INTEGRATED BIOPHARMA INC
Form 10QSB
February 14, 2005

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-QSB

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

For the fiscal quarter ended December 31, 2004 Commission file number: 000-28876

INTEGRATED BIOPHARMA, INC.

(Exact name of small business issuer 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)

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

The number of shares outstanding of the issuer' s Common Stock as of January 31, 2005 was 12,615,690 shares.

INTEGRATED BIOPHARMA, INC.

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Report of Independent Registered Public Accounting Firm

We have reviewed the accompanying consolidated balance sheets of Integrated BioPharma, Inc. and Subsidiaries as of December 31, 2004 and for the six-month periods then ended. This interim financial information is the responsibility of the Company's management.

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

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

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

February 4, 2005
Edison, New Jersey

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Part 1-FINANCIAL INFORMATION

Item 1. Financial Statements

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

Assets:	
Current Assets:	
Cash and Cash Equivalents	$ 2,025,868
Accounts Receivable - Net	3,755,148
Inventories-Net	8,390,208
Prepaid Expenses and Other Current Assets	1,069,905
Other Assets	285,638
Deferred Income Taxes	83,000
Total Current Assets	15,609,767
Property and Equipment - Net	7,546,383
Other Assets:	
Goodwill	688,138
Intangible Assets, Net	3,950,732
Investment in Joint Venture	121,388
Deferred Tax Asset	71,000
Security Deposits and Other Assets	246,547
Total Other Assets	5,077,805
Total Assets	$28,233,955

See accompanying notes to condensed consolidated financial statements.

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

Liabilities and Stockholders' Equity:	
Current Liabilities:	
Note Payable-Bank	$ 4,500,000
Accounts Payable	2,256,551
Accrued Expenses and Other Current Liabilities	856,617
Federal and State Income Taxes Payable	28,703
Capital Lease Obligation	1,586
Loan Payable-Trade Investment Services, LLC, related party	172,260
Total Current Liabilities	7,815,717
Commitments and Contingencies (See Note 12)	--
Series B 7% Redeemable Convertible Preferred Stock net of beneficial conversion Feature, warrants issued and issuance costs - $.002 Par Value; 1,250 shares Authorized; 700 shares issued and outstanding - Liquidation Preference of $ 7,000,000	1,626,000
Minority interest	370,986
Stockholders' Equity:	
Preferred Stock - Authorized 1,000,000 Shares, $.002 Par Value, No Shares Issued	--
Common Stock - Authorized 25,000,000 Shares, $.002 Par Value, 12,605,690 Shares Issued and Outstanding	25,211
Additional Paid-in-Capital	28,231,412
Accumulated Deficit	(9,736,032)
Less, Treasury Stock at cost, 34,900 shares	(99,339)
Total Stockholders' Equity	18,421,252
Total Liabilities and Stockholders' Equity	$ 28,233,955

See accompanying notes to condensed consolidated financial statements.

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

	Three Months Ended December 31,		Six Months Decemb
	2004	2003	2004

Sales	$ 6,419,508	$ 6,849,826	$ 12,535,544
Cost of Sales	5,867,380	4,804,299	11,466,891
Gross Profit	552,128	2,045,527	1,068,653
Selling and Administrative Expenses			
Paxis Pharmaceuticals, Inc. Start Up Costs	--	1,051,047	--
Selling and Administrative Expenses	3,110,346	1,421,646	5,413,283
Total Selling and Administrative Expenses	3,110,346	2,472,693	5,413,283
Operating [Loss]	(2,558,218)	(427,166)	(4,344,630)
Other Income [Expense]:			
Other Income	30,098	156,659	74,098
Interest Expense	(39,853)	(16,489)	(73,552)
Interest and Investment Income	15,088	17,545	39,334
Total Other Income	5,333	157,715	39,880
[Loss] Before Income Taxes and minority interest	(2,552,885)	(269,451)	(4,304,750)
Federal and State Income Tax [Benefit]	(22,620)	97,300	(22,873)
Net [Loss] before minority interest	(2,530,265)	(366,751)	(4,281,877)
Minority interest in income of consolidated subsidiary	(20,986)	--	(20,986)
Net [Loss]	(2,551,251)	(366,751)	(4,302,863)
Accretion of Preferred Stock Dividends	--	(95,000)	--
Deemed dividend from beneficial conversion feature of Series B Preferred Stock	(583,000)	--	(1,166,000)
Series B Preferred Stock Dividend	(123,507)	--	(247,014)
Net [Loss] applicable to common shareholders	$ (3,257,758)	$ (461,751)	$ (5,715,877)
Net [Loss] Income Per Common Share:			
Basic	$ (.26)	$ (.04)	$ (.46)
Diluted	$ (.26)	$ (.04)	$ (.46)
Average Common Shares Outstanding	12,570,124	10,521,942	12,555,560
Dilutive Potential Common Shares:			
Warrants and Options	--	--	--

Average Common Shares Outstanding-assuming dilution	12,570,124	10,521,942	12,555,560

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, 2004
[UNAUDITED]

	Common Stock Shares	Common Stock Par Value	Preferred Stock	Convertible Preferred Stock	Additional Paid-In Capital	(Accumulated Deficit)
Balance - July 1, 2004	12,510,690	$25,021	$ --	$ --	$27,961,003	$(4,020,155)
Exercise of Stock Options For cash	68,000	136			84,163	
Issuance of Common Stock for consulting fees	27,000	54			186,246	
Deemed dividend from beneficial conversion feature of Series B Preferred Stock						(1,166,000)
Dividends Paid on Series B Preferred Stock						(247,014)
Stock Repurchase Plan						
Net Loss for the six months ended December 31, 2004						(4,302,863)
Balance- December 31, 2004	12,605,690	$25,211	$ --	$ --	$28,231,412	$(9,736,032)

See accompanying notes to condensed consolidated financial statements.

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

	Six months ended December 31, 2004	Six months ended December 31, 2003
Operating Activities:		
Net [Loss]	$ (4,302,863)	$ (1,123,046)
Adjustments to Reconcile Net (Loss) to Net Cash [Used for] Provided by Operating Activities:		
Depreciation and Amortization	739,166	226,080
Deferred Income Taxes	(25,000)	(3,000)
Allowance for Inventory	5,000	5,000
Bad Debt Expense	5,000	5,000
Issuance of Common Stock for consulting services	186,300	--
Minority Interest	20,986	--
Changes in Assets and Liabilities:		
[Increase] Decrease in:		
Refundable Federal Income Taxes	--	(14,640)
Accounts Receivable	(1,334,794)	(275,291)
Inventories	(1,246,408)	349,861
Deposit for Inventory	--	(1,608,230)
Due From Paxis Pharmaceuticals, Inc. - Related Party	--	(908,000)
Prepaid Expenses and Other Current Assets	(150,424)	(463,111)
Security Deposits and Other Assets	(13,567)	105,016
[Decrease] Increase in:		
Accounts Payable	319,518	63,885
Federal and State Income Taxes Payable	(46,822)	6,606
Accrued Expenses and Other Liabilities	144,704	50,400
Total Adjustments	(1,396,341)	(2,460,424)
Net Cash - Operating Activities	(5,699,204)	(3,583,470)
Investing Activities:		
Purchase of Intangible Assets	(270,000)	(275,000)
Investment in Joint Venture	(25,366)	(123,879)
License Fee	--	(90,000)
Goodwill	--	(483,256)
Purchase of Property and Equipment	(1,276,316)	(2,049,996)
Net Cash-Investing Activities	(1,571,682)	(3,022,131)

Financing Activities:		
Proceeds from Exercise of Stock Options	84,299	96,710
Dividends Paid	(247,014)	--
Treasury Stock	(70,508)	--
Proceeds from Notes Payable	--	36,525
Repayment of Notes Payable	(18,069)	(70,149)
Net Cash-Financing Activities	(251,292)	63,086
Net [Decrease] in Cash and Cash Equivalents	(7,522,178)	(6,542,515)
Cash and Cash Equivalents - Beginning of Periods	9,548,046	10,406,390
Cash and Cash Equivalents - End of Periods	$ 2,025,868	$ 3,863,875

See accompanying notes to condensed consolidated financial statements.

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

	Six months ended December 31, 2004	2003
Supplemental Disclosures of Cash Flow Information:		
Cash paid during the periods for:		
Interest	$ 82,944	$ 30,839
Income Taxes	$ 43,173	$ 85,376

See accompanying notes to condensed consolidated financial statements.

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

[1] Business

Basis of Reporting - The accompanying unaudited interim financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions to Form 10-QSB and Item 310(b) of Regulation S-B. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, such interim

statements include all adjustments, which are considered necessary in order to make the interim financial statements not misleading. It is suggested that these financial statements be read in conjunction with the financial statements and notes thereto, together with management's discussion and analysis of financial condition and results of operations, contained in the Company's annual report to stockholders incorporated by reference in the Company's annual report on Form 10-KSB for the fiscal year ended June 30, 2004. The results of operations for the six months ended December 31, 2004 are not necessarily indicative of the results for the entire fiscal year ending June 30, 2005.

Integrated BioPharma, Inc. (the "Company") is engaged primarily in the manufacturing, marketing and sales of vitamins, nutritional supplements and herbal products; the manufacture and distribution of Paclitaxel, which is the primary chemotherapeutic agent in the treatment of breast cancer; and technical services through its recently acquired contract research organization, InB: Hauser Pharmaceutical Services, Inc.("Hauser CRO"). The Company's customers are located primarily throughout the United States.

Paxis Pharmaceuticals, Inc. completed setting up its manufacturing facilities prior to the end of fiscal 2004. The operating results of Paxis for the six months ended December 31, 2004 have been included in the consolidated sales, gross profit and selling and administrative expenses. Because the Paxis subsidiary was a start up operation for the six months ended December 31, 2003, the start up expenses were shown separately for the comparative period.

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

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

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

[2] Summary of Significant Accounting Policies

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

Fair Value of Financial Instruments

Generally accepted accounting principles require disclosing the fair value of financial instruments to the extent practicable for financial instruments which are recognized or unrecognized in the balance sheet. The fair value of the

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

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[2] Summary of Significant Accounting Policies [Continued]

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 $595,247 and $206,080 for the six months ended December 31, 2004 and 2003, respectively.

Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts 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 believes that recognizing revenue at shipment is appropriate because the Company's sales policies meet the four criteria of SAB 101, which are: (i) persuasive evidence that an arrangement exists, (ii) delivery has occurred, (iii) the seller's price to the buyer is fixed and determinable and (iv) collectability is reasonably assured. The Company's sales policy is to require customers to provide purchase orders establishing selling prices and shipping terms, which are F.O.B shipping point with the title and risk of loss passing to the customer at point of shipment. The Company evaluates the credit risk of each customer and establishes an allowance of doubtful accounts for any credit risk. Sales returns and allowances are estimated upon

shipment.The Company recognizes income in its Contract Research Organization upon monthly customer invoicing. The invoice amount is based upon on time and materials spent in the month.

The Company realized fee income from managing warehouse and office operations for an unrelated company of $70,000 and $120,000 for the six months ended December 31, 2004 and 2003, respectively. Such amounts are included in "Other income."

Investment in Joint Venture - Paxis entered into a joint venture as of July 16, 2003 with Chatham Biotec, Ltd. ("Chatham"), a Canadian company which harvests and dries biomass, to form a Canadian-based joint venture to produce extract and intermediate precursor Paclitaxel from Canadian Taxus biomass. Chatham supplies

[2] Summary of Significant Accounting Policies [Continued]

the Canadian bio-mass and the joint venture processes it, using Paxis' extraction expertise in a facility currently controlled by the joint venture. The joint venture supplies Paxis' requirements for extract at cost, from which Paxis produces its Paclitaxel and related products. The joint venture may sell extract and intermediate products to third parties. The Company has a 50% interest in this joint venture. The management agreement provides for profits and losses to be allocated based on the Company's 50% interest. As of December 31, 2004, the $121,388 represents the Company's investment. The Company can give no assurance that the joint venture can be operated successfully. The investment in the joint venture is reflected using the equity method. The results of operations were not significant for the six months ended December 31, 2004.

Goodwill and Other Intangible Assets - The Financial Accounting Standards Board ("FASB") has issued Statement of Financial Accounting Standards No. 142 ("SFAS 142"), "Goodwill and Other Intangible Assets." SFAS 142 requires that goodwill and intangible assets with indefinite lives no longer be amortized against earnings, but instead tested for impairment at least annually based on a fair-value approach as described in SFAS 142. The Company performed the annual test as of May 13, 2004, and determined that there were no indications of goodwill impairment.

Intangible assets with finite lives are amortized over their estimated useful lives. The useful life of an intangible asset is the period over which the asset is expected to contribute directly or indirectly to future cash flows. The carrying value of intangible assets with finite lives is evaluated whenever events or circumstances indicate that the carrying value may not be recoverable. The carrying value is not recoverable when the projected undiscounted future cash flows are less than the carrying value. Tests for impairment or recoverability require significant management judgment, and future events affecting cash flows and market conditions could result in impairment losses. As of December 31, 2004, the Company believes that there is no impairment to goodwill.

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

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

Advertising - Costs incurred for producing and communicating advertising are expensed when incurred. Advertising expense was $454,589 and $127,210 for the six months ended December 31, 2004 and 2003, respectively.

Stock-Based Compensation - The Company has adopted the disclosure-only provisions of SFAS No.148, "Accounting for Stock-Based Compensation." Accordingly, no compensation cost has been recognized for the stock option plan because the exercise price of employee stock options equals the market prices of the underlying stock on the date of grant. Had compensation cost been determined based on the fair value at the grant date for awards in the six months ended December 31, 2004 and 2003, respectively, consistent with the provision of SFAS No. 123, the Company's net income and earnings per share would have been reduced to the pro forma amounts indicated below.

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[2] Summary of Significant Accounting Policies [Continued]

	Six months ended December 31, 2004	Six months ended December 31, 2003
Net (loss), income available to common stockholders, as reported	$ (4,302,863)	$ (1,123,046)
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	(803,335)	(1,542,101)
Pro forma net (loss) income available to common stockholders	$ (5,106,198)	$ (2,665,147)
Earnings per share:		
Basic-as reported	$ (0.46)	$ (0.13)
Basic-pro forma	$ (0.41)	$ (0.26)
Diluted-as reported	$ (0.46)	$ (0.13)
Diluted-pro forma	$ (0.41)	$ (0.26)

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Earnings Per Share - In accordance with FASB Statement No. 128, "Earnings Per Share," basic earnings per common share are based on weighted average number of common shares outstanding. Diluted earnings per share amounts are based on the weighted average number of common shares outstanding, plus the incremental shares that would have been outstanding upon the assumed exercise of all potentially dilutive stock options, warrants and convertible preferred stock, subject to antidilution limitations.

As of December 31, 2004, options and warrants with exercise prices below average market price in the amount of 4,852,595 shares and Convertible Series B Preferred Stock in the amount of 7,000,000 shares were not included in the computation of diluted earnings per share as they are antidilutive as a result of net losses during the periods presented.

As of December 31, 2004, options and warrants to purchase 1,388,666 shares of common stock were outstanding but were not included in the computation of diluted earnings per share because their exercise price was greater that the average market price of the common shares.

[3] Goodwill and other Intangible Assets

In accordance with SFAS No. 142, goodwill is not amortized. The Company completed its annual impairment test prescribed by SFAS 142 at May 13, 2004 and concluded that no impairment of goodwill existed.

At December 31, 2004, goodwill consisted of:

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

[3] Goodwill and other Intangible Assets [Continued]

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

	Gross Carrying Amount	Accumulated Amortization	Net
Intellectual Property	$ 1,597,455	$ 157,452	$ 1,440,003
License Fee	90,000	13,500	76,500
Trade Names	1,508,000	87,967	1,420,033
Unpatented Technology	547,000	119,999	427,001
License Agreement	611,730	24,535	587,195
Total	$ 4,354,185	$ 403,453	$ 3,950,732

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Amortization expense recorded on the intangible assets for the six months ended December 31, 2004 and 2003 was $143,253 and $20,000 respectively. Amortization expense is recorded on the straight line method of periods ranging from 10 years to 20 years.

The estimated annual amortization expense for intangible assets for the five succeeding twelve months is as follows:

December 31,	Amortization Expense
2005	$ 331,649
2006	331,649
2007	331,649
2008	331,649
2009	331,649
Thereafter	2,292,487
Total	$3,950,732

The Company records impairment losses on other intangible assets when events and circumstances indicate that such assets might be impaired and the estimated fair value of the asset is less than its recorded amount in accordance with SFAS No 144, "Accounting for the Impairment or Disposal of Long-Lived Assets." The Company reviews the value of its long-lived assets for impairment whenever events or changes in business circumstances indicate that the carrying amount of the assets may not be fully recoverable or that the useful lives of these assets are no longer appropriate. Conditions that would necessitate an impairment assessment include material adverse changes in operations, significant adverse differences in actual results in comparison with initial valuation forecasts prepared at the time of acquisition, a decision to abandon certain acquired products, services or marketplaces, or other significant adverse changes that would indicate the carrying amount of the recorded asset might not be recoverable.

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[4] Inventories

Inventories consist of the following at December 31, 2004:

Raw Materials	$ 4,163,456
Work-in-Process	1,416,585
Finished Goods	2,810,167
Total	$ 8,390,208

[5] Property and Equipment

Property and equipment comprise the following at December 31, 2004:

Land and Building	$ 1,250,000
Leasehold Improvements	2,133,845
Machinery and Equipment	8,284,195
Machinery and Equipment Under Capital Leases	162,827
Transportation Equipment	37,714
Total	11,868,581
Less: Accumulated Depreciation and Amortization	4,322,198
Total	$ 7,546,383

[6] Notes Payable

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

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 based on 1.25% over the current LIBOR rate. The loan was due on September 4, 2004 and subsequently has been renewed through September 2005. The loan is guaranteed by Mr. Carl DeSantis, a shareholder and director of the Company. At December 31, 2004, the interest rate was 3.67%.

[7] 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%.

[8] Research and Development Expense

Research and development costs are expenses as incurred. The Company incurred $ 127,934 and $37,583 for the six months ended December 31, 2004 and 2003, respectively. Such costs are included in selling and administrative expenses.

[9] Capital Lease

The Company acquired laboratory equipment under the provisions of a short-term lease. The lease expired in December 2004. The equipment under the capital lease as of December 31, 2004 has a cost of $36,525 and accumulated depreciation of $12,304 with a net book value of $24,221.

[9] Capital Lease [Continued]

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

Total Minimum Lease Payments	$ 1,618
Amount Representing Interest	(32)

Present Value of Net Minimum Lease Payment	1,586
Current Portion	(1,586)
Long-Term Capital Lease Obligation	$ -0-

[10] 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, 2004 the Company's uninsured cash balances totaled approximately $992,077. 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, 2004 is $47,613.

[11] Major Customer

For the six months ended December 31, 2004 and 2003, approximately 39% and 67% of revenues were derived from one customer. The loss of this customer would have an adverse effect on the Company's operations. One other customer accounted for 26% of consolidated sales for the six months ended December 31, 2004 and two other customers accounted for 11% of consolidated sales for the six months ended December 31, 2003. Accounts receivable from these customers comprised approximately 41% and 67% of total accounts receivable at December 31, 2004 and 2003, respectively.

[12] 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 $323,559 through May 31, 2015 plus increases in real estate taxes and building operating expenses. On July 1, 2004 the Company leased an additional 24,810 square feet of warehouse space on a month-to-month basis. Rent expense for the six months ended December 31, 2004 and 2003 on this lease was approximately $378,000 and $235,000, respectively, and is included in both manufacturing and selling and administrative expenses.

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
[UNAUDITED]

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[12] Commitments and Contingencies [Continued]

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, 2004 and 2003 was $182,040 and $150,471, respectively, and is included in manufacturing expense.

The Company leases warehouse and office facilities through March 31, 2006. The lease was effective on March 6, 2004 and provides for a minimum monthly rental of $5,925 in year one and $6,133 in year two.

The Company leases office space through September 30, 2005. The lease was effective on June 1, 2004, and provides for a minimum monthly rental of $2,248.

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

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

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

December 31,	Lease Commitment	Related Party Lease Commitment	Total
2005	$ 427,338	$ 323,559	$ 750,897
2006	125,662	323,559	449,221
2007	11,502	323,559	335,061
2008	8,400	323,559	331,959
2009	6,300	323,559	329,859
Thereafter	--	1,802,612	1,802,612
Total	$ 579,202	$3,420,407	$3,999,609

Total rent expense, including real estate taxes and maintenance charges, was approximately $759,000 and $446,000 for the six months ended December 31, 2004 and 2003, respectively. Rent expense is stated net of sublease income of approximately $1,200 and $5,700 for the six months ended December 31, 2004 and 2003, respectively.

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

[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. The agreement was renewed through December 31, 2006. The agreement provides that Herbalife is required to purchase a minimum quantity of Supplied Products each year for the term of the agreement in order to be eligible for rebate incentives. If Herbalife purchases the minimum amount, then Herbalife will be entitled to certain rebates of an amount not exceeding $300,000 per year. For the six months ended December 31, 2004, there

were no rebates due.

[C] Consultant Agreement- On October 20, 2003, the Company entered into a one year consultant agreement with an investor relations consultant. The Company paid $80,000 over the length of the agreement. In addition, the Company will issue to the consultant 36,000 shares of common stock. On July 13, 2004 the Company terminated the agreement. Under the terms of the termination agreement, the Company will not be obligated to pay the $10,000 per month fee

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[12] Commitments and Contingencies [Continued]

after July 15, 2004. Additionally the Company will issue to the consultant 27,000 shares of common stock valued at the fair market price on the date of issuance in lieu of the original 36,000 shares. The 27,000 shares of common stock were valued at $186,300 and is included in consulting fee expense.

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

[13] 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, 2004 and 2003 was $6,600 respectively.

The second agreement is with EVJ, LLC a limited liability company controlled by Robert Kay, a director of the Company. The total consulting expense under this agreement was $90,000 for the six months ended December 31, 2004 and was $75,000 for the five months ended December 31, 2003.

[14] New Accounting Pronouncements

In January 2003, the FASB issued FIN 46, "Consolidation of Variable Interest Entities," as revised in December 2003 (FIN 46R) which is effective for the first reporting period that ends after December 15, 2004. This interpretation changes the method of determining whether certain entities should be included in the Company's consolidated financial statements. An entity is subject to FIN 46 and is called a variable interest entity ("VIE") if it has (1) equity that is insufficient to permit the entity to finance its activities without 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 has determined that there is no impact from the adoption of this statement.

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. The Company has determined that there is no impact from the adoption of this statement.

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

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[14] New Accounting Pronouncements [Continued]

In June 2004, the Emerging Issues Task Force ("EITF") issued EITF No. 03-01, "The Meaning of Other-Than-Temporary Impairment and its Application to Certain Investments" ("EITF 03-01"). EITF 03-01 includes new guidance for evaluating and recording impairment losses on debt and equity investments, as well as new disclosure requirements for investments that are deemed to be temporarily impaired. The accounting guidance of EITF 03-01 is effective for reporting periods beginning after June 15, 2004, while the disclosure requirements for debt and equity securities accounted for under SFAS 115, Accounting for Certain Investments in Debt and Equity Securities, are effective for annual periods ending after December 15, 2003. Adoption of EITF 03-01 will not have a material impact on the Company's consolidated financial position or results of operations.

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

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

any future share-based payment transactions will have on our financial position or results of operations.

[15] Equity Transactions

[A] Stock Option Plan and Warrants - On September 21, 2004, the Company granted 95,238 incentive stock options and 657,262 non-statutory stock options for a period of ten years at an exercise price equal to the market price of $6.30 and 14,430 incentive stock options for a term of five years at $6.93 representing 110% of the market price and 110,570 non-statutory stock options for a period of ten years at $6.93 representing 110% of the market price.

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

[16] Segment Information

The basis for presenting segment results generally is consistent with overall Company reporting. The Company reports information about its operating segments in accordance with Financial Accounting Standard Board Statement No. 131, "Disclosure About Segments of an Enterprise and Related Information," which establishes standards for reporting information about a company's operating segments.

The Company has divided its operations into three reportable segments as follows: Sales of vitamins and nutritional supplements, sales of its pharmaceutical drug Paclitaxel and sales of technical services through its CRO. Because Paxis Pharmaceuticals, Inc. was not acquired until fiscal 2004, the Company operated one business segment in fiscal 2003. The international sales for the six months ended December 31, 2004 were $2,253,957.

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[16] Segment Information [Continued]

Financial information relating to the six months ending December 31, 2004 operations by business segment follows:

	Nutraceutical	Pharmaceutical	Technical Services	Total
Sales				
U.S. Customers	$ 9,366,088	$ 605,005	$ 310,494	$ 10,281,587
International	2,253,957	--	--	2,253,957
Total Revenues	11,620,045	605,005	310,494	12,535,544
Segment operating profit/(loss)	(1,318,689)	(2,388,053)	(637,888)	(4,344,630)
Depreciation	213,510	343,548	38,189	595,247
Capital Expenditures	28,831	314,256	932,147	1,275,234
Total assets	18,138,345	8,057,667	2,037,943	28,233,955

[17] Subsequent Events

Litigation - On February 7, 2005, the Company received a $2.5 million cash payment in connection with a multi district class action brought on behalf of direct purchasers of vitamin products, in which the plaintiffs have alleged violations of Section 1 of the Sherman Antitrust Act and other wrongful anti-competitive conduct in violation of various federal and state laws. The first settlement payment was received in January of 2000.

Item 2.

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

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

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

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

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

Results of Operations

Six months ended December 31, 2004
Compared to six months ended December 31, 2003

The Company's net loss for the six months ended December 31, 2004 was $(4,302,863) as compared to net loss of $(1,123,046) for the six months ended December 31, 2003. This increase in net loss of approximately $3,180,000 is primarily the result of a decrease in gross profit of approximately $2,000,000, an increase in selling and administrative expenses of approximately $1,100,000 including the Paxis Pharmaceuticals, Inc start up costs, a decrease in other income of approximately $200,000, and a decrease in federal income and state income taxes of approximately $97,000.

Sales for the six months ended December 31, 2004 and 2003 were $12,535,544 and $11,829,832, respectively, an increase of approximately $700,000 or 6%. Gross

profit for the six months ended December 31, 2004 was $1,994,200 lower than gross profit for the six months ended December 31, 2003. This decrease in gross profit is attributable to the inclusion of Paxis Pharmaceuticals manufacturing expenses. Exclusive of the Paxis subsidiary, the gross profit percentage for the six months ended December 31, 2004 was 24% as compared to 26% for the six months ended December 31, 2003. For the six months ended December 31, 2004, the Company had sales to one customer, who accounted for 39% of net sales in 2004 and 69% in 2003. The loss of this customer would have an adverse affect on the Company's operations.

Manufacturing sales for the six months ended December 31, 2004 and 2003 were $9,728,323 and $10,275,488, respectively, a decrease of $547,165 or 5%.

The Company has an agreement with DSM Nutritional Products, Inc. (a successor to Roche Vitamins, Inc.). Sales under this agreement were $1,081,393 for the six months ended December 31, 2004 as compared to $1,020,561 for the six months ended December 31, 2003, an increase of $60,832 or 6%.

The Company offers distribution and sale of fine chemicals through a subsidiary, IHT Health Products, Inc. Sales for the six months ended December 31, 2004 totaled $490,283 as compared to $536,078 for the six months ended December 31, 2003, a decrease of $45,795 or 9%.

On September 16, 2004 the Company completed the purchase of substantially all of the assets of Hauser CRO. Sales for the three months ended December 31, 2004 were $310,494.

Paxis completed setting up its manufacturing facilities and operations and began production in the fourth quarter of 2004. In anticipation of fulfilling orders, Paxis has built up raw material and work in process inventories of approximately $2,600,000. Current orders are being fulfilled on a purchase order basis. Sales for the six months ended December 31, 2004 totaled $605,005.

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MANAGEMENT'S DISCUSSION AND ANALYSIS OR PLAN OF OPERATIONS

Results of Operations [Continued]

Cost of sales increased to $11,466,891 for the six months ended December 31, 2004 as compared to $8,766,979 for the six months ended December 31, 2003. Cost of sales increased as a percentage of sales to 91.5% for the six months ended December 31, 2004 as compared to a 74.1% for the six months ended December 31, 2003. The increase in cost of sales is due to the inclusion of $2,678,280 attributable to both Paxis Pharmaceuticals, Inc. and Hauser CRO. Exclusive of Paxis Pharmaceuticals, Inc. and Hauser CRO, cost of sales would have been 76% for the six months ended December 31, 2004 as compared to 74% for the six months ended December 31, 2003.

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

	Six Months Ended December 31,		
	2004	2003	
Advertising Expense	$ 454,589	$ 127,210	$
Bad Debt Expense	(6,047)	4,842	

Royalty & Commission Expense	110,840	39,621	
Officers Salaries	196,797	247,564	
Auto, Travel & Entertainment	472,507	420,383	
Office Salaries	1,016,899	448,344	
Freight Out	292,046	98,088	
Depreciation & Amortization	270,297	103,011	
Consulting Fees	634,543	172,387	
Regulatory Fees	10,254	14,250	
Professional Fees	473,333	392,455	
Research & Development Expense	127,974	37,583	
Other selling and administrative expenses	1,359,251	578,975	
Paxis Pharmaceuticals, Inc.	--	1,671,354	
Total	$ 5,413,283	$ 4,356,067	$

The increase in advertising expense is due to an increase in print advertising relating to the sales of the Naturally Noni(TM), Naturally Aloe(TM) and Avera Sport(TM) lines. Royalty and commission expense increased as a result of 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 and the inclusion of Paxis salary expenses reflected in the six months. In previous quarters these costs were included in Paxis startup expenses. The increase in freight out can be primarily attributable the sales of the Naturally Noni(TM), Naturally Aloe(TM) and Avera Sport(TM) lines. The increase in depreciation and amortization expenses is a result of the inclusion of Paxis Pharmaceuticals, Inc. Consulting fees have increased as a result of the termination of the agreement made on July 8, 2004, which resulted with the issuance of 27,000 shares of common stock. The increase in research and development expense is attributable to the inclusion of Paxis expenses reflected in the six months.

Other income [expense] was $39,880 for the six months ended December 31, 2004 as compared to $244,296 for the six months ended December 31, 2003, a decrease of $204,416. The decrease is due to a decrease in consulting fee income of $20,000, a decrease in other income of $134,561, a decrease in interest and investment income of $16,468 and an increase in interest expense of approximately $33,000.

MANAGEMENT'S DISCUSSION AND ANALYSIS OR PLAN OF OPERATIONS

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

The Company's net loss for the three months ended December 31, 2004 was $(2,551,251) as compared to net loss of $(366,751) for the three months ended December 31, 2003. This increase in net loss of approximately $2,100,000 is primarily the result of a decrease in gross profit of approximately $1,500,000, an increase in selling and administrative expenses of approximately $600,000 including the Paxis Pharmaceuticals, Inc start up costs, a decrease in other income of approximately $150,000, and a decrease in federal income and state income taxes of approximately $119,000.

Sales for the three months ended December 31, 2004 and 2003 were $6,419,508 and $6,849,826, respectively, a decrease of approximately $430,000 or 6%. Gross profit for the three months ended December 31, 2004 was $1,493,399 lower than gross profit for the three months ended December 31, 2003. This decrease in

gross profit is attributable to the inclusion of Paxis Pharmaceuticals manufacturing expenses. Exclusive of the Paxis subsidiary, the gross profit percentage for the three months ended December 31, 2004 was 21% as compared to 30% for the three months ended December 31, 2003. For the six months ended December 31, 2004, the Company had sales to one customer, who accounted for 39% of net sales in 2004 and 67% in 2003. The loss of this customer would have an adverse affect on the Company's operations.

Manufacturing sales for the three months ended December 31, 2004 and 2003 were $4,577,762 and $6,238,246, respectively, a decrease of $1,660,484 or 27%.

The Company has an agreement with DSM Nutritional Products, Inc. (a successor to Roche Vitamins, Inc.). Sales under this agreement were $548,501 for the three months ended December 31, 2004 as compared to $470,897 for the three months ended December 31, 2003, an increase of $77,604 or 16%.

The Company offers distribution and sale of fine chemicals through a subsidiary, IHT Health Products, Inc. Sales for the three months ended December 31, 2004 totaled $344,805 as compared to $174,226 for the three months ended December 31, 2003, an increase of $170,579 or 98%.

On September 16, 2004 the Company completed the purchase of substantially all of the assets of Hauser CRO. Sales for the three months ended December 31,2004 were $310,494.

Paxis completed setting up its manufacturing facilities and operations and began production in the fourth quarter of 2004. In anticipation of fulfilling orders, Paxis has built up raw material and work in process inventories of approximately $2,600,000. Current orders are being fulfilled on a purchase order basis. Sales for the three months ended December 31, 2004 totaled $393,345.

Cost of sales increased to $5,867,380 for the three months ended December 31, 2004 as compared to $4,804,299 for the three months ended December 31, 2003. Cost of sales increased as a percentage of sales to 91.4% for the three months ended December 31, 2004 as compared to a 70.1% for the three months ended December 31, 2003. The increase in cost of sales is due to the inclusion of $1,512,291 attributable to both Paxis Pharmaceuticals, Inc. and Hauser CRO. Exclusive of Paxis Pharmaceuticals, Inc. and Hauser CRO, cost of sales would have been 76% for the three months ended December 31, 2004 as compared to 70% for the three months ended December 31, 2003.

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MANAGEMENT'S DISCUSSION AND ANALYSIS OR PLAN OF OPERATIONS

Results of Operations [Continued]

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

	Three Months Ended December 31, 2004	Three Months Ended December 31, 2003	
Advertising Expense	$ 253,757	$ 110,160	$
Bad Debt Expense	(3,393)	7,874	
Royalty & Commission Expense	61,003	35,063	
Officers Salaries	98,399	123,728	

Auto, Travel & Entertainment	245,407	172,618	
Office Salaries	461,724	264,079	
Freight Out	154,750	73,442	
Depreciation & Amortization	169,434	53,259	
Consulting Fees	398,826	93,522	
Regulatory Fees	16,496	3,750	
Professional Fees	230,353	138,514	
Research & Development Expense	82,906	--	
Other selling and administrative expenses	940,684	345,583	
Paxis Pharmaceuticals, Inc.	--	1,051,047	
Total	$ 3,110,346	$ 2,472,693	$

The increase in advertising expense is due to an increase in print advertising relating to the sales of the Naturally Noni(TM), Naturally Aloe(TM) and Avera Sport(TM) lines. Royalty and commission expense increased as a result of 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 and the inclusion of Paxis salary expenses reflected in the six months. In previous quarters these costs were included in Paxis startup expenses. The increase in freight out can be primarily attributable the sales of the Naturally Noni(TM), Naturally Aloe(TM) and Avera Sport(TM) lines. The increase in depreciation and amortization expenses is a result of the inclusion of Paxis Pharmaceuticals, Inc. Consulting fees have increased as a result of the termination of the agreement made on July 8, 2004, which resulted with the issuance of 27,000 shares of common stock. The increase in research and development expense is attributable to the inclusion of Paxis expenses reflected in the six months.

Other income [expense] was $5,333 for the three months ended December 31, 2004 as compared to $157,715 for the three months ended December 31, 2003, a decrease of $152,382. The decrease is due to a decrease in other income of $126,561, a decrease in interest and investment income of $2,457 and an increase in interest expense of approximately $23,000.

Inventories

The inventory at December 31, 2004 increased by $1,314,078 from the inventory at June 30, 2004. The increase can be attributable to an increase of the Naturally Noni(TM), Naturally Aloe(TM) and Avera Sport(TM) lines of approximately $240,000, an increase in Manhattan Drug Inc. of approximately $260,000 and the acquisition of the Hauser CRO's inventory of approximately $800,000.

Prepaid Expenses

Prepaid expenses and other current assets increased by $131,614 from June 30, 2004. The increase is attributable to the inclusion of InB: Hauser Pharmaceutical Services, Inc.

MANAGEMENT'S DISCUSSION AND ANALYSIS OR PLAN OF OPERATIONS

Results of Operations [Continued]

Liquidity and Capital Resources

At December 31, 2004 the Company's working capital was $7,794,050, a decrease of

$5,119,611 in working capital from June 30, 2004. Cash and cash equivalents were $2,025,868 at December 31, 2004, a decrease of $7,522,178 from June 30, 2004. The Company utilized $5,699,204 and $3,583,470 from operations for the six months ended December 31, 2004 and 2003, respectively.

The primary reasons for the decrease in cash used in operations for the six months ended December 31, 2004 are net loss of approximately $4,302,863, an increase in accounts receivable of approximately $1,300,000 an increase in inventories of approximately $1,300,000 and an increase in accounts payable of approximately $319,000. Based upon the increase in the Company's vitamin and supplement sales and an increase in its paxlitaxel business the Company anticipates that cash flows from operations and existing cash balances will be sufficient to fund operations through fiscal 2005.

The Company utilized $1,571,682 and $3,022,131 in investing activities for the six months ended December 31, 2004 and 2003, respectively. The Company utilized $251,292 and generated $63,086 from debt financing activities for the six months ended December 31, 2004 and 2003, respectively.

The Company's total annual commitment at December 31, 2004 for the next five years of $3,999,609 consists of obligations under operating leases for facilities and lease agreements for the rental of warehouse equipment, office equipment and automobiles.

Capital Expenditures

The Company's capital expenditures for the six months ended December 31, 2004 and 2003 were $1,276,316 and $2,049,996 respectively. The capital expenditures during these periods are primarily attributable to the purchase of machinery and equipment.

The Company has budgeted approximately $500,000 for capital expenditures for the remaining six months of fiscal 2004. Such amount will be funded from current cash balances.

Off-Balance Sheet Arrangements

The Company has no off-balance sheet arrangements.

Item 3. Controls and Procedures

INTEGRATED BIOPHARMA, INC.

(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

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

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

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

None

Item 3: Defaults Upon Senior Securities

None

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

None

Item 5: Other Information

None

Item 6: Exhibits and Reports on Form 8-K

(a) Exhibits

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

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

32.1 Certification of Periodic Report by Chief Executive Officer

Pursuant to 18 U.S.C Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

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

Part II: Other Information

INTEGRATED BIOPHARMA, INC.

(b) Reports on Form 8-K

Current Report on Form 8-K filed on October 12, 2004 pursuant to Item 7.01 (Regulation FD) and Item 9.01 (Financial Statements and Exhibits).

Current Report on Form 8-K filed on October 22, 2004 pursuant to Item 7.01 (Regulation FD) and Item 9.01 (Financial Statements and Exhibits).

Current Report on Form 8-K filed on November 10, 2004 pursuant to Item 7.01 (Regulation FD) and Item 9.01 (Financial Statements and Exhibits).

Current Report on Form 8-K filed on November 15, 2004 pursuant to Item 7.01 (Regulation FD) and Item 9.01 (Financial Statements and Exhibits).

SIGNATURES

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

INTEGRATED BIOPHARMA, INC.

Date: February 14, 2005

By: /s/ E. Gerald Kay

Chief Executive Officer

Date: February 14, 2005

By: /s/ Eric Friedman

Eric Friedman,
Chief Financial Officer