INTEGRATED BIOPHARMA INC
Form 10-Q
November 09, 2018

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington D.C. 20549

FORM 10-Q

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

For the quarterly period ended September 30, 2018

OR

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

For the transition period from to

Commission File Number 001-31668

INTEGRATED BIOPHARMA, INC.

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

Delaware	**22-2407475**
(State or other jurisdiction of incorporation or organization)	*(I.R.S. Employer Identification No.)*

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

(888) 319-6962

(Registrant's telephone number, including Area Code)

Not Applicable

(Former name, former address and former fiscal year, if changed since last report)

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

Yes X No ____

Indicate by check mark whether the Registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes X No ____

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

Large accelerated filer	Accelerated filer	Non-accelerated filer	Emerging growth company	Smaller reporting company

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

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

Yes _ No __X__

As of November 9, 2018, there were 29,365,943 shares of common stock, $0.002 par value per share ("Common Stock"), of the registrant outstanding.

INTEGRATED BIOPHARMA, INC. AND SUBSIDIARIES

FORM 10-Q QUARTERLY REPORT

For the Three Months Ended September 30, 2018

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Cautionary Statement Regarding Forward-Looking Statements

Certain statements in this Quarterly Report on Form 10-Q may constitute “forward-looking” statements as defined in Section 27A of the Securities Act of 1933, as amended (the “Securities Act”), Section 21E of the Securities Act of 1934, as amended (the “Exchange Act”), the Private Securities Litigation Reform Act of 1995 (the “PSLRA”) or in releases made by the Securities and Exchange Commission (“SEC”), all as may be amended from time to time. Such forward-looking statements involve known and unknown risks, uncertainties and other important factors that could cause the actual results, performance or achievements of Integrated BioPharma, Inc. and its subsidiaries (collectively, the “Company”) or industry results, to differ materially from any future results, performance or achievements expressed or implied by such forward-looking statements. Such factors include, among others, changes in general economic and business conditions; loss of market share through competition; introduction of competing products by other companies; the timing of regulatory approval and the introduction of new products by the Company; changes in industry capacity; pressure on prices from competition or from purchasers of the Company's products; regulatory changes in the pharmaceutical manufacturing industry and nutraceutical industry; regulatory obstacles to the introduction of new technologies or products that are important to the Company; availability of qualified personnel; the loss of any significant customers or suppliers; and other factors both referenced and not referenced in the Company’s Annual Report on Form 10-K for the fiscal year ended June 30, 2018 (“Form 10-K”), as filed with the SEC. Statements that are not historical fact are forward-looking statements. Forward-looking statements can be identified by, among other things, the use of forward-looking language, such as the words, “plan”, “believe”, “expect”, “anticipate”, “intend”, “estimate”, “project”, “may”, “will”, “would”, “could”, “should”, “seeks”, or “scheduled to”, or other similar words, negative of these terms or other variations of these terms or comparable language, or by discussion of strategy or intentions. These cautionary statements are being made pursuant to the Securities Act, the Exchange Act and the PSLRA with the intention of obtaining the benefits of the “safe harbor” provisions of such laws. The Company cautions investors that any forward-looking statements made by the Company are not guarantees or indicative of future performance. Important assumptions and other important factors that could cause actual results to differ materially from those forward-looking statements with respect to the Company, include, but are not limited to, the risks and uncertainties affecting its businesses described in Item 1 of the Company’s Form 10-K and in other securities filings by the Company. Although the Company believes that its plans, intentions and expectations reflected in or suggested by such forward-looking statements are reasonable, actual results could differ materially from a projection or assumption in any of the forward-looking statements. The Company’s future financial condition and results of operations, as well as any forward-looking statements, are subject to change and inherent risks and uncertainties. The forward-looking statements contained in this Quarterly Report on Form 10-Q are made only as of the date hereof and the Company does not have or undertake any obligation to update or revise any forward-looking statements whether as a result of new information, subsequent events or otherwise, unless otherwise required by law.

ITEM 1. FINANCIAL STATEMENTS

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

	Three months ended September 30, 2018	2017
Sales, net	$10,304	$9,770
Cost of sales	9,085	8,765
Gross profit	1,219	1,005
Selling and administrative expenses	814	794
Operating income	405	211
Other income (expense), net:		
Interest expense	(200)	(233)
Change in fair value of derivative liabilities	9	(118)
Impairment on investment in iBio, Inc.	-	(83)
Total other expense, net	(191)	(434)
Income (loss) before income taxes	214	(223)
Income tax expense (benefit), net	55	(44)
Net income (loss)	$159	$(179)
Basic net income (loss) per common share	$0.01	$(0.01)
Diluted net income (loss) per common share	$0.01	$(0.01)
Weighted average common shares outstanding - basic	27,218,786	21,135,174
Add: Equivalent shares outstanding - Stock Options	744,818	-
Shares issuable upon conversion of Convertible Debt - CD Financial, LLC	-	-
Weighted average common shares outstanding - diluted	27,963,604	21,135,174

See accompanying notes to condensed consolidated financial statements.

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

	September 30, 2018	June 30, 2018
Assets		
Current Assets:		
Cash	$ 365	$ 228
Accounts receivable, net	3,381	3,796
Inventories	9,600	7,741
Other current assets	387	389
Total current assets	13,733	12,154
Property and equipment, net	1,604	1,651
Operating lease right-of-use assets	65	-
Operating lease right-of-use assets - Vitamin Realty, LLC	3,561	-
Deferred tax assets, net	640	671
Security deposits and other assets	121	92
Total Assets	$ 19,724	$ 14,568
Liabilities and Stockholders' Equity (Deficiency):		
Current Liabilities:		
Advances under revolving credit facility	$ 4,699	$ 4,894
Accounts payable (includes $77 and $141 due to related party)	6,044	4,184
Accrued expenses and other current liabilities	982	1,060
Current portion of long term debt, net	851	773
Current portion - Subordinated convertible note, net - CD Financial, LLC	-	5,269
Total current liabilities	12,576	16,180
Operating lease liabilities	65	-
Operating lease liabilities - Vitamin Realty, LLC	3,569	-
Long term debt, net	3,319	3,624
Total liabilities	19,529	19,804
Commitments and Contingencies		
Stockholders' Equity (Deficiency):		
Common Stock, $0.002 par value; 50,000,000 shares authorized; 29,400,843 and 21,170,074 shares issued, respectively 29,365,943 and 21,135,174 shares outstanding, respectively	59	42
Additional paid-in capital	50,028	44,773
Accumulated deficit	(49,793)	(49,952)
Less: Treasury stock, at cost, 34,900 shares	(99)	(99)
Total Stockholders' Equity (Deficiency)	195	(5,236)

Total Liabilities and Stockholders' Equity (Deficiency)	$ 19,724	$ 14,568

See accompanying notes to condensed consolidated financial statements.

INTEGRATED BIOPHARMA, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' (DEFICIENCY) EQUITY
FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2018
(in thousands, except shares)

	Common Stock		Additional	Accumulated	Treasury Stock		Total Stockholders' (Deficiency)
	Shares	Par Value	Paid-in-Capital	Deficit	Shares	Cost	Equity
Balance, June 30, 2018	21,170,074	$ 42	$ 44,773	$ (49,952)	34,900	$ (99)	$ (5,236)
Shares issued upon conversion of CD Financial, LLC Convertible Note, net	8,230,769	17	5,255	-	-	-	5,272
Net income	-	-	-	159	-	-	159
Balance, September 30, 2018	29,400,843	$ 59	$ 50,028	$ (49,793)	34,900	$ (99)	$ 195

See accompanying notes to condensed consolidated financial statements.

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INTEGRATED BIOPHARMA, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands, except share and per share amounts)
(Unaudited)

	Three months ended September 30, 2018	2017
Cash flows provided by operating activities:		
Net income (loss)	$159	$(179)
from operating activities:		
Depreciation and amortization	91	100
Accretion of financing instruments and other non cash interest	17	26
Stock based compensation	-	4
Change in deferred tax assets	31	(54)
Impairment on investment in iBio, Inc.	-	83
Change in fair value of derivative liabilities	(9)	118
Changes in operating assets and liabilities:		
Decrease (increase) in:		
Accounts receivable	415	1,347
Inventories	(1,858)	603
Other current assets	8	35
Operating lease right of use assets	112	-
Security deposits and other assets	(52)	(48)
(Decrease) increase in:		
Accounts payable	1,861	(455)
Accrued expenses and other liabilities	(70)	24
Operating lease liabilities	(112)	-
Net cash provided by operating activities	593	1,604
Cash flows from investing activities:		
Purchase of property and equipment	(18)	(107)
Cash contribution in AgroSport LLC	(8)	-
Net cash used in investing activities	(26)	(107)
Cash flows from financing activities:		
Advances under revolving credit facility	10,204	9,997
Repayments of advances under revolving credit facility	(10,400)	(10,768)
Repayments under term note payables	(184)	(544)
Repayments under capitalized lease obligations	(50)	(30)
Net cash used in financing activities	(430)	(1,345)
Net increase in cash	137	152
Cash at beginning of period	228	132
Cash at end of period	$365	$284
Supplemental disclosures of		

cash flow information:		
Interest paid	$201	$198
Income taxes paid	$2	$-

See accompanying notes to condensed consolidated financial statements.

INTEGRATED BIOPHARMA, INC. AND ITS SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(in thousands, except share and per share amounts)

(Unaudited)

Note 1. Principles of Consolidation and Basis of Presentation

Basis of Presentation of Interim Financial Statements

The accompanying condensed consolidated financial statements for the interim periods are unaudited and include the accounts of Integrated BioPharma, Inc., a Delaware corporation (together with its subsidiaries, the "Company"). The interim condensed consolidated financial statements have been prepared in conformity with Rule 8-03 of Regulation S-X of the Securities and Exchange Commission ("SEC") and therefore do not include information or footnotes necessary for a complete presentation of financial position, results of operations and cash flows in conformity with accounting principles generally accepted in the United States of America. However, all adjustments (consisting only of normal recurring adjustments) which are, in the opinion of management, necessary for a fair presentation of the financial position and operating results for the periods presented have been included. These condensed consolidated financial statements should be read in conjunction with the financial statements and notes thereto, together with Management's Discussion and Analysis of Financial Condition and Results of Operations, contained in the Company's Annual Report on Form 10-K for the fiscal year ended June 30, 2018 ("Form 10-K"), as filed with the SEC. The June 30, 2018 balance sheet was derived from audited financial statements, but does not include all disclosures required by accounting principles generally accepted in the United States of America. The results of operations for the three months ended September 30, 2018 are not necessarily indicative of the results for the full fiscal year ending June 30, 2019 or for any other period.

Nature of Operations

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

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

Accounting Policies

Accounting Pronouncements Recently Adopted

In May 2014, the FASB issued ASU 2014-09, “Revenue from Contracts with Customers”, Topic 606. This update affects any entity that either enters into contracts with customers to transfer goods or services or enters into contracts for the transfer of nonfinancial assets, unless those contracts are within the scope of other standards. The guidance in this update supersedes the revenue recognition requirements in Topic 605, Revenue Recognition and most industry-specific guidance.

INTEGRATED BIOPHARMA, INC. AND ITS SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(in thousands, except share and per share amounts)

(Unaudited)

The core principle of the guidance is that an entity should recognize revenue to illustrate the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The new guidance also includes a cohesive set of disclosure requirements that will provide users of financial statements with comprehensive information about the nature, amount, timing, and uncertainty of revenue and cash flows arising from a reporting organization’s contracts with customers. During 2016, the FASB issued several accounting updates (ASU No. 2016-08, 2016-10 and 2016-12) to clarify implementation guidance and correct unintended application of the guidance. The standard allows for either “full retrospective” adoption, meaning the standard is applied to all of the periods presented, or “modified retrospective” adoption, meaning the standard is applied only to the most current period presented in the financial statements. This new guidance was effective for the Company beginning on July 1, 2018, and Note 8 provides the related disaggregated revenue disclosures. The adoption of this standard using the modified retrospective approach did not have a material impact on the Company’s revenue recognition accounting policy or its Condensed Consolidated Financial Statements.

In January 2016, the FASB issued ASU No. 2016-01, Financial Instruments – Overall, (Subtopic 825-10) “Recognition and Measurement of Financial Assets and Financial Liabilities”, which addresses certain aspects of recognition, measurement, presentation and disclosure of financial instruments. Under this guidance, companies have to measure equity investments, except those accounted for under the equity method, at fair value and recognize changes in fair value in net income. The adoption of this standard on July 1, 2018, by Company did not have a material effect on its Condensed Consolidated Financial Statements.

In February 2016, the FASB issued ASU No. 2016-02, Leases (Topic 842), a new standard related to leases to increase transparency and comparability among organizations by requiring the recognition of right-of-use (“ROU”) assets and lease liabilities on the balance sheet. Most prominent among the changes in the standard is the recognition of ROU assets and lease liabilities by lessees for those leases classified as operating leases under current U.S. GAAP. Under the standard, disclosures are required to meet the objective of enabling users of financial statements to assess the amount, timing, and uncertainty of cash flows arising from leases. We will be required to recognize and measure leases existing at, or entered into after, the beginning of the earliest comparative period presented using a modified retrospective approach, with certain practical expedients available.

The standard will be effective for us beginning July 1, 2019, with early adoption permitted. We elected to early adopt the standard effective July 1, 2018. We elected the available practical expedients on adoption. In preparation for adoption of the standard, we have implemented internal controls and key system functionality to enable the preparation of financial information. The standard had a material impact on our consolidated balance sheets, but did not have a material impact on our consolidated income statements. The most significant impact was the recognition of

ROU assets and lease liabilities for operating leases, while our accounting for capital leases remained substantially unchanged.

INTEGRATED BIOPHARMA, INC. AND ITS SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(in thousands, except share and per share amounts)

(Unaudited)

Adoption of this standard resulted in the recognition of additional ROU assets and lease liabilities for operating leases and had the following impact to the reported results as of June 30, 2018 on our condensed consolidated financial statements:

Consolidated Statement of Financial Condition	As Reported	New Lease Standard Adjustment	As Adjusted
Operating lease right-of-use assets	$ -	$ 69	$ 69
Operating lease right-of-use assets - Vitamin Realty, LLC	-	3,668	3,668
Operating lease liabilities	-	69	69
Operating lease liabilities - Vitamin Realty, LLC	-	3,677	3,677
Current portion of long term debt, net	773	-	773
Long term debt, net	3,624	-	3,624
Current portion - Subordinated convertible note, net - CD Financial, LLC	5,269	-	5,269

In August, 2016, the FASB issued ASU No. 2016-15, “Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments,” which clarifies how certain cash receipts and payments are to be presented in the statement of cash flows. The guidance was effective for the Company on July 1, 2018 and did not have a material impact on the Company’s Condensed Consolidated Financial Statements.

Aside from the adoption of ASUs, as described above and the Leases policy described below, there have been no material changes during fiscal year 2019 in the Company’s significant accounting policies to those previously disclosed in the Company’s Annual Report on Form 10-K for the fiscal year ended June 30, 2018.

Significant Accounting Policies

Sales. The Company recognizes sales revenue, net of estimated sales returns and allowances, at the time it sells its products to the customer. The timing of a sale is determined when the product’s title and risk of loss transfers to the customer. The Company’s sales policy requires the customer to provide the Company with purchase orders with agreed upon selling prices and shipping terms.

Other Income. The Company recognizes revenue from service transactions at the time the service is performed and collection from the counter party is expected. Generally, revenue from services is classified as a component of other income (expense), net in the Company's Condensed Consolidated Statements of Operations when it relates to professional services and in sales, net when it relates to warehousing and distribution services.

Leases. We determine if an arrangement is a lease at inception. Operating leases are included in operating lease right-of-use (“ROU”) assets, other current liabilities, and operating lease liabilities on our consolidated balance sheets. Finance leases are included in property and equipment, current portion of long term debt, and long-term debt obligation on our consolidated statement of financial condition.

Operating lease ROU assets and operating lease liabilities are recognized based on the present value of the future minimum lease payments over the lease term at commencement date. As most of our leases do not provide an implicit rate, we use our incremental borrowing rate based on the information available at commencement date in determining the present value of future payments. The operating lease ROU asset also includes any lease payments made and excludes lease incentives and initial direct costs incurred. Our lease terms may include options to extend or terminate the lease when it is reasonably certain that we will exercise that option. Lease expense for minimum lease payments is recognized on a straight-line basis over the lease term.

We have lease agreements with lease and non-lease components, which are generally accounted for separately. For certain equipment leases, such as vehicles, we account for the lease and non-lease components as a single lease component.

INTEGRATED BIOPHARMA, INC. AND ITS SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(in thousands, except share and per share amounts)

(Unaudited)

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

The following options and potentially dilutive shares for convertible note payable (See Note 4. Senior Credit Facility, Subordinated Convertible Note, net - CD Financial, LLC and other Long Term Debt) were not included in the computation of weighted average diluted common shares outstanding as the effect of doing so would be anti-dilutive for the three months ended September 30, 2018 and 2017:

	Three Months Ended September 30,	
	2018	2017
Anti-dilutive stock options	150,000	2,692,017
Anti-dilutive shares for convertible notes payable	-	8,230,769
Total anti-dilutive shares	150,000	10,922,786

Additionally, in the three months ended September 30, 2018, the 8,230,769 common shares underlying the convertible note were potentially dilutive and therefore included in the diluted earnings per share calculation on a proportionate basis prior to the conversion into common shares of the Company as of July 24, 2018 and the results were antidilutive. (See Note 4. Senior Credit Facility, Subordinated Convertible Note, net - CD Financial, LLC and other Long Term Debt).

Note 2. Inventories

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

	September 30, 2018	June 30, 2018
Raw materials	$ 6,409	$4,179
Work-in-process	2,131	2,207
Finished goods	1,060	1,355
Total	$ 9,600	$7,741

INTEGRATED BIOPHARMA, INC. AND ITS SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(in thousands, except share and per share amounts)

(Unaudited)

Note 3. Property and Equipment, net

Property and equipment, net consists of the following:

	September 30, 2018	June 30, 2018
Land and building	$ 1,250	$ 1,250
Leasehold improvements	1,268	1,268
Machinery and equipment	5,931	5,917
Transportation equipment	6	6
	8,455	8,441
Less: Accumulated depreciation and amortization	(6,851)	(6,790)
Total	$ 1,604	$ 1,651

Depreciation and amortization expense recorded on property and equipment for the three months ended September 30, 2018 and 2017 was $66 and $75, respectively.

Note 4. Senior Credit Facility, Subordinated Convertible Note, net - CD Financial, LLC and other Long Term Debt

As of September 30, 2018 and June 30, 2018, the Company had the following debt outstanding:

	Principal Amount		Interest Rate	Maturity Date
	As of September 30, 2018	As of June 30,		

		2018		
Revolving advances under Senior Credit Facility with PNC Bank, National Association	$4,699	$4,894	5.25 %	2/19/2020
Installment Note with PNC Bank	1,511	1,672	5.75 %	2/19/2020
Installment Note with PNC Equipment Finance	78	101	4.57 %	7/29/2019
Promissory Note with CD Financial, LLC	1,714	1,714	6.00 %	2/29/2020
Promissory Note with Vitamin Realty, LLC	686	686	4.00 %	2/29/2020
Capitalized lease obligations	220	269	3.86% -9.26%	3/17/2019-12/8/2020
Total outstanding debt	8,908	9,336		
Less: Revolving Advances	(4,699)	(4,894)		
Prepaid financing costs	(39)	(45)		
Current portion of long term debt, net	(851)	(773)		
Long term debt, net	$3,319	$3,624		
Convertible Note payable - CD Financial, LLC	$-	$5,350	6.00 %	7/24/2018
Less: Discount for embedded derivative	-	(66)		
Prepaid financing costs	-	(15)		
Convertible Note payable, net - CD Financial, LLC	$-	$5,269		

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INTEGRATED BIOPHARMA, INC. AND ITS SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(in thousands, except share and per share amounts)

(Unaudited)

SENIOR CREDIT FACILITY

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

The Amended Loan Agreement provides for a total of $11,422 in senior secured financing (the “Senior Credit Facility”) as follows: (i) discretionary advances (“Revolving Advances”) based on eligible accounts receivable and eligible inventory in the maximum amount of $8,000 (the “Revolving Credit Facility”) and (ii) a term loan in the amount of $3,422 (the “Term Loan”). The Senior Credit Facility is secured by all assets of the Borrowers, including, without limitation, machinery and equipment, real estate owned by IHT Properties, and common stock of iBio owned by the Company. Revolving Advances bear interest at PNC’s Base Rate or the Eurodollar Rate, at Borrowers’ option, plus 2.75% (5.25% and 5.00% as of September 30 and June 30, 2018, respectively). The Term Loan bears interest at PNC’s Base Rate or the Eurodollar Rate, at Borrowers’ option, plus 3.25% (5.75% and 5.50% as of September 30 and June 30, 2018, respectively). Upon and after the occurrence of any event of default under the Amended Loan Agreement, and during the continuation thereof, interest shall be payable at the interest rate then applicable plus 2%. The Senior Credit Facility matures on February 19, 2020 (the “Senior Maturity Date”).

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

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

The Amended Loan Agreement contains customary mandatory prepayment provisions, including, without limitation the requirement to use any sales proceeds from the sale of iBio Stock to repay the Term Loan and to prepay the outstanding amount of the Term Note in an amount equal to twenty-five percent (25%) of Excess Cash Flow for each fiscal year commencing with the fiscal year ended June 30, 2016, payable upon delivery of the financial statements to PNC referred to in and required by the Amended Loan Agreement for such fiscal year but in any event not later than one hundred twenty (120) days after the end of each such fiscal year, which amount shall be applied ratably to the outstanding principal installments of the Term Loan in the inverse order of the maturities thereof.

INTEGRATED BIOPHARMA, INC. AND ITS SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(in thousands, except share and per share amounts)

(Unaudited)

The Amended Loan Agreement also contains customary representations and warranties, covenants and events of default, including, without limitation, (i) a fixed charge coverage ratio maintenance requirement and (ii) an event of default tied to any change of control as defined in the Amended Loan Agreement. As of September 30, 2018, the Company was in compliance with the fixed charge coverage ratio maintenance requirement and with the required annual payments of 25% of the Excess Cash Flow for each fiscal year commencing with the fiscal year ended June 30, 2016.

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

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

CD FINANCIAL, LLC

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

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

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

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