

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 DECEMBER 31, 2007

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 NAI is a large accelerated filer, an accelerated filer, or a non-accelerated filer (as defined 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 February 7, 2008, 6,991,149 shares of NAI's common stock were outstanding, net of 180,941 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;
- our ability to develop relationships with new customers and maintain or improve existing customer relationships;
- development of new products, brands and marketing strategies;
- the effect of the discontinuance of Dr. Cherry’s television program and our ability to develop a new marketing plan for, and to sustain, our Pathway to Healing® product line;
- distribution channels, product sales and performance, and timing of product shipments;
- our ability to expand the customer base of the As We Change® catalog and achieve higher sales, profitability and cash flows as a result;
- inventories and the adequacy and intended use of our facilities;
- current or future customer orders;
- the impact on our business and results of operations and variations in quarterly net sales from seasonal and other factors;
- management’s goals and plans for future operations;
- our ability to improve operational efficiencies, manage costs and business risks and improve or maintain profitability;
- growth, expansion, diversification and acquisition strategies, the success of such strategies, and the benefits we believe can be derived from such strategies;
- personnel;
- the outcome of regulatory, tax and litigation matters;
- sources and availability of raw materials;
- operations outside the United States;
- the adequacy of reserves and allowances;
- overall industry and market performance;
- competition;
- current and future economic and political conditions;
- the impact of accounting pronouncements; and
- other assumptions described in this report underlying or relating to any forward-looking statements.

The forward-looking statements in this report speak only as of the date of this report and caution should be taken not to place undue reliance on any such forward-looking statements. Forward-looking statements are subject to certain events, risks, and uncertainties that may be outside of our control. When considering forward-looking statements, you should carefully review the risks, uncertainties and other cautionary statements in this report as they identify

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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 1 A of Part II and elsewhere in this report, as well as in other reports and documents we file with the United States Securities and Exchange Commission (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.

PART I – FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

NATURAL ALTERNATIVES INTERNATIONAL, INC.
Condensed Consolidated Balance Sheets
(In thousands, except share and per share data)

	December 31, 2007 (Unaudited)	June 30, 2007
Assets		
Current assets:		
Cash and cash equivalents	\$ 5,000	\$ 4,876
Accounts receivable - less allowance for doubtful accounts of \$21 at December 31, 2007 and \$20 at June 30, 2007	5,839	5,264
Inventories, net	12,890	14,099
Deferred income taxes	1,441	1,441
Other current assets	1,949	2,204
Total current assets	<u>27,119</u>	<u>27,884</u>
Property and equipment, net	14,084	15,059
Goodwill and purchased intangibles, net	4,141	4,268
Other noncurrent assets, net	169	169
Total assets	<u>\$ 45,513</u>	<u>\$47,380</u>
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	\$ 5,413	\$ 6,330
Accrued liabilities	1,739	1,840
Accrued compensation and employee benefits	1,492	1,403
Line of credit	—	—
Income taxes payable	—	270
Current portion of long-term debt	1,639	1,825
Total current liabilities	<u>10,283</u>	<u>11,668</u>
Long-term debt, less current portion	2,050	2,756
Deferred income taxes	1,620	1,620
Deferred rent	1,205	1,238
Long-term pension liability	101	76
Total liabilities	<u>15,259</u>	<u>17,358</u>
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 7,172,090 at December 31, 2007 and 7,001,230 at June 30, 2007	71	69
Additional paid-in capital	18,024	17,335
Accumulated other comprehensive loss	(162)	(184)
Retained earnings	13,420	13,177
Treasury stock, at cost, 180,941 shares at December 31, 2007 and 70,000 at June 30, 2007	(1,099)	(375)
Total stockholders' equity	<u>30,254</u>	<u>30,022</u>
Total liabilities and stockholders' equity	<u>\$ 45,513</u>	<u>\$47,380</u>

See accompanying notes to condensed consolidated financial statements.

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

	Three Months Ended December 31,		Six Months Ended December 31,	
	2007	2006	2007	2006
Net sales	\$ 20,410	\$ 24,049	\$ 45,929	\$ 49,210
Cost of goods sold	16,158	18,347	36,383	37,993
Gross profit	4,252	5,702	9,546	11,217
Selling, general & administrative expenses	4,524	4,737	9,149	9,420
(Loss) income from operations	(272)	965	397	1,797
Other income (expense):				
Interest income	11	4	13	5
Interest expense	(80)	(167)	(213)	(397)
Foreign exchange gain	48	48	150	56
Other, net	(6)	(4)	(5)	(13)
	(27)	(119)	(55)	(349)
(Loss) income before income taxes	(299)	846	342	1,448
(Benefit) provision for income taxes	(119)	292	99	507
Net (loss) income	\$ (180)	\$ 554	\$ 243	\$ 941
Unrealized gain resulting from change in fair value of derivative instruments, net of tax	14	21	22	14
Comprehensive (loss) income	\$ (166)	\$ 575	\$ 265	\$ 955
Net (loss) income per common share:				
Basic	\$ (0.03)	\$ 0.08	\$ 0.03	\$ 0.14
Diluted	\$ (0.03)	\$ 0.08	\$ 0.03	\$ 0.13
Weighted average common shares outstanding:				
Basic	6,980,195	6,840,314	6,947,155	6,780,240
Diluted	6,980,195	7,184,910	7,044,402	7,189,213

See accompanying notes to condensed consolidated financial statements.

NATURAL ALTERNATIVES INTERNATIONAL, INC.
Condensed Consolidated Statements of Cash Flows
(In thousands)
(Unaudited)

	Six Months Ended December 31,	
	2007	2006
Cash flows from operating activities		
Net income	\$ 243	\$ 941
Adjustments to reconcile net income to net cash provided by operating activities:		
Change in allowance for uncollectible accounts receivable	1	(60)
Depreciation and amortization	1,628	1,687
Amortization of purchased intangibles	127	126
Non-cash equipment impairment charge	69	—
Non-cash compensation	195	96
Tax benefit from exercise of stock options	(64)	(442)
Pension expense, net of contributions	24	29
Loss on disposal of assets	—	11
Changes in operating assets and liabilities:		
Accounts receivable	(576)	8,210
Inventories, net	1,209	(467)
Other assets	11	118
Accounts payable and accrued liabilities	(1,050)	13
Accrued compensation and employee benefits	89	(625)
Income taxes payable	62	—
Net cash provided by operating activities	<u>1,968</u>	<u>9,637</u>
Cash flows from investing activities		
Capital expenditures	(723)	(1,412)
Proceeds from sale of equipment	—	30
Net cash used in investing activities	<u>(723)</u>	<u>(1,382)</u>
Cash flows from financing activities		
Payments on long-term debt	(893)	(824)
Net payments on line of credit	—	(7,574)
Tax benefit from exercise of stock options	64	442
Repurchase of common stock	(724)	(82)
Proceeds from issuance of common stock	432	838
Net cash used in financing activities	<u>(1,121)</u>	<u>(7,200)</u>
Net increase in cash and cash equivalents	124	1,055
Cash and cash equivalents at beginning of period	4,876	2,157
Cash and cash equivalents at end of period	<u>\$ 5,000</u>	<u>\$ 3,212</u>
Supplemental disclosures of cash flow information		
Cash paid during the period for:		
Interest	<u>\$ 211</u>	<u>\$ 375</u>
Taxes	<u>\$ 419</u>	<u>\$ 671</u>

See accompanying notes to condensed consolidated financial statements.

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)**

A. Basis of Presentation and Summary of Significant Accounting Policies**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 six months ended December 31, 2007 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, 2007 ("2007 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 2007 Annual Report unless otherwise noted below.

Net (Loss) Income per Common Share

We compute net (loss) income per common share in accordance with Statement of Financial Accounting Standards (SFAS) No. 128, "Earnings Per Share." This statement requires the presentation of basic (loss) income per common share, using the weighted average number of common shares outstanding during the period, and diluted net (loss) 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 (loss) income per common share computation. We calculated basic and diluted net income per common share as follows (amounts in thousands, except per share data):

	<u>Three Months Ended December 31,</u>		<u>Six Months Ended December 31,</u>	
	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>
Numerator				
Net (loss) income	\$ (180)	\$ 554	\$ 243	\$ 941
Denominator				
Basic weighted average common shares outstanding	6,980	6,840	6,947	6,780
Dilutive effect of stock options	—	345	97	409
Diluted weighted average common shares outstanding	<u>6,980</u>	<u>7,185</u>	<u>7,044</u>	<u>7,189</u>
Basic net (loss) income per common share	<u>\$ (0.03)</u>	<u>\$ 0.08</u>	<u>\$ 0.03</u>	<u>\$ 0.14</u>
Diluted net (loss) income per common share	<u>\$ (0.03)</u>	<u>\$ 0.08</u>	<u>\$ 0.03</u>	<u>\$ 0.13</u>

Shares related to stock options of 1,114,900 for the three months ended December 31, 2007, and 552,000 for the six months ended December 31, 2007, were excluded from the calculation of diluted net (loss) income per common share, as the effect of their inclusion would have been anti-dilutive.

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Shares related to stock options of 219,000 for the three months ended December 31, 2006, and 122,000 for the six months ended December 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.

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. These plans are accounted for under the provisions of SFAS No. 123R, "Share Based Payment" (SFAS 123R).

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. Black-Scholes uses assumptions related to volatility, the risk-free interest rate, the dividend yield (which is assumed to be zero, as we have not paid any cash dividends) and employee exercise behavior. Expected volatilities used in the model are based mainly on the historical volatility of our stock price. The risk-free interest rate is derived from the U.S. Treasury yield curve in effect in the period of grant. The expected life of stock option grants is derived from historical experience.

Our net loss for the three months ended December 31, 2007 includes stock based compensation expense of approximately \$100,000. Our net income for the three months ended December 31, 2006 has been reduced by stock based compensation expense of approximately \$58,000. Our net income has been reduced by stock-based compensation expense of approximately \$195,000 for the six months ended December 31, 2007 and \$96,000 for the six months ended December 31, 2006.

Income Taxes

On July 1, 2007 we adopted the provisions of the Financial Accounting Standards Board (FASB) Interpretation No. 48, "Accounting for Uncertainty in Income Taxes – An Interpretation of FASB Statement No. 109" (FIN 48). FIN 48 prescribes detailed guidance for the financial statement recognition, measurement and disclosure of uncertain tax positions recognized in an enterprise's financial statements in accordance with FASB Statement No. 109, "Accounting for Income Taxes." Tax positions must meet a more-likely-than-not recognition threshold at the effective date to be recognized upon the adoption of FIN 48 and in subsequent periods.

As of June 30, 2007 and December 31, 2007, we had unrecognized tax liabilities of \$47,000. The total amount of unrecognized tax liabilities, if recognized, would not materially affect the effective tax rate.

Our practice is to recognize interest and/or penalties related to income tax matters in income tax expense. Upon adoption of FIN 48 on July 1, 2007, we did not record any interest or penalties.

We are subject to taxation in the United States and various state jurisdictions. Our tax years for the fiscal year ended June 30, 2006 and forward are subject to examination by the United States and state tax authorities.

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B. Goodwill and Purchased Intangibles

Goodwill and other acquisition-related intangibles as of December 31, 2007 were as follows (dollars in thousands):

	<u>Amortization Life in Years</u>	<u>Gross Amount</u>	<u>Accumulated Amortization</u>	<u>Net Amount</u>
Goodwill ⁽¹⁾	N/A	\$ 458	\$ —	\$ 458
Distributor relationships	13	500	(80)	420
Direct consumer relationships	9	400	(92)	308
Tradenames	20	3,300	(346)	2,954
Non-compete agreements	2	10	(9)	1
		<u>\$4,668</u>	<u>\$ (527)</u>	<u>\$4,141</u>

1 On June 30, 2007, as a result of our annual goodwill impairment testing in accordance with SFAS No. 142, "Goodwill and Other Intangible Assets," we recorded a non-cash goodwill impairment charge of \$7.0 million.

The estimated future amortization expense of purchased intangible assets as of December 31, 2007 was as follows (dollars in thousands):

Six months ending June 30, 2008	\$ 121
Fiscal year 2009	247
Fiscal year 2010	247
Fiscal year 2011	247
Fiscal year 2012	247
Thereafter	<u>2,574</u>
	<u>\$3,683</u>

C. Inventories

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

	<u>December 31, 2007</u>	<u>June 30, 2007</u>
Raw materials	\$ 8,247	\$ 6,997
Work in progress	2,455	3,410
Finished goods	<u>2,188</u>	<u>3,692</u>
	<u>\$ 12,890</u>	<u>\$14,099</u>

D. Property and Equipment

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

	<u>Depreciable Life In Years</u>	<u>December 31, 2007</u>	<u>June 30, 2007</u>
Land	N/A	\$ 393	\$ 393
Building and building improvements	7 – 39	2,732	2,726
Machinery and equipment	3 – 12	19,976	19,514
Office equipment and furniture	3 – 5	4,592	4,470
Vehicles	3	204	204
Leasehold improvements	1 – 15	<u>10,388</u>	<u>10,325</u>
Total property and equipment		38,285	37,632
Less: accumulated depreciation and amortization		<u>(24,201)</u>	<u>(22,573)</u>
Property and equipment, net		<u>\$ 14,084</u>	<u>\$ 15,059</u>

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E. 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 1, 2006 to November 1, 2007 and modify certain financial covenants. We also obtained an additional \$3.8 million term loan on December 5, 2005, to fund, in part, the cash purchase price of the RHL acquisition.

On January 24, 2007, we further amended our credit facility to extend the maturity date for the working capital line of credit from November 1, 2007 to November 1, 2008, and maintain the ratio of total liabilities/tangible net worth covenant at 1.25/1.0 for the remainder of the term of the credit facility.

On December 18, 2007, we again amended our credit facility to (i) extend the maturity date for the working capital line of credit from November 1, 2008 to November 1, 2009; (ii) reduce the maximum principal amount available under the working capital line of credit from \$12.0 million to \$7.5 million; (iii) reduce the maximum borrowings against inventory from \$6.0 million to \$3.75 million, provided any such borrowings do not at any time exceed eligible accounts receivable; and (iv) extend the availability of the Foreign Exchange Facility from November 1, 2007 to November 1, 2008 and the allowable contract term thereunder from November 1, 2008 to November 1, 2009.

As a result of the most recent amendments, our bank credit facility decreased to a total of \$16.4 million, comprised of a \$7.5 million working capital line of credit 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 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 a \$3.8 million, four year term loan, secured by equipment, at an interest rate of LIBOR plus 2.10%. As of December 31, 2007, there was no amount outstanding on the working capital line of credit and the amount outstanding on the term loans was \$3.7 million. Monthly payments on the term loans are approximately \$143,000 plus interest. As of December 31, 2007, we had \$7.5 million available under the line of credit.

As of December 31, 2007, we were not in compliance with our quarterly net after-tax income covenant under our credit facility, which requires us to have at least \$1.00 of after-tax net income for each quarter. Our lender agreed to waive its default rights as a result of this covenant violation as of December 31, 2007.

On September 22, 2006, NAIE, our wholly owned subsidiary, entered into a credit facility to provide it with a credit line of up to CHF 1,300,000, or approximately \$1.2 million, which was the initial maximum aggregate amount that could be outstanding at any one time under the credit facility. This maximum amount was reduced by CHF 160,000, or approximately \$142,000, as of December 31, 2007 and will be reduced by an additional CHF 160,000 at the end of each succeeding calendar year. On February 19, 2007, NAIE amended its credit facility to provide that the maximum aggregate amount that may be outstanding under the facility cannot be reduced below CHF 500,000, or approximately \$444,000. As of December 31, 2007, there was no outstanding balance under the credit facility.

The composite interest rate on all of our outstanding debt was 8.23% at December 31, 2007, and 7.84% at December 31, 2006.

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F. 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 December 31 were as follows (dollars in thousands):

	Three Months Ended December 31,		Six Months Ended December 31,	
	2007	2006	2007	2006
Interest cost	\$ 21	\$ 21	\$ 42	\$ 42
Expected return on plan assets	(9)	(27)	(17)	(54)
Net periodic expense (benefit)	<u>\$ 12</u>	<u>\$ (6)</u>	<u>\$ 25</u>	<u>\$ (12)</u>

G. Economic Dependency

We had substantial net sales to certain customers during the periods shown in the following table. The loss of either of these customers, or a significant decline in net sales or the growth rate of 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 December 31,				Six Months Ended December 31,			
	2007		2006		2007		2006	
	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	\$ 10,730	53%	\$ 10,095	42%	\$ 19,462	42%	\$ 20,051	41%
Customer 2	4,640	23	7,341	31	13,814	30	14,870	30
	<u>\$ 15,370</u>	<u>76%</u>	<u>\$ 17,436</u>	<u>73%</u>	<u>\$ 33,276</u>	<u>72%</u>	<u>\$ 34,921</u>	<u>71%</u>

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 December 31,				Six Months Ended December 31,			
	2007		2006		2007		2006	
	Raw Material Purchases by Supplier	% of Total Raw Material Purchases						
Supplier 1	\$ (a)	(a)	\$ 1,112	11%	\$ 3,730	20%	\$ 2,993	14%
Supplier 2	\$ 586	11%	1,630	16	2,708	15	2,388	11
Supplier 3	(a)	(a)	1,276	12	(a)	(a)	2,341	11
	<u>\$ 586</u>	<u>11%</u>	<u>\$ 4,018</u>	<u>39%</u>	<u>\$ 6,438</u>	<u>35%</u>	<u>\$ 7,722</u>	<u>36%</u>

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

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H. Segment Information

Effective July 1, 2006, we changed our reporting segments to reflect the structure of our internal organization after the integration of previously outsourced fulfillment and call center activities for our Dr. Cherry Pathway to Healing® product line into RHL's existing operations. The reportable segments are as follows:

- Private label contract manufacturing, in which we primarily provide manufacturing services to companies that market and distribute nutritional supplements and other health care products; and
- Branded products, in which we market and distribute branded nutritional supplements and other lifestyle products in the following distribution channels:
 - Direct-to-consumer marketing programs, under which we develop, manufacture and market our own products and work with nationally recognized physicians and others to develop brand name products that reflect their individual approaches to restoring, maintaining or improving health. These products are sold through a variety of distribution channels, including television programs, print media and the internet. The Dr. Cherry Pathway to Healing® product line is sold under a direct-to-consumer marketing program;
 - Food, Drug and Mass Market (FDM) retail channel in which we sell the Real Health® Laboratories nutritional supplement product line; and
 - As We Change® catalog, a lifestyle catalog geared towards women between the ages of 45 and 65, in which we sell our own branded products as well as third party products. The quarterly print catalog offers a variety of high quality nutritional, beauty, skin care, exercise, lifestyle and other personal care products.

We evaluate performance based on a number of factors. The primary performance measures for each segment are net sales and income or loss from operations before corporate allocations. Operating income or loss for each segment does not include corporate general and administrative expenses, interest expense and other miscellaneous income and expense items. Corporate general and administrative expenses include, but are not limited to: human resources, legal, finance, information technology, and other corporate level related expenses, which are not allocated to either segment. The accounting policies of our segments are the same as those described in the summary of significant accounting policies in Note A above and in the consolidated financial statements included in our 2007 Annual Report.

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

	Three Months Ended December 31,		Six Months Ended December 31,	
	2007	2006	2007	2006
Net Sales				
Private label contract manufacturing	\$17,387	\$20,147	\$39,205	\$41,117
Branded products	<u>3,023</u>	<u>3,902</u>	<u>6,724</u>	<u>8,093</u>
	<u>\$20,410</u>	<u>\$24,049</u>	<u>\$45,929</u>	<u>\$49,210</u>
	Three Months Ended December 31,		Six Months Ended December 31,	
	2007	2006	2007	2006
(Loss) income from Operations				
Private label contract manufacturing	\$ 1,944	\$ 3,004	\$ 4,663	\$ 5,722
Branded products	<u>(243)</u>	<u>10</u>	<u>(476)</u>	<u>218</u>
Income from operations of reportable segments	<u>1,701</u>	<u>3,014</u>	<u>4,187</u>	<u>5,940</u>
Corporate expenses not allocated to segments	<u>(1,973)</u>	<u>(2,049)</u>	<u>(3,790)</u>	<u>(4,143)</u>
	<u>\$ (272)</u>	<u>\$ 965</u>	<u>\$ 397</u>	<u>\$ 1,797</u>

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	December 31, 2007	June 30, 2007
Total Assets		
Private label contract manufacturing	\$ 38,414	\$39,583
Branded products	7,099	7,797
	<u>\$ 45,513</u>	<u>\$47,380</u>

Our private label contract manufacturing products are sold both in the United States and in markets outside the United States, including Europe, Australia and Japan. Our primary market outside the United States is Europe. Our branded products are sold only in the United States.

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

	Three Months Ended December 31,		Six Months Ended December 31,	
	2007	2006	2007	2006
United States	\$15,302	\$18,564	\$34,541	\$39,006
Markets outside the United States	5,108	5,485	11,388	10,204
Total net sales	<u>\$20,410</u>	<u>\$24,049</u>	<u>\$45,929</u>	<u>\$49,210</u>

Products manufactured by NAIE accounted for approximately 62% of net sales in markets outside the United States for the three months ended December 31, 2007, and 40% for the three months ended December 31, 2006. NAIE accounted for 49% of net sales in markets outside the United States for the six months ended December 31, 2007, and 45% for the six months ended December 31, 2006. No products manufactured by NAIE were sold in the United States during the six months ended December 31, 2007 and 2006.

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 follows (dollars in thousands):

	Long-Lived Assets		Total Assets		Capital Expenditures Six Months Ended	
	December 31, 2007	June 30, 2007	December 31, 2007	June 30, 2007	December 31, 2007	December 31, 2006
United States	\$ 16,320	\$17,362	\$ 38,783	\$41,493	\$ 613	\$ 707
Europe	1,906	1,965	6,730	5,887	110	705
	<u>\$ 18,226</u>	<u>\$19,327</u>	<u>\$ 45,513</u>	<u>\$47,380</u>	<u>\$ 723</u>	<u>\$ 1,412</u>

I. 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 will result in a material adverse effect on our business, consolidated financial condition, or results of operations. However, a settlement payment or unfavorable outcome could adversely impact our results of operations. Our evaluation of the likely impact of these actions could change in the future and we could have unfavorable outcomes that we do not expect.

As of February 7, 2008, 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 six months ended December 31, 2007. You should read the following discussion and analysis together with our unaudited condensed consolidated financial statements and the notes to the condensed consolidated financial statements included under Item 1 in this report, as well as the risk factors and other information included in our 2007 Annual Report and other reports and documents we file with the SEC. Our future financial condition and results of operations will vary from our historical financial condition and results of operations described below based on a variety of factors.

Executive Overview

The following overview does not address all of the matters covered in the other sections of this Item 2 or other items in this report 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 providing private label contract manufacturing services to companies that market and distribute vitamins, minerals, herbs and other nutritional supplements, as well as other health care products, to consumers both within and outside the United States. Historically, our revenue has been largely dependent on sales to one or two private label contract manufacturing customers and subject to variations in the timing of such customers' orders, which in turn is impacted by such customers' internal marketing programs, supply chain management, entry into new markets and new product introductions.

A cornerstone of our business strategy is to achieve long-term growth and diversify our sales. We have sought and expect to continue to seek to diversify our sales both by developing relationships with additional, quality-oriented, private label contract manufacturing customers, and developing and growing our own line of branded products through RHL, an integrated direct marketer of branded nutritional supplements and other lifestyle products that we acquired in fiscal 2006.

During the six months ended December 31, 2007, our net sales were 6.7% lower than in the comparable quarter last year. Private label contract manufacturing sales contributed five percent of the overall decrease primarily due to lower volumes of existing products in existing markets sold to one of our largest customers. We also experienced a decrease in branded products sales. The decrease in branded products sales was primarily attributed to the continued softening of our Dr. Cherry Pathway to Healing® product line.

In April 2007, Dr. Cherry ceased airing his weekly television program, which had served as the primary customer acquisition vehicle in marketing the Pathway to Healing® product line. While sales of the product line have been primarily generated by continuity orders from long-standing repeat customers, the loss of the television program has had a negative impact on our ability to acquire new customers. We have continued to work with Dr. Cherry to evaluate alternative marketing programs and revise marketing plans to support the product line.

During the remainder of fiscal 2008, we plan to continue to focus on:

- Leveraging our state of the art, certified facilities to increase the value of the goods and services we provide to our highly valued private label contract manufacturing customers, and assist us in developing relationships with additional quality oriented customers;
- Implementing focused initiatives to grow our branded product lines and to sustain our Pathway to Healing® product line;
- Improving operational efficiencies and managing costs and business risks to improve profitability; and
- Identifying and evaluating additional acquisition opportunities that could increase product lines, expand distribution channels, enhance manufacturing capabilities or reduce risk associated with a variety of factors.

As we previously anticipated, our second quarter sales and profits were significantly impacted by the reduction in volume from one of our largest private label customers. Looking forward, during the second half of fiscal 2008 we anticipate sales to this customer will trend towards sales levels experienced during the comparable period of fiscal 2007. Additionally, we have established relationships with two new customers and anticipate initial shipments of these products during late third or early fourth quarter of this year. We also expect our branded product sales to improve over our second quarter results as we enter our stronger catalog season during the third and fourth quarters.

[Table of Contents](#)**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 2007 Annual Report. There have been no significant changes to these policies during the six months ended December 31, 2007.

Results of Operations

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

	Three Months Ended December 31,			Six Months Ended December 31,		
	2007	2006	% Change	2007	2006	% Change
Private label contract manufacturing	\$17,387	\$20,147	(14)	\$39,205	\$41,117	(5)
Branded products	3,023	3,902	(23)	6,724	8,093	(17)
Total net sales	20,410	24,049	(15)	45,929	49,210	(7)
Cost of goods sold	16,158	18,347	(12)	36,383	37,993	(4)
Gross profit	4,252	5,702	(25)	9,546	11,217	(15)
Gross profit %	20.8%	23.7%		20.8%	22.8%	
Selling, general & administrative expenses	4,524	4,737	(4)	9,149	9,420	(3)
% of net sales	22.2%	19.7%		19.9%	19.1%	
(Loss) income from operations	(272)	965	(128)	397	1,797	(78)
% of net sales	(1.3%)	4.0%		0.9%	3.7%	
Other expense, net	27	119	(77)	55	349	(84)
(Loss) income before taxes	(299)	846	(135)	342	1,448	(76)
% of net sales	(1.5%)	3.5%		0.7%	2.9%	
Net (loss) income	<u>\$ (180)</u>	<u>\$ 554</u>	(132)	<u>\$ 243</u>	<u>\$ 941</u>	(74)
% of net sales	(0.9%)	2.3%		0.5%	1.9%	
Diluted net (loss) income per common share	<u>\$ (0.03)</u>	<u>\$ 0.08</u>	(138)	<u>\$ 0.03</u>	<u>\$ 0.13</u>	(77)

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The percentage decrease in contract manufacturing net sales was primarily attributed to the following for the periods ended December 31:

	<u>Three Months Ended</u>	<u>Six Months Ended</u>
Mannatech, Incorporated ⁽¹⁾	(13)	(3)
NSA International, Inc. ⁽²⁾	3	(1)
Other customers ⁽³⁾	(4)	(1)
Total	<u>(14)%</u>	<u>(5)%</u>

- 1 A decrease in net sales to Mannatech, Incorporated resulted primarily from the sale of lower volumes of established products in existing markets.
- 2 An increase in net sales to NSA International, Inc. in the three months ended December 31, 2007 resulted primarily from the sale of higher volumes of established products in existing markets. A decrease in net sales to NSA International, Inc. in the six months ended December 31, 2007 resulted primarily from the sale of lower volumes of established products in existing markets.
- 3 A decrease in net sales to other customers was primarily due to the discontinuation of customer relationships.

The percentage change in net sales of our branded products was primarily attributed to the following distribution channels:

	<u>Three Months Ended</u>	<u>Six Months Ended</u>
As We Change [®] catalog	(2)%	1%
FDM retail channel	(4)	(3)
Direct-to-consumer marketing programs ⁽¹⁾	(17)	(15)
Total	<u>(23)%</u>	<u>(17)%</u>

- 1 Net sales from our direct-to-consumer marketing programs decreased primarily from lower sales of the Dr. Cherry Pathway to Healing[®] product line.

Gross profit margin decreased 2.9 percentage points from the comparable quarter and 2.0 percentage points from the comparable six month period last year. The change in gross profit margin was primarily due to the following for the periods ended December 31:

	<u>Three Months Ended</u>	<u>Six Months Ended</u>
Branded products operations	(1.1)%	(2.3)%
Contract manufacturing:		
Shift in sales and material mix	5.4	2.8
Incremental overhead expenses	(1.3)	(0.7)
Incremental direct and indirect labor	(6.6)	(3.3)
Other	0.7	1.5
Total	<u>(2.9)%</u>	<u>(2.0)%</u>

Selling, general and administrative expenses decreased \$213,000, or 4%, from the comparable quarter last year and \$271,000, or 3%, from the comparable year to date period last year. The decrease was primarily attributed to savings in selling, general and administrative expenses for our branded products.

Other expense, net decreased \$92,000 from the comparable quarter, and \$294,000 from the comparable six month period, last year primarily due to a decrease in interest expense of \$86,000 and \$197,000, respectively, resulting from lower utilization of our line of credit. Additionally, foreign exchange gains increased \$94,000 during the six month period due to the strengthening of the Euro and the related impact on the translation of Euro denominated cash and receivables.

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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 provided by operating activities was \$2.0 million for the six months ended December 31, 2007 compared to \$9.6 million in the comparable period in the prior year.

At December 31, 2007, changes in accounts receivable, consisting primarily of amounts due from our private label contract manufacturing customers, used \$576,000 in cash during the six months ended December 31, 2007 compared to providing \$8.2 million in the comparable period in the prior year. Cash used by accounts receivable in the six months ended December 31, 2007 was due to an increase in customer sales at the end of the period. Days sales outstanding was 22 days as of December 31, 2007 compared to 33 days as of December 31, 2006.

Approximately \$1.3 million of our operating cash flow was generated by NAIE in the six months ended December 31, 2007. As of December 31, 2007, NAIE's undistributed retained earnings were considered indefinitely reinvested.

Capital expenditures were \$723,000 during the six months ended December 31, 2007 compared to \$1.4 million in the comparable period in the prior year. Capital expenditures during the six months ended December 31, 2007 and December 31, 2006 were primarily for manufacturing equipment in our Vista, California and Manno, Switzerland facilities and computer software and hardware expenditures for our RHL facility.

Cash used in financing activities for the six months ended December 31, 2007 included \$724,000 of cash used to repurchase our common stock. On June 29, 2007, the independent members of the Board of Directors approved the repurchase of 100,000 shares of our common stock from Mark LeDoux, our Chief Executive Officer and the Chairman of the Board, his wife, their family limited partnership and related children's trust, conditioned on a purchase price equal to a 10% discount from the closing price on such date. The repurchase was completed on July 6, 2007.

Our consolidated debt decreased to \$3.7 million at December 31, 2007 from \$4.6 million at June 30, 2007 primarily due to payments on our term loans.

As of December 31, 2007 we have a bank credit facility of \$16.4 million, comprised of a \$7.5 million working capital line of credit 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 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 a \$3.8 million, four year term loan, secured by equipment, at an interest rate of LIBOR plus 2.10%. As of December 31, 2007, there was no amount outstanding on the working capital line of credit and the amount outstanding on the term loans was \$3.7 million. Monthly payments on the term loans are approximately \$143,000 plus interest. The maturity date of the line of credit is November 1, 2009.

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As of December 31, 2007, we were not in compliance with our quarterly net after-tax income covenant under our credit facility, which requires us to have at least \$1.00 of after-tax net income for each quarter. Our lender agreed to waive its default rights as a result of this covenant violation as of December 31, 2007.

As of December 31, 2007, NAIE, our wholly owned subsidiary, had a credit facility to provide it with a credit line of up to CHF 1,140,000, or approximately \$1.0 million, which amount will be reduced by CHF 160,000, or approximately \$142,000, at the end of each calendar year. On February 19, 2007, NAIE amended its credit facility to provide that the maximum aggregate amount that may be outstanding under the facility cannot be reduced below CHF 500,000, or approximately \$444,000. As of December 31, 2007, there was no outstanding balance under the credit facility.

Under its credit facility, NAIE may draw amounts either as current account loan credits to its current or future bank accounts or as fixed loans with a maximum term of 24 months. Current account loans will bear interest at the rate of 5% per annum. Fixed loans will bear interest at a rate determined by the parties based on current market conditions and must be repaid pursuant to a repayment schedule established by the parties at the time of the loan. If a fixed loan is repaid early at NAIE's election or in connection with the termination of the credit facility, NAIE will be charged a pre-payment penalty equal to 0.1% of the principal amount of the fixed loan or CHF 1,000 (approximately \$900), whichever is greater. The bank reserves the right to refuse individual requests for an advance under the credit facility, although its exercise of such right will not have the effect of terminating the credit facility as a whole.

As of December 31, 2007, we had \$5.0 million in cash and cash equivalents and \$7.5 million available under our line of credit. We believe our available cash, cash equivalents and potential cash flows from operations will be sufficient to fund our current working capital needs, capital expenditures and debt payments through at least the next 12 months.

Off-Balance Sheet Arrangements

As of December 31, 2007, we did not have any significant off-balance sheet debt nor did we have any transactions, arrangements, obligations (including contingent obligations) or other relationships with any unconsolidated entities or other persons that have or are reasonably likely to have a material current or future effect on our financial condition, changes in financial condition, results of operations, liquidity, capital expenditures, capital resources, or significant components of revenue or expenses material to investors.

Recent Accounting Pronouncements

Recent accounting pronouncements are discussed under Item 7 of our 2007 Annual Report. As of December 31, 2007, other than the pronouncements discussed in our 2007 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 December 31, 2007, we had fixed rate debt of \$382,000 and variable rate debt of approximately \$3.3 million. The interest rates on our variable rate debt range from LIBOR plus 1.75% to LIBOR plus 2.25%. As of December 31, 2007, the weighted average effective interest rate on our variable rate debt was 8.0%. An immediate one hundred basis point (1.0%) increase in the interest rates on our variable rate debt, holding other variables constant, would have increased our interest expense by \$15,000 for the six months ended December 31, 2007. 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 certain operating 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.

From time to time, we purchase 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 risk of loss associated with the options is limited to the purchase price paid for the option contracts. Option contracts outstanding at any time during the quarter ended December 31, 2007 were as follows:

Number of Option Contracts Purchased	Purchase Date	Expiration Dates	Notional Amount	Weighted Average Strike Price	Purchase Price
Three (3)	January 18, 2007	Monthly from August 2007 to October 2007	\$1.9 million	\$1.24	\$12,000
Three (3)	April 3, 2007	Monthly from November 2007 to January 2008	\$1.9 million	\$1.29	\$18,000
Three (3)	August 14, 2007	Monthly from February 2008 to April 2008	\$1.9 million	\$1.29	\$10,000
Three (3)	September 7, 2007	Monthly from May 2008 to July 2008	\$1.9 million	\$1.29	\$12,000

On December 31, 2007, the Swiss Franc closed at 1.13 to 1.00 United States dollar and the Euro closed at 0.68 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 six months ended December 31, 2007 by \$421,000.

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ITEM 4. CONTROLS AND PROCEDURES

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

Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of the design and operation of our disclosure controls and procedures as of December 31, 2007. Based on such evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were not effective for their intended purpose described above as of December 31, 2007 because of the material weakness previously identified (as described below), for which remediation efforts are ongoing.

A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of our annual or interim financial statements will not be prevented or detected on a timely basis. In connection with management's evaluation of our disclosure controls and procedures as of September 30, 2007, management determined that a material weakness in internal control over financial reporting existed regarding our annual goodwill impairment analysis necessary for the preparation of our 2007 Annual Report. In particular, management determined that we did not have an appropriate process in place to develop and support the forecasts and plans necessary to complete our annual goodwill impairment analysis in a timely manner. As a result, we were unable to timely file our 2007 Annual Report.

There were no changes to our internal controls during the quarter ended December 31, 2007 that have materially affected, or that are reasonably likely to materially affect, our internal controls. The matter identified above and the steps necessary to remediate such weakness remain under review by management and our Board of Directors. In addition, at the end of our 2008 fiscal year, management will be required to provide an assessment of the effectiveness of our internal control over financial reporting. We are in the process of performing the system and process documentation, evaluation and testing required for management to make this assessment. We have not completed this process or our assessment. In the course of evaluation and testing, management may identify additional deficiencies that will need to be addressed and remediated. There can be no assurance that our remediation efforts will be successful or that our control procedures will be effective in accomplishing their objectives at all times.

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 will result in a material adverse effect on our business, consolidated financial condition, or results of operations. However, a settlement payment or unfavorable outcome could adversely impact our results of operations. Our evaluation of the likely impact of these actions could change in the future and we could have unfavorable outcomes that we do not expect.

As of February 7, 2008, 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

You should carefully consider the risks described under Item 1A of our 2007 Annual Report, as well as the other information in our 2007 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.

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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

Our annual meeting of stockholders was held on December 11, 2007. The following table sets forth the matters voted upon at the meeting and the results of the voting on each matter voted upon:

<u>Matter Voted Upon</u>	<u>Votes For</u>	<u>Withheld</u>	<u>Votes Against</u>	<u>Abstentions</u>	<u>Broker Non-Votes</u>
Election of two Class II directors to serve until the next annual meeting of stockholders held to elect Class II directors and until their respective successors are elected and qualified:					
Alan G. Dunn	5,915,063	61,297	—	—	—
Lee G. Weldon	5,903,879	72,481	—	—	—
Ratification of the selection of Ernst & Young LLP as our independent registered public accounting firm for the fiscal year ending June 30, 2008	5,954,691	—	17,898	3,770	—

In accordance with the terms set forth in the proxy statement related to the solicitation of proxies for use at the annual meeting, an abstention from voting was used for the purpose of establishing a quorum, and was considered a vote “against” a proposal. A broker non-vote was also used for the purpose of establishing a quorum, but was not otherwise counted in the voting process. The named directors and the above matter were each approved by the stockholders at the annual meeting.

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
3(iii)	Amendment to the By-laws of Natural Alternatives International, Inc. effective as of June 29, 2007	Exhibit 3(ii) of NAI's Current Report on Form 8-K dated June 29, 2007, filed with the commission on July 6, 2007
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 effective May 10, 1999, amended effective January 30, 2004, and further amended effective December 3, 2004*	Exhibit 10.1 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
10.2	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 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
10.5	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
10.6	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
10.7	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
10.8	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

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10.9	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
10.10	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
10.11	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
10.12	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
10.13	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
10.14	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
10.15	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
10.16	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
10.17	License Agreement effective as of April 28, 1997 by and among Roger Harris, Mark Dunnnett 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
10.18	Amendment to License Agreement effective as of March 17, 2001 by and among Roger Harris, Mark Dunnnett 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
10.19	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

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10.20	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
10.21	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
10.22	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
10.23	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
10.24	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
10.25	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
10.26	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
10.27	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
10.28	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
10.29	Third Amendment to Credit Agreement dated as of March 15, 2006 by and between NAI and Wells Fargo Bank, National Association	Exhibit 10.35 of NAI's Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2006, filed with the commission on May 9, 2006
10.30	Standard Sublease Multi-Tenant by and between J. Gelt Corporation dba Casa Pacifica and RHL (lease reference date March 6, 2006)	Exhibit 10.37 of NAI's Annual Report on Form 10-K for the fiscal year ended June 30, 2006, filed with the commission on September 18, 2006
10.31	Loan Agreement between NAIE and Credit Suisse dated as of September 22, 2006, including general conditions (portions of the Loan Agreement have been omitted pursuant to a request for confidential treatment)	Exhibit 10.36 of NAI's Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2006, filed with the commission on November 1, 2006
10.32	Employment Agreement effective as of November 20, 2006, by and between NAI and Alvin McCurdy*	Exhibit 10.1 of NAI's Current Report on Form 8-K dated November 20, 2006, filed with the commission on November 21, 2006

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10.33	Fourth Amendment to Credit Agreement dated as of November 1, 2006, and entered into on January 24, 2007, by and between NAI and Wells Fargo Bank, National Association	Exhibit 10.37 of NAI's Quarterly Report on Form 10-Q for the quarterly period ended December 31, 2006, filed with the commission on January 30, 2007
10.34	Sublease Contract for facilities in Manno, Switzerland, between NAIE and Vertime SA effective as of April 1, 2007 (portions of the Sublease Contract have been omitted pursuant to a request for confidential treatment) (English translation)	Exhibit 10.39 of NAI's Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2006, filed with the commission on May 14, 2007
10.35	Second Amendment to License Agreement Amending The First Amendment Dated March 17, 2001 to License Agreement Dated April 28, 1997 by and among Roger Harris, Mark Dunnett and NAI dated as of March 26, 2007	Exhibit 10.40 of NAI's Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2007, filed with the commission on May 14, 2007
10.36	First Amendment to Loan Agreement between NAIE and Credit Suisse dated as of February 19, 2007	Exhibit 10.41 of NAI's Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2007, filed with the commission on May 14, 2007
10.37	Settlement Agreement and Release of Claims and Rights between NAI and DHL Express, Inc. dated April 16, 2007	Exhibit 10.42 of NAI's Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2007, filed with the commission on May 14, 2007
10.38	Settlement Agreement executed as of June 26, 2006, by and between Novogen Research Pty. Ltd. and NAI	Exhibit 10.36 of NAI's Annual Report on Form 10-K for the fiscal year ended June 30, 2006, filed with the commission on September 18, 2006
10.39	Consulting Agreement effective as of July 1, 2007, by and between Dr. John A. Wise and NAI	Exhibit 10.44 of NAI's Annual Report on Form 10-K for the fiscal year ended June 30, 2007, filed with the commission on October 15, 2007
10.40	Fifth Amendment to Credit Agreement dated as of November 1, 2007, and entered into on December 18, 2007, by and between NAI and Wells Fargo Bank, National Association	Filed herewith
10.41	Revolving Line of Credit Note made by NAI for the benefit of Wells Fargo Bank, National Association in the amount of \$7,500,000	Filed herewith
10.42	Separation Agreement and General Release of Claims effective as of November 27, 2007, by and between NAI and John Reaves	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

* Indicates management contract or compensatory plan or arrangement.

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: February 8, 2008

NATURAL ALTERNATIVES INTERNATIONAL, INC.

By: /s/ Randell Weaver
Randell Weaver, Chief Financial Officer

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

FIFTH AMENDMENT TO CREDIT AGREEMENT

THIS AMENDMENT TO CREDIT AGREEMENT (this "Amendment") is entered into as of November 1, 2007, 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 (a) by deleting "November 1, 2008" as the last day on which Bank will make advances under the Line of Credit, and by substituting for said date "November 1, 2009;" and (b) by deleting "Twelve Million Dollars (\$12,000,000.00)" as the maximum principal amount available under the Line of Credit, and by substituting for said amount "Seven Million Five Hundred Thousand Dollars (\$7,500,000.00)," with such changes to be effective upon the execution and delivery to Bank of a promissory note dated as of November 1, 2007 (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 Three Million Seven Hundred Fifty Thousand Dollars (\$3,750,000.00) however the outstanding borrowings against such inventory shall not at any time exceed eligible accounts receivable."

3. Section 1.4.(a) is hereby deleted in its entirety, and the following substituted therefor:

“(a) Foreign Exchange Facility. Subject to the terms and conditions of this Agreement, Bank hereby agrees to make available to Borrower a facility (the “Foreign Exchange Facility”) under which Bank, from time to time up to and including November 1, 2008, will enter into foreign exchange contracts for the account of Borrower for the purchase and/or sale by Borrower in United States dollars of foreign currencies designated by Borrower; provided however, that the contact limit shall not at any time exceed an aggregate of One Million Eight Hundred Thousand United States Dollars (US\$1,800,000.00). No foreign exchange contract shall be executed for a term which extends beyond November 1, 2009. Borrower shall have a “Delivery Limit” under the Foreign Exchange Facility not to exceed at any time the aggregate principal amount of Zero United States Dollars (US\$0.00) with PVD (“Payment versus Delivery”) which will require Borrower to provide funds before the currency is delivered and this will eliminate the 1 or 2 business day settlement period and mitigate settlement risk. All foreign exchange transactions shall be subject to the additional terms of a Foreign Exchange Agreement dated as of May 1, 2004 (“Foreign Exchange Agreement”), all terms of which are incorporated herein by this reference.”

4. 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, a borrowing base certificate, 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;”

5. In consideration of the changes set forth herein and as a condition to the effectiveness hereof, immediately upon signing this Amendment Borrower shall pay to Bank a non-refundable fee of \$9,375.00.

6. 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.

7. 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.

WELLS FARGO BANK,
NATIONAL ASSOCIATION

NATURAL ALTERNATIVES INTERNATIONAL, INC.

By: /s/ Mark A. LeDoux
Mark A. LeDoux
Chairman

By: /s/ Bernie Palmer
Bernie Palmer
Vice President

By: /s/ Randell Weaver
Randell Weaver
President
Executed on December 18, 2007

WELLS FARGO

REVOLVING LINE OF CREDIT NOTE

\$7,500,000.00

San Diego, California
November 1, 2007

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 **\$7,500,000.00**, 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 **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 its 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 December 1, 2007.

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 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, 2009**.

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**, 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 Borrower, which advances, when so deposited, shall be conclusively presumed to have been made to or for the benefit of 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 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.

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. 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).

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 Borrower, and the obligation, if any, of the holder to extend any further credit hereunder shall immediately cease and terminate. 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 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/ Mark A. LeDoux, Chairman
Mark A. LeDoux, Chairman

By: /s/ Randell Weaver
Randell Weaver, President
Executed on December 18, 2007

SEPARATION AGREEMENT AND GENERAL RELEASE OF CLAIMS

This Separation Agreement and General Release of Claims ("Agreement") is entered into by and between John R. Reaves, Jr. ("Former Employee") and Natural Alternatives International, Inc., a Delaware corporation ("Company").

RECITALS

A. Former Employee, by letter dated November 19, 2007, resigned from employment with the Company as of the Effective Date of this Agreement.

B. Former Employee and Company desire to settle and compromise all possible claims between them arising out of their relationship to date, including Former Employee's employment with the Company, and to provide for a general release of all claims relating to Former Employee's employment.

NOW, THEREFORE, incorporating the above recitals, and for good and valuable consideration, the receipt and sufficiency of which is acknowledged, the parties agree as follows:

AGREEMENT

1. Separation Payment by Company. In consideration of the mutual covenants set forth in this Agreement, the releases given by Former Employee and the return of materials by Former Employee, the parties agree as follows:

a. Company will, within ten days following the Effective Date of this Agreement, pay to Former Employee the sum, less usual deductions, representing separation pay of one-half the amount payable for Former Employee's salary through June 30, 2008. The balance of separation pay shall be paid on a bi-weekly basis through the remaining severance period ending June 30, 2008. Former Employee acknowledges and agrees he has received payment for all unused accrued vacation pay as well as all salary to which he was entitled through the Effective Date of this Agreement, less usual deductions.

b. Former Employee shall be entitled to receive continuing group health insurance coverage pursuant to COBRA and Company will pay the next twelve (12) months premiums for such continuation coverage in the amount of Four Hundred Seventy Four Dollars and 61/100 (\$474.61) per month. In the event Former Employee finds employment following the Effective Date of this Agreement after which Former Employee no longer requires COBRA continuation coverage, Company agrees to pay the balance of any such unused continuation coverage to Former Employee as additional separation pay.

c. Former Employee shall be entitled to receive up to twelve (12) months of outplacement services commencing from the Effective Date at a cash value not

to exceed Fifteen Thousand Dollars (\$15,000.00) to be paid by Company. Former Employee may elect to waive outplacement services and receive payment in the amount of Fifteen Thousand Dollars (\$15,000.00), less usual deductions, as additional separation pay in lieu of outplacement services. This election must be made on or before the Effective Date of this Agreement.

d. Former Employee shall be entitled, subject to prior approval of the Board of Directors, to a net exercise of all Company stock options held by Former Employee.

2. Release.

a. Former Employee unconditionally, irrevocably and absolutely releases and discharges the Company, its directors, officers, employees, volunteers, agents, attorneys, stockholders, insurers, successors and/or assigns and any related, parent or subsidiary entity, from any and all losses, liabilities, claims, demands, causes of action, or suits of any type, whether in law and/or in equity, related directly or indirectly or in any way in connection with any transaction, affairs or occurrences between them to date, including, but not limited to, Former Employee's employment with the Company. Former Employee agrees and understands this Agreement applies, without limitation, to all wage claims, tort and/or contract claims, claims for wrongful termination, and claims arising under Title VII of the Civil Rights Act of 1991, the Americans with Disabilities Act, the Age Discrimination in Employment Act, the Equal Pay Act, the California Fair Employment and Housing Act, the Fair Labor Standards Act, the Family and Medical Leave Act, the California Labor Code, any and all federal or state statutes or provisions governing discrimination in employment, and the California Business and Professions Code.

b. Former Employee irrevocably and absolutely agrees Former Employee will not prosecute nor allow to be prosecuted on Former Employee's behalf in any administrative agency, whether federal or state, or in any court, whether federal or state, any claim or demand of any type related to the matters released above, it being an intention of the parties that with the execution by Former Employee of this Agreement, the Company, its officers, directors, employees, volunteers, agents, attorneys, stockholders, successors and/or assigns and all related, parent or subsidiary entities will be absolutely, unconditionally and forever discharged of and from all obligations to or on behalf of Former Employee related in any way to the matters discharged herein.

3. Civil Code Section 1542 Waiver.

a. Former Employee expressly accepts and assumes the risk that if facts with respect to matters covered by this Agreement are found hereafter to be other than or different from the facts now believed or assumed to be true, this Agreement shall nevertheless remain effective. It is understood and agreed this Agreement shall constitute a general release and shall be effective as a full and final accord and satisfaction and as a bar to all actions, causes of action, costs, expenses, attorneys' fees, damages, claims and

liabilities whatsoever, whether or not now known, suspected, claimed or concealed pertaining to the released claims. Former Employee acknowledges Former Employee is familiar with California Civil Code §1542, which provides and reads as follows:

“A general release does not extend to claims which the creditor does not know of or suspect to exist in his or her favor at the time of executing the release, which if known by him or her must have materially affected his or her settlement with the debtor.”

Former Employee expressly waives and relinquishes any and all rights or benefits which Former Employee may have under, or which may be conferred upon Former Employee by the provisions of California Civil Code §1542, as well as any other similar state or federal statute or common law principle, to the fullest extent Former Employee may lawfully waive such rights or benefits pertaining to the released claims.

4. Confidentiality.

a. Former Employee agrees all matters relative to this Agreement shall remain confidential. Accordingly, Former Employee agrees Former Employee shall not discuss, disclose or reveal to any other persons, entities or organizations, whether within or outside of the Company, with the exception of Former Employee’s legal counsel, financial, tax and business advisors, and such other persons as may be reasonably necessary for the management of the Former Employee’s affairs, the terms, amounts and conditions of settlement and of this Agreement. Notwithstanding the above, Former Employee acknowledges Company is required to disclose certain terms, aspects or conditions of this Agreement and/or Former Employee’s employment in the Company’s public filings made with the United States Securities and Exchange Commission and Former Employee expressly consents to any such required disclosures.

b. Former Employee shall not make, issue, disseminate, publish, print or announce any news release, public statement or announcement with respect to these matters, or any aspect thereof, the reasons therefore and the terms or amounts of this Agreement.

5. Return of Documents and Equipment. Former Employee represents Former Employee has returned to Company all Company Property and Confidential Information (as such terms are defined in that certain Confidential Information and Invention Assignment Agreement, Covenant of Exclusivity and Covenant Not To Compete dated effective January 30, 2004, between Former Employee and Company). In the event Former Employee has not returned all Company Property and Confidential Information, Former Employee agrees to reimburse the Company for any reasonable expenses it incurs in an effort to have such property returned. These reasonable expenses include attorney’s fees and costs.

6. Confidential Information. Former Employee acknowledges and affirms the continued applicability of the Confidential Information and Invention Assignment Agreement, Covenant of Exclusivity and Covenant Not To Compete dated effective January 30, 2004, between Former Employee and Company. Specifically, but without limitation, Former Employee recognizes the obligation to not disclose any Company Confidential Information under any circumstances.

7. Covenant Not to Sue. The parties agree each will not make, assert or maintain against any other party released in this Agreement any claim, demand, action, suit or proceeding arising out of or in connection with the matters respectively released herein. This Agreement may be pleaded as a full and complete defense to and may be used as a basis for an injunction against any action, suit or other proceeding that may be prosecuted, instituted or attempted by or on behalf of any party in breach of this Agreement. The parties each agree to defend, indemnify and hold one another harmless against any claim, demand, right, damage, debt, liability, account, action, cause of action, cost or expense, including attorneys' fees actually paid or incurred, arising out of any such claim, demand, action, suit or proceeding asserted in connection with this Agreement or the matters respectively released.

8. Attorney's Fees. In the event any party commences litigation for judicial interpretation, enforcement, termination, cancellation or rescission of this Agreement, or for damages for the breach thereof, the prevailing party shall be entitled to recover its reasonable attorney's fees and costs incurred in connection with any such action.

9. OWBPA Provisions. Former Employee is forty (40) years old or older, in accordance with the Older Workers' Benefit Protection Act of 1990, Former Employee is aware of and acknowledges the following: (i) Former Employee has the right to consult with an attorney before signing this Agreement and has done so to the extent desired; (ii) Former Employee has twenty-one (21) days to review and consider this Agreement, and Former Employee may use as much of this twenty-one (21) day period as Former Employee wishes before signing; (iii) Former Employee shall, upon signing, deliver the executed original of the Agreement to NAI; (iv) for a period of seven (7) days following execution of this Agreement, Former Employee may revoke this Agreement by delivering a writing addressed to Jo Phillippe, Natural Alternatives International, Inc., 1185 Linda Vista Drive, San Marcos, California 92078 and received by Company not later than midnight on the seventh day following execution of this Agreement by Former Employee; (v) this Agreement shall become effective eight (8) days after it is signed by Former Employee and the Company, and in the event the parties do not sign on the same date, this Agreement shall become effective at 12:01 a.m. on the eighth day after it is signed by Former Employee ("Effective Date").

10. Entire Agreement. The parties declare and represent, with the exception of the Confidential Information and Invention Assignment Agreement, Covenant of Exclusivity and Covenant Not To Compete dated effective January 30, 2004, between Former Employee and Company referenced in Paragraphs 5 and 6, above, no promise, inducement or agreement not herein expressed has been made to them and that this

Agreement contains the entire agreement between and among the parties with respect to the subject matter and that the terms of this Agreement are contractual and not a mere recital. This Agreement supersedes any and all other agreements either oral or in writing between the parties with respect to the subject matter.

11. Applicable Law. This Agreement is entered into in the State of California. The validity, interpretation, and performance of this Agreement shall be construed and interpreted according to the laws of the State of California.

12. Agreement as Defense. This Agreement may be pleaded as a full and complete defense and may be used as the basis for an injunction against any action, suit or proceeding which may be prosecuted, instituted or attempted by either party in breach.

13. Severability. If any provision or part of any provision of this Agreement is held invalid, void or voidable as against public policy or otherwise, the invalidity shall not affect other provisions or parts of any provision which may be given effect without the invalid provision or part. To this extent, the provisions, and parts of any provisions of this Agreement are declared to be severable.

14. No Admission of Liability. It is understood this Agreement is not an admission of any liability by any person, firm, association or corporation.

15. Counterparts. This Agreement may be executed in counterparts, each of which will be deemed an original copy of this Agreement and all of which, when taken together, will be deemed to constitute one and the same agreement. The exchange of copies of this Agreement and of signature pages by facsimile transmission shall constitute effective execution and delivery of this Agreement as to the parties and may be used in lieu of the original Agreement for all purposes. Signatures of the parties transmitted by facsimile shall be deemed to be their original signatures for all purposes.

16. Representation of No Assignment. The parties represent and warrant they have not assigned, transferred, subrogated or purported to assign, transfer or subrogate any claim released in this Agreement to any person or entity.

17. Cooperation. The parties agree, for their respective selves, heirs, executors and assigns, they will abide by this Agreement, the terms of which are meant to be contractual, and further agree they will do such acts and prepare, execute and deliver such documents as may reasonably be required in order to carry out the objectives of this Agreement.

18. Arbitration. Any dispute arising out of or relating to this Agreement shall be resolved pursuant to that certain Mutual Agreement to Mediate and Arbitrate Claims dated effective January 30, 2004, between Former Employee and Company.

19. Legal Representation; Independent Counsel. The law firm of Fisher Thurber LLP has prepared this Agreement on behalf of the Company based on the

Company's instructions. Fisher Thurber LLP does not represent any other party to this Agreement. In executing this Agreement, Former Employee represents Former Employee has neither requested nor been given legal advice or counsel by Fisher Thurber LLP or any of its attorneys. Former Employee is aware of Former Employee's right to obtain separate legal counsel with respect to the negotiation and execution of this Agreement and acknowledges Fisher Thurber LLP has recommended Former Employee retain Former Employee's own counsel for such purpose. Former Employee further acknowledges Former Employee (i) has read and understands this Agreement; (ii) has had the opportunity to retain separate counsel in connection with the negotiation and execution of this Agreement; and (iii) has relied on the advice of separate counsel with respect to this Agreement or made the conscious decision not to retain counsel in connection with the negotiation and execution of this Agreement.

20. Further Acknowledgements. Each party represents and acknowledges it is not being influenced by any statement made by or on behalf of the other party to this Agreement. Former Employee and the Company have relied and are relying solely upon his, her or its own judgment, belief and knowledge of the nature, extent, effect and consequences relating to this Agreement and/or upon the advice of their own legal counsel concerning the consequences of this Agreement.

The undersigned have executed this Agreement on the date(s) shown below.

Dated: 11/19/07

FORMER EMPLOYEE

/s/ John R. Reaves Jr.

John R. Reaves, Jr.

Dated: Nov. 19, 2007

COMPANY

Natural Alternatives International, Inc.,
a Delaware corporation

By: /s/ Randy Weaver

Randell Weaver, President

**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: February 8, 2008

/s/ Mark A. LeDoux

Mark A. LeDoux, Chief Executive Officer

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

I, Randell Weaver, 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: February 8, 2008

/s/ Randell Weaver
Randell Weaver, Chief Financial Officer

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 December 31, 2007 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: February 8, 2008

/s/ Mark A. LeDoux
Mark A. LeDoux, Chief Executive Officer

Date: February 8, 2008

/s/ Randell Weaver
Randell Weaver, 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.