

INTEGRATED BIOPHARMA INC

Form 10-Q

February 09, 2018

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington D.C. 20549

---

**FORM 10-Q**

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

For the quarterly period ended December 31, 2017

**OR**

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

For the transition period from to

Commission File Number 001-31668

**INTEGRATED BIOPHARMA, INC.**

*(Exact name of registrant, as specified in its charter)*

**Delaware 22-2407475**

*(State or other jurisdiction of (I.R.S. Employer  
incorporation or organization) Identification No.)*

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

**(888)**  
**319-6962**  
(Registrant's  
telephone  
number,  
including  
Area Code)

**Not**  
**Applicable**  
(Former  
name,  
former  
address and  
former  
fiscal year,  
if changed  
since last  
report)

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

Large accelerated  
filer

Accelerated  
filer

Non-accelerated filer

Emerging growth  
company

Smaller reporting  
company

Edgar Filing: INTEGRATED BIOPHARMA INC - Form 10-Q

If an emerging growth company, indicate by check mark is the Registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes ☐ No ☒

**Applicable only to Corporate Issuers:**

The number of shares outstanding of each of the issuer's class of common stock, as of the latest practicable date:

*Class Outstanding at February 9, 2018*

Common

Stock 21,135,174 Shares

\$0.002

par value

---

**INTEGRATED BIOPHARMA, INC. AND SUBSIDIARIES**

**FORM 10-Q QUARTERLY REPORT**

**For the Six Months Ended December 31, 2017**

**INDEX**

|                                      | <b><u>Page</u></b>                                                                                                          |
|--------------------------------------|-----------------------------------------------------------------------------------------------------------------------------|
| <b>Part I. Financial Information</b> |                                                                                                                             |
| Item 1.                              | Condensed Consolidated Statements of Operations for the Three and Six Months Ended December 31, 2017 and 2016 (unaudited) 2 |
|                                      | Condensed Consolidated Balance Sheets as of December 31, 2017 and June 30, 2017 (unaudited) 3                               |
|                                      | Condensed Consolidated Statements of Cash Flows for the Six Months Ended December 31, 2017 and 2016 (unaudited) 4           |
|                                      | Notes to the Condensed Consolidated Financial Statements (unaudited) 5                                                      |
| Item 2.                              | Management's Discussion and Analysis of Financial Condition and Results of Operations 16                                    |
| Item 3.                              | Quantitative and Qualitative Disclosures about Market Risk 24                                                               |
| Item 4.                              | Controls and Procedures 24                                                                                                  |
| <b>Part II. Other Information</b>    |                                                                                                                             |
| Item 1.                              | Legal Proceedings 25                                                                                                        |
| Item 1A.                             | Risk Factors 25                                                                                                             |
| Item 2.                              | Unregistered Sales of Equity Securities and Use of Proceeds 25                                                              |
| Item 3.                              | Defaults Upon Senior Securities 25                                                                                          |
| Item 4.                              | Mine Safety Disclosure 25                                                                                                   |
| Item 5.                              | Other Information 25                                                                                                        |
| Item 6.                              | Exhibits 25                                                                                                                 |

**Other**

Signatures

26

---

### **Cautionary Statement Regarding Forward-Looking Statements**

Certain statements in this Quarterly Report on Form 10-Q may constitute “forward-looking” statements as defined in Section 27A of the Securities Act of 1933, as amended (the “Securities Act”), Section 21E of the Securities Act of 1934, as amended (the “Exchange Act”), the Private Securities Litigation Reform Act of 1995 (the “PSLRA”) or in releases made by the Securities and Exchange Commission (“SEC”), all as may be amended from time to time. Such forward-looking statements involve known and unknown risks, uncertainties and other important factors that could cause the actual results, performance or achievements of Integrated BioPharma, Inc. and its subsidiaries (the “Company”) or industry results, to differ materially from any future results, performance or achievements expressed or implied by such forward-looking statements. Such factors including, among others, changes in general economic and business conditions; loss of market share through competition; introduction of competing products by other companies; the timing of regulatory approval and the introduction of new products by the Company; changes in industry capacity; pressure on prices from competition or from purchasers of the Company's products; regulatory changes in the pharmaceutical manufacturing industry and nutraceutical industry; regulatory obstacles to the introduction of new technologies or products that are important to the Company; availability of qualified personnel; the loss of any significant customers or suppliers; and other factors both referenced and not referenced in the Company's Annual Report on Form 10-K for the fiscal year ended June 30, 2017 (“Form 10-K”), as filed with the SEC. Statements that are not historical fact are forward-looking statements. Forward-looking statements can be identified by, among other things, the use of forward-looking language, such as the words, “plan”, “believe”, “expect”, “anticipate”, “intend”, “estimate”, “project”, “may”, “will”, “would”, “could”, “should”, “seeks”, or “scheduled to”, or other similar words, negative of these terms or other variations of these terms or comparable language, or by discussion of strategy or intentions. These cautionary statements are being made pursuant to the Securities Act, the Exchange Act and the PSLRA with the intention of obtaining the benefits of the “safe harbor” provisions of such laws. The Company cautions investors that any forward-looking statements made by the Company are not guarantees or indicative of future performance. Important assumptions and other important factors that could cause actual results to differ materially from those forward-looking statements with respect to the Company, include, but are not limited to, the risks and uncertainties affecting its businesses described in Item 1 of the Company's Annual Report filed on Form 10-K for the year ended June 30, 2017 and in other securities filings by the Company. Although the Company believes that its plans, intentions and expectations reflected in or suggested by such forward-looking statements are reasonable, actual results could differ materially from a projection or assumption in any of the forward-looking statements. The Company's future financial condition and results of operations, as well as any forward-looking statements, are subject to change and inherent risks and uncertainties. The forward-looking statements contained in this Quarterly Report on Form 10-Q are made only as of the date hereof and the Company does not have or undertake any obligation to update or revise any forward-looking statements whether as a result of new information, subsequent events or otherwise, unless otherwise required by law.

**ITEM 1. FINANCIAL STATEMENTS****INTEGRATED BIOPHARMA, INC. AND SUBSIDIARIES  
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS***(in thousands, except for share and per share amounts)***(Unaudited)**

|                                                                         | <b>Three months ended</b> |             | <b>Six months ended</b> |             |
|-------------------------------------------------------------------------|---------------------------|-------------|-------------------------|-------------|
|                                                                         | <b>December 31,</b>       |             | <b>December 31,</b>     |             |
|                                                                         | <b>2017</b>               | <b>2016</b> | <b>2017</b>             | <b>2016</b> |
| Sales, net                                                              | \$10,800                  | \$12,372    | \$20,570                | \$25,053    |
| Cost of sales                                                           | 9,752                     | 10,902      | 18,517                  | 21,432      |
| Gross profit                                                            | 1,048                     | 1,470       | 2,053                   | 3,621       |
| Selling and administrative expenses                                     | 850                       | 900         | 1,644                   | 1,693       |
| Operating income                                                        | 198                       | 570         | 409                     | 1,928       |
| Other income (expense), net                                             |                           |             |                         |             |
| Interest expense                                                        | (229)                     | ) (227      | ) (462                  | ) (459)     |
| Change in fair value of derivative liabilities                          | 185                       | (364)       | ) 67                    | (731)       |
| Impairment on investment in iBio, Inc.                                  | (168)                     | ) -         | (251)                   | ) -         |
| Other income, net                                                       | 4                         | 15          | 4                       | 31          |
| Other income (expense), net                                             | (208)                     | ) (576      | ) (642                  | ) (1,159)   |
| (Loss) income before income taxes                                       | (10)                      | ) (6        | ) (233                  | ) 769       |
| Income tax expense, net                                                 | 338                       | 71          | 294                     | 197         |
| Net (loss) income                                                       | \$(348)                   | ) \$(77     | ) \$(527                | ) \$572     |
| Basic net (loss) income per common share                                | \$(0.02)                  | ) \$(0.00   | ) \$(0.02               | ) \$0.03    |
| Diluted net (loss) income per common share                              | \$(0.02)                  | ) \$(0.00   | ) \$(0.02               | ) \$0.03    |
| Weighted average common shares outstanding - basic                      | 21,135,174                | 21,106,098  | 21,135,174              | 21,105,636  |
| Add: Equivalent shares outstanding                                      | -                         | -           | -                       | 567,964     |
| Shares issuable upon conversion of Convertible Debt - CD Financial, LLC | -                         | -           | -                       | -           |
| Weighted average common shares outstanding - diluted                    | 21,135,174                | 21,106,098  | 21,135,174              | 21,673,600  |

See accompanying notes to condensed consolidated financial statements.

-2-

---



**INTEGRATED BIOPHARMA, INC. AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED BALANCE SHEETS**  
*(in thousands, except for share and per share amounts)*  
**(Unaudited)**

|                                                                                                                                         | December<br>31,<br>2017 | June 30,<br>2017 |
|-----------------------------------------------------------------------------------------------------------------------------------------|-------------------------|------------------|
| <b>Assets</b>                                                                                                                           |                         |                  |
| <b>Current Assets:</b>                                                                                                                  |                         |                  |
| Cash                                                                                                                                    | \$ 54                   | \$ 132           |
| Accounts receivable, net                                                                                                                | 4,595                   | 4,020            |
| Inventories                                                                                                                             | 8,058                   | 7,645            |
| Other current assets                                                                                                                    | 505                     | 754              |
| <b>Total current assets</b>                                                                                                             | <b>13,212</b>           | <b>12,551</b>    |
| Property and equipment, net                                                                                                             | 1,684                   | 1,601            |
| Deferred tax assets, net                                                                                                                | 576                     | 823              |
| Security deposits and other assets                                                                                                      | 176                     | 221              |
| <b>Total Assets</b>                                                                                                                     | <b>\$ 15,648</b>        | <b>\$ 15,196</b> |
| <b>Liabilities and Stockholders' Deficiency:</b>                                                                                        |                         |                  |
| <b>Current Liabilities:</b>                                                                                                             |                         |                  |
| Advances under revolving credit facility                                                                                                | \$ 4,790                | \$ 4,676         |
| Accounts payable (includes \$77 due to related party)                                                                                   | 5,559                   | 4,177            |
| Accrued expenses and other current liabilities                                                                                          | 1,313                   | 1,184            |
| Current portion of long term debt, net                                                                                                  | 869                     | 1,118            |
| <b>Total current liabilities</b>                                                                                                        | <b>12,531</b>           | <b>11,155</b>    |
| Long term debt, net                                                                                                                     | 3,883                   | 4,246            |
| Subordinated convertible note, net - CD Financial, LLC                                                                                  | 5,245                   | 5,221            |
| Derivative liabilities                                                                                                                  | 436                     | 503              |
| <b>Total liabilities</b>                                                                                                                | <b>22,095</b>           | <b>21,125</b>    |
| <b>Commitments and Contingencies</b>                                                                                                    |                         |                  |
| <b>Stockholders' Deficiency:</b>                                                                                                        |                         |                  |
| Common Stock, \$0.002 par value; 50,000,000 shares authorized;<br>21,170,074 and 21,135,174 shares issued and outstanding, respectively | 42                      | 42               |
| Additional paid-in capital                                                                                                              | 44,768                  | 44,759           |
| Accumulated deficit                                                                                                                     | (51,158 )               | (50,631 )        |
| Less: Treasury stock, at cost, 34,900 shares                                                                                            | (99 )                   | (99 )            |
| <b>Total Stockholders' Deficiency</b>                                                                                                   | <b>(6,447 )</b>         | <b>(5,929 )</b>  |
| <b>Total Liabilities and Stockholders' Deficiency</b>                                                                                   | <b>\$ 15,648</b>        | <b>\$ 15,196</b> |

See accompanying notes to condensed consolidated financial statements.



**INTEGRATED BIOPHARMA, INC. AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**

*(in thousands, except share and per share amounts)*

**(Unaudited)**

|                                                                            | Six months ended<br>December 31, |               |
|----------------------------------------------------------------------------|----------------------------------|---------------|
|                                                                            | 2017                             | 2016          |
| Cash flows from operating activities:                                      |                                  |               |
| Net (loss) income                                                          | \$(527 )                         | \$572         |
| Adjustments to reconcile net income to net cash from operating activities: |                                  |               |
| Depreciation and amortization                                              | 182                              | 202           |
| Accretion of financing instruments and other non-cash interest             | 52                               | 52            |
| Impairment charge on investment in iBio, Inc.                              | 251                              | -             |
| Change in deferred tax assets, net                                         | 247                              | -             |
| Stock based compensation                                                   | 8                                | 26            |
| Change in fair value of derivative liabilities                             | (67 )                            | 731           |
| Gain on sale of fixed assets                                               | (3 )                             | -             |
| Changes in operating assets and liabilities:                               |                                  |               |
| Decrease (increase) in:                                                    |                                  |               |
| Accounts receivable                                                        | (575 )                           | (1,285 )      |
| Inventories                                                                | (413 )                           | (70 )         |
| Other current assets                                                       | (1 )                             | 33            |
| Security deposits and other assets                                         | (19 )                            | (71 )         |
| (Decrease) increase in:                                                    |                                  |               |
| Accounts payable                                                           | 1,379                            | 166           |
| Accrued expenses and other liabilities                                     | 126                              | 191           |
| <b>Net cash provided by operating activities</b>                           | <b>640</b>                       | <b>547</b>    |
| Cash flows from investing activities:                                      |                                  |               |
| Purchase of property and equipment                                         | (210 )                           | (83 )         |
| Cash proceeds from sale of equipment                                       | 4                                | -             |
| <b>Net cash used in investing activities</b>                               | <b>(206 )</b>                    | <b>(83 )</b>  |
| Cash flows from financing activities:                                      |                                  |               |
| Advances under revolving credit facility                                   | 19,673                           | 23,040        |
| Proceeds from sales/lease back of equipment                                | 143                              | -             |
| Repayments of advances under revolving credit facility                     | (19,559)                         | (23,246)      |
| Repayments under term note payables                                        | (669 )                           | (515 )        |
| Repayments under capitalized lease obligations                             | (100 )                           | (72 )         |
| <b>Net cash used in financing activities</b>                               | <b>(512 )</b>                    | <b>(793 )</b> |
| Net decrease in cash                                                       | (78 )                            | (329 )        |
| Cash at beginning of period                                                | 132                              | 395           |
| Cash at end of period                                                      | \$54                             | \$66          |
| <b>Supplemental disclosures of cash flow information:</b>                  |                                  |               |
| Cash paid during the periods for:                                          |                                  |               |
| Interest                                                                   | \$394                            | \$472         |

Income taxes

\$109

\$227

See accompanying notes to condensed consolidated financial statements.

-4-

---

INTEGRATED BIOPHARMA, INC. AND SUBSIDIARIES

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

*(in thousands, except share and per share amounts)*

*(Unaudited)*

***Note 1. Principles of Consolidation and Basis of Presentation***

***Basis of Presentation of Interim Financial Statements***

The accompanying condensed consolidated financial statements for the interim periods are unaudited and include the accounts of Integrated BioPharma, Inc., a Delaware corporation (together with its subsidiaries, the “Company”). The interim condensed consolidated financial statements have been prepared in conformity with Rule 8-03 of Regulation S-X of the Securities and Exchange Commission (“SEC”) and therefore do *not* include information or footnotes necessary for a complete presentation of financial position, results of operations and cash flows in conformity with accounting principles generally accepted in the United States of America. However, all adjustments (consisting only of normal recurring adjustments) which are, in the opinion of management, necessary for a fair presentation of the financial position and operating results for the periods presented have been included. These condensed consolidated financial statements should 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 on Form 10-K for the fiscal year ended *June 30, 2017* (“Form 10-K”), as filed with the SEC. The *June 30, 2017* balance sheet was derived from audited financial statements, but does *not* include all disclosures required by accounting principles generally accepted in the United States of America. The results of operations for the *three* and *six* months ended *December 31, 2017* are *not* necessarily indicative of the results for the full fiscal year ending *June 30, 2018* or for any other period.

***Nature of Operations***

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

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

### ***Significant Accounting Policies***

In July 2015, the Financial Accounting Standards Board issued ASU No. 2015-11, Simplifying the Measurement of Inventory (Topic 330), an accounting standard that requires inventory be measured at the lower of cost and net realizable value and options that currently exist for market value be eliminated. The standard defines net realizable value as estimated selling prices in the ordinary course of business, less reasonably predictable costs of completion, disposal, and transportation. This new guidance was effective for the Company on July 1, 2017. There was no impact on the Company's condensed consolidated financial statements as the result of the adoption of this ASU.

INTEGRATED BIOPHARMA, INC. AND SUBSIDIARIES

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

*(in thousands, except share and per share amounts)*

*(Unaudited)*

Aside from the adoption of ASU No. 2015-11, as described above, there have been *no* material changes during fiscal year 2018 in the Company's significant accounting policies to those previously disclosed in the Company's Annual Report on Form 10-K for the fiscal year ended *June 30, 2017*.

***Investment in iBio, Inc.*** The Company accounts for its investment in iBio, Inc. ("iBio") common stock on the cost basis as it retained approximately 6% of its interest in iBio (1,266,706 common shares) (the "iBio Stock") at the time of the spin-off of this subsidiary in *August 2008*. The Company reviews its investment in iBio for impairment and records a loss when there is deemed to be a permanent impairment of the investment. To date, there were cumulative impairment charges of approximately \$2,454. The market value of the iBio Stock as of *December 31, 2017* was approximately \$215 based on the trade price at the close of trading on *December 31, 2017*. The investment in iBio, Inc. is included in other current assets in the accompanying Condensed Consolidated Balance Sheet.

Pursuant to the Company's Loan Agreement with PNC Bank, National Association ("PNC"), as amended on *February 19, 2016*, all the net proceeds from the sale of any of the iBio Stock is to be used to prepay the outstanding principal of the term loan outstanding under the Amended Loan Agreement. (See Note 4. Senior Credit Facility, Subordinated Convertible Note, net - CD Financial, LLC and other Long Term Debt).

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

The following options and potentially dilutive shares for convertible notes payable (see Note 4. Senior Credit Facility, Subordinated Convertible Note, net - CD Financial, LLC and other Long Term Debt) were *not* included in the computation of weighted average diluted common shares outstanding as the effect of doing so would be anti-dilutive for the *three* and *six* months ended *December 31, 2017* and *2016*:

Edgar Filing: INTEGRATED BIOPHARMA INC - Form 10-Q

|                                                   | Three Months Ended<br>December 31, |            | Six Months Ended<br>December 31, |           |
|---------------------------------------------------|------------------------------------|------------|----------------------------------|-----------|
|                                                   | 2017                               | 2016       | 2017                             | 2016      |
| Anti-dilutive stock options                       | 2,496,750                          | 2,935,116  | 2,496,750                        | 391,033   |
| Anti-dilutive shares for convertible note payable | 8,230,769                          | 8,230,769  | 8,230,769                        | 8,230,769 |
| Anti-dilutive shares                              | 10,727,519                         | 11,165,885 | 10,727,519                       | 8,621,802 |



INTEGRATED BIOPHARMA, INC. AND SUBSIDIARIES

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(in thousands, except share and per share amounts)

(Unaudited)

**Note 2. Inventories**

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

|                 | December<br>31,<br>2017 | June<br>30,<br>2017 |
|-----------------|-------------------------|---------------------|
| Raw materials   | \$ 4,749                | \$3,847             |
| Work-in-process | 1,946                   | 1,963               |
| Finished goods  | 1,363                   | 1,835               |
| Total           | \$ 8,058                | \$7,645             |

**Note 3. Property and Equipment, net**

Property and equipment, net consists of the following:

|                                                 | December<br>31,<br>2017 | June<br>30,<br>2017 |
|-------------------------------------------------|-------------------------|---------------------|
| Land and building                               | \$ 1,250                | \$1,250             |
| Leasehold improvements                          | 1,268                   | 1,268               |
| Machinery and equipment                         | 5,954                   | 5,777               |
| Transportation equipment                        | 7                       | 11                  |
|                                                 | 8,479                   | 8,306               |
| Less: Accumulated depreciation and amortization | (6,795 )                | (6,705)             |
| Total                                           | \$ 1,684                | \$1,601             |

Depreciation and amortization expense recorded on property and equipment was \$57 and \$80 for the *three* months ended *December 31, 2017* and *2016*, respectively, and \$132 and \$152 for the *six* months ended *December 31, 2017* and *2016*, respectively. Additionally, the Company disposed of fully depreciated property of \$38 and \$10 in the *six* months ended *December 31, 2017* and *2016*, respectively, and sold transportation equipment for a gain of \$3.

-7-

---

## INTEGRATED BIOPHARMA, INC. AND SUBSIDIARIES

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

*(in thousands, except share and per share amounts)**(Unaudited)***Note 4. Senior Credit Facility, Subordinated Convertible Note, net - CD Financial, LLC and other Long Term Debt**As of *December 31, 2017* and *June 30, 2017*, the Company had the following debt outstanding:

|                                                                                     | Principal Amount                 |                           | Interest Rate  | Maturity Date        |
|-------------------------------------------------------------------------------------|----------------------------------|---------------------------|----------------|----------------------|
|                                                                                     | As of<br>December<br>31,<br>2017 | As of<br>June 30,<br>2017 |                |                      |
| Revolving advances under Senior Credit Facility with PNC Bank, National Association | \$4,790                          | \$4,676                   | 4.50%          | 2/19/2020            |
| Installment Note with PNC Bank                                                      | 1,917                            | 2,542                     | 5.00%          | 2/19/2020            |
| Installment Note with PNC Equipment Finance                                         | 146                              | 190                       | 4.57%          | 7/29/2019            |
| Promissory Note with CD Financial, LLC                                              | 1,714                            | 1,714                     | 6.00%          | 2/29/2020            |
| Promissory Note with Vitamin Realty, LLC                                            | 686                              | 686                       | 4.00%          | 2/29/2020            |
| Capitalized lease obligations                                                       | 349                              | 307                       | 3.86% - 11.43% | 3/6/2018 - 12/8/2020 |
| Total outstanding debt, net                                                         | 9,602                            | 10,115                    |                |                      |
| Less: Revolving Advances                                                            | (4,790)                          | (4,676)                   |                |                      |
| Prepaid financing costs                                                             | (60)                             | (75)                      |                |                      |
| Current portion of long term debt, net                                              | (869)                            | (1,118)                   |                |                      |
| Long term debt, net                                                                 | \$3,883                          | \$4,246                   |                |                      |
| Convertible Note payable - CD Financial, LLC                                        | \$5,350                          | \$5,350                   | 6.00%          | 2/29/2020            |
| Less: Discount for embedded derivative                                              | (85)                             | (105)                     |                |                      |
| Prepaid financing costs                                                             | (20)                             | (24)                      |                |                      |
| Convertible Note payable, net - CD Financial, LLC                                   | \$5,245                          | \$5,221                   |                |                      |

**SENIOR CREDIT FACILITY**

On *February 19, 2016*, the Company, MDC, AgroLabs, IHT, IHT Properties Corp. (“IHT Properties”) and Vitamin Factory (collectively, the “Borrowers”) amended the Revolving Credit, Term Loan and Security Agreement (the “Amended Loan Agreement”) with PNC Bank, National Association as agent and lender (“PNC”) and the other lenders party thereto entered into on *June 27, 2012*.

The Amended Loan Agreement provides for a total of *\$11,422* in senior secured financing (the “Senior Credit Facility”) as follows: (i) discretionary advances (“Revolving Advances”) based on eligible accounts receivable and eligible inventory in the maximum amount of *\$8,000* (the “Revolving Credit Facility”) and (ii) a term loan in the amount of *\$3,422* (the “Term Loan”). The Senior Credit Facility is secured by all assets of the Borrowers, including, without limitation, machinery and equipment, real estate owned by IHT Properties, and common stock of iBio owned by the Company. Revolving Advances bear interest at PNC’s Base Rate or the Eurodollar Rate, at Borrowers’ option, plus 2.75% (4.50% and 4.25% as of *December 31, 2017* and *June 30, 2017*, respectively). The Term Loan bears interest at PNC’s Base Rate or the Eurodollar Rate, at Borrowers’ option, plus 3.25% (5.00% and 4.75% as of *December 31, 2017* and *June 30, 2017*, respectively). Upon and after the occurrence of any event of default under the Amended Loan Agreement, and during the continuation thereof, interest shall be payable at the interest rate then applicable plus 2%. The Senior Credit Facility matures on *February 19, 2020* (the “Senior Maturity Date”).

INTEGRATED BIOPHARMA, INC. AND SUBSIDIARIES

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

*(in thousands, except share and per share amounts)*

*(Unaudited)*

The principal balance of the Revolving Advances is payable on the Senior Maturity Date, subject to acceleration, based upon a material adverse event clause, as defined, subjective accelerations for borrowing base reserves, as defined or upon the occurrence of any event of default under the Amended Loan Agreement or earlier termination of the Amended Loan Agreement pursuant to the terms thereof. The Term Loan shall be repaid in *eighty-four* (84) consecutive monthly installments of principal, the *first eighty-three* (83) of which shall be in the amount of \$41, commencing on the *first* business day of *March, 2016*, and continuing on the *first* business day of each month thereafter, with a final payment of any unpaid balance of principal and interest payable on the Senior Maturity Date. The foregoing is subject to customary mandatory prepayment provisions and acceleration upon the occurrence of any event of default under the Amended Loan Agreement or earlier termination of the Amended Loan Agreement pursuant to the terms thereof.

The Revolving Advances are subject to the terms and conditions set forth in the Amended Loan Agreement and are made in aggregate amounts at any time equal to the lesser of (x) \$8.0 million or (y) an amount equal to the sum of: (i) up to 85%, subject to the provisions in the Amended Loan Agreement, of eligible accounts receivables (“Receivables Advance Rate”), plus (ii) up to the lesser of (A) 75%, subject to the provisions in the Amended Loan Agreement, of the value of the eligible inventory (“Inventory Advance Rate” and together with the Receivables Advance Rate, collectively, the “Advance Rates”), (B) 85% of the appraised net orderly liquidation value of eligible inventory (as evidenced by the most recent inventory appraisal reasonably satisfactory to PNC in its sole discretion exercised in good faith) and (C) the inventory sublimit in the aggregate at any *one* time (“Inventory Advance Rate” and together with the Receivables Advance Rate, collectively, the “Advance Rates”), minus (iii) the aggregate Maximum Undrawn Amount of all outstanding Letters of Credit, minus (iv) such reserves as PNC *may* reasonably deem proper and necessary from time to time.

The Amended Loan Agreement contains customary mandatory prepayment provisions, including, without limitation the requirement to use any sales proceeds from the sale of iBio Stock to repay the Term Loan and to prepay the outstanding amount of the Revolving Advances in an amount equal to *twenty-five* percent (25%) of Excess Cash Flow for each fiscal year commencing with the fiscal year ended *June 30, 2016*, payable upon delivery of the financial statements to PNC referred to in and required by the Amended Loan Agreement for such fiscal year but in any event *not* later than *one hundred twenty* (120) days after the end of each such fiscal year, which amount shall be applied ratably to the outstanding principal installments of the Term Loan in the inverse order of the maturities thereof. The Amended Loan Agreement also contains customary representations and warranties, covenants and events of default, including, without limitation, (i) a fixed charge coverage ratio maintenance requirement and (ii) an event of default tied to any change of control as defined in the Amended Loan Agreement. As of *December 31, 2017*, the Company was in compliance with the fixed charge coverage ratio maintenance requirement and with the required annual payments of 25% of the Excess Cash Flow for each fiscal year commencing with the fiscal year ended *June 30, 2016*.

In connection with the Senior Credit Facility, PNC and CD Financial entered into the Intercreditor and Subordination Agreement (the “Intercreditor Agreement”), which was acknowledged by the Borrowers, pursuant to which, among other things, (a) the lien of CD Financial on assets of the Borrowers is subordinated to the lien of PNC on such assets during the effectiveness of the Senior Credit Facility, and (b) priorities for payment of the debt for the Company and its subsidiaries (as described in this Note 4) are established.

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

INTEGRATED BIOPHARMA, INC. AND SUBSIDIARIES

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

*(in thousands, except share and per share amounts)*

*(Unaudited)*

**CD FINANCIAL, LLC**

On *June 27, 2012*, the Company entered into an Amended and Restated Securities Purchase Agreement (the “CD SPA”) with CD Financial, which amended and restated the Securities Purchase Agreement, dated as of *February 21, 2008*, between the Company and CD Financial, pursuant to which the Company issued to CD Financial a 9.5% Convertible Senior Secured Note in the original principal amount of *\$4,500* (the “Original CD Note”). Pursuant to the CD SPA, the Company issued to CD Financial (i) the Amended and Restated Convertible Promissory Note in the principal amount of *\$5,350* (the “CD Convertible Note”) and (ii) the Promissory Note in the principal amount of *\$1,714* (the “Liquidity Note”, and collectively with the CD Convertible Note, the “CD Notes”). The CD Notes originally matured on *July 7, 2017*, however, on *February 19, 2016*, the CD Notes were amended to extend the maturity date to *February 29, 2020*.

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

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

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

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

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

As of *December 31, 2017* and *June 30, 2017*, the related embedded derivative liability with respect to conversion price protection provisions on the CD Convertible Note has an estimated fair value of *\$436* and *\$503*, respectively.



## INTEGRATED BIOPHARMA, INC. AND SUBSIDIARIES

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

*(in thousands, except share and per share amounts)**(Unaudited)*

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

|                               | December<br>31,<br>2017 |   | June<br>30,<br>2017    |   |
|-------------------------------|-------------------------|---|------------------------|---|
| Risk Free Interest Rate       | 1.91                    | % | 1.49                   | % |
| Volatility                    | 106.00                  | % | 98.11                  | % |
| Term                          | 2 years 2<br>months     |   | 2 years<br>8<br>months |   |
| Dividend Rate                 | 0.00                    | % | 0.00                   | % |
| Closing Price of Common Stock | \$ 0.18                 |   | \$ 0.19                |   |

**OTHER LONG TERM DEBT**

**Related Party Debt.** On *June 27, 2012*, MDC and the Company entered into a promissory note with Vitamin Realty Associates, LLC (“Vitamin Realty”) in the principal amount of approximately \$686 (the “Vitamin Note”). The principal amount of the Vitamin Note represents the aggregate amount of unpaid, past due rent owed by MDC under the Lease Agreement, dated as of *January 10, 1997*, between MDC, as lessor, and Vitamin Realty, as landlord, pertaining to the real property located at 225 Long Avenue, Hillside, New Jersey. (See Note 6. Commitments and Contingencies (a) Leases – Related Parties Leases). The Vitamin Note matures on *February 29, 2020*, as amended on *February 19, 2016*. The Vitamin Note accrues interest at an annual rate of 4% per annum. Interest in respect of the Vitamin Note is payable on the *first* business day of each calendar month. Pursuant to the terms of the Amended Loan Agreement, during the effectiveness of the Senior Credit Facility, the Vitamin Note *may* only be repaid or prepaid if certain conditions set forth in the Amended Loan Agreement are satisfied.

**Capitalized Lease Obligations.** On *December 22, 2017*, the Company entered into a capitalized lease obligation with First American Equipment Finance (“First American”) in the amount of *\$143*, which lease is secured by certain machinery and equipment and matures on *December 1, 2019*. The Company sold certain machinery, purchased from equipment suppliers other than First American in the aggregate amount of *\$143*, to First American for *\$143* and leased the sold equipment back from First American for monthly payments in the amount of approximately *\$6* with an imputed interest rate of *6.56%*.

***Note 5. Significant Risks and Uncertainties***

***(a) Major Customers.*** For the *three* months ended *December 31, 2017* and *2016*, approximately *91%* and *92%*, respectively, of consolidated net sales, were derived from *two* customers. These *two* customers are in the Company’s Contract Manufacturing Segment and represent approximately *79%* and *16%* and *60%* and *35%* of this Segment’s net sales in the *three* months ended *December 31, 2017* and *2016*, respectively. Two other customers in the Branded Nutraceutical Segment, while *not* significant customers of the Company’s consolidated net sales, each represented approximately *34%* of net sales in the *three* months ended *December 31, 2017*, and *one* customer represented approximately *53%* of net sales in the *three* months ended *December 31, 2016*, of the Branded Nutraceutical Segment.

INTEGRATED BIOPHARMA, INC. AND SUBSIDIARIES

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

*(in thousands, except share and per share amounts)*

*(Unaudited)*

For the *six* months ended *December 31, 2017* and *2016*, approximately *91%* and *92%*, respectively, of consolidated net sales, were derived from *two* customers. These *two* customers are in the Company's Contract Manufacturing Segment and represent approximately *71%* and *23%* and *54%* and *42%* of this Segment's net sales in the *six* months ended *December 31, 2017* and *2016*, respectively. Accounts receivable from these *two* major customers represented approximately *90%* and *61%* of total net accounts receivable as of *December 31* and *June 30, 2017*, respectively. Two other customers in the Branded Nutraceutical Segment, while *not* significant customers of the Company's consolidated net sales, represented approximately *30%* and *29%* and *57%* and *none* of net sales of the Branded Nutraceutical Segment in the *six* months ended *December 31, 2017* and *2016*, respectively. The loss of any of these customers could have an adverse affect on the Company's operations. Major customers are those customers who account for more than *10%* of net sales.

***(b) Other Business Risks.*** Approximately *66%* of the Company's employees are covered by a union contract and are employed in its New Jersey facilities. The contract was renewed on *September 1, 2015* and will expire on *August 31, 2018*.

***Note 6. Commitments and Contingencies***

***(a) Leases***

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

Rent expense for each of the *three* months ended *December 31, 2017* and *2016* on these leases was *\$214* and for the *six* months ended *December 31, 2017* and *2016*, was *\$415* and *\$411*, respectively, and are included in both cost of sales and selling and administrative expenses in the accompanying Condensed Consolidated Statements of Operations. As of *December 31, 2017* and *June 30, 2017*, the Company had an outstanding obligation to Vitamin Realty of *\$763*, included in accounts payable, accrued expenses and other liabilities and long term debt in the accompanying Condensed Consolidated Balance Sheet.

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

## INTEGRATED BIOPHARMA, INC. AND SUBSIDIARIES

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

*(in thousands, except share and per share amounts)**(Unaudited)*

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

| Year Ending June 30, | Operating<br>Lease<br>Commitment | Related<br>Party<br>Lease<br>Commitment | Total          |
|----------------------|----------------------------------|-----------------------------------------|----------------|
| 2018, remaining      | \$ 27                            | \$ 281                                  | \$308          |
| 2019                 | 31                               | 563                                     | 594            |
| 2020                 | 22                               | 563                                     | 585            |
| 2021                 | 21                               | 563                                     | 584            |
| 2022                 | 8                                | 563                                     | 571            |
| 2023                 | -                                | 563                                     | 563            |
| Thereafter           | -                                | 1,392                                   | 1,392          |
| <b>Total</b>         | <b>\$ 109</b>                    | <b>\$ 4,488</b>                         | <b>\$4,597</b> |

Total rent expense, including real estate taxes and maintenance charges, was approximately \$254 and \$255 and \$496 and \$492 for the *three* and *six* months ended *December 31, 2017* and *2016*, respectively. Rent expense is included in cost of sales and selling and administrative expenses in the accompanying Condensed Consolidated Statements of Operations.

***(b) Legal Proceedings.***

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

***(c) Other Claims.***

On *May 15, 2012*, Cedarburg Pharmaceuticals, Inc. ("Cedarburg") sent the Company a letter (the "Demand Letter") setting forth a demand for indemnification under the Stock Purchase Agreement, dated *March 17, 2009* (the "Cedarburg SPA"), by and among Cedarburg, InB: Hauser Pharmaceutical Services, Inc., InB: Paxis Pharmaceuticals, Inc. and the Company. In the Demand Letter, Cedarburg demanded payment by the Company of \$0.6 million in respect of the Company's indemnification obligations under the Cedarburg SPA. In addition, in the Demand Letter, Cedarburg informed the Company that there are also environmental issues pending which *may* lead to additional costs to Cedarburg which will likely be in excess of \$0.3 million.

On *May 30, 2012*, the Company sent a letter responding to the Demand Letter and setting forth the Company's position that it has *no* obligation to indemnify Cedarburg as demanded. On *June 18, 2012*, Cedarburg responded to the Company's letter and, on *July 27, 2012*, the Company sent another letter to Cedarburg reiterating its position that the Company has *no* obligation to indemnify Cedarburg as demanded. On *December 18, 2012*, Cedarburg responded to the Company's letter and, on *January 15, 2013*, the Company sent another letter to Cedarburg reiterating its position that the Company has *no* obligation to indemnify Cedarburg as demanded. As of *February 9, 2018*, the Company has *not* received any further communication from Cedarburg with respect to its demand for indemnification as set forth in the Demand Letter. The Company intends to vigorously contest Cedarburg's demand as set forth in the Demand Letter.

#### ***Note 7. Related Party Transactions***

See Note 4. Senior Credit Facility, Subordinated Convertible Note, net - CD Financial, LLC and other Long Term Debt for related party securities transactions.

See Note 6(a). Leases for related party lease transactions.

INTEGRATED BIOPHARMA, INC. AND SUBSIDIARIES

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

*(in thousands, except share and per share amounts)*

*(Unaudited)*

***Note 8. Income Taxes***

On *December 22, 2017*, the U.S. enacted the Tax Cuts and Jobs Act (the “Act”), which significantly changed U.S. tax law. The Act lowered the Company’s U.S. statutory federal income tax rate from 35% to 21% effective *January 1, 2018*. During the *three* month and *six* month period ended *December 31, 2017*, the Company recognized a provision for income taxes of \$338 and \$294, respectively, of which \$250 was considered a provisional estimate under the U.S. Securities and Exchange Commission Staff Accounting Bulletin *No. 118*. The Company’s provisional estimate of \$250 included \$263 related to the impact of re-measuring the Company’s deferred tax balances to reflect the new tax rate.

The Company re-measured certain deferred tax assets and liabilities based on the rates at which they are expected to reverse. In addition, the Company elected to record certain deferred tax assets and liabilities related to the alternative minimum tax carry forward credits now allowed to be utilized in future taxable years. The provisional estimate of \$263 incorporates assumptions made based upon the best available interpretation of the Act and *may* change as the Company receives additional clarification and implementation guidance.

***Note 9. Segment Information***

The basis for presenting segment results generally is consistent with overall Company reporting. The Company reports information about its operating segments in accordance with GAAP which establishes standards for reporting information about a company’s operating segments.

The Company has divided its operations into *three* reportable segments as follows: Contract Manufacturing, Branded Proprietary Products and Other Nutraceutical Businesses. The international sales, concentrated primarily in Europe and Canada, for the *three* months ended *December 31, 2017* and *2016* were \$1,248 and \$1,797, respectively, and for the *six* months ended *December 31, 2017* and *2016* were \$2,906 and \$4,673, respectively.

Financial information relating to the *three* months ended *December 31, 2017* and *2016* operations by business segment are as follows:

|                                           |             | Sales, Net<br>U.S.<br>Customers | International<br>Customers | Total           | Segment<br>Gross<br>Profit<br>(Loss) | Depreciation | Capital<br>Expenditures |
|-------------------------------------------|-------------|---------------------------------|----------------------------|-----------------|--------------------------------------|--------------|-------------------------|
| <b>Contract<br/>Manufacturing</b>         | <b>2017</b> | <b>\$ 9,159</b>                 | <b>\$ 1,199</b>            | <b>\$10,358</b> | <b>\$ 896</b>                        | <b>\$ 55</b> | <b>\$ 109</b>           |
|                                           | 2016        | 10,207                          | 1,687                      | 11,894          | 1,344                                | 80           | 42                      |
| <b>Branded Proprietary<br/>Products</b>   | <b>2017</b> | <b>162</b>                      | <b>10</b>                  | <b>172</b>      | <b>65</b>                            | <b>1</b>     | <b>-</b>                |
|                                           | 2016        | 61                              | 101                        | 162             | 17                                   | -            | -                       |
| <b>Other Nutraceutical<br/>Businesses</b> | <b>2017</b> | <b>231</b>                      | <b>39</b>                  | <b>270</b>      | <b>87</b>                            | <b>1</b>     | <b>-</b>                |
|                                           | 2016        | 307                             | 9                          | 316             | 109                                  | -            | -                       |
| <b>Total<br/>Company</b>                  | <b>2017</b> | <b>9,552</b>                    | <b>1,248</b>               | <b>10,800</b>   | <b>1,048</b>                         | <b>57</b>    | <b>109</b>              |
|                                           | 2016        | 10,575                          | 1,797                      | 12,372          | 1,470                                | 80           | 42                      |



## INTEGRATED BIOPHARMA, INC. AND SUBSIDIARIES

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(in thousands, except share and per share amounts)

(Unaudited)

Financial information relating to the six months ended *December 31, 2017* and *2016* operations by business segment are as follows:

|                                       |             | Sales, Net<br>U.S.<br>Customers | International<br>Customers | Total           | Segment<br>Gross<br>Profit<br>(Loss) | Depreciation  | Capital<br>Expenditures |
|---------------------------------------|-------------|---------------------------------|----------------------------|-----------------|--------------------------------------|---------------|-------------------------|
| <b>Contract Manufacturing</b>         | <b>2017</b> | <b>\$ 16,981</b>                | <b>\$ 2,782</b>            | <b>\$19,763</b> | <b>\$ 1,731</b>                      | <b>\$ 129</b> | <b>\$ 202</b>           |
|                                       | 2016        | 19,528                          | 4,398                      | 23,926          | 3,240                                | 151           | 83                      |
| <b>Branded Proprietary Products</b>   | <b>2017</b> | <b>181</b>                      | <b>21</b>                  | <b>202</b>      | <b>97</b>                            | <b>2</b>      | <b>13</b>               |
|                                       | 2016        | 90                              | 196                        | 286             | 51                                   | -             | -                       |
| <b>Other Nutraceutical Businesses</b> | <b>2017</b> | <b>502</b>                      | <b>103</b>                 | <b>605</b>      | <b>225</b>                           | <b>1</b>      | <b>1</b>                |
|                                       | 2016        | 762                             | 79                         | 841             | 330                                  | 1             | 1                       |
| <b>Total Company</b>                  | <b>2017</b> | <b>17,664</b>                   | <b>2,906</b>               | <b>20,570</b>   | <b>2,053</b>                         | <b>132</b>    | <b>216</b>              |
|                                       | 2016        | 20,380                          | 4,673                      | 25,053          | 3,621                                | 152           | 84                      |

|                                       | Total Assets as of<br>December 31,<br>2017 | June 30,<br>2017 |
|---------------------------------------|--------------------------------------------|------------------|
| <b>Contract Manufacturing</b>         | <b>\$13,154</b>                            | <b>\$12,134</b>  |
| <b>Branded Proprietary Products</b>   | <b>710</b>                                 | <b>784</b>       |
| <b>Other Nutraceutical Businesses</b> | <b>1,784</b>                               | <b>2,278</b>     |
| <b>Total Company</b>                  | <b>\$15,648</b>                            | <b>\$15,196</b>  |



## **Item 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATION**

Certain statements set forth under this caption constitute "forward-looking statements." See "Disclosure Regarding Forward-Looking Statements" on page 1 of this Quarterly Report on Form 10-Q for additional factors relating to such statements. The following discussion should also be read in conjunction with the condensed consolidated financial statements of the Company and Notes thereto included herein and the Company's Annual Report on Form 10-K for the fiscal year ended June 30, 2017.

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

### ***Business Outlook***

Our future results of operations and the other forward-looking statements contained in this Quarterly Report on Form 10-Q, including this MD&A, involve a number of risks and uncertainties—in particular, the statements regarding our goals and strategies, new product introductions, plans to cultivate new businesses, future economic conditions, revenue, pricing, gross margin and costs, the tax rate, and potential legal proceedings. We are focusing our efforts to improve operational efficiency and reduce spending that may have an impact on expense levels and gross margin. In addition to the various important factors discussed above, a number of other important factors could cause actual results to differ significantly from our expectations. See the risks described in "Risk Factors" in Part II, Item 1A of this Quarterly Report on Form 10-Q.

For the six months ended December 31, 2017, our net sales from operations decreased by \$4.5 million to approximately \$20.6 million from approximately \$25.1 million in the six months ended December 31, 2016. Substantially all the decrease in net sales was from the Contract Manufacturing Segment with a decrease of \$4.2 million (\$5.4 million from our significant customer Herbalife offset by increased sales to Life Extension of \$1.2 million), while our other two segments, Branded Nutraceutical Segment and Other Nutraceuticals Segment, had decreased sales of \$0.1 million and \$0.2 million, respectively. The decline in sales in the six months ended December 31, 2017 from Herbalife, was primarily due to decreased orders received from Herbalife for items that we manufacture for Herbalife and secondarily from decreases of (i) approximately \$0.6 million as a result of a scheduled shut down of Herbalife's logistics software in August 2017, which caused Herbalife to request shipments originally scheduled for the three months ended September 30, 2017 to be shipped in June 2017 and (ii) approximately \$0.5 million as a result of discontinued items by Herbalife which were manufactured by MDC. For the six months ended December 31, 2017 we had operating income of approximately \$0.4 million, a decrease of approximately \$1.5 million from the six months ended December 31, 2016 of approximately \$1.9 million. Our profit margins decreased from approximately 14% of

net sales in the six months ended December 31, 2016 to 10% of net sales in the six months ended December 31, 2017, primarily as a result of the decreased sales in our Contract Manufacturing Segment of approximately \$4.2 million. This decline in margins was the result of the decreased sales in the Contract Manufacturing Segment to Herbalife with increased sales to Life Extension (higher cost of goods), while our fixed manufacturing costs remained substantially the same in the year over year reporting period. We maintained our consolidated selling and administrative expenses at approximately \$1.6 million in each of the six months ended December 31, 2017 and 2016.

### ***Critical Accounting Policies and Estimates***

There have been no changes to our critical accounting policies in the six months ended December 31, 2017. Critical accounting policies and the significant estimates made in accordance with them are regularly discussed by management with our Audit Committee. Those policies are discussed under “Critical Accounting Policies” in our “Management’s Discussion and Analysis of Financial Condition and Results of Operations” included in Item 7 of our Annual Report on Form 10-K for the year ended June 30, 2017.

**Results of Operations**

Our results from operations in the following table, sets forth the income statement data of our results as a percentage of net sales for the periods indicated:

|                                                | For the three<br>months<br>ended December<br>31,<br>2017 |   | 2016   |   | For the six<br>months<br>ended December<br>31,<br>2017 |   | 2016   |   |
|------------------------------------------------|----------------------------------------------------------|---|--------|---|--------------------------------------------------------|---|--------|---|
| Sales, net                                     | 100.0                                                    | % | 100.0  | % | 100.0                                                  | % | 100.0  | % |
| Costs and expenses:                            |                                                          |   |        |   |                                                        |   |        |   |
| Cost of sales                                  | 90.3                                                     | % | 88.1   | % | 90.0                                                   | % | 85.5   | % |
| Selling and administrative                     | 7.9                                                      | % | 7.3    | % | 8.0                                                    | % | 6.8    | % |
|                                                | 98.2                                                     | % | 95.4   | % | 98.0                                                   | % | 92.3   | % |
| Income from operations                         | 1.8                                                      | % | 4.6    | % | 2.0                                                    | % | 7.7    | % |
| Other income (expense), net                    |                                                          |   |        |   |                                                        |   |        |   |
| Interest expense                               | (2.1%)                                                   |   | (1.8%) |   | (2.2%)                                                 |   | (1.8%) |   |
| Change in fair value of derivative liabilities | 1.7                                                      | % | (2.9%) |   | 0.3                                                    | % | (2.9%) |   |
| Impairment charge on investment in iBio, Inc.  | (1.5%)                                                   |   | -      |   | (1.2%)                                                 |   | -      |   |
| Other income, net                              | 0.0                                                      | % | 0.1    | % | 0.0                                                    | % | 0.1    | % |
| Other income (expense), net                    | (1.9%)                                                   |   | (4.6%) |   | (3.1%)                                                 |   | (4.6%) |   |
| (Loss) income before income taxes              | (0.1%)                                                   |   | (0.0%) |   | (1.1%)                                                 |   | 3.1    | % |
| Federal and state income taxes, net            | 3.1                                                      | % | 0.6    | % | 1.5                                                    | % | 0.8    | % |
| Net (loss) income                              | (3.2%)                                                   |   | (0.6%) |   | (2.6%)                                                 |   | 2.3    | % |

***For the Six Months Ended December 31, 2017 compared to the Six Months Ended December 31, 2016***

**Sales, net.** Sales, net, for the six months ended December 31, 2017 and 2016 were \$20.6 million and \$25.1 million, respectively, a decrease of 17.9%, and are comprised of the following:

|                                           | Six months ended<br>December 31, |                 | Dollar<br>Change<br>2017 vs<br>2016 | Percentage<br>Change<br>2017 vs<br>2016 |          |
|-------------------------------------------|----------------------------------|-----------------|-------------------------------------|-----------------------------------------|----------|
|                                           | 2017                             | 2016            |                                     |                                         |          |
| <i>(amounts in thousands)</i>             |                                  |                 |                                     |                                         |          |
| <b>Contract Manufacturing:</b>            |                                  |                 |                                     |                                         |          |
| US Customers                              | \$16,981                         | \$19,528        | \$(2,547)                           | (13.0%)                                 | )        |
| International Customers                   | 2,782                            | 4,398           | (1,616)                             | (36.7%)                                 | )        |
| Net sales, Contract Manufacturing         | 19,763                           | 23,926          | (4,163)                             | (17.4%)                                 | )        |
| <b>Branded Nutraceutical Products:</b>    |                                  |                 |                                     |                                         |          |
| US Customers                              | 181                              | 90              | 91                                  | 101.1%                                  | )        |
| International Customers                   | 21                               | 196             | (175)                               | (89.3%)                                 | )        |
| Net sales, Branded Nutraceutical Products | 202                              | 286             | (84)                                | (29.4%)                                 | )        |
| <b>Other Nutraceuticals:</b>              |                                  |                 |                                     |                                         |          |
| US Customers                              | 502                              | 762             | (260)                               | (34.1%)                                 | )        |
| International Customers                   | 103                              | 79              | 24                                  | 30.4%                                   | )        |
| Net sales, Other Nutraceuticals           | 605                              | 841             | (236)                               | (28.1%)                                 | )        |
| <b>Total net sales</b>                    | <b>\$20,570</b>                  | <b>\$25,053</b> | <b>\$(4,483)</b>                    | <b>(17.9%)</b>                          | <b>)</b> |

For the six months ended December 31, 2017 and 2016 a significant portion of our consolidated net sales, approximately 91% and 92%, respectively, were concentrated among two customers, Life Extension and Herbalife, customers in our Contract Manufacturing Segment. Life Extension and Herbalife represented approximately 71% and 23% and 54% and 42%, respectively, of our Contract Manufacturing Segment's net sales in the six months ended December 31, 2017 and 2016, respectively. The loss of any of these customers could have a significant adverse impact on our financial condition and results of operations. Costco Wholesale Corporation ("Costco") and BJ's Wholesale Club ("BJ's") (customers of our Branded Nutraceutical Products Segment), while not significant customers of our consolidated net sales represented approximately 30% and 29% and 57% and none respectively, of the Branded Nutraceutical Products Segment net sales in the six months ended December 31, 2017 and 2016, respectively.

The decrease in net sales of approximately \$4.2 million was primarily the result of:

Net sales decreased in our Contract Manufacturing Segment by \$4.2 million primarily due to decreased sales volumes to Herbalife of approximately \$5.4 million in the six months ended December 31, 2017 compared to the six months ended December 31, 2016. The decline in sales in the six months ended December 31, 2017 from Herbalife, was primarily due to decreased orders received from Herbalife for items that we manufacture for Herbalife and secondarily from decreases of (i) approximately \$0.6 million as a result of a scheduled shut down of Herbalife's logistics software in August 2017, which caused Herbalife to request shipments originally scheduled for the three months ended September 30, 2017 to be shipped in June 2017 and (ii) approximately \$0.5 million as a result of discontinued items by Herbalife which were manufactured by MDC. Offsetting the decline of net sales to Herbalife was an increase of sales volume to Life Extension of approximately \$1.2 million in the six months ended December 31, 2017 compared to the six months ended December 31, 2016.

Net sales in our Branded Nutraceutical Products Segment decreased by approximately \$84,000 in the six months ended December 31, 2017, primarily as the result of decreased sales of \$173,000 to Costco resulting from pricing pressures from the strong US Dollar versus the Canadian Dollar, offset, in part, by an initial sale to BJ's in the amount of \$59,000.

Net sales in our Other Nutraceuticals segment decreased by \$0.2 million primarily as a result of the timing of shipments to our regular customers. We expect \$0.1 million of these sales to occur in the next three months ending March 31, 2018.

**Cost of sales.** Cost of sales decreased by \$2.9 million to \$18.5 million for the six months ended December 31, 2017, as compared to \$21.4 million, a decrease of 14%, for the six months ended December 31, 2016. Cost of sales increased as a percentage of sales to 90% for the six months ended December 31, 2017 as compared to 85.5% for the six months ended December 31, 2016. The decrease in the cost of goods sold amount is consistent with the decreased net sales of approximately 18%. The increase in the cost of goods sold as a percentage of net sales, was primarily the result of the increased sales to Life Extension as a percentage of total sales in our Contract Manufacturing Segment. The cost of the raw materials for the Life Extension finished goods, on average, cost more per bottle than goods produced for our other customers in the Contract Manufacturing Segment as they tend to use raw materials with trademarked characteristics which limits the ability to negotiate pricing. Secondarily, the cost of sales increased as a percentage of sales, net as a result of the fixed manufacturing costs in our Contract Manufacturing Segment decreasing by approximately 11% from the comparable period a year ago, while our sales decreased by approximately 18%. There were no significant changes in the cost of goods sold in our other two segments other than the decreased sales in each of the other two segments.

**Selling and Administrative Expenses.** There was a slight decrease in selling and administrative expenses of \$49,000 or approximately 2.9% in the six months ended December 31, 2017 as compared to the six months ended December 31, 2016. As a percentage of sales, net, selling and administrative expenses were approximately 8% and 7% for the six months ended December 31, 2017 and 2016, respectively. The decrease was primarily due to a decrease in salaries and employees benefits of approximately \$80,000, as the result of decreasing our sales support by two people and a decrease in our vacation pay liability offset by an increase in professional and consulting fees of approximately \$31,000 for work performed on new products labels and trademark registrations in our Branded Nutraceutical Segment as well as legal fees incurred in our Other Nutraceutical Segment for the trademark and patent protection of the Multi Minerals sold under a license agreement.



**Other income (expense), net.** Other income (expense), net was approximately \$0.6 million for the six months ended December 31, 2017 compared to \$1.2 million for the six months ended December 31, 2016, and is composed of:

|                                                | Six months<br>ended<br>December 31,<br>2017 | 2016<br>(dollars in<br>thousands) |
|------------------------------------------------|---------------------------------------------|-----------------------------------|
| Interest expense                               | \$(462)                                     | \$(459 )                          |
| Change in fair value of derivative instruments | 67                                          | (731 )                            |
| Impairment charge on investment in iBio, Inc.  | (251)                                       | -                                 |
| Other income                                   | 4                                           | 31                                |
| Other income (expense), net                    | \$(642)                                     | \$(1,159)                         |

The variance in the change in fair value of derivative liabilities between the six months ended December 31, 2016 and the six months ended December 31, 2017 was mainly the result of the decreased closing trading price of our common stock from \$0.19 as of June 30, 2017 to \$0.18 as of December 31, 2017 and the change in the volatility of the closing trading price of our common stock from 98.11% as of June 30, 2017 to 106.00% as of December 31, 2017. The closing trading price and the volatility of the closing trading price of our common stock are two of the variables used to calculate the estimated fair value of our derivative liabilities associated with the underlying derivative instrument.

Our interest expense for the six months ended December 31, 2017, was slightly more, approximately \$3,000 more than for the six months ended December 31, 2016. The increase in interest expense was the result of an increase in interest rates of 0.75% from the six month period ended December 31, 2016 to the six month period ended December 31, 2017 on our Senior Credit Facility (See Note 4 to the condensed consolidated financial statements included in this Quarterly Report on Form 10-Q), offset by, a decrease in our outstanding debt in the amount of \$0.5 million from June 30, 2017 to December 31, 2017.

In the six months ended December 31, 2017 we determined that there was an impairment on the carrying value of our investment in iBio, Inc. in the amount of approximately \$0.3 million resulting from the decline in the closing trading price of their common stock on the NYSE American Exchange for the six month period ended December 31, 2017 from \$0.39 per share as of June 30, 2017 to \$0.18 per share as of December 31, 2017.

Other income decreased by approximately \$27,000 as the result of earning less income from providing back office support, logistics and operational support for a start-up company which sells over the counter pharmaceutical and nutraceutical products through retail and internet based outlets.

**Federal and state income tax, net.** For the six months ended December 31, 2017 and 2016, we had state income tax, net expense of approximately \$44,000 and \$197,000, respectively, and a federal deferred income tax expense of \$250,000 and none, respectively. We continue to maintain a reserve on a portion of our deferred tax assets as it has been determined that based upon past losses, the Company's past liquidity concerns and the current economic environment, that it is "more likely than not" the Company's deferred tax assets may not be fully realized. The state tax expense is the result of MDC using all of its state net operating losses in the fiscal year ended 2013 tax period. All of our other subsidiaries still have adequate net operating losses for state income tax purposes to absorb any taxable income for state tax purposes.

The decrease in state income tax expense of \$153,000 is the result of the decreased net income for MDC. The increase in the federal income tax expense of \$250,000 is the result of the one-time charge for the change in the effective federal tax rate from 34% as of December 31, 2017 to 21% as of January 1, 2018 which resulted in a decrease to our deferred tax assets of \$263,000 offset by a current federal tax benefit of approximately \$13,000.

**Net (loss) income.** Our net loss for the six months ended December 31, 2017 was \$0.5 million compared to net income of \$0.6 million in the six months ended December 31, 2016, a decrease of \$1.1 million. The decrease was primarily the result of our decreased operating income of \$1.5 million, the impairment charge on our investment in iBio, Inc. of \$0.3 million and increased income tax expense, net of \$0.1 million, offset by the change in fair value of derivative instruments of approximately \$0.8 million.

***For the Three Months Ended December 31, 2017 compared to the Three Months Ended December 31, 2016***

**Sales, net.** Sales, net, for the three months ended December 31, 2017 and 2016 were \$10.8 million and \$12.4 million, respectively, a decrease of 12.7%, and are comprised of the following:

|                                           | Three months ended<br>December 31, |                 | Dollar<br>Change<br>2017 vs<br>2016 | Percentage<br>Change<br>2017 vs<br>2016 |
|-------------------------------------------|------------------------------------|-----------------|-------------------------------------|-----------------------------------------|
|                                           | 2017                               | 2016            |                                     |                                         |
| <i>(amounts in thousands)</i>             |                                    |                 |                                     |                                         |
| <b>Contract Manufacturing:</b>            |                                    |                 |                                     |                                         |
| US Customers                              | \$9,159                            | \$10,207        | \$(1,048)                           | (10.3% )                                |
| International Customers                   | 1,199                              | 1,687           | (488 )                              | (28.9% )                                |
| Net sales, Contract Manufacturing         | 10,358                             | 11,894          | (1,536)                             | (12.9% )                                |
| <b>Branded Nutraceutical Products:</b>    |                                    |                 |                                     |                                         |
| US Customers                              | 162                                | 61              | 101                                 | 165.6%                                  |
| International Customers                   | 10                                 | 101             | (91 )                               | (90.1% )                                |
| Net sales, Branded Nutraceutical Products | 172                                | 162             | 10                                  | 6.2%                                    |
| <b>Other Nutraceuticals:</b>              |                                    |                 |                                     |                                         |
| US Customers                              | 231                                | 307             | (76 )                               | (24.8% )                                |
| International Customers                   | 39                                 | 9               | 30                                  | 333%                                    |
| Net sales, Other Nutraceuticals           | 270                                | 316             | (46 )                               | (14.6% )                                |
| <b>Total net sales</b>                    | <b>\$10,800</b>                    | <b>\$12,372</b> | <b>\$(1,572)</b>                    | <b>(12.7% )</b>                         |

For the three months ended December 31, 2017 and 2016 a significant portion of our consolidated net sales, approximately 91% and 92%, respectively, were concentrated among two customers in our Contract Manufacturing Segment, Life Extension and Herbalife. Life Extension and Herbalife represented approximately 79% and 16% and 60% and 35%, respectively, of our Contract Manufacturing Segment's net sales in the three months ended December 31, 2017 and 2016, respectively. The loss of any of these customers could have a significant adverse impact on our financial condition and results of operations. Costco Wholesale Corporation ("Costco") and BJ's Wholesale Club

("BJ's") (customers of our Branded Nutraceutical Products Segment), while not significant customers of our consolidated net sales, each represented approximately 34% of net sales in the three months ended December 31, 2017, and Costco represented approximately 53% of net sales in the three months ended *December 31, 2016*, of the Branded Nutraceutical Products Segment.

The decrease in net sales of approximately \$1.6 million was primarily the result of net sales decreasing in our Contract Manufacturing Segment of \$1.5 million primarily due to decreased sales volumes to one of our major customers, Herbalife of approximately \$2.6 million, in the three months ended December 31, 2017, compared to the comparable prior period, offset by an increase of approximately \$1.0 million from our other major customer, Life Extension.

**Cost of sales.** Cost of sales decreased by \$1.1 million, approximately 10%, to \$9.8 million for the three months ended December 31, 2017, as compared to \$10.9 million for the three months ended December 31, 2016. Cost of sales increased as a percentage of sales to 90.3% for the three months ended December 31, 2017 as compared to 88.1% for the three months ended December 31, 2016. The decrease in the cost of goods sold of 10% is consistent with the decreased net sales of approximately 13%. The increase in the cost of goods sold as a percentage of net sales, was primarily the result of the increased sales to Life Extension as a percentage of total sales in our Contract Manufacturing Segment.

The cost of the raw materials for the Life Extension finished goods, on average, cost more per bottle than goods produced for our other customers in the Contract Manufacturing Segment as they tend to use raw materials with trademarked characteristics which limits the ability to negotiate pricing. Secondly, the cost of sales increased as a percentage of sales, net as a result of the fixed manufacturing costs in our Contract Manufacturing Segment decreasing by approximately 9% from the comparable period a year ago, while our sales decreased by approximately 13%. There were no significant changes in the cost of goods sold in our other two segments other than the decreased sales in each of the other two segments.

**Selling and Administrative Expenses.** There was a decrease in selling and administrative expenses of \$50,000 in the three months ended December 31, 2017 as compared to the three months ended December 31, 2016 or approximately 5.5%. As a percentage of sales, net, selling and administrative expenses were approximately 8% and 7% for the three months ended December 31, 2017 and 2016, respectively. The decrease was primarily due to a decrease in salaries and employees benefits of approximately \$57,000, as the result of decreasing our sales support by two people and a decrease in our vacation pay liability, and a decrease in stock option compensation expense of \$18,000 since no new stock options were granted in the three month period ended December 31, 2017; offset by an increase in professional and consulting fees of approximately \$18,000 for work performed on new products labels and trademark registrations in our Branded Nutraceutical Segment and other business consulting services. No other expense within our selling and administrative expenses changed by more than \$10.

**Other income (expense), net.** Other income (expense), net was approximately \$0.2 million and \$0.6 million for the three months ended December 31, 2017 and 2016, respectively, and is composed of:

|                                                | Three months<br>ended<br>December 31,<br>2017 2016<br>(dollars in<br>thousands) |         |
|------------------------------------------------|---------------------------------------------------------------------------------|---------|
| Interest expense                               | \$(229)                                                                         | \$(227) |
| Change in fair value of derivative instruments | 185                                                                             | (364)   |
| Impairment charge on investment in iBio, Inc.  | (168)                                                                           | -       |
| Other income                                   | 4                                                                               | 15      |
| Other income (expense), net                    | \$(208)                                                                         | \$(576) |

The variance in the change in fair value of derivative liabilities between the three months ended December 31, 2016 and the three months ended December 31, 2017 was mainly the result of the increased closing trading price of our common stock from \$0.15 as of September 30, 2016 to \$0.23 as of December 31, 2016 and a subsequent decrease in the closing trading price of our common stock in the three month period ended December 31, 2017 from \$0.22 as of September 30, 2017 to \$0.18 as of December 31, 2017. The volatility of the closing trading price of our stock is one of the variables used to calculate the estimated fair value of our derivative liabilities associated with the underlying

derivative instrument.

Our interest expense in the three months ended December 31, 2017, increased by approximately \$2,000 from the three months ended December 31, 2016, primarily as the result of the increase in interest rates of 0.75% from the three month period ended December 31, 2016 to the three month period ended December 31, 2017 on our Senior Credit Facility (See Note 4 to the condensed consolidated financial statements included in this Quarterly Report on Form 10-Q). Other income decreased by approximately \$11,000 as the result of earning less income from providing back office support, logistics and operational support for a start-up company which sells over the counter pharmaceutical and nutraceutical products through retail and internet based outlets.

In the three months ended December 31, 2017 we determined that there was an impairment on the carrying value of our investment in iBio, Inc. in the amount of approximately \$0.2 million resulting from the decline in the closing trading price of their common stock on the NYSE American Exchange for the three month period ended December 31, 2017 from \$0.32 per share as of September 30, 2017 to \$0.18 per share as of December 31, 2017.

**Federal and state income tax, net.** For the three months ended December 31, 2017 and 2016, we had state income tax expense of approximately \$34,000 and \$71,000, respectively, and federal income tax expense of \$304,000 and none, respectively. We continue to maintain a reserve on a portion our deferred tax assets as it has been determined that based upon past losses, the Company's past liquidity concerns and the current economic environment, that it is "more likely than not" the Company's deferred tax assets may not be fully realized. The state tax expense is the result of MDC using all of its state net operating losses in the fiscal year ended 2013 tax period. All of our other subsidiaries still have adequate net operating losses for state income tax purposes to absorb any taxable income for state tax purposes.

The decrease in state income tax expense of \$27,000 is the result of the decreased net income for MDC. The increase in the federal income tax expense of \$304,000 is the result of the one-time charge for the change in the effective federal tax rate from 34% as of December 31, 2017 to 21% as of January 1, 2018, which resulted in a decrease to our deferred tax assets of \$263,000 and a current federal tax expense of approximately \$41,000.

**Net loss.** Our net loss for the three months ended December 31, 2017 and 2016 was approximately \$348,000 and \$77,000, respectively. The increase of approximately \$271,000 was primarily the result of decreased operating income of \$373,000 and an increase in federal and state income taxes, net of \$267,000, offset by the decreases in other expenses of 369,000.

### ***Seasonality***

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

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

### ***Liquidity and Capital Resources***

The following table sets forth, for the periods indicated, the Company's net cash flows used in operating, investing and financing activities, its period end cash and cash equivalents and other operating measures:

|                                           | For the six<br>months ended<br>December 31,<br>2017   2016<br><i>(dollars in<br/>thousands)</i> |         |
|-------------------------------------------|-------------------------------------------------------------------------------------------------|---------|
| Net cash provided by operating activities | \$640                                                                                           | \$547   |
| Net cash used in investing activities     | \$(206)                                                                                         | \$(83 ) |
| Net cash used in financing activities     | \$(512)                                                                                         | \$(793) |
| Cash at end of period                     | \$54                                                                                            | \$66    |

At December 31, 2017 and June 30, 2017, our working capital was approximately \$0.7 million and \$1.4 million, respectively. Our current assets increased by \$0.7 million and current liabilities increased by approximately \$1.4 million, resulting in a net decrease in our working capital of \$0.7 million.



Net cash provided by operating activities of \$0.6 million in the six months ended December 31, 2017, includes a net loss of approximately \$0.5 million. After excluding the effects of non-cash expenses, including depreciation and amortization, and changes in the fair value of derivative liabilities, the adjusted cash provided from operations before the effect of the changes in working capital components was \$0.1 million. Cash was provided by operations from our working capital assets and liabilities in the amount of approximately \$0.5 million and was primarily the result of a net increase in accounts payable and accrued expenses and other liabilities of approximately \$1.5 million offset, in part, by increases in accounts receivable of \$0.6 million and inventories of \$0.4 million.

Net cash provided by operating activities of \$0.5 million in the six months ended December 31, 2016, includes net income of approximately \$0.6 million. After excluding the effects of non-cash expenses, including depreciation and amortization, and changes in the fair value of derivative liabilities, the adjusted cash provided from operations before the effect of the changes in working capital components was \$1.6 million. Cash was used in operations from our working capital assets and liabilities in the amount of approximately \$1.0 million and was primarily the result of increases in accounts receivable of \$1.3 million offset, in part, by a net increase in accounts payable and accrued expenses and other liabilities of approximately \$1.5 million.

Cash used in investing activities of \$206,000 and \$83,000 in the six months ended December 31, 2017 and 2016, respectively, was used for the purchase of property and equipment primarily in our Contract Manufacturing Segment.

Cash used in financing activities was approximately \$0.5 million for the six months ended December 31, 2017, \$19.7 million from advances under our revolving credit facility and \$0.1 million in proceeds received in a sales-lease back financing for machinery and equipment in our Contract Manufacturing Segment, offset in part, by repayments of advances under our revolving credit facility of \$19.6 million and repayments of principal under our term notes in the amount of \$0.7 million.

Cash used in financing activities was approximately \$0.8 million for the six months ended December 31, 2016, \$23.0 million from advances under our revolving credit facility offset, in part, by repayments of advances under our revolving credit facility of \$23.2 million and repayments of principal under our term notes in the amount of \$0.5 million.

As of December 31, 2017, we had cash of \$54,000, funds available under our revolving credit facility of approximately \$1.8 million and working capital of approximately \$0.7 million. Our working capital includes \$4.8 million outstanding under our revolving line of credit which is not due until February 2020 but classified as current due to a subjective acceleration clause that could cause the advances to become currently due. (See Note 4 to the condensed consolidated financial statements included in this Quarterly Report on Form 10-Q). Furthermore, we had income from operations of approximately \$0.2 million in the six months ended December 31, 2017. After taking into consideration our interim results and current projections, management believes that operations, together with the revolving credit facility will support our working capital requirements at least through the period ending February 9,

2019.

Our total annual commitments at December 31, 2017 for long term non-cancelable leases of approximately \$594,000 consists of obligations under operating leases for facilities and operating lease agreements for the rental of warehouse equipment, office equipment and automobiles.

On May 15, 2012, Cedarburg Pharmaceuticals, Inc. ("Cedarburg") sent us a letter (the "Demand Letter") setting forth a demand for indemnification under the Stock Purchase Agreement, dated March 17, 2009 (the "Cedarburg SPA"), by and among Cedarburg, InB: Hauser Pharmaceutical Services, Inc., InB: Paxis Pharmaceuticals, Inc. and the Company. In the Demand Letter, Cedarburg demanded payment by us of \$0.6 million in respect of the Company's indemnification obligations under the Cedarburg SPA. In addition, in the Demand Letter, Cedarburg informed us that there are also environmental issues pending which may lead to additional costs to Cedarburg which will likely be in excess of \$0.3 million.

-23-

---

On May 30, 2012, we sent a letter responding to the Demand Letter and setting forth our position that we have no obligation to indemnify Cedarburg as demanded. On June 18, 2012, Cedarburg responded to our letter and, on July 27, 2012, we sent another letter to Cedarburg reiterating our position that we have no obligation to indemnify Cedarburg as demanded. On December 18, 2012, Cedarburg responded to our letter and, on January 15, 2013, we sent another letter to Cedarburg reiterating our position that we have no obligation to indemnify Cedarburg as demanded. As of February 9, 2018, we have not received any further communication from Cedarburg with respect to its demand for indemnification as set forth in the Demand Letter. We intend to vigorously contest Cedarburg's demand as set forth in the Demand Letter.

### ***Capital Expenditures***

The Company's capital expenditures for the six months ended December 31, 2017 and 2016 were approximately \$216,000 and \$83,000, respectively. The Company has budgeted approximately \$0.3 million for capital expenditures for fiscal year 2018. The total amount is expected to be funded from lease financing and cash provided from the Company's operations.

### ***Off-Balance Sheet Arrangements***

The Company has no off-balance sheet arrangements.

### ***Recent Accounting Pronouncements***

None.

### ***Impact of Inflation***

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

## **Item 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

Not applicable.

#### **Item 4. CONTROLS AND PROCEDURES**

##### **Disclosure Controls and Procedures**

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

Under the supervision and with the participation of management, including the Chief Executive Officer and Chief Financial Officer, the Company has evaluated the effectiveness of its disclosure controls and procedures (as such term is defined in Rule 13a-15(e) and 15d-15(e) under the Exchange Act) as of December 31, 2017, and, based upon this evaluation, the Chief Executive Officer and Chief Financial Officer have concluded that these controls and procedures are effective in providing reasonable assurance of compliance.

##### **Changes in Internal Control over Financial Reporting**

No change in our internal control over financial reporting occurred during the six months ended December 31, 2017 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

## **PART II – OTHER INFORMATION**

### **Item 1. LEGAL PROCEEDINGS**

None.

### **Item 1A. Risk Factors**

The risks described in Item 1A, Risk Factors, in our Annual Report on Form 10-K for the year ended June 30, 2017, could materially and adversely affect our business, financial condition and results of operations. The risk factors discussed in that Form 10-K do not identify all risks that we face because our business operations could also be affected by additional factors that are not presently known to us or that we currently consider to be immaterial to our operations. There have been no material changes to our risk factors from those disclosed in our Form 10-K for the year ended June 30, 2017.

### **Item 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS**

None.

### **Item 3. DEFAULTS UPON SENIOR SECURITIES**

None.

### **Item 4. MINE SAFETY DISCLOSURE**

Not Applicable.

**Item 5. OTHER INFORMATION**

None.

**Item 6. EXHIBITS**

**(a) Exhibits**

**Exhibit**

**Number**

31.1 Certification of pursuant to Section 302 of Section 302 of the Sarbanes-Oxley Act of 2002 by Chief Executive Officer.

31.2 Certification of pursuant to Section 302 of Section 302 of the Sarbanes-Oxley Act of 2002 by Chief Financial Officer.

32.1 Certification of periodic financial report pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 by Chief Executive Officer.

32.2 Certification of periodic financial report pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 by Chief Financial Officer.

101 The following financial information from Integrated BioPharma, Inc.'s Quarterly Report on Form 10-Q for the quarter ended December 31, 2017, formatted in XBRL (eXtensible Business Reporting Language): (i) Condensed Consolidated Statements of Operations for the three and six months ended December 31, 2017 and 2016, (ii) Condensed Consolidated Balance Sheets as of December 31, 2017 and June 30, 2017, (iii) Condensed Consolidated Statements of Cash Flows for the six months ended December 31, 2017 and 2016, and (iv) the Notes to Condensed Consolidated Statements.

-25-

---

## **SIGNATURES**

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

### **INTEGRATED BIOPHARMA, INC.**

Date: February 9, 2018 By: /s/ E. Gerald Kay  
E. Gerald Kay,  
President and Chief Executive Officer

Date: February 9, 2018 By: /s/ Dina L. Masi  
Dina L. Masi  
Chief Financial Officer and Senior Vice President

