

NATURAL ALTERNATIVES INTERNATIONAL INC
Form 10-Q
May 14, 2007
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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, 2007

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.)

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

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Indicate by check mark whether NAI is a large accelerated filer, an accelerated filer, or a non-accelerated filer (as defined in Rule 12b-2 of the Exchange Act).

Large accelerated filer Accelerated filer Non-accelerated filer

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 14, 2007, 6,893,382 shares of NAI's common stock were outstanding, net of 70,000 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, appears, 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, net income per share, profit margins, expenditures, liquidity, goodwill valuation and other financial items;

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

development of new products, brands and marketing strategies;

the effect of the discontinuance of Dr. Cherry's television program and our ability to develop a new marketing plan for, and to sustain, our Pathway to Healing® product line;

inventories and the adequacy and intended use of our facilities;

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

current or future customer orders;

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 and acquisition strategies, the success of such strategies, and the benefits we believe can be derived from such strategies;

personnel;

the outcome of regulatory, tax and litigation matters;

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sources and availability of raw materials;

operations outside the United States;

the adequacy of reserves and allowances;

overall industry and market performance;

competition;

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.

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).

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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), Real Health Laboratories, Inc. (RHL) and our other wholly owned subsidiaries.

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)**

	March 31, 2007 (Unaudited)	June 30, 2006
Assets		
Current assets:		
Cash and cash equivalents	\$ 3,788	\$ 2,157
Accounts receivable less allowance for doubtful accounts of \$95 at March 31, 2007 and \$217 at June 30, 2006	3,980	12,839
Inventories, net	17,505	17,054
Deferred income taxes	1,251	1,059
Other current assets	2,213	1,916
Total current assets	28,737	35,025
Property and equipment, net	15,571	15,943
Goodwill and purchased intangibles, net	11,403	11,303
Other noncurrent assets, net	168	182
Total assets	\$ 55,879	\$ 62,453
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	\$ 7,710	\$ 5,221
Accrued liabilities	2,460	2,265
Accrued compensation and employee benefits	1,248	1,964
Line of credit		9,574
Income taxes payable	586	1,063
Current portion of long-term debt	1,840	1,766
Total current liabilities	13,844	21,853
Long-term debt, less current portion	3,240	4,596
Deferred income taxes	1,260	1,260
Deferred rent	1,241	1,262
Long-term pension liability	234	191
Total liabilities	19,819	29,162
Commitments and contingencies		
Stockholders' equity:		

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Preferred stock; \$0.01 par value; 500,000 shares authorized; none issued or outstanding		
Common stock; \$0.01 par value; 20,000,000 shares authorized; issued and outstanding 6,956,482 at March 31, 2007 and 6,685,546 at June 30, 2006	69	67
Additional paid-in capital	16,823	15,331
Accumulated other comprehensive loss	(229)	(276)
Retained earnings	19,772	18,462
Treasury stock, at cost, 70,000 shares at March 31, 2007 and 61,000 shares at June 30, 2006	(375)	(293)
Total stockholders' equity	36,060	33,291
Total liabilities and stockholders' equity	\$ 55,879	\$ 62,453

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,	
	2007	2006	2007	2006
Net sales	\$ 23,791	\$ 23,387	\$ 73,001	\$ 65,232
Cost of goods sold	18,394	17,585	56,387	51,556
Gross profit	5,397	5,802	16,614	13,676
Selling, general & administrative expenses	4,801	4,655	14,221	11,008
Income from operations	596	1,147	2,393	2,668
Other income (expense):				
Interest income	3	1	8	27
Interest expense	(137)	(159)	(534)	(300)
Foreign exchange gain (loss)	7	(8)	63	(10)
Other, net	10	(4)	(3)	(7)
	(117)	(170)	(466)	(290)
Income before income taxes	479	977	1,927	2,378
Provision for income taxes	110	356	617	884
Net income	\$ 369	\$ 621	\$ 1,310	\$ 1,494
Unrealized gain (loss) resulting from change in fair value of derivative instruments, net of tax	34	(37)	48	(83)
Comprehensive income	\$ 403	\$ 584	\$ 1,358	\$ 1,411
Net income per common share:				
Basic	\$ 0.05	\$ 0.09	\$ 0.19	\$ 0.24
Diluted	\$ 0.05	\$ 0.09	\$ 0.18	\$ 0.22
Weighted average common shares outstanding:				
Basic	6,885,489	6,571,924	6,815,323	6,257,043
Diluted	7,202,454	7,005,954	7,193,626	6,653,383

See accompanying notes to condensed consolidated financial statements.

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

	Nine Months Ended March 31,	
	2007	2006
Cash flows from operating activities		
Net income	\$ 1,310	\$ 1,494
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Reduction for uncollectible accounts receivable	(124)	(178)
Depreciation and amortization	2,517	2,237
Amortization of purchased intangibles	189	84
Non-cash compensation	171	57
Tax benefit from exercise of stock options	(442)	
Pension expense, net of contributions	44	77
Loss on disposal of assets	5	
Changes in operating assets and liabilities (net of effects of business acquisition):		
Accounts receivable	8,983	4,299
Inventories, net	(451)	(9,709)
Other assets	(237)	(785)
Accounts payable and accrued liabilities	2,148	2,466
Accrued compensation and employee benefits	(716)	(272)
Net cash provided by (used in) operating activities	13,397	(230)
Cash flows from investing activities		
Capital expenditures	(2,220)	(1,263)
Proceeds from sale of equipment	70	
Net cash paid for business acquisition		(5,617)
Net cash used in investing activities	(2,150)	(6,880)
Cash flows from financing activities		
Proceeds from long-term debt		3,800
Payments on long-term debt	(1,282)	(1,392)