

NATURAL ALTERNATIVES INTERNATIONAL INC

Form 10-Q

May 14, 2013

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**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, 2013**

**000-15701**

(Commission file number)

**NATURAL ALTERNATIVES INTERNATIONAL, INC.**

(Exact name of registrant as specified in its charter)

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**Delaware**  
(State of incorporation)

**84-1007839**  
(IRS Employer Identification No.)

**1185 Linda Vista Drive**

**San Marcos, California 92078**  
(Address of principal executive offices)

**(760) 744-7340**  
(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.

Large accelerated filer  Accelerated filer  Non-accelerated filer  Smaller reporting company   
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 9, 2013, 6,900,255 shares of NAI's common stock were outstanding, net of 490,422 treasury shares.

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**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, ap 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 the following:

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 develop relationships with new customers and maintain or improve existing customer relationships;

our ability to protect our intellectual property;

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

currency exchange rates, their effect on our results of operations, including amounts that may be reclassified as earnings, 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 risk;

sources and availability of raw materials;

inventories, including the adequacy of inventory levels to meet future customer demand and the adequacy and intended use of our facilities;

development of new products and marketing strategies;

our ability to increase our marketing and advertising efforts for our Pathway to Healing<sup>®</sup> product line, the timing of such efforts and their effect on future sales;

manufacturing and distribution channels, product sales and performance, and timing of product shipments;

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current or future customer orders;

the impact on our business and results of operations and variations in quarterly net sales from seasonal and other factors;

inflation rates and their impact on our operations and profitability;

management's goals and plans for future operations;

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

growth, expansion, diversification, acquisition, divestment and consolidation strategies, the success of such strategies, and the benefits we believe can be derived from such strategies;

personnel;

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 outside the United States (U.S.);

the adequacy of reserves and allowances;

overall industry and market performance;

competition and competitive advantages resulting from our quality commitment;

current and future economic and political conditions;

the impact of accounting pronouncements; and

other assumptions described in this report underlying or relating to any forward-looking statements.

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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).

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

	<b>March 31, 2013 (Unaudited)</b>	<b>June 30, 2012</b>
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 14,638	\$ 14,478
Accounts receivable less allowance for doubtful accounts of \$21 at March 31, 2013 and \$122 at June 30, 2012	6,115	8,751
Inventories, net	10,080	8,355
Deferred income taxes	699	699
Income tax receivable	745	356
Prepaid expenses and other current assets	1,145	1,880
<b>Total current assets</b>	<b>33,422</b>	<b>34,519</b>
Property and equipment, net	9,717	10,647
Deferred income taxes	1,471	1,471
Long-term pension asset	82	89
Other noncurrent assets, net	411	471
<b>Total assets</b>	<b>\$ 45,103</b>	<b>\$ 47,197</b>
<b>Liabilities and Stockholders' Equity</b>		
Current liabilities:		
Accounts payable	\$ 2,328	\$ 3,918
Accrued liabilities	1,083	1,259
Accrued compensation and employee benefits	880	1,331
Income taxes payable	503	328
<b>Total current liabilities</b>	<b>4,794</b>	<b>6,836</b>
Deferred rent	300	493
<b>Total liabilities</b>	<b>5,094</b>	<b>7,329</b>
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) 6,920,559 at March 31, 2013 and 6,938,687 at June 30, 2012	73	72
Additional paid-in capital	19,701	19,530
Accumulated other comprehensive (loss) income	(313)	99
Retained earnings	23,074	22,097

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Treasury stock, at cost, 470,118 shares at March 31, 2013 and 361,990 at June 30, 2012	(2,526)	(1,930)
Total stockholders' equity	40,009	39,868
Total liabilities and stockholders' equity	\$ 45,103	\$ 47,197

*See accompanying notes to condensed consolidated financial statements.*



**Table of Contents****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,	
	2013	2012	2013	2012
Net sales	\$ 15,835	\$ 17,422	\$ 45,981	\$ 51,924
Cost of goods sold	13,057	13,299	37,700	39,765
Gross profit	2,778	4,123	8,281	12,159
Selling, general & administrative expenses	2,209	2,493	6,956	6,956
Income from operations	569	1,630	1,325	5,203
Other (expense) income:				
Interest income	14	5	35	15
Interest expense	(5)	(27)	(16)	(93)
Foreign exchange (loss) gain	(57)	(5)	(72)	101
Other, net		8		14
	(48)	(19)	(53)	37
Income before income taxes	521	1,611	1,272	5,240
Provision for income taxes	343	543	295	1,859
Net income	\$ 178	\$ 1,068	\$ 977	\$ 3,381
Unrealized gain (loss) resulting from change in fair value of derivative instruments, net of tax	124	(406)	(412)	424
Comprehensive income	\$ 302	\$ 662	\$ 565	\$ 3,805
Net income per common share:				
Basic	\$ 0.03	\$ 0.15	\$ 0.14	\$ 0.48
Diluted	\$ 0.03	\$ 0.15	\$ 0.14	\$ 0.48
Weighted average common shares outstanding:				
Basic	6,841,163	6,968,687	6,883,304	6,984,477
Diluted	6,843,897	6,979,499	6,891,023	6,992,902

*See accompanying notes to condensed consolidated financial statements.*

**Table of Contents****NATURAL ALTERNATIVES INTERNATIONAL, INC.****Condensed Consolidated Statements of Cash Flows****(In thousands)****(Unaudited)**

	<b>Nine Months Ended March 31,</b>	
	<b>2013</b>	<b>2012</b>
<b>Cash flows from operating activities</b>		
Net income	\$ 977	\$ 3,381
Adjustments to reconcile net income to net cash (used in) provided by operating activities:		
(Decrease) increase of uncollectible accounts receivable	(101)	53
Depreciation and amortization	2,275	2,283
Non-cash compensation	135	