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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 SEPTEMBER 30, 2021

☐ TRANSITION REPORT
pursuant to Section 13 or 15(d)
of the Securities Exchange Act of 1934
For the transition period from ____ to ____.

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 Ave **Carlsbad, CA 92008** **(Address of principal executive offices)**	**(760) 736-7700** **(Registrant's telephone number)**

Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class	Trading Symbol(s)	Name of Each Exchange on Which Registered
Common Stock, $0.01 par value per share	NAII	Nasdaq Stock Market

Indicate by check mark whether 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 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, a smaller reporting company, or an emerging growth company.

Large accelerated filer	☐	Accelerated filer	☐	Emerging Growth Company	☐
Non-accelerated filer	☐	Smaller reporting 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 November 9, 2021, 6,365,085 shares of NAI's common stock were outstanding, net of 2,639,280 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,” “expect,” “plan,” “believe,” “anticipate,” “intend,” “estimate,” “approximate,” “predict,” “forecast,” “project,”, “future”, or “likely”, 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 or pessimism about future operating results, are forward-looking statements. Forward-looking statements in this report may include statements about:

- 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;
- the impact, of the Covid-19 Pandemic (“COVID-19”) and other external factors both within and outside of our control, on our business and results in operations including variations in our quarterly net sales , our employees, supply chain, vendors and customers;
- 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 attract and retain sufficient labor to successfully execute our business strategies and achieve our goals and objectives;
- inventory levels, including the adequacy of quality raw material and other inventory levels to meet future customer demand, in particular assumptions regarding the impact of the COVID-19 pandemic;
- our ability to protect our intellectual property;
- future economic and political conditions, including implementation of new or increased tariffs;
- our ability to improve operating efficiencies, manage costs and business risks, and improve or maintain profitability;
- currency exchange rates and their effect on our results of operations (including amounts that we may reclassify 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;
- the outcome of litigation, regulatory and tax matters we may become involved in, the costs associated with such matters and the effect of such matters on our business and results of operations;
- sources, availability and quality of raw materials, including the limited number of suppliers of beta-alanine meeting our quality requirements;
- the future adequacy and intended use of our facilities;
- potential manufacturing and distribution channels, product returns, and potential product recalls;
- future customer orders;
- the impact of external factors on our business and results of operations, especially, for example, variations in quarterly net sales from seasonal and other external factors;
- our ability to operate within the standards set by the U.S. Food and Drug Administration’s (FDA) Good Manufacturing Practices (GMPs);
- our ability to successfully expand our operations, including outside the United States (U.S.);
- the adequacy of our financial reserves and allowances;
- the sufficiency of our available cash, cash equivalents, and potential cash flows from our operations to fund our working capital and capital expenditure needs through the next 12 months and longer;
- 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.

Forward-looking statements in this Report speak only as of the date of this Report based on information available to us at that time and caution should be taken not to place undue reliance on any such forward-looking statements. Forward-looking statements are subject to certain future events, risks, and uncertainties that are or 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 have filed and will file with the United States Securities and Exchange Commission (SEC).

PART I – FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

Natural Alternatives International, Inc.
Condensed Consolidated Balance Sheets
(In thousands, except share and per share data)

	September 30, 2021 (Unaudited)	June 30, 2021
Assets		
Current assets:		
Cash and cash equivalents	$ 20,028	$ 32,133
Accounts receivable – less allowance for doubtful accounts of $3,611 at September 30, 2021 and $3,527 at June 30, 2021	20,245	17,946
Inventories, net	31,709	27,006
Income tax receivable	—	1,095
Forward contracts	1,173	—
Prepaids and other current assets	2,081	2,168
Total current assets	75,236	80,348
Property and equipment, net	39,504	22,271
Operating lease right-of-use assets	15,212	15,877
Deferred tax asset – noncurrent	—	214
Other noncurrent assets, net	2,211	1,571
Total assets	$ 132,163	$ 120,281
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	$ 13,012	$ 11,893
Accrued liabilities	1,310	2,441
Accrued compensation and employee benefits	2,690	4,584
Customer deposits	1,941	1,721
Income taxes payable	1,166	619
Forward contracts	74	814
Other current liabilities	135	—
Mortgage note payable, current portion	296	—
Total current liabilities	20,624	22,072
Long-term liability – operating leases	15,737	16,481
Noncurrent forward contracts	—	4
Long-term pension liability	400	391
Deferred tax liability	75	—
Mortgage note payable, net of current portion	9,704	—
Income taxes payable, noncurrent	1,118	1,250
Total liabilities	47,658	40,198
Commitments and contingencies (Notes E, F and L)		
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 at September 30, 2021 and June 30, 2021, issued and outstanding (net of treasury shares) 6,419,544 at September 30, 2021 and 6,436,568 at June 30, 2021	88	88
Additional paid-in capital	29,678	29,456
Retained earnings	70,205	66,949
Treasury stock, at cost, 2,584,821 shares at September 30, 2021 and 2,567,797 at June 30, 2021	(15,859)	(15,849)
Accumulated other comprehensive income (loss)	393	(561)
Total stockholders' equity	84,505	80,083
Total liabilities and stockholders' equity	$ 132,163	$ 120,281

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 September 30,	
	2021	**2020**
Net sales	$ 38,340	$ 39,726
Cost of goods sold	30,059	33,721
Gross profit	8,281	6,005
Selling, general and administrative	4,053	3,920
Income from operations	4,228	2,085
Other expense:		
Interest expense	(13)	(46)
Foreign exchange loss	(6)	(265)
Other, net	(7)	(10)
Total other expense	(26)	(321)
Income before income taxes	4,202	1,764
Provision (benefit) for income taxes	946	(494)
Net income	$ 3,256	$ 2,258
Unrealized gain (loss) resulting from change in fair value of derivative instruments, net of tax	954	(1,120)
Comprehensive income	$ 4,210	$ 1,138
Net income per common share:		
Basic	$ 0.52	$ 0.35
Diluted	$ 0.51	$ 0.35
Weighted average common shares outstanding		
Basic	6,287,627	6,418,093
Diluted	6,351,345	6,470,978

See accompanying notes to condensed consolidated financial statements.

Natural Alternatives International, Inc.
Condensed Consolidated Statements Of Stockholders' Equity
Three-Month Period Ended September 30, 2021 and 2020
(Dollars in thousands)
(Unaudited)

	Common Stock		Additional Paid-in Capital	Retained Earnings	Treasury Stock		Accumulated Other Comprehensive Income (Loss)	Total
	Shares	Amount			Shares	Amount		
Balance, June 30, 2021	9,004,365	$ 88	$ 29,456	$ 66,949	2,567,797	$ (15,849)	$ (561)	$ 80,083
Compensation expense related to stock compensation plans	—	—	222	—	—	—	—	222
Repurchase of common stock	—	—	—	—	692	(10)	—	(10)
Forfeiture of restricted stock	—	—	—	—	16,332	—	—	—
Unrealized gain resulting from change in fair value of derivative instruments, net of tax	—	—	—	—	—	—	954	954
Net income	—	—	—	3,256	—	—	—	3,256
Balance, September 30, 2021	9,004,365	$ 88	$ 29,678	$ 70,205	2,584,821	$ (15,859)	$ 393	$ 84,505
Balance, June 30, 2020	8,856,677	$ 87	$ 27,992	$ 56,181	2,104,305	$ (11,702)	$ (1,183)	$ 71,375
Compensation expense related to stock compensation plans	—	—	361	—	—	—	—	361
Repurchase of common stock	—	—	—	—	236,082	(1,743)	—	(1,743)
Unrealized loss resulting from change in fair value of derivative instruments, net of tax	—	—	—	—	—	—	(1,120)	(1,120)
Net income	—	—	—	2,258	—	—	—	2,258
Balance, September 30, 2020	8,856,677	$ 87	$ 28,353	$ 58,439	2,340,387	$ (13,445)	$ (2,303)	$ 71,131

See accompanying notes to condensed consolidated financial statements.

Natural Alternatives International, Inc.
Condensed Consolidated Statements of Cash Flows
(In thousands, except share and per share data)
(Unaudited)

	Three Months Ended September 30,	
	2021	**2020**
Cash flows from operating activities		
Net income	$ 3,256	$ 2,258
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Provision for uncollectible accounts receivable	67	—
Depreciation and amortization	1,092	963
Non-cash compensation	222	361
Non-cash lease expenses	725	206
Deferred income taxes	—	(469)
Pension expense, net of contributions	9	16
Gain on disposal of assets	(6)	—
Changes in operating assets and liabilities:		
Accounts receivable, net	(2,366)	(2,167)
Inventories, net	(4,703)	(7,193)
Prepaids and other assets	(101)	(1,167)
Accounts payable and accrued liabilities	343	6,647
Forward contracts	(1,126)	1,191
Accrued compensation and employee benefits	(1,894)	(453)
Operating lease liabilities	(804)	—
Income taxes	1,510	(83)
Net cash (used in) provided by operating activities	(3,776)	110
Cash flows from investing activities		
Proceeds from sale of property and equipment	25	—
Purchases of property and equipment	(18,344)	(1,479)
Net cash used in investing activities	(18,319)	(1,479)
Cash flows from financing activities		
Borrowings on long-term debt	10,000	—
Repurchase of common stock	(10)	(1,743)
Net cash provided by (used in) financing activities	9,990	(1,743)
Net decrease in cash and cash equivalents	(12,105)	(3,112)
Cash and cash equivalents at beginning of period	32,133	30,478
Cash and cash equivalents at end of period	$ 20,028	$ 27,366
Supplemental disclosures of cash flow information		
Cash paid during the period for:		
Interest	$ 13	$ 46
Taxes	$ 303	$ 44

See accompanying notes to condensed consolidated financial statements.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

A. Basis of Presentation and Summary of Significant Accounting Policies

The accompanying interim unaudited condensed consolidated financial statements have been prepared in accordance with the instructions to Form 10-Q and with applicable rules and regulations. Pursuant to such rules and regulations, certain information and note disclosures normally included in financial statements prepared in accordance with U.S. generally accepted accounting principles (U.S. GAAP) have been condensed or omitted. In management's opinion, all adjustments necessary for a fair presentation of the financial position, results of operations, stockholders' equity, and cash flows have been included and are of a normal, recurring nature. The results of operations for the three months ended September 30, 2021 are not necessarily indicative of the operating results for the full fiscal year or for any future periods.

You should read the financial statements and these notes, which notes are an integral part of the financial statements, together with our audited financial statements included in our Annual Report on Form 10-K for the fiscal year ended June 30, 2021 ("2021 Annual Report"). The accounting policies used to prepare the financial statements included in this Report are the same policies described in the notes to the consolidated financial statements in our 2021 Annual Report unless otherwise noted below.

Recently Adopted Accounting Pronouncements

On December 18, 2019, the Financial Accounting Standards Board (the "FASB") issued Accounting Standards Update ("ASU") No. 2019-12, *Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes*. This new standard eliminates certain exceptions in Accounting Standards Codification ("ASC") 740 related to the approach for intraperiod tax allocation, the methodology for calculating income taxes in an interim period, and the recognition of deferred tax liabilities for outside basis differences. It also clarifies and simplifies other aspects of the accounting for income taxes. This standard is effective for fiscal years, and interim periods within those years, beginning after December 15, 2020, with early adoption permitted in any interim period within that year. We have adopted this ASU effective this first quarter of fiscal 2022. This ASU did not have a material impact on our consolidated financial statements.

Recently Issued Accounting and Regulatory Pronouncements

Other recently issued accounting pronouncements are not discussed in this Report as such pronouncements did not have, and are not believed by management to have, a material impact on our present or future financial statements.

Net Income per Common Share

We compute net income per common share using the weighted average number of common shares outstanding during the period, and diluted net income per common share using the additional dilutive effect of all dilutive securities. The dilutive impact of stock options and unvested restricted shares account for the additional weighted average shares of common stock outstanding for our diluted net income per common share computation. We calculated basic and diluted net income per common share as follows (in thousands, except per share data):

	Three Months Ended September 30,	
	2021	**2020**
Numerator		
Net income	$ 3,256	$ 2,258
Denominator		
Basic weighted average common shares outstanding	6,288	6,418
Dilutive effect of stock options and restricted stock	63	53
Diluted weighted average common shares outstanding	6,351	6,471
Basic net income per common share	$ 0.52	$ 0.35
Diluted net income per common share	$ 0.51	$ 0.35

We did not exclude any stock options or restricted stock shares for the three months ended September 30, 2021 as none would have had an anti-dilutive impact. During the three months ended September 30, 2020 we excluded shares related to stock options totaling 90,000 underlying shares and 116,658 shares of issued but unvested restricted stock, as their impact would have been anti-dilutive.

Revenue Recognition

We record revenue based on a five-step model which includes: (1) identifying a contract with a customer; (2) identifying the performance obligations in the contract; (3) determining the transaction price; (4) allocating the transaction price among the performance obligations; and (5) recognizing revenue as each of the various performance obligations are satisfied.

Revenue is measured as the net amount of consideration expected to be received in exchange for fulfilling one or more performance obligations. We identify purchase orders from customers as contracts. The amount of consideration expected to be received and revenue recognized includes estimates of variable consideration, including estimates for early payment discounts and volume rebates. Such estimates are calculated using historical averages adjusted for any expected changes due to current business conditions and experience. We review and update these estimates at the end of each reporting period and the impact of any adjustments is recognized in the period the adjustments are identified. In assessing whether collection of consideration from a customer is probable, we consider both the customer's ability and intent to pay that amount of consideration when it is due. Payment of invoices is due as specified in the underlying customer agreement, which is typically 30 days from the invoice date. Invoices are generally issued on the date of transfer of control of the products ordered to the customer.

Revenue is recognized at the point in time that each of our performance obligations is fulfilled, and control of the ordered products is transferred to the customer. This transfer occurs when the product is shipped, or in some cases, when the product is delivered to the customer.

We provide early payment discounts to certain customers. Based on historical payment trends, we expect that these customers will take advantage of these early payment discounts. The cost of these discounts is reported as a reduction to the transaction price. If the actual discounts differ from those estimated, the difference is also reported as a change in the transaction price. We require prepayment from certain customers. We record any payments received in advance of contracts fulfillment as a contract liability and classified as customer deposits on the consolidated balance sheet.

Except for product defects, no right of return exists on the sale of our products. We estimate returns based on historical experience and recognize a returns liability for any estimated returns. As of September 30, 2021, we have no known returns liability.

We have an Exclusive Manufacturing Agreement with The Juice Plus+ Company LLC (“Juice Plus+”) through August 6, 2025. Pursuant to the Exclusive Manufacturing Agreement, Juice Plus+ has granted us exclusive rights to manufacture and supply them with certain of their products within 24 countries where Juice Plus+ currently sells those products. Pursuant to this Exclusive Manufacturing Agreement, we provide Juice Plus+ with a cash discount. We recorded $0.3 million of “Cash Sales Discount” for the three months ended September 30, 2021, which was recorded as a reduction to net sales. We recorded $0.4 million of “Cash Sales Discount” during the three months ended September 30, 2020, with such amounts recorded as a reduction to net sales.

We currently own certain U.S. patents, and each patent’s corresponding foreign patent applications. All of these patents and patent rights relate to the ingredient known as beta-alanine marketed and sold under our CarnoSyn® and SR CarnoSyn® trade names. We recorded beta-alanine raw material sales and royalty and licensing income as a component of revenue in the amount of $4.7 million during the three months ended September 30, 2021, and $2.7 million during the three months ended September 30, 2020. These royalty income and raw material sale amounts resulted in royalty expense paid to the original patent holders from whom NAI acquired its patents and patent rights. We recognized royalty expense as a component of cost of goods sold in the amount of $0.2 million during the three months ended September 30, 2021, and $0.1 million during the three months ended September 30, 2020.

Stock-Based Compensation

The Board of Directors approved a new omnibus equity incentive plan that became effective January 1, 2021 (the “2020 Plan”), which was approved by our stockholders at the Annual Meeting of Stockholders on December 4, 2020. Under the 2020 Plan, we may grant nonqualified and incentive stock options, restricted stock grants, restricted stock units, stock appreciation rights, and other stock-based awards to employees, non-employee directors and consultants.

We did not grant any options during each of the three month periods ending September 30, 2021 and September 30, 2020. No options were exercised during the three month periods ending September 30, 2021 and September 30, 2020. There were no option forfeitures during the three month periods ended September 30, 2021 or September 30, 2020. As of September 30, 2021, we did not have any stock options outstanding.

We did not grant any restricted stock shares during the three months ending September 30, 2021 or September 30, 2020. During the three months ended September 30, 2021, 16,332 restricted stock shares were forfeited. No restricted stock shares were forfeited during the three months ended September 30, 2020. Our net income included stock based compensation expense in connection with prior restricted stock grants of approximately $0.2 million for the three months ended September 30, 2021. Our net income included stock based compensation expense in connection with the vesting of prior restricted stock grants of approximately $0.4 million for the three months ended September 30, 2020.

Deferred Compensation Plan

Effective July 16, 2020, the Board of Directors approved and adopted a Non-Qualified Incentive Plan (the "Incentive Plan"). Pursuant to the Incentive Plan, the Human Resources Committee and the Board of Directors may make deferred cash payments or other cash awards ("Awards") to directors, officers, employees and eligible consultants of NAI, ("Participants"). These Awards are made subject to conditions precedent that must be met before NAI is obligated to make the payment. The purpose of the Incentive Plan is to enhance the long-term stockholder value of NAI by providing the Human Resources Committee and the Board of Directors the ability to make deferred cash payments or other cash awards to encourage Participants to serve NAI or to remain in the service of NAI, or to assist NAI to achieve results determined by the Human Resources Committee or the Board of Directors to be in NAI's best interest.

The Incentive Plan authorizes the Human Resources Committee or the Board of Directors to grant to, and administer, unsecured and deferred cash Awards to Participants and to subject each Award to whatever conditions are determined appropriate by the Human Resources Committee or the Board of Directors. The terms of each Award, including the amount and any conditions that must be met to be entitled to payment of the Award are set forth in an Award Agreement between each Participant and NAI. The Incentive Plan provides the Board of Directors with the discretion to set aside assets to fund the Incentive Plan although that has not been done to date.

There were no deferred cash awards granted during the three months ended September 30, 2021. During the three months ended September 30, 2020, we granted a total of $1.0 million in deferred cash awards to members of our Board of Directors and certain key members of our management team. Of the total $1.0 million in deferred cash awards granted, awards totaling $119,000 were forfeited during the three months ended September 30, 2021. Additionally, awards totaling $72,000 that were issued in March 2021 were also forfeited during the three months ended September 30, 2021. Each deferred cash award provides for three equal cash payments to the applicable Participant to be paid on the one year, two year, and three year anniversaries of the date of the grant of such Awards, (the "Award Date"); provided on the date of each payment (the "Payment Date"), the Participant has been since Award Date, and continues to be through the Payment Date, a member of our Board of Directors or an employee of NAI. In the event a Participant ceases to be an employee of NAI or a member of our Board of Directors prior to any Payment Date, no further payments shall be made in connection with the Award.

Fair Value of Financial Instruments

Except for cash and cash equivalents, as of September 30, 2021 and June 30, 2021, we did not have any financial assets or liabilities classified as Level 1. We classify derivative forward exchange contracts as Level 2 assets and liabilities. The fair value of our Euro and Swiss Franc forward exchange contracts as of September 30, 2021 was a net asset of $1.6 million. The fair value of our forward exchange contracts as of June 30, 2021 included a net liability of $0.8 million. The fair values were determined by obtaining pricing from our bank and corroborating those values with a third party bank or pricing service. We also classify our outstanding line of credit and term loan balance as a Level 2 liability, as the fair value is based on inputs that can be derived from information available in publicly quoted markets. As of September 30, 2021, and June 30, 2021, we did not have any financial assets or liabilities classified as Level 3. We did not transfer any assets or liabilities between these levels during fiscal 2021 or the three months ended September 30, 2021.

B. Inventories, net

Inventories, net consisted of the following (in thousands):

	September 30, 2021	June 30, 2021
Raw materials	$ 24,332	$ 20,668
Work in progress	4,837	3,760
Finished goods	3,362	3,050
Reserve	(822)	(472)
	$ 31,709	$ 27,006

C. Property and Equipment

Property and equipment consisted of the following (in thousands):

	Depreciable Life In Years	September 30, 2021	June 30, 2021
Land	NA	$ 7,645	$ 1,200
Building and building improvements	7 – 39	14,753	3,757
Machinery and equipment	3 – 12	36,107	35,458
Office equipment and furniture	3 – 5	5,763	5,712
Vehicles	3	211	255
Leasehold improvements	1 – 15	20,438	20,236
Total property and equipment		84,917	66,618
Less: accumulated depreciation and amortization		(45,413)	(44,347)
Property and equipment, net		$ 39,504	$ 22,271

On August 20, 2021, we acquired a manufacturing and warehouse property in Carlsbad California from an unrelated party for $17.5 million. The approximately 54,154 square foot building includes environmentally controlled warehouse space, office space and additional non-environmentally controlled warehouse space. We intend to retrofit a significant portion of the building into a dedicated high-volume powder blending and packaging facility. This new facility will also provide us with additional raw material storage capacity, and additional office space.

D. Other Comprehensive Income (Loss)

Other comprehensive (loss) income ("OCL" and "OCI") consisted of the following during the three months ended September 30, 2021 and September 30, 2020 (in thousands):

	Three Months Ended September 30, 2021		
	Defined Benefit Pension Plan	Unrealized Gains (Losses) on Cash Flow Hedges	Total
Beginning Balance	$ (538)	$ (23)	$ (561)
OCI/OCL before reclassifications	-	1,389	1,389
Amounts reclassified from OCI	-	(146)	(146)
Tax effect of OCI activity	-	(289)	(289)
Net current period OCI/OCL	-	954	954
Ending Balance	$ (538)	$ 931	$ 393

	Three Months Ended September 30, 2020		
	Defined Benefit Pension Plan	Unrealized Gains (Losses) on Cash Flow Hedges	Total
Beginning Balance	$ (888)	$ (295)	$ (1,183)
OCI/OCL before reclassifications	-	(2,063)	(2,063)
Amounts reclassified from OCI	-	604	604
Tax effect of OCI activity	-	339	339
Net current period OCI/OCL	-	(1,120)	(1,120)
Ending Balance	$ (888)	$ (1,415)	$ (2,303)

E. Leases

We currently lease for our Vista, CA and Lugano, Switzerland product manufacturing and support facilities. At the inception of a contract we assess whether the contract is, or contains, a lease. Our assessment is based on: (1) whether the contract involves the use of a distinct identified asset, (2) whether we obtain the right to substantially all the economic benefit from the use of the asset throughout the period of the contract, and (3) whether we have the right to direct the use of the asset during such time period. At inception of a lease, we allocate the consideration in the contract to each lease component based on its relative stand-alone price to determine the lease payments.

Leases are classified as either finance leases or operating leases. A lease must be classified as a finance lease if any of the following criteria are met: the lease transfers ownership of the asset by the end of the lease term, the lease contains an option to purchase the asset that is reasonably certain to be exercised, the lease term is for a major part of the remaining useful life of the asset or the present value of the lease payments equals or exceeds substantially all of the fair value of the asset. A lease is classified as an operating lease if it does not meet any of these criteria. Substantially all our operating leases are comprised of payments for the use of manufacturing and office space. We have no leases classified as finance leases. As of September 30, 2021, the weighted average remaining lease term for our operating leases was 6.1 years. The weighted average discount rate for our operating leases was 3.24%. As of June 30, 2021, the weighted average remaining lease term for our operating leases was 6.3 years and the weighted average discount rate was 3.24%.

For all leases at the lease commencement date, a right-of-use asset and a lease liability are recognized. The right-of-use asset represents the right to use the leased asset for the lease term. The lease liability represents the present value of the lease payments under the lease.

The right-of-use asset is initially measured at cost, which primarily comprises the initial amount of the lease liability, plus any initial direct costs incurred, consisting mainly of brokerage commissions, less any lease incentives received. All right-of-use assets are reviewed for impairment. The lease liability is initially measured at the present value of the lease payments, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, our secured incremental borrowing rate for the same term as the underlying lease. For our real estate and other operating leases, we use our secured incremental borrowing rate.

Lease payments included in the measurement of the lease liability comprise the following: the fixed noncancelable lease payments, payments for optional renewal periods where it is reasonably certain the renewal period will be exercised, and payments for early termination options unless it is reasonably certain the lease will not be terminated early.

Some of our manufacturing leases contain variable lease payments, including payments based on an index or rate. Variable lease payments based on an index or rate are initially measured using the index or rate in effect at lease commencement and separated into lease and non-lease components based on the initial amount stated in the lease or standalone selling prices. Lease components are included in the measurement of the initial lease liability. Additional payments based on the change in an index or rate, or payments based on a change in our portion of the operating expenses, including real estate taxes and insurance, are recorded as a period expense when incurred. Lease modifications result in remeasurement of the lease liability.

Lease expense for operating leases consists of the lease payments plus any initial direct costs, primarily brokerage commissions, and is recognized on a straight-line basis over the lease term. Included in lease expense are any variable lease payments incurred in the period that were not included in the initial lease liability. Lease expense for finance leases consists of the amortization of the right-of-use asset on a straight-line basis over the lease term and interest expense determined on an amortized cost basis. The lease payments are allocated between a reduction of the lease liability and interest expense.

We have elected not to recognize right-of-use assets and lease liabilities for short-term leases that have a term of 12 months or less. The effect of short-term leases on our right-of-use asset and lease liability was not material.

Other information related to leases as of September 30, 2021 was as follows (in thousands):

Supplemental Cash Flows Information	Three Months Ended September 30, 2021	Three Months Ended September 30, 2020
Cash paid for amounts included in the measurement of operating lease liabilities	$ 811	$ 820

For the three months ended September 30, 2021 and September 30, 2020 we did not have any operating lease liabilities arise from obtaining right of use assets.

F. Debt

On May 24, 2021, we entered into a new credit facility with Wells Fargo Bank, N.A ("Wells Fargo") to extend the maturity for our working line of credit from November 1, 2022, to May 24, 2024. This new credit facility provides total lending capacity of up to $20.0 million and allows us to use the credit facility for working capital as well as potential acquisitions. On August 18, 2021, we entered into an amendment of our credit facility with Wells Fargo. The amended credit facility added a $10.0 million term loan to the existing $20.0 million credit facility, and permitted us to use the $10.0 million term loan as part of the $17.5 million purchase consideration for the acquisition of our new manufacturing and warehouse property in Carlsbad, California. The amended credit agreement also increased the allowed capital expenditures from $10.0 million to $15.0 million (exclusive of the amount paid for the acquisition of the new Carlsbad property noted above) for fiscal 2022. In addition, the new credit notes now reflect a change in the interest rate reference from LIBOR to SOFR. The Credit Agreement was amended and a new Revolving Line of Credit Note, and Security Agreement were entered into. A Term Note and real property security documents were added to secure the Term Note by the new Carlsbad property.

Under the terms of the Credit Agreement, borrowings are subject to eligibility requirements including maintaining (i) a ratio of total liabilities to tangible net worth of not greater than 1.50 to 1.0 at any time; (ii) a ratio of total current assets to total current liabilities of not less than 1.75 to 1.0 at each fiscal quarter end (iii) net income after taxes not less than $1.00, determined on a trailing four quarter basis with no two consecutive quarterly losses, determined as of each quarter end and (iv) a rolling 4-quarter fixed charge coverage ratio not less than 1.25 to 1.0 as of each fiscal quarter end. The credit agreement also includes a limitation on the amount of capital expenditures that can be made in a given fiscal year, with such limitation set at $15.0 million for our fiscal year ending June 30, 2022 and $7.5 million for all fiscal years thereafter. Any amounts outstanding under the line of credit will bear interest at a fixed or fluctuating interest rate as elected by us from time to time; provided, however, that if the outstanding principal amount is less than $100,000 such amount shall bear interest at the then applicable fluctuating rate of interest. If elected, the fluctuating rate per annum would be equal to 1.29% above the daily simple SOFR rate as in effect from time to time. If a fixed rate is elected, it would equal a per annum rate of 1.29% above the SOFR rolling 30-day average rate in effect on the first day of the applicable fixed rate term. Any amounts outstanding under the line of credit must be paid in full on or before the maturity date. Amounts outstanding that are subject to a fluctuating interest rate may be prepaid at any time without penalty. Amounts outstanding that are subject to a fixed interest rate may be prepaid at any time in minimum amounts of $100,000, subject to a prepayment fee equal to the sum of the discounted monthly differences between payment under a fixed rate versus payment under the variable rate for each month from the month of prepayment through the month in which the then applicable fixed rate term matures. There is an unused commitment fee of 0.125% required as part of the line of credit.

The Term Note used as part of the purchase consideration of our new manufacturing and warehouse property in Carlsbad California referenced above, is for the original principal amount of $10.0 million, and is a seven year term note with payments fully amortized based on a twenty five year assumed term. Installment payments under this loan commenced October 1, 2021 and continue through August 1, 2028 with a final installment consisting of all remaining amounts due to be paid in full on September 1, 2028. Amounts outstanding on this note during the term of the agreement will bear interest equal to 1.8% above the SOFR rolling 30-day average. In connection with our term loan, we entered into an interest rate swap with Wells Fargo that effectively fixes our interest rate on our term loan at 2.4% for the first three years of the term of the note. As of September 30, 2021, the difference between our contractual swap rate and the current market rate was not determined to be significant.

Our obligations under the Credit Agreement are secured by our accounts receivable and other rights to payment, general intangibles, inventory, equipment and fixtures. We also have credit approval with Wells Fargo Bank, N.A. which allows us to hedge foreign currency exposures up to 30 months in the future. We also have credit approval with Bank of America which allows us to hedge foreign currency exposures up to 24 months in the future.

On September 30, 2021, we were in compliance with all of the financial and other covenants required under the Amended Credit Agreement.

As of September 30, 2021, we had the full $20.0 million available for borrowing under our credit facility with Wells Fargo Bank.

As of September 30, 2021, we had $10.0 million outstanding under the Term Note used toward the purchased warehouse in August 2021.

G. Economic Dependency

We had substantial net sales to certain customers during the periods shown in the following table. The loss of any of these customers, or a significant decline in (i) sales to these customers, (ii) the growth rate of sales to these customers, or (iii) these customers' ability to make payments when due, each individually could have a material adverse impact on our net sales and net income. Net sales to any one customer representing 10% or more of the respective period's consolidated net sales were as follows (in thousands):

	Three Months Ended September 30, 2021	Three Months Ended September 30, 2020
Customer 1	$ 13,296	$ 23,958
Customer 2	7,386	(a)
Customer 3	4,349	(a)
Customer 4	4,327	(a)
	$ 29,358	$ 23,958

(a) Sales were less than 10% of the respective period's total net sales.

We buy certain products, including beta-alanine, from a limited number of raw material suppliers who meet our quality standards. The loss of any of these suppliers could have a material adverse impact on our net sales and net income. Raw material purchases from any one supplier representing 10% or more of the respective period's total raw material purchases were as follows (dollars in thousands):

	Three Months Ended September 30, 2021	Three Months Ended September 30, 2020
Supplier 1	$ 3,368	$ 3,375
Supplier 2	2,060	(a)
	$ 5,428	3,375

(a) Purchases were less than 10% of the respective period's total raw material purchases.

Financial instruments that subject us to concentrations of credit risk consist primarily of cash and cash equivalents and accounts receivable. We place our cash and cash equivalents with highly rated financial institutions. Credit risk with respect to receivables is concentrated with two of our largest customers, whose receivable balances collectively represented 59.1% of gross accounts receivable at September 30, 2021 and 64.8% at June 30, 2021. As of June 30, 2021 and September 30, 2021, we had a receivable balance of $3.5 million from a former contract manufacturing customer. We have recorded a bad debt reserve equal to 100% of this outstanding balance and thus did not reflect it in the percentages listed above.

Additionally, amounts due related to our beta-alanine raw material sales were 11.4% of gross accounts receivable at September 30, 2021, and 8.6% of gross accounts receivable at June 30, 2021. Concentrations of credit risk related to the remaining accounts receivable balances are limited due to the number of customers responsible for the remaining accounts receivable.

H. Segment Information

Our business consists of two segments for financial reporting purposes. The two segments are identified as (i) private-label contract manufacturing, which primarily relates to the provision of private-label contract manufacturing services to companies that market and distribute nutritional supplements and other health care products, and (ii) patent and trademark licensing, which primarily includes direct raw material sales and royalty income from our license and supply agreements associated with the sale and use of beta-alanine under our CarnoSyn® and SR CarnoSyn® trade names.

We evaluate performance of these segments based on a number of factors. The primary performance measures for each segment are net sales and income or loss from operations before the allocation of certain corporate level expenses. Operating income or loss for each segment does not include corporate general and administrative expenses, interest expense and other miscellaneous income and expense items. Corporate general and administrative expenses include, but are not limited to human resources, corporate legal, finance, information technology, and other corporate level related expenses, which are not allocated to any segment. Transfers of raw materials between segments are recorded at cost. The accounting policies of our segments are the same as those described in the summary of significant accounting policies in Note A above and in the consolidated financial statements included in our 2021 Annual Report.

Our operating results by business segment were as follows (in thousands):

	Three Months Ended September 30, 2021	Three Months Ended September 30, 2020
Net Sales		
Private-label contract manufacturing	$ 33,594	$ 37,047
Patent and trademark licensing	4,746	2,679
Total Net Sales	$ 38,340	$ 39,726

	Three Months Ended September 30, 2021	Three Months Ended September 30, 2020
Income from Operations		
Private-label contract manufacturing	$ 3,700	$ 3,424
Patent and trademark licensing	2,636	670
Income from operations of reportable segments	6,366	4,094
Corporate expenses not allocated to segments	(2,108)	(2,009)
Total Income from Operations	$ 4,228	$ 2,085

	September 30, 2021	June 30, 2021
Total Assets		
Private-label contract manufacturing	$ 106,167	$ 95,324
Patent and trademark licensing	25,996	24,957
	$ 132,163	$ 120,281

Our private-label contract manufacturing products are sold both in the U.S. and in markets outside the U.S., including Europe, Canada, Australia, New Zealand, Mexico and Asia. Our primary markets outside the U.S. are Europe and Asia. Our patent and trademark licensing activities are primarily based in the U.S.

Net sales by geographic region, based on the customers' location, were as follows (in thousands):

	Three Months Ended September 30, 2021	2020
United States	$ 23,495	$ 19,785
Markets outside of the United States	14,845	19,941
Total	$ 38,340	$ 39,726

Products manufactured by our Swiss subsidiary ("NAIE") accounted for 80% of net sales in markets outside the U.S. for the three months ended September 30, 2021. Products manufactured by NAIE accounted for 86% of net sales in markets outside the U.S. for the three months ended September 30, 2020. No products manufactured by NAIE were sold in U.S. markets during the three month periods ended September 30, 2021 and 2020.

Long-lived assets by geographic region, based on the location of the company or subsidiary at which they were located or made, were as follows (in thousands):

	September 30, 2021	June 30, 2021
United States	$ 38,609	$ 21,109
Europe	16,107	17,039
Total Long-Lived Assets	$ 54,716	$ 38,148

Total assets by geographic region, based on the location of the company or subsidiary at which they were located or made, were as follows (in thousands):

	September 30, 2021	June 30, 2021
United States	$ 80,306	$ 67,307
Europe	51,857	52,974
Total Assets	$ 132,163	$ 120,281

Capital expenditures by geographic region, based on the location of the company or subsidiary at which they were located or made, were as follows (in thousands):

	Three Months Ended September 30, 2021	2020
United States	$ 18,201	$ 249
Europe	143	1,230
Total Capital Expenditures	$ 18,344	$ 1,479

I. Income Taxes

To determine our quarterly provision for income taxes, we use an estimated annual effective tax rate, which is based on expected annual income, statutory tax rates and tax planning opportunities available in the various jurisdictions to which we are subject. Certain significant or unusual items are separately recognized in the quarter in which they occur and can be a source of variability in the effective tax rate from quarter to quarter. We recognize interest and penalties related to uncertain tax positions, if any, as an income tax expense.

Our effective tax rate for the three months ended September 30, 2021 was 22.5%. Our effective rates differ from the fiscal 2022 U.S. federal statutory rate of 21% primarily due to state income taxes. Our effective tax rate for the three months ended September 30, 2020 was (28.0%), primarily due to the discrete tax benefit discussed below.

On July 23, 2020, the Department of Treasury issued final regulations which provide an exclusion to the global intangible low-taxed income (GILTI) calculation on an elective basis. These regulations were effective September 21, 2020 and could be retroactively applied. Under these new regulations, we are able to exclude the GILTI calculation from our domestic taxable income if the deemed effective tax rate at our foreign subsidiary is greater than 18.9%. We assessed this rate, including the implementation of certain tax strategies, and we determined that our effective rate at our foreign subsidiary was greater than 18.9% as of the year ending June 30, 2020. During the first quarter of fiscal 2021, we reassessed our estimated taxes for fiscal 2020 and in the three months ended September 30, 2020 we recorded a reduction to our fiscal 2020 estimated taxes of $0.4 million as a discrete benefit. As a result of this adjustment, our domestic tax return for fiscal 2020 was expected to reflect a net operating loss which, in accordance with the CARES Act, allowed us to carry the loss back to fiscal 2015 and fiscal 2016. Such carryback resulted in a rate differential that resulted in the recognition of a permanent tax benefit of $0.3 million during the three months ended September 30, 2020.

We record valuation allowances to reduce our deferred tax assets to an amount we believe is more likely than not to be realized. In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. During the three months ended September 30, 2021, there was no change to our valuation allowance for our deferred tax assets.

Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are measured using enacted tax rates for each of the jurisdictions in which we operate. Deferred tax assets and liabilities are expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled using the tax rates then in effect. The effect on deferred tax assets and liabilities of a change in tax rates is recognized as income or expense in the period that includes the enactment date for such new rates.

We are subject to taxation in the U.S., Switzerland and various state jurisdictions. Our U.S. tax returns for the fiscal year ended June 30, 2015 and forward are subject to examination by the U.S. tax authorities. Our state tax returns for the fiscal years ended June 30, 2017 and forward are subject to examination by the state tax authorities. Our Swiss tax returns for the fiscal year ended June 30, 2020 and forward are subject to examination by the Swiss tax authorities.

It is our policy to establish reserves based on management's assessment of exposure for certain positions taken in previously filed tax returns that may become payable upon examination by tax authorities. Our tax reserves are analyzed quarterly, and adjustments are made as events occur that we believe warrant adjustments to those reserves. There were no adjustments to reserves in the three month period ended September 30, 2021.

J. Treasury Stock

On September 18, 2020, the Board of Directors authorized a $2.0 million increase to our stock repurchase plan ("Repurchase Plan"), thus bringing the total authorized repurchase amount to $12.0 million. On March 12, 2021, the Board of Directors authorized an additional $3.0 million increase to the Repurchase Plan, thus bringing the total authorized repurchase amount to $15.0 million. Under the Repurchase Plan, we may, from time to time, purchase shares of our common stock, depending upon market conditions, in open market or privately negotiated transactions.

Stock repurchases for the three months ended September 30, 2021 were as follows:

	Shares	Average Cost	Total Cost (in thousands)
Shares purchased under Repurchase Plan	—	$ —	$ —
Shares acquired in connection with stock option exercises	—	—	—
Shares acquired from employees for restricted stock vesting	692	14.20	10
Total	692		$ 10

Stock repurchases for the three months ended September 30, 2020 were as follows:

	Shares	Average Cost	Total Cost (in thousands)
Shares purchased under Repurchase Plan	235,390	$ 7.38	$ 1,738
Shares acquired in connection with stock option exercises	—	—	—
Shares acquired from employees for restricted stock vesting	692	6.74	5
Total	236,082		$ 1,743

Stock repurchase costs include commissions and fees.

Shares acquired from employees for restricted stock vesting and stock options exercises were returned to us by the related employees and in return we paid each employee's required tax withholding resulting from the vesting of restricted shares. The valuation of the shares acquired and thereby the number of shares returned to us was calculated based on the closing share price on the date the shares vested.

K. Derivatives and Hedging

We are exposed to gains and losses resulting from fluctuations in foreign currency exchange rates relating to forecasted product sales denominated in foreign currencies and to other transactions of NAIE, our foreign subsidiary. As part of our overall strategy to manage the level of exposure to the risk of fluctuations in foreign currency exchange rates, we may use foreign exchange contracts in the form of forward contracts. To the extent we enter into such contracts, there can be no guarantee any such contracts will be effective hedges against our foreign currency exchange risk.

As of September 30, 2021, we had forward contracts designated as cash flow hedges primarily to protect against the foreign exchange risks inherent in our forecasted sales of products at prices denominated in currencies other than the U.S. Dollar. These contracts are expected to be settled through August 2023. For derivative instruments that are designated and qualify as cash flow hedges, we record the effective portion of the gain or loss on the derivative in accumulated other comprehensive income ("OCI") as a separate component of stockholders' equity and subsequently reclassify these amounts into earnings in the period during which the hedged transaction is recognized in earnings.

For foreign currency contracts designated as cash flow hedges, hedge effectiveness is measured using the spot rate. Changes in the spot-forward differential are excluded from the test of hedge effectiveness and are recorded currently in earnings as revenue. We measure effectiveness by comparing the cumulative change in the hedge contract with the cumulative change in the hedged item. No hedging relationships were terminated as a result of ineffective hedging for the three months ended September 30, 2021 and September 30, 2020.

We monitor the probability of forecasted transactions as part of the hedge effectiveness testing on a quarterly basis. During the three months ended September 30, 2021 and September 30, 2020, we did not have any losses or gains related to the ineffective portion of our hedging instruments.

As of September 30, 2021, the notional amounts of our foreign exchange contracts designated as cash flow hedges were approximately $67.2 million (EUR 56.3 million). As of September 30, 2021, a net gain of approximately $1.2 million, offset by $0.3 million of deferred taxes, related to derivative instruments designated as cash flow hedges was recorded in OCI. It is expected that $0.8 million will be reclassified into earnings in the next 12 months along with the earnings effects of the related forecasted transactions.

As of September 30, 2021, $1.2 million of the fair value of our cash flow hedges was classified as a short term asset, and $0.5 million was classified as other noncurrent assets in our Consolidated Balance Sheets. During the three months ended September 30, 2021, we recognized $1.4 million of net gains in OCI, and reclassified $0.1 million of gains and forward point amortization from OCI to Sales. As of June 30, 2021, $0.6 million of the fair value of our cash flow hedges was classified as a current liability, and $4,000 was classified as a long-term liability in our Consolidated Balance Sheets. During the three months ended September 30, 2020, we recognized $2.1 million of net losses in OCI, reclassified $0.6 million of losses and forward point amortization from OCI to Sales.

For foreign currency contracts not designated as cash flow hedges, changes in the fair value of the hedge are recorded directly to foreign exchange gain or loss in other income in an effort to offset the change in valuation of the underlying hedged item. During the three months ended September 30, 2021 we entered into forward contracts in order to hedge foreign exchange risk associated with our lease liability at NAIE, which is denominated in Swiss Francs (CHF). As of September 30, 2021, the notional amounts of our foreign exchange contracts not designated as cash flow hedges were approximately $5.8 million (CHF 5.3 million). As of September 30, 2021, $0.1 million of the fair value of our foreign exchange contracts not designated as cash flow hedges was classified as a current liability in our Consolidated Balance Sheets.

We are exposed to interest rate fluctuations related to our $10 million Term Note with Wells Fargo, which carries a variable interest rate of 1.80% above the SOFR rolling 30-day average. To manage our exposure to this variable rate, on August 23, 2021, we entered into a floored interest rate swap that fixes our all-in rate on this loan to 2.4% for the first three years of the term loan. Fluctuations in the relation of our contractual swap rate to current market rates are recorded as an asset or liability with an offset to OCI at the end of each reporting period. Interest expense is adjusted for the difference between the actual SOFR spread and the swap contractual rate such that our effective interest expense for each period is equal to our hedged rate of 2.4%.

L. Contingencies

From time to time, we become involved in various investigations, claims and legal proceedings that arise in the ordinary course of our business. These matters may relate to product liability, employment, intellectual property, regulatory, contract or other matters. The resolution of these matters as they arise may be subject to various uncertainties and, even if such claims are without merit, could result in the expenditure of significant financial and managerial resources. While unfavorable outcomes are possible, based on available information, we currently do not believe the resolution of these matters will result in a material adverse effect on our business, consolidated financial condition, or results of operations. However, a settlement payment or unfavorable outcome could be greater than we currently anticipate and if so, could adversely impact our results of operations. Our evaluation of the likely impact of these actions could change in the future and we could have unfavorable outcomes we do not expect.

COVID-19 Pandemic

We continue to monitor and evaluate the risks to public health and the impact on overall global business activity related to the COVID-19 pandemic, including its potential impacts on our employees, customers, suppliers and financial results. As the situation remains fluid, it is difficult to predict the duration and scope of the pandemic and its impact on our business. However, it may result in a material adverse impact to our financial position, operations and cash flows if conditions persist or worsen.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion and analysis is intended to help you understand our financial condition and results of operations for the three months ended September 30, 2021. You should read the following discussion and analysis together with our unaudited condensed consolidated financial statements and the notes to the condensed consolidated financial statements included under Item 1 in this Report, as well as the risk factors and other information included in our 2021 Annual Report and other reports and documents we file with the SEC. Our future financial condition and results of operations will vary from our historical financial condition and results of operations described below based on a variety of factors.

Executive Overview

The following overview does not address all of the matters covered in the other sections of this Item 2 or other items in this Report nor does it contain all of the information that may be important to our stockholders or the investing public. You should read this overview in conjunction with the other sections of this Item 2 and this Report.

Our primary business activity is providing private-label contract manufacturing services to companies that market and distribute vitamins, minerals, herbal and other nutritional supplements, as well as other health care products, to consumers both within and outside the U.S. Historically, our revenue has been largely dependent on sales to two or three private-label contract manufacturing customers and subject to variations in the timing of such customers' orders, which in turn is impacted by such customers' internal marketing programs, supply chain management, entry into new markets, new product introductions, the demand for such customers' products, and general industry and economic conditions. Our revenue also includes raw material sales and royalty and licensing revenue generated from license and supply agreements with third parties, granting them the right to use our patents, trademarks and other intellectual property in connection with the distribution and use of the ingredient known as beta-alanine sold under our CarnoSyn® and SR CarnoSyn® trademarks.

A cornerstone of our business strategy is to achieve long-term growth and profitability and to diversify our sales base. We have sought and expect to continue to seek to diversify our sales by developing relationships with additional, quality-oriented, private-label contract manufacturing customers, and commercializing our patent estate through sales of beta-alanine under our CarnoSyn® and SR CarnoSyn® trade names, royalties from license agreements, and potentially additional contract manufacturing opportunities with licensees.

During the first three months of fiscal 2022, our net sales were 3% lower than in the first three months of fiscal 2021. Private-label contract manufacturing sales decreased 9% primarily due to lower sales to our largest customer. Sales to this customer decreased 45% as compared to the same period in the prior year with a majority of the decrease associated with an inventory reduction program mostly related to their European business. The decrease in sales to our largest customer was mostly offset by increased sales from other existing customers and sales to a new customer. Revenue concentration risk for our largest private-label contract manufacturing customer as a percentage of our total net sales decreased from 60% to 35% for the three months ended September 30, 2021 compared to the three months ended September 30, 2020. We expect our annualized fiscal year 2022 revenue concentration for this customer to be lower than fiscal year 2021.

During the first three months of fiscal 2022, patent and trademark licensing revenue increased 77% to $4.7 million, compared to revenue of $2.7 million for the first three months of fiscal 2021. The increase in patent and trademark licensing revenue during the first quarter of fiscal 2022 was primarily due to increased shipments to existing customers related to athletic activities and gyms reopening in accordance with easing COVID-19 restrictions across the USA as compared to significant restrictions in athletic activities in the first quarter of fiscal 2021 combined with sales to new customers and higher average sales prices.

We continue to invest in research and development for our SR CarnoSyn® sustained release delivery system. We believe SR CarnoSyn® may provide a unique opportunity within the growing Wellness and Healthy Aging markets. We believe our recent efforts to refine our formulations and product offerings will be positively received and result in significant opportunity for increased SR CarnoSyn® sales.

To protect our CarnoSyn® business and our patents, trademarks and other intellectual property, we incurred litigation and patent compliance expenses of approximately $0.1 million during the first three months of fiscal 2022 as compared to $0.4 million during the comparable period in fiscal 2021. The decrease in these legal expenses on a year over year basis was primarily due to the successful resolution of several cases that were settled. Our ability to maintain or further increase our beta-alanine royalty and licensing revenue will depend in large part on our ability to develop a market for our sustained release form of beta-alanine marketed under our SR CarnoSyn® trademark, maintain our patent rights, obtain the raw material beta-alanine when and in the amounts needed, expand distribution of beta-alanine to new and existing customers, and continued compliance by third parties with our license agreements and our patent, trademark and other intellectual property rights. During the remainder of fiscal 2022, we will continue our sales and marketing activities to consumers, customers, potential customers, and brand owners on multiple platforms to promote and reinforce the features and benefits of utilizing CarnoSyn® and SR CarnoSyn® beta-alanine.

Based on our current sales order volumes and forecasts we have received from our customers, we now anticipate our fiscal 2022 consolidated net sales will increase between 7.0% and 10.0% as compared to fiscal 2021. We also now anticipate we will generate operating income between 10.0% and 13.0% of net sales for our fiscal year ending June 30, 2022. Sales and profitability during the first half of fiscal 2022 are anticipated to decline when compared to the same period of fiscal 2021. Our expectations for the first half of fiscal 2022 are being driven by continuing supply chain, labor and logistical constraints, all of which are expected to result in a backlog of existing orders that may not get fully cleared until the second half of fiscal 2022. We currently anticipate these manufacturing challenges will mostly resolve themselves during the second half of fiscal 2022. As a result, we expect sales and profitability in the second half of fiscal 2022 to exceed the comparable period in fiscal 2021, with the overall fiscal 2022 results reflecting an increase in both sales and profitability on a full year basis. There can be no assurance our expectations will result in the currently anticipated increase in net sales or operating income. Notwithstanding, we are also closely monitoring the impact of the COVID-19 pandemic. Currently, we cannot reasonably estimate the length of time or severity of the pandemic and cannot currently reliably estimate the impact this pandemic may have on our consolidated financial results for fiscal 2022 and beyond.

Impact of COVID-19 on Our Business

The COVID-19 pandemic has resulted, and is likely to continue to result, in significant economic disruption and has and will likely continue to affect our business. Significant uncertainty exists concerning the magnitude of the impact and duration of the COVID-19 pandemic. Our facilities, located both in the United States and Europe, continue to operate as an essential and critical manufacturer in accordance with applicable federal, state, and local regulations, however, there can be no assurance our facilities will continue to operate without interruption. Factors that derive from COVID-19 and the accompanying response, and that have or may negatively impact sales and gross margin in the future include, but are not limited to the following:

- Limitations on the ability of our suppliers to manufacture, or procure from manufacturers, the materials included in the products we sell, or to meet delivery requirements and commitments;
- Limitations on the ability of our employees to perform their work due to illness caused by the pandemic or due to other restrictions on our employees to keep them safe and the increased cost of measures taken to ensure employee health and safety;
- Limitation on the availability of qualified individuals to adequately staff our manufacturing facilities;
- Limitations on the ability of carriers to deliver materials to us or deliver our products to customers;
- Limitations on the ability of our customers to conduct their business and purchase our products and services; and
- Limitations on the ability of our customers to pay us on a timely basis.

We will continue to actively monitor the situation and may take further actions to alter our business operations as may be required by federal, state or local authorities or that we determine are in the best interests of our employees, customers, suppliers and shareholders. While we are unable to determine or predict the nature, duration, or scope of the overall impact the COVID-19 pandemic will have on our business, results of operations, liquidity or capital resources, we believe we will be able to remain operational and our working capital will be sufficient for us to remain operational even as the longer term consequences of this pandemic become known.

During the remainder of fiscal year 2022, we also plan to continue our focus on:

- Leveraging our state-of-the-art, certified facilities to increase the value of the goods and services we provide to our highly valued private-label contract manufacturing customers, and to assist us in developing relationships with additional quality oriented customers;

- Expanding the commercialization of our beta-alanine patent estate through raw material sales, developing a new sales distribution channel under the Wellness and Healthy Aging category for our sustained release form of beta-alanine marketed under our SR CarnoSyn® trademark, exploiting new contract manufacturing opportunities license and royalty agreements, and protecting our proprietary rights; and

- Improving operational efficiencies and managing costs and business risks to improve profitability.

Discussion of Critical Accounting Estimates

We have identified the following as our most critical accounting estimates, which are those that are most important to the portrayal of the Company's financial condition and results, and that require management's most subjective and complex judgments. Information regarding our other significant accounting estimates and policies are disclosed in Note 1 of Item 1 of this report and as disclosed in the 2021 Annual Report.

Revenue Recognition — Revenue is measured as the net amount of consideration expected to be received in exchange for fulfilling one or more performance obligations. For certain contracts with volume rebates, our estimates of future sales used to assess the volume rebate estimates are subject to a high degree of judgement and may differ from actual sales due to, among other things, changes in customer orders and raw material availability.

Results of Operations

The results of our operations for the three months ended September 30 were as follows (dollars in thousands):

	Three Months Ended September 30,		
	2021	**2020**	**% Change**
Private-label contract manufacturing	$ 33,594	$ 37,047	(9)%
Patent and trademark licensing	4,746	2,679	77%
Total net sales	38,340	39,726	(3)%
Cost of goods sold	30,059	33,721	(11)%
Gross profit	8,281	6,005	38%
Gross profit %	21.6%	15.1%	
Selling, general and administrative expenses	4,053	3,920	3%
% of net sales	10.6%	9.9%	
Income from operations	4,228	2,085	103%
% of net sales	11.0%	5.2%	
Total other income (expense)	(26)	(321)	(92)%
Income before income taxes	4,202	1,764	138%
% of net sales	11.0%	4.4%	
Provision (benefit) for income taxes	946	(494)	291%
Net income	$ 3,256	$ 2,258	44%
% of net sales	8.5%	5.7%	

Private-label contract manufacturing net sales decreased 9% during the three months ended September 30, 2021 when compared to the same period in the prior year. The decrease was primarily due to lower sales to our largest customer. Sales to this customer decreased 45% as compared to the same period in the prior year with a majority of the decrease associated with their European business. The decrease in sales to our largest customer was mostly offset by increased sales from other existing customers and sales to a new customer.

Net sales from our patent and trademark licensing segment increased 77% during the three months ended September 30, 2021 when compared to the same period in the prior year. The increase in patent and trademark licensing revenue during the first quarter of fiscal 2022 was primarily due to increased shipments to existing customer related to athletic activities and gyms reopening in accordance with easing COVID-19 restrictions across the USA as compared to significant restrictions in athletic activities in the first quarter of fiscal 2021 combined with sales to new customers and higher average sales prices.

The change in gross profit margin for the three months ended September 30, 2021, was as follows:

	Three Months Ended
Contract manufacturing(1)	2.0%
Patent and trademark licensing(2)	4.5
Total change in gross profit margin	6.5%

1 Private-label contract manufacturing gross profit margin as a percentage of consolidated net sales increased 2.0 percentage points during the three months ended September 30, 2021 when compared to the comparable prior year period. The increase in gross profit as a percentage of sales for private-label contract manufacturing is primarily due to favorable sales mix partially offset by a marginal increase in per unit manufacturing costs.

2 Patent and trademark licensing gross profit margin as a percentage of consolidated net sales increased 4.5 percentage points during the three months ended September 30, 2021 when compared to the comparable prior year period. The increase in margin contribution was primarily due to increased patent and trademark licensing net sales as a percentage of total consolidated net sales along with favorable sales mix, higher average net sales prices per unit, and a change in estimate regarding certain volume rebate programs.

Selling, general and administrative expenses increased $0.1 million, or 3%, during the three months ended September 30, 2021, as compared to the comparable prior year period, primarily due to slightly increased compensation and bad debt expense partially offset by lower patent and trademark legal expenses.

Other income (expense), net, decreased $0.3 million during the three months ended September 30, 2021, when compared to the comparable prior year period. The decrease was primarily due to the favorable foreign exchange revaluation activity associated with our balance sheet and the fluctuations in unhedged foreign currency rates when compared to the same period in the prior fiscal year.

Our income tax expense increased $1.4 million, during the three months ended September 30, 2021 when compared to the same period in fiscal 2021. This increase was primarily related to a discrete tax benefit of $0.9 million recorded during the three months ended September 30, 2020 without a corresponding discrete item in the three months ended September 30, 2021. In addition, taxable income was higher in the first quarter of fiscal 2022 as compared to the first quarter in fiscal 2021.

Liquidity and Capital Resources

Our primary sources of liquidity and capital resources are cash flows provided by operating activities and the availability of borrowings under our credit facility. Net cash used by operating activities was $3.8 million for the three months ended September 30, 2021 compared to net cash provided by operating activities of $0.1 million in the comparable period in the prior fiscal year.

At September 30, 2021, changes in accounts receivable, consisting of amounts due from our private-label contract manufacturing customers and our patent and trademark licensing activities, used $2.4 million in cash compared to using $2.2 million of cash during the comparable three month period in the prior year. The increase in cash used by accounts receivable during the three months ended September 30, 2021 primarily resulted from the timing of sales and related collections. Days sales outstanding was 46 days during the three months ended September 30, 2021 as compared to 42 days for the prior year period.

Changes in inventory used $4.7 million in cash during the three months ended September 30, 2021 compared to using $7.2 million in the comparable prior year period. The change in cash related to inventory during the three months ended September 30, 2021 was primarily related to the difference in the amount and timing of orders and anticipated sales as compared to same period in the prior year. Changes in accounts payable and accrued liabilities provided $0.3 million in cash during the three months ended September 30, 2021 compared to providing $6.6 million during the three months ended September 30, 2020. The change in cash flow activity related to accounts payable and accrued liabilities was primarily due to the timing of inventory receipts and payments.

Cash used in investing activities in the three months ended September 30, 2021 was $18.3 million compared to $1.5 million in the comparable prior year period. The primary reason for the change was due to the purchase of a new manufacturing and warehouse facility in Carlsbad, CA during the first quarter of fiscal 2022.

Cash provided by financing activities for the three months ended September 30, 2021, was $10.0 million, compared to $1.7 million used in the comparable prior year period. The difference is primarily due to borrowings related to the purchase of our new manufacturing and warehouse facility in Carlsbad, CA.

At September 30, 2021 we had $10.0 million due in connection with a term loan related to our recently acquired manufacturing and warehouse facility and we also had a $20.0 million working capital line of credit available to us under which we have no borrowings outstanding. During the three months ending September 30, 2021, we were in compliance with all of the financial and other covenants required under the Credit Agreement. Refer to Item 1, Note F., "Debt," in this Quarterly Report, for terms of our Credit Agreement.

As of September 30, 2021, we had $20.0 million in cash and cash equivalents. We believe our available cash, cash equivalents, credit facility and potential cash flows from operations will be sufficient to fund our current working capital needs, capital expenditures, and minimum debt and interest payments through the next 12 months. Our capital requirements for fiscal 2022 include amounts that will be required to complete our planned retrofit of the facility we purchased in August 2021 that is planned to become a powder blending, packaging, and storage facility.

Off-Balance Sheet Arrangements

As of September 30, 2021, we did not have any off-balance sheet debt nor did we have any transactions, arrangements, obligations (including contingent obligations) or other relationships with any unconsolidated entities or other persons that have or are reasonably likely to have a material current or future effect on our financial condition, changes in financial condition, results of operations, liquidity, capital expenditures, capital resources, or significant components of revenue or expenses material to investors.

Recent Accounting Pronouncements

Recent accounting pronouncements are discussed in the notes to our consolidated financial statements included under Item 1, Note A. of this Report. Other than those pronouncements, we are not aware of any other pronouncements that materially affect our financial position or results of operations.

ITEM 4. CONTROLS AND PROCEDURES

We maintain certain disclosure controls and procedures as defined under the Securities Exchange Act of 1934. They are designed to help ensure that material information is: (1) gathered and communicated to our management, including our principal executive and financial officers, in a manner that allows for timely decisions regarding required disclosures; and (2) recorded, processed, summarized, reported and filed with the SEC as required under the Securities Exchange Act of 1934 and within the time periods specified by the SEC.

Our management, with the participation of our Chief Executive Officer and Chief Financial Officer (principal financial and accounting officer), evaluated the effectiveness of the design and operation of our disclosure controls and procedures as of September 30, 2021. Based on such evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective for their intended purpose described above as of September 30, 2021.

There were no changes in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) that occurred during the quarterly period ended September 30, 2021 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II - OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

From time to time, we become involved in various investigations, claims and legal proceedings that arise in the ordinary course of our business. These matters may relate to intellectual property, product liability, employment, tax, regulation, contract or other matters. The resolution of these matters as they arise will be subject to various uncertainties and, even if such claims are without merit, could result in the expenditure of significant financial and managerial resources. While unfavorable outcomes are possible, based on available information, we currently do not believe the resolution of these matters, even if unfavorable, will result in a material adverse effect on our business, consolidated financial condition, or results of operations. However, a settlement payment or unfavorable outcome could adversely impact our results of operations. Our evaluation of the likely impact of these actions could change in the future and we could have unfavorable outcomes we do not expect. An unexpected settlement expense or an unexpected unfavorable outcome of a matter could adversely impact our results of operations.

As of November 9, 2021, neither NAI nor NAIE were a party to any material pending legal proceeding nor was any of our property the subject of any material pending legal proceeding. We are currently involved in several matters in the ordinary course of our business.

There is no assurance NAI will prevail in these litigation matters or in similar proceedings NAI or others may initiate or that litigation expenses will not be greater than anticipated.

ITEM 1A. RISK FACTORS

When evaluating our business and future prospects you should carefully consider the risks described under Item 1A of our 2021 Annual Report, as well as the other information in our 2021 Annual Report, this Report and other reports and documents we file with the SEC. If any of the identified risks actually occur, our business, financial condition and results of operations could be seriously harmed. In that event, the market price of our common stock could decline, and you could lose all or a portion of the value of your investment in our common stock.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

We did not sell any unregistered equity securities during the three month periods ended September 30, 2021 and September 30, 2020.

Repurchases

During the quarter ended September 30, 2021, we did not repurchase any shares of our common stock under our stock repurchase plan. As of September 30, 2021 we had $3.2 million approved under the Plan for future purchases.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS

The following exhibit index shows those exhibits filed with this Report and those incorporated by reference:

EXHIBIT INDEX

Exhibit Number	Description	Incorporated By Reference To
3(i)	Amended and Restated Certificate of Incorporation of Natural Alternatives International, Inc. filed with the Delaware Secretary of State on January 14, 2005	Exhibit 3(i) of NAI's Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2004, filed with the commission on February 14, 2005
3(ii)	Amended and Restated By-laws of Natural Alternatives International, Inc. dated as of February 9, 2009	Exhibit 3(ii) of NAI's Current Report on Form 8-K dated February 9, 2009, filed with the commission on February 13, 2009
4(i)	Form of NAI's Common Stock Certificate	Exhibit 4(i) of NAI's Annual Report on Form 10-K for the fiscal year ended June 30, 2005, filed with the commission on December 8, 2005
31.1	Rule 13a-14(a)/15d-14(a) Certification of Chief Executive Officer	Filed herewith
31.2	Rule 13a-14(a)/15d-14(a) Certification of Chief Financial Officer	Filed herewith
32	Section 1350 Certification	Filed herewith
101.INS	Inline XBRL Instance Document	Filed herewith
101.SCH	Inline XBRL Taxonomy Extension Schema Document	Filed herewith
101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase Document	Filed herewith
101.DEF	Inline XBRL Taxonomy Extension Definition Linkbase Document	Filed herewith
101.LAB	Inline XBRL Taxonomy Extension Label Linkbase Document	Filed herewith
101.PRE	Inline XBRL Taxonomy Extension Presentation Linkbase Document	Filed herewith
104	Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101)	Filed herewith

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, Natural Alternatives International, Inc., the registrant, has duly caused this Report to be signed on its behalf by the undersigned, duly authorized officers.

Date: November 9, 2021

NATURAL ALTERNATIVES
INTERNATIONAL, INC.

By: /s/ Mark A. LeDoux
Mark A. LeDoux, Chief Executive Officer
(principal executive officer)

By: /s/ Michael E. Fortin
Michael E. Fortin, Chief Financial Officer
(principal financial and accounting officer)

Exhibit 31.1

Certification of Chief Executive Officer
Pursuant to
Rule 13a-14(a)/15d-14(a)

I, Mark A. LeDoux, Chief Executive Officer of Natural Alternatives International, Inc., certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Natural Alternatives International, Inc.;

2. Based on my knowledge, this Report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this Report;

3. Based on my knowledge, the financial statements, and other financial information included in this Report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this Report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this Report is being prepared;

b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this Report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this Report based on such evaluation; and

d) disclosed in this Report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors:

a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 9, 2021

/s/ Mark A. LeDoux
Mark A. LeDoux, Chief Executive Officer

Exhibit 31.2

Certification of Chief Financial Officer
Pursuant to
Rule 13a-14(a)/15d-14(a)

I, Michael Fortin, Chief Financial Officer of Natural Alternatives International, Inc., certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Natural Alternatives International, Inc. (the “Report”);

2. Based on my knowledge, this Report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this Report;

3. Based on my knowledge, the financial statements, and other financial information included in this Report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this Report;

4. The registrant’s other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this Report is being prepared;

b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

c) evaluated the effectiveness of the registrant’s disclosure controls and procedures and presented in this Report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this Report based on such evaluation; and

d) disclosed in this Report any change in the registrant’s internal control over financial reporting that occurred during the registrant’s most recent fiscal quarter (the registrant’s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant’s internal control over financial reporting; and

5. The registrant’s other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant’s auditors and the audit committee of the registrant’s board of directors:

a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant’s ability to record, process, summarize and report financial information; and

b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant’s internal control over financial reporting.

Date: November 9, 2021

/s/ Michael E. Fortin
Michael E. Fortin, Chief Financial Officer

Exhibit 32

Certification
Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
(Subsections (a) and (b) of Section 1350, Chapter 63 of Title 18, United States Code)

Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (Subsections (a) and (b) of Section 1350, Chapter 63 of Title 18, United States Code), each of the undersigned officers of Natural Alternatives International, Inc., a Delaware corporation, does hereby certify, that the Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2021 of Natural Alternatives International, Inc. fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 (15 U.S.C. 78m or 78o(d)) and that information contained in such report fairly presents, in all material respects, the financial condition and results of operations of Natural Alternatives International, Inc.

Date: November 9, 2021	/s/ Mark A. LeDoux Mark A. LeDoux, Chief Executive Officer
Date: November 9, 2021	/s/ Michael E. Fortin Michael E. Fortin, Chief Financial Officer

The foregoing certification is furnished solely pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (Subsections (a) and (b) of Section 1350, Chapter 63 of Title 18, United States Code) and is not being filed as part of the Form 10-Q or as a separate disclosure document.