FIRST NORTHERN COMMUNITY BANCORP
Form DEF 14A
January 26, 2009

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

SCHEDULE 14A

Proxy Statement Pursuant to Section 14(a) of the Securities

Exchange Act of 1934

Filed by the Registrant [X]

Filed by a Party other than the Registrant [ ]

Check the appropriate box:

[ ] Preliminary Proxy Statement
[ ] Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))
[X] Definitive Proxy Statement
[ ] Definitive Additional Materials
[ ] Soliciting Material Pursuant to §240.14a-12

First Northern Community Bancorp

(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing fee (Check the appropriate box)

[X] No fee required.
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1) Title of each class of securities to which transaction applies:
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1) Amount Previously Paid:
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2) Form, Schedule or Registration Statement No.:
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3) Filing party:
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4) Date filed:
____

January 23, 2009

Dear Shareholder:

This letter is to inform you of an opportunity for First Northern Community Bancorp that requires us to conduct a special meeting of our shareholders.

U.S. Treasury Capital Purchase Program

First Northern Community Bancorp recently received preliminary approval to participate in the U.S. Department of the Treasury's voluntary Capital Purchase Program ("Capital Purchase Program"), which is a component of the Treasury Department's Troubled Asset Relief Program. This Capital Purchase Program was established in response to the current economic conditions and designed to encourage qualifying U.S. financial institutions to increase the flow of lending to businesses and consumers in order to restore liquidity and stability in the U.S. financial system. The Company has received preliminary approval for the maximum amount available to it of approximately $17,500,000.

Under the Capital Purchase Program, we would issue to the Treasury:

- Up to $17,500,000 of non-voting preferred shares that carry a 5% coupon for each of the first five years and 9% per year thereafter, and

- Warrants to purchase shares of our common stock amounting to 15% of the senior preferred amount, with the exercise price based on the trailing 20-day average closing price of our common stock ending December 17, 2008—based on our average closing price of $7.09 during this period, the Treasury would be eligible to exercise warrants to purchase approximately 370,240 shares of our common stock, or approximately 4.29% of our outstanding shares.

Special Meeting of Shareholders, Proxy Statement and Voting Instructions

Your Board of Directors believes that it is in the best interest of the Company and its shareholders to conduct a Special Meeting of Shareholders for the purpose of considering and voting on the adoption of proposed amendments to our Articles of Incorporation to authorize the issuance of preferred shares to the Treasury and create an exception to the preemptive rights provisions for the common stock subject to the warrants and thereby allow us to participate in the Capital Purchase Program.

The Special Meeting of Shareholders will be held on February 26, 2009, for shareholders of record as of the close of business on December 30, 2008.

Enclosed with this letter are the following materials related to the special meeting:

- Notice of the Special Meeting of Shareholders
- Proxy Statement
- Proxy Card
- Business Reply Postage-Paid Envelope

We encourage you to read these materials because they contain important information about the purpose of the Special Meeting. The proposed amendments will each require the approval of a majority of the outstanding shares of our common stock to be adopted. Your failure to vote will have the effect of a vote Against these proposals.

The Board of Directors of First Northern Community Bancorp urges you to vote For each of the amendments to our Articles of Incorporation and For a proposal to adjourn the meeting to solicit additional votes if necessary.

You may submit your vote by mail, or in person at the Special Meeting. Detailed voting instructions are included in the enclosed Proxy Statement and Proxy Card.

Please Participate by Voting

Whether or not you plan to attend the special meeting, it is important that your shares be represented and voted.

Sincerely,

Owen J. Onsum
President and Chief Executive Officer

FIRST NORTHERN COMMUNITY BANCORP

195 North First Street

Dixon, California 95620

NOTICE OF SPECIAL MEETING

SHAREHOLDERS

To be held February 26, 2009

January 23, 2009

To our Shareholders:

You are cordially invited to attend a Special Meeting of Shareholders of First Northern Community Bancorp (the "Company"), to be held at the Company's Operations Center at 210 Stratford Avenue, Dixon, CA, on February 26, 2009, at 9:00 am, local time, for the following purposes:

1. To consider and act upon an amendment to Article 4 of our Articles of Incorporation to authorize the issuance of up to 18,500 shares of preferred stock, which we may only use to participate in the U.S. Department of the Treasury's TARP Capital Purchase Program instituted under the Emergency Economic Stabilization Act of 2008 (the "Capital Purchase Program").

2. To consider and act upon an amendment to Article 5 of our Articles of Incorporation to create an exception to the preemptive rights provided to our shareholders with respect to the common stock subject to the warrants that would be issued to the Treasury pursuant to the Capital Purchase Program.

3. To approve the adjournment or postponement of the Special Meeting, if necessary, to solicit additional proxies, in the event (a) there are not sufficient votes at the time of the Special Meeting to adopt Proposals 1 or 2, or (b) a quorum is not present at the time of the Special Meeting.

4. To consider and act upon such other matters as may properly come before the Special Meeting or any adjournment thereof.

Important notice regarding the availability of Proxy Materials for the Special Meeting of Shareholders: This Proxy Statement is available on our website at www.thatsmybank.com under the "Investor Relations" link by clicking "SEC Filings."

Shareholders of record of the Company at the close of business on December 30, 2008, are entitled to notice of and to vote at the Special Meeting and at any adjournment thereof. Each shareholder is entitled to one vote for each share of common stock held regarding each matter properly brought before the Special Meeting.

Your vote is important, regardless of the number of shares of common stock you own. Whether or not you plan to attend the Special Meeting in person, it is important that your shares of common stock be represented. Please sign, date and return your proxy card. A return envelope, which requires no postage if mailed in the U.S., has been provided for your use. If you later decide to revoke your proxy for any reason, you may do so in the manner described in the accompanying Proxy Statement.

By Order of the Board of Directors,

Owen J. Onsum
President and Chief Executive Officer

EVERY SHAREHOLDER'S VOTE IS IMPORTANT. IF YOU ARE UNABLE TO BE PRESENT AT THE SPECIAL MEETING, YOU ARE REQUESTED TO COMPLETE AND RETURN PROMPTLY THE ENCLOSED PROXY SO THAT YOUR SHARES WILL BE REPRESENTED. A STAMPED, ADDRESSED ENVELOPE IS ENCLOSED FOR YOUR CONVENIENCE.

FIRST NORTHERN COMMUNITY BANCORP
195 North First Street
Dixon, California

PROXY STATEMENT FOR SPECIAL MEETING OF SHAREHOLDERS

INTRODUCTION

We are sending this Proxy Statement and the accompanying proxy card to you as a shareholder of First Northern Community Bancorp, a California corporation (the “Company”), in connection with the solicitation of proxies for the Special Meeting of Shareholders (the “Special Meeting”) to be held at the Company’s Operations Center, 210 Stratford Avenue, Dixon, CA, on February 26, 2009, at 9:00 am, local time. We are soliciting proxies for use at the Special Meeting, or any adjournment thereof. Only shareholders of record as of the close of business on December 30, 2008, which we refer to as the record date, will be entitled to vote at the Special Meeting. The proxy solicitation materials for the Special Meeting will be distributed to shareholders of record on or about January 23, 2009.

INFORMATION ABOUT THE SPECIAL MEETING

Why is the Company holding a Special Meeting of Shareholders?

The recent challenges experienced as a result of turbulence in the financial markets make it necessary for financial institutions to not only preserve existing capital, but also to supplement such capital as a protection against further economic difficulties. Recently, certain capital-raising opportunities have been developed by the U.S. Department of the Treasury through the TARP Capital Purchase Program instituted under the Emergency Economic Stabilization Act of 2008 (the “Capital Purchase Program”) that provide us with options to raise capital in a relatively low-cost manner. While we believe our capital position is already sound, management would like to be in a position to take advantage of these opportunities to ensure that during these uncertain times, we are well-positioned to support our existing operations as well as anticipated future growth. Participation in the Capital Purchase Program will require amendments to our Articles of Incorporation. These amendments require shareholder approval.

When is the Special Meeting?

February 26, 2009 at 9:00 am, local time.

Where will the Special Meeting be held?

At the Company’s Operations Center, 210 Stratford Avenue, Dixon, CA.

What matters will be voted upon at the Special Meeting?

You will be voting on the following matters:

1. A proposal to amend Article 4 of our Articles of Incorporation to authorize the issuance of up to 18,500 shares of preferred stock, which we may only use to participate in the Capital Purchase Program.

2. A proposal to amend Article 5 of our Articles of Incorporation to create an exception to the preemptive rights provided to our shareholders with respect to the common stock subject to the warrants that would be issued to the Treasury pursuant to the Capital Purchase Program.

3. A proposal to approve the adjournment or postponement of the Special Meeting, if necessary, to solicit additional proxies, in the event (a) there are not sufficient votes at the time of the Special Meeting to adopt Proposals 1 or 2, or (b) a quorum is not present at the time of the Special Meeting.

Why are the amendments to Articles 4 and 5 of the Company's Articles of Incorporation necessary?

On December 18, 2008 we received preliminary approval to participate in the Capital Purchase Program. Under the Capital Purchase Program, we will be able to sell senior preferred shares on standardized terms to the Treasury in amounts equal to between 1% and 3% of our risk-weighted assets or between $5,915,000 and $17,500,000. Participation in the Capital Purchase Program is completely voluntary; however, we believe it is advisable to take advantage of this opportunity to raise additional relatively low-cost capital to ensure that during these uncertain times, we are well-positioned to support existing operations as well as anticipated future growth. Because we are not currently authorized to issue preferred shares under our Articles of Incorporation, it is necessary for us to amend our Articles of Incorporation to authorize preferred shares in order to participate in the Capital Purchase Program. Because our Articles of Incorporation currently give the holders of our common stock a preemptive right to purchase a proportionate share of any common stock that may be offered or sold by the Company, it is necessary to amend Article 5 of our Articles of Incorporation to create an exception to the preemptive rights provided to our shareholders with respect to the common stock subject to the warrants that would be issued to the Treasury pursuant to the Capital Purchase Program. Even if the proposed amendments to our Articles of Incorporation are adopted, there can be no assurance that we will participate in the Capital Purchase Program.

Who can vote?

You are entitled to vote if you held of record shares of our common stock as of the close of business on December 30, 2008, the record date for the Special Meeting.

Each shareholder is entitled to one vote for each share of common stock held of record on December 30, 2008. At the close of business on December 30, 2008, there were 8,638,710 shares of our common stock outstanding and entitled to vote. The common stock is our only class of voting securities.

Regardless of the number of shares you own, it is important that you vote on the proposals.

How do I vote?

Your shares of common stock may be voted by one of the following methods:

- by submitting the enclosed proxy card; or
- in person at the meeting.

Voting in Person. If you attend the Special Meeting, you may deliver your completed proxy card in person or you may vote by completing a ballot, which will be available at the Special Meeting.

If you hold your shares of common stock in "street name" through a broker, a financial institution or another nominee, then that nominee is considered the shareholder of record for voting purposes and should give you instructions for voting your shares of common stock. As a beneficial owner, you have the right to direct that nominee how to vote the shares of common stock held in your account. Your nominee may only vote the shares of our common stock that it holds for you in accordance with your instructions. If you have instructed a broker, a financial institution or another nominee to vote your shares of common stock, the below-described options for revoking your proxy do not apply and instead you must follow the instructions provided by your nominee to change your vote.

If you hold your shares of common stock in "street name" and wish to attend the Special Meeting and vote in person, you must bring an account statement or letter from your broker, financial institution or other nominee authorizing you to vote on behalf of such nominee. The account statement or letter must show that you were the direct or indirect beneficial owner of the shares of common stock on December 30, 2008, the record date for voting at the Special Meeting.

How will my shares of common stock be voted?

Those shares of common stock represented by properly executed proxy cards that are received prior to the Special Meeting, and not subsequently revoked, will be voted in accordance with your instructions by your proxy. If you submit a valid proxy card prior to the Special Meeting, but do not complete the voting instructions, your proxy will vote your shares of common stock as recommended by the Board of Directors, except in the case of broker non-votes where applicable, as follows:

- "FOR" Proposal 1, the adoption of the amendment to Article 4 of our Articles of Incorporation to authorize the Company to issue up to 18,500 shares of preferred stock pursuant to the Capital Purchase Program.
- "FOR" Proposal 2, the adoption of an amendment to Article 5 of our Articles of Incorporation to create an exception to the preemptive rights provided to our shareholders with respect to the common stock that we may issue and sell pursuant to the warrants that would be issued to the Treasury pursuant to the Capital Purchase Program.

- "FOR" Proposal 3, the approval of the adjournment or postponement of the Special Meeting, if necessary, to solicit additional proxies, in the event (a) there are not sufficient votes at the time of the Special Meeting to adopt Proposals 1 or 2, or (b) a quorum is not present at the time of the Special Meeting.

If you hold your shares in a bank or brokerage account you should be aware that if you fail to instruct your bank or broker how to vote, the bank or broker is not permitted to vote your shares in its discretion on your behalf on non-routine items such as Proposals 1, 2 and 3. This will have the effect of a vote against Proposals 1 and 2 but will not have an effect on Proposal 3.

No dissenters' rights exist for any action proposed to be taken at the Special Meeting. If any other matters are properly presented for voting at the Special Meeting, the persons named as proxies will vote on those matters, to the extent permitted by applicable law, in accordance with their business judgment.

How do I change or revoke my proxy?

Shareholders who submit proxies retain the right to revoke them at any time before they are exercised. Unless revoked, the shares of common stock represented by such proxies will be voted at the Special Meeting and any adjournment or postponement thereof. You may revoke your proxy at any time before it is actually exercised at the Special Meeting by giving notice of revocation to the Company in writing. The last-dated proxy you submit (by any means) will supersede any previously submitted proxy. If you hold your shares of common stock in "street name" and instructed your broker, financial institution or other nominee to vote your shares of common stock and you would like to revoke or change your vote, then you must follow the instructions of your nominee.

If I vote in advance, can I still attend the Special Meeting?

Yes. You are encouraged to vote promptly, by returning your signed proxy card by mail, so that your shares of common stock will be represented at the Special Meeting. However, voting your shares of common stock does not affect your right to attend the Special Meeting and vote your shares of common stock in person.

What constitutes a quorum and how many votes are required for adoption of the proposals?

Under our Bylaws, a quorum is a majority of the shares of common stock outstanding. Shares of common stock may be present in person or represented by proxy at the Special Meeting. Both abstentions and broker non-votes are counted as being present for purposes of determining the presence of a quorum. There were 8,638,710 shares of Company common stock outstanding and entitled to vote on December 30, 2008, the record date. A majority of the outstanding shares of common stock, or 4,319,356 shares of common stock, present in person or represented by proxy, will constitute a quorum. A quorum must exist to conduct business at the Special Meeting.

If a broker indicates on the form of Proxy that it does not have discretionary authority as to certain shares of common stock to vote on a particular matter, those shares of common stock will be considered as present for the purpose of determining the presence of a quorum but not entitled to vote with respect to that matter.

Votes Required for the Approval of the Proposals. To approve the three proposals, the following votes are required:

Item	Vote Required	Impact of Abstentions and Broker Non-Votes, if any
Proposal 1 Amendment to Article 4 of our Articles of Incorporation	Approval of a majority of the outstanding shares of common stock	Abstention will not count as a vote cast on the proposal but has the same effect as a vote "AGAINST" the proposal Broker non-vote will have the same effect as a vote "AGAINST" the proposal
Proposal 2 Amendment to Article 5 of our Articles of Incorporation	Approval of a majority of the outstanding shares of common stock	Abstention will not count as a vote cast on the proposal but has the same effect as a vote "AGAINST" the proposal Broker non-vote will have the same effect as a vote "AGAINST" the proposal
Proposal 3 Adjournment or postponement of the Special Meeting	Approval of a majority of the shares of common stock present in person or represented by proxy and entitled to vote at the Special Meeting	Abstention will not count as a vote cast on the proposal but has the same effect as a vote "AGAINST" the proposal Broker non-vote will not count as a vote on the proposal and will not affect the outcome of the vote

What is the recommendation of the Company's Board of Directors?

The Company's Board of Directors recommends that each shareholder vote "FOR" the adoption of the amendment to Article 4 of our Articles of Incorporation to authorize the Company to issue up to 18,500 shares of preferred stock pursuant to the Capital Purchase Program, FOR the adoption of the amendment to Article 5 of our Articles of Incorporation to create an exception to the preemptive rights provided to our shareholders with respect to the shares of common stock subject to the warrants to be issued pursuant to the Capital Purchase Program and "FOR" any proposal to adjourn the Special Meeting, if necessary, to solicit additional proxies, in the event there are not sufficient votes at the time of the Special Meeting to adopt the proposed amendments to Articles 4 and 5 of our Articles of Incorporation or a quorum is not present at the time of the Special Meeting.

What will the consequences be if the proposed amendments to Article 4 and 5 of our Articles of Incorporation are not approved?

If both of the proposed amendments to our Articles of Incorporation are not approved, we will not be able to participate in the Capital Purchase Program. We may have a distinct disadvantage against competitors in the current environment and may be limited in our future ability to raise additional capital to ensure that during these uncertain times, we are well-positioned to support our existing operations as well as anticipated future growth.

Although we have not yet entered into a binding agreement with the Treasury to participate in the Capital Purchase Program, if we enter into such an agreement prior to obtaining shareholder approval and shareholder approvals for Proposals 1 and 2 are not obtained at the Special Meeting, we will be required to include such proposals at a shareholder meeting no less than once in each subsequent six-month period beginning on January 1, 2009 until both such approvals are obtained or made.

Who pays the cost of proxy solicitation?

We will pay the costs of preparing, assembling, printing and mailing this Proxy Statement, the accompanying proxy card and other related materials and all other costs incurred in connection with the solicitation of proxies on behalf of the Board of Directors. Although we are soliciting proxies by mailing these proxy materials to our shareholders, our directors, officers and employees also may solicit proxies by further mailing, personal contact, telephone, facsimile or electronic mail without receiving any additional compensation for such solicitations. Arrangements will also be made with brokerage firms, financial institutions and other nominees who are record holders of shares of common stock for the forwarding of solicitation materials to the beneficial owners of such shares of common stock. We will reimburse these brokers, financial institutions and nominees for their reasonable out-of-pocket costs in connection therewith.

Who should I call if I have questions concerning this proxy solicitation or the proposals to be considered at the Special Meeting?

If you have any questions concerning the proposals to be considered at the Special Meeting or voting your shares, please call Owen John Onsum, President/CEO or Louise A. Walker, Sr. EVP/CFO at (707) 678-3041.

TARP CAPITAL PURCHASE PROGRAM

General

The purpose of the Special Meeting is to approve amendments to our Articles of Incorporation that will allow us to participate in the Capital Purchase Program should the Board of Directors deem it to be in the best interest of the Company and our shareholders. On October 14, 2008 the Treasury announced the Capital Purchase Program to encourage U.S. financial institutions to build capital to increase the flow of financing to U.S. businesses and consumers and to support the U.S. economy. The purpose of the Capital Purchase Program is to increase confidence in U.S. banks and increase the confidence of U.S. banks to deploy their capital. Increased confidence is expected to result in increased lending. The Capital Purchase Program was instituted by the Treasury pursuant to the Emergency Economic Stabilization Act of 2008 which provides up to $700 billion to the Treasury to buy mortgages and other assets from financial institutions and to invest and take equity positions in financial institutions. Under the Capital Purchase Program, the Treasury has been authorized to purchase up to $250 billion of senior preferred shares from qualifying financial institutions that meet eligibility requirements and that elected to apply for participation by November 14, 2008.

On November 14, 2008 we filed an application with respect to the Capital Purchase Program and on December 18, 2008 we received preliminary approval to participate in the Capital Purchase Program. The Company has received preliminary approval for the maximum amount available to the Company under the Capital Purchase Program of approximately $17,500,000.

Under the Program, we would issue to the Treasury:

- Up to $17,500,000 of non-voting preferred shares that carry a 5% coupon for each of the first five years and 9% per year thereafter, and

- Warrants to purchase shares of our common stock amounting to 15% of the senior preferred amount, with the exercise price based on the trailing 20-day average closing price of our common stock ending December 17, 2008—based on our average closing price of $7.09 during this period, the Treasury would be eligible to exercise warrants to purchase approximately 370,240 shares of our common stock, or approximately 4.29% of our outstanding shares.

In order to participate in the Capital Purchase Program, we will be required to amend our Articles of Incorporation to authorize the preferred stock and to create an exception to the preemptive rights provisions of our Articles of Incorporation with respect to the common stock subject to the warrants. If we do not receive timely shareholder approval for both amendments to our Articles of Incorporation we may lose our ability to participate in the Capital Purchase Program.

Reasons for Participation in the Capital Purchase Program

The recent challenges for the U.S. and global economies experienced as a result of turbulence in the financial markets make it necessary for financial institutions not only to

preserve existing capital, but also to supplement such capital as a protection against further economic difficulties. Recently, certain relatively low cost capital-raising opportunities have been presented by the federal government that provides us with options to generate capital in a relatively low-cost manner. While we believe our capital position is already sound, we would like to consider these opportunities to ensure that, during these uncertain times, we are well-positioned to support our existing operations as well as anticipated future growth. We believe that our participation in the Capital Purchase Program will:

- increase credit availability to our consumers and businesses;

- improve our capital positistyle="TEXT-INDENT: 0pt; DISPLAY: block">

The Company used the following assumptions to calculate the fair value of the derivative liability:

The discount to the amended Notes Payable for the warrants which is being accreted using the effective interest method resulted in interest expense for the three and six months ended December 31, 2009 of $22 and $65, respectively and $33 of interest expense for each of the three and six months ended December 31, 2008. The Company also recorded an additional $10 of deferred financing costs as a result of the issuance of the amended Notes Payable. The Company is amortizing to interest expense the deferred financing costs using the effective interest method. The amount amortized to interest expense relating to the amended Notes Payable for the three and six months ended December 31, 2009 was less than $1 and $3, respectively and $2 for each of the three and six months ended December 31, 2008.

The following table presents the stated value/principal of each of the securities issued in connection with the debt outstanding as of December 31, 2009:

The Company accreted $54 and $1,137, in the three and six months ended December 31, 2008, for the Series C Preferred Stock dividend and for the acceleration of the deemed dividend from the beneficial conversion feature of the Series C Preferred Stock, respectively (See Note 11(d) Series C Redeemable Convertible Preferred Stock). Such amounts are included in the accompanying Condensed Consolidated Statement of Operations.

The weighted average interest rate paid was 8.59% in each of the three and six months ended December 31, 2009 and 2008. As of December 31, 2009 and June 30, 2009, the Company had accrued and unpaid interest of approximately $267 and $192, respectively, for the Notes Payable and Convertible Note Payable. (See Note 7(a) above).

As of December 31, 2009, the Company is in technical default of the financial covenants of the amended Notes Payable relating to the Company's tangible net worth requirements and minimum net capital requirements and has not repaid the amended Notes Payable in the amount of $7,805. As of February 12, 2010, the Company continues to work with the note holders to work out the refinancing of the amounts due under the amended Notes Payable, however at this time the Company and the note holders have not yet come to an agreement and the note holders have not exercised their rights, with respect to the amended Notes Payable, based on the Company's non payment of the amended Notes Payable. Upon the occurrence of an event of default, the note holders have the right, to give the Company an Acceleration Notice, which would (i) accelerate the payment of all unpaid principal and accrued and unpaid interest (including default interest (if any)) on the Notes Payable, and (ii) require the Company to pay an amount equal to the sum of all of the amounts described in the preceding clause (i) in same day funds on the payment date specified in the notice, provided such date must be at least two (2) business days following the date on which the notice is delivered to the Company.

INTEGRATED BIOPHARMA, INC. AND SUBSIDIARIES
NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
AS OF DECEMBER 31, 2009 AND JUNE 30, 2009 AND FOR THE
THREE AND SIX MONTHS ENDED DECEMBER 31, 2009 AND 2008
(in thousands, except share and per share amounts)

Note 8. Significant Risks and Uncertainties

(a) Concentrations of Credit Risk-Cash. The Company maintains balances at several financial institutions. Deposits at each institution are insured by the Federal Deposit Insurance Corporation up to $250 through December 31, 2013. The FDIC is temporarily insuring deposits up to $250 at financial institutions through December 31, 2013. As of January 1, 2010, the Company had $870 of uninsured deposits at these financial institutions.

(b) Concentrations of Credit Risk-Receivables. The Company routinely assesses the financial strength of its customers and, based upon factors surrounding the credit risk of its customers, establishes an allowance for uncollectible accounts and, as a consequence, believes that its accounts receivable credit risk exposure beyond such allowances is limited. The Company does not require collateral in relation to its trade accounts receivable credit risk. The amount of the allowance for uncollectible accounts and other allowances was $241 and $298 at December 31, 2009 and June 30, 2009, respectively.

(c) Major Customers. For the three and six months ended December 31, 2009, approximately 76.6 % of revenues was derived from two customers. For the three and six months ended December 31, 2008 approximately 79.2% and 79.0% of revenues were derived from three customers. Accounts receivable as of December 31, 2009 from the two major customers represented approximately 37% of total accounts receivable. The loss of these customers would have an adverse affect on the Company's operations. Major customers are those customers who account for more than 10% of net sales.

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

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

Approximately 50% the Company's employees, located in its New Jersey facility, are covered by a union contract. The contract was renewed in August 2006 and will expire in August 2010.

Note 9. Commitments and Contingencies

(a) Leases

Related Party Leases. Warehouse and office facilities are leased from Vitamin Realty Associates, L.L.C., a limited liability company, which is 90% owned by the Chairman of the Company's Board of Directors, a director and majority shareholder and certain of his family members and 10% owned by an employee of the Company. The lease provides for minimum annual rental payment of $324 through May 31, 2015 plus increases in real estate taxes and building operating expenses. On July 1, 2004, the Company leased an additional 24,810 square feet of warehouse space on a month-to month basis. Rent expense for the three and six months ended December 31, 2009 and 2008 on these leases were $177 and $183 and $405 and $393, respectively, and are included in both cost of sales and selling and administrative expenses in the accompanying Condensed Consolidated Statements of Operations. At December 31,

2009 and June 30, 2009, the Company had an outstanding obligation of $544 and $443, respectively, included in accounts payable in the accompanying Condensed Consolidated Balance Sheet.

INTEGRATED BIOPHARMA, INC. AND SUBSIDIARIES
NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
AS OF DECEMBER 31, 2009 AND JUNE 30, 2009 AND FOR THE
THREE AND SIX MONTHS ENDED DECEMBER 31, 2009 AND 2008
(in thousands, except share and per share amounts)

Other Lease Commitments. The Company has entered into certain non-cancelable operating lease agreements expiring up through May 31, 2015, related to office and warehouse space, equipment and vehicles. Total rent expense, including real estate taxes and maintenance charges, was approximately $240 and $265 for the three months ended December 31, 2009 and 2008 and $532 and $536 for the six months ended December 31, 2009 and 2008, respectively. Rent expense is stated net of sublease income of approximately $9 for each of the three months ended December 31, 2009 and 2008 and $18 for each of the six month periods ended December 31, 2009 and 2008. This is included in both cost of sales and selling and administrative expenses in the accompanying Condensed Consolidated Statements of Operations.

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

(b) Consulting Agreements.

Effective July 1, 2008, the Company entered into a three year consulting agreement with Jeffrey Leach (an employee of the Company as of the date of the agreement and its former President and Chief Executive Officer). Pursuant to the consulting agreement, Mr. Leach is to provide consulting and specialized services to the Company in the area of finance, acquisition of product lines, refinancing of existing debt and capital raising under the direction of the Company, including for any company in which the Company has an ownership interest. In connection with the consulting agreement, the Company issued 250,000 shares of the Company's common stock to Mr. Leach.

(c) Legal Proceedings.

On June 16, 2008, the State of Texas filed an Original Petition for injunctive relief and civil penalties in the 101st Judicial District, Dallas, Texas (the "Court"), against AgroLabs Inc., the Company, Kurt Cahill and Gerald Kay (collectively the "Defendants"). The State alleged that the Defendants sold or distributed juices and dietary supplements marketed with inappropriate disease and nutritional claims. AgroLabs has appeared in the lawsuit and filed an answer denying all claims. Additionally, AgroLabs filed a counterclaim against the State for declaratory relief, in which AgroLabs sought a declaratory judgment from the Court that the State's causes of action were preempted under federal law because the product benefit claims at issue are fully compliant with applicable federal law.

INTEGRATED BIOPHARMA, INC. AND SUBSIDIARIES
NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
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THREE AND SIX MONTHS ENDED DECEMBER 31, 2009 AND 2008
(in thousands, except share and per share amounts)

The Company and Mr. Kay filed motions to dismiss the lawsuit for lack of personal jurisdiction. In November 2009, the State of Texas agreed to dismiss the Company and Mr. Kay from the lawsuit. The parties have now resolved all of the remaining issues in this lawsuit. Neither party has admitted any liability. Under the settlement agreement, the Company will make a payment to the State of Texas in the amount of $130,000 to be allocated to the State of Texas' judicial fund for programs approved by the Texas Supreme Court that provide basic civil legal services to the indigent; attorneys' fees and investigation costs incurred by the Office of the Attorney General; and investigative costs incurred by the Texas Department of State Health Services. The Company recognized this payment obligation in its results of operations for the three and six months ended December 31, 2009.

On April 23, 2009, Braker Five & Eight Investors, L.P., (the “Landlord”) filed an Original Petition relief and damages pursuant to a Lease Agreement for the premises located in Austin, Texas in the 126th Judicial District, Travis County, Texas, against BevSpec, Inc., Bioscience Technologies, Inc. dba The Organic Beverage Company, and Integrated BioPharma, Inc., as Guarantor (collectively, the “Defendants”). The Landlord has sued for sums due under the Lease under breach of contract and guaranty theories. The Company believes it has several meritorious defenses which would relieve it of all liability to the Landlord and has filed an answer in which it generally denies liability to the Landlord and asserts several affirmative defenses. The parties are presently engaged in the discovery process; no trial date has been set. The Company is unable, at this time, to make a determination as to the likelihood of an unfavorable outcome or to estimate the amount or range or possible loss or gain and the impact, if any, this claim will have on the Company and its operations.

On or about August 10, 2009, AgroLabs, Inc. commenced an action in the Superior Court of New Jersey, Law Division, against defendants Kurt E. Cahill, Cheryl A. Cahill, Joseph E. Cahill, Jr. and Monty C. Lloyd (all of whom were previously employed by AgroLabs, Inc.) for, among other things, breach of contract, breach of fiduciary duty, negligent performance of duties and other and related relief. On or about September 1, 2009, the defendants removed the action to the United States District Court for the District of New Jersey. On or about September 15, 2009, the defendants filed an answer and affirmative defenses. The defendants, however, asserted no counterclaims. The parties have exchanged initial disclosures and other information, and the parties have also engaged in settlement discussions. In the absence of a settlement, the Company is unable to make a determination as to the likelihood of a favorable outcome or to estimate the amount or range or possible loss or gain and the impact, if any, of this claim will have on the Company and its operations.

Note 10. Related Party Transactions

The Company has a verbal consulting agreement with Eugene Kay, a former employee of the Company and a brother of E. Gerald Kay, the Chairman of the Company’s Board of Directors, a director and majority shareholder. This agreement is on a month-to-month basis for $1 per month. The total consulting expense recorded per this agreement for each of the three and six months ended December 31, 2009 and 2008 was $3 and $6 in each period. The Company had another consulting agreement with EVJ, LLC, a limited liability company controlled by Robert Kay, a director of the Company, the Chairman of its subsidiary, Paxis, and a brother of E. Gerald Kay and Eugene Kay. This agreement was assumed by and became a liability of the Company as a part of the Company's acquisition of Paxis in the fiscal year ended June 30, 2004. The total consulting expense under this agreement was $15 for the six month period ended December 31, 2008 and is included in discontinued operations in the accompanying condensed consolidated statement of operations. The agreement was terminated in August 2008.

Carl DeSantis, a director of the Company and a member of CD Financial (see Note 7(a)) and CD Financial have guaranteed certain liabilities of the Company. On April 7, 2009, CD Financial entered into a Guaranty Agreement with Creative Flavors, Inc. ("CFC"), a major supplier of the Company, guaranteeing up to $500 of the Company's outstanding obligation with CFC. The guaranty is continuing and remains in effect until terminated by written notice to CFC. As of December 31, 2009, the Company had an outstanding obligation to CFC in the amount of $907, which amount is included in accounts payable in the Company's Condensed Consolidated Balance Sheet.

On July 1, 2009, the Company entered into a credit and payment agreement (the "Payment Agreement") with a major supplier, Triarco, Inc. ("Triarco"). Under the terms of the Payment Agreement, the Company is obligated to pay its past due balance in eight equal installments of $50 beginning August 1, 2009 and Mr. DeSantis agreed to separately guaranty (the "Personal Guaranty") the Company's obligations to Triarco. In exchange, Triarco agreed to extend additional credit of $400 (the "Additional Amount Outstanding") on net thirty day terms beginning with trade payables dated June 24, 2009. The Personal Guaranty is limited to the lesser of the aggregate amount owed to Triarco, or $800. As of December 31, 2009, the Company owes Triarco $135, $32 under the Additional Amount Outstanding and $104 was past due, these amounts are included in accounts payable in the Company's Condensed Consolidated Balance Sheet.

CD Financial and Mr. DeSantis did not receive any compensation from the Company in connection with these guarantees.

In August 2008, the Company ceased allocating corporate overhead to iBio and entered into a Transitional Services Agreement (the "TS Agreement") with iBio. The transitional services agreement permitted the Company to continue to provide certain corporate services to iBio in exchange for a management charge. The scope of these services was limited to legal, strategic financial planning, SEC reporting, and tax services by certain corporate employees of the Company. The TS Agreement provided for a per annum fee of $100. In the six months ended December 31, 2009 and 2008, the Company billed iBio approximately $8 and $37, respectively under the TS Agreement. The TS Agreement was terminated in August 2009.

See Note 7(a) and (b) – Notes Payable and Convertible Note Payable – CD Financial, LLC for related party securities transactions.

See Note 9(a) - Leases for related party lease transactions.

Note 11. Equity Transactions

(a) Stock Option Plan and Warrants. There were no stock options or warrants issued in the three and six months ended December 31, 2009. During the three and six months ended December 31, 2008, there were stock options authorized by the Board of Directors and issued in January 2009 to Company employees and Directors to purchase 1,000,000 shares of common stock and warrants to purchase 500,000 shares of common stock at $0.80 in connection with the amended Notes Payable agreement (See Note 7(b) Notes Payable). During the three and six months ended December 31, 2009 and 2008, the Company has incurred stock compensation expense of $281 and $462 and $559 and $761, respectively. Included in discontinued operations is stock compensation of $5 and $21 for the three and six months ended December 31, 2008. In the six month period ended December 31, 2008, certain key executives and a significant shareholder of the Company exercised stock options for shares of common stock of 2,095,852 which provided cash proceeds to the Company of approximately $1,341.

(b) Restricted Stock Award. There were no restricted stock awards issued in the three and six months ended December 31, 2009 and 2008, respectively.

(c) Consulting Agreements. Effective July 1, 2008, the Company entered into two three-year consulting agreements which resulted in the issuance of 350,000 shares of the Company's common stock. On the effective date of these consulting agreements, the Company recognized prepaid consulting expenses of $830 with a corresponding increase

in common stock and additional paid in capital. During the three and six months ended December 31, 2009 and 2008, the Company amortized $49 and $69, and $98 and $138, respectively, to selling and administrative expenses in the Company's Condensed Consolidated Statement of Operations. The consulting expenses will continue to be amortized into selling and administrative expenses over the three year terms, of the consulting agreements.

Of the common stock issued in connection with the consulting agreements, 100,000 shares of common stock have not been registered under the Securities Act of 1933, as amended (the "Securities Act"), and were issued and sold in reliance upon the exemption from registration contained in Section 4(2) of the Securities Act and Regulation D promulgated thereunder. These shares of common stock may not be offered or sold in the United States in the absence of an effective registration statement or exemption from the registration requirements under the Securities Act. In March 2009, these 100,000 shares were cancelled as the related consulting agreement was rescinded by both parties.

(d) Series C Preferred Stock. On February 21, 2008, the Company raised $5,788 in net proceeds from the sale of 6,000 shares of the Company’s Series C Preferred Stock, par value $1,000 per share, at a purchase price of $1,000 per share. Upon issuance of the Series C Preferred Stock, the Company recorded the beneficial conversion feature of $1,216 and such amounts were being accreted over the five year period until the mandatory redemption date of the Series C Preferred Stock, the fifth anniversary of closing.

During July and August 2008, all 6,269 Series C Preferred Stock (inclusive of cumulative dividends of 269 shares of Series C Preferred Stock) were converted into 2,639,204 shares of the Company’s common stock. The conversion resulted in an increase to common stock of $5 and additional paid in capital of $6,264. Also during the six months ended December 31, 2008, the Company incurred a deemed dividend from beneficial conversion feature of the Series C Preferred Stock of $1,137 as a result of accelerating the accretion of the beneficial conversion feature and the discount, respectively.

Dividends of the Series C Preferred Stock were 10% per annum, payable on an annual basis, by the Company in shares of the Company's Series C Preferred Stock. Accordingly, the Company had accrued approximately $216 at June 30, 2008, and incurred $54 during the six months ended December 31, 2008, which were paid in Series C Preferred Stock and cash for the fractional shares during the period ended December 31, 2008. The redemption of the shares of Series C Preferred Stock accelerated a payment of a dividend on the Series C Preferred Stock.

Note 12. Income Taxes

The Company recognizes deferred tax assets, net of applicable valuation allowances, related to net operating loss carry-forwards and certain temporary differences and deferred tax liabilities related to certain temporary differences. The Company recognizes a future tax benefit to the extent that realization of such benefit is considered to be more likely than not. This determination is based on projected taxable income and tax planning strategies. Otherwise, a valuation allowance is applied.

In the fiscal year ended June 30, 2009, the Company’s deferred tax asset as well as projected taxable income was reviewed for expected utilization using the “more likely than not” approach by assessing the available positive and negative evidence surrounding its recoverability. A full valuation allowance of $5,955 was recorded in the fiscal year ended June 30, 2009, against the Company’s deferred tax asset, as it was determined based upon past losses, the Company’s liquidity concerns and the current economic environment, that it was “more likely than not” that the Company’s deferred tax assets may not be realized. In future years, if the deferred tax assets are determined by management to be more likely than not to be realized, the recognized tax benefits relating to the reversal of the valuation allowance will be recorded.

Item 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANICAL 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 Report 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 elsewhere herein and the Company's Annual Report on Form 10-K.

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

Business Outlook

Our future results of operations and the other forward-looking statements contained in this 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, pending divestitures, future economic conditions, revenue, pricing, gross margin and costs, the tax rate, and pending legal proceedings. We are focusing on 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 Form 10-Q.

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

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

Critical Accounting Policies and Estimates

There have been no changes to our critical accounting policies in the six months ended December 31, 2009. Critical accounting policies and the significant estimates made in accordance with them are regularly discussed 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, 2009.

Results of Operations

Our results from operations in the following table, which for the three and six months ended December 31, 2008, have been reclassified as a result of discontinued operations, sets forth the income statement data of our results as a percentage of net sales for the periods indicated:

For the six months ended December 31, 2009 compared to the six months ended December 31, 2008

Sales, net. Sales, net, for the six months ended December 31, 2009 and 2008 were $19.8 million and $20.5 million, respectively, a decrease of $754 or 3.7%. The decrease is comprised of the following:

For the six months ended December 31, 2009, approximately 77% of total net sales were derived from two customers as compared to 79% of total net sales from three customers for the six months ended December 31, 2008. The loss of any of these customers would have an adverse affect on our operations. We continue to expand our customer base by expanding from selling our proprietary branded Nutraceutical products primarily to “club” stores to the retail sales segment and expanding our sales in the international market and e-commerce markets.

The decrease in our net sales is the result of a decrease our branded proprietary Nutraceutical product line of approximately $1.3 million due to declining sales of our original three products introduced to the market four years ago. Management believes that these products may have reached their marketing life cycle and has focused its efforts on introducing new products into the market place, including packaging, product size and new formulations. Our contract manufacturing product sales increased by approximately $0.7 million primarily from increased sales from its major customer, Herbalife. The remaining Nutraceutical product lines had net sales decreases of approximately $0.2 million compared to the prior period.

Cost of sales. Cost of sales decreased by $1.0 million to $14.2 million for the six months ended December 31, 2009 as compared to $15.2 million for the six months ended December 31, 2008. Cost of sales decreased as a percentage of sales to 71.8% for the six months ended December 31, 2009 as compared to 74.2% for the six months ended December 31, 2008. The decrease in cost of goods sold amount was primarily the result of decreased sales. The lower cost of goods sold as a percentage of sales is the result of increased sales in the contract manufacturing business which has fixed manufacturing costs regardless of the dollars sold and better cost controls in our branded nutraceutical business line.

Selling and Administrative Expenses. Selling and administrative expenses were $6.1 million for the six months ended December 31, 2009, as compared to $7.7 million for the six months ended December 31, 2008, a decrease of $1.6 million or 20.9%. As a percentage of sales, net, selling and administrative expenses were 30.9% for the six months ended December 31, 2009 and 37.6% for the prior comparable period.

The net decrease in selling and administrative expenses of $1.6 million is mainly due to decreases aggregating approximately $1.6 million in:

- advertising and marketing ($0.6 million)
- compensation and employee benefits ($0.3 million)
- stock compensation expenses ($0.2 million),
- travel and entertainment ($0.2 million)
- professional fess ($0.1 million) and
- other expenses ($0.2 million);

Our advertising and marketing costs decreased by approximately $0.6 million in the six months ended December 31, 2009 compared to the six months ended December 31, 2008 primarily as a result of a decrease in in-store demonstrations (“demos”) of our products at one of our customers store locations. Our management has temporally suspended demos as a form of advertising with this customer as it was determined that it was not producing a significant enough increase in the number of units being sold through to the consumer.

Our compensation and employee benefits decreased by $0.3 million as a result of decreasing our corporate staff by two employees, the suspension of the company match of employee’s retirement savings deferrals in the profit sharing plan and the decreased cost resulting from switching professional employment organizations (reduced administrative costs with outsourcing our human resources functions and employee benefits). Our stock compensation expense decreased by $0.2 million primarily due to the significant decrease in the market value of our common stock from year to year at the measurement date of the stock option grants (the market value of our common stock is one of several factors used in determining the fair value of the stock compensation at the time of the award and ultimate expense to our consolidated financial statements).

Travel and entertainment decreased by $0.2 million as a result of the decreased head count in the corporate staff and decreased spending on meals and entertainment. Professional fees decreased by $0.1 million due to decreased costs incurred in the six months ended December 31, 2009 for the spin off of iBio compared to the 2008 period. Other expenses decreased by $0.2 million as a result of decreased spending primarily on product liability insurance, office

expenses, investor relations and regulatory costs.

Other expense, net. Other expense, net was approximately $1.4 million for the six months ended December 31, 2009 compared to $1.0 million for the six months ended December 31, 2008, an increase of $0.4 million. Interest expense represents approximately $1.4 million of other expense in the six months ended December 31, 2009 compared to $1.1 million in the six months ended December 31, 2008, an increase of $0.26 million. The increase in interest expense is attributable to the adoption of the accounting for derivative liabilities in connection with embedded derivatives in our Convertible Note Payable and Warrants issued in connection with our amended Notes Payable. The balance of the increase, or approximately $0.14 million, is primarily a result of settling with the State of Texas for $0.10 million.

Federal and state income tax, net. For the six months ended December 31, 2009 and December 31, 2008, we had a small amount of state tax expenses. We continue to provide a full reserve on our deferred tax assets as it has been determined that based upon past losses, the Company's liquidity concerns and the current economic environment, that it is "more likely than not" that the Company's deferred tax assets may not be realized.

Loss from discontinued operations. On August 18, 2008, we completed our distribution of our Biotechnologies segment. The net loss from our Biotechnologies segment, included in our results for the six months ended December 31, 2008, was $0.1 million.

On March 17, 2009, we entered into a stock purchase agreement and consummated the sale of all of the issued and outstanding shares of common stock of our wholly owned subsidiary Hauser to Cedarburg. On January 31, 2009, the Company sold substantially all the assets of Paxis net of its outstanding payables, to Hauser in consideration for the outstanding intercompany debt between these two subsidiaries of the Company. The net loss from the Pharmaceuticals segment, included in our results for the six months ended December 31, 2008, was $1.4 million.

In June 2009, we discontinued the operations of our subsidiary TOBC, as we do not have the financial resources to pursue the further development of the Syzmo™ product in the very competitive energy drink market place. The net loss from this discontinued product line was $0.4 million for the six months ended December 31, 2008.

Net loss applicable to common shareholders. Our net loss applicable to common shareholders for the six months ended December 31, 2009 was $1.9 million as compared to $12.5 million for the six months ended December 31, 2008. This decrease in net loss applicable to common shareholders of approximately $10.6 million is primarily the result of decreases in: (i) operating losses from continuing operations of $1.9 million, (ii) income tax expense of $6.0 million, (iii) net losses from discontinued operations of $1.9 million; and (iv) Series C Preferred Stock dividend and deemed dividend from beneficial conversion of the preferred stock of $1.2 million, which was a result of the holders of the Series C Preferred Stock converting their respective shares of Series C Preferred Stock into shares of our common stock in the six months ended December 31, 2008. This conversion resulted in permanent equity for us, as the Series C Preferred Stock replaced $6,000 of our current and long-term obligations. These decreases were offset by an increase in other expenses, net of $0.4 million.

For the three months ended December 31, 2009 compared to the three months ended December 31, 2008

Sales, net. Sales, net, for the three months ended December 31, 2009 and 2008 were $8.8 million and $11.2 million, respectively, a decrease of $2.4 million or 21.7%. The decrease is comprised of the following:

For the three months ended December 31, 2009, approximately 76% of total net sales were derived from two customers as compared to 79% of total net sales from three customers for the three months ended December 31, 2008. The loss of any of these customers would have an adverse affect on our operations. We continue to expand our customer base by expanding from selling our proprietary branded Nutraceutical products primarily to “club” stores to the retail sales segment and expanding our sales in the international market and e-commerce markets.

The decrease in our net sales is the result of decreased sales in our branded proprietary Nutraceutical product line of approximately $2.5 million in part due to decreased sales to the club stores that the Company has been dependent on for sales for its products. In the three months ended December 31, 2009, the Company experienced increased competition in the market place for product placement in the club level stores. The remaining Nutraceutical product lines had net sales increases of approximately $0.1 million compared to the prior period.

Cost of sales. Cost of sales decreased by $1.9 million to $6.4 million for the three months ended December 31, 2009 as compared to $8.3 million for the three months ended December 31, 2008. Cost of sales decreased as a percentage of sales to 73.3% for the three months ended December 31, 2009 as compared to 74.6% for the three months ended December 31, 2008. The decrease in costs of sales as a percentage of net sales is primarily the result of incurring $0.2 million less in mark downs in our inventory in the 2009 period compared to the 2008 period. We also experienced a decrease in the cost of freight of approximately $0.3 million in the three months ended December 31, 2009 compared to the three months ended December 31, 2008, as a result of changing our products over from glass to plastic, significantly decreasing the weight factor in our shipping costs.

Selling and Administrative Expenses. Selling and administrative expenses were $2.9 million for the three months ended December 31, 2009, as compared to $3.8 million for the three months ended December 31, 2008, a decrease of $0.9 million or 24.3%. As a percentage of sales, net, selling and administrative expenses were 33.0% for the three months ended December 31, 2009 and 34.1% for the prior comparable period.

The net decrease in selling and administrative expenses of $0.9 million is mainly due to decreases in:

- advertising and marketing ($0.3 million)
- other expenses ($0.2 million)
- travel and entertainment ($0.1 million)
- professional fees ($0.1 million), and
- compensation and employee benefits ($0.1 million).

Our advertising and marketing costs decreased by approximately $0.3 million in the three months ended December 31, 2009 compared to the three months ended December 31, 2008 primarily as a result of a net decrease of $0.1 million in in-store demonstrations (“demos”) of our products at two of our customers stores’ locations in the aggregate amount of $0.2 million offset by increased spending in our major customers stores of $0.1 million. The remaining decrease of $0.2 million is from decreases in advertising for customer accounts that we did not sell product to in the three months ended December 31, 2009 compared to the three months ended December 31, 2008. Other expenses decreased by $0.2 million as a result of decreased spending primarily on product liability insurance, office expenses, investor relations and regulatory costs. Travel and entertainment decreased by $0.1 million as a result of the decreased head count in the corporate staff and decreased spending on meals and entertainment. Professional fees decreased by $0.1 million due to decreased costs incurred in the three months ended December 31, 2009 on the State

of Texas litigation compared to the three months ended December 31, 2008. Lastly, our compensation and employee benefits decreased by $0.1 million from the three months ended December 31, 2009 from the three months ended December 31, 2008 due a reduction of work force, the suspension of the company match of employee's retirement savings deferrals in the profit sharing plan and the decreased cost resulting from switching professional employment organizations (reduced administrative costs with outsourcing our human resources functions and employee benefits).

Other expense, net. Other expense, net was approximately $0.43 million for the three months ended December 31, 2009 compared to $0.47 million for the three months ended December 31, 2008, a net decrease of $0.03 million. Interest expense represents approximately $0.64 million of other expense in the three months ended December 31, 2009 compared to $0.53 million in the three months ended December 31, 2008, a decrease of $0.11 million. The decrease in interest expense is attributable to the maturity of the amended Notes Payable on November 15, 2009, offset by an increase in interest as a result of the accounting policy adoption for derivative liabilities in connection with embedded derivatives in our Convertible Note Payable and Warrants issued in connection with our amended Notes Payable. Another decrease in other expense, net, in the approximate amount of $0.3 million, is also a result of the adoption of the accounting for derivative liabilities and relates to the increased fair value of the derivative liabilities from the September 30, 2009 valuation to December 31, 2009, resulting in a gain of $0.3 million for the three months ended December 31, 2009. Another component of other expenses is a litigation settlement amount of $0.1 million relating to the State of Texas in the three months ended December 31, 2009 with no such expenditure in the three months ended December 31, 2008.

Federal and state income tax, net. For the three months ended December 31, 2009 and December 31, 2008, we had a small amount of state tax expenses. We continue to provide a full reserve on our deferred tax assets as it has been determined that based upon past losses, the Company’s liquidity concerns and the current economic environment, that it is “more likely than not” that the Company’s deferred tax assets may not be realized.

Loss from discontinued operations. On March 17, 2009, we entered into a stock purchase agreement and consummated the sale of all of the issued and outstanding shares of common stock of our wholly owned subsidiary Hauser to Cedarburg. On January 31, 2009, the Company sold substantially all the assets of Paxis net of its outstanding payables, to Hauser in consideration for the outstanding intercompany debt between these two subsidiaries of the Company. The net loss from the Pharmaceuticals segment, included in our results for the three months ended December 31, 2008, was $0.6 million.

In the June 2009, we discontinued the operations of our subsidiary TOBC, as we do not have the financial resources to pursue the further development of the Syzmo™ product in the very competitive energy drink market place. The net loss from this discontinued product line was $0.1 million for the three months ended December 31, 2008.

Net loss applicable to common shareholders. Our net loss applicable to common shareholders for the three months ended December 31, 2009 was $1.0 million as compared to $8.2 million for the three months ended December 31, 2008. This decrease in net loss applicable to common shareholders of approximately $7.2 million is primarily the result of decreases in: (i) operating losses from continuing operations of $0.4 million, (ii) income tax expense of $6.0 million; and (iii) net losses from discontinued operations of $0.7 million.

Seasonality

The Nutraceutical business segment 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 seems 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 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.

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:

At December 31, 2009, our working capital deficit was approximately $3.7 million, an increase of approximately $0.7 million from the working capital deficit of approximately $2.9 million at June 30, 2009. Our current assets increased by $0.3 million and our current liabilities increased by $1.1 million.

Net cash provided by operating activities of $0.7 million in the six months ended December 31, 2009, includes a net loss of $1.9 million. After excluding the effects of non-cash expenses, including, depreciation and amortization, compensation expense for employee stock options and consultants and changes in the fair value of derivative liabilities, the adjusted cash used in operations before the effect of the changes in working capital components was $0.3 million. Cash was provided by continuing operations from our working capital assets and liabilities in the amount of approximately $0.9 million, was the result of a decrease in accounts receivable of $0.9 million, offset by an increase in inventory of $0.2 million and prepaid expenses and other assets of $0.1 million, and decreases in accounts payable, accrued expenses and other liabilities of $0.3 million. Less than approximately $0.07 million of cash was provided by operating activities from our discontinued operations.

Net cash used in operating activities of $1.7 million for the six months ended December 31, 2008 included a net loss of $11.3 million. After excluding the effects of non-cash expenses, including the net loss from discontinued operations, deferred taxes, deferred income taxes, impairment charges, depreciation and amortization and compensation expense for employee stock options, the adjusted cash used before the effect of the changes in working capital components was approximately $2.8 million. Cash provided by continuing operations from working capital components in the amount of approximately $0.7 million was the result of a decrease in accounts receivable of $0.7 million, inventory of $0.5 million and prepaid expenses and other expenses of $0.1 million, offset by a net decrease in accounts payable and accrued expenses and other liabilities of approximately $0.7 million. Approximately $0.4 million of cash was provided by operating activities of our discontinued operations.

Cash used in investing activities was used for the purchase of fixed assets and was less than $0.1 million in each of the periods ended December 31, 2009 and 2008, respectively. Cash used in our discontinued operations for investing activities for the six months ended December 31, 2008 was also less than $0.1 million.

Cash provided by financing activities was $0.3 million in the six months ended December 31, 2009 and was provided by financing under a short term promissory note entered into with CD Financial, a related party and the holder of our Convertible Note Payable. Cash provided by financing activities was approximately $1.3 million for the six months ended December 31, 2008 and was the result of proceeds from employees exercising stock options during the period.

Our condensed consolidated financial statements have been prepared assuming that the Company will continue as a going concern. We have incurred recurring operating losses and negative operating cash flows for our past three fiscal years ended June 30, 2009, including a net loss attributable to common stockholders of $19.4 million and negative operating cash flows of $2.8 million for the fiscal year ended June 30, 2009. For the six months ended December 31, 2009, we had net operating losses of approximately $0.5 million and a net loss of approximately $1.9 million. As of December 31, 2009, we had cash and cash equivalents of approximately $1.5 million, a working capital deficit of approximately $3.7 million, primarily attributable to the matured amended Notes Payable in the amount of $7.8 million which were due on November 15, 2009 and an accumulated deficit of $46.3 million.

As of the date of this filing, February 12, 2010, we have not received a Default Notice, nor have we finalized any extensions or refinancing of the amended Notes Payable in the amount of $7.8 million which were due on November 15, 2009. We have historically raised capital in private placements; however, we continue to sustain losses and we only recently had positive cash flows from our operations; this may hinder our efforts in raising new capital or refinancing our matured debt. Additionally, current economic conditions may cause a decline in business and consumer spending which could adversely affect our business and financial performance. These factors raise substantial doubt as to our ability to continue as a going concern. Assuming we are able to raise additional capital and/or refinance at least $7.8 million of the amended Notes Payable, and we are not adversely affected by the current economic conditions, we believe that our available capital as of December 31, 2009, plus the additional $7.8 million of additional capital and/or refinancing of our amended Notes Payable, will enable us to continue as a going concern through the second quarter of our fiscal year ending June 30, 2011. There are no assurances that we will be able to raise additional capital as needed or refinance our current amended Notes Payable upon acceptable terms, nor that the current economic conditions will not negatively impact us. If the current economic conditions negatively impact us or our operations, or we are unable to raise additional capital as needed upon acceptable terms, it would have a material adverse effect on the Company.

Our total annual commitments at December 30, 2009 for long term non-cancelable leases of approximately $553 consists of obligations under operating leases for facilities and lease agreements for the rental of warehouse equipment, office equipment and automobiles.

Capital Expenditures

The Company's capital expenditures for the six months ended December 31, 2009 and 2008 were approximately $0.1 million and less than $0.1 million, respectively. The Company has budgeted approximately $0.3 million for capital expenditures for fiscal 2010. The total amount is expected to be funded from cash provided from its operations and from lease financing.

Off-Balance Sheet Arrangements

The Company has no off-balance sheet arrangements.

Recent Accounting Pronouncement

Please refer to Note 1 to our condensed financial statements which can be found at page 6, herein.

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 4T. 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, 2009, 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 three and six months ended December 31, 2009 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

On June 16, 2008, the State of Texas filed an Original Petition for injunctive relief and civil penalties in the 101st Judicial District, Dallas, Texas (the "Court"), against AgroLabs Inc., the Company, Kurt Cahill and Gerald Kay (collectively the "Defendants"). The State alleged that the Defendants sold or distributed juices and dietary supplements marketed with inappropriate disease and nutritional claims. AgroLabs has appeared in the lawsuit and filed an answer denying all claims. Additionally, AgroLabs filed a counterclaim against the State for declaratory relief, in which AgroLabs sought a declaratory judgment from the Court that the State's causes of action were preempted under federal law because the product benefit claims at issue are fully compliant with applicable federal law.

The Company and Mr. Kay filed motions to dismiss the lawsuit for lack of personal jurisdiction. In November 2009, the State of Texas agreed to dismiss the Company and Mr. Kay from the lawsuit. The parties have now resolved all of the remaining issues in this lawsuit. Neither party has admitted any liability. Under the settlement agreement, the Company will make a payment to the State of Texas in the amount of $130,000 to be allocated to the State of Texas' judicial fund for programs approved by the Texas Supreme Court that provide basic civil legal services to the indigent; attorneys' fees and investigation costs incurred by the Office of the Attorney General; and investigative costs incurred by the Texas Department of State Health Services. The Company recognized this payment obligation in its results of operations for the three and six months ended December 31, 2009.

On April 23, 2009, Braker Five & Eight Investors, L.P., (the “Landlord”) filed an Original Petition relief and damages pursuant to a Lease Agreement for the premises located in Austin, Texas in the 126th Judicial District, Travis County, Texas, against BevSpec, Inc., Bioscience Technologies, Inc. dba The Organic Beverage Company, and Integrated BioPharma, Inc., as Guarantor (collectively, the “Defendants”). The Landlord has sued for sums due under the Lease under breach of contract and guaranty theories. The Company believes it has several meritorious defenses which would relieve it of all liability to the Landlord and has filed an answer in which it generally denies liability to the Landlord and asserts several affirmative defenses. The parties are presently engaged in the discovery process; no trial date has been set. The Company is unable, at this time, to make a determination as to the likelihood of an unfavorable outcome or to estimate the amount or range or possible loss or gain and the impact, if any, this claim will have on the Company and its operations.

On or about August 10, 2009, AgroLabs, Inc. commenced an action in the Superior Court of New Jersey, Law Division, against defendants Kurt E. Cahill, Cheryl A. Cahill, Joseph E. Cahill, Jr. and Monty C. Lloyd (all of whom were previously employed by AgroLabs, Inc.) for, among other things, breach of contract, breach of fiduciary duty, negligent performance of duties and other and related relief. On or about September 1, 2009, the defendants removed the action to the United States District Court for the District of New Jersey. On or about September 15, 2009, the defendants filed an answer and affirmative defenses. The defendants, however, asserted no counterclaims. The parties have exchanged initial disclosures and other information, and the parties have also engaged in settlement discussions. In the absence of a settlement, the Company is unable to make a determination as to the likelihood of a favorable outcome or to estimate the amount or range or possible loss or gain and the impact, if any, of this claim will have on the Company and its operations.

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, 2009, 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, 2009.

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

None.

Item 3. DEFAULTS UPON SENIOR SECURITIES

None.

Item 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

Two matters were submitted for a vote at the Company's Annual Meeting of Stockholders held on November 23, 2009 by holders of record of the Company's common stock, par value of $0.002 per share at the close of business on October 23, 2009 (the "Record Date"), which was determined to be 20,249,442 shares of common stock. The holders of 13,223,600 shares of common stock, a majority, were present in person or represented by proxy at the meeting. The three matters and the results of the voting at the Annual Meeting are as follows:

1. To elect three Class I directors for a three year term to serve until 2012 Annual Meeting of Stockholders. The number of votes cast at the meeting for the election of the three (3) directors for a three year term to the 2012 Annual Meeting of Stockholders were as follows:

2. To ratify increasing the number of shares under the Company's Stock Option Plan from 11,000,000 to 13,000,000 were as follows:

3. To ratify the appointment of Friedman LLP as the Company's independent auditors. The number of votes cast at the meeting for the proposal to ratify Friedman LLP as the Company's independent auditors were as follows:

Item 5. OTHER INFORMATION

On November 24, 2009, MDC, a wholly owned subsidiary of the Company, entered into a $300 promissory note (the "CD Note") with CD Financial, LLC ("CD Financial"). The CD Note matures on November 24, 2010 and bears interest at the rate of 5%. Interest is accrued monthly and is payable upon maturity. In the event of default or change of control occurs; CD Financial has the right to accelerate the payment of all unpaid principal and accrued and unpaid interest (including default interest (if any)) on this promissory note. For a more detailed description of the promissory note from CD Financial please see copy of the CD Note attached as Exhibit 10.1 to this Quarterly Report on Form 10-Q.

Item 6. EXHIBITS

(a) Exhibits

Exhibit Number	
10.1	Promissory Note, dated November 24, 2009
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.

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 12, 2010	By: /s/ E. Gerald Kay E. Gerald Kay President and Chief Executive Officer
Date: February 12, 2010	By: /s/ Dina L. Masi Dina L. Masi Chief Financial Officer & Senior Vice President

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