

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

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF
THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended SEPTEMBER 30, 1997

OR

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

Commission file number 0-15701

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

Delaware
(State of other jurisdiction of incorporation
or organization)

84-1007839
(I.R.S. Employer
Identification No.)

1185 LINDA VISTA DRIVE, SAN MARCOS, CALIFORNIA 92069
(Address of principal executive offices)
(Zip Code)

(760) 744-7340
(Registrant's telephone number, including area code)

Indicate by check mark whether the Registrant (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 the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes X No

5,431,764

(Number of shares of common stock of the registrant outstanding as of
October 30, 1997)

CONSOLIDATED BALANCE SHEETS

ASSETS

	September 30 1997	June 30 1997
	----- (unaudited)	-----
Current Assets:		
Cash and cash equivalents	\$ 2,006,149	\$ 3,469,739
Accounts receivable - less allowance for doubtful accounts of \$232,000 at September 30, 1997 and \$231,000 at June 30, 1997	5,662,922	6,990,121
Accounts receivable, related party - less allowance for doubtful accounts of \$775,000 at September 30 and June 30, 1997	--	--
Inventory	7,071,082	5,690,850
Tax refund receivable	45,209	842,209
Notes receivable - current portion	234,627	235,613
Deferred income taxes	851,000	851,000
Deposits	219,089	322,269
Other current assets	802,045	456,178
	-----	-----
Total Current Assets	16,892,123	18,857,979
	-----	-----
Property and equipment, net	9,120,463	8,259,705
	-----	-----
Other Assets:		
Investments	58,862	58,862
Notes receivable, less current portion	256,373	261,697
Other noncurrent assets, net	290,110	290,932
	-----	-----
Total Other Assets	605,345	611,491
	-----	-----
TOTAL ASSETS	\$26,617,931	\$27,729,175
	=====	=====

	September 30 1997	June 30 1997
	-----	-----
	(unaudited)	
Current Liabilities:		
Accounts payable	\$ 5,303,885	\$ 6,907,998
Current installments of long-term debt	175,359	164,266
Current installments of capital lease obligations	26,220	25,189
Accrued compensation and employee benefits	255,245	321,337
	-----	-----
Total Current Liabilities	5,760,709	7,418,790
Deferred income taxes	487,000	487,000
Long-term debt, less current installments	1,047,565	1,100,285
Capital lease obligations, less current installments	15,000	23,613
	-----	-----
Total Liabilities	7,310,274	9,029,688
	-----	-----
Stockholders' Equity:		
Preferred stock; \$.01 par value; 500,000 shares authorized; none issued or outstanding	--	--
Common stock; \$.01 par value; 8,000,000 shares authorized; issued and outstanding 5,431,764 at September 30, 1997 and 5,429,764 at June 30, 1997	54,318	54,298
Additional paid-in capital	6,685,156	6,675,426
Retained earnings	12,619,433	12,021,013
Net unrealized losses on investments	(51,250)	(51,250)
	-----	-----
Total Stockholders' Equity	19,307,657	18,699,487
	-----	-----
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 26,617,931	\$ 27,729,175
	=====	=====

NATURAL ALTERNATIVES INTERNATIONAL, INC.
PART I - FINANCIAL INFORMATION

CONSOLIDATED STATEMENTS OF EARNINGS
(Unaudited)

	For the Three Months Ended September 30	
	-----	-----
	1997	1996
	-----	-----
Net sales	\$ 12,032,576	\$ 11,437,022
Cost of goods sold	8,871,222	8,176,382
	-----	-----
GROSS PROFIT	3,161,354	3,260,640

NATURAL ALTERNATIVES INTERNATIONAL, INC.
PART I - FINANCIAL INFORMATION

CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

	For the Three Months Ended September 30	
	1997	1996
	-----	-----
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net earnings	\$ 598,420	\$ 900,373
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Bad debt expense	90,000	96,621
Tax benefit on option exercise	0	45,900
Depreciation and amortization	346,234	293,026
Loss on disposal of assets	0	1,500
Other	(5,585)	(6,704)
Changes in operating assets and liabilities:		
(Increase) decrease in:		
Accounts receivable	1,237,199	(63,273)
Inventory	(1,380,232)	(1,947,857)
Deposits	103,180	(236,530)
Tax refund receivable	797,000	--
Other assets	(345,044)	(176,012)
(Decrease) increase in:		
Accounts payable	(1,604,113)	1,271,514
Accrued compensation and employee benefits	(66,092)	(62,031)
Income taxes payable	--	124,141
	-----	-----
Net Cash Provided by Operating Activities	(229,033)	240,668
	-----	-----

(Continued)

NATURAL ALTERNATIVES INTERNATIONAL, INC.
PART I - FINANCIAL INFORMATION

CONSOLIDATED STATEMENTS OF CASH FLOWS (continued)
(Unaudited)

	1997	1996
	-----	-----
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from sale of property and equipment	\$ --	\$ 1,250
Capital expenditures	(1,206,991)	(233,107)
Issuance of notes receivable	(4,625)	(26,000)
Repayment of notes receivable	16,518	18,749
	-----	-----
Net Cash Used in Investing Activities	(1,195,098)	(239,108)
	-----	-----
CASH FLOWS FROM FINANCING ACTIVITIES:		
Payments on long-term debt and capital leases	(49,209)	(69,954)
Issuance of common stock	9,750	116,500
	-----	-----
Net Cash Provided by (Used in) Financing Activities	(39,459)	46,546
	-----	-----
Net Increase (Decrease) in Cash and Cash Equivalents	(1,463,590)	48,106
Cash and Cash Equivalents at Beginning of Period	3,469,739	1,887,427
	-----	-----
Cash and Cash Equivalents at End of Period	\$ 2,006,149	\$ 1,935,533
	=====	=====

PART I - FINANCIAL INFORMATION
NOTES TO CONDENSED
CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 - BASIS OF PRESENTATION

The unaudited consolidated financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments, consisting of a normal recurring nature considered necessary for a fair presentation, have been included. It is suggested that these consolidated financial statements be read in conjunction with the financial statements and notes thereto included in the Company's annual report on Form 10-K for the year ended June 30, 1997. The results of operations for the periods ended September 30, 1997 and 1996 are not necessarily indicative of the operating results for the full year.

Certain amounts in prior period financial statements have been reclassified to conform to the current period financial statements.

NOTE 2 - PRINCIPLES OF CONSOLIDATION

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries, Millennium Health International, Inc. (formerly Pro-Lean, Inc. and prior to that Sonergy, Inc.), CellLife International, Inc. and CellLife Pharmaceuticals International, Inc. all of which had been administered and operated out of the Company's facilities. During fiscal 1997, the assets and liabilities of each of the subsidiaries were transferred to the Company and their operations were assumed by the Company. All significant intercompany accounts and transactions for the three months ended September 30, 1996 have been eliminated.

NOTE 3 - INVENTORIES

Inventories are comprised of:

	September 30 1997 -----	June 30 1997 -----
Raw materials	\$3,255,526	\$2,747,451
Work in progress	3,291,898	2,598,430
Finished goods	523,658	344,969
	-----	-----
	\$7,071,082	\$5,690,850
	=====	=====

NOTES TO CONDENSED
CONSOLIDATED FINANCIAL STATEMENTS

NOTE 4 - NET EARNINGS PER SHARE

Primary earnings per share is computed based upon the weighted average number of shares outstanding during the period plus the dilutive effects of common shares contingently issuable from stock options. Fully diluted earnings per share reflect additional dilution related to common stock equivalents due to the use of the market price at the end of the period, when higher than the average price for the period. Common stock options and common stock purchase warrants are excluded from the computation of net earnings per share if their effect is anti-dilutive.

The weighted average number of shares outstanding and common stock equivalents are as follows:

	For the Three Months Ended September 30	
	1997	1996
	-----	-----
Primary and fully diluted	5,675,789	5,653,956

NOTE 5 - STOCKHOLDERS' EQUITY

Effective June 5, 1992, the Company adopted the 1992 Incentive Stock Option Plan for which 500,000 common shares have been reserved for issuance to officers, directors, and key employees of the Company. The plan provides that no option may be granted at an exercise price less than the fair market value of the common stock of the Company on the date of grant. On September 9, 1993, 200,000 options were granted at the fair market value price of \$4.875 per share.

Also effective June 5, 1992, the Company adopted the 1992 Nonqualified Stock Option Plan and reserved a total of 250,000 common shares for issuance to officers, employees, and consultants of the Company. On September 9, 1993, 250,000 options were granted at the fair market value price of \$4.875 per share.

Effective December 9, 1994, the Board of Directors approved the 1994 Nonqualified Stock Option Plan for which 500,000 common shares were reserved for issuance to officers, employees, and consultants of the Company. On January 24, 1995, 500,000 options were granted at the fair market value price of \$4.625 per share.

All stock options under each of the plans have five-year terms and all options became fully vested one year after their grant date.

(continued)

NATURAL ALTERNATIVES INTERNATIONAL, INC.
PART I - FINANCIAL INFORMATION

NOTES TO CONDENSED
CONSOLIDATED FINANCIAL STATEMENTS

NOTE 5 - STOCKHOLDERS' EQUITY (continued)

Stock option activity during the periods indicated is summarized below:

	1992 Incentive Plan -----	1992 Nonqualified Plan -----	1994 Nonqualified Plan -----
Outstanding and exercisable at June 30, 1997	93,169	220,942	451,500
Granted at \$4.625 per share	--	--	--
Exercised	--	2,000	--
	-----	-----	-----
Outstanding and exercisable at September 30, 1997	93,169 =====	218,942 =====	451,500 =====
Weighted-average exercise price, June 30, 1997 and June 30, 1996	\$ 4.875	\$ 4.875	\$ 4.625
Weighted-average remaining contractual life	One Year	One Year	Three Years
Available for grant at September 30, 1997	300,000 =====	--- =====	--- =====

Effective January 24, 1995, 100,000 options were granted pursuant to a consulting agreement at the fair market value price of \$4.625 per share. On September 20, 1996, 45,000 options were granted pursuant to a consulting agreement at prices ranging from \$9.00 to \$15.00 per share. None of these options had been exercised as of September 30, 1997.

NOTE 6 - PENSION PLAN

Effective January 1, 1997, the Company adopted a defined benefit pension plan (the "Plan") covering substantially all of its employees. The benefits are based on years of service and the employee's compensation during the five years before retirement. The Company will make annual contributions to the Plan equal to the maximum amount that can be deducted for income tax purposes. For the three months ended September 30, 1997, the estimated current service cost (normal cost) and the amortized portion of the unfunded estimated accrued liability for prior service cost, using a 30-year funding period, amounted to \$79,000. This amount has been accrued in the current period.

NOTES TO CONDENSED
CONSOLIDATED FINANCIAL STATEMENTS

NOTE 7 - MAJOR CUSTOMERS

The Company had substantial sales to five separate customers during one or more of the periods shown in the following table. The loss of any of these customers could have an adverse impact on the Company's revenues and earnings in the short-term. Sales by customer, representing 10% or more of the respective period's total sales, are shown below by industry segment.

Industry Segment	Three Months Ended September 30, 1997		Three Months Ended September 30, 1996	
	Sales by Customer	% (a)	Sales by Customer	% (a)
Multi-level Distribution:				
Customer 1	\$4,763,331	40%	\$2,637,830	23%
Customer 2	2,023,937	17%	2,740,933	24%
Customer 3	1,370,156	11%	1,481,048	13%
Customer 4	(b)		1,351,063	12%
Customer 5	1,253,346	10%	(b)	
	-----	---	-----	---
	\$9,410,770	78%	\$8,210,874	72%
	=====	===	=====	===

(a) Percent of total sales (b) Sales for the period were less than 10% of total sales.

NATURAL ALTERNATIVES INTERNATIONAL, INC.
PART I - FINANCIAL INFORMATION

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION
AND RESULTS OF OPERATIONS

Except for the historical information contained herein, the following discussion contains forward-looking statements that involve risks and uncertainties. The Company's actual results could differ materially from those projected in the forward-looking statements. Factors that could cause or contribute to such differences include, but are not limited to, those discussed in this section and those discussed in the Company's Annual Report on Form 10-K.

RESULTS OF OPERATIONS

FIRST QUARTER OF FISCAL 1998 AND 1997

The Company's consolidated net sales for the quarter ended September 30, 1997, amounted to \$12.0 million, an increase of \$.6 million over the \$11.4 million generated during the quarter ended September 30, 1996. The 5% increase in sales is primarily attributable to the ramping up of the Company's new tablet manufacturing facility, which helped boost sales in Asia, and sales to new customers. International sales for the quarter ended September 30, 1997, amounted to \$3.6 million compared to \$.3 million for the quarter ended September 30, 1996. The increases in sales from international and new customer business were partially offset by decreased sales to certain other customers.

Gross profit margins were 26.3% for the quarter ended September 30, 1997, compared to 28.5% for the quarter ended September 30, 1996. The decrease in margins was due to cost increases incurred in the fourth quarter of fiscal 1997 for certain raw materials and for subcontracted packaging.

Selling, general and administrative expenses increased as a percentage of revenues to 18.3% for the quarter ended September 30, 1997 from 15.3% for the quarter ended September 30, 1996. The increase of \$459,000 was primarily due to expenses associated with the employee pension plan, which was adopted on January 1, 1997, and higher depreciation and other start-up expenses connected with the new tablet manufacturing facility.

Net earnings for the quarter ended September 30, 1997, amounted to \$.6 million, a \$.3 million decrease from the \$.9 million in net earnings produced for the quarter ended September 30, 1996. The decrease in net earnings was due primarily to the decline in gross profit margins and the increase in selling, general and administrative expenses discussed above.

Earnings per share for the quarter ended September 30, 1997, was \$.11 compared to \$.16 for the quarter ended September 30, 1996. The decrease was due to the reasons discussed above.

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NATURAL ALTERNATIVES INTERNATIONAL, INC. PART I - FINANCIAL INFORMATION

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

LIQUIDITY AND CAPITAL RESOURCES

At September 30, 1997, the Company had working capital of \$11,298,000 compared to \$11,439,000 as of June 30, 1997. Decreases in cash and cash equivalents and accounts receivable were offset by an increase in inventories and a decrease in accounts payable. Inventory levels at September 30, 1997, compared to sales, increased moderately relative to historical levels, due principally to increased stocking for fulfillment of an increased sales order backlog.

The Company has purchase commitments approximating \$600,000 for additional production equipment that is expected to be placed in service in the second quarter of fiscal 1998. These expenditures are expected to be funded from cash flow from operating activities.

The Company believes it has sufficient sources of funds to finance its ongoing operations and meet its capital asset purchases, as well as future growth through a combination of internally generated cash flow, revolving lines of credit and equipment financing. The Company has revolving line of credit agreements permitting borrowings up to \$3,000,000, which are secured by the Company's receivables, inventory, equipment, and vehicles and bear interest at

the bank's prime rate. The bank's prime rate at September 30, 1997 was 8.5%. The lines of credit expire on December 5, 1997; management expects such lines to be renewed in the normal course of business. The company had no borrowings at September 30, 1997, or at June 30, 1997, under these credit lines.

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NATURAL ALTERNATIVES INTERNATIONAL, INC.
PART II - OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

The Company is involved in various claims and legal actions arising in the ordinary course of business. In the opinion of management, based in part on the advice of counsel, the ultimate disposition of these matters will not have a material adverse impact on the Company's consolidated financial position, operations or cash flows.

ITEM 2. CHANGES IN SECURITIES

None.

ITEM 3. DEFAULTS BY THE COMPANY ON ITS SENIOR SECURITIES

None.

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

None.

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits: The following exhibits are filed herewith:

11.0. Computation of weighted average common shares outstanding.

27.0. Financial Data Schedule

(b) No reports on Form 8-K were filed during the quarter ended September 30, 1997.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

NATURAL ALTERNATIVES INTERNATIONAL, INC.

MARK A. LE DOUX

Date: November 12, 1997

Mark A. Le Doux
Chief Executive Officer

WILLIAM P. SPENCER

Date: November 12, 1997

William P. Spencer
President

NATURAL ALTERNATIVES INTERNATIONAL, INC.
 STATEMENT RE: COMPUTATION OF PER SHARE EARNINGS
 (unaudited)

	From	To	Days Outstanding	Shares	Primary and Fully Diluted Weighted Average Shares Outstanding
	----	--	-----	-----	-----
For the Three Months Ended September 30, 1997:					
Beginning shares	07/01/97	09/30/97	92	5,429,764	5,429,764
Exercise of employee stock options, by date:	08/08/97	09/30/97	53	2,000	1,152
Dilutive effect of common stock equivalents: 866,611 stock options at average price per share				n/a	244,873
Ending shares				5,431,764	5,675,789
Net earnings					\$598,420
Net earnings per share					\$0.11
For the Three Months Ended September 30, 1996:					
Beginning shares	07/01/96	09/30/96	92	5,351,875	5,351,875
Exercise of employee stock options, by date:	07/05/96	09/30/96	88	5,000	4,783
	07/22/96	09/30/96	71	4,000	3,087
	07/25/96	09/30/96	68	6,000	4,435
	08/07/96	09/30/96	55	4,000	2,391
	08/13/96	09/30/96	49	5,000	2,663
Dilutive effect of common stock equivalents: 922,500 stock options at average price per share				n/a	284,722
Ending shares				5,375,875	5,653,956
Net earnings					\$900,373
Net earnings per share					\$0.16

<ARTICLE> 5

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The schedule contains summary financial information extracted from the unaudited consolidated financial statements for the quarter ended September 30, 1997, and is qualified in its entirety by reference to such financial statements.

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