UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

☒ QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended December 31, 2023

or

☐ 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	**84-1007839**
(State of incorporation)	**(IRS Employer Identification No.)**
1535 Faraday Ave **Carlsbad, CA 92008**	**(760) 736-7700**
(Address of principal executive offices)	**(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 pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that NAI was required to submit 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 February 13, 2024, 6,088,813 shares of NAI's common stock were outstanding, net of 3,240,593 treasury shares.

TABLE OF CONTENTS

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;
- 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;
- 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 future adequacy and intended use of our facilities, including recommencing operations at our manufacturing facility in Carlsbad, California after a temporary closing in October 2023;
- future customer orders and the timing thereof;
- 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;
- our ability to price our products to achieve profit margin targets, especially in the current volatile raw material and labor environment;
- our ability to protect our intellectual property;
- future economic and political conditions;
- 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;
- potential manufacturing and distribution channels, product returns, and potential product recalls;
- 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);
- the adequacy of our financial reserves and allowances;
- 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 I of our fiscal 2023 Annual 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)
(Unaudited)

	December 31, 2023	June 30, 2023
Assets		
Current assets:		
Cash and cash equivalents	$ 16,595	$ 13,604
Accounts receivable – less allowance for doubtful accounts of $0 at December 31, 2023 and $23 at June 30, 2023	10,457	7,022
Inventories, net	19,596	29,694
Income tax receivable	881	305
Forward contracts	414	390
Prepaids and other current assets	6,450	5,995
Total current assets	54,393	57,010
Property and equipment, net	53,207	53,841
Operating lease right-of-use assets	44,994	20,369
Deferred tax asset – noncurrent	321	355
Other noncurrent assets, net	2,818	2,577
Total assets	$ 155,733	$ 134,152
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	$ 7,494	$ 7,778
Accrued liabilities	2,007	2,409
Accrued compensation and employee benefits	1,661	2,246
Customer deposits	695	317
Short-term liability – operating leases	1,225	2,448
Forward contracts	38	—
Income taxes payable	—	374
Mortgage note payable, current portion	292	312
Total current liabilities	13,412	15,884
Long-term liability – operating leases	46,701	18,965
Long-term pension liability	346	339
Mortgage note payable, net of current portion	9,079	9,205
Income taxes payable, noncurrent	740	987
Total liabilities	70,278	45,380
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 December 31, 2023 and June 30, 2023, issued and outstanding (net of treasury shares) 6,088,813 at December 31, 2023 and 6,073,813 at June 30, 2023	91	91
Additional paid-in capital	32,043	31,436
Retained earnings	76,418	80,183
Treasury stock, at cost, 3,240,593 shares at December 31, 2023 and June 30, 2023	(22,855)	(22,855)
Accumulated other comprehensive loss	(242)	(83)
Total stockholders' equity	85,455	88,772
Total liabilities and stockholders' equity	$ 155,733	$ 134,152

See accompanying notes to condensed consolidated financial statements.

Natural Alternatives International, Inc.
Condensed Consolidated Statements of Operations and Comprehensive (Loss) Income
(In thousands, except share and per share data)
(Unaudited)

	Three Months Ended December 31,		Six Months Ended December 31,	
	2023	**2022**	**2023**	**2022**
Net sales	$ 25,202	$ 42,295	$ 59,171	$ 85,422
Cost of goods sold	24,815	36,081	55,647	73,837
Gross profit	387	6,214	3,524	11,585
Selling, general and administrative	3,900	3,729	7,581	7,558
(Loss) income from operations	(3,513)	2,485	(4,057)	4,027
Other (expense) income:				
Interest income	13	9	22	13
Interest expense	(70)	(55)	(163)	(130)
Foreign exchange loss	(240)	(143)	(517)	(290)
Other, net	(21)	(10)	—	(16)
Total other expense	(318)	(199)	(658)	(423)
(Loss) income before income taxes	(3,831)	2,286	(4,715)	3,604
(Benefit) provision for income taxes	(761)	473	(950)	738
Net (loss) income	$ (3,070)	$ 1,813	$ (3,765)	$ 2,866
Unrealized loss resulting from change in fair value of derivative instruments, net of tax	(590)	(1,809)	(149)	(1,264)
Comprehensive (loss) income	$ (3,660)	$ 4	$ (3,914)	$ 1,602
Net (loss) income per common share:				
Basic	$ (0.52)	$ 0.31	$ (0.64)	$ 0.49
Diluted	$ (0.52)	$ 0.31	$ (0.64)	$ 0.49
Weighted average common shares outstanding				
Basic	5,850,131	5,866,494	5,850,131	5,893,071
Diluted	5,850,131	5,873,129	5,850,131	5,908,287

See accompanying notes to condensed consolidated financial statements.

Natural Alternatives International, Inc.
Condensed Consolidated Statements of Stockholders' Equity
Three-Month Period Ended December 31, 2023 and 2022
(Dollars in thousands)
(Unaudited)

	Common Stock Shares	Common Stock Amount	Additional Paid-in Capital	Retained Earnings	Treasury Stock Shares	Treasury Stock Amount	Accumulated Other Comprehensive Income (Loss)	Total
Balance, September 30, 2023	9,329,406	$ 91	$ 31,738	$ 79,488	3,240,593	$ (22,855)	$ 353	$ 88,815
Compensation expense related to stock compensation plans	—	—	305	—	—	—	—	305
Issuance of common stock for restricted stock grants	—	—	—	—	—	—	—	—
Change in minimum pension liability, net of tax	—	—	—	—	—	—	(5)	(5)
Unrealized loss resulting from change in fair value of derivative instruments, net of tax	—	—	—	—	—	—	(590)	(590)
Net loss	—	—	—	(3,070)	—	—	—	(3,070)
Balance, December 31, 2023	9,329,406	$ 91	$ 32,043	$ 76,418	3,240,593	$ (22,855)	$ (242)	$ 85,455
Balance, September 30, 2022	9,191,406	$ 89	$ 30,658	$ 78,714	3,108,590	$ (21,849)	$ 2,244	$ 89,856
Compensation expense related to stock compensation plans	—	—	232	—	—	—	—	232
Repurchase of common stock	—	—	—	—	68,570	(562)	—	(562)
Unrealized loss resulting from change in fair value of derivative instruments, net of tax	—	—	—	—	—	—	(1,809)	(1,809)
Net income	—	—	—	1,813	—	—	—	1,813
Balance, December 31, 2022	9,191,406	$ 89	$ 30,890	$ 80,527	3,177,160	$ (22,411)	$ 435	$ 89,530

Natural Alternatives International, Inc.
Condensed Consolidated Statements of Stockholders' Equity
Six-Month Period Ended December 31, 2023 and 2022
(Dollars in thousands)
(Unaudited)

	Common Stock		Additional Paid-in Capital	Retained Earnings	Treasury Stock		Accumulated Other Comprehensive (Loss) Income	Total
	Shares	Amount			Shares	Amount		
Balance, June 30, 2023	9,314,406	91	31,436	80,183	3,240,593	(22,855)	(83)	$ 88,772
Compensation expense related to stock compensation plans	—	—	607	—	—	—	—	607
Issuance of common stock for restricted stock grants	15,000	—	—	—	—	—	—	—
Change in minimum pension liability, net of tax	—	—	—	—	—	—	(10)	(10)
Unrealized loss resulting from change in fair value of derivative instruments, net of tax	—	—	—	—	—	—	(149)	(149)
Net loss	—	—	—	(3,765)	—	—	—	(3,765)
Balance, December 31, 2023	9,329,406	$ 91	$ 32,043	$ 76,418	3,240,593	$ (22,855)	$ (242)	$ 85,455
Balance, June 30, 2022	9,191,406	89	30,423	77,661	3,061,795	(21,352)	1,699	$ 88,520
Compensation expense related to stock compensation plans	—	—	467	—	—	—	—	467
Repurchase of common stock	—	—	—	—	115,365	(1,059)	—	(1,059)
Unrealized loss resulting from change in fair value of derivative instruments, net of tax	—	—	—	—	—	—	(1,264)	(1,264)
Net income	—	—	—	2,866	—	—	—	2,866
Balance, December 31, 2022	9,191,406	$ 89	$ 30,890	$ 80,527	3,177,160	$ (22,411)	$ 435	$ 89,530

See accompanying notes to condensed consolidated financial statements.

Natural Alternatives International, Inc.
Condensed Consolidated Statements of Cash Flows
(In thousands)
(Unaudited)

	Six Months Ended December 31,	
	2023	**2022**
Cash flows from operating activities		
Net (loss) income	$ (3,765)	$ 2,866
Adjustments to reconcile net (loss) income to net cash provided by (used in) operating activities:		
Provision for uncollectible accounts receivable	—	(57)
Depreciation and amortization	2,341	2,039
Non-cash compensation	607	467
Non-cash lease expense	3,611	2,013
Pension contributions, net of expense	7	50
Gain on disposal of assets	—	(37)
Changes in operating assets and liabilities:		
Accounts receivable	(3,435)	7,198
Inventories, net	10,098	(3,561)
Prepaids and other assets	(925)	(619)
Accounts payable and accrued liabilities	(309)	(3,121)
Forward contracts	119	152
Accrued compensation and employee benefits	(585)	(1,844)
Operating lease liabilities	(1,723)	(1,624)
Income taxes	(1,197)	(187)
Net cash provided by operating activities	4,844	3,735
Cash flows from investing activities		
Proceeds from sale of property and equipment	—	42
Purchases of property and equipment	(1,707)	(11,640)
Net cash used in investing activities	(1,707)	(11,598)
Cash flows from financing activities		
Payments on long-term debt	(146)	(138)
Repurchase of common stock	—	(1,059)
Net cash (used in) financing activities	(146)	(1,197)
Net increase (decrease) in cash and cash equivalents	2,991	(9,060)
Cash and cash equivalents at beginning of period	13,604	21,833
Cash and cash equivalents at end of period	$ 16,595	$ 12,773
Supplemental disclosures of cash flow information		
Cash paid during the period for:		
Interest	$ 114	$ 131
Income taxes	$ 274	$ 877

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 and six months ended December 31, 2023 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, 2023 ("2023 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 2023 Annual Report unless otherwise noted below.

Recently Adopted Accounting Pronouncements

We did not adopt any accounting pronouncements during the three months ended December 31, 2023.

Recently Issued Accounting and Regulatory Pronouncements

In October 2023, the FASB issued Accounting Standards Update ("ASU") 2023-06, "Disclosure Improvements - Codification Amendments in Response to the SEC's Disclosure Update and Simplification Initiative". ASU 2023-06 clarifies or improves disclosure and presentation requirements on various disclosure areas, including the statement of cash flows, earnings per share, debt, equity, and derivatives. The amendments will align the requirements in the FASB Accounting Standards Codification (ASC) with the SEC's regulations. The amendments in this ASU will be effective on the date the related disclosures are removed from Regulation S-X or Regulation S-K by the SEC, and will not be effective if the SEC has not removed the applicable disclosure requirement by June 30, 2027. Early adoption is prohibited. As we are currently subject to these SEC requirements, this ASU is not expected to have a material impact on our Consolidated Financial Statements or related disclosures.

In November 2023, the FASB issued ASU 2023-07, "Segment Reporting (Topic 280): Improvements to Reportable Segment Disclosures". This amendment improves reportable segment disclosure requirements, primarily through enhanced disclosures about significant segment expenses. The amendments in ASU 2023-07 are effective for fiscal years beginning after December 15, 2023, with early adoption permitted. This ASU will be adopted in our first quarter of fiscal 2025. We are currently evaluating the impact of this standard; however, we do not expect it to have a material impact on our Consolidated Financial Statements.

In December 2023, the FASB issued ASU 2023-09, "Income Taxes (Topic 740): Improvements to Income Tax Disclosures". The amendments in this update address investor requests for more transparency about income tax information through improvements to income tax disclosures primarily related to the rate reconciliation and income taxes paid information. This update also includes certain other amendments to improve the effectiveness of income tax disclosures. The amendments in ASU 2023-09 are effective for fiscal years beginning after December 15, 2024, with early adoption permitted. This ASU will be adopted in our first quarter of fiscal 2026. We are currently evaluating the impact of this standard; however, we do not expect it to have a material impact on our Consolidated Financial Statements.

Net (Loss) Income per Common Share

We compute net (loss) 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 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 (loss) income per common share as follows (in thousands, except per share data):

	Three Months Ended December 31,		Six Months Ended December 31,	
	2023	2022	2023	2022
Numerator				
Net (loss) income	$ (3,070)	$ 1,813	$ (3,765)	$ 2,866
Denominator				
Basic weighted average common shares outstanding	5,850	5,866	5,850	5,893
Dilutive effect of restricted stock	—	7	—	15
Diluted weighted average common shares outstanding	5,850	5,873	5,850	5,908
Basic net (loss) income per common share	$ (0.52)	$ 0.31	$ (0.64)	$ 0.49
Diluted net (loss) income per common share	$ (0.52)	$ 0.31	$ (0.64)	$ 0.49

We exclude the impact of restricted stock from the calculation of diluted net loss per common share in periods where we have a net loss or when their inclusion would be antidilutive. During the three months ended December 31, 2023, we excluded 238,682 shares of unvested restricted stock. During the six months ended December 31, 2023, we excluded 236,155 shares of unvested stock. During the three and six months ended December 31, 2022, we excluded 50,377 shares of unvested restricted stock.

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 recognize revenue in certain circumstances before delivery to the customer has occurred (commonly referred to as bill-and-hold transactions). Products sold under bill-and-hold arrangements are recorded as revenue when risk of ownership has been transferred to the customer, but the product has not shipped due to a substantive reason, typically at the customer’s request. The product must be separately identified as belonging to the customer, ready for physical transfer to the customer, and we cannot have the ability to redirect the product to another 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 contract fulfillment as a contract liability and they are classified as customer deposits on the consolidated balance sheet.

Contract liabilities and revenue recognized were as follows (in thousands):

	June 30, 2023	Additions	Revenue Recognized	Customer Refunds	December 31, 2023
Contract Liabilities (Customer Deposits)	$ 317	$ 975	$ (597)	$ —	$ 695

	June 30, 2022	Additions	Revenue Recognized	Customer Refunds	December 31, 2022
Contract Liabilities (Customer Deposits)	$ 140	$ 425	$ (137)	$ (3)	$ 425

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 December 31, 2023, we have no estimated returns liability.

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 $2.2 million during the three months ended December 31, 2023, and $3.9 million during the six months ended December 31, 2023. We similarly recorded $1.5 million during the three months ended December 31, 2022, and $2.8 million during the six months ended December 31, 2022. 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 approximately $93,000 during the three months ended December 31, 2023, and $182,000 during the six months ended December 31, 2023. We recorded approximately $78,000 of royalty expense during the three months ended December 31, 2022, and $105,000 during the six months ended December 31, 2022.

Stock-Based Compensation

The Board of Directors approved our current 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 have any option activity or options outstanding during the three and six months ended December 31, 2023, or December 31, 2022.

We did not grant any restricted stock shares during the three months ended December 31, 2023. We granted a total of 15,000 restricted stock shares to certain new members of our management team during the six months ended December 31, 2023. We did not grant any restricted stock shares during the three and six months ended December 31, 2022. During the three and six months ended December 31, 2023, and December 31, 2022, no restricted stock shares were forfeited. Our net loss included stock-based compensation expense with the vesting of prior restricted stock grants of approximately $0.3 million for the three months ended December 31, 2023 and $0.6 million for the six months ended December 31, 2023. Our net income included stock based compensation expense in connection with the vesting of prior restricted stock grants of approximately $0.2 million for the three months ended December 31, 2022, and $0.5 million for the six months ended December 31, 2023.

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.

No deferred cash awards were granted or forfeited during the three and six months ended December 31, 2023, and December 31, 2022.

Fair Value of Financial Instruments

Except for cash and cash equivalents, as of December 31, 2023, and June 30, 2023, we did not have any financial assets or liabilities classified as Level 1. We classify derivative forward exchange and interest rate swap contracts as Level 2 assets and liabilities. The fair values were determined by obtaining pricing from our bank and corroborating those values with a third party bank or pricing service.

Fair value of derivative instruments classified as Level 2 assets and liabilities consisted of the following (in thousands):

	December 31, 2023	June 30, 2023
Euro Forward Contract– Current Assets	$ —	$ 250
Swiss Franc Forward Contract – Current Assets	414	140
Total Derivative Contracts – Current Assets	414	390
Interest Swap – Other noncurrent Assets	316	532
Euro Forward Contract– Other noncurrent Assets	—	15
Total Derivative Contracts – Other noncurrent Assets	316	547
Euro Forward Contract– Current Liabilities	(38)	—
Swiss Franc Forward Contract – Current Liabilities	—	—
Total Derivative Contracts – Current Liabilities	(38)	—
Fair Value Net Asset – all Derivative Contracts	$ 692	$ 937

We also classify any outstanding line of credit and term loan balance as a Level 2 liability. As of December 31, 2023, and June 30, 2023, 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 2023 or the three and six months ended December 31, 2023.

B. Inventories, net

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

	December 31, 2023	June 30, 2023
Raw materials	$ 14,443	$ 20,946
Work in progress	2,474	4,504
Finished goods	3,485	4,928
Reserve	(806)	(684)
	$ 19,596	$ 29,694

C. Property and Equipment

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

	Depreciable Life In Years	December 31, 2023	June 30, 2023
Land	NA	$ 8,941	$ 8,940
Building and building improvements	7 – 39	25,147	24,712
Machinery and equipment	3 – 12	42,112	41,460
Office equipment and furniture	3 – 5	6,664	6,522
Vehicles	3	227	227
Leasehold improvements	1 – 15	23,118	22,641
Total property and equipment		106,209	104,502
Less: accumulated depreciation and amortization		(53,002)	(50,661)
Property and equipment, net		$ 53,207	$ 53,841

Depreciation and amortization expense was approximately $1.2 million during the three months ended December 31, 2023, and $2.3 million during the six months ended December 31, 2023. Depreciation expense was approximately $1.1 million during the three months ended December 31, 2022, and $2.0 million during the six months ended December 31, 2022. Construction in progress is included in the building and building improvements line.

D. Other Comprehensive (Loss) Income

Other comprehensive (loss) income ("OCL" and "OCI") consisted of the following during the three and six months ended December 31, 2023, and December 31, 2022 (in thousands):

	Three Months Ended December 31, 2023			
	Defined Benefit Pension Plan	Unrealized Gains (Losses) on Cash Flow Hedges	Unrealized Gains (Losses) on Swap Derivative	Total
Beginning Balance	$ (385)	$ 392	$ 346	$ 353
OCI/OCL before reclassifications	—	(503)	(125)	(628)
Amounts reclassified from OCI to Sales	—	(127)	—	(127)
Tax effect of OCI activity	(5)	134	31	160
Net current period OCI/OCL	(5)	(496)	(94)	(595)
Ending Balance	$ (390)	$ (104)	$ 252	$ (242)

	Six Months Ended December 31, 2023			
	Defined Benefit Pension Plan	Unrealized Gains (Losses) on Cash Flow Hedges	Unrealized Gains (Losses) on Swap Derivative	Total
Beginning Balance	$ (380)	$ (110)	$ 407	$ (83)
OCI/OCL before reclassifications	—	167	(215)	(48)
Amounts reclassified from OCI to Sales	—	(77)	—	(77)
Tax effect of OCI activity	(10)	(84)	60	(34)
Net current period OCI/OCL	(10)	6	(155)	(159)
Ending Balance	$ (390)	$ (104)	$ 252	$ (242)

	Three Months Ended December 31, 2022			
	Defined Benefit Pension Plan	Unrealized Gains (Losses) on Cash Flow Hedges	Unrealized Gains (Losses) on Swap Derivative	Total
Beginning Balance	$ (444)	$ 2,203	$ 485	$ 2,244
OCI/OCL before reclassifications	—	(1,173)	4	(1,169)
Amounts reclassified from OCI to Sales	—	(1,162)	—	(1,162)
Tax effect of OCI activity	—	523	(1)	522
Net current period OCI/OCL	—	(1,812)	3	(1,809)
Ending Balance	$ (444)	$ 391	$ 488	$ 435

	Six Months Ended December 31, 2022			
	Defined Benefit Pension Plan	Unrealized Gains (Losses) on Cash Flow Hedges	Unrealized Gains (Losses) on Swap Derivative	Total
Beginning Balance	$ (444)	$ 1,795	$ 348	$ 1,699
OCI/OCL before reclassifications	—	615	178	793
Amounts reclassified from OCI to Sales	—	(2,423)	—	(2,423)
Tax effect of OCI activity	—	404	(38)	366
Net current period OCI/OCL	—	(1,404)	140	(1,264)
Ending Balance	$ (444)	$ 391	$ 488	$ 435

E. Leases

We currently lease our Vista, California and Lugano, Switzerland product manufacturing and support facilities.

On July 18, 2023, we entered into a Fourth Amendment to our Vista, California manufacturing facilities lease. The Fourth Amendment extends the term of the lease by an additional ten years and five months commencing April 1, 2024. The amended lease covering two buildings and approximately 162,000 square feet will result in an increase in base rent to $1.50 per square foot, after five free months of base rent beginning at the commencement of the extended term. NAI intends to construct substantial improvements to the facilities including but not limited to installation of an approximately $2.3 million solar electrical generating system on both buildings, and other substantial improvements. Pursuant to the Fourth Amendment, the Landlord will reimburse NAI for up to $1.1 million of these tenant improvements to the buildings. Our lease liability and Right of Use asset were both increased by approximately $25.9 million as a result of this lease extension effective on the date that the Fourth Amendment was executed.

Our leases are classified as operating leases. 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 December 31, 2023, the weighted average remaining lease term for our operating leases was 9.9 years and the weighted average discount rate for our operating leases was 5.89%. As of June 30, 2023, the weighted average remaining lease term for our operating leases was 5.3 years and the weighted average discount rate was 4.12%.

Other information related to leases as of December 31, 2023, and December 31, 2022, was as follows (in thousands):

Supplemental Cash Flow Information	Six Months Ended December 31, 2023	Six Months Ended December 31, 2022
Cash paid for amounts included in the measurement of operating lease liabilities	$ 874	$ 1,634
Increase in operating lease liabilities and right-of-use assets due to lease remeasurement	25,916	$ —

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 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 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 for fiscal 2022 (exclusive of the amount paid for the acquisition of the new Carlsbad property noted above). In addition, the revised credit notes now reflect a change in the interest rate reference from LIBOR to Secured Overnight Financing Rate (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 Carlsbad property.

Subsequently we entered into a Second and Third Amendment that changed certain limits on our use of the line of credit. In the second quarter of fiscal 2024 we failed to meet three continuing requirements for our line of credit and were not in compliance at the end of our second quarter. As of February 13, 2024, we entered into a Fourth Amendment to our credit facility with Wells Fargo. The Fourth Amendment waived all prior instances of non-compliance, decreased our total borrowing capacity on the line of credit to $12.5 million, increased the interest rate on borrowings under the line of credit to 2.25% from 1.29% above the daily simple SOFR rate, modified our continuing compliance requirements, and reduced the uses we can fund with the line of credit.

Under the terms of the Credit Agreement, as amended by the Fourth Amendment, 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) limits our losses to a decreasing amount over the next three quarters, with net income after taxes of not less than $1.00 by September 30, 2024; (iii) a rolling 4-quarter fixed charge coverage ratio not less than 1.25 to 1.0 as of December 31, 2024 and each quarter thereafter. The Fourth Amendment includes a limitation on the amount of capital expenditures that can be made in a given fiscal year, with such limitation set at $6.5 million, requires us to suspend share repurchase and dividend activity, and includes an availability reserve of 10% that will be in place until we return to profitability. 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. Any amounts outstanding under the line of credit must be paid in full on or before the maturity date which remains at May 23, 2025. 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 0.25% required as part of the line of credit, and an origination fee of 1% we paid upon execution of the Fourth Amendment.

The Term Note used as part of the purchase consideration of our powder processing and warehouse property in Carlsbad, California referenced above, was 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 bear interest equal to 1.8% above the SOFR rolling 30-day average. In connection with this 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.

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, 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.

As of December 31, 2023, we had $9.4 million outstanding under the Term Note used in August 2021 for the purchase of our Carlsbad, California powder processing and warehouse property.

On December 31, 2023, we were not in compliance with the financial covenants related to net income requirements as noted in item (iii) above and the fixed charge coverage ratio as noted in item (iv) above. On February 13, 2024, we entered into a fourth amendment to our credit facility with Wells Fargo. The fourth amendment modifies the financial covenant requirements such that item (iii) noted above has been eliminated through the end of fiscal 2024 and replaced with maximum loss requirements of $3.2 million for the third quarter of fiscal 2024 and $2.0 million for the fourth quarter of fiscal 2024 and a requirement to maintain net income after taxes not less than $1.00 on a quarterly basis beginning with the first quarter of fiscal 2025. The amendment also eliminates the fixed charge coverage ratio requirements described in item (iv) above through the quarter ending September 30, 2024 and resuming with the quarter ending December 31, 2024. The amended credit agreement also decreased the allowed capital expenditures from $7.5 million to $6.5 million for fiscal 2024 and beyond and requires us to suspend share repurchase and dividend activity. All other financial covenants remain unmodified. The amended credit agreement also modifies our borrowing capacity to a monthly asset-based borrowing base calculation with a maximum borrowing capacity of $12.5 million, which includes an availability reserve of 10% that will be in place until we return to profitability. The amendment also modifies our interest rate to be equal to 2.25% above the daily simple SOFR rate and includes a 0.25% unused commitment fee payable quarterly in arrears along with an up-front amendment fee of 1.0% of the maximum borrowing base.

As of December 31, 2023, we had zero outstanding on our credit facility with Wells Fargo Bank.

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 operating results. 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 December 31,		Six Months Ended December 31,	
	2023	2022	2023	2022
Customer 1	$ 13,846	$ 14,112	$ 23,965	$ 29,265
Customer 2	(a)	15,982	12,131	30,987
Customer 3	(a)	4,503	(a)	10,831
	$ 13,846	$ 34,597	$ 36,096	$ 71,083

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

Accounts receivable from these customers totaled $6.9 million at December 31, 2023 and $3.3 million at June 30, 2023.

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 December 31,		Six Months Ended December 31,	
	2023	2022	2023	2022
Supplier 1	$ 2,778	3,961	$ 5,869	6,793
	$ 2,778	3,961	$ 5,869	6,793

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 2023 Annual Report.

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

	Three Months Ended December 31, 2023	Three Months Ended December 31, 2022	Six Months Ended December 31, 2023	Six Months Ended December 31, 2022
Net Sales				
Private-label contract manufacturing	$ 23,050	$ 40,839	$ 55,239	$ 82,615
Patent and trademark licensing	2,152	1,456	3,932	2,807
Total Net Sales	$ 25,202	$ 42,295	$ 59,171	$ 85,422

	Three Months Ended December 31, 2023	Three Months Ended December 31, 2022	Six Months Ended December 31, 2023	Six Months Ended December 31, 2022
(Loss) Income from Operations				
Private-label contract manufacturing	$ (2,368)	$ 4,266	$ (1,360)	$ 7,510
Patent and trademark licensing	947	347	$ 1,391	694
(Loss) income from operations of reportable segments	(1,421)	4,613	$ 31	8,204
Corporate expenses not allocated to segments	(2,092)	(2,128)	$ (4,088)	(4,177)
Total (Loss) Income from Operations	$ (3,513)	$ 2,485	$ (4,057)	$ 4,027

	December 31, 2023	June 30, 2023
Total Assets		
Private-label contract manufacturing	$ 122,934	$ 102,495
Patent and trademark licensing	32,799	31,657
	$ 155,733	$ 134,152

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 December 31, 2023	Three Months Ended December 31, 2022	Six Months Ended December 31, 2023	Six Months Ended December 31, 2022
United States	$ 16,585	$ 28,908	$ 41,533	$ 58,740
Markets outside of the United States	8,617	13,387	17,638	26,682
Total	$ 25,202	$ 42,295	$ 59,171	$ 85,422

Products manufactured by our Swiss subsidiary ("NAIE") accounted for 70% of net sales in markets outside the U.S. for the three months ended December 31, 2023, and 80% for the six months ended December 31, 2023. Products manufactured by our Swiss subsidiary ("NAIE") accounted for 73% of net sales in markets outside the U.S. for the three months ended December 31, 2022, and 75% for the six months ended December 31, 2022.

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):

	December 31, 2023	June 30, 2023
United States	$ 79,028	$ 53,536
Europe	19,173	20,674
Total Long-Lived Assets	$ 98,201	$ 74,210

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):

	December 31, 2023	June 30, 2023
United States	$ 111,799	$ 89,167
Europe	43,934	44,985
Total Assets	$ 155,733	$ 134,152

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):

	Six Months Ended December 31, 2023	Six Months Ended December 31, 2022
United States	$ 1,617	$ 11,486
Europe	90	154
Total Capital Expenditures	$ 1,707	$ 11,640

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 December 31, 2023, was 19.9% and our effective tax rate for the three months ended December 31, 2022, was 20.7%. Our effective tax rate for the six months ended December 31, 2023, was 20.1% and our effective tax rate for the six months ended December 31, 2022, was 20.5%. Our effective tax rate for the three and six months ended December 31, 2023, differ from the fiscal 2023 U.S. federal statutory rate of 21% primarily due to the foreign tax rate differential and forecasted research and development tax credits.

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 and six months ended December 31, 2023, there was no change to our valuation allowance for our deferred tax assets.

J. Treasury Stock

We purchase shares under a stock repurchase plan ("Repurchase Plan") authorized by the Board of Directors. The total authorized repurchase amount is $18.0 million and as of December 31, 2023, we had approximately $716,000 remaining available under the Repurchase Plan. 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. The Fourth Amendment to the Credit Agreement with Wells Fargo effective February 13, 2024, prohibits most stock repurchases (see Footnote F). As a result, until that restriction is modified or removed the Company does not intend to purchase its shares other than its longstanding practice of purchasing shares from its employees in exchange for paying the employees' withholding requirements upon vesting of restricted stock held by the employee.

There were no stock repurchases for the three and six months ended December 31, 2023.

Stock repurchases for the three months ended December 31, 2022, were as follows:

	Shares	Average Cost	Total Cost (in thousands)
Shares purchased under Repurchase Plan	68,570	$ 8.19	$ 562
Shares acquired from employees for restricted stock vesting	—	—	—
Total	68,570		$ 562

Stock repurchases for the six months ended December 31, 2022, were as follows:

	Shares	Average Cost	Total Cost (in thousands)
Shares purchased under Repurchase Plan	115,365	$ 9.18	$ 1,059
Shares acquired from employees for restricted stock vesting	—	—	—
Total	115,365		$ 1,059

Stock repurchase costs include commissions and fees.

Shares acquired from employees for restricted stock vesting may be returned to us by the related employees and in return we pay 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 is calculated based on the closing share price on the date the shares vested. We did not receive any shares associated with the vesting of employee restricted stock during either of the three month periods ending December 31, 2023, or 2022.

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 December 31, 2023, 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 September 2024. 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 and six months ended December 31, 2023, and December 31, 2022.

We monitor the probability of forecasted transactions as part of the hedge effectiveness testing on a quarterly basis. During the three and six months ended December 31, 2023, and December 31, 2022, we did not have any losses or gains related to the ineffective portion of our hedging instruments.

As of December 31, 2023, the notional amounts of our foreign exchange contracts designated as cash flow hedges were approximately $18.1 million (EUR 16.3 million). As of December 31, 2023, a net loss of approximately $0.1 million, offset by approximately $26,000 of a deferred tax benefit, related to derivative instruments designated as cash flow hedges was recorded in OCI. It is expected that the entire amount will be reclassified into earnings in the next 12 months along with the earnings effects of the related forecasted transactions.

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 and six months ended December 31, 2023, 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 December 31, 2023, the notional amounts of our foreign exchange contracts not designated as cash flow hedges were approximately $13.1 million (CHF 11.3 million).

We are exposed to interest rate fluctuations related to our $10.0 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.

Israel-Hamas War

In October 2023, armed conflict escalated between Israel and Hamas. Management is monitoring the conflict in Israel and Gaza and any broader economic effects from the crisis. Israel accounts for a small portion of our global net sales, but we also source multiple raw materials that come from Israel. While we do not anticipate this conflict will have a significant impact on our net sales, we are currently communicating with the customers and suppliers that may be impacted by this conflict, and we are evaluating options for alternative ingredient sources or holding safety stock of impacted materials to limit the affect that this conflict may have on our ability to obtain the ingredients sourced from this region. There are further concerns regarding consumer purchasing and consumption behavior, increases in global shipping expenses, greater volatility in foreign exchange and interest rates, and other unforeseen business disruptions due to the current global geopolitical tensions, including and relating to this new conflict between Israel and Hamas and the continued conflict in Ukraine. We will continue to evaluate impacts of the conflict on our customers, suppliers, employees, and operations.

M. Subsequent Event

As of February 13, 2024, we entered into a Fourth Amendment to our credit facility with Wells Fargo. Among other changes the Fourth Amendment waived all prior instances of non-compliance, decreased our total borrowing capacity on the line of credit to $12.5 million, increased the interest rate on borrowings under the line of credit to 2.25% from 1.29% above the daily simple SOFR rate, modified our continuing compliance requirements, reduced the uses we can fund with the line of credit, decreased the allowed capital expenditures from $7.5 million to $6.5 million for fiscal 2024 and beyond, and requires us to suspend share repurchase and dividend activity.

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 and six months ended December 31, 2023. 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 2023 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 six months ended December 31, 2023, our net sales were 31% lower than in the six months ended December 31, 2022. Private-label contract manufacturing sales decreased 33% primarily due to reduced orders from several of our larger customers associated with their efforts to reduce excess on-hand inventories, partially offset by increased shipments from other existing customers and shipments to new customers. Revenue concentration for our largest private-label contract manufacturing customer as a percentage of total net sales for the six months ended December 31, 2023, was 41%, and revenue concentration for our largest private-label contract manufacturing customer as a percentage of total net sales for the six months ended December 31, 2022, was 36%. We expect our annualized fiscal 2024 revenue concentration for our largest customer to be flat to slightly higher as compared to our revenue concentration for our largest customer in fiscal 2023.

During the six months ended December 31, 2023, patent and trademark licensing revenue increased 40% to $3.9 million, compared to revenue of $2.8 million for the six months ended December 31, 2022. The increase in patent and trademark licensing revenue during the six months ended December 31, 2023, was primarily due to an increase in orders from existing customers and increased royalty income, partially offset by increased volume rebates.

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 legal expenses of approximately $0.1 million during the first six months of both fiscal 2024 and fiscal 2023. Our legal expense associated with our CarnoSyn® business has remained relatively low as we have not had any active litigation in recent periods, and our current run-rate of expenses is primarily related to maintenance of our patent and trademark estate. 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 or expand 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 2024, 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.

We experienced a loss from operations during the three and six months ended December 31, 2023. This was primarily due to a slowdown in sales across our private-label contract manufacturing segment. On August 16, 2023, we announced the temporary closure of our high-speed powder processing facility in Carlsbad, California due to excess inventory on hand at one of our largest customers and their efforts to rebalance supply and demand. We now expect this facility will re-open and our prior level of operations will resume late in our fourth fiscal quarter of 2024 to support anticipated deliveries of new orders to this customer in the first quarter of fiscal 2025. However, there can be no assurance this customer will resolve its supply and demand issues in the timeframe expected, what their future purchases may be, or what level of other business we may acquire that will utilize this facility.

Subject to the change in timing of anticipated new orders from this customer, and our overall sales forecast, we now anticipate we will experience a net loss in the second half of fiscal 2024 and an overall net loss in fiscal 2024.

During fiscal 2024, we 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 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.

Impact of COVID-19 on Our Business

The COVID-19 pandemic resulted in significant economic disruption and may have some effect on our business in the future. Our facilities, located both in the United States and Europe, maintained operations throughout the duration of the COVID-19 pandemic, however, there can be no assurance our facilities would continue to operate without interruption in any future event.

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 is disclosed in Note 1 of Item 1 of this report and as disclosed in the 2023 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 and discounts, our estimates of future sales used to assess the volume rebate and discount 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 and six months ended December 31 were as follows (dollars in thousands):

	Three Months Ended December 31,			Six Months Ended December 31,		
	2023	**2022**	**% Change**	**2023**	**2022**	**% Change**
Private-label contract manufacturing	$ 23,050	$ 40,839	(44)%	$ 55,239	$ 82,615	(33)%
Patent and trademark licensing	2,152	1,456	48%	3,932	2,807	40%
Total net sales	25,202	42,295	(40)%	59,171	85,422	(31)%
Cost of goods sold	24,815	36,081	(31)%	55,647	73,837	(25)%
Gross profit	387	6,214	(94)%	3,524	11,585	(70)%
Gross profit %	1.5%	14.7%		6.0%	13.6%	
Selling, general and administrative expenses	3,900	3,729	5%	7,581	7,558	0%
% of net sales	15.5%	8.8%		12.8%	8.8%	
(Loss) income from operations	(3,513)	2,485	(241)%	(4,057)	4,027	(201)%
% of net sales	(13.9)%	5.9%		(6.9)%	4.7%	
Other expense	(318)	(199)	60%	(658)	(423)	56%
(Loss) income before income taxes	(3,831)	2,286	(268)%	(4,715)	3,604	(231)%
% of net sales	(15.2)%	5.4%		(8.0)%	4.2%	
(Benefit) provision for income taxes	(761)	473	(261)%	(950)	738	(229)%
Net (loss) income	$ (3,070)	$ 1,813	(269)%	$ (3,765)	$ 2,866	(231)%
% of net sales	(12.2)%	4.3%		(6.4)%	3.4%	

Private-label contract manufacturing net sales decreased 44% during the three months ended December 31, 2023, and 33% for the six months ended December 31, 2023, when compared to the same periods in the prior year. The decrease in net sales during the three and six months ended December 31, 2023, was primarily due to reduced orders from several of our larger customers associated with their efforts to reduce excess on-hand inventories, partially offset by increased shipments from other existing customers and shipments to new customers.

Net sales from our patent and trademark licensing segment increased 48% during the three months ended December 31, 2023, and 40% during the six months ended December 31, 2023, when compared to the same periods in the prior year. The increase in patent and trademark licensing revenue during the three months ended December 31, 2023, was primarily due to an increase in orders from existing customers, increased royalty income, and favorable volume rebate activity. The increase in patent and trademark licensing revenue during the six months ended December 31, 2023, was primarily due to an increase in orders from existing customers and increased royalty income, partially offset by increased volume rebates.

The change in gross profit margin for the three and six months ended December 31, 2023, was as follows:

	Three Months Ended	**Six Months Ended**
Contract manufacturing(1)	(16.7)%	(9.5)%
Patent and trademark licensing(2)	3.5%	1.9%
Total change in gross profit margin	(13.2)%	(7.6)%

1 Private-label contract manufacturing gross profit margin as a percentage of consolidated net sales decreased 16.7 percentage points during the three months ended December 31, 2023, when compared to the comparable prior year period. The decrease in gross profit as a percentage of net sales for private-label contract manufacturing during the three months ended December 31, 2023, is primarily due to lower sales, unfavorable sales mix, and increased per unit manufacturing costs. For the six months ended December 31, 2023, contract manufacturing gross profit margin as a percentage of consolidated net sales decreased 9.5 percentage points as compared to the comparable prior year period, primarily due to lower sales, unfavorable sales mix, and increased per unit manufacturing costs. Per unit manufacturing costs were negatively impacted by reduced sales and increased costs associated with labor rates, increased rent and utilities costs.

2 Patent and trademark licensing gross profit margin as a percentage of consolidated net sales increased 3.5 percentage points during the three months ended December 31, 2023, and 1.9 percentage points for the six months ended December 31, 2023, when compared to the comparable prior year periods. The increase in margin contribution during the second quarter of fiscal 2024 was primarily due to increased patent and trademark licensing net sales in total and as a percentage of total consolidated net sales, as patent and trademark licensing historically provides higher profit margins than our private-label contract manufacturing business. Additionally, patent and trademark licensing profit margins increased due to higher average sales price and increased royalty income. For the six months ended December 31, 2023, patent and trademark licensing margin contribution increased when compared to the comparable period in the prior fiscal year, primarily due to increased net sales both in total and as a percentage of total consolidated net sales.

Selling, general and administrative expenses increased approximately $0.2 million, or 5%, during the three months ended December 31, 2023, and were consistent at $7.6 million during the first six months of fiscal 2024 as compared to the same period in the prior fiscal year.

Other expense increased $0.1 million during the three months ended December 31, 2023, and increased $0.2 million during the six months ended December 31, 2023, when compared to the comparable periods during the prior year. The increase in both the three and six month periods is primarily associated with increased expenses related to our CHF balance sheet hedge, foreign currency rate fluctuations, and interest expense related to usage of our line of credit.

Our income tax (benefit) expense changed to reflect a benefit of $0.8 million for the three months ended December 31, 2023, compared to an expense of $0.5 million in the same period in fiscal 2023, and a benefit of $1.0 million for the first six months of fiscal 2024, as compared to an expense of $0.7 million for the first six months of fiscal 2023. The change in tax amount is primarily due to recognition of a pretax loss in the three and six months ended December 31, 2023, as compared to pretax income in the same periods in fiscal 2023.

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 facilities. Net cash provided by operating activities was $4.8 million for the six months ended December 31, 2023, compared to net cash provided by operating activities of $3.7 million in the comparable period during the prior fiscal year.

At December 31, 2023, changes in accounts receivable, consisting of amounts due from our private-label contract manufacturing customers and our patent and trademark licensing activities, used $3.4 million in cash compared to providing $7.2 million of cash during the comparable six month period in the prior year. The increase in cash used in accounts receivable during the six months ended December 31, 2023, primarily resulted from the timing of sales and related collections. Days sales outstanding was 27 days during the six months ended December 31, 2023, as compared to 30 days for the prior year period.

Changes in inventory provided $10.1 million in cash during the six months ended December 31, 2023, compared to using $3.6 million in the comparable prior year period. The change in cash related to inventory during the six months ended December 31, 2023, 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 used $0.3 million in cash during the six months ended December 31, 2023, compared to using $3.1 million during the six months ended December 31, 2022. 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 six months ended December 31, 2023, was $1.7 million compared to $11.6 million in the comparable prior year period. The increase during the six months ended December 31, 2022, in capital purchases was associated with retrofitting our new powder manufacturing and warehouse facility. Construction on this new facility was completed during the fourth quarter of fiscal 2023. Capital equipment purchase activity during the first six months of fiscal 2024 was primarily for manufacturing equipment and solar power generation equipment for our Vista and Carlsbad, California production facilities.

Cash used by financing activities for the six months ended December 31, 2023, was $0.1 million compared to $1.2 million used in the comparable prior year period. The decrease in cash used by financing activities is primarily due to zero stock repurchase activity during the first six months of fiscal 2024 compared to $1.1 million in stock repurchases during the same period in fiscal 2023.

At December 31, 2023, we had no outstanding balances due on our line of credit with $20.0 million available, and we owed $9.4 million on the term loan borrowed as part of the purchase of our Carlsbad, California manufacturing facility in August 2021. At June 30, 2023, we also had no outstanding balances due and $20.0 million available in connection with our line of credit.

As of February 13, 2024, we entered into a Fourth Amendment to our credit facility with Wells Fargo. Among other changes the Fourth Amendment waived all prior instances of non-compliance, decreased our total borrowing capacity on the line of credit to $12.5 million, increased the interest rate on borrowings under the line of credit to 2.25% from 1.29% above the daily simple SOFR rate, modified our continuing compliance requirements, reduced the uses we can fund with the line of credit, decreased the allowed capital expenditures from $7.5 million to $6.5 million for fiscal 2024 and beyond, and requires us to suspend share repurchase and dividend activity.

As of December 31, 2023, we had $16.6 million in cash and cash equivalents. Of these amounts, $14.8 million of cash and cash equivalents were held by NAIE. Overall, we believe our available cash, cash equivalents, potential cash flows from operations, and our credit facility will be sufficient to fund our current working capital needs and capital expenditures through at least the next 12 months.

Off-Balance Sheet Arrangements

As of December 31, 2023, 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: (1) is 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 December 31, 2023. 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 as of December 31, 2023.

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 December 31, 2023 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 February 13, 2023, 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 often involved in up to several matters in the ordinary course of our business.

There is no assurance NAI will prevail in 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 2023 Annual Report, as well as the other information in our 2023 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.

Geopolitical Instability and Conflict in the Region

Our business operations may be adversely affected by ongoing geopolitical instability and conflict in Ukraine or the Middle East, particularly the Israel-Hammas conflict. These regional tensions may lead to increased political, economic, and security risks, including disruptions in the global supply chain, fluctuations in energy prices, and financial market volatility. Such uncertainties could impact our ability to operate efficiently, access markets, and secure resources. Our financial performance and results may be influenced by these external factors, and we cannot predict the future impact of geopolitical events on our business with certainty.

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, 2023, and December 31, 2023.

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 December 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
10.37	First modification to Promissory Note by and between NAI and Wells Fargo, effective as of February 13, 2024	Filed herewith
10.38	Fourth Amendment and Waiver of Events of Default to Credit Agreement by and between NAI and Wells Fargo effective as of February 13, 2024	Filed herewith
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: February 13, 2024

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)

FIRST MODIFICATION TO PROMISSORY NOTE

THIS MODIFICATION TO PROMISSORY NOTE (this “Modification”) dated February 13, 2024, is entered into by and between NATURAL ALTERNATIVES INTERNATIONAL, INC. (“Borrower”), and WELLS FARGO BANK, NATIONAL ASSOCIATION (“Bank”).

RECITALS

WHEREAS, Borrower is currently indebted to Bank pursuant to the terms and conditions of that certain Revolving Line of Credit Note in the stated amount of $20,000,000.00, executed by Borrower and payable to the order of Bank, dated September 19, 2022, as modified from time to time (the "Note"), which Note is subject to the terms and conditions of a credit agreement between Borrower and Bank dated May 24, 2021, as amended from time to time (the "Agreement”).

WHEREAS, Bank and Borrower have agreed to certain changes in the terms and conditions set forth in the Note, and have agreed to modify the Note to reflect said changes.

NOW, THEREFORE, for valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto agree that the Note shall be modified as follows:

1. The maximum principal amount available under the Note is hereby modified to be Twelve Million Five Hundred Thousand Dollars ($12,500,000.00).

2. The fixed rate of interest applicable to the Note is hereby modified to be two and one quarte percent (2.25%) above SOFR Average in effect on the first day of each Interest Period.

3. The variable rate of interest applicable to the Note is hereby modified to be two and one quarter percent (2.25%) above the Daily Simple SOFR in effect from time to time.

4. The effective date of this Modification shall be the effective date of the Fourth Amendment to Credit Agreement executed in connection herewith, as determined by Bank and evidenced by Bank’s system of record. Notwithstanding the occurrence of the effective date of this Modification, Bank shall not be obligated to extend credit under this Modification or any other Loan Document until all conditions to each extension of credit set forth in the Agreement have been fulfilled to Bank's satisfaction.

5. Except as expressly set forth herein, all terms and conditions of the Note remain in full force and effect, without waiver or modification. All terms defined in the Note or the Agreement shall have the same meaning when used in this Modification. This Modification and the Note shall be read together, as one document.

6. Borrower certifies that as of the date of this Modification there exists no Event of Default under the Note, nor any condition, act or event which with the giving of notice or the passage of time or both would constitute any such Event of Default.

IN WITNESS WHEREOF, the parties hereto, intending to be legally bound hereby, have caused this Modification to be effective as of the effective date set forth herein.

NATURAL ALTERNATIVES
INTERNATIONAL, INC.

By: /s/ Michael Fortin
MICHAEL FORTIN,
CHIEF FINANCIAL OFFICER

By: /s/ Kenneth E. Wolf
KENNETH E. WOLF,
PRESIDENT, SECRETARY

WELLS FARGO BANK,
NATIONAL ASSOCIATION

By: /s/ Celeste Clancy
CELESTE CLANCY,
SENIOR VICE PRESIDENT

Exhibit 10.38

FOURTH AMENDMENT TO CREDIT AGREEMENT AND WAIVER OF EVENTS OF DEFAULT

THIS AMENDMENT TO CREDIT AGREEMENT (this "Amendment") dated February 13, 2024, is entered into by and between NATURAL ALTERNATIVES INTERNATIONAL, INC., a Delaware corporation ("Borrower"), and WELLS FARGO BANK, NATIONAL ASSOCIATION ("Bank").

RECITALS

WHEREAS, Borrower is currently indebted to Bank pursuant to the terms and conditions of that certain Credit Agreement between Borrower and Bank dated May 24, 2021, as amended from time to time ("Credit Agreement").

WHEREAS, Borrower has informed Bank that the following Events of Default have occurred and are continuing under the Credit Agreement and the other Loan Documents (the “Subject Events of Default”):

A. As of December 31, 2023, Borrower failed to maintain net income after taxes of not less than $1.00 on a trailing 4-quarter basis. Borrower has indicated to Bank that, as of December 31, 2023, Borrower’s actual net income after tax on a trailing 4-quarter basis was a net loss of $4,109,186. The foregoing failure violated Section 4.9. (c) of the Credit Agreement, and such violation constitutes an Event of Default pursuant to Section 6.1. (d) of the Credit Agreement.

B. As of December 31, 2023, Borrower failed to maintain its financial condition so as to avoid having two consecutive quarterly losses. Borrower has indicated to Bank that Borrower suffered a loss of $695,331 for the fiscal quarter ended September 30, 2023 and a loss of $3,070,068 for the fiscal quarter ended December 31, 2023. The foregoing failure violated Section 4.9. (c) of the Credit Agreement, and such violation constitutes an Event of Default pursuant to Section 6.1. (d) of the Credit Agreement.

C. As of December 31, 2023, Borrower failed to maintain Fixed Charge Coverage Ratio of not less than 1.25 to 1.0, calculated on a rolling 4-quarter basis. Borrower has indicated that Borrower’s actual Fixed Charge Coverage Ratio for the 4-quarter period ending as of December 31, 2023 was 0.47 to 1.0. The foregoing failure violated Section 4.9. (d) of the Credit Agreement, and such violation constitutes an Event of Default pursuant to Section 6.1. (d) of the Credit Agreement.

WHEREAS, Borrower has requested that Bank agree to waive the Subject Events of Default.

WHEREAS, subject to the terms and conditions hereof, including the agreements of Borrower to certain changes in the terms and conditions set forth in the Credit Agreement, Bank is willing to waive the Subject Events of Default.

NOW, THEREFORE, for valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto agree as follows:

1. Section 1.1. (a) of the Credit Agreement is hereby amended by deleting "Twenty Million Dollars ($20,000,000.00)" as the maximum principal amount available under the Line of Credit, and by substituting for said amount " Twelve Million Five Hundred Thousand Dollars ($12,500,000.00)."

2. The following is hereby added to the Credit Agreement as Section 1.1. (c): "(c)Limitation on Borrowings. Outstanding borrowings under the Line of Credit together with all amounts reserved thereunder, to a maximum of the principal amount of the Line of Credit, shall not at any time exceed the result of (i) Margined Eligible Accounts Receivable (as defined below), plus (ii) Margined Eligible Inventory (as defined below), plus (iii) Deemed Margined Eligible Equipment (as defined below), minus (iv) the Availability Block (as defined below) (said result, the "Borrowing Base"). All of the foregoing shall be determined by Bank upon receipt and review of all collateral reports required hereunder and such other documents and collateral information as Bank may from time to time require. Borrower acknowledges that said borrowing base was established by Bank with the understanding that, among other items, the aggregate of all returns, rebates, discounts, credits and allowances for the immediately preceding three (3) months at all times shall be less than ten percent (10%) of Borrower's gross sales for said period. If such dilution of Borrower's accounts for the immediately preceding three (3) months at any time exceeds ten percent (10%) of Borrower's gross sales for said period, or if there at any time exists any other matters, events, conditions or contingencies which Bank reasonably believes may affect payment of any portion of Borrower's accounts, Bank, in its sole discretion, may reduce the advance rate against Eligible Accounts Receivable to a percentage appropriate to reflect such additional dilution and/or establish additional reserves against Borrower's Eligible Accounts Receivable.

As used herein:

(i) "Margined Eligible Accounts Receivable" means seventy-five percent (75%) of Borrower's Eligible Accounts Receivable.

(ii) "Margined Eligible Inventory" means Margined Finished Goods Inventory, Margined Work-in-Process Inventory and Margined Raw Materials Inventory; provided, however, that Margined Eligible Inventory shall not at any time exceed Margined Eligible Accounts Receivable.

(iii) "Margined Finished Goods Inventory" means 50% of the value of Borrower's Eligible Inventory that consists of first quality finished goods held for sale in the ordinary course of Borrower's business.

(iv) "Margined Work-in-Process Inventory" means 25% of the value of Borrower's Eligible Inventory that consists of goods that are first quality work-in-process; provided, however, that (i) the value of such inventory shall not include the value of any labor or other services rendered to produce such inventory, and (ii) the maximum amount of Margined Work- in-Process Inventory that may be included in the Borrowing Base shall be $500,000.00.

(v) "Margined Raw Materials Inventory" means 25% of the value of Borrower's Eligible Inventory that consists of goods that are first quality raw materials.

(vi) "Deemed Margined Eligible Equipment" means the lesser of (x) $2,250,000.00 and (y) 25% of the aggregate of Margined Eligible Accounts Receivable and Margined Eligible Inventory.

(vii) "Availability Block" means an availability block equal to ten percent (10%) of the amount of the Borrowing Base prior to giving effect to such availability block; provided, however, that, from and after the date that Bank receives the compliance certificate required to be delivered pursuant to Section 4.3. (f) hereof with respect to the fiscal quarter ending September 30, 2024, the foregoing percentage shall be reduced to zero percent (0%) so long as (i) there exists no Event of Default nor any condition, act or event which with the giving of notice or the passage of time or both would constitute an Event of Default, and (ii) said compliance certificate demonstrates that Borrower is in compliance with all financial covenants in this Agreement (as evidenced by detailed calculations attached to such certificate) and that there exists no Event of Default nor any condition, act or event which with the giving of notice or the passage of time or both would constitute an Event of Default.

As used herein, "Eligible Accounts Receivable" shall consist solely of trade accounts created in the ordinary course of Borrower's business, upon which Borrower's right to receive payment is absolute and not contingent upon the fulfillment of any condition whatsoever, and in which Bank has a perfected security interest of first priority, and shall not include:

(i) (A) with respect to any account for which Borrower has not provided extended payment terms or has provided extended payment terms of 30 days or less, any such account that has been outstanding more than the lesser of (I) three times Borrower's standard selling terms, or (II) 60 days past the payment due date, and (B) with respect to any account for which Borrower has provided extended payment terms of more than 30 days, any such account that has been outstanding more than the lesser of (I) 30 days past the extended payment due date or (II) 120 days from the date of the invoice;

(ii) that portion of any account for which there exists any right of setoff, defense or discount (except regular discounts allowed in the ordinary course of business to promote prompt payment) or for which any defense or counterclaim has been asserted;

(iii) any account which represents an obligation of any state or municipal government or of the United States government or any political subdivision thereof (except accounts which represent obligations of the United States government and for which the assignment provisions of the Federal Assignment of Claims Act, as amended or recodified from time to time, have been complied with to Bank's satisfaction);

(iv) any account which represents an obligation of an account debtor located in a foreign country;

(v) any account which arises from the sale or lease to or performance of services for, or represents an obligation of, an employee, affiliate, partner, member, parent or subsidiary of Borrower;

(vi) that portion of any account, which represents interim or progress billings or retention rights on the part of the account debtor;

(vii) any account which represents an obligation of any account debtor when twenty percent (20%) or more of Borrower's accounts from such account debtor are not eligible pursuant to (i) above;

(viii) that portion of any account from an account debtor which represents the amount by which Borrower's total accounts from said account debtor exceeds twenty-five percent (25%) of Borrower's total accounts;

(ix) any account deemed ineligible by Bank when Bank, in its sole discretion, deems the creditworthiness or financial condition of the account debtor, or the industry in which the account debtor is engaged, to be unsatisfactory.

In determining the amount to be included, Eligible Accounts Receivable shall be calculated net of all customer deposits and advances.

As used herein, "Eligible Inventory" means all inventory owned by Borrower, valued at the lower of cost or market in accordance with generally accepted accounting principles, in which Bank has a perfected security interest of first priority, and shall not include:

(i) inventory that is in-transit; located at any warehouse, job site or other premises not approved by Bank; covered by any negotiable or non-negotiable warehouse receipt, bill of lading or other document of title; on consignment from any consignor; or on consignment to any consignee or subject to any bailment unless the consignee or bailee has executed an agreement with Bank;

(ii) sample inventory, customer supplied inventory, or customized or customer specific inventory not supported by a valid purchase order;

(iii) packaging materials;

(iv) inventory that is damaged, defective, obsolete, slow moving or not currently saleable in the ordinary course of Borrower's business, or is past its expiration date, or the amount of such inventory that has been reduced by shrinkage;

(v) inventory that Borrower has returned, has attempted to return, is in the process of returning or intends to return to the vendor of the inventory;

(vi) inventory manufactured or held for resale by Borrower pursuant to a license unless the applicable licensor has agreed in writing to permit Bank to exercise its rights and remedies against such inventory;

(vii) inventory that is subject to a security interest or lien in favor of any third party;

(viii) inventory otherwise deemed ineligible by Bank in its reasonable discretion.

3. Section 1.2. (c) of the Credit Agreement is hereby deleted in its entirety, and the following substituted therefor:

"(c) Unused Commitment Fee. Borrower shall pay to Bank a fee equal to one quarter percent (.25%) per annum (computed on the basis of a 360-day year, actual days elapsed) on the daily unused amount of the Line of Credit, which fee shall be calculated on a quarterly basis by Bank and shall be due and payable by Borrower in arrears on the last day of each quarter, commencing on March 30, 2024.

4. Section 3.2. (b) of the Credit Agreement is hereby deleted in its entirety, and the following substituted therefor:

"(b) Documentation. Bank shall have received all additional documents which may be required in connection with such extension of credit including without limitation, the following:
(i) For any credit extension that is subject to confirmation of compliance with any limitation on borrowings hereunder at the time it is made, a borrowing base certificate demonstrating compliance with such requirements."

5. Section 4.3. of the Credit Agreement is hereby deleted in its entirety, and the following substituted therefor:

"SECTION 4.3. FINANCIAL STATEMENTS AND OTHER INFORMATION. Provide to Bank all of the following, in form and detail satisfactory to Bank:

(a) not later than 90 days after and as of the end of each fiscal year, a copy of Borrower's 10-K report filed with the Securities Exchange Commission, with financial statements included therein audited by a certified public accountant acceptable to Bank; and

(b) not later than 45 days after and as of the end of each fiscal quarter, a copy of Borrower's 10-Q report filed with the Securities Exchange Commission; and

(c) not later than 30 days after and as of the end of each fiscal year, annual financial projections, prepared by Borrower on a quarterly basis, to include balance sheet, income statement and statement of cash flows; and

(d) not later than 30 days after and as of the end of each month, a financial statement of Borrower, prepared by Borrower, to include balance sheet and income statement; and

(e) not later than 20 days after and as of the end of each month, a borrowing base certificate, an inventory collateral report, an aged listing of accounts receivable and accounts payable, and a reconciliation of accounts, and a list of the names and addresses of all Borrower's account debtors; and

(f) contemporaneously with each annual and quarterly financial statement of Borrower required hereby, a certificate of the president or chief financial officer, a general partner or a member of Borrower, as applicable, that said financial statements are accurate, that Borrower is in compliance with all financial covenants in this Agreement (as evidenced by detailed calculations attached to such certificate), and that there exists no Event of Default nor any condition, act or event which with the giving of notice or the passage of time or both would constitute an Event of Default; and

(g) from time to time such other financial and business information as Bank may reasonably request, including without limitation, copies of rent rolls and other information with respect to any real property collateral required hereby; and

(h) from time to time such other information as Bank may request for the purpose of enabling Bank to fulfill its regulatory and compliance requirements, standards and processes."

6. Section 4.9. of the Credit Agreement is hereby deleted in its entirety, and the following substituted therefor:

"SECTION 4.9. FINANCIAL CONDITION. Maintain Borrower's financial condition as follows using generally accepted accounting principles consistently applied and used consistently with prior practices (except to the extent modified by the definitions herein):

(a) Total Liabilities divided by Tangible Net Worth not greater than 1.50 to 1.0 at any time, with "Total Liabilities" defined as the aggregate of current liabilities and non-current liabilities less operating lease liabilities, and with "Tangible Net Worth" defined as the aggregate of total stockholders' equity plus subordinated debt and less any intangible assets.

(b) Net income after taxes not less than (i) a net loss of $3,200,000.00 for the fiscal quarter ending March 31, 2024, (ii) a net loss of $2,000,000.00 for the fiscal quarter ending June 30, 2024 and (iii) $1.00 for the fiscal quarter ending September 30, 2024 and each fiscal quarter thereafter.

(c) Fixed Charge Coverage Ratio not less than 1.25 to 1.0 as of each fiscal quarter end, calculated on a rolling 4-quarter basis, commencing as of the fiscal quarter ending December 31, 2024, with "Fixed Charge Coverage Ratio" defined as (a) the aggregate of net profit after taxes plus depreciation expense, amortization expense, interest expense, non-cash foreign exchange hedge losses, non-cash interest rate swap losses, and cash capital contributions minus dividends, redemptions and repurchases of equity interest, non-cash foreign exchange hedge gains, and non-cash interest rate swap gains, divided by (b) the aggregate of the current maturities of long-term debt, and interest expense."

7. The following is hereby added to the Credit Agreement as Section 4.11.: "SECTION 4.11. COLLATERAL AUDITS. Permit Bank to audit all Borrower's collateral required hereunder, with such audits to be performed on semi-annual basis by collateral examiners acceptable to Bank and in scope and content satisfactory to Bank, and with all Bank's costs and expenses of each audit to be reimbursed in full by Borrower. Bank shall not be required to share the results of the audit(s) with Borrower or any third party."

8. ARTICLE V of the Credit Agreement is hereby deleted in its entirety, and the following substituted therefor:

"ARTICLE V
NEGATIVE COVENANTS

Borrower further covenants that so long as Bank remains committed to extend credit to Borrower pursuant hereto, or any liabilities (whether direct or contingent, liquidated or unliquidated) of Borrower to Bank under any of the Loan Documents remain outstanding, and until payment in full of all obligations of Borrower subject hereto, Borrower will not without Bank's prior written consent:

SECTION 5.1. USE OF FUNDS. SOURCES OF REPAYMENT AND COLLATERAL.

(a) Use, or permit any member of the Borrowing Group to use, any of the proceeds of any credit extended hereunder except for the purposes stated in Article I hereof, or directly or indirectly use any such proceeds to fund, finance or facilitate any activities, business or transactions: (i) that are prohibited by Sanctions; (ii) that would be prohibited by Sanctions if conducted by Bank or any of Bank's affiliates; or (iii) that would be prohibited by any Anti-Money Laundering Laws or Anti-Corruption Laws.

(b) Fund any repayment of the obligations hereunder or under any other Loan Document with proceeds, or provide any property as collateral for any such obligations, or permit any third party to provide any property as collateral for any such obligations, that is directly or indirectly derived from any transaction or activity that is prohibited by any Sanctions, Anti-Money Laundering Laws or Anti-Corruption Laws, or that could otherwise cause Bank or any of Bank's affiliates to be in violation of any Sanctions, Anti-Money Laundering Laws or Anti- Corruption Laws.

SECTION 5.2. CAPITAL EXPENDITURES. Make any additional investment in fixed or capital assets (including assets leased under capital leases, excluding real estate right of use assets) in excess of an aggregate of $6,500,000.00 in any fiscal year.

SECTION 5.3. OTHER INDEBTEDNESS. Create, incur, assume or permit to exist any indebtedness or liabilities resulting from borrowings, loans or advances, whether secured or unsecured, matured or unmatured, liquidated or unliquidated, joint or several, except (a) the liabilities of Borrower to Bank, and (b) any other liabilities of Borrower existing as of, and disclosed to Bank prior to, the date hereof.

SECTION 5.4. MERGER, CONSOLIDATION, TRANSFER OF ASSETS. (a) Merge into or consolidate with any other entity; (b) make any substantial change in the nature of Borrower's business as conducted as of the date hereof; (c) acquire all or substantially all of the assets of any other entity; (d) sell, lease, transfer or otherwise dispose of all or a substantial or material portion of Borrower's assets except in the ordinary course of its business; nor (e) accomplish any of the above by virtue of a division or similar transaction.

SECTION 5.5. GUARANTIES. Guarantee or become liable in any way as surety, endorser (other than as endorser of negotiable instruments for deposit or collection in the ordinary course of business), accommodation endorser or otherwise for, nor pledge or hypothecate any assets of Borrower as security for, any liabilities or obligations of any other person or entity, except any of the foregoing in favor of Bank.

SECTION 5.6. LOANS, ADVANCES, INVESTMENTS. Make any loans or advances to or investments in any person or entity, including any of the foregoing accomplished by a division or similar transaction, except any of the foregoing existing as of, and disclosed to Bank prior to, the date hereof.

SECTION 5.7. DIVIDENDS, DISTRIBUTIONS. Declare or pay any dividend or distribution either in cash or any other property on Borrower's stock, membership interest, partnership interest or other ownership interest now or hereafter outstanding, nor redeem, retire, repurchase or otherwise acquire any class or type of ownership interest now or hereafter outstanding; provided however, that Borrower may make stock repurchases as part of a "sell to cover" method of covering employees' tax withholding obligations on vested restricted stock.

SECTION 5.8. PLEDGE OF ASSETS. Mortgage, pledge, grant or permit to exist a security interest in, or lien upon, all or any portion of Borrower's assets now owned or hereafter acquired, except any of the foregoing in favor of Bank or which is existing as of, and disclosed to Bank in writing prior to, the date hereof."

9. Waiver of Subject Events of Default. Subject to the terms and conditions hereof, Bank hereby waives the Subject Events of Default. Said waiver shall apply only to the Subject Events of Default and is not a waiver of (w) any other or subsequent default or Event of Default arising under the same facts that gave rise to the Subject Events of Default, (x) any subsequent default or Event of Default arising as a result of a breach of the same provision of the Credit Agreement the breach of which created the Subject Events of Default, (y) any other Event of Default, or (z) any condition, act or event which with the giving of notice or the passage of time or both could constitute any other Event of Default.

10. GENERAL RELEASE. In consideration of the benefits provided to Borrower under the terms and provisions hereof, Borrower hereby agrees as follows ("General Release"):

(a) Borrower, for itself and on behalf of its respective successors and assigns, does hereby release, acquit and forever discharge Bank, all of Bank's predecessors in interest, and all of Bank's past and present officers, directors, attorneys, affiliates, employees and agents, of and from any and all claims, demands, obligations, liabilities, indebtedness, breaches of contract, breaches of duty or of any relationship, acts, omissions, misfeasance, malfeasance, causes of action, defenses, offsets, debts, sums of money, accounts, compensation, contracts, controversies, promises, damages, costs, losses and expenses, of every type, kind, nature, description or character, whether known or unknown, suspected or unsuspected, liquidated or unliquidated, each as though fully set forth herein at length (each, a "Released Claim" and collectively, the "Released Claims"), that Borrower now has or may acquire as of the later of: (i) the date this Amendment becomes effective through the satisfaction (or waiver by Bank) of all conditions hereto; or (ii) the date that Borrower has executed and delivered this Amendment to Bank (hereafter, the "Release Date"), including without limitation, those Released Claims in any way arising out of, connected with or related to any and all prior credit accommodations, if any, provided by Bank, or any of Bank's predecessors in interest, to Borrower, and any agreements, notes or documents of any kind related thereto or the transactions contemplated thereby or hereby, or any other agreement or document referred to herein or therein.

(b) Borrower hereby acknowledges, represents and warrants to Bank as follows:

(i) Borrower understands the meaning and effect of Section 1542 of the California Civil Code which provides:

> "Section 1542. GENERAL RELEASE; EXTENT. A GENERAL RELEASE DOES NOT EXTEND TO CLAIMS THAT THE CREDITOR OR RELEASING PARTY DOES NOT KNOW OR SUSPECT TO EXIST IN HIS OR HER FAVOR AT THE TIME OF EXECUTING THE RELEASE AND THAT, IF KNOWN BY HIM OR HER, WOULD HAVE MATERIALLY AFFECTED HIS OR HER SETTLEMENT WITH THE DEBTOR OR RELEASED PARTY."

(ii) With regard to Section 1542 of the California Civil Code, Borrower agrees to assume the risk of any and all unknown, unanticipated or misunderstood defenses and Released Claims which are released by the provisions of this General Release in favor of Bank, and Borrower hereby waives and releases all rights and benefits which it might otherwise have under Section 1542 of the California Civil Code with regard to the release of such unknown, unanticipated or misunderstood defenses and Released Claims.

(c) Each person signing below on behalf of Borrower acknowledges that he or she has read each of the provisions of this General Release. Each such person fully understands that this General Release has important legal consequences, and each such person realizes that Borrower is releasing any and all Released Claims that Borrower may have as of the Release Date. Borrower hereby acknowledges that it has had an opportunity to obtain a lawyer's advice concerning the legal consequences of each of the provisions of this General Release.

(d) Borrower hereby specifically acknowledges and agrees that: (i) none of the provisions of this General Release shall be construed as or constitute an admission of any liability on the part of Bank; (ii) the provisions of this General Release shall constitute an absolute bar to any Released Claim of any kind, whether any such Released Claim is based on contract, tort, warranty, mistake or any other theory, whether legal, statutory or equitable; and

(iii) any attempt to assert a Released Claim barred by the provisions of this General Release shall subject Borrower to the provisions of applicable law setting forth the remedies for the bringing of groundless, frivolous or baseless claims or causes of action.

119. The effective date of this Amendment shall be the date that all of the following conditions set forth in this Section have been satisfied, as determined by Bank and evidenced by Bank’s system of record. Notwithstanding the occurrence of the effective date of this Amendment, Bank shall not be obligated to extend credit under this Amendment or any other Loan Document until all conditions to each extension of credit set forth in the Credit Agreement have been fulfilled to Bank's satisfaction.

(a) Approval of Bank Counsel. All legal matters incidental to the effectiveness of this Amendment shall be satisfactory to Bank's counsel.

(b) Documentation. Bank shall have received, in form and substance satisfactory to Bank, each of the following, duly executed by all parties:

(i) This Amendment and each promissory note or other instrument or document required hereby.
(ii) Such other documents as Bank may require under any other Section of this Amendment.

(c) Regulatory and Compliance Requirements. All regulatory and compliance requirements, standards and processes shall be completed to the satisfaction of Bank.

(d). Change fee. Immediately upon signing this Amendment Borrower shall pay to Bank a non-refundable fee of $125,000.00.

12. Except as specifically provided herein, all terms and conditions of the Credit Agreement remain in full force and effect, without waiver or modification. All terms defined in the Credit Agreement shall have the same meaning when used in this Amendment. This Amendment and the Credit Agreement shall be read together, as one document.

13. Borrower hereby remakes all representations and warranties contained in the Credit Agreement and reaffirms all covenants set forth therein. Borrower further certifies that as of the date of this Amendment and as of the date of Borrower’s execution of this Amendment, after giving effect to the waiver contained in Paragraph 7 above, there exists no Event of Default as defined in the Credit Agreement, nor any condition, act or event which with the giving of notice or the passage of time or both would constitute any such Event of Default.

IN WITNESS WHEREOF, the parties hereto, intending to be legally bound hereby, have caused this Amendment to be effective as of the effective date set forth above.

NATURAL ALTERNATIVES
INTERNATIONAL, INC.

By: /s/ Michael Fortin
MICHAEL FORTIN,
CHIEF FINANCIAL OFFICER

By: /s/ Kenneth E. Wolf
KENNETH E. WOLF,
PRESIDENT, SECRETARY

WELLS FARGO BANK,
NATIONAL ASSOCIATION

By: /s/ Celeste Clancy
CELESTE CLANCY,
SENIOR VICE PRESIDENT

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: February 13, 2024

/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: February 13, 2024

/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 December 31, 2023 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: February 13, 2024	/s/ Mark A. LeDoux
	Mark A. LeDoux, Chief Executive Officer
Date: February 13, 2024	/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.