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

FORM 10-K

ANNUAL REPORT
pursuant to Section 13 or 15(d)
of the Securities Exchange Act of 1934

FOR THE FISCAL YEAR ENDED JUNE 30, 2017

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**	
(Address of principal executive offices)	**(760) 744-7340** **(Registrant's telephone number)**

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

Title of each class	**Name of exchange on which registered**
Common Stock, $0.01 par value per share	Nasdaq Global Market

Securities registered pursuant to Section 12(g) of the Act:
None

Indicate by check mark if Natural Alternatives International, Inc. (NAI) is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act of 1933. ☐ Yes ☒ No

Indicate by check mark if NAI is not required to file reports pursuant to Section 13 or Section 15(d) of the Securities Exchange Act of 1934. ☐ Yes ☒ No

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 and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that NAI was required to submit and post such files). ☒ Yes ☐ No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of NAI's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☐

Indicate by check mark whether NAI is a large accelerated filer, an accelerated filer, a non-accelerated filer or 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

The aggregate market value of NAI's common stock held by non-affiliates of NAI as of the last business day of NAI's most recently completed second fiscal quarter (December 31, 2016) was approximately $60,286,268 (based on the closing sale price of $11.30 reported by Nasdaq on December 31, 2016). For this purpose, all of NAI's officers and directors and their affiliates were assumed to be affiliates of NAI.

As of September 15, 2017, 7,437,018 shares of NAI's common stock were outstanding, net of 1,044,659 treasury shares.

DOCUMENTS INCORPORATED BY REFERENCE

Part III (Items 10, 11, 12, 13 and 14) of this Form 10-K incorporates by reference portions of NAI's definitive proxy statement for its Annual Meeting of Stockholders to be held December 5, 2017, to be filed on or before October 28, 2017.

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SPECIAL NOTE ABOUT FORWARD-LOOKING STATEMENTS

Certain statements in this report, including information incorporated by reference, are “forward-looking statements” within the meaning of Section 27A of the Securities Act of 1933, Section 21E of the Securities Exchange Act of 1934, and the Private Securities Litigation Reform Act of 1995. Forward-looking statements reflect current views about future events and financial performance based on certain assumptions. They include opinions, forecasts, intentions, plans, goals, projections, guidance, expectations, beliefs, or other statements that are not statements of historical fact. Words such as “may,” “will,” “should,” “could,” “would,” “expects,” “plans,” “believes,” “anticipates,” “intends,” “estimates,” “approximates,” “predicts,” “forecasts,” or “projects,” or the negative or other variation of such words, and similar expressions may identify a statement as a forward-looking statement. Any statements that refer to projections of our future financial performance, our anticipated growth and trends in our business, our goals, strategies, focus and plans, and other characterizations of future events or circumstances, including statements expressing general optimism about future operating results, are forward-looking statements. Forward-looking statements in this report may include statements about:

- future financial and operating results, including projections of net sales, revenue, income or loss, net income or loss per share, profit margins, expenditures, liquidity, and other financial items;
- our ability to maintain or increase our patent and trademark licensing revenues;
- our ability to develop new products, develop relationships with new customers and maintain or improve existing customer relationships;
- our ability to protect our intellectual property;
- the outcome of pending litigation, regulatory and tax matters, the costs associated with such matters and the effect of such matters on our business and results of operations;
- our ability to improve operation efficiencies, manage costs and business risks and improve or maintain profitability;
- the costs associated with defending and resolving potential legal claims, even if such claims are without merit;
- currency exchange rates, their effect on our results of operations, including amounts that may be reclassified 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;
- future levels of our revenue concentration risk;
- sources and availability of raw materials, including the limited number of suppliers of beta-alanine;
- inventories, including the adequacy of raw material and other inventory levels to meet future customer demand and the adequacy and intended use of our facilities;
- manufacturing and distribution channels, product sales and performance, and timing of product shipments;
- current or future customer orders, product returns, and potential product recalls;
- the impact on our business and results of operations and variations in quarterly net sales from seasonal and other factors;
- our ability to operate within the standards set by the U.S. Food and Drug Administration’s (FDA) Good Manufacturing Practices;
- our ability to successfully expand our operations, including outside the United States (U.S.);
- the adequacy of our reserves and allowances;
- the sufficiency of our available cash, cash equivalents, and potential cash flows from operations to fund our current working capital needs and capital expenditures through the next 12 months and longer;
- current and future economic and political conditions;
- 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.

The forward-looking statements in this report speak only as of the date of this report and caution should be taken not to place undue reliance on any such forward-looking statements. Forward-looking statements are subject to certain events, risks, and uncertainties that may be outside of our control. When considering forward-looking statements, you should carefully review the risks, uncertainties and other cautionary statements in this report as they identify certain important factors that could cause actual results to differ materially from those expressed in or implied by the forward-looking statements. These factors include, among others, the risks described under Item 1A of Part I and elsewhere in this report, as well as in other reports and documents we file with the United States Securities and Exchange Commission (SEC).

PART I

ITEM 1. BUSINESS

General

Our vision is to enrich the world through the best of nutrition.

We are a leading formulator, manufacturer and marketer of nutritional supplements. Our comprehensive strategic partnerships with our customers offer a wide range of innovative nutritional products and services to our clients including the following: scientific research, clinical studies, proprietary ingredients, customer-specific nutritional product formulation, product testing and evaluation, marketing management and support, packaging and delivery system design, regulatory review, and international product registration assistance.

As our primary business activity, we provide 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. We also own a patent estate related to the ingredient known as beta-alanine, which is primarily commercialized through the direct sale of this raw material and proprietary formulations of this raw material under our CarnoSyn® and SR CarnoSyn® trademarks.

History

Originally founded in 1980, Natural Alternatives International, Inc. reorganized as a Delaware corporation in 1989. Our principal executive offices are located at 1535 Faraday Ave, Carlsbad, CA 92008.

In January 1999, we formed Natural Alternatives International Europe S.A. (NAIE) as our wholly owned subsidiary, based in Manno, Switzerland. In September 1999, NAIE opened its manufacturing facility in Manno, Switzerland, which has grown over the ensuing years and currently possesses manufacturing capability in encapsulation, powders, and tablets, finished goods packaging, quality control, laboratory testing, warehousing, distribution and administration.

Historically, as part of our business strategy, we have sought to commercialize our patent estate through contract manufacturing, royalty and license agreements. From March 2009 through March 31, 2015, we had an agreement with Compound Solutions, Inc. (CSI) to grant a license to CSI to manufacture, offer for sale and/or sell products incorporating, using or made in accordance with our patent rights and grant a similar sub-license to customers of CSI who purchased beta-alanine from CSI under the CarnoSyn® trademark. During the term of this agreement, we received a fee from CSI that varied based on the quantity and source of beta-alanine sold by CSI. We terminated our relationship with CSI effective April 1, 2015 and began directly selling beta-alanine, and licensing our related patent and trademark rights, in order to take advantage of strategic opportunities, including opportunities to provide additional contract manufacturing services, further commercialize our patent estate, and to increase our top-line revenue and profit profile.

Unless the context requires otherwise, all references in this report to the “Company,” “NAI,” “we,” “our,” and “us” refer to Natural Alternatives International, Inc. and, as applicable, to NAIE.

Overview of our Facilities and Operations

Our U.S.-based operations are located in Vista and Carlsbad, California and include manufacturing and distribution, sales and marketing, in-house formulation, laboratory, and other research and development services. Our manufacturing facilities were recertified on November 8, 2016 by the Therapeutic Goods Administration (TGA) of Australia after its audit of our Good Manufacturing Practices (GMP). TGA evaluates new therapeutic products, prepares standards, develops testing methods and conducts testing programs to ensure that products are high in quality, safe and effective. TGA also conducts a range of assessment and monitoring activities including audits of the manufacturing practices of companies who export and sell products to Australia. TGA certification enables us to manufacture products for export into countries that have signed the Pharmaceutical Inspection Convention, which include most European countries as well as several Pacific Rim countries. TGA certifications are generally reviewed every eighteen to thirty six months. During August 2016, TGA completed an inspection of our facility and quality systems for compliance with good manufacturing practices, and a renewed 36 months GMP clearance was issued with an expiry of August 3, 2020.

Our California facilities also have been awarded GMP registration annually since October 2002 by NSF International (NSF) through the NSF Dietary Supplements Certification Program and received “GMP for Sport” NSF Certified registration on February 16, 2009. GMP requirements are regulatory standards and guidelines establishing necessary processes, procedures and documentation for manufacturers in an effort to assure the products produced by that manufacturer have the identity, strength, composition, quality and purity they are represented to possess. The NSF Certified for Sport program focuses on minimizing the risk that a dietary supplement or sports nutrition product contains banned substances and was developed due to growing demand from athletes and coaches concerned about banned substances in sports supplements. The program focuses primarily on manufacturing and sourcing processes, embedding preventative measures throughout. NAI’s participation in the program allows us to produce products bearing the NSF Sport logo.

Our U.S. operations have also been certified by Health Canada as compliant with GMP requirements as outlined in Part 3 of the Canadian Natural Health Products Regulations. Health Canada is the department of the Canadian government with responsibility for national public health. Health Canada has initiated work to modernize its regulatory system for food and health products. Health Canada plays an active role in ensuring access to safe and effective drugs and health products while giving high priority to public safety and striving to provide information needed to make healthy choices and informed decisions regarding one’s health. NAI was issued its initial certification in December 2011 and received its most recent renewal in December 2016. Not only does this approval demonstrate another level of regulatory compliance for NAI, it may also ease the approval process for our customers who import products into Canada.

During March 2015, our California facilities became certified as an Organic Processor and Handler by Natural Food Certifiers (NFC). This certification demonstrates that we meet the USDA National Organic Program standards and allows us to expand our contract manufacturing and packaging services to include Organic labeled products. The certification requires annual renewal and was last renewed in September 2016. We are registered with the State of California, Department of Public Health Food and Drug Branch as an organic processor. Additionally, we are certified by various Rabbinical and Halal authorities to produce Kosher and Halal certified products. These certifications guarantee that the facility, processes, and ingredients of certified products have been reviewed and found to be in compliance with the strict dietary laws of the respective Jewish and Muslim communities

NAIE also operates a manufacturing, warehousing, packaging and distribution facility in Manno, Switzerland. In January 2004, NAIE obtained a pharmaceutical license to process pharmaceuticals for packaging, import, export and sale within Switzerland and other countries from the Swissmedic Authority of Bern, Switzerland. In March 2007, following the expansion of NAIE's manufacturing facilities to include powder filling capabilities, NAIE obtained an additional pharmaceutical license from the Swissmedic Authority certifying that NAIE's expanded facilities conform to GMP. In January 2013, following the additional upgrade of NAIE's manufacturing facilities to include the manufacture of pharmaceuticals, NAIE obtained an additional pharmaceutical approval from the Swissmedic Authority certifying that NAIE's upgraded facilities conform to GMP. We believe these licenses and NAIE's manufacturing capabilities help strengthen our relationships with existing customers and improve our ability to develop relationships with new customers. Our Swissmedic licenses are valid until February 2019.

In addition to our operations in the U.S. and Switzerland, we have had a representative in Japan for many years who provides a range of services to our customers currently present in or seeking to expand into the Japanese market and other markets in the Pacific Rim. These services include regulatory and marketing assistance along with guidance and support in adapting products to these markets.

Business Strategy

Our goals are to achieve long-term growth and profitability and to diversify our sales base. To accomplish these goals, we have and intend to continue to seek to do the following:

- leverage 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 in developing relationships with additional quality oriented customers;

- expand the commercialization of our beta-alanine patent estate through raw material sales, introduction of new products, new contract manufacturing opportunities, license and sub-license agreements, and protecting our proprietary rights;

- provide strategic partnering services to our private-label contract manufacturing customers, as described below under "Products, Principal Markets and Methods of Distribution"; and

- improve operational efficiencies and manage costs and business risks to improve profitability.

Overall, we believe there is an opportunity to enhance consumer confidence in the quality of our customer's nutritional supplements and their adherence to label claims through the education provided by direct sales and direct-to-consumer marketing programs. We believe our GMP and TGA certified manufacturing operations, science based product formulations, peer-reviewed clinical studies and regulatory expertise provide us with a sustainable competitive advantage by providing our customers with a high degree of confidence in the products we manufacture.

While today's consumer may have access to a variety of information, we believe many consumers remain uneducated about nutrition and nutritional supplementation, uncertain about the relevance or reliability of the information available to them, or confused about conflicting claims or information. We believe this state of the market creates a significant opportunity for the direct sales marketing channel. The direct sales marketing channel has proved, and we believe will continue to prove, to be a highly effective method for marketing high-quality nutritional supplements as associates or other individuals educate consumers on the benefits of science based nutritional supplements. Our largest customers operate in the direct sales marketing channel. Thus, the majority of our business has relied primarily on the effectiveness of our customers in this marketing channel.

We also believe there is significant opportunity with the commercialization of our patent estate through the introduction of CarnoSyn® and SR CarnoSyn® beta-alanine into additional markets and with the introduction of new beta-alanine product offerings. Currently, a majority of our sales of CarnoSyn® are to companies that operate in the sports nutrition channel and are focused on products containing the instant release form of beta-alanine. We believe there are several other markets and distribution channels that represent growth opportunities for the distribution of CarnoSyn® and SR CarnoSyn® beta-alanine. We have also recently introduced SR CarnoSyn®, which we believe is a superior delivery system of CarnoSyn® beta-alanine based on its sustained release profile that allows for increased daily dosing and improved muscle retention of carnosine. We believe the introduction of SR CarnoSyn® beta-alanine is an important step in the further commercialization of our patent estate outside of the sports nutrition channel. Our remaining patents related to instant release beta-alanine expire in 2023 while our patents for SR CarnoSyn® extend through 2026.

We believe our comprehensive approach to customer service is unique within our industry. We believe this comprehensive approach, together with our commitment to high quality, product development and manufacturing capabilities, will provide the means to implement our strategies and achieve our goals. There can be no assurance, however, that we will successfully implement any of our business strategies or that we will increase or diversify our sales, successfully commercialize our patent estate, or improve our overall financial results.

Products, Principal Markets and Methods of Distribution

Our primary business activity is to provide private-label contract manufacturing services to companies that market and distribute vitamins, minerals, herbs, and other nutritional supplements, as well as other health care products, to consumers both within and outside the U.S. Our private-label contract manufacturing customers include companies that market nutritional supplements through direct sales marketing channels, direct response television and retail stores. We manufacture products in a variety of forms, including capsules, tablets, chewable wafers, and powders to accommodate a variety of our customer's preferences.

We provide strategic partnering services to our private-label contract manufacturing customers, including the following:

- customized product formulation;
- clinical studies;
- manufacturing;
- marketing support;
- international regulatory and label law compliance;
- international product registration; and
- packaging in multiple formats and labeling design.

We also seek to commercialize our patent and trademark through direct distribution and sale of CarnoSyn® and SR CarnoSyn®, new contract manufacturing opportunities, and various license and similar arrangements.

For the last two fiscal years ended June 30, our net sales were derived from the following (in thousands):

	2017		2016	
	$	%	$	%
Private-label Contract Manufacturing	$ 95,024	78	$ 92,420	81
Patent and Trademark Licensing	26,922	22	21,781	19
Total Net Sales	$ 121,946	100	$ 114,201	100

Research and Development

We are committed to quality research and development. We focus on the development of new science based products and the improvement of existing products. We periodically test and validate our products to help ensure their stability, potency, efficacy and safety. We maintain quality control procedures to verify that our products comply with applicable specifications and standards established by the FDA and other regulatory agencies. We also direct and participate in clinical research studies, often in collaboration with scientists and research institutions, to validate the benefits of a product and provide scientific support for product claims and marketing initiatives. We believe our commitment to research and development, as well as our facilities and strategic alliances with our suppliers and customers, allow us to effectively identify, develop and market high-quality and innovative products.

As part of the services we provide to our private-label contract manufacturing customers, we may perform, but are not required to perform, certain research and development activities related to the development or improvement of their products. While our customers often do not pay directly for this service, the cost of this service is included as a component of the price we charge to manufacture and deliver their products. Research and development costs, which include costs associated with international regulatory compliance services we provide to our customers, are expensed as incurred.

Our research and development expenses for the fiscal year ended June 30, 2017 increased to $1.6 million, compared to $1.1 million for the fiscal year ended June 30, 2016.

Sources and Availability of Raw Materials

We use raw materials in our operations including powders, excipients, empty capsules, and components for packaging and distributing our finished products. In addition, the commercialization of our beta-alanine patent estate depends on the availability of the raw material beta-alanine. We conduct identity testing for all raw materials we purchase and, on a predetermined testing protocol basis, we evaluate raw materials to ensure their quality, purity and potency before we use them in our products. We typically buy raw materials in bulk from qualified vendors located both within and outside the U.S. During fiscal 2017, we had one supplier, Scientific Living, which represented more than 10% of our total raw material purchases.

Our contract manufacturing business did not experience any significant shortages or difficulties obtaining adequate supplies of raw materials during fiscal 2017. However, there continues to be significant pricing pressures associated with various vitamins, minerals and herbs in the raw material marketplace. Throughout fiscal 2018, we expect upward pricing pressures for raw materials and other costs will continue as a result of limited supplies of various ingredients and the effects of higher labor and transportation costs.

Customers

We have one private-label contract manufacturing customer that individually represents more than 10% of our consolidated net sales. The loss of this customer could result in a significant negative impact to our financial position and results of operations. We continue to focus on obtaining new private-label contract manufacturing customers to reduce the risks associated with deriving a significant portion of our sales from a limited number of customers.

Competition

We compete with other manufacturers, distributors and marketers of vitamins, minerals, herbs, and other nutritional supplements both within and outside the U.S. The nutritional supplement industry is highly fragmented and competition for the sale of nutritional supplements comes from many sources. These products are sold primarily through retailers (drug store chains, supermarkets, and mass market discount retailers), health and natural food stores, and direct sales channels (network marketing, internet marketing and mail order).

We believe private-label contract manufacturing competition in our industry is based on, among other things, customized services offered, product quality and safety, innovation, price and customer service. We believe we compete favorably with other companies because of our ability to provide comprehensive solutions for customers, our certified manufacturing operations, our commitment to quality and safety, and our research and development activities.

Our future competitive position for private-label contract manufacturing and patent and trademark licensing will likely depend on, but not be limited to, the following:

- the continued acceptance of our products by our customers and consumers;
- our ability to protect our proprietary rights in our patent estate and the continued validity of such patents;
- our ability to successfully expand our product offerings related to our patent and trademark estate;
- our ability to maintain adequate inventory levels to meet our customer's demands;
- our ability to expand;
- our ability to continue to manufacture high quality products at competitive prices;
- our ability to attract and retain qualified personnel;
- the effect of any future governmental regulations on our products and business;
- the results of, and publicity from, product safety and performance studies performed by governments and other research institutions;
- the continued growth of the global nutrition industry; and
- our ability to respond to changes within the industry and consumer demand, financially and otherwise.

The nutritional supplement industry is highly competitive and we expect the level of competition to remain high over the near term. We do not believe it is possible to accurately estimate the total number or size of our competitors. The nutritional supplement industry has undergone consolidation in the recent past and we expect that trend may continue in the near term.

Government Regulation

Our business is subject to varying degrees of regulation by a number of government authorities in the U.S., including the FDA, the Federal Trade Commission (FTC), the Consumer Product Safety Commission, the U.S. Department of Agriculture, and the Environmental Protection Agency. Various state and local agencies in areas where we operate and in which our products are sold also regulate our business, such as the California Department of Health Services, Food and Drug Branch. The areas of our business these and other authorities regulate include, among others:

- product claims and advertising;
- product labels;
- product ingredients; and
- how we manufacture, package, distribute, import, export, sell and store our products.

The FDA, in particular, regulates the formulation, manufacturing, packaging, storage, labeling, promotion, distribution and sale of vitamins and other nutritional supplements in the U.S., while the FTC regulates marketing and advertising claims. In August 2007, a new rule issued by the FDA went into effect requiring companies that manufacture, package, label, distribute or hold nutritional supplements to meet certain GMP's to ensure such products are of the quality specified and are properly packaged and labeled. We are committed to meeting or exceeding the standards set by the FDA and believe we are currently operating within the FDA mandated GMP.

The FDA also regulates the labeling and marketing of dietary supplements and nutritional products, including the following:

- the identification of dietary supplements or nutritional products and their nutrition and ingredient labeling;
- requirements related to the wording used for claims about nutrients, health claims, and statements of nutritional support;
- labeling requirements for dietary supplements or nutritional products for which "high potency" and "antioxidant" claims are made;
- notification procedures for statements on dietary supplements or nutritional products; and
- premarket notification procedures for new dietary ingredients in nutritional supplements.

The Dietary Supplement Health and Education Act of 1994 (DSHEA) revised the provisions of the Federal Food, Drug and Cosmetic Act concerning the composition and labeling of dietary supplements and defined dietary supplements to include vitamins, minerals, herbs, amino acids and other dietary substances. DSHEA generally provides a regulatory framework to help ensure safe, quality dietary supplements and the dissemination of accurate information about such products. The FDA is generally prohibited from regulating active ingredients in dietary supplements as drugs unless product claims, such as claims that a product may heal, mitigate, cure or prevent an illness, disease or malady, trigger drug status.

In December 2006, the Dietary Supplement and Nonprescription Drug Consumer Protection Act was passed, which further revised the provisions of the Federal Food, Drug and Cosmetic Act. Under the Act, manufacturers, packers or distributors whose name appears on the product label of a dietary supplement or nonprescription drug are required to include contact information on the product label for consumers to use in reporting adverse events associated with the product's use and to notify the FDA of any serious adverse event report within 15 business days of receiving such report. Events reported to the FDA would not be considered an admission from a company that its product caused or contributed to the reported event. We are committed to meeting or exceeding the requirements of this Act.

We are also subject to a variety of other regulations in the U.S., including those relating to health, safety, bioterrorism, taxes, labor and employment, import and export, the environment and intellectual property. All of these regulations require significant financial and operational resources to ensure compliance, and we cannot assure you we will always be in compliance despite our best efforts to do so.

Our operations outside the U.S. are similarly regulated by various agencies and entities in the countries in which we operate and in which our products are sold. The regulations of these countries may conflict with those in the U.S. and may vary from country to country. The sale of our products in certain European countries is subject to the rules and regulations of the European Union, which may be interpreted differently among the countries within the European Union. In other markets outside the U.S., we may be required to obtain approvals, licenses or certifications from a country's Ministry of Health or comparable agency before we begin operations or the marketing of products in that country. Approvals or licenses may be conditioned on reformulation of our products for a particular market or may be unavailable for certain products or product ingredients. These regulations may limit our ability to enter certain markets outside the U.S. As with the costs of regulatory compliance in the U.S., foreign regulations require significant financial and operational resources to ensure compliance, and we cannot assure you we will always be in compliance despite our best efforts to do so. Our failure to maintain regulatory compliance within and outside the U.S. could impact our ability to sell our products and thus, adversely impact our financial position and results of operations.

Intellectual Property

Trademarks. We have developed and use trademarks in our business, particularly relating to corporate, brand and product names. We own 37 trademark registrations, including eight registrations in the U.S. Six of these U.S. registrations are incontestable. Federal registration of a trademark in the United States affords the owner nationwide exclusive trademark rights in the registered mark and the ability to prevent subsequent users from using the same or similar mark. However, to the extent a common law user has developed trademark patent rights in a mark in connection with similar goods or services in a particular geographic area, the nationwide rights conferred by federal registration can be subject to that user's prior rights in that geographic area. In addition, rights in a registered mark are dependent upon the continued use of the mark in connection with the goods and/or services set forth in the registration.

We have 27 foreign trademark registrations covering 41 countries including, registrations for CarnoSyn and SR CarnoSyn in Australia, Brazil, Canada, China, Cuba, the European Union Intellectual Property Office, Hong Kong, Israel, Japan, Mexico, New Zealand, Poland, and South Korea. Registrations have also been obtained for SR CarnoSyn and the CarnoSyn logo in Switzerland, for Carnosyn SR in Australia and the European Union. We currently have three U.S. trademark applications pending and three International applications pending. We also claim common law ownership and protection of certain unregistered trademarks and service marks based upon our continued use of the marks under common law. In some countries such as, the United States, common law offers protection of a mark within the particular geographic area in which it is used.

We believe our registered and unregistered trademarks constitute valuable assets, adding to the recognition of our products and services in the marketplace. These and other proprietary rights have been and will continue to be important in enabling us to compete; however, we cannot assure you that our current or future trademark applications will be granted or our current trademarks or registrations will be maintained.

Trade Secrets. We own certain intellectual property, including trade secrets, which we seek to protect, in part, through confidentiality agreements with employees and other parties. We regard our proprietary technology, trade secrets, trademarks and similar intellectual property as critical to our success, and we rely on a combination of trade secrets, contract, patent, copyright and trademark law to establish and protect the rights in our products and technology. The laws of certain foreign countries may not protect our intellectual property rights to the same extent as the laws of the U.S.

Patents and Patent Licenses. We currently own seven U.S. patents and seventeen corresponding patents registered in countries throughout North America, Europe and Asia. We also have pending applications in several countries. All of these patents and patent rights relate to the ingredient known as beta-alanine. Certain of these patents were assigned to NAI and we make certain ongoing royalty payments to the prior owners of the patents. We also license rights to the prior owners for certain uses that are covered by the patents. The royalty payments and license continue until the expiration of the patents. We also sell beta-alanine, and license our patent and trademark rights related to beta-alanine. We have a patent expiring in each of 2023, 2024, and 2025, and twenty-one patents expire in 2026.

Beginning in fiscal 2009, the licensing, raw material sales, and revenues we have received associated with the sale and licensing of beta-alanine under the CarnoSyn® trade name have grown steadily from $515,000 in fiscal 2009 to $26.9 million in fiscal 2017. During fiscal 2017, our revenues included $856,000 of royalties and $26.1 million related to the direct sale of beta-alanine. We incurred intellectual property litigation and patent compliance expenses of approximately $4.2 million during fiscal 2017 primarily in connection with our efforts to protect our proprietary rights and patent estate. We expect to continue to incur these types of litigation expenses during fiscal 2018.

Employees

As of June 30, 2017, we employed 158 full-time employees in the U.S., three of whom held executive management positions. Of the remaining full-time employees, 32 were employed in research, laboratory and quality control, 9 in sales and marketing, and 114 in manufacturing and administration. From time to time we use temporary personnel to help us meet short-term operating requirements. These positions typically are in manufacturing and manufacturing support. As of June 30, 2017, we had 11 temporary personnel.

As of June 30, 2017, NAIE employed an additional 52 full-time employees, 4 part time employees, and 2 temporary personnel. Most of these positions were in the areas of manufacturing and manufacturing support.

Our employees are not represented by a collective bargaining agreement and we have not experienced any work stoppages as a result of labor disputes. We believe our relationship with our employees is good.

Seasonality

Although we believe there is little if any material impact on our business or results of operations from seasonal factors, we have experienced and expect to continue to experience variations in quarterly net sales due to the timing of private-label contract manufacturing and CarnoSyn® and SR CarnoSyn® beta-alanine raw material orders.

Financial Information about Our Business Segments and Geographic Areas

Our operations are comprised of two reportable segments:

- Private-label contract manufacturing, in which we primarily provide manufacturing services to companies that market and distribute nutritional supplements and other health care products.

- Royalty, licensing, and raw material sales associated with the sale and license of beta-alanine under our CarnoSyn® and SR CarnoSyn® trademarks.

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

For additional financial information, including financial information about our business segment and geographic areas, please see the consolidated financial statements and accompanying notes to the consolidated financial statements included under Item 8 of this report.

Our activities in markets outside the U.S. are subject to political, economic and other risks in the countries in which our products are sold and in which we operate. For more information about these and other risks, please see Item 1A in this report.

ITEM 1A. RISK FACTORS

You should carefully review and consider the risks described below, as well as the other information in this report and in other reports and documents we file with the SEC when evaluating our business and future prospects. The risks and uncertainties described below are not the only ones we face. Additional risks and uncertainties, not presently known to us, or that we currently see as immaterial, may also occur. If any of the following risks or any additional risks and uncertainties actually occur or become material, 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. You should not draw any inference as to the magnitude of any particular risk from its position in the following discussion.

Because we derive a significant portion of our revenues from a limited number of customers, our revenues would be adversely affected by the loss of a major customer or a significant change in its business, personnel or the timing or amount of its orders.

We have in the past and expect to continue to derive a significant portion of our revenues from a relatively limited number of customers. During the fiscal year ended June 30, 2017, sales to our largest customer, The Juice Plus+ Company, were approximately 50% of our consolidated net sales. No other customers represented more than 10% of our consolidated net sales. The loss of this customer or other major customers, a significant decrease in sales to these customers, or a significant change in their business or personnel, could materially affect our financial condition and results of operations. Furthermore, the timing of our customers' orders is impacted by, among others, their marketing programs, their customer demand, their raw material suppliers we are sometimes required to use, their supply chain management, entry into new markets and their new product introductions, all of which are outside of our control. All of these attributes have had and are expected to have a significant impact on our business.

Our future growth and stability depends, in part, on our ability to diversify our sales. Our efforts to establish new sales from existing customers and new customers could require significant initial investments, which may or may not result in higher sales and improved financial results.

Our business strategy depends in large part on our ability to develop new product sales from current and new customer relationships. These activities often require a significant up-front investment including, among others, customized formulations, regulatory compliance, product registrations, package design, product testing, pilot production runs, and the build-up of initial inventory. We may experience significant delays from the time we increase our operating expenses and make investments in inventory until the time we generate net sales from new products or customers, and it is possible that we may not generate material revenue from new products or customers after incurring such expenditures. If we incur significant expenses and investments in inventory that we are not able to recover, and we are not able to compensate for those expenses, our operating results could be adversely affected.

We currently derive significant revenues and income from sales of beta-alanine and licensing our patents. Our ability to maintain or grow our sales of beta-alanine and license revenue from our other patents is contingent on our ability to continue to defend our patents, and commercialize the sale of beta-alanine under our remaining instant release CarnoSyn® patents and trademark and our SR Carnosyn® patents and trademark.

We own multiple patents and trademarks related to the use of beta-alanine in food and nutritional supplements. A majority of our revenue and income from this segment is currently derived from activity related to licensing our patents associated with instant release beta-alanine, sold under our trade name CarnoSyn®. We had fifteen patents related to CarnoSyn® expire in August 2017 and currently only have two remaining patents for this version of CarnoSyn®, which expire in August 2023. There is no assurance we will be successful maintaining our historical CarnoSyn® instant release beta-alanine sales levels or grow future sales volumes with our remaining CarnoSyn® instant release patent estate. If we are not successful it could have a material adverse effect on our business, results of operations, and financial condition.

We believe SR CarnoSyn® is a superior delivery system of CarnoSyn® beta-alanine based on its sustained release profile that allows for increased daily dosing and improved muscle retention of carnosine. Our patents related to SR CarnoSyn® extend through 2026 and we believe the introduction of SR CarnoSyn® beta-alanine is an important step in the further commercialization of our patent estate. There can be no assurance we will be successful in getting the market to transition to this new form of beta-alanine or we will be successful launching new products utilizing SR CarnoSyn® beta-alanine in existing and new product channels and markets. If we are not successful it could have a material adverse effect on our business, results of operations, and financial condition.

We have incurred, and may continue to incur significant costs defending our intellectual property. We may be unable to protect our intellectual property rights or may inadvertently infringe on the intellectual property rights of others.

We possess and may possess in the future certain proprietary technology, trade secrets, trademarks, trade names, licenses, patents and similar intellectual property. We may continue to incur significant patent and trademark litigation costs associated with defending this intellectual property. During fiscal 2017, we incurred approximately $4.2 million in patent litigation and prosecution expense and may incur significant similar expenses during fiscal 2018. These efforts are described in more detail under Item 3 of this report. There is no assurance we will be able to protect our intellectual property adequately or that our intellectual property rights will be upheld. If pending legal proceedings to invalidate our patent rights are successful, they could have a material adverse impact upon our financial condition and results of operations. Furthermore, the laws of certain foreign countries may not protect our intellectual property rights to the same extent as the laws of the U.S. Additional litigation in the U.S. or abroad may be necessary to enforce our intellectual property rights, to determine the validity and scope of the proprietary rights of others or to defend against claims of infringement. Such litigation, even if successful, could result in substantial additional costs and diversion of resources and could have a material adverse effect on our business, results of operations and financial condition. If such infringement claims are asserted against us, we may seek to obtain a license under the third party's intellectual property rights. There can be no assurance a license would be available on terms acceptable or favorable to us, if at all.

Our operating results will vary. We have experienced a decline in net sales and incurred losses in past years and there is no guarantee our sales will improve or we will earn a profit in future years. Fluctuations in our operating results may adversely affect the share price of our common stock.

Our net sales increased during fiscal 2017 as compared to fiscal 2016 but there can be no assurance our net sales will continue to improve in the near term, or we will earn a profit in any given year. We have experienced net losses in the past and may incur losses in the future. Our operating results may fluctuate from year to year and/or from quarter to quarter due to various factors including differences related to the timing of revenues and expenses for financial reporting purposes and other factors described in this report. At times, these fluctuations may be significant. We anticipate generating positive net income in fiscal 2018, although there is no assurance we will be able to do so. Fluctuations in our operating results may adversely affect the share price of our common stock.

Our products and manufacturing activities are subject to extensive government regulation, which could limit or prevent the sale of our products in some markets and could increase our costs.

The manufacturing, packaging, labeling, advertising, promotion, distribution, and sale of our products are subject to regulation by numerous national and local governmental agencies in the U.S. and in other countries. For example, we are required to comply with certain GMP and incur costs associated with the audit and certification of our facilities. Failure to comply with governmental regulations may result in, among other things, injunctions, product withdrawals, recalls, product seizures, fines, and criminal prosecutions. Any action of this type by a governmental agency could materially adversely affect our ability to successfully market our products and services. In addition, if the governmental agency has reason to believe the law is being violated (for example, if it believes we do not possess adequate substantiation for product claims), it can initiate an enforcement action. Governmental agency enforcement could result in orders requiring, among other things, limits on advertising, consumer redress, divestiture of assets, rescission of contracts, and such other relief as may be deemed necessary. Violation of these orders could result in substantial financial or other penalties. Any action by a governmental agency could materially adversely affect our ability and our customers' ability to successfully market and continue selling those products.

Before commencing operations of marketing our products in markets outside the U.S., we may be required to obtain approvals, licenses, or certifications from a country's ministry of health or comparable agency. Approvals or licensing may be conditioned on reformulation of products or may be unavailable with respect to certain products or product ingredients. We must also comply with product labeling and packaging regulations that vary from country to country. Furthermore, the regulations of these countries may conflict with those in the U.S. and with each other. The sale of our products in certain European countries is subject to the rules and regulations of the European Union, which may be interpreted differently among the countries within the European Union. The cost of complying with these various and potentially conflicting regulations can be substantial and could adversely affect our results of operations.

We cannot predict the nature of any future laws, regulations, interpretations, or applications, nor can we determine what effect additional governmental regulations, when and if adopted, would have on our business. They could include requirements for the reformulation of certain products to meet new standards, the recall or discontinuance of certain products, additional compliance costs or record keeping requirements, expanded or different labeling, and additional scientific substantiation. Any or all of these requirements could have a material adverse effect on our operations.

A significant or prolonged economic downturn, could have, and at certain times in the past have had, a material adverse effect on our results of operations.

Our results of operations are affected by the level of business activity of our customers and licensees, which in turn is affected by the level of consumer demand for their products. A significant or prolonged economic downturn may adversely affect the disposable income of many consumers and may lower demand for the products we produce for our private-label contract manufacturing customers and products sold or manufactured by others using our licensed patent rights. Any decline in economic conditions in the U.S. and the various foreign markets in which our customers operate could negatively impact our customers' businesses and our operations. A significant enough decline in consumer demand and the level of business activity of our customers due even if only in part to economic conditions could have a material adverse effect on our revenues and profit margins.

The failure of our suppliers to supply quality materials in sufficient quantities, at a favorable price, and in a timely fashion could adversely affect the results of our operations.

We buy our raw materials from a limited number of suppliers. During fiscal 2017, we had one supplier, Scientific Living, that represented more than 10% of our raw material purchases. During fiscal 2016, we did not have any suppliers that represented more than 10% of our raw material purchases. Still, the loss of any of our major suppliers or of a supplier that provides any hard to obtain materials could adversely affect our business operations. Although we believe we could establish alternate sources for most of our raw materials, any delay in locating and establishing relationships with other sources could result in product shortages, with a resulting loss of sales and customers. In certain situations we may be required to alter our products or with our customer's consent to substitute different materials from alternative sources.

A shortage of raw materials or an unexpected interruption of supply could also result in higher prices for those materials. Since fiscal 2009, we have experienced increases in various raw material costs, transportation costs and the cost of petroleum based raw materials and packaging supplies used in our business. Increasing raw material and product cost pricing pressures have continued throughout fiscal 2017 as a result of limited supplies of various ingredients and the effects of higher labor and transportation costs. We expect these pressures to continue through fiscal 2018. Although we may be able to raise our prices in response to significant increases in the cost of raw materials, we may not be able to raise prices sufficiently or quickly enough to offset negative effects of cost increases on our results of operations or financial condition.

There can be no assurance suppliers will provide the quality raw materials needed by us in the quantities requested or at a price we are willing to pay. Because we do not control the actual production of these raw materials, we are also subject to delays caused by interruption in production of materials based on conditions outside of our control, including weather, transportation interruptions, strikes, terrorism, natural disasters, or other catastrophic events.

In addition, our efforts to commercialize our patent estate and the revenues we receive from related supply agreements, are substantially dependent on the availability of the raw material beta-alanine and sales of such raw material or products incorporating such raw material. The availability of beta-alanine, and thus sales of such raw material and products using such material, would be negatively impacted by any shortages, interruptions and similar risks described above, which could in turn adversely affect the amount of revenue and product margin we earn from the sale of beta-alanine.

Our industry is highly competitive and we may be unable to compete effectively. Increased competition could adversely affect our financial condition.

The market for our products, and those of our customers, is highly competitive. Many of our competitors are substantially larger and have greater financial resources and broader name recognition than we do. Our larger competitors may be able to devote greater resources to research and development, marketing and other activities that could provide them with a competitive advantage. Our market has relatively low entry barriers and is highly sensitive to the introduction of new products that may rapidly capture a significant market share. Our competitors may not stress the level of quality we provide and could manufacture at lower costs, they are largely private and not subject to the same disclosure requirements of us as a publicly traded company. Increased competition could result in price reductions, reduced gross profit margins or loss of market share, any of which could have a material adverse effect on our financial condition and results of operations. There can be no assurance that we will be able to compete in this intensely competitive environment.

We could be exposed to product liability claims or other litigation, which may be costly and could materially adversely affect our operations.

We could face financial liability due to product liability claims if the use of our products results in significant loss or injury. Additionally, the manufacture and sale of our products involves the risk of injury to consumers from tampering by unauthorized third parties or product contamination. We could be exposed to future product liability claims that, among others: our products contain contaminants; we provide consumers with inadequate instructions about product use; or we provide inadequate warning about side effects or interactions of our products with other substances. Even if we were to prevail in any such claims, the cost of litigation and settlement could be significant.

We maintain product liability insurance coverage, including primary product liability and excess liability coverage. The cost of this coverage has increased dramatically in recent years, while the availability of adequate insurance coverage has decreased. While we expect to be able to continue our product liability insurance, there can be no assurance we will in fact be able to continue such insurance coverage, or that our insurance will be adequate to cover any liability we may incur, or our insurance will continue to be available at an economically reasonable cost.

Additionally, it is possible one or more of our insurers could exclude from our coverage certain ingredients used in our products. In such event, we may have to stop using those ingredients or rely on indemnification or similar arrangements with our customers who wish to continue to include those ingredients in their products. A substantial increase in our product liability risk or the loss of customers or product lines, or the failure of a customer to honor indemnification agreements could have a material adverse effect on our results of operations and financial condition.

If we or our private-label contract manufacturing customers expand into additional markets outside the U.S. or our or their sales in markets outside the U.S. increase, our business could become increasingly subject to political, economic, regulatory and other risks in those markets, which could adversely affect our business.

Our future growth may depend, in part, on our ability and the ability of our private-label contract manufacturing customers to expand into additional markets outside the U.S. or to improve sales in markets outside the U.S. There can be no assurance we or our customers will be able to expand in existing markets outside the U.S. or enter new markets on a timely basis, or that new markets outside the U.S. will be profitable. There are significant regulatory and legal barriers in markets outside the U.S. that must be overcome to operate in such markets. We will be subject to the burden of complying with a wide variety of national and local laws, including multiple and possibly overlapping and conflicting laws. We also may experience difficulties adapting to new cultures, business customs and legal systems. Our sales and operations outside the U.S. are subject to political, economic and social uncertainties including, among others:

- changes and limits in import and export controls;
- increases in custom duties and tariffs;
- changes in government regulations and laws;
- coordination of geographically separated locations;
- absence in some jurisdictions of effective laws to protect our intellectual property rights;
- changes in currency exchange rates;
- economic and political instability; and
- currency transfer and other restrictions and regulations that may limit our ability to sell certain products or repatriate profits to the U.S.

Any changes related to these and other factors could adversely affect our business, profitability and growth prospects. If we or our customers expand into additional markets outside the U.S. or improve sales in markets outside the U.S., these and other risks associated with operations outside the U.S. may increase.

Our business is subject to the effects of adverse publicity, which could negatively affect our sales and revenues.

Our business can be affected by adverse publicity or negative public perception about our competitors, our customers, or our industry generally. Adverse publicity may include publicity about the nutritional supplements industry generally, the efficacy, safety and quality of nutritional supplements and other health care products or ingredients in general or our products or ingredients specifically, and regulatory investigations, regardless of whether these investigations involve us or the business practices or products of our competitors, or our customers. Any adverse publicity or negative public perception could have a material adverse effect on our business, financial condition and results of operations. Our business, financial condition and results of operations could be adversely affected if any of our products or any similar products distributed by other companies are alleged to be or are proved to be harmful to consumers or to have unanticipated and unwanted health consequences.

If we are unable to attract and retain qualified management personnel, our business may suffer.

Our executive officers and other management personnel are primarily responsible for our day-to-day operations. We believe our success depends largely on our ability to attract, maintain and motivate highly qualified management personnel. Competition for qualified individuals can be intense, has been increasing in recent years, and we may not be able to hire additional qualified personnel in a timely manner or on terms that would not substantially increase our costs. Any inability to retain a skilled professional management team could adversely affect our ability to successfully execute our business strategies and achieve our goals.

Our manufacturing and third party fulfillment activities are subject to certain risks.

We manufacture the vast majority of our products at our manufacturing facility in California. As a result, we are dependent on the uninterrupted and efficient operation of this facility. Our manufacturing operations, including those of our suppliers, are subject to power failures, blackouts, telecommunications failures, computer viruses, human error, breakdown, failure or substandard performance of our leased facilities, our equipment, the improper installation or operation of equipment, terrorism, natural or other disasters, intentional acts of violence, and the need to comply with the requirements or directives of governmental agencies, including the FDA. In addition, we may in the future determine to expand or relocate our facilities, which may result in slowdowns or delays in our operations. While we have implemented and are evaluating various emergency, contingency and disaster recovery plans and maintain business interruption insurance, there can be no assurance the occurrence of these or any other operational problems at our facilities in California or at NAIE's facility in Switzerland would not have a material adverse effect on our business, financial condition and results of operations. Furthermore, there can be no assurance our contingency plans will prove to be adequate or successful if needed or our insurance will continue to be available at a reasonable cost or, if available, will be adequate to cover any losses that we may incur from an interruption in our manufacturing and distribution operations.

We outsource our beta-alanine fulfillment and distribution activities and certain contract manufacturing activities. The operation of the third party service provider's facilities is subject to the interruption and similar risks described above for our facilities and there can be no assurance these interruptions or any other operational problem at such third party's facilities would not have a material adverse effect on our business, financial condition and results of operations.

We may pursue acquisitions of other companies that, if not successful, could adversely affect our business, financial condition and results of operations.

We may pursue acquisitions of companies we believe could complement or expand our business, augment our market coverage, provide us with important relationships or otherwise offer us growth opportunities. Acquisitions involve numerous risks, including the following:

- potential difficulties related to integrating the products, personnel and operations of the acquired company;
- failure to operate efficiently as a combined organization utilizing common information and communication systems, operating procedures, financial controls and human resources practices;
- diverting management's attention from the other daily operations of the business;
- entering markets in which we have no or limited prior direct experience and where competitors in such markets have stronger market positions;
- potential loss of key employees of the acquired company;
- potential inability to achieve cost savings and other potential benefits expected from the acquisition;
- an uncertain sales and earnings stream from the acquired company; and
- potential impairment charges, which may be significant, against goodwill and purchased intangible assets acquired in the acquisition due to changes in conditions and circumstances that occur after the acquisition, many of which may be outside of our control.

There can be no assurance that acquisitions we may pursue will be successful. If we pursue an acquisition but are not successful in completing it, or if we complete an acquisition but are not successful in integrating the acquired company's employees, products or operations successfully, our business, financial position or results of operations could be adversely affected.

Collectively, our officers and directors own a significant amount of our common stock, giving them influence over corporate transactions and other matters and potentially limiting the influence of other stockholders on important policy and management issues.

Our officers and directors, together with their families and affiliates, beneficially owned approximately 23% of our outstanding shares of common stock as of June 30, 2017, including approximately 17% of our outstanding shares of common stock beneficially owned by Mark LeDoux, our Chief Executive Officer and Chairman of the Board, and his family and affiliates. As a result, our officers and directors, and in particular Mr. LeDoux, could influence such business matters as the election of directors and approval of significant corporate transactions.

Various transactions could be delayed, deferred, or prevented without the approval of stockholders, including the following:

- transactions resulting in a change in control;
- mergers and acquisitions;
- tender offers;
- election of directors; and
- proxy contests.

There can be no assurance that conflicts of interest will not arise with respect to the officers and directors who own shares of our common stock or that conflicts will be resolved in a manner favorable to us or our other stockholders.

We may not be able to raise additional capital or obtain additional financing if needed.

It is possible our cash from operations could become insufficient to meet our working capital needs and/or to implement our business strategies. In such an event, there can be no assurance our existing line of credit would be sufficient to meet our working capital needs. Furthermore, if we fail to maintain certain loan covenants we may no longer have access to our credit line. Our credit line terminates in February 2020 and there is no guarantee we will be able to extend or renew this credit line on favorable terms or at all.

We may consider issuing additional debt or equity securities in the future to fund potential acquisitions or investments, to refinance existing debt, or for general corporate purposes. If we issue equity or convertible debt securities to raise additional funds, our existing stockholders may experience dilution, and the new equity or debt securities may have rights, preferences and privileges senior to those of our existing stockholders. If we incur additional debt, it may increase our leverage relative to our earnings or to our equity capitalization, requiring us to pay additional interest expenses and potentially lower our credit ratings. We may not be able to market such issuances on favorable terms, or at all, in which case, if we did not have any alternate funds we might not be able to develop or enhance our products, execute our business plan, take advantage of future opportunities, respond to competitive pressures or meet unanticipated customer requirements.

At any given time, it could be difficult for us to raise capital due to a variety of factors, some of which may be outside of our control, including a tightening of credit markets, overall poor performance of stock markets, and/or an economic slowdown in the U.S. or other countries, or in the businesses of our customers. Thus, there is no assurance we would be able to raise additional capital if needed. To the extent we do raise additional capital the ownership position of existing stockholders would be diluted. Similarly, there can be no assurance additional financing will be available if needed or that it will be available on favorable terms. Under the terms of our credit facility, there are limits on our ability to create, incur or assume additional indebtedness without the approval of our lender.

Our inability to raise additional capital or to obtain additional financing if needed could negatively affect our ability to implement our business strategies and meet our goals. This, in turn, could adversely affect our financial condition and results of operations.

If certain provisions of our Certificate of Incorporation, Bylaws and Delaware law are triggered, the market for our shares may decrease.

Certain provisions in our Certificate of Incorporation, Bylaws and Delaware corporate law may discourage unsolicited proposals to acquire our business, even if the proposal would benefit our stockholders. Those provisions include one that authorizes our Board of Directors, without stockholder approval, to issue up to 500,000 shares of preferred stock having such rights, preferences, and privileges, including voting rights, as the Board of Directors designates. The rights of our common stockholders will be subject to, and may be adversely affected by, the rights of holders of any preferred stock that may be issued in the future. Any or all of these provisions could delay, deter or prevent a takeover of our company and could limit the price investors are willing to pay for our common stock and the number of investors willing to own our common stock.

Our stock price could fluctuate significantly.

Stock prices in general can be volatile and ours is no different. The trading price of our stock may fluctuate in response to the following, as well as other, factors:

- broad market fluctuations and general economic and/or political conditions;
- fluctuations in our financial results;
- relatively low trading volumes;
- future offerings of our common stock or other securities;
- the general condition of the nutritional supplement industry;
- increased competition;
- regulatory action;
- adverse publicity;
- manipulative or illegal trading practices by third parties; and
- product and other public announcements.

The stock market has historically experienced significant price and volume fluctuations. There can be no assurance that an active market in our stock will continue to exist or that the price of our common stock will not decline. Our future operating results may be below the expectations of securities analysts and investors. If this were to occur, the price of our common stock could decline, perhaps substantially.

From time to time our shares may be listed for trading on one or more foreign exchanges, with or without our prior knowledge or consent. Certain foreign exchanges may have less stringent listing requirements, rules and enforcement procedures than the Nasdaq Global Market or other markets in the U.S., which may increase the potential for manipulative trading practices to occur. These practices, or the perception by investors that such practices could occur, may increase the volatility of our stock price or result in a decline in our stock price, which in some cases could be significant.

ITEM 2. PROPERTIES

This table summarizes our facilities as of June 30, 2017. We believe our facilities are adequate to meet our operating requirements for the foreseeable future.

Location	Nature of Use	Square Feet	How Held	Lease Expiration Date
Vista, CA USA[1],[2]	Manufacturing, warehousing, packaging and distribution	162,000	Leased	March 2024
Manno, Switzerland[3]	Manufacturing, warehousing, packaging and distribution	94,217	Leased	June 2019
Carlsbad, CA USA[4]	NAI corporate headquarters	20,981	Owned	N/A

(1) This facility is used by NAI primarily for its private-label contract manufacturing segment.

(2) We use approximately 93,000 square feet for production, 60,000 square feet for warehousing and 9,000 square feet for administrative functions.

(3) This facility is used by NAIE, our wholly owned Swiss subsidiary, in connection with our private-label contract manufacturing segment.

(4) We purchased the Carlsbad facility in March 2016 and began to occupy as our new corporate headquarters during August 2016.

ITEM 3. 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 generally 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 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.

As of September 15, 2017, except as described below, neither NAI nor its subsidiary were a party to any material pending legal proceeding nor was any of our property the subject of any material pending legal proceeding. We are currently involved in several matters in the ordinary course of our business, each of which is related to enforcing our intellectual property rights. Some of these matters are summarized below.

In 2011, NAI filed a lawsuit against Woodbolt Distribution, LLC, also known as Cellucor (“Woodbolt”), and both NAI and Woodbolt filed additional lawsuits and countersuits against each other. NAI and Woodbolt subsequently settled all of the lawsuits between them, but not before the United States Patent and Trademark Office (“USPTO”) at Woodbolt’s request rejected the claims of two NAI patents. The rulings rejecting the claims of two NAI patents were subsequently confirmed by the Patent Trial and Appeal Board (PTAB) at the USPTO. NAI has filed a Notice of Appeal with the U.S. Court of Appeals for the Federal Circuit requesting that certain findings of the PTAB's be reversed. No hearing date has been set by the Court. Both NAI patents rejected by the USPTO expired in August 2017.

On September 18, 2015, the Company filed a complaint against Creative Compounds, LLC, alleging various claims including (1) violation of Section 43 of the Lanham Act, (2) violation of California's Unfair Competition Law, (3) violation of California's False Advertising Law, (4) Trade Libel and Business Disparagement and (5) Intentional Interference with Prospective Economic Advantage. Subsequently, the Company and defendant resolved their disputes and entered into settlement and the case was dismissed.

On August 24, 2016, the Company filed a separate complaint against Creative Compounds, LLC, alleging infringement of U.S. patent 7,825,084. On October 5, 2016, Creative filed its answer and counterclaims. On January 19, 2017, the Company filed a Motion to Amend the Complaint, to add allegations of infringement of U.S. patents 5,965,596, 7,504,376, 8,993,610 and 8,470,865, and additional parties, Core Supplement Technology, Inc., Honey Badger LLC, and Myopharma, Inc. The Court granted the Company's motion. On May 2, 2017, the Court issued a revised scheduling order and set a trial date for July 31, 2018. On July 19, 2017, Creative filed a motion for judgment on the pleadings to dismiss the patent infringement claims with prejudice, On September 5, 2017, the Court granted Creative's motion, which is a non-final decision and subject to later appeal to the U.S. Court of Appeals for the Federal Circuit. The Company has stated it will appeal the District Court rulings. The remaining non-patent claims pending against other defendants were not affected.

On July 1, 2016, the Company filed a complaint in U.S. District Court for the Southern District of California against Cenegenics, LLC, alleging infringement of U.S. patents 7,504,376 and 7,825,084. On August 3, 2016, the Company filed an amended complaint to assert infringement of the same patents against Cenegenics' contract manufacturer, Atlantic-Pro Nutrients d/b/a Xymogen, LLC. Subsequently the Company and defendants resolved their disputes and entered into settlement and license agreements, and the case was dismissed.

On July 6, 2016, the Company filed a complaint against Allmax Nutrition, Inc. in U.S. District Court for the Southern District of California, alleging (1) infringement of U.S. patents 5,965,596, 6,172,098, 7,825,084 and RE 45,947, (2) violation of Section 32 of the Lanham Act, and (3) copyright infringement. On October 19, 2016, the Company filed an amended complaint adding HBS International Corp., Allmax's exclusive distributor, as a co-defendant and to add a civil conspiracy claim. On May 2, 2017, the Court issued a scheduling order setting a trial date for July 31, 2018. On April 25, 2017, defendants filed a motion for judgment on the pleadings and a motion to dismiss as to the Company's trademark and patent infringement and civil conspiracy claims. On June 26, 2017, the Court granted Defendants’ motions, dismissing the Company's patent infringement claim with prejudice and dismissing the trademark and civil conspiracy claims without prejudice. The Company filed a Second Amended Complaint on July 10, 2017. On August 29, 2017, the Court denied the Company's motion to partially reconsider the dismissal of the patent infringement claim, which is a non-final decision and subject to later appeal to the U.S. Court of Appeals for the Federal Circuit. The Company has stated it will appeal the District Court rulings. On August 30, 2017, the Court denied Defendants' motion to dismiss the Company's trademark and conspiracy claims.

On August 2, 2016, the Company filed a complaint against Muscle Sports Products, LLC in U.S. District Court for the Southern District of California, alleging infringement of its CarnoSyn® and CarnoSyn Beta Alanine® trademarks. Subsequently the Company and defendant resolved their disputes and entered into settlement and license agreements, and the case was dismissed.

On September 15, 2016, the Company filed a complaint against Arnet Pharmaceutical Corporation in the U.S. District Court for the Southern District of California alleging Breach of Contract. On May 2, 2017, the Court issued a scheduling order setting a trial date for July 31, 2018. Subsequently, the Company and defendant resolved their disputes and entered into settlement and license agreements, and the case was dismissed.

On September 16, 2016, the Company filed a complaint against Hi-Tech Pharmaceuticals, Inc. d/b/a ALR Industries, APS Nutrition, Innovative Laboratories, Formutech Nutrition, LG Sciences and Sports 1 in U.S. District Court for the Southern District of California, alleging (1) infringement of U.S. patents 5,965,596, 7,825,084, 8,993,610 and RE 45,947, (2) violation of Section 32 of the Lanham Act and (3) breach of contract. On May 2, 2017, the Court issued a scheduling order setting a trial date for July 31, 2018. On July 10, 2017, Defendants filed a motion for judgment on the pleadings to dismiss the patent infringement claims with prejudice. On September 5, 2017, the Court granted Defendants' motion, which is a non-final decision and subject to later appeal to the U.S. Court of Appeals for the Federal Circuit. The Company has stated it will appeal the District Court rulings. The remaining non-patent claims pending against the Defendants were not affected.

Although we believe the above litigation matters are supported by valid claims, there is no assurance NAI will prevail in these litigation matters or in similar proceedings it may initiate or that litigation expenses will not be greater than anticipated.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

PART II

ITEM 5. MARKET FOR OUR COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Market Information

Our common stock trades on the Nasdaq Global Market under the symbol “NAII.” Below are the high and low sales prices of our common stock as reported on the Nasdaq Global Market for each quarter of the fiscal years ended June 30, 2017 and 2016:

	Fiscal 2017		Fiscal 2016	
	High	Low	High	Low
First Quarter	$ 13.62	$ 9.63	$ 6.41	$ 5.60
Second Quarter	$ 14.40	$ 11.0	$ 10.74	$ 5.40
Third Quarter	$ 12.40	$ 8.25	$ 13.80	$ 6.72
Fourth Quarter	$ 11.00	$ 8.80	$ 14.50	$ 10.05

Holders

As of September 15, 2017, there were approximately 210 stockholders of record of our common stock. On that same date, the last sales price of our common stock as reported on Nasdaq was $10.45 per share.

Dividends

We have never paid a dividend on our common stock and we do not intend to pay a dividend in the foreseeable future. Our current policy is to retain all earnings to provide funds for operations and future growth. Additionally, under the terms of our credit facility, we are precluded from paying a dividend while such facility is in place.

Recent Sales of Unregistered Securities

During the fiscal year ended June 30, 2017, we did not sell or otherwise issue any unregistered securities.

Repurchases

During the quarter ended June 30, 2017, we did not repurchase any shares of our common stock.

Equity Compensation Plan Information

The following table sets forth information regarding outstanding options and shares reserved for future issuance under our existing equity compensation plans as of June 30, 2017:

Plan Category	Number of Shares to be Issued Upon Exercise of Outstanding Options, Warrants, and Rights	Weighted-Average Exercise Price of Outstanding Options, Warrants, and Rights	Number of Shares of Outstanding Restricted Stock	Weighted-Average Exercise Price of Outstanding Restricted Stock	Number of Shares Remaining Available for Future Issuance Under Equity Compensation Plans (Excluding Shares Reflected in Column (a) and (c))
	(a)	(b)	(c)	(d)	(e)
Equity compensation plans approved by stockholders	140,000	$ 6.36	330,665	N/A	389,000
Equity compensation plans not approved by stockholders	N/A	N/A	N/A	N/A	N/A
Total	140,000	$ 6.36	330,665	N/A	389,000

ITEM 6. SELECTED FINANCIAL DATA

As a smaller reporting company, we are not required to provide Item 6 disclosure in this Annual Report.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATION

The following discussion and analysis is intended to help you understand our financial condition and results of operations as of June 30, 2017 and 2016 and for each of the last two fiscal years then ended. You should read the following discussion and analysis together with our audited consolidated financial statements and the notes to the consolidated financial statements included under Item 8 in this report. 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. You should carefully review the risks described under Item 1A and elsewhere in this report, which identify certain important factors that could cause our future financial condition and results of operations to vary.

Executive Overview

The following overview does not address all of the matters covered in the other sections of this Item 7 or other items in this report or 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 7, the financial statements and accompanying notes, and this report.

Our primary business activity is providing private-label contract manufacturing services to companies that market and distribute vitamins, minerals, herbs 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 one or two private-label contract manufacturing customers and subject to variations in the timing of such customer's 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, royalty and licensing revenue generated from our patent estate pursuant to license and supply agreements with third parties for 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, contract manufacturing and license agreements.

On August 7, 2017, NAI extended its partnership with our largest contract manufacturing customer ,The Juice Plus+ Company ("Juice Plus+"), through the execution of a five year exclusive manufacturing agreement covering capsule and powder products sold in over 24 markets around the world. Sales from this new exclusive manufacturing agreement are expected to begin shipping during our second fiscal quarter of 2018 and are estimated to increase our sales to Juice Plus+ by over $25.0 million on an annualized basis.

During fiscal 2017, our net sales were 7% higher than in fiscal 2016. Private-label contract manufacturing sales increased 3% due primarily to the sale of higher volumes of existing products to existing customers and new product sales to new and existing customers. Beginning in the third quarter of fiscal 2017 our contract manufacturing sales were unfavorably impacted due to reductions in orders related to the Asian and European markets as a result of lower customer product demand and discontinued customer relationships. Our international sales improved during our fourth quarter of fiscal 2017 and we expect this sales trend to continue during fiscal 2018.

Revenue concentration from our largest private-label contract manufacturing customer as a percentage of our total net sales increased to 50% in fiscal 2017 from 43% for fiscal 2016. We expect our fiscal 2018 revenue concentration as a percentage of consolidated net sales for this customer to be consistent with fiscal 2017.

On June 6, 2017, we received a new patent from the U.S. Patent and Trademark Office related to a broad range of improved methods of beta-alanine intake. These 28 allowed patent claims target such benefits as delaying muscle fatigue, increasing anaerobic capacity, increasing muscle strength and increasing muscle endurance. This new patent became part of our global portfolio covering our CarnoSyn® beta-alanine and SR CarnoSyn® products, but more importantly, we believe it significantly lengthens the patent coverage around our instant release CarnoSyn® beta-alanine to 2023. We intend to continue to file additional beta-alanine patent applications to further broaden our intellectual property protection.

During fiscal 2017, CarnoSyn® beta-alanine revenue increased 24% to $26.9 million as compared to $21.8 million for fiscal 2016. This increase was primarily the result of growth in our customer base and increased raw material sales. To protect our CarnoSyn® business and its underlying patent estate, we incurred litigation and patent compliance expenses of approximately $4.2 million during fiscal 2017 and $2.0 million during fiscal 2016. The increase in these legal expenses on a year over year basis is primarily due to our efforts to enforce compliance with our existing patents, fees and expenses related to new patent applications and to protect our trade name in the marketplace against parties who are using it without our consent. We describe our efforts to protect our patent estate in more detail under Item 1 of Part II of this report. We currently expect our litigation and patent compliance expenses to decline during fiscal 2018 to an annual rate of approximately $2.0 to $3.0 million. Our ability to maintain or further increase our beta-alanine royalty and licensing revenue will depend in large part on our ability to enforce compliance of our instant release CarnoSyn® patents, maintain our patent rights and develop a market for our sustained release form of beta-alanine marketed under our SR Carnosyn® trademark.

During fiscal 2018, 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 market for our sustained release form of beta-alanine marketed under our SR Carnosyn® trademark, new contract manufacturing opportunities, license agreements and protecting our proprietary rights;

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

Critical Accounting Policies and Estimates

Our consolidated financial statements included under Item 8 in this report have been prepared in accordance with U.S. generally accepted accounting principles (GAAP). Our significant accounting policies are described in the notes to our consolidated financial statements. The preparation of financial statements in accordance with GAAP requires that we make estimates and assumptions that affect the amounts reported in our financial statements and their accompanying notes. We have identified certain policies that we believe are important to the portrayal of our financial condition and results of operations. These policies require the application of significant judgment by our management. We base our estimates on our historical experience, industry standards, and various other assumptions that we believe are reasonable under the circumstances. Actual results could differ from these estimates. An adverse effect on our financial condition, changes in financial condition, and results of operations could occur if circumstances change that alter the various assumptions or conditions used in such estimates or assumptions. Some of our critical accounting policies include those listed below.

Revenue Recognition

To recognize revenue, four basic criteria must be met: 1) there is evidence that an arrangement exists; 2) delivery has occurred; 3) the fee is fixed or determinable; and 4) collectability is reasonably assured. Revenue from sales transactions where the buyer has the right to return the product is recognized at the time of sale only if (a) the seller's price to the buyer is substantially fixed or determinable at the date of sale; (b) the buyer has paid the seller, or the buyer is obligated to pay the seller and the obligation is not contingent on resale of the product; (c) the buyer's obligation to the seller would not be changed in the event of theft or physical destruction or damage of the product; (d) the buyer acquiring the product for resale has economic substance apart from that provided by the seller; (e) the seller does not have significant obligations for future performance to directly bring about resale of the product by the buyer; and (f) the amount of future returns can be reasonably estimated. We recognize revenue upon determination that all criteria for revenue recognition have been met. The criteria are usually met at the time title passes to the customer, which usually occurs upon shipment. Revenue from shipments where title passes upon delivery is deferred until the shipment has been delivered.

We record reductions to gross revenue for estimated returns of private-label contract manufacturing products. The estimated returns are based on the trailing six months of private-label contract manufacturing gross sales and our historical experience. However, the estimate for product returns does not reflect the impact of a potential large product recall resulting from product nonconformance or other factors as such events are not predictable nor is the related economic impact estimable.

We currently own certain U.S. patents, and in some cases that patent's corresponding foreign patent applications. All of these patents and patent rights relate to the ingredient known as beta-alanine marketed and sold by us under our CarnoSyn® and SR Carnosyn® trademarks, combined with a license to our patent estate. We recorded beta-alanine raw material sales and royalty and licensing income as a component of revenue in the amount of $26.9 million during fiscal 2017 and $21.8 million during fiscal 2016. 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 $1.0 million during fiscal 2017 and $865,000 during fiscal 2016.

Inventory Reserve

We operate primarily as a private-label contract manufacturer and build products based upon anticipated demand or following receipt of customer specific purchase orders. From time to time, we build inventory for private-label contract manufacturing customers under a specific purchase order with delivery dates that may subsequently be rescheduled or canceled at the customer's request. We value inventory at the lower of cost or market on an item-by-item basis and establish reserves equal to all or a portion of the related inventory to reflect situations in which the cost of the inventory is not expected to be recovered. This requires us to make estimates regarding the market value of our inventory, including an assessment for excess and obsolete inventory. Once we establish an inventory reserve amount in a fiscal period, the reduced inventory value is maintained until the inventory is sold or otherwise disposed. In evaluating whether inventory is stated at the lower of cost or market, management considers such factors as the amount of inventory on hand, the estimated time required to sell such inventory, the remaining shelf life and efficacy, the foreseeable demand within a specified time horizon and current and expected market conditions. Based on this evaluation, we record adjustments to cost of goods sold to adjust inventory to its net realizable value. These adjustments are estimates, which could vary significantly, either favorably or unfavorably, from actual requirements if future economic conditions, customer demand or other factors differ from expectations.

Accounting for Income Taxes

We account for uncertain tax positions using the more-likely-than-not recognition threshold. Our practice is to recognize interest and/or penalties related to income tax matters in income tax expense. As of June 30, 2017 and June 30, 2016, we had not recorded any tax liabilities for uncertain tax positions.

We estimate income taxes in each of the jurisdictions in which we operate. This process involves estimating our actual current tax exposure, together with assessing temporary differences resulting from differing treatment of items, such as property and equipment depreciation, for tax and financial reporting purposes. Actual income taxes could vary from these estimates due to future changes in income tax law or results from final tax examination reviews.

We record valuation allowances to reduce our deferred tax assets to an amount that we believe is more likely than not to be realized. We consider estimated future taxable income and ongoing prudent and feasible tax planning strategies in assessing the need for a valuation allowance. If we determine that it is more likely than not that we will not realize all or part of our deferred tax assets in the future, we will record an adjustment to the carrying value of the deferred tax asset, which would be reflected as income tax expense. Conversely, if we determine we will realize a deferred tax asset, which currently has a valuation allowance, we will reverse the valuation allowance, which would be reflected as an income tax benefit.

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. As of June 30, 2017, we have recorded no valuation allowance against deferred tax assets. During the fourth quarter of fiscal 2016, we concluded that it was more likely than not that we would be able to realize the benefit of our federal and state deferred tax assets in the future. We based this conclusion on historical and projected operating performance, as well as our expectation that our operations will generate sufficient taxable income in future periods to realize the tax benefits associated with the deferred tax assets. As a result, we reduced the valuation allowance on our net deferred tax assets by $193,000 at June 30, 2016. We will continue to assess the need for a valuation allowance on the deferred tax assets by evaluating both positive and negative evidence that may exist. Any adjustment to the net deferred tax asset valuation allowance would be recorded in the income statement for the period that the adjustment is determined to be required.

We have not recorded U.S. income tax expense for NAIE's retained earnings that we have declared as indefinitely reinvested offshore, thus reducing our overall income tax expense. The earnings designated as indefinitely reinvested in NAIE are based on the actual deployment of such earnings in NAIE's assets and our expectations of the future cash needs of NAIE and NAI. Income tax laws also are a factor in determining the amount of foreign earnings to be indefinitely reinvested offshore.

We carefully review several factors that influence the ultimate disposition of NAIE's retained earnings declared as reinvested offshore, and apply stringent standards to overcome the presumption of repatriation. Despite this approach, because the determination involves our future plans and expectations of future events, the possibility exists that amounts declared as indefinitely reinvested offshore may ultimately be repatriated. For instance, NAI's actual cash needs may exceed our current expectations or NAIE's actual cash needs may be less than our current expectations. Additionally, changes may occur in tax laws and/or accounting standards that could change our determination of the status of NAIE's retained earnings. This would result in additional income tax expense in the fiscal year in which we determine that amounts are no longer indefinitely reinvested offshore.

On an interim basis, we estimate what our effective tax rate will be for the full fiscal year and record a quarterly income tax provision in accordance with the anticipated annual rate. As the fiscal year progresses, we refine our estimate based upon actual events and earnings by jurisdiction during the year. This continual estimation process periodically results in a change to our expected effective tax rate for the fiscal year. When this occurs, we adjust the income tax provision during the quarter in which the change in estimate occurs so that the year-to-date provision equals the expected annual rate.

Derivative Financial Instruments

We may use derivative financial instruments in the management of our foreign currency exchange risk inherent in our forecasted transactions denominated in Euros. We may hedge our foreign currency exposures by entering into offsetting forward exchange contracts and currency options. To the extent we use derivative financial instruments, we account for them using the deferral method, when such instruments are intended to hedge identifiable, firm foreign currency commitments or anticipated transactions and are designated as, and effective as, hedges. Foreign exchange exposures arising from certain transactions that do not meet the criteria for the deferral method are marked-to-market.

We recognize any unrealized gains and losses associated with derivative instruments in income in the period in which the underlying hedged transaction is realized. In the event the derivative instrument is deemed ineffective we would recognize the resulting gain or loss in income at that time. As of June 30, 2017, we held derivative 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. As of June 30, 2017, the notional amounts of our foreign exchange contracts were $26.1 million (EUR 23.1 million). These contracts will mature over the next 14 months.

Results of Operations

The following table sets forth selected consolidated operating results for each of the last two fiscal years, presented as a percentage of net sales (dollars in thousands).

	Fiscal Year Ended					
	June 30, 2017		June 30, 2016		Increase (Decrease)	
Private-label contract manufacturing	$ 95,024	78%	$ 92,420	81%	$ 2,604	3%
Patent and trademark licensing	26,922	22%	21,781	19%	5,141	24%
Total net sales	121,946	100%	114,201	100%	7,745	7%
Cost of goods sold	95,742	78%	88,943	78%	6,799	8%
Gross profit	26,204	22%	25,258	22%	946	4%
Selling, general & administrative expenses	16,502	14%	13,000	11%	3,502	27%
Income from operations	9,702	8%	12,258	11%	(2,556)	(21)%
Other income, net	409	0%	1,314	1%	(905)	(69)%
Income before income taxes	10,111	8%	13,572	12%	(3,461)	(26) %
Provision for income taxes	2,876	2%	4,026	4%	(1,150)	(29)%
Net income	$ 7,235	6%	$ 9,546	8%	$ (2,311)	(24)%

Private-label contract manufacturing net sales increased 3% primarily due to the sale of higher volumes of existing products to existing customers and new product sales to new and existing customers partially offset by reductions in orders related to certain domestic customers and related to the Asian market.

Net sales from our patent and trademark licensing segment increased 24% during fiscal 2017. During fiscal 2017, patent and trademark licensing sales included $0.9 million of royalty income, $26.0 million in direct beta-alanine raw material sales, and zero license fees. During fiscal 2016, patent and trademark licensing sales included $0.2 million of royalty income, $21.6 million in direct beta-alanine raw material sales, and zero license fees. The increase in beta-alanine raw material sales was a result of growth in our customer base and increased raw material sales.

The change in gross profit margin for the year ended June 30, 2017 was as follows:

	Percentage Change
Contract manufacturing[(1)]	(3.3)
Patent and trademark licensing[(2)]	2.7
Total change in gross profit margin	(0.6)

1 Private-label contract manufacturing gross profit margin contribution decreased 3.3 percentage points in fiscal 2017 as compared to fiscal 2016. The decrease in gross profit as a percentage of sales in fiscal 2017 is primarily due to a shift in product sales mix and a marginal increase in per unit manufacturing costs.

2 During fiscal 2017, patent and trademark licensing gross profit margin contribution increased 2.7 percentage points due primarily to increased revenues and decreased supply chain costs.

Selling, general and administrative expenses increased $3.5 million, or 27%, during fiscal 2017 as compared to fiscal 2016. This increase was primarily due to increased litigation and patent compliance expenses and increased compensation costs associated with the growth in sales. The increase in expenses associated with our patent and trademark licensing segment are primarily associated with our efforts to enforce compliance with our patents related to instant release CarnoSyn® beta-alanine, new patent applications, and to protect our trade name in the marketplace against parties who are use or misuse them without our consent. We expect to continue these efforts during fiscal 2018 as we launch SR CarnoSyn® in existing and new markets.

Other income, net decreased $905,000 during fiscal 2017 as compared to fiscal 2016. The decrease for fiscal 2017 is due primarily to the fiscal 2016 sale of our domestic corporate headquarters in San Marcos, CA which resulted in a one-time pre-tax gain of $1.6 million partially offset by favorable interest income associated with the amortization of forward points associated with our foreign exchange hedge contracts.

Our income tax expense decreased $1.2 million during fiscal 2017 as compared to fiscal 2016. The decrease is primarily due to decreased consolidated pre-tax income.

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 $14.1 million in fiscal 2017 compared to net cash provided by operating activities of $9.3 million in fiscal 2016.

Net income decreased by $2.3 million to $7.2 million during fiscal 2017 as compared to net income of $9.5 million in the prior fiscal year. At June 30, 2017, changes in accounts receivable, consisting primarily of amounts due from our private-label contract manufacturing customers and our patent and trademark raw material sales activities, provided $4.8 million in cash compared to using $3.3 million in fiscal 2016. The increase in cash provided by accounts receivable during fiscal 2017 was primarily due to increased sales and the timing of collection of sales year over year. The average number of days our accounts receivable were outstanding was 32 days during fiscal 2017, as compared to 37 days for fiscal 2016.

Decreases in inventory provided $7.0 million in cash during fiscal 2017 compared to using $8.2 million in fiscal 2016. The change in cash activity from inventory during fiscal 2017 was primarily related to the conversion of private-label contract manufacturing inventory into sales versus growth in inventory during fiscal 2016. Changes in accounts payable and accrued liabilities used $8.0 million in cash during fiscal 2017 compared to providing $8.0 million during fiscal 2016. The change in cash flow activity related to accounts payable and accrued liabilities is primarily due to the timing of inventory receipts and payments.

Approximately $6.1 million of our operating cash flow was generated by NAIE in fiscal 2017. As of June 30, 2017, NAIE’s undistributed retained earnings of $20.9 million were considered indefinitely reinvested.

Cash used in investing activities in fiscal 2017 was $5.3 million compared to $7.4 million in fiscal 2016. Capital expenditures were $5.4 million during fiscal 2017 compared to $10.4 million in fiscal 2016. Capital expenditures during fiscal 2017 and fiscal 2016 were primarily for manufacturing equipment in our Vista, California and Manno, Switzerland facilities. Additionally, capital expenditures during fiscal 2016 included the purchase of our new corporate headquarters in Carlsbad, California. The capital expenditures during fiscal 2016 were partially offset by proceeds from the sale of equipment and sale of our former headquarters of $3.0 million versus proceeds from the sale of equipment of $25,000 in fiscal 2017.

At June 30, 2017 and June 30, 2016, on a consolidated basis, we had no outstanding balances due in connection with loan facilities.

On March 28, 2017, we executed an amendment to our credit facility with Wells Fargo Bank, N.A. to extend the maturity date for our working line of credit from January 31, 2019 to February 1, 2020. The Credit Agreement provides us with a credit line of up to $10.0 million. The line of credit may be used to finance working capital requirements. There was no commitment fee required as part of this amendment. There are no amounts currently drawn under the line of credit.

Under the terms of the Credit Agreement, borrowings are subject to eligibility requirements including maintaining (i) a ratio of total liabilities to tangible net worth of not greater than 1.25 to 1.0 at any time; and (ii) a ratio of total current assets to total current liabilities of not less than 1.75 to 1.0 at each fiscal quarter end. Any amounts outstanding under the line of credit will bear interest at a fixed or fluctuating interest rate as elected by NAI from time to time; provided, however, that if the outstanding principal amount is less than $100,000 such amount shall bear interest at the then applicable fluctuating rate of interest. If elected, the fluctuating rate per annum would be equal to 1.25% above the daily one month LIBOR rate as in effect from time to time. If a fixed rate is elected, it would equal a per annum rate of 1.25% above the LIBOR rate in effect on the first day of the applicable fixed rate term. Any amounts outstanding under the line of credit must be paid in full on or before the maturity date. Amounts outstanding that are subject to a fluctuating interest rate may be prepaid at any time without penalty. Amounts outstanding that are subject to a fixed interest rate may be prepaid at any time in minimum amounts of $100,000, subject to a prepayment fee equal to the sum of the discounted monthly differences for each month from the month of prepayment through the month in which the then applicable fixed rate term matures.

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 a foreign exchange facility with Wells Fargo in effect until January 31, 2019, and with Bank of America, N.A. in effect until August 15, 2019.

On June 30, 2017, we were in compliance with all of the financial and other covenants required under the Credit Agreement.

Our wholly owned subsidiary, NAIE, formerly had a credit facility with Credit Suisse that would provide NAIE with a credit line of up to CHF 500,000, or approximately $522,000. We terminated this line of credit in December 2016 as we determined that it was unnecessary as we believe our current cash position and ongoing cash from operations are sufficient to support our cash requirements.

As of June 30, 2017, we had $27.8 million in cash and cash equivalents and $10.0 million available under our credit facilities. Of these amounts, $8.8 million of cash and cash equivalents were held by NAIE. Our intent is to permanently reinvest all of our earnings from foreign operations, and we do not currently anticipate that we will need funds generated from foreign operations to fund our domestic operations. In the event funds from foreign operations are needed to fund our U.S. operations, we may be required to accrue and pay additional U.S. taxes to repatriate any such funds. Overall, we believe our available cash, cash equivalents and potential cash flows from operations 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 June 30, 2017, we did not have any significant 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.

Inflation

During fiscal 2017 and 2016, we did not experience any significant increases in product raw material or operational costs we attributed to inflationary factors. We currently believe increasing raw material and product cost pricing pressures will exist throughout fiscal 2018 as a result of limited supplies of various ingredients and the effects of higher labor and transportation costs. We do not believe current inflation rates will have a material impact on our fiscal 2018 operations or profitability.

Recent Accounting Pronouncements

A discussion of recent accounting pronouncements is included under Note A in the notes to our consolidated financial statements included under Item 8 of this report.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

As a smaller reporting company, we are not required to provide Item 7A disclosure in this Annual Report.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Report of Independent Registered Public Accounting Firm

To the Board of Directors and
Stockholders of Natural Alternatives International, Inc.

We have audited the accompanying consolidated balance sheets of Natural Alternatives International, Inc. (the "Company") as of June 30, 2017 and 2016, and the related consolidated statements of operations and comprehensive income, stockholders' equity, and cash flows for the years then ended. The Company's management is responsible for these consolidated financial statements. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Natural Alternatives International, Inc. as of June 30, 2017 and 2016, and the consolidated results of its operations and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

/s/ Haskell & White LLP
HASKELL & WHITE LLP

San Diego, California
September 18, 2017

Natural Alternatives International, Inc.
Consolidated Balance Sheets
As of June 30
(Dollars in thousands, except share and per share data)

	2017	2016
Assets		
Current assets:		
Cash and cash equivalents	$ 27,843	$ 19,747
Accounts receivable – less allowance for doubtful accounts of $18 at June 30, 2017 and $45 at June 30, 2016	8,410	13,217
Inventories, net	13,729	20,768
Income tax receivable	261	14
Prepaids and other current assets	1,456	2,136
Total current assets	51,699	55,882
Property and equipment, net	18,136	15,167
Deferred income taxes	2,002	2,227
Other noncurrent assets, net	774	899
Total assets	$ 72,611	$ 74,175
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	$ 5,116	$ 12,821
Accrued liabilities	2,353	2,242
Accrued compensation and employee benefits	1,594	2,802
Income taxes payable	1,207	1,340
Total current liabilities	10,270	19,205
Long-term pension liability	557	758
Deferred rent	537	486
Other noncurrent liabilities, net	99	—
Total liabilities	11,463	20,449
Commitments and contingencies		
Stockholders' equity:		
Preferred stock; $.01 par value; 500,000 shares authorized; none issued or outstanding	—	—
Common stock; $.01 par value; 20,000,000 shares authorized at June 30, 2017 and June 30, 2016, issued and outstanding (net of treasury shares) 6,937,018 at June 30, 2017 and 6,868,628 at June 30, 2016	79	77
Additional paid-in capital	22,260	21,138
Retained earnings	45,788	38,553
Treasury stock, at cost, 1,044,659 shares at June 30, 2017 and 958,049 at June 30, 2016	(6,074)	(5,362)
Accumulated other comprehensive loss	(905)	(680)
Total stockholders' equity	61,148	53,726
Total liabilities and stockholders' equity	$ 72,611	$ 74,175

See accompanying notes to consolidated financial statements.

Natural Alternatives International, Inc.
Consolidated Statements Of Operations And Comprehensive Income
For the Years Ended June 30
(Dollars in thousands, except share and per share data)

	2017	2016
Net sales	$ 121,946	$ 114,201
Cost of goods sold	95,742	88,943
Gross profit	26,204	25,258
Selling, general and administrative expenses	16,502	13,000
Income from operations	9,702	12,258
Other income (expense):		
Interest income	459	131
Interest expense	(3)	2
Foreign exchange loss	(28)	(425)
Other, net	(19)	1,606
Total other income (expense)	409	1,314
Income before income taxes	10,111	13,572
Provision for income taxes	2,876	4,026
Net income	$ 7,235	$ 9,546
Change in minimum pension liability, net of tax	$ 284	$ (132)
Unrealized (loss) gain resulting from change in fair value of derivative instruments, net of tax	(509)	218
Comprehensive income	$ 7,010	$ 9,632
Net income per common share:		
Basic	$ 1.10	$ 1.46
Diluted	$ 1.09	$ 1.44
Weighted average common shares outstanding:		
Basic	6,576,711	6,523,555
Diluted	6,655,573	6,640,728

See accompanying notes to consolidated financial statements.

Natural Alternatives International, Inc.
Consolidated Statements Of Stockholders' Equity
For the Years Ended June 30
(Dollars in thousands)

	Common Stock		Additional Paid-in	Retained	Treasury Stock		Accumulated Other Comprehensive	
	Shares	Amount	Capital	Earnings	Shares	Amount	Income (Loss)	Total
Balance, June 30, 2015	7,618,677	$ 75	$ 20,258	$ 29,007	875,584	$ (4,714)	$ (766)	$ 43,860
Issuance of common stock for restricted stock grants	208,000	2	(2)	—	—	—	—	—
Compensation expense related to stock compensation plans	—	—	724	—	—	—	—	724
Repurchase of common stock	—	—	—	—	82,465	(648)	—	(648)
Tax effect of stock compensation	—	—	158	—	—	—	—	158
Change in minimum pension liability, net of tax	—	—	—	—	—	—	(132)	(132)
Unrealized gain resulting from change in fair value of derivative instruments, net of tax	—	—	—	—	—	—	218	218
Net income	—	—	—	9,546	—	—	—	9,546
Balance, June 30, 2016	7,826,677	77	21,138	38,553	958,049	(5,362)	(680)	53,726
Issuance of common stock for restricted stock grants	155,000	2	(2)	—	—	—	—	—
Compensation expense related to stock compensation plans	—	—	1,032	—	—	—	—	1,032
Repurchase of common stock	—	—	—	—	86,610	(712)	—	(712)
Tax effect of stock compensation	—	—	92	—	—	—	—	92
Change in minimum pension liability, net of tax	—	—	—	—	—	—	284	284
Unrealized loss resulting from change in fair value of derivative instruments, net of tax	—	—	—	—	—	—	(509)	(509)
Net income	—	—	—	7,235	—	—	—	7,235
Balance, June 30, 2017	7,981,677	$ 79	$ 22,260	$ 45,788	1,044,659	$ (6,074)	$ (905)	$ 61,148

See accompanying notes to consolidated financial statements.

Natural Alternatives International, Inc.
Consolidated Statements Of Cash Flows
For the Years Ended June 30
(in thousands)

	2017	2016
Cash flows from operating activities		
Net income	$ 7,235	$ 9,546
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for uncollectible accounts receivable	—	9
Depreciation and amortization	2,384	1,772
Deferred income taxes	349	(197)
Non-cash compensation	1,032	724
Pension expense	244	106
Gain on disposal of assets	(24)	(1,866)
Changes in operating assets and liabilities:		
Accounts receivable	4,807	(3,331)
Inventories	7,039	(8,204)
Prepaids and other assets	580	131
Accounts payable and accrued liabilities	(8,013)	7,983
Income taxes	(288)	1,272
Accrued compensation and employee benefits	(1,208)	1,340
Net cash provided by operating activities	14,137	9,285
Cash flows from investing activities		
Purchases of property and equipment	(5,354)	(10,441)
Proceeds from sale of property and equipment	25	3,000
Net cash used in investing activities	(5,329)	(7,441)
Cash flows from financing activities		
Repurchase of common stock	(712)	(648)
Net cash used in financing activities	(712)	(648)
Net increase in cash and cash equivalents	8,096	1,196
Cash and cash equivalents at beginning of year	19,747	18,551
Cash and cash equivalents at end of year	$ 27,843	$ 19,747
Supplemental disclosures of cash flow information		
Cash paid during the year for:		
Taxes	$ 2,889	$ 3,359
Interest	$ —	$ —
Disclosure of non-cash activities:		
Change in minimum pension liability, net of tax	$ 284	$ (132)
Change in unrealized (loss) gain resulting from change in fair value of derivative instruments, net of tax	$ (509)	$ 218

See accompanying notes to consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

A. Organization and Summary of Significant Accounting Policies

Organization

We provide private-label contract manufacturing services to companies that market and distribute vitamins, minerals, herbs, and other nutritional supplements, as well as other health care products, to consumers both within and outside the U.S. We also seek to commercialize our patent and trademark estate related to the ingredient known as beta-alanine through direct raw material sales and various license and similar arrangements.

Subsidiaries

On January 22, 1999, Natural Alternatives International Europe S.A. (NAIE) was formed as our wholly owned subsidiary, based in Manno, Switzerland. In September 1999, NAIE opened its manufacturing facility and possesses manufacturing capability in encapsulation, powders, tablets, finished goods packaging, quality control laboratory testing, warehousing, distribution and administration.

Principles of Consolidation

The consolidated financial statements include the accounts of Natural Alternatives International, Inc. (NAI) and our wholly owned subsidiary, NAIE. All intercompany accounts and transactions have been eliminated. The functional currency of NAIE, our foreign subsidiary, is the U.S. Dollar. The financial statements of NAIE have been translated at either current or historical exchange rates, as appropriate, with gains and losses included in the consolidated statements of operations.

Recent Accounting Pronouncements

In March 2016, the FASB issued Accounting Standards Update No. 2016-02, Leases (Topic 842) (ASU 2016-02), which amends existing standards for leases to increase transparency and comparability among organizations by requiring recognition of lease assets and liabilities on the balance sheet and requiring disclosure of key information about such arrangements. ASU 2016-02 will be effective for us beginning in our first quarter of fiscal 2020. Early adoption is permitted. We are currently evaluating the impact of adopting the new standard on our consolidated financial statements and the timing and presentation of our adoption.

In March 2016, the FASB issued Accounting Standards Update No. 2016-09, Compensation-Stock Compensation (Topic 718) (ASU 2016-09), which provides guidance improvements to employee share-based payment accounting. The standard amends several aspects of current employee share-based payment accounting including income taxes, forfeitures, and statutory tax withholding requirements, as well as classification in the statement of cash flows. ASU 2016-09 will be effective for us beginning in our first quarter of fiscal 2018. We do not expect the new standard to have a material impact on our consolidated financial statements.

In April 2016, the FASB issued Accounting Standards Update No. 2016-10, Revenue from Contracts with Customers (Topic 606)(ASU 2016-10), which amends and adds clarity to certain aspects of the guidance set forth in the upcoming revenue standard (ASU 2014-09) related to identifying performance obligations and licensing. In May 2016, the FASB issued Accounting Standards Update No. 2016-11, Revenue Recognition (Topic 605) and Derivatives and Hedging (Topic 815) (ASU 2016-11), which amends and rescinds certain revenue recognition guidance previously released within ASU 2014-09. In May 2016 the FASB issued Accounting Standards Update No. 2016-12, Revenue from Contracts with Customers (Topic 606) (ASU 2016-12), which provides narrow scope improvements and practical expedients related to ASU 2014-09. ASU 2014-09 defines a five step process to achieve this core principle and, in doing so, it is possible that more judgment and estimates may be required within the revenue recognition process than is required under present U.S. GAAP. These may include identifying performance obligations in the contract, estimating the amount of variable consideration to include in the transaction price, and allocating the transaction price to each separate performance obligation. The new standard also requires additional disclosure about the nature, amount, timing and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments and changes in judgments. All of these new standards will be effective for us concurrently with ASU 2014-09, beginning in our first quarter of fiscal 2019. Early adoption is not permitted. Currently, we do not expect our annual revenue to be materially different under Topic 606. The most significant change will be to our quarterly and annual financial statement disclosures. We are continuing to evaluate the impact of adopting the new standard.

In August 2017, the FASB issued ASU 2017-12, Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities. The ASU is intended to improve and simplify accounting rules around hedge accounting and improve the disclosures of hedging arrangements. We are currently evaluating the impact of adopting the new standard on our consolidated financial statements. ASU 2017-12 will be effective for us beginning in our first quarter of fiscal 2020.

Cash and Cash Equivalents

We consider all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

Fair Value of Financial Instruments

Fair value is defined as the exchange price that would be received to sell an asset or paid to transfer a liability (i.e., the “exit price”) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants at the measurement date. We use a three-level hierarchy for inputs used in measuring fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that observable inputs be used when available. Observable inputs are inputs that market participants would use in pricing the asset or liability based on market data obtained from independent sources. Unobservable inputs are inputs that reflect our assumptions about the inputs that market participants would use in pricing the asset or liability and are developed based on the best information available under the circumstances.

The fair value hierarchy is broken down into three levels based on the source of inputs. In general, fair values determined by Level 1 inputs use quoted prices (unadjusted) in active markets for identical assets or liabilities that the Company has the ability to access. We classify cash, cash equivalents, and marketable securities balances as Level 1 assets. Fair values determined by Level 2 inputs are based on quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active and models for which all significant inputs are observable or can be corroborated, either directly or indirectly by observable market data. Level 3 inputs are unobservable inputs for the asset or liability, and include situations where there is little, if any, market activity for the asset or liability. These include certain pricing models, discounted cash flow methodologies and similar techniques that use significant unobservable inputs.

As of June 30, 2017 and June 30, 2016, we did not have any financial assets or liabilities classified as Level 1, except for assets and liabilities related to our pension plan. We classify derivative forward exchange contracts as Level 2 assets and liabilities. The fair value of our forward exchange contracts as of June 30, 2017 was a net liability of $521,000 and the value as of June 30, 2016 was a net asset of $250,000. The fair values were determined based on obtaining pricing from our bank and corroborating those values with a third party bank. As of June 30, 2017 and June 30, 2016, we did not have any financial assets or liabilities classified as Level 3. We did not transfer any assets or liabilities between any levels during fiscal 2017.

Accounts Receivable

We perform ongoing credit evaluations of our customers and adjust credit limits based on payment history and customer credit-worthiness. An allowance for estimated doubtful accounts is maintained based on historical experience and identified customer credit issues. We monitor collections regularly and adjust the allowance for doubtful accounts as necessary to recognize any changes in credit exposure. Upon conclusion that a receivable is uncollectible, we record the respective amount as a charge against allowance for doubtful accounts. To date, such doubtful accounts reserves, in the aggregate, have been adequate to cover collection losses.

Inventories

We operate primarily as a private-label contract manufacturer that builds products based upon anticipated demand or following receipt of customer specific purchase orders. From time to time, we build inventory for private-label contract manufacturing customers under a specific purchase order with delivery dates that may subsequently be rescheduled or canceled at the customer’s request. We value inventory at the lower of cost (first-in, first-out) or market (net realizable value) on an item-by-item basis, including costs for raw materials, labor and manufacturing overhead. We establish reserves equal to all or a portion of the related inventory to reflect situations in which the cost of the inventory is not expected to be recovered. This requires us to make estimates regarding the market value of our inventory, including an assessment for excess and obsolete inventory. Once we establish an inventory reserve in a fiscal period, the reduced inventory value is maintained until the inventory is sold or otherwise disposed of. In evaluating whether inventory is stated at the lower of cost or market, management considers such factors as the amount of inventory on hand, the estimated time required to sell such inventory, the remaining shelf life and efficacy, the foreseeable demand within a specified time horizon and current and expected market conditions. Based on this evaluation, we record adjustments to cost of goods sold to adjust inventory to its net realizable value.

Property and Equipment

We state property and equipment at cost. Depreciation of property and equipment is provided using the straight-line method over their estimated useful lives, generally ranging from 1 to 39 years. We amortize leasehold improvements using the straight-line method over the shorter of the life of the improvement or the term of the lease. Maintenance and repairs are expensed as incurred. Significant expenditures that increase economic useful lives are capitalized.

Impairment of Long-Lived Assets

We periodically evaluate the carrying value of long-lived assets to be held and used when events and circumstances indicate that the carrying amount of an asset may not be recovered. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets. Assets to be disposed of are reported at the lower of the carrying amount or fair value less costs to sell. We did not recognize any impairment losses during fiscal 2017 or fiscal 2016.

Derivative Financial Instruments

We currently may use derivative financial instruments in the management of our foreign currency exchange risk inherent in our forecasted transactions denominated in Euros. We may hedge our foreign currency exposures by entering into offsetting forward exchange contracts and currency options. To the extent we use derivative financial instruments, we account for them using the deferral method, when such instruments are intended to hedge identifiable, firm foreign currency commitments or anticipated transactions and are designated as, and effective as, hedges. Foreign exchange exposures arising from certain transactions that do not meet the criteria for the deferral method are marked-to-market through the Consolidated Statements of Operations and Comprehensive Income.

We recognize any unrealized gains and losses associated with derivative instruments in income in the period in which the underlying hedged transaction is realized. In the event the derivative instrument is deemed ineffective we would recognize the resulting gain or loss in income at that time. As of June 30, 2017, we held derivative 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. As of June 30, 2017, the notional amounts of our foreign exchange contracts were $26.1 million (EUR 23.1 million). These contracts will mature over the next 14 months.

Defined Benefit Pension Plan

We formerly sponsored a defined benefit pension plan. Effective June 21, 1999, we adopted an amendment to freeze benefit accruals to the participants. The plan obligation and related assets of the plan are presented in the notes to the consolidated financial statements. Plan assets, which consist primarily of marketable equity and debt instruments, are valued based upon third party market quotations. Independent actuaries, through the use of a number of assumptions, determine plan obligation and annual pension expense. Key assumptions in measuring the plan obligation include the discount rate and estimated future return on plan assets. In determining the discount rate, we use an average long-term bond yield. Asset returns are based on the historical returns of multiple asset classes to develop a risk free rate of return and risk premiums for each asset class. The overall rate for each asset class was developed by combining a long-term inflation component, the risk free rate of return and the associated risk premium. A weighted average rate is developed based on the overall rates and the plan's asset allocation.

Revenue Recognition

To recognize revenue, four basic criteria must be met: 1) there is evidence that an arrangement exists; 2) delivery has occurred; 3) the fee is fixed or determinable; and 4) collectability is reasonably assured. Revenue from sales transactions where the buyer has the right to return the product is recognized at the time of sale only if (a) the seller's price to the buyer is substantially fixed or determinable at the date of sale; (b) the buyer has paid the seller, or the buyer is obligated to pay the seller and the obligation is not contingent on resale of the product; (c) the buyer's obligation to the seller would not be changed in the event of theft or physical destruction or damage of the product; (d) the buyer acquiring the product for resale has economic substance apart from that provided by the seller; (e) the seller does not have significant obligations for future performance to directly bring about resale of the product by the buyer; and (f) the amount of future returns can be reasonably estimated. We recognize revenue upon determination that all criteria for revenue recognition have been met. The criteria are usually met at the time title passes to the customer, which usually occurs upon shipment. Revenue from shipments where title passes upon delivery is deferred until the shipment has been delivered.

We record reductions to gross revenue for estimated returns of private-label contract manufacturing products and beta-alanine raw material sales. The estimated returns are based on the trailing six months of gross sales and our historical experience for both private-label contract manufacturing and beta-alanine raw material product returns. However, the estimate for product returns does not reflect the impact of a potential large product recall resulting from product nonconformance or other factors as such events are not predictable nor is the related economic impact estimable.

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 the 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 $26.9 million during fiscal 2017 and $21.8 million during fiscal 2016. 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 $1.0 million during fiscal 2017 and $865,000 during fiscal 2016.

Cost of Goods Sold

Cost of goods sold includes raw material, labor, manufacturing overhead, and royalty expense.

Shipping and Handling Costs

We include fees earned on the shipment of our products to customers in sales and include costs incurred on the shipment of product to customers in costs of goods sold.

Research and Development Costs

As part of the services we provide to our private-label contract manufacturing customers, we may perform, but are not obligated to perform, certain research and development activities related to the development or improvement of their products. While our customers typically do not pay directly for this service, the cost of this service is included as a component of the price we charge to manufacture and deliver their products. We also direct and participate in clinical research studies, often in collaboration with scientists and research institutions, to validate the benefits of a product and provide scientific support for product claims and marketing initiatives. We believe our commitment to research and development, as well as our facilities and strategic alliances with our suppliers and customers, allow us to effectively identify, develop and market high-quality and innovative products.

Research and development costs are expensed when incurred. Our research and development expenses for the last two fiscal years ended June 30 were $1.6 million for fiscal 2017 and $1.1 million for fiscal 2016. These costs were included in selling, general and administrative expenses and cost of goods sold.

Advertising Costs

We expense the production costs of advertising the first time the advertising takes place. We incurred and expensed advertising costs in the amount of $598,000 during the fiscal year ended June 30, 2017 and $334,000 during fiscal 2016. These costs were included in selling, general and administrative expenses.

Income Taxes

We account for income taxes using the asset and liability method. Under this method, deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carry forwards. For each of the jurisdictions in which we operate, deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in operations in the period that includes the enactment date.

We account for uncertain tax positions using the more-likely-than-not recognition threshold. Our practice is to recognize interest and/or penalties related to income tax matters in income tax expense. As of June 30, 2017 and June 30, 2016, we had not recorded any tax liabilities for uncertain tax positions.

We record valuation allowances to reduce our deferred tax assets to an amount that we believe is more likely than not to be realized. We consider estimated future taxable income and ongoing prudent and feasible tax planning strategies in assessing the need for a valuation allowance. If we determine that it is more likely than not that we will not realize all or part of our deferred tax assets in the future, we will record an adjustment to the carrying value of the deferred tax asset, which would be reflected as income tax expense. Conversely, if we determine we will realize a deferred tax asset, which currently has a valuation allowance, we will reverse the valuation allowance, which would be reflected as an income tax benefit.

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. There was no change in the valuation allowance during fiscal 2017. During the fourth quarter of fiscal 2016, we concluded that it was more likely than not that we would be able to realize the benefit of our federal and state deferred tax assets in the future. We based this conclusion on historical and projected operating performance, as well as our expectation that our operations will generate sufficient taxable income in future periods to realize the tax benefits associated with the deferred tax assets. As a result, we reduced the valuation allowance on our net deferred tax assets by $193,000 at June 30, 2016. We will continue to assess the need for a valuation allowance on the deferred tax assets by evaluating both positive and negative evidence that may exist. Any adjustment to the net deferred tax asset valuation allowance would be recorded in the income statement for the period that the adjustment is determined to be required.

We do not record U.S. income tax expense for NAIE's retained earnings that are declared as indefinitely reinvested offshore, thus reducing our overall income tax expense. The amount of earnings designated as indefinitely reinvested in NAIE is based on the actual deployment of such earnings in NAIE's assets and our expectations of the future cash needs of our U.S. and foreign entities. Income tax laws are also a factor in determining the amount of foreign earnings to be indefinitely reinvested offshore.

Stock-Based Compensation

We have an omnibus incentive plan that was approved by our Board of Directors effective as of October 15, 2009 and approved by our stockholders at the Annual Meeting of Stockholders held on November 30, 2009. Under the 2009 Plan, we may grant nonqualified and incentive stock options and other stock-based awards to employees, non-employee directors and consultants. Our prior equity incentive plan was terminated effective as of November 30, 2009.

We estimate the fair value of stock option awards at the date of grant using the Black-Scholes option valuation model. The Black-Scholes option valuation model was developed for use in estimating the fair value of traded options that have no vesting restrictions and are fully transferable. Option valuation models require the use of highly subjective assumptions. Black-Scholes uses assumptions related to volatility, the risk-free interest rate, the dividend yield (which we assume to be zero, as we have not paid any cash dividends) and employee exercise behavior. Expected volatilities used in the model are based on the historical volatility of our stock price. The risk-free interest rate is derived from the U.S. Treasury yield curve in effect in the period of grant. The expected life of stock option grants is derived from historical experience. The fair value of restricted stock shares granted is based on the market price of our common stock on the date of grant. We amortize the estimated fair value of our stock awards to expense over the related vesting periods.

The Company did not grant any options during fiscal 2017 or 2016.

We did not have any options exercised during fiscal 2017 or fiscal 2016. All remaining outstanding stock options are fully vested and all related compensation cost was fully recognized at June 30, 2014. No options vested during the fiscal years ended June 30, 2017 and June 30, 2016.

During fiscal 2017, we granted a total of 155,000 restricted stock shares to the members of our Board of Directors and certain key members of our management team pursuant to the 2009 Plan. During fiscal 2016, we granted a total of 208,000 restricted stock shares to the members of our Board of Directors and certain key members of our management team pursuant to the 2009 Plan. These restricted stock grants will vest over three or five years from the date of grant and the unvested shares cannot be sold or otherwise transferred and the rights to receive dividends, if declared by our Board of Directors, are forfeitable until the shares become vested. There were 319,335 vested restricted stock shares as of June 30, 2017 and there were 193,012 vested restricted stock shares as of June 30, 2016. The total remaining unrecognized compensation cost related to unvested restricted stock shares amounted to $2.5 million at June 30, 2017 and the weighted average remaining requisite service period of unvested restricted stock shares was 2.4 years. The weighted average fair value of restricted stock shares granted during fiscal 2017 was $8.82 per share. The weighted average fair value of restricted stock shares granted during fiscal 2016 was $9.86 per share.

Use of Estimates

Our management has made a number of estimates and assumptions relating to the reporting of assets and liabilities, revenue and expenses, and the disclosure of contingent assets and liabilities to prepare these consolidated financial statements in conformity with GAAP. Actual results could differ from those estimates.

Net Income per Common Share

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

	For the Years Ended June 30,	
	2017	**2016**
Numerator		
Net income	$ 7,235	$ 9,546
Denominator		
Basic weighted average common shares outstanding	6,577	6,524
Dilutive effect of stock options and restricted stock shares	79	117
Diluted weighted average common shares outstanding	6,656	6,641
Basic net income per common share	$ 1.10	$ 1.46
Diluted net income per common share	$ 1.09	$ 1.44

No shares related to stock options were excluded for the year ended June 30, 2017.

Concentrations of Credit Risk

Financial instruments that subject us to concentrations of credit risk consist primarily of cash and cash equivalents and accounts receivable. We place our cash and cash equivalents with highly rated financial institutions. Credit risk with respect to receivables is concentrated with our three largest customers, whose receivable balances collectively represented 65.6% of gross accounts receivable at June 30, 2017 and 58.7% at June 30, 2016. Additionally, amounts due related to our beta-alanine raw material sales were 21.3% of gross accounts receivable at June 30, 2017, and 14.6% of gross accounts receivable at June 30, 2016. Concentrations of credit risk related to the remaining accounts receivable balances are limited due to the number of customers comprising our remaining customer base.

B. Inventories

Inventories, net, consisted of the following at June 30 (in thousands):

	2017	2016
Raw materials	$ 9,469	$ 14,751
Work in progress	1,312	3,487
Finished goods	3,562	2,832
Reserve	(614)	(302)
Total inventories	$ 13,729	$ 20,768

C. Property and Equipment

Property and equipment consisted of the following at June 30 (dollars in thousands):

	Depreciable Life In Years	2017	2016
Land	NA	$ 1,200	$ 1,200
Building and building improvements	7 – 39	3,706	3,324
Machinery and equipment	3 – 12	24,194	23,846
Office equipment and furniture	3 – 5	3,954	2,994
Vehicles	3	209	209
Leasehold improvements	1 – 15	17,038	15,261
Total property and equipment		50,301	46,834
Less: accumulated depreciation and amortization		(32,165)	(31,667)
Property and equipment, net		$ 18,136	$ 15,167

Depreciation expense was approximately $2.3 million in fiscal 2017 and $1.8 million in fiscal 2016.

D. Other comprehensive loss

Other comprehensive (loss) income (“OCL” and “OCI”) consisted of the following at June 30 (dollars in thousands):

	Year Ended June 30, 2017		
	Defined Benefit Pension Plan	Unrealized Gains (Losses) on Cash Flow Hedges	Total
Balance as of June 30, 2016	$ (775)	$ 95	$ (680)
OCI/OCL before reclassifications	271	(110)	161
Amounts reclassified from OCI	175	(685)	(510)
Tax effect of OCI activity	(162)	286	124
Net current period OCI/OCL	284	(509)	(225)
Balance as of June 30, 2017	$ (491)	$ (414)	$ (905)

	Year Ended June 30, 2016		
	Defined Benefit Pension Plan	Unrealized (Losses) Gains on Cash Flow Hedges	Total
Balance as of June 30, 2015	$ (643)	$ (123)	$ (766)
OCI/OCL before reclassifications	(232)	414	182
Amounts reclassified from OCI	19	(74)	(55)
Tax effect of OCI activity	81	(122)	(41)
Net current period OCI/OCL	(132)	218	86
Balance as of June 30, 2016	$ (775)	$ 95	$ (680)

E. Debt

On March 28, 2017, we executed an amendment to our credit facility with Wells Fargo Bank, N.A. to extend the maturity for our working line of credit from January 31, 2019, to February 1, 2020. The Credit Agreement provides us with a credit line of up to $10.0 million. The line of credit may be used to finance working capital requirements. There was no commitment fee required as part of this agreement. There are no amounts currently drawn under the line of credit.

Under the terms of the Credit Agreement, borrowings are subject to eligibility requirements including maintaining (i) a ratio of total liabilities to tangible net worth of not greater than 1.25 to 1.0 at any time; and (ii) a ratio of total current assets to total current liabilities of not less than 1.75 to 1.0 at each fiscal quarter end. Any amounts outstanding under the line of credit will bear interest at a fixed or fluctuating interest rate as elected by NAI from time to time; provided, however, that if the outstanding principal amount is less than $100,000 such amount shall bear interest at the then applicable fluctuating rate of interest. If elected, the fluctuating rate per annum would be equal to 1.25% above the daily one month LIBOR rate as in effect from time to time. If a fixed rate is elected, it would equal a per annum rate of 1.25% above the LIBOR rate in effect on the first day of the applicable fixed rate term. Any amounts outstanding under the line of credit must be paid in full on or before the maturity date. Amounts outstanding that are subject to a fluctuating interest rate may be prepaid at any time without penalty. Amounts outstanding that are subject to a fixed interest rate may be prepaid at any time in minimum amounts of $100,000, subject to a prepayment fee equal to the sum of the discounted monthly differences for each month from the month of prepayment through the month in which the then applicable fixed rate term matures.

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 a foreign exchange facility with Wells Fargo Bank, N.A. in effect until January 31, 2019, and with Bank of America, N.A. in effect until August 15, 2019.

On June 30, 2017, we were in compliance with all of the financial and other covenants required under the Credit Agreement.

Our wholly owned subsidiary, NAIE, formerly had a credit facility with Credit Suisse that would provide NAIE with a credit line of up to CHF 500,000, or approximately $522,000. We terminated this line of credit in December 2016 as we determined that it was unnecessary as we believe our current cash position and ongoing cash from operations are sufficient to support our cash requirements.

We did not use our working capital line of credit nor did we have any long-term debt outstanding during the year ended June 30, 2017. As of June 30, 2017, we had $10.0 million available under our credit facilities.

F. Income Taxes

During fiscal 2017, we recorded U.S.-based domestic tax expense of $2.2 million. During fiscal 2016, we recorded U.S.-based domestic tax expense of $3.6 million on U.S.-based income, which was offset by the release of our deferred tax asset valuation of $193,000 resulting in a net domestic tax expense of $3.4 million. The release of our deferred tax asset valuation was based on historical and projected operating performance, as well as our expectation that our operations will generate sufficient taxable income in future periods to realize the tax benefits associated with the deferred tax assets. The valuation allowance activity did not have any impact on the tax expense and related liability recorded for operating income recognized by NAIE during the years ended June 30, 2017 or June 30, 2016.

The provision for income taxes for the years ended June 30 consisted of the following (in thousands):

	2017	2016
Current:		
Federal	$ 1,791	$ 3,339
State	90	138
Foreign	646	629
Total current	2,527	4,106
Deferred:		
Federal	305	46
State	44	67
Valuation allowance	—	(193)
Total deferred	349	(80)
Total provision for income taxes	$ 2,876	$ 4,026

Net deferred tax assets and deferred tax liabilities as of June 30 were as follows (in thousands):

	2017	2016
Deferred tax assets:		
Inventory capitalization	$ 438	$ 576
Inventory reserves	178	103
Pension liability	241	403
Accrued bonus	114	391
Net operating loss carry forward	240	298
Deferred rent	193	175
Accumulated depreciation and amortization	8	158
Stock-based compensation	195	154
Tax credit carry forward	176	138
Accrued vacation expense	111	130
Other, net	256	15
Total gross deferred tax assets	2,150	2,541
Deferred tax liabilities:		
Prepaid expenses	(148)	(260)
Other, net	—	(54)
Deferred tax liabilities	(148)	(314)
Valuation allowance	—	—
Net deferred tax assets	$ 2,002	$ 2,227

At June 30, 2017, we had state tax net operating loss carry forwards of approximately $4.1 million. Under California tax law, net operating loss deductions were suspended for tax years beginning in 2008, 2009, 2010 and 2011 and the carry forward periods of any net operating losses not utilized due to such suspension were extended. Our state tax loss carry forwards will begin to expire in fiscal 2032, unless used before their expiration.

Pursuant to Section 382 of the Internal Revenue Code of 1986, as amended (the “Code”), the annual use of the net operating loss carry forwards and research and development tax credits could be limited by any greater than 50% ownership change during any three-year testing period. We did not have any ownership changes that met this criterion during the fiscal years ended June 30, 2017 and June 30, 2016.

We are subject to taxation in the U.S., Switzerland and various state jurisdictions. Our tax years for the fiscal year ended June 30, 2014 and forward are subject to examination by the U.S. tax authorities and our years for the fiscal year ended June 30, 2007 and forward are subject to examination by the state tax authorities. Our tax years for the fiscal year ended June 30, 2015 and forward are subject to examination by the Switzerland tax authorities.

NAIE’s effective tax rate for Swiss federal, cantonal and communal taxes is approximately 17.5%. NAIE had net income of $3.1 million for the fiscal year ended June 30, 2017. Undistributed earnings of NAIE amounted to approximately $20.9 million at June 30, 2017. These earnings are considered to be indefinitely reinvested and, accordingly, no provision for U.S. federal taxes has been provided thereon.

A reconciliation of income tax provision computed by applying the statutory federal income tax rate of 34% to net income before income taxes for the year ended June 30 is as follows (dollars in thousands):

	2017	2016
Income taxes computed at statutory federal income tax rate	$ 3,438	$ 4,614
State income taxes, net of federal income tax expense	95	179
Expenses not deductible for tax purposes	29	19
Foreign tax rate differential	(613)	(514)
Adjust state deferred due to change in apportionment	6	(18)
Change in valuation allowance	—	(193)
Other, net	(79)	(61)
Income tax provision as reported	$ 2,876	$ 4,026
Effective tax rate	28.4%	29.7%

G. Employee Benefit Plans

We have a profit sharing plan pursuant to Section 401(k) of the Code, whereby participants may contribute a percentage of compensation not in excess of the maximum allowed under the Code. All employees with six months of continuous employment are eligible to participate in the plan. Effective January 1, 2004, the plan was amended to require that we match 100% of the first 3% and 50% of the next 2% of a participant’s compensation contributed to the plan. Effective January 1, 2009, we elected to temporarily discontinue the company match program. The match program was reinstated effective July 15, 2011. The total contributions under the plan charged to income from operations totaled $248,000 for fiscal 2017 and $229,000 for fiscal 2016.

We have a “Cafeteria Plan” pursuant to Section 125 of the Code, whereby health care benefits are provided for active employees through insurance companies. Substantially all active full-time employees are eligible for these benefits. We recognize the cost of providing these benefits by expensing the annual premiums, which are based on benefits paid during the year. The premiums expensed to operating income for these benefits totaled $1.0 million for the fiscal year ended June 30, 2017 and $847,000 for the fiscal year ended June 30, 2016.

We formerly sponsored a defined benefit pension plan, which provides retirement benefits to employees based generally on years of service and compensation during the last five years before retirement. Effective June 21, 1999, we adopted an amendment to freeze benefit accruals to the participants. We contribute an amount not less than the minimum funding requirements of the Employee Retirement Income Security Act of 1974 nor more than the maximum tax-deductible amount.

Disclosure of Funded Status

The following table sets forth the defined benefit pension plan's funded status and amount recognized in our consolidated balance sheets at June 30 (in thousands):

	2017	2016
Change in Benefit Obligation:		
Benefit obligation at beginning of year	$ 2,329	$ 2,080
Interest cost	70	87
Actuarial (gain) loss	(189)	272
Benefits paid	(406)	(110)
Benefit obligation at end of year	$ 1,804	$ 2,329
Change in Plan Assets:		
Fair value of plan assets at beginning of year	$ 1,571	$ 1,642
Actual return on plan assets	117	74
Benefits paid	(406)	(112)
Plan expenses	(35)	(33)
Fair value of plan assets at end of year	$ 1,247	$ 1,571
Reconciliation of Funded Status:		
Difference between benefit obligation and fair value of plan assets	$ (557)	$ (758)
Unrecognized net actuarial loss in accumulated other comprehensive income	671	1,117
Net amount recognized	$ 114	$ 359
Projected benefit obligation	$ 1,804	$ 2,329
Accumulated benefit obligation	$ 1,804	$ 2,329
Fair value of plan assets	$ 1,247	$ 1,571

The weighted-average discount rate used for determining the projected benefit obligations for the defined benefit pension plan was 3.9% for the year ended June 30, 2017 and 3.6% during the year ended June 30, 2016.

Net Periodic Benefit Cost

The components included in the defined benefit pension plan's net periodic benefit expense for the fiscal years ended June 30 were as follows (in thousands):

	2017	2016
Interest cost	$ 70	$ 87
Expected return on plan assets	(74)	(105)
Recognized actuarial loss	93	68
Settlement loss	155	55
Net periodic benefit expense	$ 244	$ 105

We did not make any contributions to our defined benefit pension plan in fiscal 2017 and do not expect to make any contributions in fiscal 2018.

The following is a summary of changes in plan assets and benefit obligations recognized in other comprehensive income (in thousands):

	2017	2016
Net (gain) loss	$ (233)	$ 304
Settlement loss	(155)	(55)
Amortization of net loss	(93)	(68)
Plan expenses	35	32
Total recognized in other comprehensive income (loss)	$ (446)	$ 213
Total recognized in net periodic benefit cost and other comprehensive income	$ (202)	$ 318

The estimated net loss for the defined benefit pension plan that will be amortized from accumulated other comprehensive income into net periodic benefit cost over the next fiscal year is $38,000. We do not have any transition obligations or prior service costs recorded in accumulated other comprehensive income.

The following benefit payments are expected to be paid (in thousands):

2018	$ 45
2019	65
2020	103
2021	114
2022	113
2023-2027	650
Total benefit payments expected to be paid	$ 1,090

The weighted-average rates used for the years ended June 30 in determining the defined benefit pension plan's net pension costs, were as follows:

	2017	2016
Discount rate	3.87%	3.61%
Expected long-term rate of return	6.5%	7.00%
Compensation increase rate	N/A	N/A

Our expected rate of return is determined based on a methodology that considers historical returns of multiple classes analyzed to develop a risk free real rate of return and risk premiums for each asset class. The overall rate for each asset class was developed by combining a long-term inflation component, the risk free real rate of return, and the associated risk premium. A weighted average rate was developed based on those overall rates and the target asset allocation of the plan.

Our defined benefit pension plan's weighted average asset allocation at June 30 and weighted average target allocation were as follows:

	2017	2016	Target Allocation
Equity securities	41%	50%	49%
Debt securities	44%	47%	46%
Commodities	2%	—	2%
Cash and money market funds	13%	3%	3%
	100%	100%	100%

The underlying basis of the investment strategy of our defined benefit pension plan is to ensure that pension funds are available to meet the plan's benefit obligations when due. Our investment strategy is a long-term risk controlled approach using diversified investment options with relatively minimal exposure to volatile investment options like derivatives.

The fair values by asset category of our defined benefit pension plan at June 30, 2017 were as follows (in thousands):

	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Cash and money market funds	$ 157	$ 157	$ —	$ —
Commodities and other	$ 27	$ 27	$ —	$ —
Equity securities[(1)]	$ 517	$ 517	$ —	$ —
Debt securities[(2)]	$ 546	$ 546	$ —	$ —
Total	$ 1,247	$ 1,247	$ —	$ —

(1) This category is comprised of publicly traded funds, of which 26% are large-cap funds, 46% are mid-cap and small-cap, 17% are developed market funds, 10% are emerging markets equity funds, and 1% are specialty funds.

(2) This category is comprised of publicly traded funds, of which 28% are REITs, 25% are high-yield fixed income funds, 24% are U.S. fixed income funds, 12% are developed market fixed income funds, and 11% are international/emerging markets funds.

H. Stockholders' Equity

Treasury Stock

On June 2, 2011, the Board of Directors authorized the repurchase of up to $2.0 million of our common stock. On February 6, 2015, the Board of Directors authorized a $1.0 million increase to our stock repurchase plan bringing the total authorized repurchase amount to $3.0 million. On May 11, 2015, the Board of Directors authorized a $2.0 million increase to our stock repurchase plan bringing the total authorized repurchase amount to $5.0 million. On March 28, 2017, the Board of Directors authorized a $2.0 million increase to our stock repurchase plan bringing the total authorized repurchase amount to $7.0 million. Under the repurchase plan, we may, from time to time, purchase shares of our common stock, depending upon market conditions, in open market or privately negotiated transactions.

During the twelve months ended June 30, 2017, we purchased 39,547 shares at a weighted average cost of $8.74 per share and a total cost of $345,000 including commissions and fees. During the twelve months ended June 30, 2016, we purchased 52,603 shares at a weighted average cost of $6.26 per share and a total cost of $329,000 including commissions and fees.

During fiscal 2017, we acquired 38,729 shares in connection with restricted stock shares that vested during that year at a weighted average cost of $9.47 per share and a total cost of $367,000. During fiscal 2016 we acquired 27,195 shares from employees in connection with restricted stock shares that vested during the year at a weighted average cost of $11.70 per share and a total cost of $319,000. These shares were returned to the Company by the related employees and in return the Company paid each employee's required tax withholding. The valuation of the shares acquired and thereby the number of shares returned to the Company was calculated based on the closing share price on the date the shares vested.

Stock Option Plans

Effective as of October 15, 2009, our Board of Directors approved the 2009 Plan. The 2009 Plan was approved by our stockholders at the Annual Meeting of Stockholders held on November 30, 2009. Under the 2009 Plan, we may grant nonqualified and incentive stock options and other stock-based awards to employees, non-employee directors and consultants. Between October 15, 2009, and June 30, 2017, a total of 1.2 million shares of common stock have been authorized under the 2009 Plan for issuance to our employees, non-employee directors and consultants. As of June 30, 2017, there were 389,000 remaining shares available for grant under the 2009 Plan.

Stock option activity for the year ended June 30, 2017 was as follows:

	2009 Plan	Weighted Average Exercise Price	Weighted Average Contractual Term (in years)	Aggregate Intrinsic Value
Vested and exercisable at June 30, 2016	140,000	$ 6.36		
Exercised	—	$ —		
Forfeited	—	$ —		
Granted	—	$ —		
Outstanding at June 30, 2017	140,000	$ 6.36	3.58	$ 502,000
Vested and exercisable at June 30, 2017	140,000	$ 6.36	3.58	$ 502,000

Restricted stock activity for the year ended June 30, 2017 was as follows (2009 Plan):

	Number of Shares	Weighted Average Grant Date Fair Value
Nonvested at June 30, 2016	310,321	$ 8.43
Granted	155,000	$ 8.82
Vested	(126,323)	$ 7.77
Forfeited	(8,333)	$ 9.96
Nonvested at June 30, 2017	330,665	$ 8.83

I. Commitments

We lease a total of 162,000 square feet at our manufacturing facility in Vista, California from an unaffiliated third party under a non-cancelable operating lease. On July 31, 2013, we executed a third amendment to the lease for our manufacturing facility in Vista, CA. As a result of this amendment, our facility lease has been extended through March 2024.

During February 2016, we sold our former corporate headquarters in San Marcos, CA and the property was leased though a sale-leaseback agreement through August 2016. The property was vacated during August 2016. We purchased the Carlsbad facility in March 2016 and began to occupy as our new corporate headquarters during August 2016.

NAIE leases facility space in Manno, Switzerland. The leased space totals approximately 94,217 square feet**.** We primarily use the facilities for manufacturing, packaging, warehousing and distributing nutritional supplement products for the European marketplace. Effective July 1, 2014, NAIE entered into a new lease with its current landlord. The new lease replaced, extended, and enlarged an existing lease between the same parties for the same building in Manno Switzerland. NAIE intends to improve portions of the additional space acquired by the new lease, and will continue to use the entire leased premises for offices, laboratory, warehouse and production. The new lease has a term of five years with a right for NAIE to extend the lease for an additional five years. The initial five year term expires on June 30, 2019.

Minimum rental commitments (exclusive of property tax, insurance and maintenance) under all non-cancelable operating leases with initial or remaining lease terms in excess of one year, including the lease agreements referred to above, are set forth below as of June 30, 2017 (in thousands):

	2018	2019	2020	2021	2022	There-after	Total
Gross minimum rental commitments	$ 2,816	$ 2,812	$ 1,394	$ 1,429	$ 1,092	$ 3,022	$ 12,565

Rental expense totaled $3.0 million for the fiscal year ended June 30, 2017 and $3.1 million for the fiscal year ended June 30, 2016.

J. Economic Dependency

We had substantial net sales to certain customers during the fiscal years ended June 30 shown in the following table. The loss of any of these customers, or a significant decline in sales or the growth rate of sales to these customers, or in their ability to make payments when due, could have a material adverse impact on our net sales and net income. Net sales to any one customer representing 10% or more of the respective year's consolidated net sales were as follows (dollars in thousands):

	Fiscal 2017	Fiscal 2016
Customer 1	$ 60,532	$ 49,442
Customer 2	(a)	13,952
	$ 60,532	$ 63,394

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

Accounts receivable from these customers totaled $1.5 million at June 30, 2017 and $8.1 million at June 30, 2016.

We buy certain products, including beta-alanine, from a limited number of raw material suppliers. 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):

	Year ended June 30,			
	2017		2016	
	Raw Material Purchases by Supplier	% of Total Raw Material Purchases	Raw Material Purchases by Supplier	% of Total Raw Material Purchases
Supplier 1	$ 6,694	12%	(a)	(a)
	$ 6,694	12%	(a)	(a)

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

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 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. There can be no guarantee any such contracts, to the extent we enter into such contracts, will be effective hedges against our foreign currency exchange risk.

During the year ended June 30, 2017 and prior, we entered into forward contracts designated as cash flow hedges primarily to protect against the foreign exchange risks inherent in our forecasted sales of products at prices denominated in currencies other than the U.S. dollar. These contracts are expected to be settled through August 2018. 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 interest income or expense. We measure effectiveness by comparing the cumulative change in the hedge contract with the cumulative change in the hedged item. During the year ended June 30, 2017, we recorded a $189,000 gain related to the ineffective portion of our hedging instruments to other income. We did not have any losses or gains related to the ineffective portion of our hedging instruments during the year ended June 30, 2016. No hedging relationships were terminated as a result of ineffective hedging or forecasted transactions no longer probable of occurring for foreign currency forward contracts. We monitor the probability of forecasted transactions as part of the hedge effectiveness testing on a quarterly basis.

As of June 30, 2017, the notional amounts of our foreign exchange contracts were $26.1 million (EUR 23.1 million). As of June 30, 2017, a net liability of approximately $646,000, offset by $232,000 of deferred taxes, related to derivative instruments designated as cash flow hedges was recorded in OCI. As of June 30, 2016, a net asset of approximately $149,000, offset by $54,000 of deferred taxes, related to derivative instruments designated as cash flow hedges was recorded in OCI. It is expected that $541,000 of the gross loss, as of June 30, 2017, will be reclassified into earnings in the next 12 months along with the earnings effects of the related forecasted transactions.

As of June 30, 2017, $422,000 of the fair value of our cash flow hedges was classified in accrued liabilities, and $99,000 was classified other noncurrent liabilities, net in our Consolidated Balance Sheets. During the year ended June 30, 2017, we recognized $110,000 of losses in OCI and reclassified $685,000 of gains from OCI to revenue. During the year ended June 30, 2016, we recognized $414,000 of losses in OCI and reclassified $74,000 of gains from OCI to revenue.

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, 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 generally 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 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 that we do not expect.

M. 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® trade name.

We evaluate performance based on a number of factors. The primary performance measures for each segment are net sales and income or loss from operations before corporate allocations. 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.

Our operating results by business segment for the years ended June 30 were as follows (in thousands):

	2017	2016
Net Sales		
Private-label contract manufacturing	$ 95,024	$ 92,420
Patent and trademark licensing	26,922	21,781
Total net sales	$ 121,946	$ 114,201

	2017	2016
Income from Operations		
Private-label contract manufacturing	$ 8,569	$ 12,184
Patent and trademark licensing	7,534	6,153
Income from operations of reportable segments	16,103	18,337
Corporate expenses not allocated to segments	(6,401)	(6,079)
Total income from operations	$ 9,702	$ 12,258

	2017	2016
Assets		
Private-label contract manufacturing	$ 60,489	$ 66,375
Patent and trademark licensing	12,122	7,800
Total assets	$ 72,611	$ 74,175

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

Net sales by geographic region, based on the customers' location, for the two years ended June 30 were as follows (in thousands):

	2017	2016
United States	$ 63,104	$ 50,575
Markets outside the United States	58,842	63,626
Total net sale	$ 121,946	$ 114,201

Products manufactured by NAIE accounted for 59% of consolidated net sales in markets outside the U.S. in fiscal 2017 and 61% in fiscal 2016. No products manufactured by NAIE were sold in the U.S. during the fiscal years ended June 30, 2017 and 2016.

Assets and capital expenditures by geographic region, based on the location of the company or subsidiary at which they were located or made, for the two years ended June 30 were as follows (in thousands):

2017	Long-Lived Assets	Total Assets	Capital Expenditures
United States	$ 10,753	$ 47,777	$ 2,365
Europe	7,383	24,834	2,989
	$ 18,136	$ 72,611	$ 5,354

2016	Long-Lived Assets	Total Assets	Capital Expenditures
United States	$ 9,678	$ 49,755	$ 6,423
Europe	5,489	24,420	4,018
	$ 15,167	$ 74,175	$ 10,441

N. Subsequent Events

On August 7, 2017, we entered into three agreements ("Agreements"), with The Juice Plus+ Company LLC ("Juice Plus+"). The Agreements are an Exclusive Manufacturing Agreement, a Restricted Stock Award Agreement, and an Irrevocable Proxy. Pursuant to the Exclusive Manufacturing Agreement Juice Plus+ has granted us exclusive rights to manufacture and supply Juice Plus+ with certain Juice Plus+ products within 24 countries that Juice Plus+ currently sells those products. Pursuant to the Restricted Stock Award Agreement, NAI has agreed to grant 500,000 shares of NAI common stock to Juice Plus+, (the "Shares"), and Juice Plus+ has agreed the Shares are subject to certain restrictions and risk of forfeiture. Pursuant to the Irrevocable Proxy, Juice Plus+ has granted to the NAI Board of Directors Juice Plus+'s right to vote the Shares as long as they are subject to the associated risk of forfeiture. The Agreements are for a term of 5 years, and may be terminated by either party only on the occurrence of specified events.

On July 3, 2017, we purchased 24 forward contracts designated and effective as cash flow hedges to protect against the foreign currency exchange risk inherent in a portion of our forecasted sales transactions denominated in Euros. The 24 contracts expire monthly beginning September 2017 and ending August 2019. The forward contracts had a notional amount of 26.2 million Euros and a weighted average forward rate of $1.16.

On August 4, 2017, we purchased 11 forward contracts designated and effective as cash flow hedges to protect against the foreign currency exchange risk inherent in a portion of our forecasted sales transactions denominated in Euros. The 11 contracts expire monthly beginning October 2017 and ending August 2018. The forward contracts had a notional amount of 12.5 million Euros and a weighted average forward rate of $1.18.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

ITEM 9A. CONTROLS AND PROCEDURES

(a) Evaluation of Disclosure Controls and Procedures

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

Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of the design and operation of our disclosure controls and procedures as of June 30, 2017. Based on such evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective as of June 30, 2017.

(b) Management's Annual Report on Internal Control Over Financial Reporting

Management is responsible for establishing and maintaining adequate internal control over financial reporting for the Company, and for performing an assessment of the effectiveness of internal control over financial reporting as of June 30, 2017. For this purpose, internal control over financial reporting refers to a process designed by, or under the supervision of, the Company's principal executive and financial officers and effected by the Company's board of directors, management and other personnel, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with GAAP. Internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with GAAP, and that receipts and expenditures of the Company are being made only in accordance with authorizations of management and directors of the Company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Management performed an assessment of the effectiveness of the Company's internal control over financial reporting as of June 30, 2017 based upon criteria in an Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on this assessment, management believes the Company's internal control over financial reporting was effective as of June 30, 2017 based on the criteria issued by COSO.

This report does not include an attestation report of the Company's independent registered public accounting firm regarding internal control over financial reporting. Management's report was not required to be attested to by the Company's independent registered public accounting firm pursuant to applicable law and rules that permit the Company to provide only management's report in this report.

(c) Changes in Internal Control Over Financial Reporting

There were no changes to our internal control over financial reporting during the fourth quarter ended June 30, 2017 that have materially affected, or that are reasonably likely to materially affect, our internal control over financial reporting.

ITEM 9B. OTHER INFORMATION

None.

PART III

The information called for under Items 10- 14 of this Part III will be incorporated by reference from our definitive proxy statement for our Annual Meeting of Stockholders to be held on December 5, 2017, to be filed on or before October 28, 2017.

PART IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

The following documents are filed as part of this report:

(1) Financial Statements. The financial statements listed below are included under Item 8 of this report:

- Consolidated Balance Sheets as of June 30, 2017 and 2016;
- Consolidated Statements of Operations and Comprehensive Income for the years ended June 30, 2017 and 2016;
- Consolidated Statements of Stockholders' Equity for the years ended June 30, 2017 and 2016;
- Consolidated Statements of Cash Flows for the years ended June 30, 2017 and 2016; and
- Notes to Consolidated Financial Statements.

(2) 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 September 8, 2005
10.5	Lease of Facilities in Vista, California between NAI and Calwest Industrial Properties, LLC, a California limited liability company (lease reference date June 12, 2003)	Exhibit 10.10 of NAI's Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2003, filed with the commission on November 5, 2003
10.6	Form of Indemnification Agreement entered into between NAI and each of its directors	Exhibit 10.15 of NAI's Annual Report on Form 10-K for the fiscal year ended June 30, 2004, filed with the commission on September 14, 2004
10.7	Loan Agreement between NAIE and Credit Suisse dated as of September 22, 2006, including general conditions (portions of the Loan Agreement have been omitted pursuant to a request for confidential treatment)	Exhibit 10.36 of NAI's Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2006, filed with the commission on November 1, 2006
10.8	First Amendment to Loan Agreement between NAIE and Credit Suisse dated as of February 19, 2007	Exhibit 10.41 of NAI's Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2007, filed with the commission on May 14, 2007
10.9	2009 Omnibus Incentive Plan*	Attachment D of NAI's definitive Proxy Statement filed with the commission on October 16, 2009
10.11	Manufacturing Agreement by and between Mannatech, Inc. and NAI dated April 22, 1998	Exhibit 10.44 of NAI's Quarterly Report on Form 10-Q for the quarterly period ended December 31, 2009, filed with the commission on February 16, 2010
10.12	First Amendment to Manufacturing Agreement by and between Mannatech, Incorporated and NAI dated May 23, 2003	Exhibit 10.45 of NAI's Quarterly Report on Form 10-Q for the quarterly period ended December 31, 2009, filed with the commission on February 16, 2010
10.13	Second Amendment to Manufacturing Agreement by and between Mannatech, Incorporated and NAI dated July 1, 2003	Exhibit 10.46 of NAI's Quarterly Report on Form 10-Q for the quarterly period ended December 31, 2009, filed with the commission on February 16, 2010
10.14	Third Amendment to Manufacturing Agreement by and between Mannatech, Incorporated and NAI dated July 1, 2004	Exhibit 10.47 of NAI's Quarterly Report on Form 10-Q for the quarterly period ended December 31, 2009, filed with the commission on February 16, 2010
10.15	Fourth Amendment to Manufacturing Agreement by and among Mannatech, Incorporated, Mannatech Swiss International GmbH and NAI dated January 1, 2008	Exhibit 10.48 of NAI's Quarterly Report on Form 10-Q for the quarterly period ended December 31, 2009, filed with the commission on February 16, 2010
10.16	Manufacturing Sales Agreement by and between Mannatech, Incorporated and NAI dated November 19, 2004	Exhibit 10.49 of NAI's Quarterly Report on Form 10-Q for the quarterly period ended December 31, 2009, filed with the commission on February 16, 2010
10.17	Amendment to Manufacturing Sales Agreement by and among Mannatech, Incorporated, Mannatech Swiss International GmbH and NAI dated January 1, 2008	Exhibit 10.50 of NAI's Quarterly Report on Form 10-Q for the quarterly period ended December 31, 2009, filed with the commission on February 16, 2010
10.21	License and Fee Agreement effective November 10, 2010 by and among Roger Harris, Mark Dunnett, Kenny Johansson and NAI	Exhibit 10.40 of NAI's Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2010, filed with the commission on November 12, 2010
10.23	ISDA 2002 Master Agreement dated as of March 10, 2011 by and between Bank of America N.A. and NAI (with Schedule dated March 10, 2011)	Exhibit 10.31 of NAI's Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2011, filed with the commission on May 16, 2011
10.30	Third amendment to the Lease of Facilities in Vista, California between NAI and CWCA Vista Distribution 77, LLC, a Delaware limited liability company	Exhibit 10.40 of NAI's Annual Report on Form 10-K for the fiscal year ended June 30, 2013, filed with the commission on September 19, 2013
10.33	Credit Agreement by and between NAI and Wells Fargo Bank, N.A. effective as of November 1, 2014	Exhibit 10.1 of NAI's Current Report on Form 8-K dated December 22, 2014, filed with the commission on December 24, 2014
10.37	Agreement to License by and between NAI and Compound Solutions, Inc. effective as of April 1, 2014	Exhibit 10.37 of NAI's Annual Report on Form 10-K for the fiscal year ended June 30, 2014, filed with the commission on September 25, 2014.
10.38	Lease of Facilities in Manno, Switzerland between NAIE and Mr. Silvio Tarchini effective July 1, 2014 (English translation)	Exhibit 10.38 of NAI's Annual Report on Form 10-K for the fiscal year ended June 30, 2014, filed with the commission on September 25, 2014.
10.39	Amended and Restated Employment Agreement, by and between NAI and Mark A. LeDoux, effective October 1, 2015*	Exhibit 10.1 of NAI's Current Report on Form 8-K dated October 1, 2015, filed with the commission on October 1, 2015
10.40	Amended and Restated Employment Agreement, by and between NAI and Kenneth E. Wolf, effective October 1, 2015*	Exhibit 10.2 of NAI's Current Report on Form 8-K dated October 1, 2015, filed with the commission on October 1, 2015
10.41	Amended and Restated Employment Agreement, by and between NAI and Michael E. Fortin, effective October 1, 2015*	Exhibit 10.3 of NAI's Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2015, filed with the commission on November 12, 2015.
10.42	First Amendment to Credit agreement by and between NAI and the Wells Fargo Bank N.A. effective as of February 1, 2016	Exhibit 10.01 of NAI's Quarterly Report on Form 10-Q for the quarterly period ended December 31, 2015, filed with the commission on February 9, 2016.
10.44	First amendment to the Amended and Restated Employment Agreement, by and between NAI and Michael E. Fortin, effective September 1, 2016*	Exhibit 10.44 of NAI's Current Report on Form 8-K dated September 1, 2016, filed with the commission on September 6, 2016

10.45	Second Amendment to the Credit agreement by and between NAI and the Wells Fargo Bank N.A. effective as of March 28, 2017	Exhibit 10.1 of NAI's Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2017, filed with the commission on May 15, 2017
10.46	Revolving Line of Credit Note made by NAI for the benefit of Wells Fargo Bank N.A. dated March 28, 2017 in the amount of $10,000,000	Exhibit 10.1 of NAI's Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2017, filed with the commission on May 15, 2017
10.47	Exclusive Manufacturing Agreement by and between NAI and the Juice Plus+ Company dated August 7, 2017	Exhibit 10.45 of NAI's Current Report on Form 8-K filed with the commission on August 11, 2017
10.48	Restricted Stock Agreement by and between NAI and the Juice Plus+ Company dated August 7, 2017	Exhibit 10.46 of NAI's Current Report on Form 8-K filed with the commission on August 11, 2017

21	Subsidiaries of the Company	Filed herewith
23.1	Consent of Independent Registered Public Accounting Firm	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	XBRL Instance Document	Furnished herewith
101.SCH	XBRL Taxonomy Extension Schema Document	Furnished herewith
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document	Furnished herewith
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document	Furnished herewith
101.LAB	XBRL Taxonomy Extension Label Linkbase Document	Furnished herewith
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document	Furnished herewith

* Indicates management contract or compensatory plan or arrangement.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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, thereunto duly authorized.

Date: September 18, 2017

NATURAL ALTERNATIVES INTERNATIONAL, INC.

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

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of Natural Alternatives International, Inc. and in the capacities and on the dates indicated.

Signature	Title	Date
/s/ Mark A. LeDoux (Mark A. LeDoux)	Chief Executive Officer and Chairman of the Board of Directors (principal executive officer)	September 18, 2017
/s/ Michael E. Fortin (Michael E. Fortin)	Chief Financial Officer (principal financial officer and principal accounting officer)	September 18, 2017
/s/ Joe E. Davis (Joe E. Davis)	Director	September 18, 2017
/s/ Alan G. Dunn (Alan G. Dunn)	Director	September 18, 2017
/s/ Alan J. Lane (Alan J. Lane)	Director	September 18, 2017
/s/ Lee G. Weldon (Lee G. Weldon)	Director	September 18, 2017

Exhibit 21

List of Subsidiaries of
Natural Alternatives International, Inc., a Delaware corporation

Name of Subsidiary	**State or other Jurisdiction of Incorporation or Organization**
Natural Alternatives International Europe S.A.	Switzerland

EXHIBIT 23.1

Consent of Independent Registered Public Accounting Firm

We consent to the incorporation by reference in the Registration Statements (Form S-8 Nos. 333-164689, 333-180195, 333-195967) of our report dated September 18, 2017, with respect to the consolidated financial statements of Natural Alternatives International, Inc. included in this Annual Report (Form 10-K) of Natural Alternatives International, Inc. for the year ended June 30, 2017.

/s/ Haskell & White LLP

HASKELL & WHITE LLP

San Diego, California
September 18, 2017

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 Annual Report on Form 10-K 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 (or persons performing the equivalent functions):

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: September 18, 2017

/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 E. Fortin, Chief Financial Officer of Natural Alternatives International, Inc., certify that:

1. I have reviewed this Annual Report on Form 10-K 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 (or persons performing the equivalent functions):

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: September 18, 2017

/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, to such officer's knowledge, that the Annual Report on Form 10-K for the fiscal year ended June 30, 2017 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: September 18, 2017

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

Date: September 18, 2017

/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-K or as a separate disclosure document.