INTEGRATED BIOPHARMA INC
Form 10-K
September 28, 2007

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington D.C. 20549

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FORM 10-K

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

For the fiscal year ended June 30, 2007 Commission File Number 000-28876

INTEGRATED BIOPHARMA, INC.

(Exact name of registrant as specified in its charter)

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

Registrant s telephone number: (888) 319-6962

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

Title of Each Class	Name of Each Exchange on Which Registered
Common Stock, $.002 par value per share	NASDAQ: Global Market

Securities registered under Section 12(g) of the Exchange Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes | | No |X|

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.

Yes | | No |X|

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

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

Large accelerated Filer | |
Accelerated Filer | |
Non-accelerated Filer | X |

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

Yes | | No |X|

Registrant s revenues for the fiscal year ended June 30, 2007 were $60,160,000.

The aggregate market value of the voting stock held by non-affiliates of the Registrant based on the trading price of the Registrant s Common Stock on September 21, 2007 was $21,123,872.

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

Class	*Outstanding at September 21, 2007*
Common Stock, $.002 par value	13,953,747 Shares

DOCUMENTS INCORPORATED BY REFERENCE

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

INTEGRATED BIOPHARMA, INC. AND SUBSIDIARIES

FORM 10-K ANNUAL REPORT

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CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

Certain statements in this Annual Report on Form 10-K may constitute forward-looking statements as defined in Section 27A of the Securities Act of 1933 (the Securities Act), Section 21E of the Securities Exchange Act of 1934 (the Exchange Act), the Private Securities Litigation Reform Act of 1995 (the PSLRA) or in releases made by the Securities and Exchange Commission (SEC), all as may be amended from time to time. Such forward-looking statements involve known and unknown risks, uncertainties and other important factors that could cause the actual results, performance or achievements of Integrated BioPharma, Inc. and its subsidiaries (INB) 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 INB; changes in industry capacity; pressure on prices from competition or from purchasers of INB'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 INB; availability of qualified personnel; the loss of any significant customers or suppliers; and other factors both referenced and not referenced in this Report. Statements that are not historical fact are forward-looking statements. Forward looking-statements can be identified, by among other things, the use of forward-looking language, such as the words plan , believe , expect , anticipate , intend , estimate , project , may , will , would , co scheduled to , or other similar words, or the 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. INB cautions investors that any forward-looking statements made by INB 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 INB include, but are not limited to, the risks and uncertainties affecting their businesses described in Item 1A of this Annual Report on Form 10-K and in other securities filings by INB and its subsidiaries.

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

PART I

Item 1. Description of Business

General

Integrated BioPharma, Inc., a Delaware corporation (together with its subsidiaries, the Company or INB), is engaged primarily in manufacturing, distributing, marketing and sales of vitamins, nutritional supplements and herbal products; the manufacture and distribution of Paclitaxel, which is the primary chemotherapeutic agent in the treatment of breast cancer, Pharmaceutical technical services through its contract research organization; and the biotechnology business that uses its patented plant-based technology to produce vaccines and therapeutic antibodies. The Company s customers are located primarily in the United States. The Company was previously known as Integrated Health Technologies, Inc. and, prior to that, as Chem International, Inc. The Company was reincorporated in its current form in Delaware in 1995. The Company s common stock trades on the NASDAQ Global Market under the symbol INBP. The Company continues to do business as Chem International, Inc. with its customers and certain vendors.

The Company has three primary business segments, Nutraceuticals, Pharmaceuticals and Biotechnologies as described below.

Nutraceuticals

The Company s subsidiary, InB:Manhattan Drug Company, Inc. (Manhattan Drug), manufactures vitamins and nutritional supplements for sale to distributors, multilevel marketers and specialized health-care providers. The Company also manufactures, through Manhattan Drug, such products for sale under its own private label, The Vitamin Factory , primarily through mail order utilizing catalogs and the Internet through a wholly-owned subsidiary, The Vitamin Factory, Inc. and Scientific Sports Nutrition , primarily through wholesalers and distributors targeting consumers who are professional, amateur and recreational athletes. The Vitamin Factory s Internet site also offers for sale the Company s branded proprietary Nutraceutical product line. The Company also distributes fine natural chemicals through its wholly-owned subsidiary IHT Health Products, Inc and is a distributor of certain raw materials for DSM Nutritional Products, Inc.

AgroLabs, Inc. manufactures and distributes for sales through major mass market, grocery, drug and vitamin retailers, healthful nutritional products under the following brands: Naturally Noni, Naturally Pomegranate, Naturally Aloe, Naturally Thai Mangosteen, Acai Extreme and Naturally Co-Q Blue, which are referred to as our branded proprietary Nutraceutical business.

On February 25, 2007, the Company completed the acquisition of various assets related to the Syzmo product lines from BevSpec, Inc. (BevSpec). The assets included trademarks, copyrights, artwork, formula for the products, customer lists, inventories, accounts receivable and certain books and records. Syzmo is a USDA organic energy drink and subsequent to our acquisition, became the first organic energy drink to obtain a glycemic index rating (GI Rating) from Glycemic Index Limited. We also acquired formulas for USDA organic soda beverages, which will also contain a GI Rating. The Company is currently developing the marketing strategy to launch this additional product line in fiscal year 2008. These products were acquired by our wholly-owned subsidiary, The Organic Beverage Company, formerly Bioscience Technologies, Inc., and are being further developed.

In fiscal year ended June 30, 2005, the Company acquired a 51% interest in Micro Nutrition, Inc. Micro Nutrition, Inc. is a California corporation in the mail order business selling primarily nutritional specialty food items. During the fiscal year ended June 30, 2007, we disposed of our entire interest in Micro Nutrition, Inc.

Pharmaceuticals

On February 1, 2003 and July 22, 2003, the Company acquired an aggregate of 97% of the shares of common stock of Paxis Pharmaceuticals, Inc. (Paxis). Paxis manufactures and distributes Paclitaxel, which is the primary chemotherapeutic agent in the treatment of breast cancer, at its Boulder, Colorado manufacturing facility. The Company acquired 50% of the shares of Paxis from Trade Investment Services, LLC (TIS) (an entity controlled equally by the Chief Executive Officer (CEO) of the Company, a brother of the CEO, who is also a director of the Company, and a significant shareholder and director of the Company), which funded Paxis development. In November 2004, Paxis changed its name to InB:Paxis Pharmaceuticals, Inc. Paxis acquired from Hauser, Inc. (Hauser) its cGMP-(current good manufacturing practices) compliant Paclitaxel production facilities, processing equipment, and intellectual assets. Paxis also purchased intellectual property (the Technology) from Hauser. On October 8, 2003, the Company acquired the remaining three (3%) percent of Paxis.

In May 2006, Paxis announced the execution of a supply agreement with a European generics manufacturing company with extensive sales, marketing, and distribution channels in the European Community, Eastern Europe, the United Kingdom and the United States. The agreement provides for minimum purchases during the first year of at least $2.4 million of Paxis' Approved Pharmaceutical Ingredients (API) product. Paxis made its first shipment under the supply agreement in August 2006. Due to a delay in the approval of our API product in the European community, additional shipments under the supply agreement have been delayed. Our customer expects to receive approval in the future, upon approval; Paxis will recommence shipping API under this agreement. The Company can give no assurance that Paxis can be operated profitably.

Paxis entered into a joint venture as of July 16, 2003 with Chatham Biotec, Ltd. (Chatham), a Canadian company, which harvests and dries biomass, to form a Canadian-based joint venture to produce extract and intermediate precursor Paclitaxel from Canadian Taxus biomass. Chatham supplies the Canadian biomass and the joint venture processes it, using Paxis extraction expertise in a facility currently controlled by the joint venture. The joint venture supplies Paxis requirements for extract at cost, from which Paxis produces its Paclitaxel and related products. The Company can give no assurance that the joint venture can be operated successfully.

On September 16, 2004, the Company completed the purchase of substantially all of the assets of Hauser CRO, including substantially all of its laboratories, development and manufacturing facilities and equipment; its intellectual property, including that related to Paclitaxel and other taxanes; goodwill, professional staff and certain of its ongoing contracts. As part of the transaction, the Company also acquired Hauser s rights under a prior contract to receive royalties and other payments from the Company s subsidiary, Paxis, for Hauser intellectual property used by Paxis in the manufacture of Paclitaxel. The assets were acquired in a newly formed subsidiary that changed its name to InB:Hauser Pharmaceutical Services, Inc. in November 2004.

Biotechnologies

On February 21, 2003, the Company completed a merger with NuCycle Acquisition Corp. (together with its wholly-owned subsidiary NuCycle Therapy, Inc., NuCycle). In the fiscal year ended June 30, 2005, NuCycle changed its name to InB:Biotechnologies, Inc. (InB:Biotech). InB:Biotech is focused on the discovery, development and commercialization of proprietary products from plants. The Company is developing its patented plant-based expression technologies for the production of vaccines, antibodies and other therapeutic proteins. InB:Biotech is also using plants as sources of novel, high quality nutritional supplements. InB:Biotech s patented process for the hydroponic growth of edible plants causes them to accumulate high levels of important nutritional minerals.

In collaboration with Fraunhofer USA Center for Molecular Biotechnology (CMB), we are developing the capability to rapidly produce effective, plant-made influenza vaccines. Programs are on-going to create novel subunit vaccines directed against both human and avian strains. Our near-term objective is to complete preclinical evaluation and transition selected vaccine candidates into Phase I clinical trials. Upon completion, we are required to make milestone payments related to achieving certain flu vaccine studies and our ongoing Anthrax study. After completion of Phase I, we agreed to conduct research to enhance, improve and expand the existing intellectual property, and CMB will develop processes, production techniques and methodologies of the existing proprietary technology and intellectual property for commercializing external applications. For this research we have committed to make non-refundable payments of $2.0 million per year for five years, aggregating to $10.0 million, beginning November 2009. We will make royalty payments to CMB based on receipts derived by the Company from sales of products utilizing the proprietary technology for a period of fifteen years.

In turn, CMB shall pay us royalty payments for all receipts, if any, realized by CMB sales, licensing or commercialization of the intellectual property acquired by them for the same fifteen year period. Furthermore, CMB has agreed to expand at a minimum, an addition $2.0 million per year in the same timeframe as us for research and development on the intellectual property.

Currently, we have executed other research agreements with CMB with an aggregate remaining financial commitment, including milestone payments, of $12.5 million as of June 30, 2007.

In May, 2007, we announced our plan to spin-off a majority of our interest in INB:Biotech. We expect this transaction to be during fiscal year 2008.

Offering of Series B Redeemable Convertible Preferred Stock

On April 20, 2004, in connection with its private offering of its Series B Convertible Preferred Stock, par value $0.002 per share (the Series B), the Company issued 750 shares of Series B, at a purchase price of $10,000 per share of Series B, and warrants for 375,000 shares of its common stock with an exercise price of $14.00 per share. The Company also issued Additional Investment Rights (the AIRs) to the Investors, entitling them over the next 18 months to purchase an aggregate of 375 additional Series B Preferred Shares and Warrants to purchase an additional 187,500 shares of common stock. In October 2005, these AIRs expired unexercised. The Series B were convertible at the option of each Investor into shares of common stock at a conversion price of $10.00 per share, subject to anti-dilution and other customary adjustments.

As of June 30, 2007, 75 shares of Series B were converted into common stock and 675 shares of Series B were redeemed.

Significant Revenues from Major Customers

A significant portion of our net sales are concentrated among three customers, Herbalife International of America, Inc., Costco Wholesale, Inc. and Sam s Club. For the years ended June 30, 2007 and 2006, these customers represented approximately 74% and 86% of total net sales, respectively. The loss of any of these customers could have a significant adverse impact on our financial condition and results of operations.

Raw Materials

The principal raw materials used in the manufacturing process in the Company s Nutraceutical segment are natural and synthetic vitamins, minerals, herbs, related nutritional supplements, gelatin capsules, coating materials, organic and natural fruit extracts, fruit juices and the necessary components for packaging the finished products. The raw materials are available from numerous sources within the United States and abroad. The gelatin capsules, coating materials and

packaging materials are similarly widely available. The principal raw materials used in the Company s Pharmaceutical segment are made up of a variety of materials used to develop and manufacture Paclitaxel. The Company entered into a joint venture agreement with a raw material supplier for its Paxis subsidiary. The Company generally purchases its raw materials, on a purchase order basis, without long-term commitments.

Our principal suppliers in the Nutraceutical Segment are JD Moody Marketing Services, Inc., Triarco Industries, Inc., and DSM Nutritional Products, Inc. In connection with our Pharmaceutical Segment, botanical materials derived from the Canadian yew tree, or Taxus canadensis, are used to produce Paclitaxel. Canadian yew trees are in limited supply. Paxis has entered into a joint venture with Chatham Biotec, Ltd. to produce extract and intermediate precursor Paclitaxel from Canadian yew trees. We can give no assurance that the joint venture will be successful in producing such Paclitaxel extracts or intermediates, or that we can locate alternate sources of yew trees.

Development and Supply Agreement

On March 13, 1998, the Company signed a development and supply agreement with Herbalife International of America, Inc. (Herbalife) whereby the Company develops, manufactures and supplies certain nutritional products to Herbalife, which agreement was renewed through December 31, 2009. This agreement does not, however, obligate the Company to supply any particular amount of goods to Herbalife. The Company and Herbalife are currently negotiating an amendment to this agreement.

Seasonality

The Company s results of operations in its Pharmaceuticals and Biotechnologies segments are not significantly affected by seasonal factors. The Nutraceutical business segment tends to be seasonal. The Company has found that in its first fiscal quarter ending in September, orders for its branded proprietary Nutraceutical products slow (absent the addition of new customers with a significant first time order), as buyers in their markets may have purchased sufficient inventory to carry them through the summer months. Conversely, in the Company s second fiscal quarter, ending in December, orders for its products increase as the demand for the Company s branded Nutraceutical products seems to increase in late December to earlier 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 also 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. In addition, our recent growth has caused additional variability in our quarterly results. Accordingly, a comparison of the Company s results of operations from consecutive periods is not necessarily meaningful, and the Company s results of operations for any period are not necessarily indicative of future periods.

Variability of Quarterly Results and Impact of Advertising

In connection with our program to expand the Nutraceutical business, advertising and promotional expenses, including those classified as a reduction in sales, were $6.7 million or 11.6% of net sales, in the fiscal year ended June 30, 2006 and were $9.7 or 16.2% of net sales, in the fiscal year ended June 30, 2007. As the Company continues this program it may continue to incur increased advertising and promotional expenses. Such expenses include promotional activities conducted through the retail trade, distributors or directly with consumers, including in-store displays, product placement programs, coupons, radio and print advertising, and other similar activities. Since such expenses may occur in fiscal quarters before resulting increases, if any, in revenues occur, the program may increase variability of our quarterly results. Other factors that also may influence the variability of quarterly results include general economic and industry conditions that affect consumer spending, changing consumer demands and current news on nutritional supplements. Accordingly, a comparison of our results of operations from consecutive periods is not necessarily meaningful, and our results of operations for any period are not necessarily indicative of future periods.

Intellectual Property

We have established an intellectual property position in three primary areas of plant-related technology: i) the production of proteins in a variety of plant-based expression systems utilizing a range of different vectors and approaches, with an emphasis on transient or sustained gene expression using viral vectors in connection with human applications; ii) the production of proteins in a variety of plant-based expression systems utilizing a range of different vectors and approaches, with an emphasis on transient or sustained gene expression using viral vectors in connection with veterinarian applications; and iii) Nutritional formulations based on plant-derived minerals and methods for producing the formulations.

In the area of protein production in plants, the Company has twelve (12) utility patent applications and nine (9) provisional applications pending before the U.S. Patent and Trademark Office currently pending. In addition, the Company has one (1) issued patent directed to Virus-Induced Gene Silencing in Plants. The technology is expected to be of use in improving levels of protein expression using viral vectors in plants. The patents cover a range of technology platforms including transient expression of genes in plants using viral vectors and vector systems, trans-activation of gene expression in plants, production of pharmaceutically active proteins in sprouted seedlings with a focus on viral vectors, clonal plant tissues and cultures developed utilizing viral vectors, methods to facilitate purification of proteins expressed in plants, and improved plant transformation systems. In the past year we have filed patent applications describing (1) optimization of plant growth conditions (including optimization of the physical and environmental conditions in which plants are grown for protein production) and (2) plant expression system utilizing a launch vector, which combines the advantageous features of standard agrobacterial binary plasmids and plant viral vectors. Specific areas covered include production of vaccine antigens and multi-subunit proteins such as antibodies. The Company also has nineteen (19) foreign patent applications pending corresponding to many of these patent applications.

In the area of nutritional formulations, the Company has thirteen (13) issued U.S. patents (and four (4) foreign patents and five (5) pending patent applications) relating to methods for accumulating metals in plants. Two (2) out of the thirteen (13) patents relates to nutritional supplements containing methylselenocysteine. The Company also has one pending utility application relating to nutritional supplements containing methylselenocysteine.

Government Regulations

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

In May 2007, we obtained from Quality Assurance International, certification of our records and facilities for the Syzmo beverage are in accordance with The Organic Foods Production Act of 1990 and 7 CFR Part 205 and with general guidelines established by the USDA s National Organic Program.

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

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

In addition, the DSHEA authorizes the FDA to promulgate Current Good Manufacturing Practices (cGMP) specific to the manufacture of dietary supplements, to be modeled after food cGMP. The Company currently manufactures its dietary supplement products pursuant to food cGMP.

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

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

The FTC regulates the marketing practices and advertising of all our products. In recent years, the FTC instituted enforcement actions against several dietary supplement companies for false and misleading marketing practices and advertising of certain products. These enforcement actions have resulted in consent decrees and monetary payments by the companies involved. Under FTC standards, the dissemination of any false advertising constitutes an unfair or deceptive act or practice actionable under Section 45 of the Fair Trade Commission Act and a false advertisement actionable under Section 52 of that Act. A false advertisement is one that is misleading in a material respect. In determining whether an advertisement or labeling information is misleading in a material respect, the FTC determines not only whether overt representations and implied representations are false but also whether the advertisement fails to reveal material facts. Under the FTC s standard, any health benefit representation made in advertising must be backed by competent and reliable scientific evidence by which the FTC means:

tests, analyses, research studies, or other evidence based upon the expertise of professionals in the relevant area, that have been conducted and evaluated in an objective manner by persons qualified to do so, using procedures generally accepted by the profession to yield accurate and reliable results.

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

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

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

- change the way it conducts business;
- use expanded or different labeling;
- recall, reformulate or discontinue certain products;
- keep additional records;
- increase the available documentation of the properties of its products; and/or

- increase the scientific proof of product ingredients, safety, and/or usefulness.

Competition

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

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

We intend to compete by stressing the quality of our manufacturing product, providing prompt service, competitive pricing of products in our marketing segment and by focusing on niche products in the international retail markets. We have also increased our advertising spending dollars to continue to promote our proprietary branded Nutraceutical product line and have expanded our advertising medias to include radio and print. In our Pharmaceutical segment we have hired staff with the responsibility to increase our sales and marketing efforts in the contract services and manufacturing sectors and increased our exposure to the Pharmaceutical community by attending targeted trade shows and training the staff to submit proposals and follow-up with their business contacts.

Research and Development Activities

We currently conduct research and development activities at our manufacturing facility, our wholly-owned contract research organization and through arrangements with third party research facilities. Our research and development activities are primarily involved in the research, development and commercialization of Nutraceuticals, and naturally derived substances with nutritional, pharmacological or biotech properties. In the fiscal years ended June 30, 2007, 2006, and 2005, the Company expended $0.7 million, $0.4 million and $0.4 million, respectively, on research and development activities.

Environmental Compliance

We are subject to regulation under Federal, state and local environmental laws.

During the fiscal year ended June 30, 2003, we engaged an environmental consultant to assist in obtaining a no further action letter from the New Jersey Department of Environmental Protection ("NJDEP") with respect to its facility located at 201 Route 22, Hillside, New Jersey. The facility is used to blend vitamins and nutritional supplements for human consumption. The site contained two underground heating oil tanks ("USTs") which were abandoned and closed prior to 1986. The consultant investigated the site and on February 4, 2004 filed a Preliminary Assessment/Site Investigation (PA/ST) Report. On July 29, 2004, the State of New Jersey s Department of Environmental Protection made the determination that no further action is necessary for the remediation of the site, and issued a NFA/CNS letter.

While we believe we are in material compliance with applicable environmental laws, continued compliance may require substantial capital expenditures.

Employees

As of September 7, 2007, we had approximately 167 full time employees of whom 55 belong to the local unit of the Teamsters Union and are covered by a collective bargaining agreement, which expires August 31, 2010. Approximately 51 employees are administrative and professional personnel, 37 are laboratory personnel and 78 employees are production and shipping personnel. Among the professional personnel, 1 employee is engaged in research and development. We consider our relations with our employees to be good.

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

Available Information

We file annual, quarterly and current reports, proxy statements and other information with the Securities and Exchange Commission (the SEC). These filings are available to the public via the Internet at the SEC's website located at http://www.sec.gov. You may also read and copy any document we file with the SEC at the SEC's public reference room located at 450 Fifth Street, N.W., Washington, D.C. 20549. For more information, please call the SEC at 1-800-SEC-0330.

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

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

Item 1A. Risk Factors

Factors that May Affect the Future Results of our Business

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

A significant portion of our revenues are concentrated among three customers, Herbalife International of America, Inc., Costco Wholesale, Inc. and Sam s Club. For the years ended June 30, 2007, 2006 and 2005, these customers represented approximately 74%, 86% and 80% of total revenue, respectively. The loss of any of these customers could have a significant adverse impact on our financial condition and results of operations.

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

We presently are dependent upon the executive abilities of our Chairman of the Board, President and Chief Executive Officer, E. Gerald Kay, and our other executive officers. Our business and operations to date chiefly have been implemented under the direction of these individuals, who presently are, and in the future will be, responsible for the implementation of our anticipated plans and programs. While we have obtained key-man life insurance in the amount of $1.0 million on the life of E. Gerald Kay, with our company as the named beneficiary, the loss or unavailability of the services of one or more of our principal executives would have an adverse effect on us. We may encounter difficulty in our ability to recruit and ultimately hire any replacement or additional executive officers having similar background, experience and qualifications as those of our current executive officers.

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

Although our common stock is quoted on the NASDAQ Global Market, there can be no assurance that we will, in the future, be able to meet all the requirements for continued quotation on that exchange. In the absence of an active trading market or if our common stock cannot be traded on the NASDAQ Global Market, our common stock could instead be traded on the OTC Bulletin Board or in the Pink Sheets. In such event, the liquidity and stock price in the secondary market may be adversely affected. In addition, in the event our common stock was de-listed; broker-dealers have certain regulatory burdens imposed upon them which may discourage them from effecting transactions in our common stock and hence, could further limit the liquidity of our common stock.

We may not receive approval for our pending patent applications for nutritional supplements, which could enable our competitors to use similar methods and processes.

We are the registered owner of thirteen (13) issued U.S. patents and four (4) foreign patents directed to methods for accumulating metals in plant seedlings and nutritional formulations produced using the plant seedlings, or has rights to these patents in the field of nutritional supplements and one (1) issued patent directed to Virus-Induced Gene Slicing in Plants. In the area of protein production in plants, we also have twelve (12) patent utility applications and nine (9) provisional applications pending before the U.S. Patent and Trademark Office and nineteen (19) foreign applications currently pending. We can give no assurance that we will be granted such patents. To the extent we are not granted such patents, our competitors could more easily produce plant-based proteins similar to ours.

Our product candidates are at an early stage of development, and if we are not able to successfully develop and commercialize them, we may not generate sufficient revenues to continue our Biotechnology business segment.

We currently have eight (8) internal product candidates as part of our AIPwLV technology platform, each of which is in an early stage of development. Our business depends primarily on our ability to successfully complete clinical trials, obtain required regulatory approvals and successfully commercialize our product candidates. If the studies described above or any further studies fail, if we do not obtain required regulatory approvals, or if we fail to commercialize any of our product candidates, we may be unable to generate sufficient revenues to attain profitability or continue our business operations and our reputation in the industry and in the investment community would likely be significantly damaged, each of which would cause our stock price to decline

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

We have entered into several agreements and arrangements described in our previous SEC public filings and to be fully described in our proxy statement for our 2007 annual meeting of stockholders, including the lease of real property from Vitamin Realty Associates, L.L.C., the merger with NuCycle Acquisition Corp., and the acquisition of the Paxis business from Trade Investment Services, LLC, which involved transactions with entities significantly owned by members of the Kay family and other of our significant shareholders and/or executive officers, who collectively own a majority of our shares of common stock. Although we believe that these transactions were advantageous to us and were on terms no less favorable to us than could have been obtained from unaffiliated third parties, transactions with related parties can potentially pose a conflict of interest.

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

Our Executive Officers and Directors beneficially own approximately 64% of our outstanding shares. If these stockholders act together, they may be able to exert significant control over our management and affairs requiring stockholder approval, including approval of significant corporate transactions. This concentration of ownership may have the effect of delaying or preventing a change in control and might adversely affect the market price of our common stock. This concentration of ownership may not be in the best interests of all our stockholders.

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

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

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

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

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

There is no assurance that we will be able to produce Paclitaxel on a commercial scale.

Our InB:Paxis Pharmaceuticals, Inc. subsidiary uses botanical materials derived from the yew tree, or taxus canadensis, to produce Paclitaxel, a cancer therapy drug. Yew trees are in limited supply. Paxis has formed a joint venture with Chatham Biotec, Ltd. to produce extract and intermediate precursor Paclitaxel from Canadian Taxus trees. We can give no assurance that the joint venture will be successful in producing such Paclitaxel or that we can locate alternate sources of yew trees.

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

The principal raw materials used in the manufacturing process in the company s Nutraceutical segment are natural and synthetic vitamins, minerals, herbs, related nutritional supplements, gelatin capsules, coating materials, fruit extracts, fruit juices and the necessary components for packaging the finished products. The raw materials are available from numerous sources within the United States and abroad. The gelatin capsules, coating materials and packaging materials are similarly widely available. The principal raw materials used in our Pharmaceutical segment are made up of a variety of materials used to develop and manufacture Paclitaxel. We entered into a joint venture agreement with a raw material supplier for our Paxis subsidiary. We generally purchase our raw materials, on a purchase order basis, without long-term commitments.

Our principal suppliers in our Nutraceutical Segment are JD Moody Marketing Services, Inc., Triarco Industries, Inc., and DSM Nutritional Products, Inc. In connection with our Pharmaceutical Segment, botanical materials derived from the Canadian yew tree, or Taxus canadensis, are used to produce Paclitaxel. Canadian yew trees are in limited supply. Paxis has entered into a joint venture with Chatham Biotec, Ltd. to produce extract and intermediate precursor Paclitaxel from Canadian yew trees. We can give no assurance that the joint venture will be successful in producing such Paclitaxel extracts or intermediates, or that we can locate alternate sources of yew trees.

Item 1B. Unresolved Staff Comments

Not applicable.

Item 2. Properties

On January 10, 1997, the Company entered into a lease agreement for approximately 75,000 square feet of factory, warehouse and office facilities in Hillside, New Jersey. The facilities are leased from Vitamin Realty Associates, L.L.C., a limited liability company, which is 90% owned by the Company s Chairman of the Board, and principal stockholder and certain family members and 10% owned by an employee of the Company. The lease expires May 31, 2015 and provides for a base annual rental of $0.3 million plus increases in real estate taxes and building expenses. At its option, the Company has the right to renew the lease for an additional five-year period.

The Company owns a 40,000 square foot manufacturing facility in Hillside, New Jersey. The space is utilized for Manhattan Drug s tablet manufacturing operations.

Paxis presently leases a manufacturing facility in Boulder, Colorado. The facility is comprised of 22,483 square feet located at 5555 Airport Blvd., Suite 200, Boulder, Colorado 80301. The lease expires in March 2012.

InB:Hauser Pharmaceutical Services, Inc. leases two office facilities aggregating approximately 22,800 square feet used for both scientific laboratories and general office space. The office facilities are located at 6880 North Broadway Units A-L, Denver, Colorado 80221 and 6820 North Broadway Units R-S, Denver Colorado 80221. Both office facilities are leased through December 31, 2012.

On May 16, 2007, AgroLabs, Inc. entered into a five-year lease agreement for approximately 39,000 square feet of warehouse space in Coppell, Texas. We moved to this facility in the quarter ended June 30, 2007. The facility is used for the storage and distribution of inventory for its liquid Nutraceutical products, with approximately 4,500 square feet used for office space. This replaced the lease that expired for the warehouse space in Grapevine, Texas during the fiscal year. In addition, in September 2006, the Company leased 22,000 square feet of additional warehouse space in a second location in Coppell, Texas which expires in August 2009.

In October 2005, the Company sub-leased 466 square feet of office space in Dover, Delaware, which expired on September 30, 2006. The lease has converted to a month-to-month lease and the space is used for the Company s InB:Biotechnologies, Inc. offices.

Item 3. Legal Proceedings

NatEx Georgia LLC and Vasili Patarkalishvili v. Robert B. Kay, E. Gerald Kay, Trade Investment Services, LLC, Paxis Pharmaceuticals, Inc., Dean P. Stull and Integrated BioPharma, Inc., pending in the Supreme Court for the State of New York, New York County. Plaintiffs NatEx Georgia LLC and Vasili Patarkalishvili commenced this action on July 19, 2004, alleging claims for breach of contact, fraud and breach of the implied duty of good faith and fair dealing arising out of an alleged failure by Paxis to provide information necessary for NatEx to perform under the parties' agreements by which NatEx had agreed to supply Paclitaxel extract. The complaint seeks damages of more than $5.0 million. By order dated January 6, 2006, the Court granted in part Defendants' motion to dismiss. The Court dismissed all of the claims against all defendants, except for the breach of contract claim against Paxis. Plaintiffs filed a notice of appeal of that decision. On April 17, 2007, the Supreme Court, Appellate Division, First Department dismissed Plaintiffs' appeal for failure to perfect. Certain of the Defendants, including the Company, have filed counter-claims against Plaintiffs for breach of a July 2003 agreement with NatEx and to collect on a $1.3 million note. By order dated June 7, 2007, the Court granted summary judgment in favor Paxis on Plaintiff's remaining claims, and granted summary judgment in favor of Defendants on their counterclaims against Plaintiffs. The Court ordered judgment to be entered in favor of the Company and against NatEx Georgia LLC in the amount of $1.3 million, plus interest. At a hearing on August 15, 2007, the Court granted Defendants' application to recover attorneys' fees from NatEx Georgia LLC and Vasili Patarkalishvili in the amount of $0.3 million. We believe, however, that NatEx Georgia LLC is insolvent, and further believe that we most likely will not be able to recover any of the judgment against Mr. Patarkalishvili.

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

No matters were submitted to a vote of security holders during the fourth quarter of the fiscal year ended June 30, 2007.

PART II

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

Market Information

On February 6, 2007 the Company s common stock commenced trading on the NASDAQ Global Market under the symbol INBP . The Company s common stock ceased trading on the American Stock Exchange under the symbol INB on February 5, 2005.

Set forth below are the high and low closing prices of the Common Stock as reported on the American Stock Exchange and NASDAQ Global Market, accordingly:

Holders

As of June 30, 2007, there were approximately 1,200 holders of record of the Company s common stock.

Dividends

The Company has not declared or paid a dividend with respect to its common stock during the fiscal years ended June 30, 2007, 2006 or June 30, 2005 nor does the Company anticipate paying dividends in the foreseeable future.

The Company has paid dividends of $0.4 million, $0.5million and $0.5 million with respect to its Series B Redeemable Convertible Preferred Stock during the fiscal years ended June 30, 2007, 2006 and 2005, respectively.

The following table provides information as of June 30, 2007 about the Company's equity compensation plans :

Recent Sales of Unregistered Securities

None.

Item 6. Selected Financial Data

The following table presents selected financial data for each of the five years in period ended June 30, 2007. The selected financial data was derived from the consolidated financial statements and should be read in conjunction with Management s Discussion and Analysis of Results of Operations and Liquidity and Capital Resources and the consolidated financial statements and notes thereto.

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

Certain statements set forth under this caption constitute forward-looking statements. See Disclosure Regarding Forward-Looking Statements on page 1 of this Report for additional factors relating to such statements.

During the fiscal year ended June 30, 2006, the Company changed its reporting segments to Nutraceuticals, Pharmaceuticals and Biotechnologies from Nutraceutical, Pharmaceutical and Technical Services. The Company currently manages its business in these segments. The prior year reported data as been reclassified to conform to the current year presentation.

The Company is engaged primarily in the manufacturing, distributing, marketing and sales of vitamins, nutritional supplements and herbal products; the manufacture and distribution of Paclitaxel, which is the primary chemotherapeutic agent in the treatment of breast cancer; technical services through its contract research organization, and the biotechnology business, which uses its patented plant-based technology to produce vaccines and therapeutic antibodies. The Company s customers are located primarily throughout the United States.

For the fiscal year ended June 30, 2007, our net sales increased $2.3 million or 4.0% to $60.1 million from $57.8 million for the fiscal year ended June 30, 2006. The fourth quarter net sales for the current fiscal year as compared to the fourth quarter of the prior fiscal year decreased approximately $7.4 million or 42.7%. The decreased sales was primarily due to the Nutraceutical segment s net sales which decreased approximately $8.4, offset by net sales growth in the Pharmaceutical segment of $0.8 million and in the Biotechnology segment of $0.2 million for the fourth quarter ended June 30, 2007 as compared to the fourth quarter ended June 30, 2006. In May 2007, we updated our net sales forecast downward for the fiscal year ended 2007, as major chain retailers announced decreases in consumer spending due to the widespread severe weather conditions and a spike in gasoline prices. This resulted in a decrease in the rate of requested shipments from our major Nutraceutical customers in the remainder of the fourth quarter for the fiscal year ended 2007. Additionally, we expanded our branded Nutraceutical product lines being offered in our club store distribution channel from an average of three products to four, while our new products were selling through to the consumers, they were not selling through at the same levels of our other three products and our net sales for our existing products were offset by sales returns and allowances of these new products. In addition to lower net sales in the quarter, we also recorded approximately $1.0 million of inventory valuation adjustments on certain new products in our Naturally branded product lines. We remain optimistic about the long-term performance of our Nutraceutical segment and we expect to continue to support our product lines with the necessary promotional advertising to enhance sales in the fiscal year 2008 and beyond.

Critical Accounting Policies and Estimates

Estimates

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

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

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

Allowances for Doubtful Accounts and Sales Returns

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

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

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

The Company performed a sensitivity analysis to determine the impact of fluctuations in our estimates for our allowance for doubtful accounts. As of June 30, 2007, the allowance for doubtful accounts was $0.1 million. If this amount were in error by plus or minus one percent of the account receivable balance, the impact would be an additional $0.1 million of income or expense.

Trade Marketing and Merchandising. In order to support the Company s propriety Nutraceutical product lines, various promotional activities are conducted through the retail trade, distributors or directly with consumers, including in-store display and product placement programs, feature price discounts, coupons, and other similar activities. The Company regularly reviews and revises, when it deems necessary, estimates of costs to the Company for these promotional programs based on estimates of what will be redeemed by the retail trade, distributors, or consumers. These estimates are made using various techniques, including historical data on performance of similar promotional programs. Differences between estimated expense and actual performance are generally not material and are recognized as a change in management s estimate in a subsequent period. As the Company s total promotional expenditures, including amounts classified as a reduction of net sales, represent approximately 16 percent of 2007 net sales, the likelihood exists of materially different reported results if factors such as the level and success of the promotional programs or other conditions differ from expectations.

Inventory Valuation

Inventories are stated at the lower of cost or market (LCM), which reflects management s estimates of net realizable value. The inventory amounts are composed primarily of inventory items in both the Nutraceutical and Pharmaceutical segments of business. As a result of our Nutraceutical inventory being manufactured primarily on a purchase order basis, the quantity of both raw materials and finished goods inventory provides for minimal risk for potential overstock or obsolescence. Our Pharmaceutical inventory is valued at market values, which is lower than our cost basis.

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

The Company performed a sensitivity analysis to determine the impact of fluctuations in our estimates for inventory allowances. If our estimates used to value inventory were off by one percent of the total inventory balance, the impact would be an additional $0.2 million of income or expense.

Long Lived Assets

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

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

Goodwill and Other Intangible Assets