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, 2006

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.
☒ Yes ☐ No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act.

Large accelerated filer ☐ Accelerated filer ☐ Non-accelerated filer ☒

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

As of May 9, 2006, 6,574,749 shares of NAI's common stock were outstanding, net of 61,000 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,” “approximates,” “predicts,” or “projects,” or the negative or other variation of such words, and similar expressions may identify a statement as a forward-looking statement. Any statements that refer to projections of our future financial performance, our anticipated growth and trends in our business, our goals, strategies, focus and plans, and other characterizations of future events or circumstances, including statements expressing general optimism about future operating results, are forward-looking statements. Forward-looking statements in this report may include statements about:

- future financial and operating results, including projections of net sales, revenue, income, net income per share, profit margins, expenditures, liquidity and other financial items;
- inventories and the adequacy and intended use of our facilities;
- the adequacy of reserves and allowances;
- sources, availability and cost of raw materials;
- personnel;
- operations outside the United States;
- overall industry and market performance;
- competition;
- current and future economic and political conditions;
- development of new products, brands and marketing strategies;
- distribution channels, product sales and performance and timing of the product shipments;
- growth, expansion, diversification and acquisition strategies, the success of such strategies, and the benefits we believe can be derived from such strategies;
- the outcome of regulatory, tax and litigation matters;
- our ability to develop relationships with new customers and maintain or improve existing customer relationships;
- our ability to reduce costs and maintain profitability;
- the impact of accounting pronouncements;
- management’s goals and plans for future operations; 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 SEC.

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, Natural Alternatives International Europe S.A. (NAIE), Real Health Laboratories, Inc. (RHL) and our other wholly owned subsidiaries.

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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, 2006 (Unaudited)	June 30, 2005
Assets		
Current assets:		
Cash and cash equivalents	$ 1,566	$ 1,916
Accounts receivable - less allowance for doubtful accounts of $306 at March 31, 2006 and $221 at June 30, 2005	6,420	10,834
Inventories, net	23,484	12,987
Deferred income taxes	559	421
Other current assets	2,156	1,012
Total current assets	34,185	27,170
Property and equipment, net	15,664	16,507
Goodwill and purchased intangibles, net	11,446	—
Deferred income taxes	276	276
Other noncurrent assets, net	194	185
Total assets	$ 61,765	$44,138
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	$ 11,614	$ 7,973
Accrued liabilities	2,457	1,923
Accrued compensation and employee benefits	1,165	1,351
Line of credit	4,082	—
Income taxes payable	410	664
Current portion of long-term debt	1,743	861
Total current liabilities	21,471	12,772
Deferred tax liability	1,737	—
Long-term debt, less current portion	5,095	2,979
Deferred rent	1,269	1,264
Long-term pension liability	283	206
Total liabilities	29,855	17,221
Commitments and contingencies		
Stockholders' equity:		
Preferred stock; $0.01 par value; 500,000 shares authorized; none issued or outstanding	—	—
Common stock; $0.01 par value; 20,000,000 shares authorized; issued and outstanding 6,635,749 at March 31, 2006 and 6,064,467 at June 30, 2005	66	61
Additional paid-in capital	15,071	11,494
Accumulated other comprehensive loss	(220)	(137)
Retained earnings	17,286	15,792
Treasury stock, at cost, 61,000 shares at March 31, 2006 and June 30, 2005	(293)	(293)
Total stockholders' equity	31,910	26,917
Total liabilities and stockholders' equity	$ 61,765	$44,138

See accompanying notes to condensed consolidated financial statements.

NATURAL ALTERNATIVES INTERNATIONAL, INC.
Condensed Consolidated Statements of Income And Comprehensive Income
(in thousands, except share and per share data)
(Unaudited)

	Three Months Ended March 31, 2006	Three Months Ended March 31, 2005	Nine Months Ended March 31, 2006	Nine Months Ended March 31, 2005
Net sales	$ 23,284	$ 22,490	$ 64,885	$ 66,762
Cost of goods sold	17,285	18,277	50,640	52,639
Gross profit	5,999	4,213	14,245	14,123
Selling, general & administrative expenses	4,852	3,538	11,577	11,172
Income from operations	1,147	675	2,668	2,951
Other income (expense):				
Interest income	1	5	27	15
Interest expense	(159)	(86)	(300)	(191)
Foreign exchange loss	(8)	(188)	(10)	(22)
Other, net	(4)	(8)	(7)	16
	(170)	(277)	(290)	(182)
Income before income taxes	977	398	2,378	2,769
Provision for income taxes	356	121	884	855
Net income	$ 621	$ 277	$ 1,494	$ 1,914
Unrealized gain (loss) resulting from change in fair value of derivative instruments, net of tax	(37)	84	(83)	(41)
Comprehensive income	$ 584	$ 361	$ 1,411	$ 1,873
Net income per common share:				
Basic	$ 0.09	$ 0.05	$ 0.24	$ 0.32
Diluted	$ 0.09	$ 0.04	$ 0.22	$ 0.30
Weighted average common shares outstanding:				
Basic	6,571,924	5,957,923	6,257,043	5,938,322
Diluted	7,005,954	6,420,671	6,653,383	6,481,623

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, 2006	Nine Months Ended March 31, 2005
Cash flows from operating activities		
Net income	$ 1,494	$ 1,914
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Provision (reduction) for uncollectible accounts receivable	(178)	89
Depreciation and amortization	2,237	1,753
Amortization of purchased intangibles	84	—
Deferred income taxes	—	59
Non-cash compensation	57	60
Pension expense, net of contributions	77	56
Loss on disposal of asset	—	20
Changes in operating assets and liabilities (net of effects of business acquisition):		
Accounts receivable	4,299	134
Inventories, net	(9,709)	(913)
Other assets	(785)	(816)
Accounts payable and accrued liabilities	2,466	1,194
Accrued compensation and employee benefits	(272)	(1,689)
Net cash provided by (used in) operating activities	(230)	1,861
Cash flows from investing activities		
Capital expenditures	(1,263)	(6,785)
Repayment of notes receivable	—	13
Net cash paid for business acquisition	(5,617)	—
Net cash used in investing activities	(6,880)	(6,772)
Cash flows from financing activities		
Net borrowings on line of credit	4,082	1,222
Proceeds from long-term debt	3,800	—
Payments on long-term debt	(1,392)	(603)
Proceeds from issuance of common stock	270	289
Net cash provided by financing activities	6,760	908
Net decrease in cash and cash equivalents	(350)	(4,003)
Cash and cash equivalents at beginning of period	1,916	7,495
Cash and cash equivalents at end of period	$ 1,566	$ 3,492
Supplemental disclosures of cash flow information		
Cash paid during the period for:		
Interest	$ 278	$ 191
Taxes	$ 1,124	$ 841

See accompanying notes to condensed consolidated financial statements.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

A. Basis of Presentation and 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 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, 2006 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, 2005 ("2005 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 2005 Annual Report unless otherwise noted below.

Stock-Based Compensation

We have an equity incentive plan under which we have granted nonqualified and incentive stock options to employees, non-employee directors and consultants. We also have an employee stock purchase plan. Before July 1, 2005, we accounted for stock-based awards to employees, including shares issued pursuant to the employee stock purchase plan, under the recognition and measurement provisions of Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" (APB 25), and related interpretations, as permitted by Statement of Financial Accounting Standard No. 123, "Accounting for Stock-Based Compensation" (SFAS 123).

Effective July 1, 2005, we adopted the fair value recognition provisions of Statement of Financial Accounting Standards No. 123R, "Share Based Payment" (SFAS 123R), using the modified-prospective-transition method. Under that transition method, compensation cost is recognized (a) for all stock-based awards granted before, but not yet vested as of, July 1, 2005, based on the grant date fair value estimated in accordance with the original provisions of SFAS 123, and (b) for all stock-based awards granted after July 1, 2005, based on the grant-date fair value estimated in accordance with the provisions of SFAS 123R. Results for prior periods have not been restated.

We estimated the fair value of the stock option awards at the date of grant and employee stock purchase plan shares at the beginning of the offering period 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, including expected life and stock price volatility.

Effective April 27, 2005, our Board of Directors approved the acceleration of the vesting of all outstanding and unvested options held by directors, officers and other employees under our 1999 Omnibus Equity Incentive Plan. As a result of the acceleration, options to acquire 827,932 shares of our common stock, which otherwise would have vested over the next 36 months, became immediately exercisable. This action was taken to eliminate, to the extent permitted, the transition expense that we otherwise would have incurred in connection with the adoption of SFAS 123R.

On December 2, 2005, pursuant to our 1999 Omnibus Equity Incentive Plan, our Board of Directors granted options to buy 100,000 shares, in the aggregate, of NAI's common stock to John Dullea, the President of RHL, at an exercise price of $6.655 per share and with a term of five years. The options vest 34% on December 2, 2006 and an additional 33% on each of December 2, 2007 and December 2, 2008.

The following table illustrates the effect on net income and net income per common share as if the fair value method had been applied to all outstanding and unvested awards in each period (in thousands, except per share data):

	Three Months Ended March 31,		Nine Months Ended March 31,	
	2006	2005	2006	2005
Net income - as reported	$ 621	$ 277	$ 1,494	$ 1,914
Plus: Reported stock-based compensation	31	20	57	60
Less: Fair value stock-based compensation	(31)	(316)	(57)	(927)
Net income (loss) - pro forma	$ 621	$ (19)	$ 1,494	$ 1,047
Reported basic net income per common share	$ 0.09	$ 0.05	$ 0.24	$ 0.32
Pro forma basic net income per common share	$ 0.09	$ —	$ 0.24	$ 0.18
Reported diluted net income per common share	$ 0.09	$ 0.04	$ 0.22	$ 0.30
Pro forma diluted net income per common share	$ 0.09	$ —	$ 0.22	$ 0.16

Net Income per Common Share

We compute net income per common share in accordance with SFAS 128, “Earnings Per Share.” This statement requires the presentation of basic 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,	
	2006	2005	2006	2005
Numerator				
Net income	$ 621	$ 277	$ 1,494	$ 1,914
Denominator				
Basic weighted average common shares outstanding	6,572	5,958	6,257	5,938
Dilutive effect of stock options	434	463	396	544
Diluted weighted average common shares outstanding	7,006	6,421	6,653	6,482
Basic net income per common share	$ 0.09	$ 0.05	$ 0.24	$ 0.32
Diluted net income per common share	$ 0.09	$ 0.04	$ 0.22	$ 0.30

Shares related to stock options of 230,000 for the three months ended March 31, 2006, and 374,000 for the nine months ended March 31, 2006, 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 of 262,000 for the three months ended March 31, 2005, and 154,000 for the nine months ended March 31, 2005, were excluded from the calculation of diluted net income per common share, as the effect of their inclusion would have been anti-dilutive.

B. Acquisition

On December 5, 2005, we acquired Real Health Laboratories, Inc. (RHL), an integrated direct marketer of branded nutritional supplements and other lifestyle products. RHL, with net sales of $10.0 million for its fiscal year ended October 31, 2005, markets and distributes its own branded nutraceutical products and third party branded nutraceutical products that address major health related matters including general wellness, arthritis support, prostate support and sexual function enhancement for both men and women. RHL's operations include in-house creative, catalog design, supply chain management and call center and fulfillment activities. We believe the acquisition of RHL marks a significant advance in our strategy to market our own branded products and expand our distribution channels and could provide the following benefits:

- Additional expertise in direct marketing and retail channels;
- Existing leading branded products in the Food, Drug and Mass Market (FDM) retail channel;
- Access to additional direct marketing and mass-market channels for NAI's existing products and concepts; and
- Cost savings from integrating certain NAI outsourced activities with RHL's existing operations and eliminating certain duplicative costs.

The aggregate consideration given to the selling stockholders of RHL by NAI in connection with the acquisition was approximately $8.7 million, consisting of cash in the amount of $5.8 million and the issuance of 510,000 shares of NAI's authorized but unissued shares of common stock, $0.01 par value per share. Additionally, NAI assumed $590,000 of RHL's debt, which was repaid at the close of the acquisition, and agreed to pay $35,000 of the legal fees and expenses incurred by RHL and the selling stockholders in connection with the acquisition. At the close of the acquisition, RHL became a wholly owned subsidiary of NAI.

The RHL acquisition was accounted for as a purchase business combination in accordance with Statement of Financial Accounting Standards No. 141 "Business Combinations." Assets acquired and liabilities assumed were recorded in the accompanying condensed consolidated balance sheet at their fair values as of December 5, 2005. The allocation is based on a preliminary valuation using management's estimates and assumptions and is subject to adjustment as we have not yet finalized our evaluation. The preliminary allocation of the purchase price, including the consideration given to RHL's selling stockholders and associated transaction costs, was allocated to the assets acquired and liabilities assumed at December 5, 2005, as follows (in thousands):

Current assets	$ 1,311
Property and equipment	132
Other assets	120
Goodwill	7,320
Intangibles:	
Distributor relationships	500
Direct consumer relationships	400
Tradenames	3,300
Non-compete agreements	10
Total assets acquired	13,093
Current liabilities	2,034
Deferred tax liability	1,737
Total liabilities assumed	3,771
Net assets acquired	9,322
Cash acquired	(191)
Debt assumed	590
Purchase price and debt assumed, net of cash acquired	$ 9,721

Unaudited pro forma consolidated financial information is presented below as if the acquisition of RHL had occurred at the beginning of the periods shown. The pro forma information presented below does not purport to present what actual results would have been if the acquisition occurred at the beginning of such periods, nor does the information project results for any future period. The unaudited pro forma consolidated financial information should be read in conjunction with the historical financial information of NAI included in this report, as well as the historical financial information of NAI and RHL included in other reports and documents we file with the SEC. The unaudited pro forma consolidated financial information for the three and nine month periods ended March 31, 2006 and 2005 is as follows (in thousands, except per share data):

	Three Months Ended March 31,		Nine Months Ended March 31,	
	2006	2005	2006	2005
Net sales	$23,284	$25,063	$67,647	$74,683
Net income	$ 621	$ 96	$ 517	$ 1,661
Diluted net income per common share	$ 0.09	$ 0.01	$ 0.07	$ 0.24

The unaudited pro forma consolidated financial information presented above includes the following adjustments to the combined results for NAI and RHL for the three and nine months ended March 31, 2006 and 2005:

- A decrease in net income in the amount of $63,000 pre-tax or $40,000 after-tax for the three months ended March 31, 2005, $126,000 pre-tax or $80,000 after-tax for the nine months ended March 31, 2006, and $185,000 pre-tax or $117,000 after-tax for the nine months ended March 31, 2005, to reflect the interest expense relating to the additional $3.8 million term loan acquired to partially fund the cash purchase price of the RHL acquisition;
- A decrease in net income in the amount of $63,000 pre-tax or $40,000 after-tax for the three months ended March 31, 2005, $126,000 pre-tax or $80,000 after-tax for the nine months ended March 31, 2006, and $189,000 pre-tax or $119,000 after-tax for the nine months ended March 31, 2005, to reflect the amortization of purchased intangible assets; and
- Diluted net income per common share includes the impact of the 510,000 shares of NAI's common stock issued as part of the consideration for the RHL acquisition.

The unaudited pro forma consolidated financial information presented above does not take into account any benefit that may result from the acquisition of RHL due to synergies that may be derived from the elimination of any duplicative costs, nor has it been adjusted to remove the effect of a one-time reduction of net sales related to a rebate program offered by RHL to introduce a new product and develop the RHL brand. Under the terms of the rebate program, the customers of a major Food, Drug and Mass Market (FDM) retailer were offered a one-time rebate on a certain RHL product purchased during the period September 25, 2005 through October 25, 2005 (Rebate Period), provided the customer submitted a completed rebate form to the FDM retailer postmarked no later than November 5, 2005. In accordance with the FASB Emerging Issues Task Force Abstract (EITF) No. 01-09, "Accounting for Consideration Given by a Vendor to a Customer (Including a Reseller of the Vendor's Products)," the results of the rebate program were included as a reduction to revenue during the Rebate Period, which resulted in a decrease to net income in the amount of $1 million pre-tax or $630,000 after tax for the nine months ended March 31, 2006.

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C. Goodwill and purchased intangibles

Goodwill and other acquisition-related intangibles as of March 31, 2006 were as follows (in thousands):

	Amortization Life in Years	Gross Amount	Accumulated Amortization	Net Amount
Goodwill	N/A	$ 7,320	$ —	$ 7,320
Distributor relationships	13	500	(13)	487
Direct consumer relationships	9	400	(15)	385
Tradenames	20	3,300	(55)	3,245
Non-compete agreements	2	10	(1)	9
		$11,530	$ (84)	$ 11,446

The estimated future amortization expense of purchased intangible assets as of March 31, 2006 was as follows (in thousands):

Three months ending June 30, 2006	$ 63
Fiscal year 2007	252
Fiscal year 2008	249
Fiscal year 2009	247
Fiscal year 2010	247
Thereafter	3,068
	$4,126

D. Inventories

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

	March 31, 2006	June 30, 2005
Raw materials	$12,409	$ 8,068
Work in progress	7,728	3,230
Finished goods	3,347	1,689
	$23,484	$12,987

E. Property and Equipment

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

	Depreciable Life In Years	March 31, 2006	June 30, 2005
Land	N/A	$ 393	$ 393
Building and building improvements	7 – 39	2,721	2,713
Machinery and equipment	3 – 12	19,270	18,470
Office equipment and furniture	3 – 5	3,665	3,280
Vehicles	3	204	204
Leasehold improvements	1 – 15	9,517	9,244
Total property and equipment		35,770	34,304
Less: accumulated depreciation and amortization		(20,106)	(17,797)
Property and equipment, net		$ 15,664	$ 16,507

F. Debt

We amended our credit facility on December 1, 2005 and again on March 29, 2006 to increase our working capital line of credit from $8.0 million to $12.0 million, extend the maturity date from November 2006 to November 2007 and modify certain financial covenants.

We obtained an additional $3.8 million term loan on December 5, 2005, to fund, in part, the cash purchase price of the RHL acquisition, and an additional $2.5 million loan commitment on March 29, 2006, to fund, in part, raw material purchases and other matters in connection with the fulfillment of orders from one of our new private label contract manufacturing customers.

As a result of the amendments and additional term loan and loan commitment, our bank credit facility increased to a total of $23.4 million, comprised of a $12.0 million working capital line of credit, $2.5 million loan commitment and $8.9 million in term loans. The working capital line of credit is secured by our accounts receivable and other rights to payment, general intangibles, inventory and equipment, has an interest rate of Prime Rate or LIBOR plus 1.75%, as elected by NAI from time to time, and borrowings are subject to eligibility requirements for current accounts receivable and inventory balances. The loan commitment bears interest at a rate equal to the Prime Rate or LIBOR plus 1.75%, as elected by NAI from time to time, and will be due and payable in full on May 31, 2006. The term loans consist of a $1.1 million fifteen year term loan due June 2011, secured by our San Marcos building, at an interest rate of 8.25%; a $700,000 ten year term loan with a twenty year amortization, secured by our San Marcos building, at an interest rate of LIBOR plus 2.25%; a $1.8 million four year term loan, secured by our accounts receivable and other rights to payment, general intangibles, inventory and equipment, at an interest rate of LIBOR plus 2.10%; a $1.5 million five year term loan, secured by equipment, at an interest rate of LIBOR plus 2.10%; and the $3.8 million four year term loan, secured by equipment, at an interest rate of LIBOR plus 2.10%. Monthly payments on the term loans are approximately $138,000 plus interest.

As of March 31, 2006, the amount outstanding on the working capital line of credit was $4.1 million and the amount outstanding on the term loans was $6.8 million. We did not have an outstanding balance on the loan commitment. As of March 31, 2006, we had $5.1 million available under the line of credit, net of a $134,000 outstanding letter of credit issued to our landlord.

As of March 31, 2006, in accordance with our lease agreement, we reduced our outstanding letter of credit issued to our landlord to $134,000.

The composite interest rate on all of our outstanding debt was 6.68% at March 31, 2006, and 4.87% at March 31, 2005.

G. 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, our Board of Directors amended the plan to freeze the accrued benefit of each plan member at its then current amount and to no longer allow inactive plan members or other employees to become active members of the plan. 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 benefit for the periods ended March 31 were as follows (in thousands):

	Three Months Ended March 31,		Nine Months Ended March 31,	
	2006	2005	2006	2005
Interest cost	$ 20	$ 17	$ 60	$ 51
Expected return on plan assets	(23)	(18)	(69)	(54)
Net periodic benefit	$ (3)	$ (1)	$ (9)	$ (3)

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H. 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 net sales or the growth rate of net sales to these customers 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):

	Three Months Ended March 31,				Nine Months Ended March 31,			
	2006		2005		2006		2005	
	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	$ 8,969	39%	$ 9,403	42%	$ 28,127	43%	$ 27,357	41%
Customer 2	7,931	34	8,902	40	21,849	34	24,736	37
	$ 16,900	73%	$ 18,305	82%	$ 49,976	77%	$ 52,093	78%

We buy certain products 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,			
	2006		2005		2006		2005	
	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	$ 2,844	23%	$ (a)	(a)%	$ 6,355	23%	$ (a)	(a)%
Supplier 2	(a)	(a)	(a)	(a)	3,455	12	(a)	(a)
Supplier 3	1,463	12	5,414	47	2,783	10	11,570	36
	$ 4,307	35%	$ 5,414	47%	$ 12,593	45%	$ 11,570	36%

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

I. Segment Information

Following the acquisition of RHL on December 5, 2005, our business consists of two segments: NAI, which primarily provides private label contract manufacturing services to companies that market and distribute nutritional supplements and other health care products, and RHL, which markets and distributes branded nutritional supplements and other lifestyle products. Our operating results by business segment were as follows (in thousands):

	Three Months Ended March 31,		Nine Months Ended March 31,	
	2006	2005	2006	2005
NAI	$20,569	$22,490	$61,671	$66,762
RHL	2,715	—	3,214	—
Total Net Sales	$23,284	$22,490	$64,885	$66,762

	Three Months Ended March 31,		Nine Months Ended March 31,	
	2006	2005	2006	2005
NAI	$ 1,208	$ 675	$ 2,654	$ 2,951
RHL	(61)	—	14	—
Total Income from Operations	$ 1,147	$ 675	$ 2,668	$ 2,951

NAI's products are sold both in the United States and in markets outside the United States, including Europe, Australia and Japan. NAI's primary market outside the United States is Europe. RHL's products are only sold in the United States.

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

	Three Months Ended March 31,		Nine Months Ended March 31,	
	2006	2005	2006	2005
United States	$18,109	$16,738	$49,855	$49,568
Markets Outside the United States	5,175	5,752	15,030	17,194
Total Net Sales	$23,284	$22,490	$64,885	$66,762

Products manufactured by NAIE accounted for 47% of net sales in markets outside the United States for the three months ended March 31, 2006, and 49% for the three months ended March 31, 2005. NAIE accounted for 48% of net sales in markets outside the United States for the nine months ended March 31, 2006, and 49% for the nine months ended March 31, 2005.

No products manufactured by NAIE were sold in the United States during the nine months ended March 31, 2006 and 2005.

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

	Long-Lived Assets		Total Assets		Capital Expenditures Nine Months Ended	
	March 31, 2006	June 30, 2005	March 31, 2006	June 30, 2005	March 31, 2006	March 31, 2005
United States	$27,539	$17,144	$57,278	$40,470	$ 819	$ 6,493
Europe	1,261	1,053	4,487	3,668	444	292
	$28,800	$18,197	$61,765	$44,138	$ 1,263	$ 6,785

J. Contingencies

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

On February 10, 2005, a complaint was filed against NAI on behalf of Novogen Research Pty. Ltd. in the United States District Court, Southern District of New York alleging a cause of action for patent infringement of a Novogen patent by products manufactured by NAI. Novogen had originally agreed to settle the matter for a one-time payment by NAI of $75,000. However, final settlement terms were not formally agreed to and Novogen has since increased its settlement demand to $125,000. Terms of a settlement continue to be negotiated and there can be no assurance that this matter will be resolved in an out-of-court settlement.

As of May 9, 2006, other than as set forth above, neither NAI nor its subsidiaries were a party to any material pending legal proceeding nor was any of their property the subject of any material pending legal proceeding.

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

The following discussion and analysis is intended to help you understand our financial condition and results of operations for the three and nine months ended March 31, 2006. 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 information included in our 2005 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.

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 or contain all of the information that may be important to our stockholders or the investing public. This overview should be read in conjunction with the other sections of this Item 2 and this report.

Our primary business activity is to provide private label contract manufacturing services to companies that market nutritional supplements. Our revenue is dependent, to a large degree, on two customers who market nutritional supplements through the direct sales marketing channel. The timing of our customers' orders is impacted by their marketing programs, supply chain management, entry into new markets and new product introductions. All of these attributes have had and will have a significant impact on our business.

Private label contract manufacturing net sales decreased 9% from the comparable year to date period last year. An increase in net sales to our largest customer was offset by a reduction in net sales to our second largest customer. Net sales to our two largest customers as a percentage of total net sales decreased to 77% from 78% in the comparable year to date period last year.

A cornerstone of our strategy is to generate long-term growth and diversification of our net sales. During fiscal 2006, we have focused and expect to continue to focus on the following initiatives:

- Leveraging our new facility and TGA recertification to:
  - Increase the value of the goods and services we provide to our highly valued customers; and
  - Assist us in developing relationships with additional quality oriented customers;
- Implementing focused initiatives to market our own branded products through new distribution channels;
- Identifying and evaluating acquisition opportunities that could increase product lines and expand distribution channels.

We believe our efforts to generate long-term growth and diversification of our net sales are beginning to be rewarded based on the following accomplishments:

- Obtained two new contract manufacturing customers; and
- Acquisition of Real Health Laboratories, Inc. (RHL), an integrated direct marketer of branded nutritional supplements and other lifestyle products.

We have established relationships with two new customers who are leaders in the direct sales marketing channel. We expect to fill orders for these two new customers in excess of $10 million during the last three months of our fiscal year ending June 30, 2006. We remain optimistic our relationships with these new customers will continue though there can be no assurance of future sales.

On December 5, 2005, we completed the acquisition of RHL, which primarily markets branded nutritional supplements and other lifestyle products through the following channels:

- Wholesale distribution of RHL branded products to Food, Drug and Mass Market (FDM) retailers; and
- As We Change ("AWC"), a lifestyle catalog geared towards women between the ages of 45 and 65.

RHL's operations include in-house creative, catalog design, supply chain management and call center and fulfillment activities. RHL's branded nutritional supplements address major health related matters including general wellness, arthritis support, prostate support and sexual function enhancement for both men and women.

We believe the acquisition of RHL marks a significant advance in our strategy to market our own branded products and expand our distribution channels and could provide the following benefits:

- Additional expertise in direct marketing and retail channels;
- Existing leading branded products in the FDM retail channel;
- Access to additional direct marketing and mass-market channels for NAI's existing products and concepts; and
- Cost savings from integrating certain NAI outsourced activities with RHL's existing operations and eliminating certain duplicative costs.

During the third quarter we integrated previously outsourced fulfillment activities for our Dr. Cherry Pathway to Healing® product line into RHL's existing operation, which should generate cost savings in future periods.

Critical Accounting Policies and Estimates

The preparation of our financial statements requires that we make estimates and assumptions that affect the amounts reported in our financial statements and their accompanying notes. We have identified certain policies that we believe are important to the portrayal of our financial condition and results of operations. These policies require the application of significant judgment by our management. We base our estimates on our historical experience, industry standards, and various other assumptions that we believe are reasonable under the circumstances. Actual results could differ from these estimates under different assumptions or conditions. An adverse effect on our financial condition, changes in financial condition, and results of operations could occur if circumstances change that alter the various assumptions or conditions used in such estimates or assumptions.

Our critical accounting policies are discussed under Item 7 of our 2005 Annual Report. There have been no significant changes to these policies during the nine months ended March 31, 2006, except for our policies described below as a result of the acquisition of RHL on December 5, 2005.

Goodwill and Intangible Asset Valuation

The purchase method of accounting for acquisitions requires extensive use of accounting estimates and judgments to allocate the purchase price to the fair value of the net tangible and intangible assets acquired. Goodwill and intangible assets deemed to have indefinite lives are not amortized, but are subject to annual impairment tests. The amounts and useful lives assigned to other intangible assets impact future amortization. Determining the fair values and useful lives of intangible assets requires the use of estimates and the exercise of judgment. While there are a number of different generally accepted valuation methods to estimate the value of intangible assets acquired, we primarily use the discounted cash flow method and relief-from-royalty method. These methods require significant management judgment to forecast the future operating results used in the analysis. In addition, other significant estimates are required such as residual growth rates and discount factors. The estimates we use to value and amortize intangible assets are consistent with the plans and estimates that we use to manage our business and are based on available historical information and industry estimates and averages. These judgments can significantly affect our net operating results.

We are required to assess goodwill impairment annually using the methodology prescribed by Statement of Financial Accounting Standards No. 142, "Goodwill and Other Intangible Assets" (SFAS 142). SFAS 142 requires that goodwill be tested for impairment at the reporting unit level on an annual basis or more frequently if we believe indicators of impairment exist. Application of the goodwill impairment test requires judgment, including the identification of reporting units, assigning assets and liabilities to reporting units, assigning goodwill to reporting units and determining the fair value of each reporting unit. The goodwill impairment test compares the implied fair value of the reporting unit with the carrying value of the reporting unit. The implied fair value of goodwill is determined in the same manner as in a business combination. Determining the fair value of the implied goodwill is judgmental in nature and often involves the use of significant estimates and assumptions. These estimates and assumptions could have a significant impact on whether or not an impairment charge is recognized and also the magnitude of any such charge. Estimates of fair value are primarily determined using discounted cash flows and market comparisons. These approaches use significant estimates and assumptions, including projection and timing of future cash flows, discount rates reflecting the risk inherent in future cash flows, perpetual growth rates, determination of appropriate market comparables, and determination of whether a premium or discount should be applied to comparables. It is reasonably possible that the plans and estimates used to value these assets may be incorrect. If our actual results, or the plans and estimates used in future impairment analyses, are lower than the original estimates used to assess the recoverability of these assets, we could incur additional impairment charges.

Revenue Recognition

We have expanded our revenue recognition accounting policies to account for payments made to RHL's customers in accordance with EITF No. 01-09 and sales transactions where the buyer has the right to return the product in accordance with Statement of Financial Accounting Standards No. 48, "Revenue Recognition When Right of Return Exists" (SFAS 48).

EITF No. 01-09 states that cash consideration (including a sales incentive) given by a vendor to a customer is presumed to be a reduction of the selling prices of the vendor's products or services and, therefore, should be characterized as a reduction of revenue when recognized in the vendor's income statement, rather than a sales and marketing expense. RHL has various agreements with customers that provide for discounts and rebates. These agreements are classified as a reduction of revenue. Certain other costs associated with customers that meet the requirements of EITF No. 01-09 are recorded as sales and marketing expense.

SFAS 48 states that revenue from sales transactions where the buyer has the right to return the product shall be 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. Revenue is recognized 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 delivery and an allowance is recorded for the estimated future returns.

Results of Operations

The results of our operations for the periods ended March 31 were as follows (in thousands, except per share amounts):

	Three Months Ended March 31,			Nine Months Ended March 31,		
	2006	2005	% Change	2006	2005	% Change
Private label contract manufacturing	$18,454	$20,532	(10)	$55,524	$60,707	(9)
Direct-to-consumer marketing program	2,115	1,958	8	6,147	6,055	2
RHL	2,715	—	n/a	3,214	—	n/a
Total net sales	23,284	22,490	4	64,885	66,762	(3)
Cost of goods sold	17,285	18,277	(5)	50,640	52,639	(4)
Gross profit	5,999	4,213	42	14,245	14,123	1
Gross profit %	25.8%	18.7%		22.0%	21.2%	
Selling, general & administrative expenses	4,852	3,538	37	11,577	11,172	4
% of net sales	20.8%	15.7%		17.8%	16.7%	
Other expense, net	170	277	(39)	290	182	59
Income before taxes	977	398	145	2,378	2,769	(14)
% of net sales	4.2%	1.8%		3.7%	4.1%	
Net income	$ 621	$ 277	124	$ 1,494	$ 1,914	(22)
% of net sales	2.7%	1.2%		2.3%	2.9%	
Diluted net income per common share	$ 0.09	$ 0.04	125	$ 0.22	$ 0.30	(27)

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The percentage decrease in private label contract manufacturing net sales over the comparable periods last year was attributed to the following:

	Three Months Ended	Nine Months Ended
NSA International, Inc. net sales growth (reduction)	(1)% (1)	2% (2)
Mannatech, Incorporated net sales reduction	(5) (3)	(5) (3)
Discontinuation of two customer relationships	—	(2) (4)
Impact of foreign exchange rates	(1)	(1)
Other customers net sales reduction	(3)	(3)
Total	(10)%	(9)%

(1) Resulted primarily from lower average prices per unit, which reduced our net sales growth by four percentage points, partially offset by higher volumes of established products in existing markets, which contributed three percentage points of the net sales growth.

(2) Resulted primarily from higher volumes of established products in existing markets, which contributed five percentage points of the net sales growth, partially offset by lower average prices per unit, which reduced our net sales growth by three percentage points.

(3) Resulted primarily from a shift in sales mix to lower priced products, which resulted in six percentage points of the decrease over the comparable quarter and comparable year to date period last year, partially offset by the introduction of existing products into new markets and changes in volumes of established products in existing markets.

(4) We discontinued relationships with two of our customers in March 2005 due to the disproportionate risks related to inventory levels and accounts receivable required to continue serving these customers.

Gross profit margin increased 7.1 percentage points from the comparable quarter and 0.8 percentage points from the comparable year to date period last year. The change in gross profit margin was primarily due to the following:

	Three Months Ended	Nine Month Ended
Shift in sales mix (1)	1.4%	1.3%
Incremental overhead expenses (2)	(0.1)	(2.0)
Change in inventory reserves	0.2	(0.3)
Reduced (incremental) direct and indirect labor (3)	1.2	(0.2)
RHL operations	4.4	2.0
Total	7.1%	0.8%

(1) The shift in sales mix resulted primarily from powder sales comprising a lower percentage of sales compared to the comparable quarter and year to date periods last year. Powder products typically include higher material cost as a percentage of selling price compared to capsule or tablet products, resulting in lower gross profit margins.

(2) Overhead expenses decreased $211,000 from the comparable quarter and increased $608,000 from the comparable year to date period last year primarily due to:

- Incremental expenses related to our facility expansion in Vista, California and Lugano, Switzerland as follows:
  - Rent and facility related expenses of $100,000 over the comparable quarter and $288,000 over the comparable year to date period last year; and
  - Depreciation and amortization expenses related primarily to our facility expansion in Vista, California of $195,000 over the comparable quarter and $486,000 over the comparable year to date period last year;
- Incremental freight and shipping expense of $130,000 over the comparable quarter and $269,000 over the comparable year to date period last year; partially offset by

- Reduced outsourced lab testing of $286,000 from the comparable quarter and $160,000 from the comparable year to date period last year; and
- Incremental capitalized overhead of $229,000 from the comparable quarter and $208,000 from the comparable year to date period last year for the additional work in process inventory that we expect to ship in our fourth quarter of fiscal 2006.

(3) Direct and indirect labor decreased as a percentage of net sales from the comparable quarter primarily due to an increase in capitalized labor for the additional work in process inventory that we expect to ship in our fourth quarter of fiscal 2006. Direct and indirect labor increased as a percentage of net sales from the comparable year to date period last year primarily due to producing higher volumes of products with a lower average price per unit.

Selling, general and administrative expenses increased $1.3 million, or 37%, from the comparable quarter and $405,000, or 4% from the comparable year to date period last year primarily due to the following:

- Additional RHL selling, general and administrative expenses of $1.7 million for the three months ended March 31, 2006 and $1.9 million for the nine months ended March 31, 2006; and
- Incremental direct-to-consumer marketing brand development expenses of $167,000 over the comparable quarter and $319,000 over the comparable year to date period last year primarily for the launch on a test basis of a new direct mail campaign featuring Dr. Richard Linchitz, a nationally recognized physician, and Theraflex™, one of our proprietary formulas. We plan to continue testing this direct mail campaign in the fourth quarter; partially offset by
- Reduced NAI selling, general and administrative expenses of $521,000 from the comparable quarter and $1.8 million from the comparable year to date period last year. These savings were primarily due to nonrecurring TGA regulatory and Sarbanes-Oxley compliance expenses incurred last year and reduced personnel expenses due to the termination of regulatory compliance and product formulation personnel in June 2005.

Other expense, net decreased $107,000 from the comparable quarter and increased $108,000 from the comparable year to date period last year primarily due to the following:

- A decrease in foreign exchange loss of $180,000 from the comparable quarter and $12,000 from the comparable year to date period last year due to the weakening of the Euro and the related impact on the translation of Euro denominated cash and receivables; and
- An increase in interest expense of $73,000 over the comparable quarter and $109,000 over the comparable year to date period last year primarily due to the following:
  - Additional $3.8 million term loan obtained in December 2005 to partially fund the RHL acquisition;
  - Increase in our weighted average interest rate on our variable rate debt; and
  - Incremental utilization of our line of credit to fund the increase in inventory for orders we expect to ship in the fourth quarter.

Our effective tax rate for the nine months ended March 31, 2006 increased to 37.2% from 30.9% in the comparable year to date period last year primarily due to the expiration of NAIE's Swiss federal and cantonal income tax holiday that ended on June 30, 2005. Under the tax holiday, NAIE's effective tax rate for Swiss federal, cantonal and communal taxes was approximately 5% compared to our current effective rate of approximately 23%.

Liquidity and Capital Resources

Our primary sources of liquidity and capital resources are cash flows provided by operating activities and the availability of borrowings under our credit facility. Net cash used in operating activities was $230,000 for the nine months ended March 31, 2006, compared to net cash provided by operating activities of $1.9 million for the comparable year to date period last year. Our operating cash flow during the nine months ended March 31, 2006 was impacted by the following:

- Net income of $1.5 million;
- Reduction of accounts receivable of $4.3 million; and
- Incremental inventory of $9.7 million.

The additional investment in inventory was for orders from our two new private label contract manufacturing customers that we expect to ship in the fourth quarter of fiscal 2006.

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Cash provided by operating activities for the nine months ended March 31, 2005 included payments of $1.6 million under our Management Incentive Plan.

Cash used in investing activities for the nine months ended March 31, 2006 included $5.6 million of net cash used in the acquisition of RHL. The reconciliation of RHL net assets acquired to net cash used in the acquisition at December 5, 2005, is as follows (in thousands):

RHL net assets acquired	$ 9,322
NAI stock consideration	(3,255)
Transaction costs	(259)
RHL cash acquired	(191)
Total	$ 5,617

Approximately $647,000 of our operating cash flow was generated by NAIE during the nine months ended March 31, 2006. As of March 31, 2006, NAIE's undistributed retained earnings are considered indefinitely reinvested.

Our consolidated debt increased to $10.9 million at March 31, 2006 from $3.8 million at June 30, 2005 primarily due to the additional $3.8 million term loan obtained from our credit facility to fund, in part, the cash purchase price of the RHL acquisition, and $4.1 million outstanding on our working capital line of credit for the additional investment in inventory for orders from our two new private label contract manufacturing customers.

We amended our credit facility on December 1, 2005 and again on March 29, 2006 to increase our working capital line of credit from $8.0 million to $12.0 million, extend the maturity date and modify certain financial covenants. The amendments included (i) an increase in our ratio of total liabilities/tangible net worth covenant from 1.25/1.0 to 1.75/1.0 through June 30, 2006 (the ratio returns to 1.25/1.0 from July 1, 2006 through June 30, 2007 and to 1.0/1.0 thereafter); (ii) a limit on capital expenditures of $5,500,000 for fiscal years 2006 and 2007; (iii) an extension of the maturity date for the working capital line of credit from November 2006 to November 2007; (iv) an increase in our ability to incur additional aggregate annual operating lease expenses from $100,000 to $500,000 without prior approval from the lender; (v) an increase in our ability to create specific indebtedness other than with our current lender from $0 to $1,000,000; (vi) replacement of the EBITDA coverage ratio with a fixed charge coverage ratio (aggregate of net profit after taxes, depreciation and amortization expenses and net contributions/aggregate current maturity of long-term debt and capitalized lease payments) not less than 1.25/1.0 as of each fiscal quarter end; (vii) an increase in borrowings against eligible inventory from $3.0 million to $6.0 million, provided the outstanding borrowings shall not at any time exceed eligible accounts receivable; (viii) a change in permissible accounts receivable concentration to allow up to 35% for a new customer acceptable to the lender; and (ix) a change in the calculation of the fixed charge coverage ratio (aggregate of net profit after taxes, depreciation and amortization expenses and net contributions/aggregate current maturity of long-term debt and capitalized lease payments) to a rolling 4-quarter basis from each fiscal quarter end.

We obtained an additional $3.8 million term loan on December 5, 2005, to fund, in part, the cash purchase price of the RHL acquisition, and an additional $2.5 million loan commitment on March 29, 2006, to fund, in part, raw material purchases and other matters in connection with the fulfillment of orders from one of our new private label contract manufacturing customers.

As a result of the amendments and additional term loan and loan commitment, our bank credit facility increased to a total of $23.4 million, comprised of a $12.0 million working capital line of credit, $2.5 million loan commitment and $8.9 million in term loans. The working capital line of credit is secured by our accounts receivable and other rights to payment, general intangibles, inventory and equipment, has an interest rate of Prime Rate or LIBOR plus 1.75%, as elected by NAI from time to time, and borrowings are subject to eligibility requirements for current accounts receivable and inventory balances. The loan commitment bears interest at a rate equal to the Prime Rate or LIBOR plus 1.75%, as elected by NAI from time to time, and will be due and payable in full on May 31, 2006. The term loans consist of a $1.1 million fifteen year term loan due June 2011, secured by our San Marcos building, at an interest rate of 8.25%; a $700,000 ten year term loan with a twenty year amortization, secured by our San Marcos building, at an interest rate of LIBOR plus 2.25%; a $1.8 million four year term loan, secured by our accounts receivable and other rights to payment, general intangibles, inventory and equipment, at an interest rate of LIBOR plus 2.10%; a $1.5 million five year term loan, secured by equipment, at an interest rate of LIBOR plus 2.10%; and the $3.8 million four year term loan, secured by equipment, at an interest rate of LIBOR plus 2.10%. Monthly payments on the term loans are approximately $138,000 plus interest.

As of March 31, 2006, the amount outstanding on the working capital line of credit was $4.1 million and the amount outstanding on the term loans was $6.8 million. We did not have an outstanding balance on the loan commitment. As of March 31, 2006, we had $5.1 million available under the line of credit, net of a $134,000 outstanding letter of credit issued to our landlord.

As of March 31, 2006, in accordance with our lease agreement, we reduced our outstanding letter of credit issued to our landlord to $134,000.

On July 7, 2005, we purchased 12 option contracts designated and effective as cash flow hedges to protect against the foreign currency exchange risk inherent in a portion of our forecasted transactions denominated in Euros. The 12 options expire monthly beginning January 2006 and ending December 2006. The option contracts had a notional amount of $7.0 million, a weighted average strike price of $1.16, and a purchase price of $152,000. The risk of loss associated with the options is limited to the purchase price paid for the option contracts. As of March 31, 2006, three of the options had expired.

On October 5, 2005, we purchased an option contract to protect against the foreign currency translation risk inherent in our Euro denominated working capital components. The option contract, which expires on June 30, 2006, had a notional amount of $1.2 million, a strike price of $1.19, and a purchase price of $29,000. The risk of loss associated with the option is limited to the purchase price paid for the option contract.

There are no other derivative financial instruments at March 31, 2006.

As of March 31, 2006, we had $1.6 million in cash and cash equivalents. We plan on funding our current working capital needs, capital expenditures and debt payments using available cash, cash flow from operations and our credit facility.

Off-Balance Sheet Arrangements

We do not have any off-balance sheet debt nor do we have any transactions, arrangements, obligations (including contingent obligations) or other relationships with any unconsolidated entities or other persons that may 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.

Recent Accounting Pronouncements

Recent accounting pronouncements are discussed under Item 7 of our 2005 Annual Report. As of March 31, 2006, other than the pronouncements discussed in our 2005 Annual Report, we are not aware of any other pronouncements that materially affect our financial position or results of operations.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We are exposed to market risk, which is the potential loss arising from adverse changes in market rates and prices, such as foreign currency exchange and interest rates. We generally do not enter into derivatives or other financial instruments for trading or speculative purposes. We may, however, enter into financial instruments to try to manage and reduce the impact of changes in foreign currency exchange rates. We cannot predict with any certainty our future exposure to fluctuations in foreign currency exchange and interest rates or other market risks or the impact, if any, such fluctuations may have on our future business, product pricing, consolidated financial condition, results of operations or cash flows. The actual impact of any fluctuations in foreign currency exchange or interest rates may differ significantly from those discussed below.

Interest Rates

At March 31, 2006, we had fixed rate debt of $540,000 and variable rate debt of approximately $10.4 million. The interest rates on our variable rate debt range from LIBOR plus 1.75% to LIBOR plus 2.25%. As of March 31, 2006, the weighted average effective interest rate on our variable rate debt was 6.52%. An immediate one hundred basis point (1.0%) increase in the interest rate on our variable rate debt, holding other variables constant, would have increased our interest expense by $41,000 for the nine months ended March 31, 2006. Interest rates have been at or near historic lows in recent years but have been increasing during the past year. There can be no guarantee that interest rates will not rise further. Any increase in interest rates may adversely affect our results of operations and financial condition.

Foreign Currencies

To the extent our business continues to expand outside the United States, an increasing share of our net sales and cost of sales may be transacted in currencies other than the United States dollar. Accounting practices require that our non-United States dollar-denominated transactions be converted to United States dollars for reporting purposes. Consequently, our reported net earnings may be significantly affected by fluctuations in currency exchange rates. When the United States dollar strengthens against currencies in which products are sold or weakens against currencies in which we incur costs, net sales and costs could be adversely affected.

Our main exchange rate exposures are with the Swiss Franc and the Euro against the United States dollar. This is due to NAIE’s operations in Switzerland and the payment in Euros by our largest customer for finished goods. Additionally, we pay our NAIE employees and other expenses in Swiss Francs. We may enter into forward exchange contracts, foreign currency borrowings and option contracts to hedge our foreign currency risk. Our goal in seeking to manage foreign currency risk is to provide reasonable certainty to the functional currency value of foreign currency cash flows and to help stabilize the value of non-United States dollar-denominated earnings.

On July 7, 2005, we purchased 12 option contracts designated and effective as cash flow hedges to protect against the foreign currency exchange risk inherent in a portion of our forecasted transactions denominated in Euros. The 12 options expire monthly beginning January 2006 and ending December 2006. The option contracts had a notional amount of $7.0 million, a weighted average strike price of $1.16, and a purchase price of $152,000. The risk of loss associated with the options is limited to the purchase price paid for the option contracts. As of March 31, 2006, three of the options had expired.

On October 5, 2005, we purchased an option contract to protect against the foreign currency translation risk inherent in our Euro denominated working capital components. The option contract, which expires on June 30, 2006, had a notional amount of $1.2 million, a strike price of $1.19, and a purchase price of $29,000. The risk of loss associated with the option is limited to the purchase price paid for the option contract.

On March 31, 2006, the Swiss Franc closed at 1.30 to 1.00 United States dollar and the Euro closed at 0.83 to 1.00 United States dollar. A 10% adverse change to the exchange rates between the Swiss Franc and the Euro against the United States dollar, holding other variables constant, would have decreased our net income for the nine months ended March 31, 2006 by $197,000.

ITEM 4. CONTROLS AND PROCEDURES

We maintain certain disclosure controls and procedures. They are designed to help ensure that material information is: (1) gathered and communicated to our management, including our principal executive and financial officers, on a timely basis; and (2) recorded, processed, summarized, reported and filed with the SEC as required under the Securities Exchange Act of 1934.

Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of our disclosure controls and procedures as of March 31, 2006. Based on such evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective for their intended purpose described above. There were no changes to our internal controls during the quarterly period ended March 31, 2006 that have materially affected, or that are reasonably likely to materially affect, our internal controls.

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 product liability, employment, intellectual property, tax, regulation, contract or other matters. The resolution of these matters as they arise will be subject to various uncertainties and, even if such claims are without merit, could result in the expenditure of significant financial and managerial resources. While unfavorable outcomes are possible, based on available information, we generally do not believe the resolution of these matters, including that discussed below, will result in a material adverse effect on our business, consolidated financial condition, or results of operation. However, a settlement payment or unfavorable outcome could adversely impact our results of operation. Our evaluation of the likely impact of these actions, including that discussed below, could change in the future and we could have unfavorable outcomes that we do not expect.

On February 10, 2005, a complaint was filed against NAI on behalf of Novogen Research Pty. Ltd. in the United States District Court, Southern District of New York alleging a cause of action for patent infringement of a Novogen patent by products manufactured by NAI. Novogen had originally agreed to settle the matter for a one-time payment by NAI of $75,000. However, final settlement terms were not formally agreed to and Novogen has since increased its settlement demand to $125,000. Terms of a settlement continue to be negotiated and there can be no assurance that this matter will be resolved in an out-of-court settlement.

As of May 9, 2006, other than as set forth above, neither NAI nor its subsidiaries were a party to any material pending legal proceeding nor was any of their property the subject of any material pending legal proceeding.

ITEM 1A. RISK FACTORS

On December 5, 2005, we acquired RHL and may, in the future, pursue acquisitions of other companies that, if not successful, could adversely affect our business, financial condition and results of operations.

On December 5, 2005, we completed our acquisition of RHL, an integrated direct marketer of nutritional supplements and other lifestyle products. RHL's business is subject to all of the operational risks that normally arise for a direct marketing company, including those related to competition, profitability, economic conditions, suppliers, customers, adverse publicity, product liability claims and other litigation, regulation, personnel, and intellectual property rights.

In the future, we may pursue additional acquisitions of other companies as part of our strategy focused on long-term growth and diversification of net sales and our customer base. Acquisitions, including the RHL acquisition, involve numerous risks, including:

- potential difficulties related to integrating the products, personnel and operations of the acquired company;
- failure to operate as a combined organization utilizing common information and communication systems, operating procedures, financial controls and human resources practices;
- diverting management's attention from the normal daily operations of the business;
- entering markets in which we have no or limited prior direct experience and where competitors in such markets have stronger market positions;

- potential loss of key employees of the acquired company;
- potential inability to achieve cost savings and other potential benefits expected from the acquisition;
- an uncertain sales and earnings stream from the acquired company; and
- potential impairment charges, which may be significant, against goodwill and purchased intangible assets acquired in the acquisition due to changes in conditions and circumstances that occur after the acquisition, many of which may be outside of our control.

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

In addition to the risk factor above, you should carefully consider the other risks described under Item 7 of our 2005 Annual Report, as well as the other information in our 2005 Annual Report, this report and other reports and documents we file with the SEC, when evaluating our business and future prospects. If any of the identified risks actually occur, our business, financial condition and results of operations could be seriously harmed. In that event, the market price of our common stock could decline and you could lose all or a portion of the value of your investment in our common stock.

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

None.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

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)	By-laws of Natural Alternatives International, Inc. dated as of December 21, 1990	NAI's Registration Statement on Form S-1 (File No. 33-44292) filed with the commission on December 21, 1992
4(i)	Form of NAI's Common Stock Certificate	Exhibit 4(i) of NAI's Annual Report on Form 10-K for the fiscal year ended June 30, 2005, filed with the commission on September 8, 2005
10.1	1999 Omnibus Equity Incentive Plan as adopted	Exhibit 10.1 of NAI's Quarterly Report on

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	effective May 10, 1999, amended effective January 30, 2004, and further amended effective December 3, 2004	Form 10-Q for the quarterly period ended December 31, 2004, filed with the commission on February 14, 2005
10.2	1999 Employee Stock Purchase Plan as adopted effective October 18, 1999	Exhibit B of NAI's definitive Proxy Statement filed with the commission on October 21, 1999
10.3	Management Incentive Plan	Exhibit 10.3 of NAI's Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2003, filed with the commission on November 5, 2003
10.4	Amended and Restated Employment Agreement dated as of January 30, 2004, by and between NAI and Mark Zimmerman	Exhibit 10.4 of NAI's Annual Report on Form 10-K for the fiscal year ended June 30, 2004, filed with the commission on September 14, 2004
10.5	Amended and Restated Employment Agreement dated as of January 30, 2004, by and between NAI and Randell Weaver	Exhibit 10.5 of NAI's Annual Report on Form 10-K for the fiscal year ended June 30, 2004, filed with the commission on September 14, 2004
10.6	Amended and Restated Employment Agreement dated as of January 30, 2004, by and between NAI and Mark A. LeDoux	Exhibit 10.6 of NAI's Annual Report on Form 10-K for the fiscal year ended June 30, 2004, filed with the commission on September 14, 2004
10.7	Amended and Restated Employment Agreement dated as of January 30, 2004, by and between NAI and John Wise	Exhibit 10.7 of NAI's Annual Report on Form 10-K for the fiscal year ended June 30, 2004, filed with the commission on September 14, 2004
10.8	Amended and Restated Employment Agreement dated as of January 30, 2004, by and between NAI and John Reaves	Exhibit 10.8 of NAI's Annual Report on Form 10-K for the fiscal year ended June 30, 2004, filed with the commission on September 14, 2004
10.9	Amended and Restated Employment Agreement dated as of January 30, 2004, by and between NAI and Timothy E. Belanger	Exhibit 10.9 of NAI's Annual Report on Form 10-K for the fiscal year ended June 30, 2004, filed with the commission on September 14, 2004
10.10	Amended and Restated Exclusive License Agreement effective as of September 1, 2004 by and among NAI and Dr. Reginald B. Cherry	Exhibit 10.11 of NAI's Annual Report on Form 10-K for the fiscal year ended June 30, 2004, filed with the commission on September 14, 2004
10.11	Exclusive License Agreement effective as of September 1, 2004 by and among NAI and Reginald B. Cherry Ministries, Inc.	Exhibit 10.12 of NAI's Annual Report on Form 10-K for the fiscal year ended June 30, 2004, filed with the commission on September 14, 2004
10.12	First Amendment to Exclusive License Agreement effective as of December 10, 2004 by and among NAI and Reginald B. Cherry Ministries, Inc.	Exhibit 10.3 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
10.13	Lease of Facilities in Vista, California between NAI and Calwest Industrial Properties, LLC, a California limited liability company (lease reference date June 12, 2003)	Exhibit 10.10 of NAI's Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2003, filed with the commission on November 5, 2003

10.14	Credit Agreement dated as of May 1, 2004 by and between NAI and Wells Fargo Bank, National Association	Exhibit 10.11 of NAI's Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2004, filed with the commission on May 17, 2004
10.15	First Amendment to Credit Agreement dated as of February 1, 2005 by and between NAI and Wells Fargo Bank, National Association	Exhibit 10.1 of NAI's Current Report on Form 8-K dated February 1, 2005, filed with the commission on February 7, 2005
10.16	Form of Indemnification Agreement entered into between NAI and each of its directors	Exhibit 10.15 of NAI's Annual Report on Form 10-K for the fiscal year ended June 30, 2004, filed with the commission on September 14, 2004
10.17	Lease of Facilities in Manno, Switzerland between NAIE and Mr. Silvio Tarchini dated May 9, 2005 (English translation)	Exhibit 10.19 of NAI's Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2005, filed with the commission on May 13, 2005
10.18	Lease of Facilities in Manno, Switzerland between NAIE and Mr. Silvio Tarchini dated July 25, 2003 (English translation)	Exhibit 10.19 of NAI's Annual Report on Form 10-K for the fiscal year ended June 30, 2005, filed with the commission on September 8, 2005
10.19	Lease of Facilities in Manno, Switzerland between NAIE and Mr. Silvio Tarchini dated June 8, 2004 (English translation)	Exhibit 10.20 of NAI's Annual Report on Form 10-K for the fiscal year ended June 30, 2005, filed with the commission on September 8, 2005
10.20	Lease of Facilities in Manno, Switzerland between NAIE and Mr. Silvio Tarchini dated February 7, 2005 (English translation)	Exhibit 10.21 of NAI's Annual Report on Form 10-K for the fiscal year ended June 30, 2005, filed with the commission on September 8, 2005
10.21	License Agreement effective as of April 28, 1997 by and among Roger Harris, Mark Dunnett and NAI	Exhibit 10.22 of NAI's Annual Report on Form 10-K for the fiscal year ended June 30, 2005, filed with the commission on September 8, 2005
10.22	Amendment to License Agreement effective as of March 17, 2001 by and among Roger Harris, Mark Dunnett and NAI	Exhibit 10.23 of NAI's Annual Report on Form 10-K for the fiscal year ended June 30, 2005, filed with the commission on September 8, 2005
10.23	Amendment effective as of September 15, 2005 to Lease of Facilities in Manno, Switzerland between NAIE and Mr. Silvio Tarchini dated May 9, 2005 (English translation)	Exhibit 10.24 of NAI's Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2005, filed with the commission on November 4, 2005
10.24	Stock Purchase Agreement effective as of December 5, 2005, by and among NAI and William H. Bunten II and/or Elizabeth W. Bunten, as the trustees of The Bunten Family Trust dated April 14, 2001, John F. Dullea and Carolyn A. Dullea, as the trustees of The John F. and Carolyn A. Dullea Trust dated June 20, 2001, Lincoln Fish, and Michael L. Irwin, as trustee of The Michael L. Irwin Trust u/t/a June 25, 1991	Exhibit 10.1 of NAI's Current Report on Form 8-K dated December 5, 2005, filed with the commission on December 9, 2005
10.25	Form of Lock-Up Agreement effective as of December 5, 2005 entered into between NAI and each Selling Stockholder	Exhibit 10.2 of NAI's Current Report on Form 8-K dated December 5, 2005, filed with the commission on December 9, 2005

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10.26	Employment Agreement effective as of December 5, 2005, by and between RHL and John F. Dullea	Exhibit 10.3 of NAI's Current Report on Form 8-K dated December 5, 2005, filed with the commission on December 9, 2005
10.27	Lease of RHL Facilities in San Diego, California between RHL and Lessor dated February 5, 2003	Exhibit 10.4 of NAI's Current Report on Form 8-K dated December 5, 2005, filed with the commission on December 9, 2005
10.28	Promissory Note made by NAI for the benefit of Wells Fargo Equipment Finance, Inc. in the amount of $3,800,000	Exhibit 10.5 of NAI's Current Report on Form 8-K dated December 5, 2005, filed with the commission on December 9, 2005
10.29	Patent License Agreement by and between Unither Pharma, Inc. and RHL dated May 1, 2002	Exhibit 10.6 of NAI's Current Report on Form 8-K dated December 5, 2005, filed with the commission on December 9, 2005
10.30	Second Amendment to Credit Agreement dated as of December 1, 2005 by and between NAI and Wells Fargo Bank, National Association	Exhibit 10.30 of NAI's Quarterly Report on Form 10-Q for the quarterly period ended December 31, 2005, filed with the commission on February 14, 2006
10.31	Exclusive License Agreement by and between NAI and Richard Linchitz, M.D. effective as of August 23, 2005	Exhibit 10.32 of NAI's Quarterly Report on Form 10-Q for the quarterly period ended December 31, 2005, filed with the commission on February 14, 2006
10.32	Letter amendment to Lease of RHL Facilities in San Diego, California between RHL and Lessor dated January 10, 2006	Exhibit 10.33 of NAI's Quarterly Report on Form 10-Q for the quarterly period ended December 31, 2005, filed with the commission on February 14, 2006
10.33	First Amendment to Lease of Facilities in Vista, California between NAI and Calwest Industrial Properties, LLC, a California limited liability company, effective December 21, 2004	Exhibit 10.34 of NAI's Quarterly Report on Form 10-Q for the quarterly period ended December 31, 2005, filed with the commission on February 14, 2006
10.34	Second Amendment to Lease of Facilities in Vista, California between NAI and Calwest Industrial Properties, LLC, a California limited liability company, effective January 13, 2006	Exhibit 10.35 of NAI's Quarterly Report on Form 10-Q for the quarterly period ended December 31, 2005, filed with the commission on February 14, 2006
10.35	Third Amendment to Credit Agreement dated as of March 15, 2006 by and between NAI and Wells Fargo Bank, National Association	Filed herewith
10.36	Loan Commitment Note made by NAI for the benefit of Wells Fargo Bank, National Association in the amount of $2,500,000	Filed herewith
10.37	Revolving Line of Credit Note (as revised) made by NAI for the benefit of Wells Fargo Bank, National Association in the amount of $12,000,000	Filed herewith
31.1	Rule 13a-14(a)/15d-14(a) Certification of Chief Executive Officer	Filed herewith
31.2	Rule 13a-14(a)/15d-14(a) Certification of Chief Financial Officer	Filed herewith
32	Section 1350 Certification	Filed herewith

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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, thereunto duly authorized.

Date: May 9, 2006

NATURAL ALTERNATIVES INTERNATIONAL, INC.

By: /s/ John R. Reaves
John R. Reaves, Chief Financial Officer

Mr. Reaves is the principal financial officer of Natural Alternatives International, Inc. and has been duly authorized to sign on its behalf.

Exhibit 10.35

THIRD AMENDMENT TO CREDIT AGREEMENT

THIS AMENDMENT TO CREDIT AGREEMENT (this "Amendment") is entered into as of March 15, 2006, by and between NATURAL ALTERNATIVES INTERNATIONAL, INC., a Delaware corporation ("Borrower"), and WELLS FARGO BANK, NATIONAL ASSOCIATION ("Bank").

RECITALS

WHEREAS, Borrower is currently indebted to Bank pursuant to the terms and conditions of that certain Credit Agreement between Borrower and Bank dated as of May 1, 2004, as amended from time to time ("Credit Agreement").

WHEREAS, Bank and Borrower have agreed to certain changes in the terms and conditions set forth in the Credit Agreement and have agreed to amend the Credit Agreement to reflect said changes.

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

1. Section 1.1 (a) is hereby amended by deleting "Eight Million Dollars ($8,000,000.00)" as the maximum principal amount available under the Line of Credit, and by substituting for said amount" Twelve Million Dollars ($12,000,000.00)," with such change to be effective upon the execution and delivery to Bank of a promissory note dated as of March 15, 2006 (which promissory note shall replace and be deemed the Line of Credit Note defined in and made pursuant to the Credit Agreement) and all other contracts, instruments and documents required by Bank to evidence such change.

2. The first sentence of Section 1.1 (b) is hereby deleted in its entirety, and the following substituted therefor:

"Outstanding borrowings under the Line of Credit, to a maximum of the principal amount set forth above, shall not at any time exceed an aggregate of eighty-five percent (85%) of Borrower's eligible accounts receivable, plus fifty percent (50%) of the value of Borrower's eligible inventory (exclusive of work in process and inventory which is obsolete, unsaleable or damaged), with value defined as the lower of cost or market value; provided however, that outstanding borrowings against inventory shall not at any time exceed an aggregate of Six Million Dollars ($6,000,000.00) however the outstanding borrowings against such inventory shall not at any time exceed eligible accounts receivable."

3. Section 1.1(b)(viii) is hereby deleted in its entirety, and the following substituted therefor:

"(viii) that portion of any account from an account debtor which represents the amount by which Borrower's total accounts from said account debtor exceeds twenty-five percent (25%) of Borrower's total accounts, except that Borrower's total accounts from account debtors Mannatech, Inc. and a new account debtor acceptable to Bank shall not exceed thirty-five percent (35%) as determined by semi-monthly report pursuant to Section 4.3(d) below;"

4. The following is hereby added to the Credit Agreement as Section 1.4.1:

"SECTION 1.4.1 LOAN COMMITMENT.

(a) Loan Commitment. Subject to the terms and conditions of this Agreement, Bank hereby agrees to make advances to Borrower from time to time up to and including May 31, 2006, not to exceed the aggregate principal amount of Two Million Five Hundred Thousand Dollars ($2,500,000.00) ("Loan Commitment"), the proceeds of which shall be used for Borrower's working capital needs associated with the orders from a new account debtor acceptable to Bank. Borrower's obligation to repay advances under the Loan Commitment shall be evidenced by a promissory note dated as of March 15, 2006 ("Loan Commitment Note"), all terms of which are incorporated herein by this reference.

(b) Borrowing and Repayment. Borrower may from time to time during the term of the Loan Commitment borrow and partially or wholly repay its outstanding borrowings, provided that amounts repaid may not be reborrowed, subject to all the limitations, terms and conditions contained herein; provided however, that the total outstanding borrowings under the Loan Commitment shall not exceed the maximum principal amount available thereunder, as set forth above. The outstanding principal balance of the Loan Commitment shall be due and payable in full on May 31, 2006.

(c) Prepayment. Borrower may prepay principal on the Loan Commitment solely in accordance with the provisions of the Loan Commitment Note."

5. The first paragraph of Section 1.7 is hereby deleted in its entirety, and the following substituted therefor:

"As security for all indebtedness of Borrower to Bank under the Line of Credit and Loan Commitment, Borrower hereby grants to Bank security interests of first priority in all EJorrower's accounts receivable and other rights to payment, general intangibles, inventory, equipment and fixtures."

6. Section 4.3.(d) is hereby deleted in its entirety, and the following substituted therefor:

"(d) not later than 15 days after and as of the end of each month, an inventory collateral report, an aged listing of accounts receivable and accounts payable, and a reconciliation of accounts; semi-monthly collateral report if Borrower elects to use 35% concentration allowance for Mannatech, Inc. and a new account debtor acceptable to Bank, and not later than 30 days after and as of the end of each May and November, a list of the names, addresses and contact phone numbers of all Borrower's account debtors;"

7. Sections 4.9.(b) and (d) are hereby deleted in their entirety, and the following substituted therefor:

"(b) Total Liabilities divided by Tangible Net Worth not greater than 1.75 to 1.0 until fiscal year end June 30, 2006, not greater than 1.25 to 1.0 from July 1, 2006 through June 30, 2007 and not greater than 1.0 to 1.0, thereafter, with "Total Liabilities" defined as the aggregate of current liabilities and non-current liabilities less subordinated debt, and with "Tangible Net Worth" as defined above.

(d) Fixed Charge Coverage Ratio not less than 1.25 to 1.0 as of each fiscal quarter end, determined on a rolling 4-quarter basis, with "Fixed Charge Coverage Ratio" defined as the aggregate of net profit after taxes plus depreciation expense, amortization expense and net contributions, divided by the aggregate of the current maturity of long-term debt and capitalized lease payments."

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

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

IN WITNESS WHEREOF, the parties hereto have caused this Amendment to be executed as of the day and year first written above.

NATURAL ALTERNATIVES INTERNATIONAL, INC.

By: /S/ JOHN REAVES
Title: CFO

By: /s/ RANDY WEAVER
Title: President

WELLS FARGO BANK, NATIONAL ASSOCIATION

By: /S/ BERNIE PALMER
Bernie Palmer
Vice President

Exhibit 10.36

WELLS FARGO *LOAN COMMITMENT NOTE*

$2,500,000.00 **San Diego, California**
March 15, 2006

FOR VALUE RECEIVED, the undersigned **Natural Alternatives International, Inc.** ("Borrower") promises to pay to the order of WELLS FARGO BANK, NATIONAL ASSOCIATION ("Bank") at its office at **San Diego RCBO, 401 B Street, Suite #2201, San Diego, CA 92101,** or at such other place as the holder hereof may designate, in lawful money of the United States of America and in immediately available funds, the principal sum of **$2,500,000.00,** or so much thereof as may be advanced and be outstanding, with interest thereon, to be computed on each advance from the date of its disbursement as set forth herein.

1. **DEFINITIONS:**

As used herein, the following terms shall have the meanings set forth after each, and any other term defined in this Note shall have the meaning set forth at the place defined:

1.1 "Business Day" means any day except a Saturday, Sunday or any other day on which commercial banks in California are authorized or required by law to close.

1.2 "Fixed Rate Term" means a period commencing on a Business Day and continuing for **30 days**, as designated by Borrower, during which all or a portion of the outstanding principal balance of this Note bears interest determined in relation to LIBOR; provided however, that no Fixed Rate Term may be selected for a principal amount less than **$100,000.00**; and provided further, that no Fixed Rate Term shall extend beyond the scheduled maturity date hereof. If any Fixed Rate Term would end on a day which is not a Business Day, then such Fixed Rate Term shall be extended to the next succeeding Business Day.

1.3 "LIBOR" means the rate per annum (rounded upward, if necessary, to the nearest whole 1/8 of 1%) determined by dividing Base LIBOR by a percentage equal to 100% less any LIBOR Reserve Percentage.

(a) "Base LIBOR" means the rate per annum for United States dollar deposits quoted by Bank as the Inter-Bank Market Offered Rate, with the understanding that such rate is quoted by Bank for the purpose of calculating effective rates of interest for loans making reference thereto, on the first day of a Fixed Rate Term for delivery of funds on said date for a period of time approximately equal to the number of days in such Fixed Rate Term and in an amount approximately equal to the principal amount to which such Fixed Rate Term applies. Borrower understands and agrees that Bank may base its quotation of the Inter-Bank Market Offered Rate upon such offers or other market indicators of the Inter-Bank Market as Bank in its discretion deems appropriate including, but not limited to, the rate offered for U.S. dollar deposits on the London Inter-Bank Market.

(b) "LIBOR Reserve Percentage" means the reserve percentage prescribed by the Board of Governors of the Federal Reserve System (or any successor) for "Eurocurrency Liabilities" (as defined in Regulation D of the Federal Reserve Board, as amended), adjusted by Bank for expected changes in such reserve percentage during the applicable Fixed Rate Term.

1.4 "Prime Rate" means at any time the rate of interest most recently announced within Bank at its principal office as its Prime Rate, with the understanding that the Prime Rate is one of Bank's base rates and serves as the basis upon which effective rates of interest are calculated for those loans making reference thereto, and is evidenced by the recording thereof after its announcement in such internal publication or publications as Bank may designate.

2. INTEREST:

2.1 Interest. The outstanding principal balance of this Note shall bear interest (computed on the basis of a **360**-day year, actual days elapsed) either (a) at a fluctuating rate per annum equal to the Prime Rate in effect from time to time, or (b) at a fixed rate per annum determined by Bank to be **1.75000%** above LIBOR in effect on the first day of the applicable Fixed Rate Term. When interest is determined in relation to the Prime Rate, each change in the rate of interest hereunder shall become effective on the date each Prime Rate change is announced within Bank. With respect to each LIBOR selection option selected hereunder, Bank is hereby authorized to note the date, principal amount, interest rate and Fixed Rate Term applicable thereto and any payments made thereon on Bank's books and records (either manually or by electronic entry) and/or on any schedule attached to this Note, which notations shall be prima facie evidence of the accuracy of the information noted.

2.2 Selection of Interest Rate Options. At any time any portion of this Note bears interest determined in relation to LIBOR, it may be continued by Borrower at the end of the Fixed Rate Term applicable thereto so that all or a portion thereof bears interest determined in relation to the Prime Rate or to LIBOR for a new Fixed Rate Term designated by Borrower. At any time any portion of this Note bears interest determined in relation to the Prime Rate, Borrower may convert all or a portion thereof so that it bears interest determined in relation to LIBOR for a Fixed Rate Term designated by Borrower. At such time as Borrower requests an advance hereunder or wishes to select a LIBOR option for all or a portion of the outstanding principal balance hereof, and at the end of each Fixed Rate Term, Borrower shall give Bank notice specifying: (a) the interest rate option selected by Borrower; (b) the principal amount subject thereto; and (c) for each LIBOR selection, the length of the applicable Fixed Rate Term. Any such notice may be given by telephone (or such other electronic method as Bank may permit) so long as, with respect to each LIBOR selection, (i) if requested by Bank, Borrower provides to Bank written confirmation thereof not later than 3 Business Days after such notice is given, and (ii) such notice is given to Bank prior to 10:00 a.m. on the first day of the Fixed Rate Term, or at a later time during any Business Day if Bank, at it's sole option but without obligation to do so, accepts Borrower's notice and quotes a fixed rate to Borrower. If Borrower does not immediately accept a fixed rate when quoted by Bank, the quoted rate shall expire and any subsequent LIBOR request from Borrower shall be subject to a redetermination by Bank of the applicable fixed rate. If no specific designation of interest is made at the time any advance is requested hereunder or at the end of any Fixed Rate Term, Borrower shall be deemed to have made a Prime Rate interest selection for such advance or the principal amount to which such Fixed Rate Term applied.

2.3 Taxes and Regulatory Costs. Borrower shall pay to Bank immediately upon demand, in addition to any other amounts due or to become due hereunder, any and all (a) withholdings, interest equalization taxes, stamp taxes or other taxes (except income and franchise taxes) imposed by any domestic or foreign governmental authority and related in any manner to LIBOR, and (b) future, supplemental, emergency or other changes in the LIBOR Reserve Percentage, assessment rates imposed by the Federal Deposit Insurance Corporation, or similar requirements or costs imposed by any domestic or foreign governmental authority or resulting from compliance by Bank with any request or directive (whether or not having the force of law) from any central bank or other governmental authority and related in any manner to LIBOR to the extent they are not included in the calculation of LIBOR. In determining which of the foregoing are attributable to any LIBOR option available to Borrower hereunder, any reasonable allocation made by Bank among its operations shall be conclusive and binding upon Borrower.

2.4 Payment of Interest. Interest accrued on this Note shall be payable on the **last** day of each **month**, commencing **March 31, 2006**.

2.5 Default Interest. From and after the maturity date of this Note, or such earlier date as all principal owing hereunder becomes due and payable by acceleration or otherwise, the outstanding principal balance of this Note shall bear interest until paid in full at an increased rate per annum (computed on the basis of a **360**-day year, actual days elapsed) equal to 4% above the rate of interest from time to time applicable to this Note.

3. BORROWING AND REPAYMENT:

3.1 Borrowing and Repayment. Borrower may from time to time during the term of this Note borrow and partially or wholly repay its outstanding borrowings, subject to all of the limitations, terms and conditions of this

Note and of the Credit Agreement between Borrower and Bank defined below; provided however, that amounts repaid may not be reborrowed; and provided further, that the total borrowings under this Note shall not exceed the principal amount stated above. The unpaid principal balance of this obligation at any time shall be the total amounts advanced hereunder by the holder hereof less the amount of principal payments made hereon by or for any Borrower, which balance may be endorsed hereon from time to time by the holder. The outstanding principal balance of this Note shall be due and payable in full on **May 31, 2006.**

3.2 Advances. Advances hereunder, to the total amount of the principal sum available hereunder, may be made by the holder at the oral or written request of (a) **Randell Weaver or John Reaves**, any one acting alone, who are authorized to request advances and direct the disposition of any advances until written notice of the revocation of such authority is received by the holder at the office designated above, or (b) any person, with respect to advances deposited to the credit of any deposit account of any Borrower, which advances, when so deposited, shall be conclusively presumed to have been made to or for the benefit of each Borrower regardless of the fact that persons other than those authorized to request advances may have authority to draw against such account. The holder shall have no obligation to determine whether any person requesting an advance is or has been authorized by any Borrower.

3.3 Application of Payments. Each payment made on this Note shall be credited first, to any interest then due and second, to the outstanding principal balance hereof. All payments credited to principal shall be applied first, to the outstanding principal balance of this Note which bears interest determined in relation to the Prime Rate, if any, and second, to the outstanding principal balance of this Note which bears interest determined in relation to LIBOR, with such payments applied to the oldest Fixed Rate Term first.

4. **PREPAYMENT:**

4.1 Prime Rate. Borrower may prepay principal on any portion of this Note which bears interest determined in relation to the Prime Rate at any time, in any amount and without penalty.

4.2 LIBOR. Borrower may prepay principal on any portion of this; Note which bears interest determined in relation to LIBOR at any time and in the minimum amount of **$100,000.00**; provided however, that if the outstanding principal balance of such portion of this Note is less than said amount, the minimum prepayment amount shall be the entire outstanding principal balance thereof. In consideration of Bank providing this prepayment option to Borrower, or if any such portion of this Note shall become due and payable at any time prior to the last day of the Fixed Rate Term applicable thereto by acceleration or otherwise, Borrower shall pay to Bank immediately upon demand a fee which is the sum of the discounted monthly differences for each month from the month of prepayment through the month in which such Fixed Rate Term matures, calculated as follows for each such month:

(a) Determine the amount of interest which would have accrued each month on the amount prepaid at the interest rate applicable to such amount had it remained outstanding until the last day of the Fixed Rate Term applicable thereto.

(b) Subtract from the amount determined in (a) above the amount of interest which would have accrued for the same month on the amount prepaid for the remaining term of such Fixed Rate Term at LIBOR in effect on the date of prepayment for new loans made for such term and in a principal amount equal to the amount prepaid.

(c) If the result obtained in (b) for any month is greater than zero, discount that difference by LIBOR used in (b) above.

Each Borrower acknowledges that prepayment of such amount may result in Bank incurring additional costs, expenses and/or liabilities, and that it is difficult to ascertain the full extent of such costs, expenses and/or liabilities. Each Borrower, therefore, agrees to pay the above-described prepayment fee and agrees that said amount represents a reasonable estimate of the prepayment costs, expenses and/or liabilities of Bank. If

Borrower fails to pay any prepayment fee when due, the amount of such prepayment fee shall thereafter bear interest until paid at a rate per annum **2.000%** above the Prime Rate in effect from time to time (computed on the basis of a **360**-day year, actual days elapsed). Each change in the rate of interest on any such past due prepayment fee shall become effective on the date each Prime Rate change is announced within Bank.

5. **EVENTS OF DEFAULT:**

This Note is made pursuant to and is subject to the terms and conditions of that certain Credit Agreement between Borrower and Bank dated as of **May 1, 2004,** as amended from time to time (the "Credit Agreement"). Any default in the payment or performance of any obligation under this Note, or any defined event of default under the Credit Agreement, shall constitute an "Event of Default" under this Note.

6. **MISCELLANEOUS:**

6.1 Remedies. Upon the occurrence of any Event of Default, the holder of this Note, at the holder's option, may declare all sums of principal and interest outstanding hereunder to be immediately due and payable without presentment, demand, notice of nonperformance, notice of protest, protest or notice of dishonor, all of which are expressly waived by each Borrower, and the obligation, if any, of the holder to extend any further credit hereunder shall immediately cease and terminate. Each Borrower shall pay to the holder immediately upon demand the full amount of all payments, advances, charges, costs and expenses, including reasonable attorneys' fees (to include outside counsel fees and all allocated costs of the holder's in-house counsel), expended or incurred by the holder in connection with the enforcement of the holder's rights and/or the collection of any amounts which become due to the holder under this Note, and the prosecution or defense of any action in any way related to this Note, including without limitation, any action for declaratory relief, whether incurred at the trial or appellate level, in an arbitration proceeding or otherwise, and including any of the foregoing incurred in connection with any bankruptcy proceeding (including without limitation, any adversary proceeding, contested matter or motion brought by Bank or any other person) relating to any Borrower or any other person or entity.

6.2 Obligations Joint and Several. Should more than one person or entity sign this Note as a Borrower, the obligations of each such Borrower shall be joint and several.

6.3 Governing Law. This Note shall be governed by and construed in accordance with the laws of the State of California.

IN WITNESS WHEREOF, the undersigned has executed this Note as of the date first written above.

Natural Alternatives International, Inc.

By: /s/ John Reaves

Title: CFO

By: /s/ Randy Weaver

Title: President

Exhibit 10.37

WELLS FARGO ***REVOLVING LINE OF CREDIT NOTE***

$12,000,000.00 **San Diego, California**
March 15, 2006

FOR VALUE RECEIVED, the undersigned **Natural Alternatives International, Inc.** (“Borrower”) promises to pay to the order of WELLS FARGO BANK, NATIONAL ASSOCIATION (“Bank”) at its office at **San Diego RCBO, 401 B Street, Suite #2201, San Diego, CA 92101,** or at such other place as the holder hereof may designate, in lawful money of the United States of America and in immediately available funds, the principal sum of **$12,000,000.00,** or so much thereof as may be advanced and be outstanding, with interest thereon, to be computed on each advance from the date of its disbursement as set forth herein.

1. **DEFINITIONS:**

As used herein, the following terms shall have the meanings set forth after each, and any other term defined in this Note shall have the meaning set forth at the place defined:

1.1 “Business Day” means any day except a Saturday, Sunday or any other day on which commercial banks in California are authorized or required by law to close.

1.2 “Fixed Rate Term” means a period commencing on a Business Day and continuing for **1, 2, 3, 6 or 12 months,** as designated by Borrower, during which all or a portion of the outstanding principal balance of this Note bears interest determined in relation to LIBOR; provided however, that no Fixed Rate Term may be selected for a principal amount less than **$100,000.00;** and provided further, that no Fixed Rate Term shall extend beyond the scheduled maturity date hereof. If any Fixed Rate Term would end on a day which is not a Business Day, then such Fixed Rate Term shall be extended to the next succeeding Business Day.

1.3 “LIBOR” means the rate per annum (rounded upward, if necessary, to the nearest whole 1/8 of 1%) determined by dividing Base LIBOR by a percentage equal to 100% less any LIBOR Reserve Percentage.

(a) “Base LIBOR” means the rate per annum for United States dollar deposits quoted by Bank as the Inter-Bank Market Offered Rate, with the understanding that such rate is quoted by Bank for the purpose of calculating effective rates of interest for loans making reference thereto, on the first day of a Fixed Rate Term for delivery of funds on said date for a period of time approximately equal to the number of days in such Fixed Rate Term and in an amount approximately equal to the principal amount to which such Fixed Rate Term applies. Borrower understands and agrees that Bank may base its quotation of the Inter-Bank Market Offered Rate upon such offers or other market indicators of the Inter-Bank Market as Bank in its discretion deems appropriate including, but not limited to, the rate offered for U.S. dollar deposits on the London Inter-Bank Market.

(b) “LIBOR Reserve Percentage” means the reserve percentage prescribed by the Board of Governors of the Federal Reserve System (or any successor) for “Eurocurrency Liabilities” (as defined in Regulation D of the Federal Reserve Board, as amended), adjusted by Bank for expected changes in such reserve percentage during the applicable Fixed Rate Term.

1.4 “Prime Rate” means at any time the rate of interest most recently announced within Bank at its principal office as its Prime Rate, with the understanding that the Prime Rate is one of Bank’s base rates and serves as the basis upon which effective rates of interest are calculated for those loans making reference thereto, and is evidenced by the recording thereof after its announcement in such internal publication or publications as Bank may designate.

2. **INTEREST:**

2.1 Interest. The outstanding principal balance of this Note shall bear interest (computed on the basis of a 360-day year, actual days elapsed) either (a) at a fluctuating rate per annum **equal to** the Prime Rate in effect from time to time, or (b) at a fixed rate per annum determined by Bank to be **1.75000%** above LIBOR in effect on the first day of the applicable Fixed Rate Term. When interest is determined in relation to the Prime Rate, each change in the rate of interest hereunder shall become effective on the date each Prime Rate change is announced within Bank. With respect to each LIBOR selection option selected hereunder, Bank is hereby authorized to note the date, principal amount, interest rate and Fixed Rate Term applicable thereto and any payments made thereon on Bank's books and records (either manually or by electronic entry) and/or on any schedule attached to this Note, which notations shall be prima facie evidence of the accuracy of the information noted.

2.2 Selection of Interest Rate Options. At any time any portion of this Note bears interest determined in relation to LIBOR, it may be continued by Borrower at the end of the Fixed Rate Term applicable thereto so that all or a portion thereof bears interest determined in relation to the Prime Rate or to LIBOR for a new Fixed Rate Term designated by Borrower. At any time any portion of this Note bears interest determined in relation to the Prime Rate, Borrower may convert all or a portion thereof so that it bears interest determined in relation to LIBOR for a Fixed Rate Term designated by Borrower. At such time as Borrower requests an advance hereunder or wishes to select a LIBOR option for all or a portion of the outstanding principal balance hereof, and at the end of each Fixed Rate Term, Borrower shall give Bank notice specifying: (a) the interest rate option selected by Borrower; (b) the principal amount subject thereto; and (c) for each LIBOR selection, the length of the applicable Fixed Rate Term. Any such notice may be given by telephone (or such other electronic method as Bank may permit) so long as, with respect to each LIBOR selection, (i) if requested by Bank, Borrower provides to Bank written confirmation thereof not later than 3 Business Days after such notice is given, and (ii) such notice is given to Bank prior to 10:00 a.m. on the first day of the Fixed Rate Term, or at a later time during any Business Day if Bank, at it's sole option but without obligation to do so, accepts Borrower's notice and quotes a fixed rate to Borrower. If Borrower does not immediately accept a fixed rate when quoted by Bank, the quoted rate shall expire and any subsequent LIBOR request from Borrower shall be subject to a redetermination by Bank of the applicable fixed rate. If no specific designation of interest is made at the time any advance is requested hereunder or at the end of any Fixed Rate Term, Borrower shall be deemed to have made a Prime Rate interest selection for such advance or the principal amount to which such Fixed Rate Term applied.

2.3 Taxes and Regulatory Costs. Borrower shall pay to Bank immediately upon demand, in addition to any other amounts due or to become due hereunder, any and all (a) withholdings, interest equalization taxes, stamp taxes or other taxes (except income and franchise taxes) imposed by any domestic or foreign governmental authority and related in any manner to LIBOR, and (b) future, supplemental, emergency or other changes in the LIBOR Reserve Percentage, assessment rates imposed by the Federal Deposit Insurance Corporation, or similar requirements or costs imposed by any domestic or foreign governmental authority or resulting from compliance by Bank with any request or directive (whether or not having the force of law) from any central bank or other governmental authority and related in any manner to LIBOR to the extent they are not included in the calculation of LIBOR. In determining which of the foregoing are attributable to any LIBOR option available to Borrower hereunder, any reasonable allocation made by Bank among its operations shall be conclusive and binding upon Borrower.

2.4 Payment of Interest. Interest accrued on this Note shall be payable on the **1st** day of each **month,** commencing **April 1, 2006.**

2.5 Default Interest. From and after the maturity date of this Note, or such earlier date as all principal owing hereunder becomes due and payable by acceleration or otherwise, the outstanding principal balance of this Note shall bear interest until paid in full at an increased rate per annum (computed on the basis of a 360-day year, actual days elapsed) equal to 4% above the rate of interest from time to time applicable to this Note.

3. **BORROWING AND REPAYMENT:**

3.1 Borrowing and Repayment. Borrower may from time to time during the term of this Note borrow, partially or wholly repay its outstanding borrowings, and reborrow, subject to all of the limitations, terms and conditions of this Note and of the Credit Agreement between Borrower and Bank defined below, provided however, that the total outstanding borrowings under this Note shall not at any time exceed the principal amount stated above. The unpaid principal balance of this obligation at any time shall be the total amounts advanced hereunder by the holder hereof less the amount of principal payments made hereon by or for any Borrower, which balance may be endorsed hereon from time to time by the holder. The outstanding principal balance of this Note shall be due and payable in full on **November 1, 2007.**

3.2 Advances. Advances hereunder, to the total amount of the principal sum available hereunder, may be made by the holder at the oral or written request of (a) **Randell Weaver or John Reaves,** any one acting alone, who are authorized to request advances and direct the disposition of any advances until written notice of the revocation of such authority is received by the holder at the office designated above, or (b) any person, with respect to advances deposited to the credit of any deposit account of any Borrower, which advances, when so deposited, shall be conclusively presumed to have been made to or for the benefit of each Borrower regardless of the fact that persons other than those authorized to request advances may have authority to draw against such account. The holder shall have no obligation to determine whether any person requesting an advance is or has been authorized by any Borrower.

3.3 Application of Payments. Each payment made on this Note shall be credited first, to any interest then due and second, to the outstanding principal balance hereof. All payments credited to principal shall be applied first, to the outstanding principal balance of this Note which bears interest determined in relation to the Prime Rate, if any, and second, to the outstanding principal balance of this Note which bears interest determined in relation to LIBOR, with such payments applied to the oldest Fixed Rate Term first.

4. **PREPAYMENT:**

4.1 Prime Rate. Borrower may prepay principal on any portion of this Note which bears interest determined in relation to the Prime Rate at any time, in any amount and without penalty.

4.2 LIBOR. Borrower may prepay principal on any portion of this Note which bears interest determined in relation to LIBOR at any time and in the minimum amount of **$100,000.00;** provided however, that if the outstanding principal balance of such portion of this Note is less than said amount, the minimum prepayment amount shall be the entire outstanding principal balance thereof. In consideration of Bank providing this prepayment option to Borrower, or if any such portion of this Note shall become due and payable at any time prior to the last day of the Fixed Rate Term applicable thereto by acceleration or otherwise, Borrower shall pay to Bank immediately upon demand a fee which is the sum of the discounted monthly differences for each month from the month of prepayment through the month in which such Fixed Rate Term matures, calculated as follows for each such month:

(a) Determine the amount of interest which would have accrued each month on the amount prepaid at the interest rate applicable to such amount had it remained outstanding until the last day of the Fixed Rate Term applicable thereto.

(b) Subtract from the amount determined in (a) above the amount of interest which would have accrued for the same month on the amount prepaid for the remaining term of such Fixed Rate Term at LIBOR in effect on the date of prepayment for new loans made for such term and in a principal amount equal to the amount prepaid.

(c) If the result obtained in (b) for any month is greater than zero, discount that difference by LIBOR used in (b) above.

Each Borrower acknowledges that prepayment of such amount may result in Bank incurring additional costs, expenses and/or liabilities, and that it is difficult to ascertain the full extent of such costs, expenses and/or liabilities. Each Borrower, therefore, agrees to pay the above-described prepayment fee and agrees that said amount represents a reasonable estimate of the prepayment costs, expenses and/or liabilities of Bank. If

Borrower fails to pay any prepayment fee when due, the amount of such prepayment fee shall thereafter bear interest until paid at a rate per annum **2.000%** above the Prime Rate in effect from time to time (computed on the basis of a 360-day year, actual days elapsed). Each change in the rate of interest on any such past due prepayment fee shall become effective on the date each Prime Rate change is announced within Bank.

5. **EVENTS OF DEFAULT:**

This Note is made pursuant to and is subject to the terms and conditions of that certain Credit Agreement between Borrower and Bank dated as of **May 1, 2004,** as amended from time to time (the "Credit Agreement"). Any default in the payment or performance of any obligation under this Note, or any defined event of default under the Credit Agreement, shall constitute an "Event of Default" under this Note.

6. **MISCELLANEOUS:**

6.1 Remedies. Upon the occurrence of any Event of Default, the holder of this Note, at the holder's option, may declare all sums of principal and interest outstanding hereunder to be immediately due and payable without presentment, demand, notice of nonperformance, notice of protest, protest or notice of dishonor, all of which are expressly waived by each Borrower, and the obligation, if any, of the holder to extend any further credit hereunder shall immediately cease and terminate. Each Borrower shall pay to the holder immediately upon demand the full amount of all payments, advances, charges, costs and expenses, including reasonable attorneys' fees (to include outside counsel fees and all allocated costs of the holder's in-house counsel), expended or incurred by the holder in connection with the enforcement of the holder's rights and/or the collection of any amounts which become due to the holder under this Note, and the prosecution or defense of any action in any way related to this Note, including without limitation, any action for declaratory relief, whether incurred at the trial or appellate level, in an arbitration proceeding or otherwise, and including any of the foregoing incurred in connection with any bankruptcy proceeding (including without limitation, any adversary proceeding, contested matter or motion brought by Bank or any other person) relating to any Borrower or any other person or entity.

6.2 Obligations Joint and Several. Should more than one person or entity sign this Note as a Borrower, the obligations of each such Borrower shall be joint and several.

6.3 Governing Law. This Note shall be governed by and construed in accordance with the laws of the State of California.

IN WITNESS WHEREOF, the undersigned has executed this Note as of the date first written above.

Natural Alternatives International, Inc.

By: /s/ John Reaves
Title: CFO

By: /s/ Randy Weaver
Title: President

Exhibit 31.1

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

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

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

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

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

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) 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) 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

c) 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;

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

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

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

Date: May 9, 2006

/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, John R. Reaves, 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.;

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)) 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) 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

c) 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;

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

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

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

Date: May 9, 2006

/s/ John R. Reaves
John R. Reaves, Chief Financial Officer

Exhibit 32

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

Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (Subsections (a) and (b) of Section 1350, Chapter 63 of Title 18, United States Code), each of the undersigned officers of Natural Alternatives International, Inc., a Delaware corporation, does hereby certify, to such officer's knowledge, that the Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2006 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: May 9, 2006	/s/ Mark A. LeDoux
	Mark A. LeDoux, Chief Executive Officer
Date: May 9, 2006	/s/ John R. Reaves
	John R. Reaves, 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.