NATURAL ALTERNATIVES INTERNATIONAL INC
Form 10-Q
May 14, 2012

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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

QUARTERLY REPORT

pursuant to Section 13 or 15(d)

of the Securities Exchange Act of 1934

FOR THE QUARTERLY PERIOD ENDED MARCH 31, 2012

000-15701

(Commission file number)

NATURAL ALTERNATIVES INTERNATIONAL, INC.

(Exact name of registrant as specified in its charter)

Delaware (State of incorporation)	**84-1007839** (IRS Employer Identification No.)
1185 Linda Vista Drive	
San Marcos, California 92078 (Address of principal executive offices)	**(760) 744-7340** (Registrant s telephone number)

Indicate by check mark whether Natural Alternatives International, Inc. (NAI) (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that NAI was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

[X] Yes [__] No

Indicate by check mark whether NAI has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that NAI was required to submit and post such files).

[X] Yes [ ] No

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

Large accelerated filer [__]   Accelerated filer [__]   Non-accelerated filer [__]   Smaller reporting company [X]

Indicate by check mark whether NAI is a shell company (as defined in Rule 12b-2 of the Exchange Act).

[_] Yes   [X] No

As of May 14, 2012, 6,968,687 shares of NAI s common stock were outstanding, net of 331,990 treasury shares.

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SPECIAL NOTE ABOUT FORWARD-LOOKING STATEMENTS

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

- future financial and operating results, including projections of net sales, revenue, income or loss, net income or loss per share, profit margins, expenditures, liquidity, and other financial items;
- our ability to develop relationships with new customers and maintain or improve existing customer relationships;
- the outcome of litigation, regulatory and tax matters, the costs associated with such matters and the effect of such matters on our business and results of operations;
- currency exchange rates, their effect on our results of operations, including amounts that may be reclassified as earnings, our ability to effectively hedge against foreign exchange risks and the extent to which we may seek to hedge against such risks;
- future levels of our revenue concentration risk;
- sources and availability of raw materials;
- inventories, including the adequacy of inventory levels to meet future customer demand and the timing of our ability to liquidate our inventory of beta-alanine, as well as the adequacy and intended use of our facilities;
- development of new products and marketing strategies;
- our ability to increase our marketing and advertising efforts for our Pathway to Healing® product line, the timing of such efforts and their effect on future sales;
- distribution channels, product sales and performance, and timing of product shipments;
- current or future customer orders;

the impact on our business and results of operations and variations in quarterly net sales from seasonal and other factors;

inflation rates and their impact on our operations and profitability;

management s goals and plans for future operations;

our ability to improve operational efficiencies, manage costs and business risks and improve or maintain profitability;

growth, expansion, diversification, acquisition, divestment and consolidation strategies, the success of such strategies, and the benefits we believe can be derived from such strategies;

personnel;

our ability to operate within the standards set by the Food and Drug Administration s Good Manufacturing Practices;

operations outside the United States (U.S.);

the adequacy of reserves and allowances;

overall industry and market performance;

competition and competitive advantages resulting from our quality commitment;

current and future economic and political conditions;

the impact of accounting pronouncements; and

other assumptions described in this report underlying or relating to any forward-looking statements.

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

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Unless the context requires otherwise, all references in this report to the Company, NAI, we, our, and us refer to Natural Alternatives International, Inc. and, as applicable, our wholly owned subsidiary Natural Alternatives International Europe S.A. (NAIE).

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PART I FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

NATURAL ALTERNATIVES INTERNATIONAL, INC.

Condensed Consolidated Balance Sheets

(In thousands, except share and per share data)

	March 31, 2012 (Unaudited)	June 30, 2011
Assets		
Current assets:		
Cash and cash equivalents	$ 11,105	$ 15,461
Accounts receivable - less allowance for doubtful accounts of $126 at March 31, 2012 and $73 at June 30, 2011	5,128	3,287
Inventories, net	13,171	6,499
Deferred income taxes	1,639	1,639
Prepaids and other current assets	1,726	942
Total current assets	32,769	27,828
Property and equipment, net	10,882	11,411
Deferred income taxes	1,388	1,388
Long-term pension asset	26	64
Other noncurrent assets, net	517	453
Total assets	$ 45,582	$ 41,144
Liabilities and Stockholders Equity		
Current liabilities:		
Accounts payable	$ 2,212	$ 2,232
Accrued liabilities	1,516	1,009
Accrued compensation and employee benefits	1,285	1,234
Income taxes payable	764	472
Total current liabilities	5,777	4,947
Deferred rent	557	719
Total liabilities	6,334	5,666
Commitments and contingencies		
Stockholders equity:		
Preferred stock; $.01 par value; 500,000 shares authorized; none issued or outstanding	0	0
Common stock; $.01 par value; 20,000,000 shares authorized; issued and outstanding (net of treasury shares) 6,968,687 at March 31, 2012 and 7,013,713 at June 30, 2011	72	72
Additional paid-in capital	19,524	19,357
Accumulated other comprehensive income (loss)	59	(365)

Retained earnings	21,320	17,939
Treasury stock, at cost, 331,990 shares at March 31, 2012 and 286,964 at June 30, 2011	(1,727)	(1,525)
Total stockholders equity	39,248	35,478
Total liabilities and stockholders equity	$ 45,582	$ 41,144

See accompanying notes to condensed consolidated financial statements.

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NATURAL ALTERNATIVES INTERNATIONAL, INC.

Condensed Consolidated Statements of Income and Comprehensive Income

(In thousands, except share and per share data)

(Unaudited)

	Three Months Ended March 31, 2012	Three Months Ended March 31, 2011	Nine Months Ended March 31, 2012	Nine Months Ended March 31, 2011
Net sales	$ 17,422	$ 13,375	$ 51,924	$ 41,484
Cost of goods sold	13,299	10,991	39,765	33,576
Gross profit	4,123	2,384	12,159	7,908
Selling, general & administrative expenses	2,493	2,126	6,956	5,601
Income from operations	1,630	258	5,203	2,307
Other (expense) income:				
Interest income	5	4	15	12
Interest expense	(27)	(12)	(93)	(41)
Foreign exchange (loss) gain	(5)	1	101	22
Other, net	8	--	14	2
	(19)	(7)	37	(5)
Income before income taxes	1,611	251	5,240	2,302
Provision for income taxes	543	70	1,859	355
Net income	$ 1,068	181	$ 3,381	$ 1,947
Unrealized (loss) gain resulting from change in fair value of derivative instruments, net of tax	(406)	(58)	424	(58)
Comprehensive income	$ 662	$ 123	$ 3,805	$ 1,889
Net income per common share:				
Basic	$ 0.15	$ 0.03	$ 0.48	$ 0.27
Diluted	$ 0.15	$ 0.03	$ 0.48	$ 0.27
Weighted average common shares outstanding:				
Basic	6,968,687	7,117,847	6,984,477	7,112,440
Diluted	6,979,499	7,122,027	6,992,902	7,121,042

See accompanying notes to condensed consolidated financial statements.

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NATURAL ALTERNATIVES INTERNATIONAL, INC.

Condensed Consolidated Statements of Cash Flows

(In thousands)

(Unaudited)

	Nine Months Ended March 31, 2012	2011
Cash flows from operating activities		
Income from operations	$ 3,381	$ 1,947
Adjustments to reconcile net income to net cash (used in) provided by operating activities:		
Increase (decrease) of uncollectible accounts receivable	53	(1)
Depreciation and amortization	2,283	2,429
Non-cash compensation	167	179
Pension expense	38	37
Loss on disposal of assets	5	4
Changes in operating assets and liabilities:		
Accounts receivable	(1,894)	879
Inventories, net	(6,672)	(492)
Other assets	(206)	(159)
Accounts payable and accrued liabilities	340	251
Income taxes payable	59	145
Accrued compensation and employee benefits	51	(634)
Net cash (used in) provided by operating activities	(2,395)	4,585
Cash flows from investing activities		
Capital expenditures	(1,759)	(1,313)
Proceeds from the sale of property & equipment	0	45
Net cash used by investing activities	(1,759)	(1,268)
Cash flows from financing activities		
Net activity from the issuance of common stock	0	28
Repurchase of common stock	(202)	0
Net cash (used in) provided by financing activities	(202)	28
Net (decrease) increase in cash and cash equivalents	(4,356)	3,345
Cash and cash equivalents at beginning of period	15,461	8,547
Cash and cash equivalents at end of period	$ 11,105	$ 11,892
Supplemental disclosures of cash flow information		
Cash paid during the period for:		
Interest	$ 13	$ 20
Taxes	$ 1,733	$ 223

See accompanying notes to condensed consolidated financial statements.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

A. Basis of Presentation and Summary of Significant Accounting Policies

Basis of Presentation

The accompanying interim unaudited condensed consolidated financial statements have been prepared in accordance with the instructions to Form 10-Q and applicable rules and regulations. Certain information and footnote disclosures normally included in financial statements prepared in accordance with U.S. generally accepted accounting principles (GAAP) have been condensed or omitted pursuant to such rules and regulations. In management s opinion, all adjustments necessary for a fair presentation of the financial position, results of operations and cash flows have been included and are of a normal, recurring nature. The results of operations for the three and nine months ended March 31, 2012 are not necessarily indicative of the operating results for the full fiscal year or any future periods.

You should read the financial statements and these notes, which 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, 2011 (2011 Annual Report). The accounting policies used to prepare the financial statements included in this report are the same as those described in the notes to the consolidated financial statements in our 2011 Annual Report unless otherwise noted below.

Reclassifications

Certain items previously reported in our prior year s consolidated financial statements have been reclassified to conform with the current year s presentation. The reclassifications had no effect on previously reported total assets, stockholders equity, or net income.

Recent Accounting Pronouncements

In May 2011, the Financial Accounting Standards Board (FASB) issued Accounting Standard Update (ASU) 2011-04, Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRS. The amendments in this update are the result of the work of the FASB and the International Accounting Standards Board (IASB) to develop common requirements for measuring fair value and for disclosing information about fair value measurements. There was no significant impact to our consolidated financial statements as a result of our adoption of this amendment during the third quarter of fiscal 2012.

In June 2011, the FASB issued ASU 2011-05, Presentation of Comprehensive Income. ASU 2011-05 requires all non-owner changes in stockholders equity be presented either in a single continuous statement of comprehensive income or in two separate but continuous statements. If presented in two separate statements, the first statement should present total net income and its components followed immediately by a second statement of total other comprehensive income, its components and the total comprehensive income. In December 2011, the FASB issued ASU 2011-12, Deferral of the Effective Date for Amendments to the Presentation of Reclassifications of Items Out of Accumulated Other Comprehensive Income in Accounting Standards Update No. 2011-05. ASU 2011-12 defers those changes in ASU 2011-05 that relate to the presentation of reclassification adjustments. The FASB has deferred those changes in order to reconsider whether to present on the face of the financial statements the effects of reclassifications out of accumulated other comprehensive income on the components of net income and other comprehensive income for all periods presented. ASU 2011-12 does not impact the requirement of ASU 2011-05 to report comprehensive income either in a single continuous financial statement or in two separate but consecutive financial statements. ASU 2011-05 is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2011, which will be the first quarter of our fiscal 2013. ASU 2011-05 concerns disclosures only and will not have a material impact on our financial position or results of operations.

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Net Income per Common Share

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

	Three Months Ended March 31,		Nine Months Ended March 31,	
	2012	2011	2012	2011
Numerator				
Net income	$ 1,068	$ 181	$ 3,381	$ 1,947
Denominator				
Basic weighted average common shares outstanding	6,969	7,118	6,984	7,112
Dilutive effect of stock options	10	4	9	9
Diluted weighted average common shares outstanding	6,979	7,122	6,993	7,121
Basic net income per common share	$ 0.15	$ 0.03	$ 0.48	$ 0.27
Diluted net income per common share	$ 0.15	$ 0.03	$ 0.48	$ 0.27

Shares related to stock options representing the right to acquire 220,000 shares of common stock for the three months ended March 31, 2012, and 443,917 shares for the nine months ended March 31, 2012, were excluded from the calculation of diluted net income per common share, as the effect of their inclusion would have been anti-dilutive.

Shares related to stock options representing the right to acquire 616,750 shares of common stock for the three months ended March 31, 2011, and 569,500 shares for the nine months ended March 31, 2011, were excluded from the calculation of diluted net income per common share, as the effect of their inclusion would have been anti-dilutive.

Revenue Recognition

To recognize revenue, four basic criteria must be met: 1) there is evidence that an arrangement exists; 2) delivery has occurred; 3) the fee is fixed or determinable; and 4) collectability is reasonably assured. Revenue from sales transactions where the buyer has the right to return the product is recognized at the time of sale only if (1) the seller s price to the buyer is substantially fixed or determinable at the date of sale; (2) the buyer has paid the seller, or the buyer is obligated to pay the seller and the obligation is not contingent on resale of the product; (3) the buyer s obligation to the seller would not be changed in the event of theft or physical destruction or damage of the product; (4) the buyer acquiring the product for resale has economic substance apart from that provided by the seller; (5) the seller does not have significant obligations for future performance to directly bring about resale of the product by the buyer; and (6) the amount of future returns can be reasonably estimated. We recognize revenue upon determination that all criteria for revenue recognition have been met. The criteria are usually met at the time title passes to the customer, which usually occurs upon shipment. Revenue from shipments where title passes upon delivery is deferred until the shipment has been delivered.

We also enter into arrangements whereby revenues are derived from multiple deliverables. In these arrangements, we record revenue as separate elements if the delivered items have value to the customer on a standalone basis, and if the arrangement includes a general right of return relative to the delivered item, delivery or performance of the undelivered items is considered probable and substantially in the seller s control. Arrangement consideration should be allocated at the inception of the arrangement to all deliverables using the relative selling price method that is based on a three-tier hierarchy. The relative selling price method allocates any discount in the arrangement proportionally to each deliverable on the basis of each deliverable s estimated selling price. Applicable revenue recognition criteria are also considered separately for separate units of accounting. Revenues from multiple-element arrangements involving license fees, up-front payments and milestone payments, which are received and/or billable in connection with other rights and services that represent our continuing obligations, are deferred until all applicable revenue recognition criteria are met for each separable element. Contract interpretation is normally required to determine the appropriate accounting, including whether the deliverables specified in a multiple element arrangement should be treated as separate units of accounting for revenue recognition purposes, and if so, how the price should be allocated among the multiple-elements, when to begin to recognize revenue for each element, and the period over which revenue should be recognized.

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

We currently own certain U.S. patents, and each patent s corresponding foreign patent applications. All of these patents and patent rights relate to the ingredient known as beta-alanine, marketed and sold under the CarnoSyn® trade name. We have sold this ingredient to customers for use in a limited market, and since March 2009 have had an agreement with Compound Solutions, Inc. (CSI) under which we have agreed to grant a license of certain of our patent rights to customers of CSI who purchase beta-alanine from CSI. Before October 1, 2011, we received a fee from CSI that varied based on the amount of net sales of beta-alanine sold by CSI less CSI s costs and other agreed upon expenses. As of October 1, 2011, we receive a fee from CSI that varies based on the quantity of beta-alanine sold by CSI and the source of such beta-alanine.

In June 2011, we entered into a license and supply agreement with Abbott Laboratories (Abbott) under which we agreed to grant an exclusive license to Abbott for the use of beta-alanine in certain medical foods and medical nutritionals. Under the terms of the agreement, Abbott paid an initial license fee of $300,000, an additional fee of $300,000 in January 2012, and had the right to terminate the agreement at any time up to March 31, 2012, at which time, if not terminated, Abbott was required to pay the initial installment of additional license fees in the amount of $708,334. In exchange for the payment of $354,167 by Abbott to NAI, the agreement was amended effective as of February 20, 2012, to grant Abbott an extension, until July 31, 2012, of Abbott s termination rights and the due date of the remaining $354,167 of the initial installment. The agreement, as amended, is for a term of 10 years but Abbott may terminate the agreement at any time up to July 31, 2012. Unless sooner terminated by Abbott, in addition to the remaining installment due, the agreement requires Abbott to pay to NAI (i) upon achievement of certain milestones, additional license fees to NAI of $150,000 on or before July 31, 2012; and (ii) additional license fees in the amount of $3.5 million in five annual payments beginning on March 31, 2013. Subject to certain other conditions set forth in the agreement, after August 1, 2012 and until terminated by either party, Abbott is required to purchase certain material exclusively from NAI and make royalty payments to NAI upon Abbott s sale of products subject to the agreement. Because Abbott may terminate the agreement at any time up to July 31, 2012, there is no assurance NAI will receive any of the additional license fees or royalty payments described above. No additional royalty payments were received during the three or nine months ended March 31, 2012.

We recorded royalty income as a component of revenue in the amount of $2.1 million during the three months ended March 31, 2012 and $4.1 million during the nine months ended March 31, 2012. We recorded royalty income as a component of revenue in the amount of $720,000 during the three months ended March 31, 2011 and $1.3 million during the nine months ended March 31, 2011. These royalty income amounts resulted in royalty expense paid to the original patent holders from whom NAI acquired its patents and patent rights. We recognized royalty expense as a component of cost of goods sold in the amount of $181,000 during the three months ended March 31, 2012 and $551,000 during the nine months ended March 31, 2012. We recognized royalty expense as a component of cost of goods sold in the amount of $112,000 during the three months ended March 31, 2011 and $236,000 during the nine months ended March 31, 2011.

Stock-Based Compensation

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

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

Our net income included stock based compensation expense of approximately $53,000 for the three months ended March 31, 2012 and approximately $167,000 for the nine months ended March 31, 2012. Our net income included stock based compensation expense of approximately $69,000 for the three months ended March 31, 2011 and approximately $179,000 for the nine months ended March 31, 2011.

Fair Value of Financial Instruments

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

The fair value hierarchy is broken down into three levels based on the source of inputs. In general, fair values determined by Level 1 inputs use quoted prices (unadjusted) in active markets for identical assets or liabilities that the Company has the ability to access. We classify cash, cash equivalents, and marketable securities balances as Level 1 assets. Fair values determined by Level 2 inputs

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are based on quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active and models for which all significant inputs are observable or can be corroborated, either directly or indirectly by observable market data. Level 3 inputs are unobservable inputs for the asset or liability, and include situations where there is little, if any, market activity for the asset or liability. These include certain pricing models, discounted cash flow methodologies and similar techniques that use significant unobservable inputs.

Our financial statements include the following Level 1 financial instruments: cash equivalents, accounts receivable, short-term investments, accounts payable, and accrued expenses. We believe the carrying amounts of these assets and liabilities in the financial statements approximate the fair values of these financial instruments at March 31, 2012 and June 30, 2011. We classify derivative forward exchange contracts as Level 2 assets. The fair value of our forward exchange contracts as of March 31, 2012 was $773,000. The fair value of our forward exchange contracts as of June 30, 2011 was $15,000. As of March 31, 2012 and June 30, 2011, we did not have any financial assets or liabilities classified as Level 3.

B. Inventories

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

	March 31, 2012	June 30, 2011
Raw materials	$ 9,497	$ 5,524
Work in progress	1,937	971
Finished goods	2,042	925
Reserves	(305)	(921)
	$ 13,171	$ 6,499

C. Property and Equipment

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

	Depreciable Life In Years	March 31, 2012	June 30, 2011
Land	N/A	$ 393	$ 393
Building and building improvements	7 39	2,756	2,755
Machinery and equipment	3 12	25,448	26,130
Office equipment and furniture	3 5	3,100	3,014
Vehicles	3	136	136
Leasehold improvements	1 15	10,095	10,083
Total property and equipment		41,928	42,511
Less: accumulated depreciation and amortization		(31,046)	(31,100)
Property and equipment, net		$ 10,882	$ 11,411

D. Debt

On December 16, 2010, we executed a new Credit Agreement (Credit Agreement) with Wells Fargo Bank, National Association. This Credit Agreement replaced our previous credit facility and provides us with a line of credit of up to $5.0 million. The line of credit may be used to finance working capital requirements. In consideration for granting the line of credit, we paid a commitment fee of $12,500 upon execution of the agreement and paid an additional commitment fee of $12,500 in December 2011. There are no amounts currently drawn under the line of credit.

Under the terms of the Credit Agreement, borrowings are subject to eligibility requirements including maintaining (i) net income after taxes of not less than $750,000 on a trailing four quarter basis as of the end of each calendar quarter beginning with the four quarter period ended December 31, 2010; and (ii) a ratio of total liabilities to tangible net worth of not greater than 1.25 to 1.0 at any time. Any amounts outstanding under the line of credit will bear interest at a fixed or fluctuating interest rate as elected by NAI from time to time; provided, however, that if the outstanding principal amount is less than $100,000 such amount shall bear interest at the then applicable fluctuating rate of interest. If elected, the fluctuating rate per annum would be equal to 2.75% above the daily one month LIBOR rate as in effect from time to time. If a fixed rate is elected, it would equal a per annum rate of 2.50% above the LIBOR rate in effect on the first day of the applicable fixed rate term. Any amounts outstanding under the line of credit must be paid in full on or before November 1, 2013; provided, however, that we must maintain a zero balance on advances under the line of credit for a period of at least 30 consecutive days during each fiscal year. Amounts outstanding that are subject to a fluctuating interest rate may be prepaid at any time without penalty. Amounts outstanding that are subject to a fixed interest rate may be prepaid at any time in minimum amounts of $100,000, subject to a prepayment fee equal to the sum of the discounted monthly differences for each month from the month of prepayment through the month in which the then applicable fixed rate term matures.

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Our obligations under the Credit Agreement are secured by our accounts receivable and other rights to payment, general intangibles, inventory, equipment and fixtures. We also have a foreign exchange facility with Wells Fargo in effect until November 1, 2013, and with Bank of America, N.A. in effect until March 15, 2013.

On March 31, 2012, we were in compliance with all of the financial and other covenants required under the Credit Agreement.

On September 22, 2006, NAIE, our wholly owned subsidiary, entered into a credit facility to provide it with a credit line of up to CHF 1.3 million, or approximately $1.4 million, which was the initial maximum aggregate amount that could be outstanding at any one time under the credit facility. This maximum amount is reduced annually by CHF 160,000, or approximately $177,000. On February 19, 2007, NAIE amended its credit facility to provide that the maximum aggregate amount that may be outstanding under the facility cannot be reduced below CHF 500,000, or approximately $554,000. As of March 31, 2012, there was no outstanding balance under this credit facility.

Under its credit facility, NAIE may draw amounts either as current account loan credits to its current or future bank accounts or as fixed loans with a maximum term of 24 months. Current account loans will bear interest at the rate of 5% per annum. Fixed loans will bear interest at a rate determined by the parties based on current market conditions and must be repaid pursuant to a repayment schedule established by the parties at the time of the loan. If a fixed loan is repaid early at NAIE s election or in connection with the termination of the credit facility, NAIE will be charged a pre-payment penalty equal to 0.1% of the principal amount of the fixed loan or CHF 1,000 (approximately $1,107), whichever is greater. The bank reserves the right to refuse individual requests for an advance under the credit facility, although its exercise of such right will not have the effect of terminating the credit facility as a whole.

We did not use our working capital line of credit nor did we have any long-term debt outstanding during the nine months ended March 31, 2012. As of March 31, 2012, we had $5.6 million available under our credit facilities.

E. Defined Benefit Pension Plan

We sponsor a defined benefit pension plan that provides retirement benefits to employees based generally on years of service and compensation during the last five years before retirement. Effective June 20, 1999, we adopted an amendment to freeze benefit accruals to the participants. We contribute an amount not less than the minimum funding requirements of the Employee Retirement Income Security Act of 1974 nor more than the maximum tax-deductible amount.

The components included in the net periodic expense for the periods ended March 31 were as follows (in thousands):

	Three Months Ended March 31,		Nine Months Ended March 31,	
	2012	**2011**	**2012**	**2011**
Interest cost	$ 23	$ 22	$ 68	$ 66
Expected return on plan assets	(10)	(10)	(30)	(29)
Net periodic expense	$ 13	$ 12	$ 38	$ 37

F. 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 sales, or the growth rate of sales to these customers, or in their ability to make payments when due, could have a material adverse impact on our net sales and net income. Net sales to any one customer representing 10% or more of the respective period s total net sales were as follows (dollars in thousands):

$00,000.0	$00,000.0	$00,000.0	$00,000.0	$00,000.0	$00,000.0	$00,000.0	$00,000.0
Three Months Ended March 31,				**Nine Months Ended March 31,**			
2012		**2011**		**2012**		**2011**	

	Net Sales by Customer	% of Total Net Sales	Net Sales by Customer	% of Total Net Sales	Net Sales by Customer	% of Total Net Sales	Net Sales by Customer	% of Total Net Sales
Customer 1	$ 7,963	46%	$ 7,088	53%	$ 24,444	47%	$ 21,579	52%
Customer 2	2,893	17	3,079	23	10,730	21	8,846	21
	$ 10,856	63%	$ 10,167	76%	$ 35,174	68%	$ 30,425	73%

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

	Three Months Ended March 31,				Nine Months Ended March 31,			
	2012		2011		2012		2011	
	Raw Material Purchases by Supplier	% of Total Raw Material Purchases	Raw Material Purchases by Supplier	% of Total Raw Material Purchases	Raw Material Purchases by Supplier	% of Total Raw Material Purchases	Raw Material Purchases by Supplier	% of Total Raw Material Purchases
Supplier 1	(a)	(a)						