

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, 1996

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)

(619) 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 No
--- ---

5,298,375

(Number of shares of common stock of the registrant outstanding as of
April 30, 1996)

NATURAL ALTERNATIVES INTERNATIONAL, INC.
PART I - FINANCIAL INFORMATION

CONSOLIDATED BALANCE SHEETS

ASSETS

	March 31, 1996	June 30, 1995
	-----	-----
	(Unaudited)	
CURRENT ASSETS:		
Cash and cash equivalents	\$ 1,693,554	\$ 2,526,839
Accounts receivable - less allowance for doubtful accounts of \$282,000 at March 31, 1996 and \$215,000 at June 30, 1995	5,333,171	5,590,165
Inventory	8,142,416	5,229,585
Notes receivable - current portion	159,951	183,255
Deferred income taxes	258,000	326,000
Other current assets	768,878	867,085
	-----	-----
TOTAL CURRENT ASSETS	16,355,970	14,722,929
	-----	-----

PROPERTY AND EQUIPMENT, at cost, less accumulated depreciation and amortization of \$4,357,000 at March 31, 1996 and \$3,698,000 at June 30, 1995	6,080,570	5,774,732
	-----	-----
OTHER ASSETS:		
Investments	52,483	50,254
Notes receivable, less current portion	311,445	365,871
Other non-current assets	218,582	279,994
	-----	-----
TOTAL OTHER ASSETS	582,510	696,119
	-----	-----
TOTAL ASSETS	\$23,019,050	\$21,193,780
	=====	=====

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NATURAL ALTERNATIVES INTERNATIONAL, INC.
PART I - FINANCIAL INFORMATION

CONSOLIDATED BALANCE SHEETS (continued)

LIABILITIES AND STOCKHOLDERS' EQUITY

	March 31, 1996	June 30, 1995
	-----	-----
	(Unaudited)	
CURRENT LIABILITIES:		
Accounts payable	\$ 4,848,456	\$ 4,974,845
Current installments of long-term debt	198,401	213,812
Current installments of capital lease obligations	22,610	20,786
Accrued compensation and employee benefits	168,661	528,704
Income taxes payable	527,021	738,075
Other current liabilities	58,959	39,475
	-----	-----
TOTAL CURRENT LIABILITIES	5,824,108	6,515,697
Deferred income taxes	357,000	285,000
Long-term debt, less current installments	883,875	1,043,179
Capital lease obligations, less current installments	54,498	71,649
	-----	-----
TOTAL LIABILITIES	7,119,481	7,915,525
	-----	-----
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 5,298,375 at March 31, 1996 and 5,257,875 at June 30, 1995	52,984	52,579
Additional paid-in capital	5,875,751	5,586,759
Retained earnings	10,008,464	7,678,776
Net unrealized losses on investments	(37,630)	(39,859)
	-----	-----
TOTAL STOCKHOLDERS' EQUITY	15,899,569	13,278,255
	-----	-----
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$23,019,050	\$21,193,780
	=====	=====

See accompanying notes to consolidated financial statements

NATURAL ALTERNATIVES INTERNATIONAL, INC.
PART I - FINANCIAL INFORMATION

CONSOLIDATED STATEMENTS OF OPERATIONS

	For the Three Months Ended March 31,	
	(Unaudited)	
	1996	1995
REVENUE, net	\$12,782,137	\$10,287,529
COST OF GOODS SOLD	9,329,320	7,565,083
GROSS PROFIT	3,452,817	2,722,446
SELLING, GENERAL & ADMINISTRATIVE	1,763,861	1,707,682
OPERATING INCOME	1,688,956	1,014,764
OTHER INCOME (EXPENSE):		
Interest income	21,090	26,038
Interest expense	(48,861)	(35,465)
Other, net	17,217	112,745
	(10,554)	103,318
EARNINGS BEFORE INCOME TAXES	1,678,402	1,118,082
INCOME TAXES	673,000	469,000
NET EARNINGS	\$ 1,005,402	\$ 649,082
NET EARNINGS PER COMMON SHARE:		
Primary	\$.18	\$.12
Fully Diluted	\$.18	\$.12

See accompanying notes to consolidated financial statements

NATURAL ALTERNATIVES INTERNATIONAL, INC.
PART I - FINANCIAL INFORMATION

CONSOLIDATED STATEMENTS OF OPERATIONS

	For the Nine Months Ended March 31,	
	(Unaudited)	
	1996	1995
REVENUE, net	\$34,889,892	\$23,172,424
COST OF GOODS SOLD	25,842,322	16,835,167
GROSS PROFIT	9,047,570	6,337,257
SELLING, GENERAL & ADMINISTRATIVE	5,166,568	4,658,048
OPERATING INCOME	3,881,002	1,679,209
OTHER INCOME (EXPENSE):		
Interest income	68,771	62,720
Interest expense	(116,514)	(88,172)
Other, net	32,429	98,255
	(15,314)	72,803
EARNINGS BEFORE INCOME TAXES	3,865,688	1,752,012
INCOME TAXES	1,536,000	751,000
NET EARNINGS	\$ 2,329,688	\$ 1,001,012
NET EARNINGS PER COMMON SHARE:		
Primary	\$.42	\$.17
Fully Diluted	\$.42	\$.17

See accompanying notes to consolidated financial statements

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NATURAL ALTERNATIVES INTERNATIONAL, INC.
PART I - FINANCIAL INFORMATION

CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY (Unaudited)

Common Stock Shares	Amount	Additional Paid-In Capital	Retained Earnings	Net Unrealized (Losses)	Total
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Balance at June 30, 1995	5,257,875	\$52,579	\$5,586,759	\$ 7,678,776	\$(39,859)	\$13,278,255
Issuance of common stock for employee stock options	40,500	405	196,992	---	---	197,397
Income tax benefit from employee stock options	---	---	92,000	---	---	92,000
Net unrealized gains (losses) on investments	---	---	---	---	2,229	2,229
Net earnings	---	---	---	2,329,688	---	2,329,688
Balance at March 31, 1996	5,298,375	\$52,984	\$5,875,751	\$10,008,464	\$(37,630)	\$15,899,569

See accompanying notes to consolidated financial statements

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NATURAL ALTERNATIVES INTERNATIONAL, INC.
PART I - FINANCIAL INFORMATION

CONSOLIDATED STATEMENTS OF CASH FLOWS

	For the Nine Months Ended March 31,	
	(Unaudited)	
	1996	1995
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net earnings	\$ 2,329,688	\$ 1,001,012
Adjustments to reconcile net earnings to net cash provided by (used in) operating activities:		
Depreciation and amortization	775,783	772,835
Tax benefit on option exercise	92,000	1,000
Bad debt expense	292,203	108,612
(Gain) loss on disposal of assets	11,038	16,300
(Gain) loss on disposal of investments	(39,120)	---
Deferred income taxes	140,000	240,000
Changes in operating assets and liabilities:		
(Increase) decrease in:		
Accounts receivable	31,185	122,163
Inventory	(2,912,831)	(2,269,171)
Prepaid income taxes	---	(81,075)
Deposits	25,086	74,168
Other assets	109,628	(147,084)
(Decrease) increase in:		
Accounts payable	(126,388)	1,260,661
Accrued compensation and employee benefits	(360,043)	25,598
Accrued income taxes	(211,054)	481,075
Other current liabilities	19,484	(3,136)
NET CASH PROVIDED BY OPERATING ACTIVITIES	176,659	1,602,958
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from sale of investments	50,120	---
Investments	(35,582)	(22,500)
Proceeds from sale of property and equipment	55,337	45,000
Capital expenditures	(1,129,852)	(1,496,320)
Issuance of notes receivable	(65,489)	(25,750)
Collections against notes receivable	94,580	52,989
NET CASH (USED) BY INVESTING ACTIVITIES	(1,030,886)	(1,446,581)

(continued)

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NATURAL ALTERNATIVES INTERNATIONAL, INC.
PART I - FINANCIAL INFORMATION

CONSOLIDATED STATEMENTS OF CASH FLOWS (continued)

	For the Nine Months Ended March 31,	
	(Unaudited)	
	1996	1995
	-----	-----
CASH FLOWS FROM FINANCING ACTIVITIES:		
Increase (Decrease) In:		
Payments on long-term debt and capital leases	\$ (176,455)	\$ (147,733)
Borrowing on lines of credit	---	650,000
Payment on lines of credit	---	(500,000)
Proceeds from option exercise	197,397	2,440
	-----	-----
NET CASH PROVIDED BY FINANCING ACTIVITIES	20,942	4,707
	-----	-----
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(833,285)	161,084
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	2,526,839	813,754
	-----	-----
CASH AND CASH EQUIVALENTS AT END OF PERIOD	\$ 1,693,554	\$ 974,838
	=====	=====

See accompanying notes to consolidated financial statements

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NATURAL ALTERNATIVES INTERNATIONAL, INC.
PART I - FINANCIAL INFORMATION

NOTES TO CONDENSED
CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 - BASIS OF PRESENTATION

The accompanying 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, 1995. The results of operations for the periods ended March 31, 1996 and 1995 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, Pro-Lean, Inc. (formerly Sonergy, Inc.), CellLife International, Inc. and CellLife Pharmaceuticals International, Inc. All significant intercompany accounts and transactions have been eliminated.

NOTE 3 - INVENTORIES

Inventories are comprised of:

	March 31, 1996	June 30, 1995
	-----	-----
Raw materials	\$3,803,238	\$2,419,083
Work in process	3,399,350	2,240,173
Finished goods	939,828	570,329
	-----	-----
	\$8,142,416	\$5,229,585
	=====	=====

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 (in periods in which they have a dilutive effect) the effect 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.

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NATURAL ALTERNATIVES INTERNATIONAL, INC.
PART I - FINANCIAL INFORMATION

NOTES TO CONDENSED
CONSOLIDATED FINANCIAL STATEMENTS

NOTE 4 - NET EARNINGS PER SHARE (continued)

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

	For the Three Months Ended March 31,		For the Nine Months Ended March 31,	
	----- 1996 ----	----- 1995 ----	----- 1996 ----	----- 1995 ----
Primary	5,607,120	5,573,516	5,586,692	5,824,399
Fully Diluted	5,626,263	5,606,109	5,611,387	5,831,214

NOTE 5 - MAJOR CUSTOMERS

The Company had substantial sales to three customers for the three months ended March 31, 1996, to two customers for the nine months ended March 31, 1996, and to four customers for the three months and nine months ended March 31, 1995. The loss of any of these customers would have an adverse impact on the Company's revenues and earnings in the short-term. Sales to these customers were as follows:

Industry	Three Months Ended				Nine Months Ended			
	March 31, 1996		March 31, 1995		March 31, 1996		March 31, 1995	
	Total Revenue	% of Total Revenue	Total Revenue	% of Total Revenue	Total Revenue	% of Total Revenue	Total Revenue	% of Total Revenue
Multi-level Distribution	\$8,107,961	63%	\$7,369,473	72%	\$21,017,518	60%	\$16,445,792	71%
Weight Loss	1,744,896	14%	780,294	7%	NA	---	2,616,724	11%
Totals	\$9,852,857	77%	\$8,149,767	79%	\$21,017,518	60%	\$19,062,516	82%

Accounts receivable from these customers totaled \$2,251,862 and \$3,958,671 at March 31, 1996 and 1995, respectively.

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NATURAL ALTERNATIVES INTERNATIONAL, INC.
PART I - FINANCIAL INFORMATION

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

RESULTS OF OPERATIONS

THIRD QUARTER OF FISCAL 1996 AND 1995

The Company's consolidated revenues for the quarter ending March 31, 1996, reached approximately \$12.8 million, an increase of 24% compared to the \$10.3 million generated during the quarter ending March 31, 1995. The increase was due to the addition of new clients, combined to a lesser extent with an increase in sales to existing customers.

The Company's gross margins for the quarter remained virtually unchanged: 27.0% for the quarter ending March 31, 1996, compared to 26.5% for the quarter ending March 31, 1995. Selling, general and administrative expenses as a percentage of revenues were 14.4% during the quarter ending March 31, 1996, compared to 16.6% for the quarter ending March 31, 1995, with the relative improvement being directly attributable to revenue growth.

Net earnings for the quarter ending March 31, 1996, amounted to \$1.0 million, an increase of \$.4 million, or 54.9% over the quarter ending March 31, 1995. The increase was primarily due to revenue growth. Earnings per share for the quarter ending March 31, 1996, was \$.18 compared to \$.12 for the quarter ending March 31, 1995.

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NATURAL ALTERNATIVES INTERNATIONAL, INC.
PART I - FINANCIAL INFORMATION

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

FIRST THREE QUARTERS OF FISCAL 1996 AND 1995

The Company's consolidated revenues for the nine months ending March 31, 1996 reached \$34.9 million compared to \$23.2 million for the same period ending March 31, 1995. The addition of new clients and an increase in sales orders from existing customers combined for the growth of 50.4% in revenues for the nine month period.

Gross profit margins for the Company showed a moderate decline from 27.3% for the nine month period ending March 31, 1995 to 25.9% for the nine months ending March 31, 1996. Net earnings for the nine months ending March 31, 1996, amounted to approximately \$2.3 million compared to \$1.0 million for the nine months ending March 31, 1995. Earnings per share for the nine months ending March 31, 1996, amounted to \$.42 compared to \$.17 for the comparable nine month period ending March 31, 1995.

LIQUIDITY AND CAPITAL RESOURCES

The Company believes it has sufficient sources of funds to finance its ongoing operations and to 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.

At March 31, 1996, the Company had working capital of \$10,531,862 compared to \$8,207,232 as of June 30, 1995. The working capital component which represented the most significant increase was inventory. Inventory levels at March 31, 1996, compared to sales, increased moderately relative to historical levels, due principally to broader stocking requirements to cover current manufacturing requirements.

The Company has entered into an agreement with its two principal stockholders, Marie A. LeDoux and Mark A. LeDoux, to acquire for \$545,000, the offices and production facilities which the Company is presently leasing from them. The properties have been independently appraised at \$580,000. The Company expects to fund the acquisition through conventional mortgage financing and to consummate the transaction in the early part of the fourth quarter.

The Company has revolving line of credit agreements permitting borrowing up to \$3,000,000, which are secured by business assets and bear interest at rates ranging from the bank's prime rate to 1/2 percent over the bank's prime rate. The lines of credit expire on December 1, 1997. As of March 31, 1996 and June 30, 1995, there was no borrowing 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:

- 11.1. Computation of per share earnings for the three months ended March 31, 1996.
- 11.2. Computation of per share earnings for the nine months ended March 31, 1996.

(b) No reports on Form 8-K were filed during the quarter ended March 31, 1996.

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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.

:/S/ MARK A. LE DOUX

Mark A. Le Doux
President

DATE: May 14, 1996

:/S/ WILLIAM P. SPENCER

William P. Spencer
Executive Vice President

DATE: May 14, 1996

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

	For the Three Months Ended March 31, 1996				Primary Weighted Average Shares Outstanding	Fully Diluted Weighted Average Shares Outstanding
	Outstanding		Days Out- stand- ing	Shares		
	From	To				
Beginning shares	1/01/96	3/31/96	91	5,297,375	5,297,375	5,297,375
Dilutive effect of common stock equivalents:						
At average price per share	1/01/96	3/31/96	91	1,000,000	309,679	309,679
At closing price per share					n/a	n/a
Exercise of employee stock options	3/25/96	3/31/96	6	1,000	66	66
Ending shares					<u>5,607,120</u>	<u>5,607,120</u>
Net Earnings					<u>\$1,005,402</u>	<u>\$1,005,402</u>
Net Earnings Per Share					<u>\$.18</u>	<u>\$.18</u>

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

	For the Nine Months Ended March 31, 1996				Primary Weighted Average Shares Outstanding	Fully Diluted Weighted Average Shares Outstanding
	Outstanding		Days Out- stand- ing	Shares		
	From	To				
Beginning shares	07/01/95	3/31/96	275	5,257,875	5,257,875	5,257,875
Dilutive effect of common stock equivalents:						
At average price per share	07/01/95	3/31/96	275	1,000,000	304,026	304,026
At closing price per share					n/a	n/a
Exercise of employee stock options	08/21/95	3/31/96	223	1,500	1,216	1,216
Exercise of employee stock options	09/19/95	3/31/96	194	20,500	14,462	14,462
Exercise of employee stock options	11/09/95	3/31/96	143	15,000	7,800	7,800
Exercise of employee stock options	11/10/95	3/31/96	142	2,500	1,291	1,291
Exercise of employee stock options	3/25/96	3/31/96	6	1,000	22	22
Ending shares					5,586,692	5,586,692
Net Earnings					\$2,329,688	\$2,329,688
Net Earnings Per Share					\$.42	\$.42

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