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DELTA REPORT

10-Q

NAII - NATURAL ALTERNATIVES INTE

10-Q - DECEMBER 31, 2024 COMPARED TO 10-Q - SEPTEMBER 30, 2024

The following comparison report has been automatically generated

TOTAL DELTAS	702
CHANGES	124
DELETIONS	229
ADDITIONS	349

Table of Contents

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

FORM 10-Q

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

For the quarterly period ended September 30, 2024 December 31, 2024

or

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

For the transition period from to .

000-15701
(Commission file number)

NATURAL ALTERNATIVES INTERNATIONAL, INC.
(Exact name of registrant as specified in its charter)

Delaware	84-1007839
(State of incorporation)	(IRS Employer Identification No.)
1535 Faraday Ave Carlsbad, CA 92008	(760) 736-7700
(Address of principal executive offices)	**(Registrant's telephone number)**

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

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

Indicate by check mark whether NAI (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that NAI was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. ☒ Yes ☐ No

Indicate by check mark whether NAI has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that NAI was required to submit such files). ☒ Yes ☐ No

Indicate by check mark whether NAI is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company.

Large accelerated filer	☐	Accelerated filer	☐	Emerging Growth Company	☐
Non-accelerated filer	☒	Smaller reporting company	☒		

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

Indicate by check mark whether NAI is a shell company (as defined in Rule 12b-2 of the Exchange Act): ☐ Yes ☒ No

As of November, 13 2024, February 14, 2025, 6,198,778 shares of NAI's common stock were outstanding, net of 3,282,128 treasury shares.

TABLE OF CONTENTS

SPECIAL NOTE ABOUT FORWARD-LOOKING STATEMENTS

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

- our ability to develop market acceptance for and increase sales of new products, develop relationships with new customers and maintain or improve existing customer relationships;
- future financial and operating results, including projections of net sales, revenue, income or loss, net income or loss per share, profit margins, expenditures, liquidity, and other financial items;
- the sufficiency of our available cash and cash equivalents, including continued access to borrowings under our credit facilities, and potential cash flows from our operations to fund our working capital and capital expenditure needs through the next 12 months and longer;
- the future adequacy and intended use of our facilities;
- future customer orders and the timing thereof;
- our ability to price our products to achieve profit margin targets, especially in the current volatile raw material environment and labor environment; potential for new tariffs;
- our ability to maintain or increase our patent and trademark licensing revenues;
- our ability to improve operating efficiencies, manage costs and business risks, and improve or maintain profitability;
- sources, availability and quality of raw materials, including the limited number of suppliers of beta-alanine meeting our quality requirements;
- our ability to attract and retain sufficient labor to successfully execute our business strategies and achieve our goals and objectives;
- inventory levels, including the adequacy of quality raw material and other inventory levels to meet future customer demand;
- our ability to protect our intellectual property;
- future economic and political conditions;
- currency exchange rates and their effect on our results of operations (including amounts that we may reclassify as earnings), the availability of foreign exchange facilities, our ability to effectively hedge against foreign exchange risks and the extent to which we may seek to hedge against such risks;
- the outcome of litigation, regulatory and tax matters we are or may become involved in, the costs associated with such matters and the effect of such matters on our business and results of operations;
- potential manufacturing and distribution channels, product returns, and potential product recalls;
- the impact of external factors on our business and results of operations, especially, for example, variations in quarterly net sales from seasonal and other external factors;
- our ability to operate within the standards set by the U.S. Food and Drug Administration's (FDA) Good Manufacturing Practices (GMPs);
- the adequacy of our financial reserves and allowances;
- the impact of accounting pronouncements and our adoption of certain accounting guidance; and
- other assumptions described in this Report underlying or relating to any forward-looking statements.

Forward-looking statements in this Report speak only as of the date of this Report based on information available to us at that time and caution should be taken not to place undue reliance on any such forward-looking statements. Forward-looking statements are subject to certain future events, risks, and uncertainties that are or may be outside of our control. When considering forward-looking statements, you should carefully review the risks, uncertainties and other cautionary statements in this Report as they identify certain important factors that could cause actual results to differ materially from those expressed in, or implied by, the forward-looking statements. These factors include, among others, the risks described under Item 1A of Part I of our fiscal 2024 Annual Report, as well as in other reports and documents we have filed and will file with the United States Securities and Exchange Commission (SEC).

PART I – FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

Natural Alternatives International, Inc.

Condensed Consolidated Balance Sheets

(In thousands, except share and per share data)

(Unaudited)

	September 30, 2024	June 30, 2024	December 31, 2024	June 30, 2024
Assets				

Current assets:				
Cash and cash equivalents	$ 10,156	$ 11,981	$ 8,663	$ 11,981
Accounts receivable – less allowance for credit losses of $0 at September 30, 2024 and June 30, 2024	17,623	16,891		
Accounts receivable – less allowance for credit losses of $129 at December 31, 2024 and $0 at June 30, 2024			16,898	16,891
Inventories, net	25,927	24,249	23,036	24,249
Income tax receivable			921	—
Forward contracts	31	492	1,043	492
Prepaids and other current assets	8,744	7,997	7,986	7,997
Total current assets	62,481	61,610	58,547	61,610
Property and equipment, net	51,060	52,211	50,939	52,211
Operating lease right-of-use assets	42,919	43,537	42,303	43,537
Deferred tax asset – noncurrent	3,334	3,170	3,125	3,170
Other noncurrent assets, net	1,476	1,814	1,214	1,814
Total assets	$ 161,270	$ 162,342	$ 156,128	$ 162,342
Liabilities and Stockholders' Equity				
Current liabilities:				
Accounts payable	$ 9,945	$ 12,740	$ 8,597	$ 12,740
Accrued liabilities	2,709	2,847	2,250	2,847
Accrued compensation and employee benefits	2,855	2,090	2,128	2,090
Customer deposits	636	302	1,165	302
Short-term liability – operating leases	1,962	1,194	1,932	1,194
Forward contracts	543	91	275	91
Income taxes payable	85	505	—	505
Mortgage note payable, current portion	298	296	301	296
Line of credit – current	5,400	3,400	5,000	3,400
Total current liabilities	24,433	23,465	21,648	23,465
Long-term liability – operating leases	46,910	46,468	45,659	46,468
Long-term pension liability	144	141	159	141
Mortgage note payable, net of current portion	8,858	8,933	8,781	8,933
Income taxes payable, noncurrent	740	740	740	740
Total liabilities	81,085	79,747	76,987	79,747
Commitments and contingencies (Notes E, F, and L)				
Stockholders' equity:				
Preferred stock; $.01 par value; 500,000 shares authorized; none issued or outstanding	—	—	—	—
Common stock; $.01 par value; 20,000,000 shares authorized at September 30, 2024 and June 30, 2024, issued and outstanding (net of treasury shares) 6,198,778 at September 30, 2024 and 6,200,185 at June 30, 2024	93	93		
Common stock; $.01 par value; 20,000,000 shares authorized at December 31, 2024 and June 30, 2024, issued and outstanding (net of treasury shares) 6,198,778 at December 31, 2024 and 6,200,185 at June 30, 2024			93	93
Additional paid-in capital	32,910	32,634	33,187	32,634
Retained earnings	70,984	72,966	68,793	72,966
Treasury stock, at cost, 3,282,128 shares at September 30, 2024 and 3,280,721 at June 30, 2024	(23,084)	(23,076)		
Accumulated other comprehensive loss	(718)	(22)		
Treasury stock, at cost, 3,282,128 shares at December 31, 2024 and 3,280,721 at June 30, 2024			(23,084)	(23,076)
Accumulated other comprehensive gain (loss)			152	(22)
Total stockholders' equity	80,185	82,595	79,141	82,595
Total liabilities and stockholders' equity	$ 161,270	$ 162,342	$ 156,128	$ 162,342

See accompanying notes to condensed consolidated financial statements.

Natural Alternatives International, Inc.

Condensed Consolidated Statements of Operations and Comprehensive Loss

(In thousands, except share and per share data)

(Unaudited)

	Three Months Ended September 30,		Three Months Ended December 31,		Six Months Ended December 31,	
	2024	2023	2024	2023	2024	2023
Net sales	$ 33,150	$ 33,969	$ 34,078	$ 25,202	$ 67,228	$ 59,171
Cost of goods sold	30,891	30,832	32,409	24,815	63,300	55,647
Gross profit	2,259	3,137	1,669	387	3,928	3,524
Selling, general and administrative	4,095	3,681	4,449	3,900	8,544	7,581
Loss from operations	(1,836)	(544)	(2,780)	(3,513)	(4,616)	(4,057)
Other income (expense):						
Interest income	33	9	41	13	74	22
Interest expense	(178)	(93)	(278)	(70)	(456)	(163)
Foreign exchange loss	(431)	(277)				
Foreign exchange gain (loss)			154	(240)	(277)	(517)
Other, net	(1)	21	(3)	(21)	(4)	—
Total other expense	(577)	(340)	(86)	(318)	(663)	(658)
Loss before income taxes	(2,413)	(884)	(2,866)	(3,831)	(5,279)	(4,715)
Income tax benefit	(431)	(189)	(675)	(761)	(1,106)	(950)
Net loss	$ (1,982)	$ (695)	$ (2,191)	$ (3,070)	$ (4,173)	$ (3,765)
Unrealized (loss) gain resulting from change in fair value of derivative instruments, net of tax	(682)	441				
Unrealized gain (loss) resulting from change in fair value of derivative instruments, net of tax			864	(590)	182	(149)
Comprehensive loss	$ (2,664)	$ (254)	$ (1,327)	$ (3,660)	$ (3,991)	$ (3,914)
Net loss per common share:						
Basic	$ (0.33)	$ (0.12)	$ (0.37)	$ (0.52)	$ (0.70)	$ (0.64)
Diluted	$ (0.33)	$ (0.12)	$ (0.37)	$ (0.52)	$ (0.70)	$ (0.64)
Weighted average common shares outstanding						
Basic	5,919,460	5,850,131	5,920,671	5,850,131	5,920,066	5,850,131
Diluted	5,919,460	5,850,131	5,920,671	5,850,131	5,920,066	5,850,131

See accompanying notes to condensed consolidated financial statements.

Natural Alternatives International, Inc.

Condensed Consolidated Statements of Stockholders' Equity

Three-Month Periods Ended September 30, 2024 December 31, 2024 and 2023

(Dollars in thousands)
(Unaudited)

	Common Stock		Additional	Retained	Treasury Stock		Accumulated Other		Common Stock		Additional	Retained	Treasury Stock	
	Shares	Amount	Paid-in Capital	Earnings	Shares	Amount	Comprehensive (Loss) Income	Total	Shares	Amount	Paid-in Capital	Earnings	Shares	Amoun
Balance, June 30, 2024	9,480,906	$ 93	$ 32,634	$ 72,966	3,280,721	$ (23,076)	$ (22)	$ 82,595						
Balance, September 30, 2024									9,480,906	$ 93	$ 32,910	$ 70,984	3,282,128	$ (23,08
Compensation expense related to stock compensation plans	—	—	276	—	—	—	—	276	—	—	277	—	—	–
Change in minimum pension liability, net of tax	—	—	—	—	—	—	(14)	(14)						
Repurchase of common stock	—	—	—	—	1,407	(8)	—	(8)						
Unrealized loss resulting from change in fair value of derivative instruments, net of tax	—	—	—	—	—	—	(682)	(682)						
Net loss	—	—	—	(1,982)	—	—	—	(1,982)						
Balance, September 30, 2024	9,480,906	$ 93	$ 32,910	$ 70,984	3,282,128	$ (23,084)	$ (718)	$ 80,185						
Balance, June 30, 2023	9,314,406	$ 91	$ 31,436	$ 80,183	3,240,593	$ (22,855)	$ (83)	$ 88,772						
Compensation expense related to stock compensation plans	—	—	302	—	—	—	—	302						
Issuance of common stock for restricted stock grants	15,000	—	—	—	—	—	—	—						
Change in minimum pension liability, net of tax	—	—	—	—	—	—	(5)	(5)	—	—	—	—	—	–

Unrealized gain resulting from change in fair value of derivative instruments, net of tax	—	—	—	—	—	—	441	441	—	—	—	—	—	—
Net loss	—	—	—	(695)	—	—	—	(695)	—	—	—	(2,191)	—	—
Balance, December 31, 2024									9,480,906	$ 93	$ 33,187	$ 68,793	3,282,128	$ (23,08
Balance, September 30, 2023	9,329,406	$ 91	$ 31,738	$ 79,488	3,240,593	$ (22,855)	$ 353	$ 88,815	9,329,406	$ 91	$ 31,738	$ 79,488	3,240,593	$ (22,85
Compensation expense related to stock compensation plans									—	—	305	—	—	—
Change in minimum pension liability, net of tax									—	—	—	—	—	—
Unrealized loss resulting from change in fair value of derivative instruments, net of tax									—	—	—	—	—	—
Net loss									—	—	—	(3,070)	—	—
Balance, December 31, 2023									9,329,406	$ 91	$ 32,043	$ 76,418	3,240,593	$ (22,85

Natural Alternatives International, Inc.

Condensed Consolidated Statements of Stockholders' Equity

Six-Month Periods Ended December 31, 2024 and 2023

(Dollars in thousands)

(Unaudited)

	Common Stock		Additional Paid-in	Retained	Treasury Stock		Accumulated Other Comprehensive	
	Shares	Amount	Capital	Earnings	Shares	Amount	(Loss) Income	Total
Balance, June 30, 2024	9,480,906	$ 93	$ 32,634	$ 72,966	3,280,721	$ (23,076)	$ (22)	$ 82,595
Compensation expense related to stock compensation plans	—	—	553	—	—	—	—	553
Change in minimum pension liability, net of tax	—	—	—	—	—	—	(8)	(8)
Repurchase of common stock	—	—	—	—	1,407	(8)	—	(8)
Unrealized gain resulting from change in fair value of derivative instruments, net of tax	—	—	—	—	—	—	182	182

Net loss	—	—	—	(4,173)	—	—	—	(4,173)
Balance, December 31, 2024	9,480,906	$ 93	$ 33,187	$ 68,793	3,282,128	$ (23,084)	$ 152	$ 79,141
Balance, June 30, 2023	9,314,406	$ 91	$ 31,436	$ 80,183	3,240,593	$ (22,855)	$ (83)	$ 88,772
Compensation expense related to stock compensation plans	—	—	607	—	—	—	—	607
Issuance of common stock for restricted stock grants	15,000	—	—	—	—	—	—	—
Change in minimum pension liability, net of tax	—	—	—	—	—	—	(10)	(10)
Unrealized loss resulting from change in fair value of derivative instruments, net of tax	—	—	—	—	—	—	(149)	(149)
Net loss	—	—	—	(3,765)	—	—	—	(3,765)
Balance, December 31, 2023	9,329,406	$ 91	$ 32,043	$ 76,418	3,240,593	$ (22,855)	$ (242)	$ 85,455

See accompanying notes to condensed consolidated financial statements.

Natural Alternatives International, Inc.

Condensed Consolidated Statements of Cash Flows

(In thousands)

(Unaudited)

	Three Months Ended September 30,		Six Months Ended December 31,	
	2024	2023	2024	2023
Cash flows from operating activities				
Net loss	$ (1,982)	$ (695)	$ (4,173)	$ (3,765)
Adjustments to reconcile net loss to net cash (used in) provided by operating activities:				
Depreciation and amortization	1,127	1,148	2,261	2,341
Deferred income taxes	—	1		
Provision for credit losses			129	—
Non-cash compensation	276	302	553	607
Non-cash lease expense	2,465	1,081	3,438	3,611
Pension expense, net of contributions	3	(11)	18	7
Loss on disposal of assets			35	—
Changes in operating assets and liabilities:				
Accounts receivable	(732)	(2,730)	(136)	(3,435)
Inventories, net	(1,678)	6,390	1,213	10,098
Prepaids and other assets	(486)	(1,072)	534	(925)
Accounts payable and accrued liabilities	(2,275)	229	(3,546)	(309)
Forward contracts	130	1,057	(71)	119
Accrued compensation and employee benefits	765	121	38	(585)
Operating lease liabilities	(636)	(867)	(2,273)	(1,723)
Income taxes	(420)	(458)	(1,426)	(1,197)
Net cash (used in) provided by operating activities	(3,443)	4,496	(3,406)	4,844
Cash flows from investing activities				
Purchases of property and equipment	(301)	(1,278)	(1,357)	(1,707)
Net cash used in investing activities	(301)	(1,278)	(1,357)	(1,707)

Cash flows from financing activities				
Borrowings on line of credit	2,000	—	1,600	—
Payments on long-term debt	(73)	(73)	(147)	(146)
Repurchase of common stock	(8)	—	(8)	—
Net cash provided by (used in) financing activities	1,919	(73)	1,445	(146)
Net (decrease) increase in cash and cash equivalents	(1,825)	3,145	(3,318)	2,991
Cash and cash equivalents at beginning of period	11,981	13,604	11,981	13,604
Cash and cash equivalents at end of period	$ 10,156	$ 16,749	$ 8,663	$ 16,595
Supplemental disclosures of cash flow information				
Cash paid during the period for:				
Interest	$ 155	$ 50	$ 410	$ 114
Income taxes	$ —	$ 251	$ 354	$ 274

See accompanying notes to condensed consolidated financial statements.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

A. Basis of Presentation and Summary of Significant Accounting Policies

The accompanying interim unaudited condensed consolidated financial statements have been prepared in accordance with the instructions to Form 10-Q and with applicable rules and regulations. Pursuant to such rules and regulations, certain information and note disclosures normally included in financial statements prepared in accordance with U.S. generally accepted accounting principles (U.S. GAAP) have been condensed or omitted. In management's opinion, all adjustments necessary for a fair presentation of the financial position, results of operations, stockholders' equity, and cash flows have been included and are of a normal, recurring nature. The results of operations for the three and sixmonths ended September 30, December 31, 2024 are not necessarily indicative of the operating results for the full fiscal year or for any future periods.

You should read the financial statements and these notes, which notes are an integral part of the financial statements, together with our audited financial statements included in our Annual Report on Form 10-K for the fiscal year ended June 30, 2024 ("2024 Annual Report"). The accounting policies used to prepare the financial statements included in this Report are the same policies described in the notes to the consolidated financial statements in our 2024 Annual Report unless otherwise noted below.

Recently Adopted Accounting Pronouncements

We did not adopt any accounting pronouncements during the three months ended September 30, December 31, 2024.

Recently Issued Accounting and Regulatory Pronouncements

In November of 2024, the FASB Other recently issued ASU 2024-03, Income Statement – Reporting Comprehensive Income – Expense Disaggregation Disclosures (Subtopic 220-40): Disaggregation of Income Statement Expenses. This ASU requires public companies to disclose, in the notes to financial statements, specified information about certain costs and expenses presented in the Consolidated Statements of Operations and Comprehensive Loss. ASU 2024-03 is effective for annual reporting periods beginning after December 15, 2026, and interim reporting periods beginning after December 15, 2027. ASU 2024-03 allows for early adoption and requires prospective application to financial statements issued for reporting periods after the effective date of ASU 2024-03, and it allows for election to retrospectively adopt to any or all comparatively presented prior periods in the financial statements beginning before the effective date. This ASU will be adopted in our annual report for the year ending June 30, 2028. We accounting pronouncements are currently evaluating the impact of this standard; however, we do not expect it discussed in this Report as such pronouncements did not have, and are not believed by management to have, a material impact on our Consolidated Financial Statements. present or future financial statements.

Net Loss per Common Share

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

	Three Months Ended September 30,		Three Months Ended December 31,		Six Months Ended December 31,	
	2024	2023	2024	2023	2024	2023
Numerator						
Net loss	$ (1,982)	$ (695)	$ (2,191)	$ (3,070)	$ (4,173)	$ (3,765)
Denominator						
Basic weighted average common shares outstanding	5,919	5,850	5,921	5,850	5,920	5,850
Dilutive effect of restricted stock	—	—	—	—	—	—
Diluted weighted average common shares outstanding	5,919	5,850	5,921	5,850	5,920	5,850
Basic net loss per common share	$ (0.33)	$ (0.12)	$ (0.37)	$ (0.52)	$ (0.70)	$ (0.64)
Diluted net loss per common share	$ (0.33)	$ (0.12)	$ (0.37)	$ (0.52)	$ (0.70)	$ (0.64)

We exclude the impact of restricted stock from the calculation of diluted net loss per common share in periods where we have a net loss or when their inclusion would be antidilutive. During the three months ended September 30, December 31, 2024, we excluded 279,792 278,107 shares of unvested restricted stock. During the six months ended December 31, 2024, we excluded 278,949 shares of unvested restricted stock. During the three months ended September 30, December 31, 2023, we excluded 233,628 238,682 shares of unvested restricted stock. During the six months ended December 31, 2023, we excluded 236,155 shares of unvested restricted stock.

Revenue Recognition

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

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

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

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

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

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

	June 30, 2024	Additions	Revenue Recognized	Customer Refunds	September 30, 2024
Contract Liabilities (Customer Deposits)	$ 302	$ 1,113	$ (779)	$ —	$ 636

	June 30, 2024	Additions	Revenue Recognized	Customer Refunds	December 31, 2024
Contract Liabilities (Customer Deposits)	$ 302	$ 2,761	$ (1,898)	$ —	$ 1,165

	June 30, 2023	Additions	Revenue Recognized	Customer Refunds	September 30, 2023
Contract Liabilities (Customer Deposits)	$ 317	$ 413	$ (325)	$ —	$ 405

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

Except for product defects, no right of return exists on the sale of our products. We estimate returns based on historical experience and recognize a returns liability for any estimated returns. As of September 30, December 31, 2024, we have an estimated returns liability of approximately $0.4 million.

We currently own certain U.S. patents, and each patent's corresponding foreign patent applications. All of these patents and patent rights relate to the ingredient known as beta-alanine marketed and sold under our CarnoSyn® and SR CarnoSyn® trademarks, and our TriBysn™ tradename. We recorded beta-alanine raw material sales and royalty and licensing income as a component of revenue in the amount of $2.5 million during the three months ended September 30, 2024. We similarly recorded $1.8 million during the three months ended September 30, December 31, 2024, and $4.3 million during the six months ended December 31, 2024. We similarly recorded $2.2 million during the three months ended December 31, 2023, and $3.9 million during the six months ended December 31, 2023. These royalty income and raw material sale amounts resulted in royalty expense paid to the original patent holders from whom NAI acquired their patents and patent rights. We recognized royalty expense as a component of cost of goods sold in the amount of approximately $92,000 $62,000 during the three months ended September 30, December 31, 2024, and $154,000 during the six months ended December 31, 2024. We recorded approximately $89,000 $93,000 of royalty expense during the three months ended September 30, December 31, 2023, and $182,000 during the six months ended December 31, 2023.

Stock-Based Compensation

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

We did not have any stock option activity or stock options outstanding during the three and sixmonths ended September 30, December 31, 2024, or September 30, December 31, 2023.

We did not grant any restricted stock shares during the three and six months ended December 31, 2024. We did not grant any restricted stock shares during the three months ended September 30, 2024 December 31, 2023. During the three months ended September 30, 2023, we We granted a total of 15,000 restricted stock shares to certain new members of our management team. team during the six months ended December 31, 2023. During the three and sixmonths ended September 30, December 31, 2024 and September 30, December 31, 2023, no restricted stock shares were forfeited. Our net losses included stock-based compensation expense with the vesting of prior restricted stock grants of approximately $0.3 million for the three months ended September 30, December 31, 2024 and September 30, December 31, 2023 and $0.6 million for the six months ended December 31, 2024 and December 31, 2023.

Deferred Compensation Plan

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

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

No deferred cash awards were granted or forfeited during the three months ended September 30, December 31, 2024, and September 30, December 31, 2023.

Fair Value of Financial Instruments

Except for cash and cash equivalents, as of September 30, December 31, 2024, and June 30, 2024, we did not have any financial assets or liabilities classified as Level 1. We classify derivative forward exchange and interest rate swap contracts as Level 2 assets and liabilities. The fair values were determined by obtaining pricing from our bank and corroborating those values with a third-party bank or pricing service.

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

	September 30, 2024	June 30, 2024	December 31, 2024	June 30, 2024
Interest Swap–Other Current Assets	$ —	$ 111	$ —	$ 111
Euro Forward Contract– Current Assets	—	492	1,043	492
Swiss Franc Forward Contract – Current Assets	31	—		
Total Derivative Contracts – Current Assets	31	603	1,043	603
Euro Forward Contract– Other noncurrent Assets	—	78	—	78
Total Derivative Contracts – Other noncurrent Assets	—	78	—	78
Euro Forward Contract– Current Liabilities	(543)	—		
Swiss Franc Forward Contract – Current Liabilities	—	(91)	(275)	(91)
Total Derivative Contracts – Current Liabilities	(543)	(91)	(275)	(91)
Fair Value Net Asset – all Derivative Contracts	$ (512)	$ 590	$ 768	$ 590

We also classify any outstanding line of credit and term loan balance as a Level 2 liability as the fair value is based on inputs that can be derived from information available in publicly quoted markets. As of September 30, December 31, 2024, we had $5.4 million $5.0 million outstanding on our line of credit and $9.2 million $9.1 million outstanding on ourone term loan. As of June 30, 2024, we had $3.4 million outstanding on our line of credit and $9.2 million outstanding on our term loan. As of September 30, December 31, 2024 and June 30, 2024, we did not have any financial assets or liabilities classified as Level 3. We did not transfer any assets or liabilities between these levels during fiscal 2025 or fiscal 2024.

B. Inventories, net

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

	September 30, 2024	June 30, 2024	December 31, 2024	June 30, 2024
Raw materials	$ 19,082	$ 18,489	$ 15,781	$ 18,489
Work in progress	4,358	3,362	4,529	3,362
Finished goods	3,301	3,038	3,383	3,038
Reserve	(814)	(640)	(657)	(640)
	$ 25,927	$ 24,249	$ 23,036	$ 24,249

8

C. Property and Equipment

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

	Depreciable Life In Years	September 30, 2024	June 30, 2024	Depreciable Life In Years	December 31, 2024	June 30, 2024
Land	NA	$ 8,941	$ 8,940	NA	$ 8,941	$ 8,940
Building and building improvements	7 – 39	24,841	24,723	7 – 39	24,960	24,723
Machinery and equipment	3 – 12	43,477	43,631	3 – 12	43,833	43,631
Office equipment and furniture	3 – 5	6,767	6,765	3 – 5	7,058	6,765
Vehicles	3	237	237	3	237	237
Leasehold improvements	1 – 20	23,232	23,223	1 – 20	23,394	23,223
Total property and equipment		107,495	107,519		108,423	107,519
Less: accumulated depreciation and amortization		(56,435)	(55,308)		(57,484)	(55,308)
Property and equipment, net		$ 51,060	$ 52,211		$ 50,939	$ 52,211

Depreciation and amortization expense was approximately $1.1 million $1.2 million during the three months ended September 30, December 31, 2024 and $2.3 million during the September 30, six months ended December 31, 2024. Depreciation and amortization expense was approximately $1.2 million during the three months ended December 31, 2023 and $2.3 million during the six months ended December 31, 2023.

9

D. Other Comprehensive Loss

Other comprehensive loss ("OCL" and "OCI") consisted of the following during the three and sixmonths ended September 30, December 31, 2024, and September 30, December 31, 2023 (in thousands):

	Three Months Ended September 30, 2024				Three Months Ended December 31, 2024			
	Defined Benefit Pension Plan	Unrealized Gains (Losses) on Cash Flow Hedges	Unrealized Gains (Losses) on Swap Derivative	Total	Defined Benefit Pension Plan	Unrealized Gains (Losses) on Cash Flow Hedges	Unrealized Gains (Losses) on Swap Derivative	Total
Beginning Balance	$ (278)	$ 172	$ 84	$ (22)	$ (292)	$ (426)	$ —	$ (718)
OCI/OCL before reclassifications	—	(807)	(111)	(918)	—	1,183	—	1,183
Amounts reclassified from OCI to Sales	—	58	—	58	—	(105)	—	(105)
Tax effect of OCI activity	(14)	151	27	164	6	(214)	—	(208)
Net current period OCI/OCL	(14)	(598)	(84)	(696)	6	864	—	870
Ending Balance	$ (292)	$ (426)	$ —	$ (718)	$ (286)	$ 438	$ —	$ 152

	Three Months Ended September 30, 2023		
	Defined Benefit Pension	Unrealized (Losses) Gains on Cash Flow	Unrealized Gains (Losses) on Swap

	Plan	Hedges	Derivative	Total
Beginning Balance	$ (380)	$ (110)	$ 407	$ (83)
OCI/OCL before reclassifications	—	670	(91)	579
Amounts reclassified from OCI to Sales	—	50	—	50
Tax effect of OCI activity	(5)	(218)	30	(193)
Net current period OCI/OCL	(5)	502	(61)	436
Ending Balance	$ (385)	$ 392	$ 346	$ 353

	Six Months Ended December 31, 2024			
	Defined Benefit Pension Plan	Unrealized Gains (Losses) on Cash Flow Hedges	Unrealized Gains (Losses) on Swap Derivative	Total
Beginning Balance	$ (278)	$ 172	$ 84	$ (22)
OCI/OCL before reclassifications	—	376	(111)	265
Amounts reclassified from OCI to Sales	—	(47)	—	(47)
Tax effect of OCI activity	(8)	(63)	27	(44)
Net current period OCI/OCL	(8)	266	(84)	174
Ending Balance	$ (286)	$ 438	$ —	$ 152

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

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

E. Leases

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

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

On January 26, 2024, we exercised the early termination of an apartment lease in Lugano, Switzerland. The early termination reduced the lease term by 9 years and 8 months thus ending on April 30, 2024. Our lease liability and Right of Use asset were both decreased by approximately $0.3 million as a result of the early termination of the early termination of the lease agreement. On January 22, 2024, we entered into a lease for a new apartment in Lugano, Switzerland. This lease is for an initial term of 27 months, beginning April 1, 2024 and ending on June 30, 2026.

Our leases are classified as operating leases. Substantially all our operating leases are comprised of payments for the use of manufacturing and office space. We have no leases classified as finance leases. As of September 30, December 31, 2024, the weighted average remaining lease term for our operating leases was 9.3 9.0 years and the weighted average discount rate for our operating leases was 5.92% 5.93%. As of June 30, 2024, the weighted average remaining lease term for our operating leases was 9.5 years and the weighted average discount rate was 5.92%.

Other information related to leases as of September 30, December 31, 2024, and September 30, December 31, 2023, was as follows (in thousands):

Supplemental Cash Flow Information	Three Months Ended September 30, 2024	Three Months Ended September 30, 2023	Six Months Ended December 31, 2024	Six Months Ended December 31, 2023
Cash paid for amounts included in the measurement of operating lease liabilities	$ 709	$ 832	$ 1,841	$ 874
Increase in operating lease liabilities and right-of-use assets due to lease remeasurement	—	$ 25,916	—	$ 25,916

F. Debt

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

Subsequently we entered into a Second and Third Amendment that changed certain limits on our use of the line of credit.

On December 31, 2023, we were not in compliance with certain financial covenants, including those related to net income requirements and the fixed charge coverage ratio. On February 13, 2024, we entered into a Fourth Amendment to our credit facility with Wells Fargo that waived all prior instances of non-compliance, decreased our total borrowing capacity on the line of credit to $12.5 million, increased the interest rate on borrowings under the line of credit to 2.25% from 1.29% above the daily simple SOFR rate, modified our continuing compliance requirements, and reduced the uses we can fund with the line of credit. Under the terms of the Credit Agreement, our new borrowing eligibility requirements including maintaining (i) a ratio of total liabilities to tangible net worth of not greater than 1.50 to 1.0 at any time; (ii) limits our losses to a decreasing amount over the next three quarters, with net income after taxes of not less than $1.00 by September 30, 2024; (iii) a rolling four-quarter fixed charge coverage ratio not less than 1.25 to 1.0 as of December 31, 2024 and each quarter thereafter. The Fourth Amendment includes a limitation on the amount of capital expenditures that can be made in a given fiscal year, with such limitation set at $6.5 million, requires us to suspend share repurchase and dividend activity, and includes an availability reserve of 10% that will be in place until we return to profitability. Any amounts outstanding under the line of credit bear interest at a fixed or fluctuating interest rate as elected by us from time to time. Any amounts outstanding under the line of credit must be paid in full on or before the maturity date of which remains May 23, 2025. Amounts outstanding that are subject to a fluctuating interest rate may be prepaid at any time without penalty. Amounts outstanding that are subject to a fixed interest rate may be prepaid at any time in minimum amounts of $100,000, subject to a prepayment fee equal to the sum of the discounted monthly differences between payment under a fixed rate versus payment under the variable rate for each month from the month of prepayment through the month in which the then applicable fixed rate term matures. There is an unused commitment fee of 0.25% required as part of the line of credit, and an origination fee of 1% which we paid upon execution of the Fourth Amendment.

The Term Note used as part of the purchase consideration of our powder processing and warehouse property in Carlsbad, California referenced above, was for the original principal amount of $10.0 million, and is a seven-year term note with payments fully amortized based on a twenty-five year assumed term. Installment payments under this loan commenced October 1, 2021, and continue through August 1, 2028, with a final installment consisting of all remaining amounts due to be paid in full on September 1, 2028. Amounts outstanding on this note during the term of the agreement bear interest equal to 1.8% above the SOFR rolling 30-day average. In connection with this term loan, we entered into an interest rate swap with Wells Fargo that effectively fixed our interest rate on our term loan at 2.4% for the first three years of the term of the note which expired on September 3, 2024.

10 11

Our obligations under the Credit Agreement are secured by our accounts receivable and other rights to payment, general intangibles, inventory, equipment and fixtures. We also have credit approval with Wells Fargo Bank, which allows us to hedge foreign currency exposures up in the future. Wells Fargo Bank modified the terms of our foreign exchange facility reducing our ability to hedge future foreign currency exposures from 30 months in the future. to 12 months. We also have credit approval with Bank of America which allows us to hedge foreign currency exposures up to 24 months in the future.

As of September 30, December 31, 2024, we had $9.2 million $9.1 million outstanding under the Term Note used in August 2021 for the purchase of our Carlsbad, California powder processing and warehouse property.

On September 30, December 31, 2024, we were not in compliance with the financial covenants related to net income requirements as noted above in item (ii) associated with of the Fourth Amendment to our credit facility. facility and a rolling four-quarter fixed charge ratio. In the next two quarters of fiscal 2025, we anticipate we will not be in compliance with the financial covenants associated with the Fourth Amendment to our credit facility related to net income requirements as noted in item (ii) above and the fixed charge coverage ratio as noted in item (iii) above. ratio. We have advised the lender and are currently negotiating a potential revised credit facility or waiver. Wells Fargo has advised us that while they consider our request for a waiver or modification, they will not be exercising exercise any of their options pursuant to the Credit Agreement, but they are reserving all of their rights. There can be no assurance we will be able to successfully negotiate a revised credit facility, or what the differences in amount, cost and other factors may be.

As of September 30, December 31, 2024, we had $12.5 million $10.8 million of borrowing capacity available on our credit facility of which we had outstanding borrowings of $5.4 million $5.0 million.

G. Economic Dependency

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

	Three Months Ended September 30,		Three Months Ended December 31,		Six Months Ended December 31,	
	2024	2023	2024	2023	2024	2023
Customer 1	$ 12,258	$ 10,119	$ 10,350	$ 13,846	$ 22,608	$ 23,965
Customer 2	4,047	12,131	6,109	(a)	10,155	12,131
Customer 3	3,702	4,102	5,527	(a)	9,228	(a)
	$ 20,007	$ 26,352	$ 21,986	$ 13,846	$ 41,991	$ 36,096

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

Accounts receivable from these customers totaled $10.9 million $12.6 million at September 30, December 31, 2024 and $12.3 million at June 30, 2024.

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

	Three Months Ended September 30,	
	2024	2023
Supplier 1	$ 4,238	2,780
	4,238	2,780

	Three Months Ended December 31,		Six Months Ended December 31,	
	2024	2023	2024	2023
Supplier 1	$ 3,690	$ 2,778	$ 7,928	$ 5,869
	$ 3,690	$ 2,778	$ 7,928	$ 5,869

H. Segment Information

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

We evaluate performance of these segments based on a number of factors. The primary performance measures for each segment are net sales and income or loss from operations before the allocation of certain corporate level expenses. Operating income or loss for each segment does not include corporate general and administrative expenses, interest expense and other miscellaneous income and expense items. Corporate general and administrative expenses include, but are not limited to human resources, corporate legal, finance, information technology, and other corporate level related expenses, which are not allocated to any segment. Transfers of raw materials between segments are recorded at cost. The accounting policies of our segments are the same as those described in the summary of significant accounting policies in Note A above and in the consolidated financial statements included in our 2024 Annual Report.

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

	Three Months Ended September 30,		Three Months Ended December 31,		Six Months Ended December 31,	
	2024	2023	2024	2023	2024	2023
Net Sales						
Private label contract manufacturing	$ 30,630	$ 32,189	$ 32,315	$ 23,050	$ 62,945	$ 55,239
Patent and trademark licensing	2,520	1,780	1,763	2,152	4,283	3,932
Total Net Sales	$ 33,150	$ 33,969	$ 34,078	$ 25,202	$ 67,228	$ 59,171

	Three Months Ended September 30,		Three Months Ended December 31,		Six Months Ended December 31,	
	2024	2023	2024	2023	2024	2023
(Loss) Income from Operations						
Private label contract manufacturing	$ (645)	$ 1,011	$ (1,157)	$ (2,368)	$ (1,802)	$ (1,360)
Patent and trademark licensing	997	443	714	947	$ 1,712	1,391
Income from operations of reportable segments	352	1,454	(443)	(1,421)	(90)	31

Corporate expenses not allocated to segments	(2,188)	(1,998)	(2,337)	(2,092)	$ (4,526)	(4,088)
Total Loss from Operations	$ (1,836)	$ (544)	$ (2,780)	$ (3,513)	$ (4,616)	$ (4,057)

	September 30, 2024	June 30, 2024	December 31, 2024	June 30, 2024
Total Assets				
Private-label contract manufacturing	$ 125,555	$ 127,786	$ 119,779	$ 127,786
Patent and trademark licensing	35,715	34,556	36,349	34,556
	$ 161,270	$ 162,342	$ 156,128	$ 162,342

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

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

	Three Months Ended September 30,		Three Months Ended December 31,		Six Months Ended December 31,	
	2024	2023	2024	2023	2024	2023
United States	$ 20,634	$ 24,947	$ 20,751	$ 16,585	$ 41,385	$ 41,533
Markets outside of the United States	12,516	9,022	13,327	8,617	25,843	17,638
Total	$ 33,150	$ 33,969	$ 34,078	$ 25,202	$ 67,228	$ 59,171

Products manufactured by our Swiss subsidiary ("NAIE") accounted for 81% 82% of net sales in markets outside the U.S. for the three months ended September 30, December 31, 2024, and 81% for the six months ended December 31, 2024. Products manufactured by NAIE accounted for 89% 70% of net sales in markets outside the U.S. for the three months ended September 30, December 31, 2023. , and 80% for the six months ended December 31, 2023

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

	September 30, 2024	June 30, 2024	December 31, 2024	June 30, 2024
United States	$ 77,043	$ 78,146	$ 76,684	$ 78,146
Europe	16,936	17,602	16,558	17,602
Total Long-Lived Assets	$ 93,979	$ 95,748	$ 93,242	$ 95,748

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

	September 30, 2024	June 30, 2024	December 31, 2024	June 30, 2024
United States	$ 119,847	$ 118,878	$ 115,777	$ 118,878
Europe	41,423	43,464	40,351	43,464
Total Assets	$ 161,270	$ 162,342	$ 156,128	$ 162,342

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

	Three Months Ended September 30,		Six Months Ended December 31,	
	2024	2023	2024	2023

United States	$	248	$	1,376	$ 1,238	$ 1,617
Europe		53		(98)	119	90
Total Capital Expenditures	$	301	$	1,278	$ 1,357	$ 1,707

13

I. Income Taxes

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

Our effective tax rate for the three months ended September 30, December 31, 2024 was 17.9% 23.6%, and our effective tax rate for the three months ended September 30, December 31, 2023 was 21.4% 19.9%. Our effective tax rate for the six months ended December 31, 2024 was 21.0% and our effective tax rate for the six months ended December 31, 2023 was 20.1%. Our effective tax rates for the three months ended September 30, December 31, 2024 differs differ from the fiscal 2024 U.S. federal statutory rate of 21% primarily due to forecasted research and development tax credits. Our effective tax rates for the three months ended December 31, 2023, and the six months ended December 31, 2023, differ from the fiscal 2024 U.S. federal statutory rate of 21% primarily due to the Global Intangible Low-taxed Income (GILTI) and forecasted research and development tax credits.

We record valuation allowances to reduce our deferred tax assets to an amount we believe is more likely than not to be realized. In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. During the three and six months ended September 30, December 31, 2024, there was no change to our valuation allowance for our deferred tax assets.

J. Treasury Stock

At times we purchase our shares under a stock repurchase plan (“Repurchase Plan”) authorized by the Board of Directors. The current total authorized repurchase amount is $18.0 million and as of September 30, December 31, 2024, we had approximately $716,000 remaining available under the Repurchase Plan. Under the Repurchase Plan, we may, from time to time, purchase shares of our common stock, depending upon certain market conditions, in open market or privately negotiated transactions. The Fourth Amendment to the Credit Agreement with Wells Fargo effective February 13, 2024, currently prohibits most stock repurchases (see Note F). Until that restriction is modified or removed, we do not intend to purchase our shares other than our longstanding practice of purchasing shares from our employees in exchange for paying the employees’ withholding requirements upon vesting of restricted stock held by the employee. This practice of covering withholding requirements is provided allowed in the Fourth Amendment to the Credit Agreement with Wells Fargo.

Stock There were no stock repurchases for the three months ended September 30, December 31, 2024, .
Stock repurchases for the six months ended December 31, 2024 were as follows:

	Shares		Average Cost		Total Cost (in thousands)
Shares purchased under Repurchase Plan	—	$	—	$	—
Shares acquired from employees for restricted stock vesting	1,407	$	5.72		8
Total	1,407			$	8

There were no stock repurchases during for the three and six months ended September 30, December 31, 2023.

Shares acquired from employees for restricted stock vesting may be returned to us by the related employees and in return we pay each employee’s required tax withholding resulting from the vesting of restricted shares. The valuation of the shares acquired and thereby the number of shares returned to us is calculated based on the closing share price on the date the shares vested.

13

K. Derivatives and Hedging

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

As of September 30, December 31, 2024, we had forward contracts designated as cash flow hedges primarily to protect against the foreign exchange risks inherent in our forecasted sales of products at prices denominated in currencies other than the U.S. Dollar. These contracts are expected to be settled through September 2025. 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 sales of products are recognized.

For foreign currency contracts designated as cash flow hedges, hedge effectiveness is measured using the spot rate. Changes in the spot-forward differential are excluded from the test of hedge effectiveness and are recorded currently in earnings as revenue. We measure effectiveness by comparing the cumulative change in the hedge contract with the cumulative change in the hedged item. No hedging relationships were terminated as a result of ineffective hedging for the three and sixmonths ended September 30, December 31, 2024, and September 30, December 31, 2023.

We monitor the probability of forecasted transactions as part of the hedge effectiveness testing on a quarterly basis. During the three and sixmonths ended September 30, December 31, 2024, and September 30, December 31, 2023, we did not have any losses or gains related to the ineffective portion of our hedging instruments.

As of September 30, December 31, 2024, the notional amounts of our foreign exchange contracts designated as cash flow hedges were approximately $25.3 million $20.2 million (EUR 23.0 million 18.4 million). As of September 30, December 31, 2024, a net loss gain of approximately $0.5 million $0.6 million, offset by approximately $0.1 million 0.1 million of a deferred tax expense, related to derivative instruments designated as cash flow hedges was recorded in OCI. It is expected that the entire amount will be reclassified into earnings in the next 12 months along with the earnings effects of the related forecasted transactions.

For foreign currency contracts not designated as cash flow hedges, changes in the fair value of the hedge are recorded directly to foreign exchange gain or loss in other income in an effort to offset the change in valuation of the underlying hedged item. During the three and sixmonths ended September 30, December 31, 2024, we entered into forward contracts in order to hedge foreign exchange risk associated with our lease liability at NAIE, which is denominated in Swiss Francs (CHF). As of September 30, December 31, 2024, the notional amounts of our foreign exchange contracts not designated as cash flow hedges were approximately $12.2 million $11.4 million (CHF 10.3 million 10.0 million).

We are exposed to interest rate fluctuations related to our $10.0 million Term Note with Wells Fargo, which carries a variable interest rate of 1.80% above the SOFR rolling 30-day average. To manage our exposure to this variable rate, on August 23, 2021, we entered into a floored interest rate swap that fixed our all-in rate on this loan to 2.4% for the first three years of the term loan. Fluctuations in the relation of our contractual swap rate to current market rates are recorded as an asset or liability with an offset to OCI at the end of each reporting period. Interest expense is adjusted for the difference between the actual SOFR spread and the swap contractual rate such that our effective interest expense for each period is equal to our hedged rate of 2.4%. This interest rate swap contract expired on September 3, 2024.

L. Contingencies

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

Israel-Hamas War and Hezbollah Conflict Employee Retention Tax Credit

In fiscal October 2023, armed conflict escalated between Israel we recorded a $3.5 million Employee Retention Tax Credit ("ERTC") net refund associated with the Coronavirus Aid, Relief, and Hamas. Subsequently Israel has been Economic Security Act signed into law in an armed conflict March 2020 and extended with Hezbollah the Taxpayer Certainty and Disaster Tax Relief Act of 2020 and the American Rescue Plan Act of 2021. These acts provided numerous tax provisions and other stimulus measures, including the ERTC. Under these expanded measures, we determined during fiscal 2023 that we qualified for the ERTC for the firstthree quarters of calendar 2021 and filed the required amended payroll tax returns to claim this refund. On December 9, 2024, the Internal Revenue Service ("IRS") sent us a 105c letter informing us that they do not believe we qualify for the tax credit for the third quarter of calendar 2021. Our amended returns for the firsttwo quarters of calendar 2021 are still under review by the IRS. We disagree with the position the IRS noted in Lebanon. their denial letter, and we have responded to their letter to contest their claim. Although we received this initial denial from the IRS, we believe we are entitled to the refund for these claims and therefore we have not made any allowances against the accrual for the related refund that was recorded in fiscal 2023.

Geopolitical Uncertainty

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

Government Trade Tariffs

The President of the United States has recently ordered U.S. government agencies to enforce new and increased tariffs on a wide range of goods and materials imported from Canada, China and Mexico. Although the tariffs on Mexico and Canada have been presently deferred, details of future tariff restrictions continuously evolve. Current and future implementation of tariffs may include products and applications, including ingredients we or our customers require for their products. In addition, these goods may include beta-alanine. The commercialization of our beta-alanine patent estate depends on the availability of the raw material beta-alanine. In response, China and other governments announced plans to impose tariffs on certain American products if additional U.S. tariffs are imposed. The resulting tariffs could have a significant adverse effect on our customer's businesses, the availability of beta-alanine, and the cost of our products. While we do not know how additional potential U.S. tariffs will be imposed, or how any tariffs will impact our business, we believe the imposition of additional tariffs by the U.S. or other governments on products or ingredients we use in the products we manufacture could adversely impact our customers as a result of increased product costs, and such tariffs could have an adverse impact on the availability of beta-alanine, the licensing of our patents and trademarks and our distribution of this raw material. If so, this could adversely impact our ability to license our patents and trademarks, our ability to sell beta-alanine, and our customers' ability to compete in the marketplace while reducing demand for our products and products we manufacture for them. Any of these events could have a material adverse effect on our business and results of operations. We will continue to evaluate the impact of imposed trade tariffs on our customers, suppliers and operations.

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

The following discussion and analysis are intended to help you understand our financial condition and results of operations for the three and six months ended September 30, 2024 December 31, 2024. You should read the following discussion and analysis together with our unaudited condensed consolidated financial statements and the notes to the condensed consolidated financial statements included under Item 1 in this Report, as well as the risk factors and other information included in our 2024 Annual Report and other reports and documents we file with the SEC. Our future financial condition and results of operations will vary from our historical financial condition and results of operations described below based on a variety of factors.

Executive Overview

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

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

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® trademarks, and our TriBsyn™ trade name, royalties from license agreements, and potentially additional contract manufacturing opportunities with licensees.

During the three six months ended September 30, 2024 December 31, 2024, our net sales were 2% lower 14% higher than in the three six months ended September 30, 2023 December 31, 2023. Private-label contract manufacturing sales decreased 5% increased 14% primarily due to reduced increased orders from one of our larger customers partially offset by increased shipments to a majority of our other existing customers and shipments to new customers, which was partially offset by decreased shipments to other existing customers. Revenue concentration for our largest private-label contract manufacturing customer as a percentage of total net sales for the three six months ended September 30, 2024 December 31, 2024 was 37% 34%, and revenue concentration for our largest private-label contract manufacturing customer as a percentage of total net sales for the three six months ended September 30, 2023 December 31, 2023 was 36% 41%. We expect our annualized fiscal 2025 revenue concentration for our largest customer to be slightly lower as compared to our revenue concentration for our largest customer in fiscal 2024.

During the three six months ended September 30, 2024 December 31, 2024, patent and trademark licensing revenue increased 42% 9% to $2.5 million $4.3 million compared to revenue of $1.8 million $3.9 million for the three six months ended September 30, 2023 December 31, 2023. The increase in patent and trademark licensing revenue during the three six months ended September 30, 2024 December 31, 2024, was primarily due to decreased volume rebates and an increase in orders from existing customers. partially offset by lower material sales.

We continue to invest in research and development for the expansion of our CarnoSyn® product offerings. We believe SR CarnoSyn® may provide a unique opportunity within the growing Wellness and Healthy Aging markets but acceptance of this product offering has been limited as we only offer this product in tablet form. In August 2024, we announced our new product called TriBsyn™. We believe TriBsyn™ may allow us to better penetrate the Wellness and Healthy Aging channel. This groundbreaking new product is a carnosine booster that utilizes CarnoSyn® beta-alanine and other patent-pending technology to increase beta-alanine bioavailability and absorption while effectively eliminating beta-alanine related paresthesia. This product is available as a raw material powder, which allows formulation flexibility for our customers. The elimination of paresthesia while maintaining efficacy of dosage creates a new opportunity to reach segments of the market that to date have been untapped, including older adults, vegetarians, and vegans. We believe our efforts to refine our formulations and product offerings will be positively received and result in significant opportunity for increased sales of our patented products. We are also working on several additional innovations that could lead to new patentable products for CarnoSyn® Brands in the future.

To protect and grow our CarnoSyn® product offerings, we incurred litigation and patent compliance expenses of approximately $0.2 million $0.3 million during the three six months ended September 30, 2024 December 31, 2024 and $0.1 million during the three six months ended September 30, 2023 December 31, 2023. Our legal expense associated with our CarnoSyn® business has remained relatively low as we have no active related litigation, and our current run-rate of expenses is primarily related to maintenance of our patent and trademark estate. Our ability to maintain or further increase our beta-alanine royalty and licensing revenue will depend in large part on our ability to develop a market for our sustained release form of beta-alanine marketed under our SR CarnoSyn® trademark and our new TriBsyn™ product, maintain our patent rights, the availability and the cost of the raw material when and in the amounts needed, the ability to expand distribution of beta-alanine to new and existing customers, and continued compliance by third parties with our license agreements and our patent, trademark and other intellectual property rights. During the remainder of fiscal 2025, we will continue our sales and marketing activities to consumers, customers, potential customers, and brand owners on multiple platforms to promote and reinforce the features and benefits of utilizing CarnoSyn®, SR CarnoSyn®, and TriBsyn™, beta-alanine products.

We While we grew our net sales during the three and six months ended December 31, 2024, we experienced a loss from operations during the three months ended September 30, 2024 same periods primarily due to reduced sales and a change in sales mix from our private-label contract manufacturing segment, increased legal costs associated with expanding beta-alanine patent estate, and increased manufacturing costs. and selling, general and administrative costs, primarily related to salaries and wages. Manufacturing costs were negatively impacted by increased labor, foreign currency exchange rates, supplies, rent, and freight costs. Although our overall sales forecast for fiscal 2025 includes a significant an increase in sales as compared to fiscal 2024, we now anticipate we will experience a net loss in the first half of fiscal 2025, net income in the second half of fiscal 2025 and an overall net loss for the fiscal 2025 year.

During fiscal 2025, we plan to continue our focus on:

- Leveraging our state-of-the-art, certified facilities to increase the value of the goods and services we provide to our highly valued private-label contract manufacturing customers, and assist us in developing relationships with additional quality-oriented customers;
- Expanding the commercialization of our beta-alanine patent estate through raw material sales, developing a new sales distribution channel under the Wellness and Healthy Aging category for our sustained release form of beta-alanine marketed under our SR CarnoSyn® trademark, developing a market for our new TriBsyn™ beta-alanine product, exploiting new contract manufacturing opportunities, license and royalty agreements, and protecting our proprietary rights; and
- Improving operational efficiencies and managing costs and business risks to improve profitability.

Discussion of Critical Accounting Estimates

We have identified the following as our most critical accounting estimates, which are those that are most important to the portrayal of our financial condition and results, and that require management's most subjective and complex judgments. Information regarding our other significant accounting estimates and policies is disclosed in Note A of Item 1 in Part I of this report and as disclosed in our 2024 Annual Report.

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

Results of Operations

The results of our operations for the three and six months ended September 30 December 31 were as follows (dollars in thousands):

	Three Months Ended September 30,			Three Months Ended December 31,			Six Months Ended December 31,		
	2024	2023	% Change	2024	2023	% Change	2024	2023	% Change
Private label contract manufacturing	$ 30,630	$ 32,189	(5)%	$ 32,315	$ 23,050	40%	$ 62,945	$ 55,239	14%
Patent and trademark licensing	2,520	1,780	42%	1,763	2,152	(18)%	4,283	3,932	9%
Total net sales	33,150	33,969	(2)%	34,078	25,202	35%	67,228	59,171	14%
Cost of goods sold	30,891	30,832	0%	32,409	24,815	31%	63,300	55,647	14%
Gross profit	2,259	3,137	(28)%	1,669	387	331%	3,928	3,524	11%
Gross profit %	6.8%	9.2%		4.9%	1.5%		5.8%	6.0%	
Selling, general and administrative expenses	4,095	3,681	11%	4,449	3,900	14%	8,544	7,581	13%
% of net sales	12.4%	10.8%		13.1%	15.5%		12.7%	12.8%	
Loss from operations	(1,836)	(544)	238%	(2,780)	(3,513)	(21)%	(4,616)	(4,057)	14%
% of net sales	(5.5)%	(1.6)%		(8.2)%	(13.9)%		(6.9)%	(6.9)%	
Other expense	(577)	(340)	70%	(86)	(318)	(73)%	(663)	(658)	1%
Loss before income taxes	(2,413)	(884)	173%	(2,866)	(3,831)	(25)%	(5,279)	(4,715)	12%
% of net sales	(7.3)%	(2.6)%		(8.4)%	(15.2)%		(7.9)%	(8.0)%	
Income tax benefit	(431)	(189)	128%	(675)	(761)	(11)%	(1,106)	(950)	16%
Net loss	$ (1,982)	$ (695)	185%	$ (2,191)	$ (3,070)	(29)%	$ (4,173)	$ (3,765)	11%
% of net sales	(6.0)%	(2.0)%		(6.4)%	(12.2)%		(6.2)%	(6.4)%	

Private-label contract manufacturing net sales decreased 5% increased 40% during the three months ended September 30, 2024 December 31, 2024, and increased 14% during the six months ended December 31, 2024, when compared to the same periods in the prior year. The decrease increase in net sales during the three months ended September 30, 2024 December 31, 2024 was primarily due to reduced increased orders from two of our larger customers and shipments to new customers, partially offset by decreased shipments to other existing customers. The increase in net sales during the six months ended December 31, 2024 was primarily due to increased orders from one of our larger customers partially offset by increased shipments to a majority of other existing customers and shipments to new customers, which was partially offset by decreased shipments to other existing customers.

Net sales from our patent and trademark licensing segment increased 42% decreased 18% during the three months ended September 30, 2024 December 31, 2024, and increased 9% during the six months ended December 31, 2024, when compared to the same period in the prior year. The increase decrease in patent and trademark licensing revenue during the three months ended September 30, 2024 December 31, 2024 was primarily due to decreased orders from existing customers. The increase in patent and trademark licensing revenue during the six months ended December 31, 2024 was primarily due to decreased volume rebates, and an increase partially offset by a decrease in orders from existing customers.

The change in gross profit margin for the three and six months ended September 30, 2024 December 31, 2024, was as follows:

	Three Months Ended
Contract manufacturing(1)	(4.6)%
Patent and trademark licensing(2)	2.2%
Total change in gross profit margin	(2.4)%

	Three Months Ended	Six Months Ended
Contract manufacturing(1)	5.5 %	(0.4)%
Patent and trademark licensing(2)	(2.1)%	0.2 %
Total change in gross profit margin	3.4 %	(0.2)%

1 Private-label contract manufacturing gross profit margin as a percentage of consolidated net sales decreased 4.6 increased 5.5 percentage points during the three months ended September 30, 2024 December 31, 2024, when compared to the comparable prior year period. The decrease increase in gross profit as a percentage of net sales for private-label contract manufacturing during the three months ended September 30, 2024 December 31, 2024 is primarily related to an increase in sales volume which decreased our capacity underutilization, along with a favorable change in product sales mix, partially offset by increased labor and operating expenses and unfavorable foreign currency exchange rate fluctuations. For the six months ended December 31, 2024, contract manufacturing gross profit margin as a percentage of consolidated net sales decreased 0.4 percentage points as compared to the comparable prior year period primarily due to an unfavorable change in product sales mix and increased manufacturing costs. Manufacturing costs were negatively impacted by increased labor, supplies, rent and freight costs.

2 Patent and trademark licensing gross profit margin as a percentage of consolidated net sales increased 2.2 decreased 2.1 percentage points during the three months ended September 30, 2024 December 31, 2024 when compared to the comparable prior year period. The increase decrease in margin contribution was primarily due to increased decreased patent and trademark licensing net sales in total and as a percentage of total consolidated net sales, as patent and trademark licensing historically provides higher profit margins than our private-label contract manufacturing business. For the six months ended December 31, 2024, patent and trademark licensing margin contribution slightly increased when compared to the comparable period in the prior fiscal year primarily due to a decrease in volume rebates.

Selling, general and administrative expenses increased approximately $0.4 million $0.5 million, or 11% 14%, during the three months ended September 30, 2024 December 31, 2024 and $1.0 million or 13% during the six months ended December 31, 2024. The increase Both increases compared to the same period in the prior year is primarily related to an increase in compensation and benefits expenses, legal expenses associated with new patent and legal tradename registrations, and professional fees. a valuation reserve recorded on an amount due from a customer.

Other expense, net increased decreased $0.2 million during the three months ended September 30, 2024 December 31, 2024 when compared to the comparable period during the prior year. The increase decrease is primarily due to unfavorable favorable foreign currency volatility and partially offset by increased interest expense due to usage of our credit facility, partially offset by an increase in interest income. facility. Other expense, net during the six months ended December 31, 2024 was consistent with the six months ended December 31, 2023 at 0.7 million.

Our income tax benefit increased during the three-month period ended September 30, 2024 December 31, 2024 decreased to approximately $0.4 million $0.7 million when compared to our tax benefit of $0.2 million approximately $0.8 million during the three-month three months ended December 31, 2023. The decrease in our tax benefit is primarily due to a decrease in our loss before income taxes. Our income tax benefit during the six-month period ended September 30, 2023. December 31, 2024 increased to $1.1 million compared to a tax benefit of $1.0 million in the comparable period during the prior fiscal year. The increase in our tax benefit during the comparable periods six-month period is primarily due to an increase in our loss before income taxes, partially offset by a decrease in the effective tax rate. taxes.

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 used in operating activities was $3.4 million for the three six months ended September 30, 2024 December 31, 2024, compared to net cash provided by operating activities of $4.5 million $4.8 million in the comparable period during the prior fiscal year.

At September 30, 2024 December 31, 2024, changes in accounts receivable, consisting of amounts due from our private-label contract manufacturing customers and our patent and trademark licensing activities, used $0.7 million $0.1 million in cash compared to using $2.7 million $3.4 million of cash during the comparable three-month six-month period in the prior year. The decrease in cash used in accounts receivable during the three six months ended September 30, 2024 December 31, 2024, primarily resulted from the timing of sales and related collections. Days sales outstanding was 48 46 days during the three six months ended September 30, 2024 December 31, 2024, as compared to 23 27 days for the prior year period.

Changes in inventory used $1.7 million provided $1.2 million in cash during the three six months ended September 30, 2024 December 31, 2024, compared to providing $6.4 million $10.1 million in the comparable prior year period. The change in cash related to inventory during the three six months ended September 30, 2024 December 31, 2024, was primarily related to the difference in the amount and timing of orders and anticipated sales as compared to same period in the prior year. Changes in accounts payable and accrued liabilities used $2.3 million $3.5 million in cash during the three six months ended September 30, 2024 December 31, 2024, compared to providing $0.2 million using $0.3 million during the three six months ended September 30, 2023 December 31, 2023. The change in cash flow activity related to accounts payable and accrued liabilities was primarily due to the timing of inventory receipts and payments.

Cash used in investing activities in the three six months ended September 30, 2024 December 31, 2024, was $0.3 million $1.4 million compared to $1.3 million $1.7 million in the comparable prior year period. The decrease during the three-months six-months ended September 30, 2024 December 31, 2024 was related to reduced capital expenditures during the first quarter of fiscal 2025 six months ended December 31, 2024 as compared to the first quarter of fiscal 2024. six months ended December 31, 2023.

Cash provided by financing activities for the three six months ended September 30, 2024 December 31, 2024, was $1.9 million $1.4 million compared to using $0.1 million in the comparable prior year period. The change in financing activities is primarily due to increased usage of our credit facility during the three-month six-month period ended September 30, 2024 December 31, 2024 compared to the three-month six-month period ended September 30, 2023 December 31, 2023.

As of September 30, 2024 December 31, 2024, we had $12.5 million $10.8 million of borrowing capacity available on our credit facility of which we had outstanding borrowings of $5.4 million $5.0 million. We also owed $9.2 million $9.1 million on a term loan secured by our Carlsbad, California powder processing and storage facility. As of June 30, 2024, we had outstanding borrowings of $3.4 million on our line of credit, and we also owed $9.2 million on our term loan.

On September 30, 2024December 31, 2024, we had $10.2 million $8.7 million in cash and cash equivalents of which, $9.9 million $8.2 million was held by NAIE. Overall, we believe our available cash, cash equivalents, potential cash flows from operations, and our line of credit will be sufficient to fund our current working capital needs and capital expenditures through at least the next 12 months. On September 30, 2024December 31, 2024, we were not in compliance with the financial covenants related to net income requirements associated with the fourth amendment Fourth Amendment to our credit facility. facility and a rolling four-quarter fixed charge ratio. In the next two quarters of fiscal 2025, we anticipate we will not be in compliance with the financial covenants associated with the fourth amendment Fourth Amendment to our credit facility related to net income requirements and the fixed charge coverage ratio. We have advised the lender and are currently negotiating a potential revised credit facility or waiver. Wells Fargo has advised us that while they consider our request for a waiver or modification, they will not be exercising exercise any of their options pursuant to the Credit Agreement, but they are reserving all of their rights. There can be no assurance we will be able to successfully negotiate a revised credit facility, or what the differences in amount, cost and other factors may be. Please see Note F, Item 1 of Part I of this report for terms of our current modified line of credit.

Off-Balance Sheet Arrangements

As of September 30, 2024 December 31, 2024, we did not have any off-balance sheet debt nor did we have any transactions, arrangements, obligations (including contingent obligations) or other relationships with any unconsolidated entities or other persons that have or are reasonably likely to have a material current or future effect on our financial condition, changes in financial condition, results of operations, liquidity, capital expenditures, capital resources, or significant components of revenue or expenses that would be material to investors.

Recent Accounting Pronouncements

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

ITEM 4. CONTROLS AND PROCEDURES

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

Our management, with the participation of our Chief Executive Officer and Chief Financial Officer (principal financial and accounting officer), evaluated the effectiveness of the design and operation of our disclosure controls and procedures as of September 30, 2024 December 31, 2024. Based on such evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective for their intended purpose as of September 30, 2024 December 31, 2024.

There were no changes in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) that occurred during the quarterly period ended September 30, 2024 December 31, 2024 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II - OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

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

As of November 13, 2024 February 14, 2025, neither NAI nor NAIE were a party to any material pending legal proceeding nor was any of our property the subject of any material pending legal proceeding. We are often involved in up to several matters in the ordinary course of our business.

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

ITEM 1A. RISK FACTORS

When evaluating our business and future prospects you should carefully consider the risks described under Item 1A of our 2024 Annual Report, as well as the other information in our 2024 Annual Report, this Report and other reports and documents we file with the SEC. If any of the identified risks actually occur, our business, financial condition and results of operations could be seriously harmed. In that event, the market price of our common stock could decline, and you could lose all or a portion of the value of your investment in our common stock.

Geopolitical Instability and Conflict in the Region

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

Duties and Trade Tariffs

Our ability to adjust selling prices to our customers and forecast manufacturing and operating costs on a timely basis may be adversely impacted by increased trade tariffs. We continuously monitor the impact tariffs between trading partners may have on our business as they develop. We cannot predict with certainty future global trade tariffs or the impact they may have on our business and results of operation.

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

We did not sell any unregistered equity securities during the three-month periods ended September 30, 2024 December 31, 2024 and September 30, 2023 December 31, 2023.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS

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

EXHIBIT INDEX

Exhibit Number	Description	Incorporated By Reference To

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

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SIGNATURES

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

Date: November 13, 2024 February 14, 2025

NATURAL ALTERNATIVES INTERNATIONAL, INC.

By: /s/ Mark A. LeDoux

Mark A. LeDoux, Chief Executive Officer
(principal executive officer)

By: /s/ Michael E. Fortin

Michael E. Fortin, Chief Financial Officer
(principal financial and accounting officer)

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Exhibit 31.1

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

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

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

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

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

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

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

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

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

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

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

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

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

Date: November 13, 2024 February 14, 2025

/s/ Mark A. LeDoux

Mark A. LeDoux, Chief Executive Officer

Exhibit 31.2

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

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

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

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

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

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

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

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

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

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

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

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

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

Date: November 13, 2024 February 14, 2025

/s/ Michael E. Fortin

Michael E. Fortin, Chief Financial Officer

Exhibit 32

Certification

Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

(Subsections (a) and (b) of Section 1350, Chapter 63 of Title 18, United States Code)

Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (Subsections (a) and (b) of Section 1350, Chapter 63 of Title 18, United States Code), each of the undersigned officers of Natural Alternatives International, Inc., a Delaware corporation, does hereby certify, that the Quarterly Report on Form 10-Q for the quarterly period ended September 30, December 31, 2024 of Natural Alternatives International, Inc. fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 (15 U.S.C. 78m or 78o(d)) and that information contained in such report fairly presents, in all material respects, the financial condition and results of operations of Natural Alternatives International, Inc.

Date: November 13, 2024 February 14, 2025

/s/ Mark A. LeDoux

Mark A. LeDoux, Chief Executive Officer

Date: November 13, 2024 February 14, 2025

/s/ Michael E. Fortin

Michael E. Fortin, Chief Financial Officer

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

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