

NATURAL ALTERNATIVES INTERNATIONAL INC
Form 10-Q
February 17, 2009
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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 DECEMBER 31, 2008

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.

x Yes No

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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 February 17, 2009, 7,066,526 shares of NAI's common stock were outstanding, net of 180,941 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:

future financial and operating results, including projections of net sales, revenue, income or loss, net income or loss 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;

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

inventories and the adequacy and intended use of our facilities;

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;

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;

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the outcome of regulatory, tax and litigation matters;

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).

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)**

	December 31, 2008 (Unaudited)	June 30, 2008
Assets		
Current assets:		
Cash and cash equivalents	\$ 3,337	\$ 3,518
Certificate of deposit	699	
Accounts receivable - less allowance for doubtful accounts of \$8 at December 31, 2008 and \$17 at June 30, 2008	4,638	6,401
Inventories, net	13,613	14,135
Income tax receivable	1,270	1,354
Prepays and other current assets	974	1,223
Current assets of discontinued operations	3,316	6,299
Total current assets	27,847	32,930
Property and equipment, net	14,039	12,823
Other noncurrent assets, net	159	160
Total assets	\$ 42,045	\$ 45,913
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	\$ 5,935	\$ 7,245
Accrued liabilities	1,173	1,048
Accrued compensation and employee benefits	1,274	1,332
Income taxes payable	405	409
Line of credit	3,538	
Current portion of long-term debt	1,994	2,730
Current liabilities of discontinued operations	833	1,724
Total current liabilities	15,152	14,488
Deferred income taxes		61
Deferred rent	1,114	1,164
Long-term pension liability	223	198
Total liabilities	16,489	15,911
Commitments and contingencies		
Stockholders' equity:		
Preferred stock; \$0.01 par value; 500,000 shares authorized; none issued or outstanding	71	71

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Common stock; \$0.01 par value; 20,000,000 shares authorized; issued and outstanding 7,247,467 at December 31, 2008 and 7,210,937 at June 30, 2008		
Additional paid-in capital	18,741	18,485
Accumulated other comprehensive loss	(261)	(261)
Retained earnings	8,104	12,806
Treasury stock, at cost, 180,941 shares at December 31, 2008 and June 30, 2008	(1,099)	(1,099)
Total stockholders' equity	25,556	30,002
Total liabilities and stockholders' equity	\$ 42,045	\$ 45,913

See accompanying notes to condensed consolidated financial statements.

Table of Contents**NATURAL ALTERNATIVES INTERNATIONAL, INC.****Condensed Consolidated Statements of Operations and Comprehensive (Loss) Income****(In thousands, except share and per share data)****(Unaudited)**

	Three Months Ended December 31,		Six Months Ended December 31,	
	2008	2007	2008	2007
Net sales	\$ 17,616	\$ 18,402	\$ 37,142	\$ 41,287
Cost of goods sold	16,844	15,226	33,970	34,171
Gross profit	772	3,176	3,172	7,116
Selling, general & administrative expenses	2,838	3,075	5,456	5,967
Operating (loss) income from continuing operations	(2,066)	101	(2,284)	1,149
Other income (expense):				
Interest income		11	5	13
Interest expense	(79)	(39)	(122)	(182)
Foreign exchange (loss) gain	(45)	48	(344)	150
Other, net	4	(28)	28	
	(120)	(8)	(433)	(19)
(Loss) income from continuing operations before income taxes	(2,186)	93	(2,717)	1,130
Provision (benefit) for income taxes	362	(49)	180	237
(Loss) income from continuing operations	(2,548)	142	(2,897)	893
Loss from discontinued operations, net of tax	(756)	(322)	(1,804)	(650)
Net (loss) income	\$ (3,304)	\$ (180)	\$ (4,701)	\$ 243
Unrealized gain resulting from change in fair value of derivative instruments, net of tax		14		22
Comprehensive (loss) income	\$ (3,304)	\$ (166)	\$ (4,701)	\$ 265
Net (loss) income per common share:				
Basic:				
Continuing operations	\$ (0.36)	\$ 0.02	\$ (0.41)	\$ 0.13
Discontinued operations	(0.11)	(0.05)	(0.26)	(0.09)
Net (loss) income	\$ (0.47)	\$ (0.03)	\$ (0.67)	\$ 0.03
Diluted:				
Continuing operations	\$ (0.36)	\$ 0.02	\$ (0.41)	\$ 0.12
Discontinued operations	(0.11)	(0.05)	(0.26)	(0.09)
Net (loss) income	\$ (0.47)	\$ (0.03)	\$ (0.67)	\$ 0.03

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Weighted average common shares outstanding:

Basic	7,057,614	6,980,195	7,045,413	6,947,155
Diluted	7,057,614	7,067,113	7,045,413	7,044,402

See accompanying notes to condensed consolidated financial statements.

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

	Six Months Ended December 31,	
	2008	2007
Cash flows from operating activities		
(Loss) income before discontinued operations	\$ (2,897)	\$ 893
Adjustments to reconcile net (loss) income to net cash (used in) provided by operating activities:		
Change in allowance for uncollectible accounts receivable	(9)	1
Depreciation and amortization	1,547	1,497
Non-cash compensation	181	195
Tax benefit from exercise of stock options	(88)	(64)
Deferred income taxes	(61)	
Pension expense, net of contributions		