

NATURAL ALTERNATIVES INTERNATIONAL INC
Form 10-Q
May 15, 2017
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 MARCH 31, 2017

000-15701

(Commission file number)

NATURAL ALTERNATIVES INTERNATIONAL, INC.

(Exact name of registrant as specified in its charter)

Delaware
(State of incorporation)

84-1007839
(IRS Employer Identification No.)

1535 Faraday Drive

Carlsbad, California 92008

(760) 744-7340

(Address of principal executive offices) (Registrant's telephone number)

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

Yes No

Indicate by check mark whether NAI has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that NAI was required to submit and post such files).

Yes No

Indicate by check mark whether NAI is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company, or an emerging growth company.

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

Emerging Growth Company

If an emerging growth company, indicate by check mark if 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 mark whether NAI is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes No

As of May 15, 2017, 6,938,352 shares of NAI's common stock were outstanding, net of 1,043,325 treasury shares.

TABLE OF CONTENTS

	Page
SPECIAL NOTE ABOUT FORWARD-LOOKING STATEMENTS	1
PART I FINANCIAL INFORMATION	2
Item 1. Financial Statements	2
Condensed Consolidated Balance Sheets	2
Condensed Consolidated Statements of Income and Comprehensive Income	3
Condensed Consolidated Statements of Cash Flows	4
Notes to Condensed Consolidated Financial Statements	5
Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations	14
Item 4. Controls and Procedures	19
PART II OTHER INFORMATION	20
Item 1. Legal Proceedings	20
Item 1A. Risk Factors	22
Item 2. Unregistered Sales of Equity Securities and Use of Proceeds	22
Item 3. Defaults Upon Senior Securities	22
Item 5. Other Information	22
Item 6. Exhibits	23
SIGNATURES	24

SPECIAL NOTE ABOUT FORWARD-LOOKING STATEMENTS

Certain statements in this report, including information incorporated by reference, are “forward-looking statements” within the meaning of Section 27A of the Securities Act of 1933, Section 21E of the Securities Exchange Act of 1934, and the Private Securities Litigation Reform Act of 1995. Forward-looking statements reflect current views about future events and financial performance based on certain assumptions. They include opinions, forecasts, intentions, plans, goals, projections, guidance, expectations, beliefs, or other statements that are not statements of historical fact. Words such as “may,” “will,” “should,” “could,” “would,” “expects,” “plans,” “believes,” “anticipates,” “intends,” “estimates,” “predicts,” “forecasts,” or “projects,” or the negative or other variation of such words, and similar expressions may identify a statement as a forward-looking statement. Any statements that refer to projections of our future financial performance, our anticipated growth and trends in our business, our goals, strategies, focus and plans, and other characterizations of future events or circumstances, including statements expressing general optimism about future operating results, are forward-looking statements. Forward-looking statements in this report may include statements about:

• future financial and operating results, including projections of net sales, revenue, income or loss, net income or loss per share, profit margins, expenditures, liquidity, and other financial items;

• our ability to maintain or increase our patent and trademark licensing revenues;

• our ability to develop market acceptance for and increase sales of new products, develop relationships with new customers and maintain or improve existing customer relationships;

• our ability to protect our intellectual property;

• the outcome of currently pending litigation, regulatory and tax matters, the costs associated with such matters and the effect of such matters on our business and results of operations;

• our ability to improve operation efficiencies, manage costs and business risks and improve or maintain profitability;

• the costs associated with defending and resolving potential new claims, even if such claims are without merit;

• currency exchange rates, their effect on our results of operations, including amounts that may be reclassified as earnings, the availability of foreign exchange facilities, our ability to effectively hedge against foreign exchange risks and the extent to which we may seek to hedge against such risks;

• future levels of our revenue concentration risks;

- sources and availability of raw materials, including the limited number of suppliers of beta-alanine;
- inventories, including the adequacy of raw material and other inventory levels to meet future customer demand and the adequacy and intended use of our facilities;
- manufacturing and distribution channels, product sales and performance, and timing of product shipments;
- current or future customer orders, product returns, and potential product recalls;
- the impact on our business and results of operations and variations in quarterly net sales from seasonal and other factors;
- our ability to operate within the standards set by the U.S. Food and Drug Administration's (FDA) Good Manufacturing Practices (GMP);
- our ability to successfully expand our operations, including outside the United States (U.S.);
- the adequacy of our reserves and allowances;
- the sufficiency of our available cash, cash equivalents, and potential cash flows from operations to fund our current working capital needs and capital expenditures through the next 12 months;
- current and future economic and political conditions;
- the impact of accounting pronouncements and our adoption of certain accounting guidance; and
- other assumptions described in this report underlying or relating to any forward-looking statements.

The forward-looking statements in this report speak only as of the date of this report and caution should be taken not to place undue reliance on any such forward-looking statements. Forward-looking statements are subject to certain events, risks, and uncertainties that may be outside of our control. When considering forward-looking statements, you should carefully review the risks, uncertainties and other cautionary statements in this report as they identify certain important factors that could cause actual results to differ materially from those expressed in or implied by the forward-looking statements. These factors include, among others, the risks described under Item 1A of Part II and elsewhere in this report, as well as in other reports and documents we file with the United States Securities and Exchange Commission (SEC).

Unless the context requires otherwise, all references in this report to the “Company,” “NAI,” “we,” “our,” and “us” refer to Natural Alternatives International, Inc. and, as applicable, Natural Alternatives International Europe S.A. (NAIE).

1

PART I – FINANCIAL INFORMATION**ITEM 1. FINANCIAL STATEMENTS****NATURAL ALTERNATIVES INTERNATIONAL, INC.****Condensed Consolidated Balance Sheets****(In thousands, except share and per share data)**

	March 31, 2017 (Unaudited)	June 30, 2016
Assets		
Current assets:		
Cash and cash equivalents	\$ 22,593	\$ 19,747
Accounts receivable - less allowance for doubtful accounts of \$21 at March 31, 2017 and \$45 at June 30, 2016	7,919	13,217
Inventories, net	15,966	20,768
Income tax receivable	14	14
Prepays and other current assets	2,699	2,136
Total current assets	49,191	55,882
Property and equipment, net	17,788	15,167
Deferred income taxes	2,227	2,227
Other noncurrent assets, net	781	899
Total assets	\$ 69,987	\$ 74,175
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	\$ 4,073	\$ 12,821
Accrued liabilities	2,367	2,242
Accrued compensation and employee benefits	989	2,802
Income taxes payable	1,207	1,340
Total current liabilities	8,636	19,205

Other noncurrent liabilities, net	908		758	
Deferred rent	530		486	
Total liabilities	10,074		20,449	
Commitments and contingencies				
Stockholders' equity:				
Preferred stock; \$.01 par value; 500,000 shares authorized; none issued or outstanding	—		—	
Common stock; \$.01 par value; 20,000,000 shares authorized; issued and outstanding (net of treasury shares) 6,933,352 at March 31, 2017 and 6,868,628 at June 30, 2016	79		77	
Additional paid-in capital	21,933		21,138	
Accumulated other comprehensive loss	(279)	(680)
Retained earnings	44,254		38,553	
Treasury stock, at cost, 1,043,325 shares at March 31, 2017 and 958,049 at June 30, 2016	(6,074)	(5,362)
Total stockholders' equity	59,913		53,726	
Total liabilities and stockholders' equity	\$ 69,987		\$ 74,175	

See accompanying notes to condensed consolidated financial statements.

NATURAL ALTERNATIVES INTERNATIONAL, INC.**Condensed Consolidated Statements Of Income And Comprehensive Income****(In thousands, except share and per share data)****(Unaudited)**

	Three Months Ended March 31,		Nine Months Ended March 31,	
	2017	2016	2017	2016
Net sales	\$25,135	\$30,006	\$89,761	\$78,502
Cost of goods sold	20,017	23,549	70,479	61,643
Gross profit	5,118	6,457	19,282	16,859
Selling, general and administrative expenses	4,125	3,352	11,640	9,291
Income from operations	993	3,105	7,642	7,568
Other income (expense):				
Interest income	109	26	358	82
Interest expense	(1)			