	(29,653)
Consulting Fees	93,522	102,017	8,495)
Regulatory Fees	3,750	-0-	3,750
Professional Fees	138,514	39,350	99,164
Other selling and administrative expenses	345,583	205,155	140,428
Paxis Pharmaceuticals, Inc.	1,051,047	-0-	1,051,047
Total	$ 2,472,693	$ 1,030,105	$ 1,442,588

The increase in advertising expense is primarily attributed to the acquisition of the Naturally Noni(TM), Naturally Aloe(TM) and Avera Sport(TM) lines. The decrease in bad debt expense is due to greater emphasis on the Company's credit policies. The increase in royalty and commission expense can be attributed to the sales of the Naturally Noni(TM), Naturally Aloe(TM) and Avera Sport(TM) lines. Office salaries have increased due to the addition of two new sales and marketing employees. The increase in freight charges is due to the increased sales of Naturally Noni(TM), Naturally Aloe(TM) and Avera Sport(TM) lines. Regulatory fees have increased due to the Company's listing on the American Stock Exchange in April of 2003. Professional fees have increased largely due to increased legal fees related to recent acquisitions and to increased auditing and accounting fees related to SEC filings. The Paxis selling and administrative expenses represent the expenditures made by Paxis for the three months ended December 31, 2003. There were no corresponding expenses in 2002 because the Paxis acquisition was completed on July 22, 2003.

Other income [expense] was $157,715 for the three months ended December 31, 2003 as compared to $94,812 for the three months ended December 31, 2002, a decrease of $62,903 This can be attributed to an increase in interest expense of $14,909 due to the assumption of the Bank of America debt of $4,500,000 in the Paxis transaction offset against the increase in interest and investment income of $3,192 due to the increase in cash from the proceeds from the issuance of non-redeemable Convertible Preferred Stock and Warrants on June 25, 2003 and an increase in other income of $74,620.

Inventories

The inventory at December 31, 2003 decreased by $354,861 from the inventory at June 30, 2003. The Company produces products on a purchase order basis. The decrease in inventory is attributable to a decrease in finished goods inventory of approximately $450,000, an increase in raw material inventory of approximately $346,000 and a decrease in work-in-process inventory of approximately $260,000. The decreases in finished goods are due to lower inventory levels in the Company's two subsidiaries that offer distribution sales.

Prepaid Expenses

Prepaid expenses and other current assets increased by $463,111 from June 30, 2003. The increase is primarily attributable to an increase in prepaid insurance

of $150,000, an increase in prepaid commissions of $80,000 and an increase in prepaid supplies in Paxis of $128,000.

Liquidity and Capital Resources

At December 31, 2003 the Company's working capital was $6,371,892, a decrease of $8,432,654 over working capital at June 30, 2003. Cash and cash equivalents were $3,863,875 at December 31, 2003, a decrease of $6,542,515 from June 30, 2003. The Company utilized $3,673,470 and generated $327,320 from operations for the six months ended December 31, 2003 and 2002, respectively.

The primary reasons for the decrease in cash used in operations for the six months ended December 31, 2003 are net loss of approximately $1,100,000, an increase in accounts receivable of approximately $275,000, a decrease in inventories of approximately $350,000, an increase in deposits for inventory of approximately $1,600,000, an advance to Paxis Pharmaceuticals, Inc., a related party of $908,000 and a decrease in accounts payable of approximately $65,000.

The Company utilized $2,932,131 and $236,540 in investing activities for the six months ended December 31, 2003 and 2002, respectively. The Company generated $63,086 and utilized $37,910 from debt financing activities for the six months ended December 31, 2003 and 2002, respectively.

The Company has a $1,000,000 revolving line of credit agreement which bears interest at the prime interest rate and expires on June 10, 2005. At December 31, 2003 there was no balance due under the revolving line of credit. At December 31, 2003 the Company was in compliance with its tangible net worth covenant but not its debt service coverage ratio covenant.

The Company's total annual commitment at December 31, 2003 for the next five years of $4,302,832 consists of obligations under operating leases for facilities and lease agreements for the rental of warehouse equipment, office equipment and automobiles.

Capital Expenditures

The Company's capital expenditures for the six months ended 2003 and 2002 were $2,049,996 and $240,104 respectively. The capital expenditures during these periods are primarily attributable to the purchase of machinery and equipment.

The Company has budgeted approximately $400,000 for capital expenditures for the remaining six months of fiscal 2004. Such amount includes capital expenditures or approximately $200,000 for the Paxis facility. Such amount will be funded from working capital.

Off-Balance Sheet Arrangements

The Company has no off-balance sheet arrangements.

Item 3.

INTEGRATED BIOPHARMA, INC.

CONTROLS AND PROCEDURES

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

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

Part II: Other Information

INTEGRATED BIOPHARMA, INC.

Item 1: Legal Proceedings

None

Item 2: Changes in Securities

None

Item 3: Defaults Upon Senior Securities

None

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

None

Item 5: Other Information

None

Item 6: Exhibits and Reports on Form 8K

(a) Exhibits

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

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

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

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

(b) Reports on Form 8-K

Current Report on Form 8-K/A filed on October 3, 2003 pursuant to Item 7 (Financial Statements, Pro Forma Financial Statements and Exhibits).

Current Report of Form 8-K filed on November 6, 2003 pursuant to Item 2 (Acquisition or Disposition of Assets), Item 5 (Other Events), and Item 7 (Financial Statements, Pro Forma Financial Statements and Exhibits).

Current Report on Form 8-K filed on November 17, 2003 pursuant to Item 7 (Financial Statements and Exhibits) and Item 9 (Regulation FD Disclosure).

SIGNATURES

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

INTEGRATED BIOPHARMA, INC.

Date: February 13, 2004

By: /s/ E. Gerald Kay

E. Gerald Kay
Chief Executive Officer

Date: February 13, 2004

By: /s/ Eric Friedman

Eric Friedman,
Chief Financial Officer

Exhibit 31.1

Certification of Chief Executive Officer

Pursuant to Rules 13a-14 and 15d-14 of the Securities Exchange Act,
As Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

I, E. Gerald Kay, certify that:

1. I have reviewed this report on Form 10-QSB of Integrated BioPharma, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the small business issuer as of, and for, the periods presented in this report;
4. The small business issuer's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the small business issuer and we have:

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

    b) evaluated the effectiveness of the small business issuer's disclosure controls and procedures as of a date within 45 days prior to the filing date of this quarterly report (the "Evaluation Date"); and

    c) presented in this report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date.

5. The small business issuer's other certifying officer and I have disclosed, based on our most recent evaluation, to the small business issuer's auditors and the audit committee of the small business issuer's board of directors (or persons performing the equivalent functions):

    a) all significant deficiencies in the design or operation of internal controls which could adversely affect the small business issuer's ability to record, process, summarize and report financial data and have identified for the small business issuer's auditors any material weaknesses in internal controls; and

    b) any fraud, whether or not material, that involves management or other employees who have a significant role in the small business issuer's internal control over financial reporting; and

6. The small business issuer's other certifying officer and I have indicated in this report whether or not there were significant changes

in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: February 13, 2004

By:/s/ E. Gerald Kay

Name: E. Gerald Kay
Title: Chief Executive Officer

Exhibit 31.2

Certification of Chief Financial Officer

Pursuant to Rules 13a-14 and 15d-14 of the Securities Exchange Act,
As Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

I, Eric Friedman, certify that:

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

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

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

4. The small business issuer's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the small business issuer and we have:

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

    b) evaluated the effectiveness of the small business issuer's disclosure controls and procedures as of a date within 45 days prior to the filing date of this report (the "Evaluation Date"); and

    c) presented in this report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date.

5. The small business issuer's other certifying officer and I have disclosed, based on our most recent evaluation, to the small business

issuer's auditors and the audit committee of small business issuer's board of directors (or persons performing the equivalent function):

a) all significant deficiencies in the design or operation of internal controls which could adversely affect the small business issuer's ability to record, process, summarize and report financial data and have identified for the small business issuer's auditors any material weaknesses in internal controls; and

b) any fraud, whether or not material, that involves management or other employees who have a significant role in the small business issuer's internal control over financial reporting; and

6. The small business issuer's other certifying officer and I have indicated in this report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: February 13, 2004

By:/s/ Eric Friedman

Name: Eric Friedman
Title: Vice President & Chief Financial Officer

Exhibit 32.1

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

I, E. Gerald Kay, the Chief Executive Officer of Integrated BioPharma, Inc. (the "Company"), certify, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. Section 1350, that:

(1) the Quarterly Report on Form 10-QSB of the Company for the quarterly period ended December 31, 2003 (the "Report") fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 (15 U.S.C. 78m or 78o(d)); and

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

Dated: February 13, 2004

By:/s/ E. Gerald Kay

E. Gerald Kay
Chief Executive Officer

Exhibit 32.2

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

I, Eric Friedman, the Vice President and Chief Financial Officer of Integrated BioPharma, Inc. (the "Company"), certify, pursuant to Section 906 of the Sarbanes-Oxley Act of 2003, 18 U.S.C. Section 1350, that:

(1) the Quarterly Report on Form 10-QSB of the Company for the quarterly period ended December 31, 2003 (the "Report") fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 (15 U.S.C. 78m or 78o(d)); and

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

Dated: February 13, 2004

By:/s/ Eric Friedman

Eric Friedman
Vice President and Chief Financial Officer