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

FORM 10-Q

QUARTERLY REPORT
pursuant to Section 13 or 15(d)
of the Securities Exchange Act of 1934

FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2015

000-15701
(Commission file number)

NATURAL ALTERNATIVES INTERNATIONAL, INC.

(Exact name of registrant as specified in its charter)

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

Indicate by check mark whether Natural Alternatives International, Inc. (NAI) (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that NAI was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.
[X] Yes [_] No

Indicate by check mark whether NAI has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that NAI was required to submit and post such files).
[X] Yes [ ] No

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

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

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

As of November 5, 2015, 6,786,686 shares of NAI's common stock were outstanding, net of 906,991 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," "forecasts," 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 or loss, net income or loss per share, profit margins, expenditures, liquidity, and other financial items;
- our ability to directly sell beta-alanine;
- our ability to maintain or increase our patent and trademark licensing revenues;
- our ability to develop relationships with new customers and maintain or improve existing customer relationships;
- our ability to protect our intellectual property;
- the outcome of currently pending litigation, regulatory and tax matters, the costs associated with such matters and the effect of such matters on our business and results of operations;
- our ability to improve operation efficiencies, manage costs and business risks and improve or maintain profitability;
- the costs associated with defending and resolving potential new claims, even if such claims are without merit;
- currency exchange rates, their effect on our results of operations, including amounts that may be reclassified as earnings, the availability of foreign exchange facilities, our ability to effectively hedge against foreign exchange risks and the extent to which we may seek to hedge against such risks;
- future levels of our revenue concentration risk;
- sources and availability of raw materials, including the limited number of suppliers of beta-alanine;
- inventories, including the adequacy of raw material and other inventory levels to meet future customer demand and the adequacy and intended use of our facilities;
- development of new products and marketing strategies;
- manufacturing and distribution channels, product sales and performance, and timing of product shipments;
- current or future customer orders, product returns, and potential product recalls;
- the impact on our business and results of operations and variations in quarterly net sales from seasonal and other factors;
- growth, expansion, diversification, and consolidation strategies, the success of such strategies, and the benefits we believe can be derived from such strategies;
- our ability to operate within the standards set by the U.S. Food and Drug Administration's (FDA) Good Manufacturing Practices (GMP);
- our ability to successfully expand our operations, including outside the United States (U.S.);
- the adequacy of our reserves and allowances;
- the sufficiency of our available cash, cash equivalents, and potential cash flows from operations to fund our current working capital needs and capital expenditures through the next 12 months;
- overall industry and market performance;
- competition and competitive advantages;
- current and future economic and political conditions;
- the impact of accounting pronouncements and our adoption of certain accounting guidance; and
- other assumptions described in this report underlying or relating to any forward-looking statements.

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

PART I – FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

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

	September 30, 2015 (Unaudited)	June 30, 2015
Assets		
Current assets:		
Cash and cash equivalents	$ 16,440	$ 18,551
Accounts receivable - less allowance for doubtful accounts of $16 at September 30, 2015 and $20 at June 30, 2015	9,367	9,895
Inventories, net	18,786	12,564
Deferred income taxes	367	367
Income tax receivable	72	316
Prepaids and other current assets	2,046	1,907
Total current assets	47,078	43,600
Property and equipment, net	7,044	7,633
Deferred income taxes	1,663	1,663
Other noncurrent assets, net	889	920
Total assets	$ 56,674	$ 53,816
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	$ 5,644	$ 4,647
Accrued liabilities	2,847	2,495
Accrued compensation and employee benefits	1,250	1,462
Income taxes payable	1,006	489
Total current liabilities	10,747	9,093
Other noncurrent liabilities, net	452	460
Deferred rent	425	403
Total liabilities	11,624	9,956
Commitments and contingencies		
Stockholders' equity:		
Preferred stock; $.01 par value; 500,000 shares authorized; none issued or outstanding	—	—
Common stock; $.01 par value; 20,000,000 shares authorized; issued and outstanding (net of treasury shares) 6,713,831 at September 30, 2015 and 6,743,093 at June 30, 2015	75	75
Additional paid-in capital	20,363	20,258
Accumulated other comprehensive (loss)	(722)	(766)
Retained earnings	30,220	29,007
Treasury stock, at cost, 904,846 shares at September 30, 2015 and 875,584 June 30, 2015	(4,886)	(4,714)
Total stockholders' equity	45,050	43,860
Total liabilities and stockholders' equity	$ 56,674	$ 53,816

See accompanying notes to condensed consolidated financial statements.

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

	Three Months Ended September 30,	
	2015	**2014**
Net sales	$ 21,585	$ 18,695
Cost of goods sold	16,852	15,898
Gross profit	4,733	2,797
Selling, general & administrative expenses	3,005	2,228
Income from operations	1,728	569
Other income:		
Interest income	31	8
Interest expense	(1)	(3)
Foreign exchange gain	(8)	96
Other, net	(8)	(9)
Total other income	14	92
Income before income taxes	1,742	661
Provision for income taxes	529	174
Net income	$ 1,213	$ 487
Unrealized gain resulting from change in fair value of derivative instruments, net of tax	44	720
Comprehensive income	$ 1,257	$ 1,207
Net income per common share:		
Basic	$ 0.19	$ 0.07
Diluted	$ 0.18	$ 0.07
Weighted average common shares outstanding:		
Basic	6,520,667	6,835,691
Diluted	6,695,319	6,873,951

See accompanying notes to condensed consolidated financial statements.

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

	Three Months Ended September 30,	
	2015	**2014**
Cash flows from operating activities		
Net Income	$ 1,213	$ 487
Adjustments to reconcile net income to net cash used in operating activities:		
Depreciation and amortization	478	599
Non-cash compensation	130	83
Pension expense	13	12
(Gain) loss on disposal of assets	(232)	6
Changes in operating assets and liabilities:		
Accounts receivable, net	528	(1,058)
Inventories, net	(6,222)	(224)
Prepaids and other assets	(60)	(413)
Accounts payable and accrued liabilities	1,385	(2,296)
Income taxes	711	(47)
Accrued compensation and employee benefits	(212)	215
Net cash used in operating activities	(2,268)	(2,636)
Cash flows from investing activities		
Purchases of property and equipment	(239)	(479)
Proceeds from sale of property and equipment	568	1
Net cash provided (used) by investing activities	329	(478)
Cash flows from financing activities		
Repurchase of common stock	(172)	—
Net cash used by financing activities	(172)	—
Net decrease in cash and cash equivalents	(2,111)	(3,114)
Cash and cash equivalents at beginning of period	18,551	19,512
Cash and cash equivalents at end of period	$ 16,440	$ 16,398
Supplemental disclosures of cash flow information		
Cash paid during the period for:		
Interest	$ —	$ —
Taxes	$ 153	$ 165
Disclosure of non-cash activities:		
Change in unrealized gain resulting from change in fair value of derivative instruments, net of tax	$ 44	$ 720

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

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 (U.S. GAAP) have been condensed or omitted pursuant to such rules and regulations. In management's opinion, all adjustments necessary for a fair presentation of the financial position, results of operations and cash flows have been included and are of a normal, recurring nature. The results of operations for the three months ended September 30, 2015 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, 2015 ("2015 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 2015 Annual Report unless otherwise noted below.

Net Income per Common Share

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

	Three Months Ended September 30,	
	2015	**2014**
Numerator		
Net income	$ 1,213	$ 487
Denominator		
Basic weighted average common shares outstanding	6,521	6,836
Dilutive effect of stock options	174	38
Diluted weighted average common shares outstanding	6,695	6,874
Basic net income per common share	$ 0.19	$ 0.07
Diluted net income per common share	$ 0.18	$ 0.07

We excluded shares related to stock options totaling 100,000 for the three months ended September 30, 2015, and 160,000 for the three months ended September 30, 2014, from the calculation of diluted net income per common share, as the effect of their inclusion would have been anti-dilutive.

Revenue Recognition

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

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

We followed the provisions of ASU No. 2009-13 for all multiple element agreements. Under this guidance, the delivered item(s) has value to the customer on a standalone basis and, if the arrangement includes a general right of return relative to the delivered item(s), delivery or performance of the undelivered item(s) is considered probable and substantially in our control.

A delivered item is considered a separate unit of accounting when the delivered item has value to the partner on a standalone basis based on the consideration of the relevant facts and circumstances for each arrangement. Arrangement consideration is allocated at the inception of the agreement to all identified units of accounting based on their relative selling price. The relative selling price for each deliverable is determined using vendor specific objective evidence, or VSOE, of selling price or third-party evidence of selling price if VSOE does not exist. If neither VSOE nor third-party evidence of selling price exists, we use our best estimate of the selling price for the deliverable. The amount of allocable arrangement consideration is limited to amounts that are fixed or determinable. The consideration received is allocated among the separate units of accounting, and the applicable revenue recognition criteria are applied to each of the separate units. Changes in the allocation of the sales price between delivered and undelivered elements can impact revenue recognition but do not change the total revenue recognized under any agreement. If facts and circumstances dictate that a deliverable has standalone value from the undelivered items, the deliverable is identified as a separate unit of accounting and the amounts allocated to the deliverable are recognized upon the delivery of the deliverable, assuming the other revenue recognition criteria have been met. However, if the amounts allocated to the deliverable through the relative selling price allocation exceed the upfront fee, the amount recognized upon the delivery of the deliverable is limited to the upfront fee received. If facts and circumstances dictate that the deliverable does not have standalone value, the transaction price, including any upfront fee payments received, is allocated to the identified separate units of accounting and recognized as those items are delivered and accepted.

We currently own certain U.S. patents, and each patent's corresponding foreign patent applications. All of these patents and patent rights relate to the ingredient known as beta-alanine marketed and sold under the CarnoSyn® trade name. From March 2009 to April 2015, we had an agreement with Compound Solutions, Inc. (CSI) to grant a license to manufacture, offer for sale and/or sell products incorporating, using or made in accordance with our patent rights to customers of CSI who purchase beta-alanine under the CarnoSyn® trade name from CSI. Our most recent agreement with CSI expired on March 31, 2015. We elected not to renew our agreement with CSI and, effective April 1, 2015, we began directly selling beta-alanine, and licensing the related patent and trademark rights, in order to take advantage of strategic opportunities, including opportunities to provide additional contract manufacturing services, and to increase our top-line revenue and profit profile.

We recorded royalty, licensing income and raw material sales as a component of revenue in the amount of $5.3 million during the three months ended September 30, 2015 and $961,000 during the three months ended September 30, 2014. These income amounts result in royalty expense paid to the original patent holders from whom NAI acquired the patents and its patent rights. We recognized royalty expense as a component of cost of goods sold in the amount of $264,000 during the three months ended September 30, 2015 and $174,000 during the three months ended September 30, 2014.

Stock-Based Compensation

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

We estimate the fair value of stock option awards at the date of grant using the Black-Scholes option valuation model. The Black-Scholes option valuation model was developed for use in estimating the fair value of traded options that have no vesting restrictions and are fully transferable. Option valuation models require the input of highly subjective assumptions. Black-Scholes uses assumptions related to volatility, the risk-free interest rate, the dividend yield (which we assume to be zero, as we have not paid any cash dividends) and employee exercise behavior. Expected volatilities used in the model are based 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. The fair value of restricted stock shares granted is based on the market price of our common stock on the date of grant. We amortize the estimated fair value of our stock awards to expense over the related vesting periods.

We did not grant any restricted shares during the three months ended September 30, 2015 or the three months ended September 30, 2014.

Our net income included stock based compensation expense of approximately $130,000 for the three months ended September 30, 2015 and approximately $83,000 for the three months ended September 30, 2014.

On October 1, 2015, the Board of Directors approved the grant of 75,000 shares of restricted stock in connection with the appointments of a new President and a new Chief Financial Officer pursuant to our 2009 Omnibus Incentive Plan. These restricted stock grants will vest over five years and the unvested shares cannot be sold or otherwise transferred and the rights to received dividends, if declared by our Board of Directors, are forfeitable until the shares become vested. Both appointments were the result of promotions of current employees.

Fair Value of Financial Instruments

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

The fair value hierarchy is broken down into three levels based on the source of inputs. In general, fair values determined by Level 1 inputs use quoted prices (unadjusted) in active markets for identical assets or liabilities that the Company has the ability to access. We classify cash, cash equivalents, and marketable securities balances as Level 1 assets. Fair values determined by Level 2 inputs are based on quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active and models for which all significant inputs are observable or can be corroborated, either directly or indirectly by observable market data. Level 3 inputs are unobservable inputs for the asset or liability, and include situations where there is little, if any, market activity for the asset or liability. These include certain pricing models, discounted cash flow methodologies and similar techniques that use significant unobservable inputs.

As of September 30, 2015 and June 30, 2015, we did not have any financial assets or liabilities classified as level 1. We classify derivative forward exchange contracts as Level 2 assets. The fair value of our forward exchange contracts as of September 30, 2015 was a net liability of $156,000. The fair value of our forward exchange contracts as of June 30, 2015 was a net asset of $474,000. As of September 30, 2015 and June 30, 2015, we did not have any financial assets or liabilities classified as Level 3. We did not transfer any assets or liabilities between Levels during fiscal 2015 or the three month period ended September 30, 2015.

B. Inventories, net

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

	September 30, 2015	June 30, 2015
Raw materials	$ 14,956	$ 9,744
Work in progress	2,471	1,552
Finished goods	1,682	1,603
Reserves	(323)	(335)
	$ 18,786	$ 12,564

C. Property and Equipment

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

	Depreciable Life In Years	September 30, 2015	June 30, 2015
Land	N/A	$ 393	$ 393
Building and building improvements	7 – 39	2,800	2,793
Machinery and equipment	3 – 12	23,342	26,444
Office equipment and furniture	3 – 5	3,491	3,168
Vehicles	3	209	209
Leasehold improvements	1 – 15	11,337	11,244
Total property and equipment		41,572	44,251
Less: accumulated depreciation and amortization		(34,528)	(36,618)
Property and equipment, net		$ 7,044	$ 7,633

D. Accumulated Other Comprehensive (Loss) Income

Accumulated Other comprehensive (loss) income consisted of the following during the three months ended September 30, 2015 and September 30, 2014 (dollars in thousands):

	Defined Benefit Pension Plan	Unrealized Gains on Cash Flow Hedges	Total
Balance as of June 30, 2015	$ (643)	$ (123)	$ (766)
Other comprehensive income before reclassifications	—	58	58
Amounts reclassified from OCI	—	11	11
Tax effect of OCI activity	—	(25)	(25)
Other comprehensive income	—	44	44
Balance as of September 30, 2015	$ (643)	$ (79)	$ (722)

	Defined Benefit Pension Plan	Unrealized Losses on Cash Flow Hedges	Total
Balance as of June 30, 2014	$ (502)	$ 33	$ (469)
Other comprehensive income before reclassifications	—	1,262	1,262
Amounts reclassified from OCI	—	(154)	(154)
Tax effect of OCI activity	—	(388)	(388)
Other comprehensive income	—	720	720
Balance as of September 30, 2014	$ (502)	$ 753	$ 251

During the three months ended September 30, 2015, the amounts reclassified from OCI were comprised of $38,000 of losses reclassified to net revenues and $27,000 related to the amortization of forward points reclassified to other income.

During the three months ended September 30, 2014, the amounts reclassified from OCI were comprised of $150,000 of gains reclassified to net revenues and $5,000 related to the amortization of forward points reclassified to other income.

E. Debt

On December 22, 2014, we executed a new Credit Agreement with Wells Fargo Bank, N.A. The Credit Agreement replaces the previous credit facility between NAI and the lender. The Credit Agreement is on substantially similar terms as the previous credit facility. The Credit Agreement provides NAI with a line of credit of up to $5,000,000. The line of credit may be used to finance working capital requirements. In consideration for granting the line of credit, NAI paid the lender a commitment fee of $10,000. There are no amounts currently drawn under the line of credit.

Under the terms of the Credit Agreement, borrowings are subject to eligibility requirements including maintaining (i) net income after taxes of not less than $750,000 on a trailing four quarter basis as of the end of each calendar quarter beginning with the four quarter period ending December 31, 2014; and (ii) a ratio of total liabilities to tangible net worth of not greater than 1.25 to 1.0 at any time. Any amounts outstanding under the line of credit will bear interest at a fixed or fluctuating interest rate as elected by NAI from time to time; provided, however, that if the outstanding principal amount is less than $100,000 such amount shall bear interest at the then applicable fluctuating rate of interest. If elected, the fluctuating rate per annum would be equal to 1.75% above the daily one month LIBOR rate as in effect from time to time. If a fixed rate is elected, it would equal a per annum rate of 1.75% above the LIBOR rate in effect on the first day of the applicable fixed rate term. Any amounts outstanding under the line of credit must be paid in full on or before November 1, 2016; provided, however, that NAI must maintain a zero balance on advances under the line of credit for a period of at least 30 consecutive days during each fiscal year. Amounts outstanding that are subject to a fluctuating interest rate may be prepaid at any time without penalty. Amounts outstanding that are subject to a fixed interest rate may be prepaid at any time in minimum amounts of $100,000, subject to a prepayment fee equal to the sum of the discounted monthly differences for each month from the month of prepayment through the month in which the then applicable fixed rate term matures.

Our obligations under the Credit Agreement are secured by our accounts receivable and other rights to payment, general intangibles, inventory, equipment and fixtures. We also have a foreign exchange facility with Wells Fargo Bank, N.A. in effect until November 1, 2016, and with Bank of America, N.A. in effect until August 15, 2016.

On September 30, 2015, we were in compliance with all of the financial and other covenants required under the Credit Agreement.

On September 22, 2006, NAIE, our wholly owned subsidiary, entered into a credit facility to provide it with a credit line of up to CHF 1.3 million, or approximately $1.3 million, which was the initial maximum aggregate amount that could be outstanding at any one time under the credit facility. This maximum amount is reduced annually by CHF 160,000, or approximately $165,000. On February 19, 2007, NAIE amended its credit facility to provide that the maximum aggregate amount that may be outstanding under the facility cannot be reduced below CHF 500,000, or approximately $514,000. As of September 30, 2015, there was no outstanding balance under this credit facility.

Under its credit facility, NAIE may draw amounts either as current account loan credits to its current or future bank accounts or as fixed loans with a maximum term of 24 months. Current account loans will bear interest at the rate of 5% per annum. Fixed loans will bear interest at a rate determined by the parties based on current market conditions and must be repaid pursuant to a repayment schedule established by the parties at the time of the loan. If a fixed loan is repaid early at NAIE's election or in connection with the termination of the credit facility, NAIE will be charged a pre-payment penalty equal to 0.1% of the principal amount of the fixed loan or CHF 1,000 (approximately $1,028), whichever is greater. The bank reserves the right to refuse individual requests for an advance under the credit facility, although its exercise of such right will not have the effect of terminating the credit facility as a whole.

We did not use our working capital line of credit nor did we have any long-term debt outstanding during the three months ended September 30, 2015. As of September 30, 2015, we had $5.5 million available under our credit facilities.

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, we adopted an amendment to freeze benefit accruals to the participants. We contribute an amount not less than the minimum funding requirements of the Employee Retirement Income Security Act of 1974 nor more than the maximum tax-deductible amount.

The components included in the net periodic expense for the periods ended September 30 were as follows (in thousands):

	Three Months Ended September 30,	
	2015	2014
Interest cost	$ 23	$ 21
Expected return on plan assets	(10)	(9)
Net periodic expense	$ 13	$ 12

G. Economic Dependency

We had substantial net sales to certain customers during the periods shown in the following table. The loss of any of these customers, or a significant decline in sales to these customers, the growth rate of sales to these customers, or in these customers' ability to make payments when due, could have a material adverse impact on our net sales and net income. Net sales to any one customer representing 10% or more of the respective period's total private label contract manufacturing net sales were as follows (dollars in thousands):

	Three Months Ended September 30,			
	2015		2014	
	Net Sales by Customer	% of Total Net Sales	Net Sales by Customer	% of Total Net Sales
Customer 1	$ 6,789	42%	$ 6,997	40%
Customer 2	3,035	19	(a)	(a)
Customer 3	1,730	11	2,908	17
Customer 4	(a)	(a)	2,209	13
	$ 11,554	72%	$ 12,114	70%

(a) Sales were less than 10% of the respective period's total private label contract manufacturing net sales.

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

	Three Months Ended September 30,			
	2015		2014	
	Raw Material Purchases by Supplier	% of Total Raw Material Purchases	Raw Material Purchases by Supplier	% of Total Raw Material Purchases
Supplier 1	$ 3,051	20%	(a)	(a)
Supplier 2	(a)	(a)	$ 1,034	11%
Supplier 3	(a)	(a)	918	10
	$ 3,051	20%	$ 1,952	21%

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

H. Segment Information

Our business consists of three segments for financial reporting purposes. The three segments are identified as (i) private label contract manufacturing, which primarily relates to the provision of private label contract manufacturing services to companies that market and distribute nutritional supplements and other health care products; (ii) patent and trademark licensing, which primarily includes direct raw material sales and royalty income from our license and supply agreements associated with the sale and use of beta-alanine under our CarnosSyn® trade name; (iii) branded products, which relates to the marketing and distribution of our branded nutritional supplements and consists primarily of the products sold under our Pathway to Healing® product line.

Due to the steady decline in sales of our Pathway to Healing® product line over the prior several years, we decided to discontinue the product line. Pursuant to the license agreements between NAI and each of Dr. Reginald Cherry and the Cherry Ministries Inc. dated as of September 1, 2004 as amended (the License Agreements). Dr. Cherry and Cherry Ministries licensed to NAI the name, likeness, style, persona and other attributes of Dr. Cherry in connection with the sale of nutritional products that were marketed by NAI under its Pathway to Healing brand. Pursuant to the License Agreements, NAI was permitted to terminate the License Agreements by written notice at any time. We notified Dr. Cherry and Cherry Ministries of our decision to discontinue the product line and the termination of the related license agreement was effective as of September 15, 2014. All termination activities related to the Pathway to Healing® product line were substantially completed by December 31, 2014. We did not change the financial presentation in this report to reflect the branded products segment as "Discontinued Operations" as the wind down of this product line did not meet the criteria for discontinued operations presentation as prescribed by applicable accounting regulations (ASC 205-20).

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, corporate legal, finance, information technology, and other corporate level related expenses, which are not allocated to any segment. The accounting policies of our segments are the same as those described in Note A above and in the consolidated financial statements included in our 2015 Annual Report.

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

	Three Months Ended September 30,	
	2015	2014
Net Sales		
Private label contract manufacturing	$ 16,265	$ 17,465
Patent and trademark licensing	5,320	961
Branded products	—	269
	$ 21,585	$ 18,695

	Three Months Ended September 30,	
	2015	2014
Income from Operations		
Private label contract manufacturing	$ 2,060	$ 1,268
Patent and trademark licensing	999	532
Branded products	—	31
Income from operations of reportable segments	3,059	1,831
Corporate expenses not allocated to segments	(1,331)	(1,262)
	$ 1,728	$ 569

	September 30, 2015	June 30, 2015
Total Assets		
Private label contract manufacturing	$ 51,438	$ 50,313
Patent and trademark licensing	5,236	3,503
Branded products	—	—
	$ 56,674	$ 53,816

Our private label contract manufacturing products are sold both in the U.S. and in markets outside the U.S., including Europe, Canada, Mexico, Africa, Australia and Asia. Our primary market outside the U.S. is Europe. Our patent and trademark licensing activities are primarily based in the U.S. and our branded products are only sold in the U.S.

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

	Three Months Ended September 30,	
	2015	2014
United States	$ 12,793	$ 9,710
Markets outside the United States	8,792	8,985
Total net sales	$ 21,585	$ 18,695

Products manufactured by NAIE accounted for 79% of net sales in markets outside the U.S. for the three months ended September 30, 2015, and 67% for the three months ended September 30, 2014. No products manufactured by NAIE were sold in the U.S. during the three months ended September 30, 2015 and 2014.

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 (in thousands):

	Long-Lived Assets		Total Assets		Capital Expenditures Three Months Ended	
	September 30, 2015	June 30, 2015	September 30, 2015	June 30, 2015	September 30, 2015	September 30, 2014
United States	$ 4,928	$ 5,525	$ 37,125	$ 34,988	$ 64	$ 446
Europe	2,116	2,108	19,549	18,828	175	33
	$ 7,044	$ 7,633	$ 56,674	$ 53,816	$ 239	$ 479

I. Income Taxes

The effective tax rate for the three months ended September 30, 2015 was 30.4%. The rate differs from the U.S. federal statutory rate of 34% primarily due to the favorable impact of foreign earnings taxed at less than the U.S. statutory rate.

To determine our quarterly provision for income taxes, we use an estimated annual effective tax rate, which is based on expected annual income, statutory tax rates and tax planning opportunities available in the various jurisdictions to which we are subject. Certain significant or unusual items are separately recognized in the quarter in which they occur and can be a source of variability in the effective tax rate from quarter to quarter. There were no discrete items for the three months ended September 30, 2015. We recognize interest and penalties related to uncertain tax positions, if any, as an income tax expense.

We record valuation allowances to reduce our deferred tax assets to an amount that we believe is more likely than not to be realized. In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. During the three months ended September 30, 2015, there was no change to our valuation allowance.

Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are measured using enacted tax rates, for each of the jurisdictions in which we operate, expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

We are subject to taxation in the U.S., Switzerland and various state jurisdictions. Our tax years for the fiscal year ended June 30, 2009 and forward are subject to examination by the U.S. tax authorities and our years for the fiscal year ended June 30, 2007 and forward are subject to examination by the state tax authorities. Our tax years for the fiscal year ended June 30, 2013 and forward are subject to examination by the Switzerland tax authorities.

We do not record U.S. income tax expense for NAIE's retained earnings that are declared as indefinitely reinvested offshore, thus reducing our overall income tax expense. The amount of earnings designated as indefinitely reinvested in NAIE is based on the actual deployment of such earnings in NAIE's assets and our expectations of the future cash needs of our U.S. and foreign entities. Income tax laws are also a factor in determining the amount of foreign earnings to be indefinitely reinvested offshore.

It is our policy to establish reserves based on management's assessment of exposure for certain positions taken in previously filed tax returns that may become payable upon audit by tax authorities. The tax reserves are analyzed quarterly and adjustments are made as events occur that we believe warrant adjustments to the reserves.

J. Treasury Stock

On June 2, 2011, the Board of Directors authorized the repurchase of up to $2.0 million of our common stock. On February 6, 2015, the Board of Directors authorized a $1.0 million increase to our stock repurchase plan bringing the total authorized repurchase amount to $3.0 million. On May 11, 2015, the Board of Directors authorized a $2.0 million increase to our stock repurchase plan bringing the total authorized repurchase amount to $5.0 million. Under the repurchase plan, we may, from time to time, purchase shares of our common stock, depending upon market conditions, in open market or privately negotiated transactions.

During the three months ended September 30, 2015, we repurchased 29,262 shares at a weighted average cost of $5.89 per share and a total cost of $172,000 including commissions and fees. During the three months ended September 30, 2014 we did not repurchase any shares under this repurchase plan.

K. Derivatives and Hedging

We are exposed to gains and losses resulting from fluctuations in foreign currency exchange rates relating to forecasted product sales denominated in foreign currencies and transactions of NAIE, our foreign subsidiary. As part of our overall strategy to manage the level of exposure to the risk of fluctuations in foreign currency exchange rates, we may use foreign exchange contracts in the form of forward contracts. To the extent we enter into such contracts, there can be no guarantee any such contracts will be effective hedges against our foreign currency exchange risk.

As of September 30, 2015, we have forward contracts designated as cash flow hedges primarily to protect against the foreign exchange risks inherent in our forecasted sales of products at prices denominated in currencies other than the U.S. Dollar. These contracts are expected to be settled through August 2016. For derivative instruments that are designated and qualify as cash flow hedges, we record the effective portion of the gain or loss on the derivative in accumulated other comprehensive income ("OCI") as a separate component of stockholders' equity and subsequently reclassify these amounts into earnings in the period during which the hedged transaction is recognized in earnings.

For foreign currency contracts designated as cash flow hedges, hedge effectiveness is measured using the spot rate. Changes in the spot-forward differential are excluded from the test of hedge effectiveness and are recorded currently in earnings as interest expense. We measure effectiveness by comparing the cumulative change in the hedge contract with the cumulative change in the hedged item. During the three months ended September 30, 2015, we did not have any losses or gains related to the ineffective portion of our hedging instruments. No hedging relationships were terminated as a result of ineffective hedging or forecasted transactions no longer probable of occurring for foreign currency forward contracts. We monitor the probability of forecasted transactions as part of the hedge effectiveness testing on a quarterly basis.

As of September 30, 2015, the notional amounts of our foreign exchange contracts designated as cash flow hedges were approximately $21.6 million (EUR 19.4 million). As of September 30, 2015, a net loss of approximately $121,000 related to derivative instruments designated as cash flow hedges was recorded in OCI. It is expected that $121,000 will be reclassified into earnings in the next 12 months along with the earnings effects of the related forecasted transactions.

As of September 30, 2015, the fair value of our cash flow hedges was a liability of $156,000, which was classified in accrued liabilities in our Consolidated Balance Sheets. During the three months ended September 30, 2015, we recognized $58,000 of net gains in OCI and reclassified $38,000 of losses from OCI to revenue. As of June 30, 2015, $528,000 of the fair value of our cash flow hedges was classified in prepaids and other current assets, $45,000 was classified in accrued liabilities, and $9,000 was classified in other noncurrent liabilities in our Consolidated Balance Sheets. During the three months ended September 30, 2014, we recognized $1.3 million of net gains in OCI and reclassified $150,000 of gains from OCI to revenue.

L. 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 operation. However, a settlement payment or unfavorable outcome could adversely impact our results of operation. 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.

On December 21, 2011, NAI filed a lawsuit in the U.S. District Court for the Southern District of Texas, Houston Division, alleging infringement by Woodbolt Distribution, LLC, also known as Cellucor (Woodbolt), Vitaquest International, Inc., d/b/a Garden State Nutritionals (Garden State) and F.H.G. Corporation, d/b/a Integrity Nutraceuticals (Integrity), of NAI's '381 patent. The complaint alleges that Woodbolt sells nutritional supplements, including supplements containing beta-alanine such as C4 Extreme™, M5 Extreme™, and N-Zero Extreme™, that infringe the '381 patent. Woodbolt, in turn, filed a complaint seeking a declaratory judgment of non-infringement and invalidity of the '381 patent in the U.S. District Court for the District of Delaware. On February 17, 2012, Woodbolt filed a First Amended Complaint, realleging its original claims against the Company and asserting new claims of violation of the Sherman Antitrust Act (15 U.S.C. § 2) and Unfair Competition. The Company reasserted the arguments in its prior motion to dismiss and moved to dismiss the new claims asserted by Woodbolt. On January 23, 2013, the Delaware Court granted the Company's motion to dismiss Woodbolt's case. On June 5, 2012, the Court in the above-referenced Texas case consolidated the pending suit with a second patent infringement case filed against Woodbolt by the Company on May 3, 2012, asserting infringement its '422 patent. On November 9, 2012, NAI filed a supplemental complaint adding allegations of infringement of Woodbolt's Cellucor Cor –Performance ®-BCAA™ and Cellucor Cor –Performance™ Creatine products. On June 14, 2013, NAI filed a third patent infringement lawsuit in the U.S. District Court for the Southern District of Texas, Houston Division, against Woodbolt, BodyBuilding.com and GNC Corporation alleging infringement of the '381 and '422 patents by Woodbolt's Neon Sport Volt™ product. Woodbolt asserted the same defenses and counterclaims as set forth in the earlier lawsuits. On June 24, 2013, the Court consolidated the case with the earlier-filed lawsuits identified above. On June 25, 2013, Woodbolt filed a lawsuit in the U.S. District Court for the Southern District of Texas, Houston Division, against a newly-issued NAI U.S. patent no. 8,470,865, asserting declaratory judgment claims of non-infringement, invalidity and unenforceability. On July 1, 2013, Woodbolt's lawsuit was consolidated with the three pending lawsuits filed by NAI. On July 24, 2013, NAI filed its Answer and Amended Counterclaims against Woodbolt alleging infringement of the '865 patent by the products accused in the pending cases previously filed by NAI. On August 14, 2013, Woodbolt filed a counterclaim to NAI's counterclaim asserting violation of the Sherman Antitrust Act (15 U.S.C. § 2) and Unfair Competition. On September 4, 2013, NAI moved to have Woodbolt's counterclaims dismissed from the case. All of the consolidated cases remain pending. Woodbolt has also requested inter partes re-examination of the '381 and '422 patents by the USPTO. On July 26, 2012, the USPTO accepted the request to re-examine the '381 patent. On August 17, 2012, the USPTO accepted the request to re-exam the '422 patent. On December 6, 2013, the USPTO rejected the claims of the '381 patent and issued a right of appeal notice. On January 6, 2014, the Company filed its notice of appeal. On January 13, 2015, the USPTO issued a notification of appeal hearing in the '381 reexamination, which took place on April 15, 2015, before the Patent Trial and Appeal Board (PTAB) at the USPTO. On July 17, 2015, the PTAB issued its decision affirming the USPTO's prior rejection of the '381 patent claims. On August 13, 2015, the Company filed a Request for Rehearing regarding the PTAB's decision. The request is currently pending. On August 8, 2014, the USPTO rejected the claims of the '422 patent and issued a right of appeal notice. On September 8, 2014, NAI filed its notice of appeal. The parties have filed briefs with the USPTO and the '422 reexamination is pending.

On September 18, 2015, the Company filed a complaint against Creative Compounds, Inc., alleging various claims including (1) violation of Section 43 of the Lanham Act, (2) violation of California's Unfair Competition Law, (3) violation of California's False Advertising Law, (4) Trade Libel and Business Disparagement and (5) Intentional Interference with Prospective Economic Advantage. On October 23, 2015, Creative Compounds filed its answer to the Company's complaint denying the Company's allegations. No trial date has been set by the Court.

A declaration of non-infringement, invalidity or unenforceability of certain of our patents could have a material adverse impact upon our business results, operations, and financial condition.

Although we believe the above litigation matters are supported by valid claims, there is no assurance NAI will prevail in these litigation matters or in similar proceedings it may initiate or that litigation expenses will be as anticipated.

M. Subsequent Events

On July 30, 2015 we entered into a purchase and sale agreement for the sale of our domestic corporate headquarters in San Marcos, CA. This proposed sale is as of the result of an unsolicited offer for the purchase of our building. The first set of contingencies were satisfied effective October 12, 2015 converting the escrow deposit of $75,000 to non-refundable. There remains one significant additional contingency to the completion of the sale. As a result of this contingency, we are unable to estimate the final sales price or expected gain that will result from the completion of this sales transaction, or whether the transaction will be completed at all.

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 months ended September 30, 2015. 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 2015 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 U.S. 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, new product introductions, the demand for such customers' products, and general industry and economic conditions. Our revenue also includes royalty, licensing revenue, and raw material sales generated from our patent estate pursuant to license and supply agreements with third parties for the distribution and use of the ingredient known as beta-alanine sold under our CarnoSyn® trade name.

A cornerstone of our business strategy is to achieve long-term growth and profitability and to diversify our sales base. We have sought and expect to continue to seek to diversify our sales by developing relationships with additional, quality-oriented, private label contract manufacturing customers, and commercializing our patent estate through sales of beta-alanine under our Carnosyn® trade name. As part of this strategy, and in an effort to enhance shareholder value, we elected not to renew our Carnosyn® license and distribution agreement with CSI which expired March 31, 2015. Effective April 1, 2015, we began directly selling beta-alanine, and licensing the related patent and trademark rights, in order to take advantage of strategic opportunities, including possible additional contract manufacturing services, and to increase our top-line revenue and profit profile.

We have historically developed, manufactured and marketed our own branded products under the Pathway to Healing® product line, which was aimed at restoring, maintaining and improving the health of the users. However, due to the steady decline in sales of this product line over the prior several years, we decided to discontinue the product line. All termination activities related to the Pathway to Healing® product line were substantially complete by December 31, 2014. We did not change the financial presentation in this report to reflect the branded products segment as "Discontinued Operations" as the wind down of this product line did not meet the criteria for discontinued operations presentation as prescribed by applicable accounting regulations (ASC 205-20).

During the first three months of fiscal 2016, our net sales were 15.5% higher than in the first three months of fiscal 2015. Private label contract manufacturing sales decreased 6.9% due primarily to the timing of product shipments of new and existing products and unfavorable foreign exchange rates as compared to the prior year period. Our foreign exchange rates as applied to sales denominated in Euro deceased to a weighted average of 1.11 EUR/USD in the first quarter of fiscal 2016 from a weighted average of 1.36 EUR/USD during the first quarter of fiscal 2015. Revenue concentration risk for our historically two largest private label contract manufacturing customers decreased to 53% as a percentage of our total private label contract manufacturing sales for the first three months of fiscal 2016 compared to 57% in the first three months of fiscal 2015. We expect our contract manufacturing revenue concentration percentage for our historically two largest customers to increase marginally during the remainder of fiscal 2016.

During the first three months of fiscal 2016, CarnoSyn® beta-alanine royalty, licensing revenue and raw material sales increased 453.6% to $5.3 million as compared to $961,000 for the first three months of fiscal 2015. The increase in beta-alanine revenue was primarily due to the increase in raw material sales as a result of taking over the direct sale and distribution of beta-alanine raw materials effective April 1, 2015. We had raw material sales of beta-alanine totaling $5.3 million for the first three months of fiscal 2016 and no raw material sales during the first three months of fiscal 2015. To support the direct raw material sales of CarnoSyn® beta-alanine our beta-alanine raw material inventory increased to $3.4 million as of September 30, 2015 as compared to zero as of September 30, 2014 and $1.6 million as of June 30, 2015.

To protect our CarnoSyn® business and its underlying patent estate, we incurred litigation and patent compliance expenses of approximately $472,000 during the first quarter of fiscal 2016 and $142,000 during the comparable period in fiscal 2015. We describe our efforts to protect our patent estate in more detail under Item 1 of Part II of our 2015 Annual Report. Our ability to maintain or further increase our beta-alanine royalty and licensing revenue will depend in large part on the availability of the raw material beta-alanine when and in the amounts needed, the ability to expand distribution of beta-alanine to new and existing customers, maintaining our patent rights, and the continued compliance by third parties with our patent and trademark rights.

Net sales from our branded products declined 100% in the first three months of fiscal 2016 as compared to the first three months of fiscal 2015 due to our product line discontinuation efforts described above.

During the remainder of fiscal 2016, 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;
- Expanding the commercialization of our beta-alanine patent estate through raw material sales, new contract manufacturing opportunities, license agreements and protecting our proprietary rights; and
- Improving operational efficiencies and managing costs and business risks to improve profitability.

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 2015 Annual Report and recent accounting pronouncements are discussed under Item A to our Notes to Condensed Consolidated Financial Statements contained in this Quarterly Report. There have been no significant changes to these policies or pronouncements during the three months ended September 30, 2015 other than as listed under Item A to our Notes to Condensed Consolidated Financial Statement contained in this Quarterly Report.

Results of Operations

The results of our operations for the three months ended September 30 were as follows (dollars in thousands):

	Three Months Ended					
	September 30, 2015		September 30, 2014		Increase (Decrease)	
Private label contract manufacturing	$ 16,265	75.4%	$ 17,465	93.4%	$ (1,200)	(6.9)%
Patent and trademark licensing	5,320	24.6%	961	5.2%	4,359	453.6%
Branded products	—	0%	269	1.4%	(269)	(100.0)%
Total net sales	21,585	100.0%	18,695	100.0%	2,890	15.5%
Cost of goods sold	16,852	78.1%	15,898	85.0%	954	6.0%
Gross profit	4,733	21.9%	2,797	15.0%	1,936	69.2%
Selling, general & administrative expenses	3,005	13.9%	2,228	11.9%	777	34.9%
Income from operations	1,728	8.0%	569	3.0%	1,159	203.7%
Other income, net	14	0.1%	92	0.5%	(78)	(84.8)%
Income before income taxes	1,742	8.1%	661	3.5%	1,081	163.5%
Income tax expense	529	2.5%	174	0.9%	355	204.0%
Net income	$ 1,213	5.6%	$ 487	2.6%	$ 726	149.1%

The percentage decrease in private label contract manufacturing net sales was primarily attributed to the following:

Mannatech, Incorporated [1]	(6.7)%
The Juice Plus+ Company [2]	(1.2)
Other customers [3]	1.0
Total	(6.9)%

1 Net sales to Mannatech, Incorporated decreased primarily as a result of lower volumes of established products in existing markets.

2 The decrease in net sales to The Juice Plus+ Company included a decrease in international sales of 16.9% and an increase in domestic sales of 15.6%. The decrease in international sales during the first quarter of fiscal 2016 was primarily driven by the decline in Euro foreign exchange rates and the timing of certain product shipments as compared to the comparable period in the prior year. The domestic increase is primarily due to increased units shipped and higher average sales prices.

3 The increase in net sales to other customers was primarily due to sales of new products for new customers and a net increase in sales of existing products for other existing customers partially offset by lower Euro foreign exchange rates.

Net sales from our patent and trademark licensing segment increased 453.6% during the first quarter of fiscal 2016. The increase in beta-alanine raw material sales was a result of our decision to take over the direct sale and distribution of beta-alanine effective April 1, 2015. As part of this decision, we allowed our agreement with CSI to expire as of March 31, 2015, which also discontinued our royalty income stream. We began directly selling beta-alanine, and licensing the related patent and trademark rights, in order to take advantage of strategic opportunities, including opportunities to provide additional contract manufacturing services, and to increase our top-line revenue and profit profile. During the first quarter of fiscal 2016, all of our sales were from the direct sale and distribution of beta-alanine while all of our sales for the first quarter of fiscal 2015 were related to royalties paid by CSI.

Net sales from our branded products segment decreased 100% during the first quarter of fiscal 2016 due the discontinuation of our Pathway to Healing® product line, as discussed above.

Gross profit margin increased 6.9 percentage points primarily due to the following:

Contract manufacturing:	
Shift in sales mix and material cost	(8.9) [1]%
Changes in overhead expenses	6.8[1]
Changes in direct and indirect labor	4.2[1]
Patent and trademark licensing	5.4[2]
Branded products operations	(0.6) [3]
Total	6.9%

1 Private label contract manufacturing gross profit margin as a percentage of consolidated net sales increased 2.1 percentage points during the first quarter of fiscal 2016 as compared to the comparable period in fiscal 2015. The increase in gross profit as a percentage of sales was primarily due to improved operational throughput and lower per unit manufacturing costs partially offset by lower average Euro exchange rates.

2 Patent and trademark licensing gross profit margin as a percentage of consolidated net sales increased 5.4 percentage points during the first quarter of fiscal 2016 as compared to the comparable prior year period primarily due to patent and trademark revenue representing a higher percentage of net sales on a period over period basis. In addition, we took over the raw material sale and distribution activities for beta-alanine in the fourth quarter of fiscal 2015, which resulted in additional profit contribution per sales dollar.

3 Branded products gross margin as a percentage of consolidated net sales decreased 0.6 percentage points during the first quarter of fiscal 2016 as compared to the comparable period in fiscal 2015 due to the discontinuation of our Pathway to Healing® product line.

Selling, general and administrative expenses increased $777,000, or 34.9%, during the first quarter of fiscal 2016 primarily due to increased litigation and patent compliance expenses and sales and marketing expenses associated with our patent and trademark licensing segment. The increase in expenses associated with our patent and trademark licensing segment are primarily associated with our efforts to further commercialize our CarnoSyn® beta-alanine patent estate since taking over the direct sale and distribution of beta-alanine effective April 1, 2015.

Other income, net decreased $78,000 during the first quarter of fiscal 2016 as compared to the same period in the prior fiscal year primarily due to unfavorable foreign currency exchange rates for our sales outside of the U.S.

Our income tax expense increased $355,000 during the first quarter of fiscal 2016 as compared to the same period in the prior fiscal year. The increase was primarily due to the higher pre-tax income in the first quarter of fiscal 2016 as compared to the comparable prior year period.

Liquidity and Capital Resources

Our primary sources of liquidity and capital resources are cash flows provided by operating activities and the availability of borrowings under our credit facility. Net cash used by operating activities was $2.3 million for the three months ended September 30, 2015 compared to net cash used by operating activities of $2.6 million in the comparable quarter last year.

At September 30, 2015, changes in accounts receivable, consisting primarily of amounts due from our private label contract manufacturing customers and our patent and trademark licensing activities, provided $528,000 in cash compared to using $1.1 million of cash in the comparable prior year quarter. The increase in cash provided by accounts receivable during the quarter ended September 30, 2015 primarily resulted from the timing of sales and the related collection. Days sales outstanding was 41 days during the three months ended September 30, 2015 as compared to 36 days for the prior year period. This increase is primarily attributable to the change from a quarterly royalty receivable to trade receivables from our patent and trademark licensing segment as a result of taking over the direct sale and distribution activities for beta-alanine effective April 1, 2015.

At September 30, 2015, changes in inventory used $6.2 million in cash during the three months ended September 30, 2015 compared to $224,000 of cash used in the comparable prior year quarter. The increase in cash used by inventory during the quarter ended September 30, 2015 was primarily related to inventory purchased to support our patent and trademark licensing business as a result of taking over the direct sales and distribution activities as of April 1, 2015 and inventory purchased to support growing private label contract manufacturing demand. Changes in accounts payable and accrued liabilities provided $1.4 million in cash during the three months ended September 30, 2015 compared to using $2.3 million during the three months ended September 30, 2014. The change in cash flow activity related to accounts payable and accrued liabilities is primarily due to inventory receipts and payments.

During the three months ended September 30, 2015, NAIE's operations provided $266,000 of operating cash flow primarily due to the timing of inventory receipts, payments and sales. As of September 30, 2015, NAIE's undistributed retained earnings were considered indefinitely reinvested.

Cash provided by investing activities in the three months ended September 30, 2015 was $329,000 compared to using $478,000 in the comparable quarter last year. The primary reason for the change is due to $568,000 in proceeds from the sale of property and equipment in the first quarter of fiscal 2016 as compared to $1,000 in the comparable quarter last year. Additionally, we purchased $239,000 in capital equipment in the first quarter of fiscal 2016 as compared to $479,000 in the first quarter of fiscal 2015. Capital expenditures for both years were primarily for manufacturing equipment in our Vista, California and Manno, Switzerland facilities.

Cash used in financing activities for the three months ended September 30, 2015 primarily related to share purchases of our common stock as part of our approved share repurchase program. There was no cash flow activity from financing activities during the three months ended September 30, 2014.

We did not have any consolidated debt as of September 30, 2015 or June 30, 2015.

On December 22, 2014, we executed a new Credit Agreement with Wells Fargo Bank, N.A. The Credit Agreement replaces the previous credit facility between NAI and the lender. The Credit Agreement is on substantially similar terms as the previous credit facility. The Credit Agreement provides NAI with a line of credit of up to $5,000,000. The line of credit may be used to finance working capital requirements. In consideration for granting the line of credit, NAI paid the lender a commitment fee of $10,000. There are no amounts currently drawn under the line of credit.

Under the terms of the Credit Agreement, borrowings are subject to eligibility requirements including maintaining (i) net income after taxes of not less than $750,000 on a trailing four quarter basis as of the end of each calendar quarter beginning with the four quarter period ending December 31, 2014; and (ii) a ratio of total liabilities to tangible net worth of not greater than 1.25 to 1.0 at any time. Any amounts outstanding under the line of credit will bear interest at a fixed or fluctuating interest rate as elected by NAI from time to time; provided, however, that if the outstanding principal amount is less than $100,000 such amount shall bear interest at the then applicable fluctuating rate of interest. If elected, the fluctuating rate per annum would be equal to 1.75% above the daily one month LIBOR rate as in effect from time to time. If a fixed rate is elected, it would equal a per annum rate of 1.75% above the LIBOR rate in effect on the first day of the applicable fixed rate term. Any amounts outstanding under the line of credit must be paid in full on or before November 1, 2016; provided, however, that NAI must maintain a zero balance on advances under the line of credit for a period of at least 30 consecutive days during each fiscal year. Amounts outstanding that are subject to a fluctuating interest rate may be prepaid at any time without penalty. Amounts outstanding that are subject to a fixed interest rate may be prepaid at any time in minimum amounts of $100,000, subject to a prepayment fee equal to the sum of the discounted monthly differences for each month from the month of prepayment through the month in which the then applicable fixed rate term matures.

Our obligations under the Credit Agreement are secured by our accounts receivable and other rights to payment, general intangibles, inventory, equipment and fixtures. We also have a foreign exchange facility with Wells Fargo Bank, N.A. in effect until November 1, 2016, and with Bank of America, N.A. in effect until August 15, 2016.

On September 30, 2015, we were in compliance with all of the financial and other covenants required under the Credit Agreement.

On September 22, 2006, NAIE, our wholly owned subsidiary, entered into a credit facility to provide it with a credit line of up to CHF 1.3 million, or approximately $1.3 million, which was the initial maximum aggregate amount that could be outstanding at any one time under the credit facility. This maximum amount is reduced annually by CHF 160,000, or approximately $165,000. On February 19, 2007, NAIE amended its credit facility to provide that the maximum aggregate amount that may be outstanding under the facility cannot be reduced below CHF 500,000, or approximately $514,000. As of September 30, 2015, there was no outstanding balance under this credit facility.

Under its credit facility, NAIE may draw amounts either as current account loan credits to its current or future bank accounts or as fixed loans with a maximum term of 24 months. Current account loans will bear interest at the rate of 5% per annum. Fixed loans will bear interest at a rate determined by the parties based on current market conditions and must be repaid pursuant to a repayment schedule established by the parties at the time of the loan. If a fixed loan is repaid early at NAIE's election or in connection with the termination of the credit facility, NAIE will be charged a pre-payment penalty equal to 0.1% of the principal amount of the fixed loan or CHF 1,000 (approximately $1,028), 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 September 30, 2015, we had $16.4 million in cash and cash equivalents and $5.5 million available under our credit facilities. We believe our available cash, cash equivalents and potential cash flows from operations will be sufficient to fund our current working capital needs and capital expenditures through at least the next 12 months.

Off-Balance Sheet Arrangements

As of September 30, 2015, we did not have any 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 in the notes to our consolidated financial statements included under Item 1of this report. Other than those pronouncements, we are not aware of any other pronouncements that materially affect our financial position or results of operations.

ITEM 4. CONTROLS AND PROCEDURES

We maintain certain disclosure controls and procedures as defined under the Securities Exchange Act of 1934. 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 Securities Exchange Act of 1934 and within the time periods specified by the SEC.

Our management, with the participation of our Chief Executive Officer and Chief Financial Officer (principal financial and accounting officer), evaluated the effectiveness of the design and operation of our disclosure controls and procedures as of September 30, 2015. Based on such evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective for their intended purpose described above as of September 30, 2015.

There were no changes to our internal control over financial reporting during the quarterly period ended September 30, 2015 that have materially affected, or that are reasonably likely to materially affect, our internal control over financial reporting.

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 intellectual property, product liability, employment, 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 we do not expect.

As of November 12, 2015, except as described below, neither NAI nor its subsidiary were a party to any material pending legal proceeding nor was any of our property the subject of any material pending legal proceeding.

On December 21, 2011, NAI filed a lawsuit in the U.S. District Court for the Southern District of Texas, Houston Division, alleging infringement by Woodbolt Distribution, LLC, also known as Cellucor (Woodbolt), Vitaquest International, Inc., d/b/a Garden State Nutritionals (Garden State) and F.H.G. Corporation, d/b/a Integrity Nutraceuticals (Integrity), of NAI's '381 patent. The complaint alleges that Woodbolt sells nutritional supplements, including supplements containing beta-alanine such as C4 Extreme™, M5 Extreme™, and N-Zero Extreme™, that infringe ''381 patent. Woodbolt, in turn, filed a complaint seeking a declaratory judgment of non-infringement and invalidity of the '381 patent in the U.S. District Court for the District of Delaware. On February 17, 2012, Woodbolt filed a First Amended Complaint, realleging its original claims against the Company and asserting new claims of violation of the Sherman Antitrust Act (15 U.S.C. § 2) and Unfair Competition. The Company reasserted the arguments in its prior motion to dismiss and moved to dismiss the new claims asserted by Woodbolt. On January 23, 2013, the Delaware Court granted the Company's motion to dismiss Woodbolt's case. On June 5, 2012, the Court in the above-referenced Texas case consolidated the pending suit with a second patent infringement case filed against Woodbolt by the Company on May 3, 2012, asserting infringement of its '422 patent. On November 9, 2012, NAI filed a supplemental complaint adding allegations of infringement of Woodbolt's Cellucor Cor –Performance ®-BCAA™ and Cellucor Cor –Performance™ Creatine products. On June 14, 2013, NAI filed a third patent infringement lawsuit in the U.S. District Court for the Southern District of Texas, Houston Division, against Woodbolt, BodyBuilding.com and GNC Corporation alleging infringement of the '381 and '422 patents by Woodbolt's Neon Sport Volt™ product. Woodbolt asserted the same defenses and counterclaims as set forth in the earlier lawsuits. On June 24, 2013, the Court consolidated the case with the earlier-filed lawsuits identified above. On June 25, 2013, Woodbolt filed a lawsuit in the U.S. District Court for the Southern District of Texas, Houston Division, against a newly-issued NAI U.S. patent no. 8,470,865, asserting declaratory judgment claims of non-infringement, invalidity and unenforceability. On July 1, 2013, Woodbolt's lawsuit was consolidated with the three pending lawsuits filed by NAI. On July 24, 2013, NAI filed its Answer and Amended Counterclaims against Woodbolt alleging infringement of the '865 patent by the products accused in the pending cases previously filed by NAI. On August 14, 2013, Woodbolt filed a counterclaim to NAI's counterclaim asserting violation of the Sherman Antitrust Act (15 U.S.C. § 2) and Unfair Competition. On September 4, 2013, NAI moved to have Woodbolt's counterclaims dismissed from the case. All of the consolidated cases remain pending. Separately, Woodbolt also requested inter partes re-examination of the '381 and '422 patents by the USPTO. On July 26, 2012, the USPTO accepted the request to re-exam the '381 patent. On August 17, 2012, the USPTO accepted the request to re-exam the '422 patent. On December 6, 2013, the USPTO rejected the claims of the '381 patent and issued a right of appeal notice. On January 6, 2014, NAI filed its notice of appeal. On January 13, 2015, the USPTO issued a notification of appeal hearing in the '381 reexamination, which took place on April 15, 2015, before the Patent Trial and Appeal Board (PTAB) at the USPTO. On July 17, 2015, the PTAB issued its decision affirming the USPTO's prior rejection of the '381 patent claims. On August 13, 2015, the Company filed a Request for Rehearing regarding the PTAB's decision. The request is currently pending. On August 8, 2014, the USPTO rejected the claims of the '422 patent and issued a right of appeal notice. On September 8, 2014, NAI filed its notice of appeal. The parties have filed briefs with the USPTO and the '422 reexamination is pending.

On September 18, 2015, the Company filed a complaint against Creative Compounds, Inc., alleging various claims including (1) violation of Section 43 of the Lanham Act, (2) violation of California's Unfair Competition Law, (3) violation of California's False Advertising Law, (4) Trade Libel and Business Disparagement and (5) Intentional Interference with Prospective Economic Advantage. On October 23, 2015, Creative Compounds filed its answer to the Company's complaint denying the Company's allegations. No trial date has been set by the Court.

Although we believe the above litigation matters are supported by valid claims, there is no assurance NAI will prevail in these litigation matters or in similar proceedings it may initiate or that litigation expenses will be as anticipated.

ITEM 1A. RISK FACTORS

When evaluating our business and future prospects you should carefully consider the risks described under Item 1A of our 2015 Annual Report, as well as the other information in our 2015 Annual Report, this report and other reports and documents we file with the SEC. If any of the identified risks actually occur, our business, financial condition and results of operations could be seriously harmed. In that event, the market price of our common stock could decline and you could lose all or a portion of the value of your investment in our common stock.

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

Repurchases

During the quarter ended September 30, 2015, we repurchased 29,262 shares of our common stock at a total cost of $172,000 (including commissions and transaction fees) as set forth below:

Period	(a) Total Number of Shares Purchased	(b) Average Price Paid per Share	(c) Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs [1]	(d) Maximum Number (or Approximate Dollar Value) of Shares that May Yet Be Purchased Under the Plans or Programs (as of September 30, 2015) [2,3]
July 1, 2015 to July 31, 2015	18,862	$ 5.80	18,862	
August 1, 2015 to August 31, 2015	—	—	—	
September 1, 2015 to September 30, 2015	10,400	$ 6.05	10,400	$ 1,346,000
Total	29,262		29,262	$ 1,346,000

1. On June 3, 2011, we announced a plan to repurchase up to $2 million in shares of our common stock.

2. On February 6, 2015, the Board of Directors authorized a $1 million increase to our stock repurchase plan bringing the total authorized repurchase amount to $3 million.

3. On May 11, 2015, the Board of Directors authorized a $2 million increase to our stock repurchase plan bringing the total authorized repurchase amount to $5 million.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS

The following exhibit index shows those exhibits filed with this report and those incorporated by reference:

EXHIBIT INDEX

Exhibit Number	Description	Incorporated By Reference To
3(i)	Amended and Restated Certificate of Incorporation of Natural Alternatives International, Inc. filed with the Delaware Secretary of State on January 14, 2005	Exhibit 3(i) of NAI's Quarterly Report on Form 10-Q for the quarterly period ended December 31, 2004, filed with the commission on February 14, 2005
3(ii)	Amended and Restated By-laws of Natural Alternatives International, Inc. dated as of February 9, 2009	Exhibit 3(ii) of NAI's Current Report on Form 8-K dated February 9, 2009, filed with the commission on February 13, 2009
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
10.01	Fourth amendment to the Amended and Restated Employment Agreement, by and between NAI and Mark A. LeDoux, effective October 1, 2015*	Exhibit 10.1 of NAI's Current Report on Form 8-K dated October 1, 2015, filed with the commission on October 1, 2015.
10.02	Fourth amendment to the Amended and Restated Employment Agreement, by and between NAI and Kenneth E. Wolf, effective October 1, 2015*	Exhibit 10.2 of NAI's Current Report on Form 8-K dated October 1, 2015, filed with the commission on October 1, 2015.
10.03	Amended and Restated Employment Agreement, by and between NAI and Michael E. Fortin, effective October 1, 2015*	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
101.INS	XBRL Instance Document	Filed herewith
101.SCH	XBRL Taxonomy Extension Schema Document	Filed herewith
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document	Filed herewith
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document	Filed herewith
101.LAB	XBRL Taxonomy Extension Label Linkbase Document	Filed herewith
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document	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, duly authorized officers.

Date: November 12, 2015

NATURAL ALTERNATIVES INTERNATIONAL, INC.

By: /s/ Mark A. LeDoux
Mark A. LeDoux, Chief Executive Officer
(principal executive officer)

By: /s/ Michael E. Fortin
Michael E. Fortin, Chief Financial Officer
(principal financial and accounting officer)

Exhibit 10.03

AMENDED AND RESTATED EMPLOYMENT AGREEMENT

This Amended and Restated Employment Agreement ("Agreement") is made and entered into effective as of October 1, 2015 ("Effective Date"), by and between Michael E. Fortin ("Employee"), and Natural Alternatives International, Inc., a Delaware corporation ("Company"). The Company and Employee may be referred to herein collectively as the "Parties."

RECITALS

WHEREAS, the Company and Employee entered into that certain Employment Agreement dated October 1, 2015 (the "Prior Agreement"); and

WHEREAS, the Company and Employee each desire to amend and restate the Prior Agreement to reflect certain agreed upon changes approved by the Company's Board of Directors as hereinafter set forth.

NOW, THEREFORE, in consideration of the mutual promises and covenants set forth herein and other good and valuable consideration the receipt and sufficiency of which are hereby acknowledged, and intending to be legally bound thereby, the Parties agree as follows:

AGREEMENT

1. **Employment.** As of the Effective Date, Employee serves as the Chief Financial Officer of the Company. Employee's employment is at-will and may be terminated by either Employee or the Company at any time for any reason or no reason, with or without Cause (as hereinafter defined), upon written notice to the other, or without any notice upon the death of Employee. The at-will status of the employment relationship may not be modified except by an agreement in writing signed by the Chief Executive Officer of the Company and Employee, the terms of which were approved in advance in writing by the Company's Board of Directors (which shall include any committee or subcommittee thereof authorized to determine matters of executive employment and compensation).

2. **Employee Handbook.** Employee and the Company understand and agree that nothing in the Company's Employee Handbook is intended to be, and nothing in it should be construed to be, a limitation of the Company's right to terminate, transfer, demote, suspend and administer discipline at any time for any reason. Employee and the Company understand and agree nothing in the Company's Employee Handbook is intended to, and nothing in such Employee Handbook should be construed to, create an implied or express contract of employment contrary to this Agreement nor to relieve either party of any of its obligations under this Agreement.

3. **Position and Responsibilities**.

a. During Employee's employment with the Company hereunder, Employee shall report to the Company's Board of Directors and shall have such responsibilities, duties and authority as the Company, through its Board of Directors, may from time to time assign to Employee and that are normal and customary duties of a Chief Financial Officer of a publicly held corporation. Employee shall perform any other duties reasonably required by the Company and, if requested by the Company, shall serve as a director and/or as an additional officer of the Company or any subsidiary or affiliate of the Company without additional compensation.

b. Employee, in Employee's capacity as Chief Financial Officer for the Company, shall diligently and to the best of Employee's ability perform all duties that such positions entail. Employee shall devote such time, energy, skill and effort to the performance of Employee's duties hereunder as may be fairly and reasonably necessary to faithfully and diligently further the business and interests of the Company and its subsidiaries. Employee agrees not to engage in any other business activity that would materially interfere with the performance of Employee's duties under this Agreement. Employee represents to the Company that Employee has no other outstanding commitments inconsistent with any of the terms of this Agreement or the services to be rendered under it.

c. Employee shall render Employee's service at the Company's offices in the County of San Diego, California, or such other location as is mutually agreed upon by the Company and Employee. It is understood, however, and agreed that Employee's duties may from time to time require travel to other locations, including other offices of the Company and/or its subsidiaries both within and outside the United States.

4. **Compensation.**

a. Salary. During the term of Employee's employment hereunder, the Company agrees to pay Employee a base salary of One Hundred and Eighty-Five Thousand dollars ($185,000) per year, payable in arrears no less frequently than bi-weekly in accordance with the Company's general payroll practices, and which amount shall be prorated for any partial year period such base salary amount was in effect. The amount of Employee's base salary as set forth in this Section 4(a) may be adjusted from time to time by an agreement in writing signed by the Chief Executive Officer of the Company and Employee, the terms of which were approved in advance by action of the Company's Board of Directors (or authorized committee or subcommittee thereof). All references in this Agreement to Employee's base salary shall mean the base salary as adjusted from time to time.

b . Additional Benefits. During Employee's employment with the Company, in addition to the other compensation and benefits set forth herein, Employee shall be entitled to receive and/or participate in such other benefits of employment generally available to the Company's other corporate officers when and as Employee becomes eligible for them. The Company reserves the right to modify, suspend or discontinue any and all benefit plans, policies and practices at any time without notice to or recourse by the Employee, so long as such action is taken generally with respect to other similarly situated persons and does not single out Employee. Notwithstanding the foregoing, Employee's eligibility to participate in any cash incentive or bonus plans of the Company shall be in the sole discretion of the Company's Board of Directors.

c . No Other Compensation. Employee acknowledges and agrees that, except as expressly provided herein, and as set forth in the Company's Employee Handbook or any other written compensation arrangement approved by the Company's Board of Directors, Employee is not entitled to any other compensation or benefits from the Company.

d . Withholdings. All compensation under this Agreement shall be paid less withholdings required by federal and state law and less deductions agreed to by the Company and Employee.

5. **Termination.**

a . Due to Death. Employee's employment with the Company shall terminate automatically in the event of Employee's death. The Company shall have no obligation to Employee or Employee's estate for base salary or any other form of compensation or benefit other than amounts accrued through the date of Employee's death, except as otherwise required by law or pursuant to a specific written policy, agreement or benefit plan of the Company.

b . Without Cause, Severance Benefit. In the event Employee is terminated by the Company without Cause and not as a result of death, upon Employee's delivery to the Company of an executed general release in a form substantially similar to that set forth in Attachment #3 attached hereto ("Release"), Employee shall be entitled to receive (i) a severance benefit in an amount equal to six (6) months' base salary; and (ii) continuing group health insurance coverage pursuant to COBRA for the six (6) months following termination with the premiums for such continuation coverage paid by the Company. If Employee does not execute and deliver the Release within twenty (20) business days of Employee's termination (the "Release Execution Period"), Employee shall only be entitled to receive a severance benefit in an amount equal to four (4) weeks' base salary and the Company shall not pay any premiums for continuing group health insurance coverage pursuant to COBRA or otherwise. Any severance benefit owing under this Section 5(b) shall be paid in accordance with the terms of the Release or, if Employee does not execute and deliver the Release, within ten (10) business days after expiration of the Release Execution Period.

c. With Cause, No Severance Benefit. The Company may terminate Employee for Cause. For purposes of this Agreement, Cause shall mean the occurrence of one or more of the following events: (i) the Employee's commission of any fraud against the Company or any of its subsidiaries; (ii) Employee's intentional appropriation for Employee's personal use or benefit of the funds of the Company or of its subsidiaries not authorized in writing by the Board of Directors; (iii) Employee's conviction of any crime involving moral turpitude; (iv) Employee's conviction of a violation of any state or federal law that could result in a material adverse impact upon the business of the Company or its subsidiaries; (v) Employee engaging in any other professional employment or consulting or directly or indirectly participating in or assisting any business that is a current or potential supplier, customer or competitor of the Company or its subsidiaries without prior written approval from the Company's Board of Directors; (vi) Employee's failure to comply with the Company's written policy on acceptance of gifts and gratuities as in effect from time to time; or (vii) when Employee has been disabled and is unable to perform the essential functions of the position for any reason notwithstanding reasonable accommodation, provided Employee has received from the Company compensation in an amount equivalent to Employee's severance benefit payment. No severance benefit shall be due to Employee if Employee is terminated for Cause, including if Employee is terminated for Cause upon or after a Change in Control (as hereinafter defined and separately addressed below), except in the event of disability as set forth above.

d . Resignation or Retirement, No Severance Benefit. This Agreement shall be terminated upon Employee's voluntary retirement or resignation. No severance benefit shall be due to Employee if Employee resigns or retires from employment for any reason or at any time, including upon or after a Change in Control.

e. Payment Through Date of Termination. Except as otherwise set forth herein, upon the termination of this Agreement for any reason, Employee shall be entitled to receive any unpaid compensation earned through the effective date of termination. If this Agreement is terminated for any reason before year-end bonus or other compensation being earned by Employee, then such bonus and other compensation shall be forfeited in full by Employee.

6. **Termination Obligations.**

a . Return of Company Property. Upon termination of this Agreement and cessation of Employee's employment, Employee agrees to return all Company Property (as such term is defined in that certain Confidential Information and Invention Assignment Agreement, Covenant of Exclusivity and Covenant Not to Compete by and between Company and Employee dated October 1, 2015) to the Company promptly, but in no event later than two (2) business days following termination of employment.

b . Termination of Benefits. Any and all benefits to which Employee is otherwise entitled shall cease upon Employee's termination, unless explicitly continued either under this Agreement or under any specific written policy or benefit plan of the Company.

c . Termination of Other Positions. Upon termination of Employee's employment with the Company, Employee shall be deemed to have resigned from all other offices and directorships then held with the Company or its subsidiaries, unless otherwise expressly agreed in a writing signed by the Parties.

d . Employee Cooperation. Following termination of Employee's employment, Employee shall cooperate fully with the Company in all matters including, but not limited to, advising the Company of all pending work on behalf of the Company and the orderly transfer of work to other employees or representatives of the Company. Employee shall also cooperate in the defense of any action brought by any third party against the Company that relates in any way to Employee's acts or omissions while employed by the Company.

e . Survival of Obligations. Employee's obligations under this Section 6 shall survive the termination of employment and the termination of this Agreement.

7. **Change in Control.** In the event of any Change in Control, the following provisions will apply.

a. Any of the following shall constitute a "Change in Control" for the purposes of this Agreement:

(i) The consummation of a merger or consolidation of the Company with or into another entity or any other corporate reorganization, if more than 50% of the combined voting power of the continuing or surviving entity's securities outstanding immediately after such merger, consolidation or other reorganization is owned by persons who were not stockholders of the Company immediately prior to such merger, consolidation or other reorganization;

(ii) The sale, transfer or other disposition of all or substantially all of the Company's assets;

(iii) A change in the composition of the Company's Board of Directors, as a result of which fewer than 50% of the incumbent directors are directors who either (i) had been directors of the Company on the date 24 months prior to the date of the event that may constitute a Change in Control (the "original directors") or (ii) were elected, or nominated for election, to the Board of Directors with the affirmative votes of at least a majority of the aggregate of the original directors who were still in office at the time of the election or nomination and the directors whose election or nomination was previously so approved; or

(iv) Any transaction as a result of which any person is the "beneficial owner" (as defined in Rule 13d-3 under the Securities Exchange Act of 1934, as amended ("Exchange Act")), directly or indirectly, of securities of the Company representing at least 20% of the total voting power represented by the Company's then outstanding voting securities. For this purpose, the term "person" shall have the same meaning as when used in Sections 13(d) and 14(d) of the Exchange Act but shall exclude (i) a trustee or other fiduciary holding securities under an employee benefit plan of the Company or of a parent or subsidiary of the Company and (ii) a corporation owned directly or indirectly by the stockholders of the Company in substantially the same proportions as their ownership of the common stock of the Company.

A transaction shall not constitute a Change in Control if its sole purpose is to change the state of the Company's incorporation or to create a holding company that will be owned in substantially the same proportions by the persons who held the Company's securities immediately before such transaction.

b. In the event of a Change in Control, this Agreement shall continue in effect unless terminated by Employee or the Company.

c. If Employee is terminated without Cause following a Change in Control by the Company and/or the surviving or resulting corporation, upon Employee's delivery to the Company of an executed Release, Employee shall be entitled to receive as severance pay or liquidated damages, or both, (i) a lump sum payment ("Change in Control Severance Payment") in an amount equal to one (1) year's compensation or such greater amount as the Board of Directors determines from time to time pursuant to terms which may not be revoked or reduced thereafter; and (ii) continuing group health insurance coverage pursuant to COBRA for the twelve (12) months following termination with the premiums for such continuation coverage paid by the Company. If Employee does not execute and deliver the Release within the Release Execution Period, Employee shall only be entitled to receive a Change in Control Severance Payment in an amount equal to four (4) weeks' compensation and the Company shall not pay any premiums for continuing group health insurance coverage pursuant to COBRA or otherwise.

d. Subject to applicable law, any Change in Control Severance Payment shall be paid in accordance with the terms of the Release or, if Employee does not execute and deliver the Release, within ten (10) business days after the expiration of the Release Execution Period. The total of any payment pursuant to this Section 7 shall be limited to the extent necessary, in the opinion of legal counsel acceptable to Employee and the Company, to avoid the payment of an "excess parachute" payment within the meaning of Section 280G of the Code or any similar successor provision.

e. In the event of termination of Employee's employment under Section 7(c), and provided Employee delivers to the Company an executed Release, the Company shall cause each then-outstanding stock option, share of restricted stock, restricted stock unit, or similar restricted or unvested equity based award, granted by the Company to the Employee and owned by the Employee as of the date of termination to become fully vested, unrestricted, exercisable, and in the case of an option or similar continuing right to acquire equity or an equity based award, to remain exercisable for the term of the option, or similar right.

8. **Arbitration.** Employee and the Company hereby agree to the Mutual Agreement to Mediate and Arbitrate Claims attached hereto as Attachment #1 and made a part hereof. Employee's obligations under this Section 8 and such Mutual Agreement to Mediate and Arbitrate Claims shall survive the termination of employment and the termination of this Agreement.

9. **Confidential Information and Inventions.** Employee and the Company hereby agree to the Confidential Information and Invention Assignment Agreement, Covenant of Exclusivity and Covenant Not to Compete attached hereto as Attachment #2 and made a part hereof. Employee's obligations under this Section 9 and such Confidential Information and Invention Assignment Agreement, Covenant of Exclusivity and Covenant Not to Compete shall survive the termination of employment and the termination of this Agreement.

10. **Non-solicitation**. During Employee's employment with the Company and for a period of twelve (12) months after the employment relationship ends, regardless of the reason it ends, Employee will not, on his own behalf or for the benefit of any other person or entity (except on behalf of the Company):

(a) use any Confidential Information (as defined in the Confidential Information and Invention Assignment Agreement) of the Company or any non-public information regarding the skills, abilities or compensation of any employees of the Company to solicit, induce, or attempt to solicit or induce, any employee of the Company to terminate their employment in order to work for, become employed by or perform services for any business other than that of the Company; and will not unlawfully induce, raid, or encourage any employee of the Company to terminate his or her employment relationship with the Company; or

(b) use any trade secrets and Confidential Information (as defined in the Confidential Information and Invention Assignment Agreement) of the Company of the Company (including the confidential identity of any client or customer, or any actively sought prospective client or customer), or any information about the client or customer relationship that is a trade secret to, directly or indirectly, solicit or attempt to solicit any business from such client or customer (or actively sought prospective client or customer), or otherwise unlawfully induce, influence or encourage any client or customer of the Company to cease doing business with the Company, or otherwise engage in any unfair competition against the Company with respect to its clients and customers.

(c) Employee further understands and agrees that nothing in this Section is intended to nor shall limit or reduce Employee's obligations of confidentiality as set forth in the Confidential Information and Invention Assignment Agreement.

11. **Competitive Activity.** Employee covenants, warrants and represents that during the period of Employee's employment with the Company, Employee shall not engage anywhere, directly or indirectly (as a principal, shareholder, partner, director, manager, member, officer, agent, employee, consultant or otherwise), or be financially interested in any business that is involved in business activities that are the same as, similar to, or in competition with the business activities carried on by the Company or any business that is a current or potential supplier, customer or competitor of the Company without prior written approval from the Company's Board of Directors. Notwithstanding the foregoing, Employee may invest in and hold up to one percent (1%) of the outstanding voting stock of a publicly held company that is involved in business activities that are the same as, similar to, or in competition with the business activities carried on by the Company or any business that is a current or potential supplier, customer or competitor of the Company without the prior written approval of the Company's Board of Directors; provided, however, that if such publicly held company is a current or potential supplier, customer or competitor of the Company, the Employee shall advise the Audit Committee of the Company's Board of Directors in writing of Employee's investment in such company as soon as reasonably practicable.

12. **Employee Conduct.** Employee covenants, warrants and represents that during the period of Employee's employment with the Company, Employee shall at all times comply with the Company's written policy as in effect from time to time on the acceptance of gifts and gratuities from customers, vendors, suppliers, or other persons doing business with the Company. Employee represents and understands that acceptance or encouragement of any gift or gratuity not in compliance with such policy may create a perceived financial obligation and/or conflict of interest for the Company and shall not be permitted as a means to influence business decisions, transactions or service. In this situation, as in all other areas of employment, Employee is expected to conduct himself or herself using the highest ethical standard.

13. **Miscellaneous Provisions.**

a . Entire Agreement. This Agreement, the Mutual Agreement to Mediate and Arbitrate Claims, the Confidential Information and Invention Assignment Agreement and any attachments and/or exhibits hereto or thereto contain the entire agreement between the Parties, and supersede any and all other agreements, either oral or in writing, between the Parties, with respect to Employee's employment by the Company. Each party to this Agreement acknowledges that no representations, inducements, promises or agreements, oral or otherwise, have been made by any party, or anyone acting on behalf of any party, which are not embodied herein or therein and acknowledges that no other agreement, statement or promise not contained in this Agreement, the Mutual Agreement to Mediate and Arbitrate Claims, or the Confidential Information and Invention Assignment Agreement shall be valid or binding. To the extent the practices, policies or procedures of the Company, now or in the future, are inconsistent with the terms of this Agreement, the provisions of this Agreement shall control.

b. Governing Law**.** This Agreement shall be construed and enforced in accordance with the laws of the State of California.

c . Severability. Should any part or provision of this Agreement be held by a court of competent jurisdiction to be illegal, unenforceable, invalid or void, the remaining provisions of this Agreement shall continue in full force and effect and the validity of the remaining provisions shall not be affected by such holding.

d . Attorneys' Fees. Except as set forth in the Mutual Agreement to Mediate and Arbitrate Claims, should any party institute any action, arbitration or proceeding to enforce, interpret or apply any provision of this Agreement, the Parties agree that the prevailing party shall be entitled to reimbursement by the non-prevailing party of all recoverable costs and expenses, including, but not limited to, reasonable attorneys' fees.

e. Interpretation. This Agreement shall be construed as a whole, according to its fair meaning, and not in favor of or against any party. By way of example and not in limitation, this Agreement shall not be construed in favor of the party receiving a benefit nor against the party responsible for any particular language in this Agreement. The headings and captions contained in this Agreement are for convenience of reference only and shall not constitute a part of this Agreement and shall not be used in the construction or interpretation of this Agreement.

f . Amendment; Waiver. This Agreement may not be modified or amended by oral agreement or course of conduct, but only by an agreement in writing signed by the Chief Executive Officer of the Company and Employee, the terms of which were approved in advance in writing by the Company's Board of Directors. The failure of either party hereto at any time to require the performance by the other party hereto of any provision hereof shall in no way affect the full right to require such performance at any time thereafter, nor shall the waiver by either party hereto of a breach of any provision hereof be taken or held to be a waiver of any succeeding breach of such provision or waiver of the provision itself or a waiver of any other provision of this Agreement.

g . Assignment. This Agreement is binding on and is for the benefit of the Parties and their respective successors, heirs, executors, administrators and other legal representatives. Neither this Agreement nor any right or obligation hereunder may be assigned by the Company (except to an affiliate of the Company or to a person, as defined herein, in accordance with a Change in Control) or by the Employee.

h. No Restrictions; No Violation. The Employee represents and warrants that: (i) Employee is not a party to any agreement that would restrict or prohibit Employee from entering into this Agreement or performing fully Employee's obligations hereunder; and (ii) the execution by Employee of this Agreement and the performance by Employee of Employee's obligations and duties pursuant to this Agreement will not result in any breach of any other agreement to which Employee is a party.

i . Negotiated Agreement. This Agreement was jointly negotiated by Company and Employee and/or their respective attorneys. Should any dispute arise concerning the meaning or construction of any term or terms of this Agreement, no presumption for or against either as the drafting party, as set forth in California Civil Code section 1654, shall apply.

j . 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 or other electronic means 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 or other electronic means shall be deemed to be their original signatures for all purposes.

k . Legal Representation; Independent Counsel**.** The law firm of K&L Gates LLP has prepared this Agreement on behalf of the Company based on the Company's instructions. K&L Gates LLP does not represent any other party to this Agreement. In executing this Agreement, Employee represents that Employee has neither requested nor been given legal advice or counsel by K&L Gates LLP or any of its attorneys. Employee is aware of Employee's right to obtain separate legal counsel with respect to the negotiation and execution of this Agreement and acknowledges that K&L Gates LLP has recommended that Employee retain Employee's own counsel for such purpose. Employee further acknowledges that Employee (i) has read and understands this Agreement and its exhibits and attachments; (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.

l . Compliance with Section 409A. This Agreement is intended to comply with Section 409A of the Code ("Section 409A"), where applicable, and will be interpreted and applied in a manner consistent with that intention. Notwithstanding any other provision of this Agreement, any payments provided to Employee under this Agreement as a result of a "separation from service" (within the meaning of Section 409A) that are treated as a "deferral of compensation" under final regulations issued pursuant to Section 409A or other applicable guidance in effect at the time of such "separation from service" will be paid as provided in this Agreement, except that if Employee is a "specified employee" (within the meaning of Section 409A) at the time of such "separation from service," any such payments will be deferred to the minimum extent necessary so that they are not payable before the first day of the seventh month following the date of such "separation from service" (or, if earlier, upon Employee's death or the earliest accelerated date that complies with Section 409A).

[Signatures on following page.]

IN WITNESS WHEREOF, the Parties have executed this Agreement effective as of the Effective Date.

EMPLOYEE

/s/ Michael E. Fortin
Michael E. Fortin

COMPANY

Natural Alternatives International, Inc.,
a Delaware corporation

/s/ Mark LeDoux
Mark LeDoux, Chief Executive Officer

ATTACHMENT #1

MUTUAL AGREEMENT TO MEDIATE AND ARBITRATE CLAIMS

This Mutual Agreement to Mediate and Arbitrate Claims ("Agreement") is made and entered into effective as of October 1, 2015 ("Effective Date"), by and between Michael E. Fortin ("Employee"), and Natural Alternatives International, Inc., a Delaware corporation ("Company").

In consideration of and as a condition of Employee's prospective and continued employment relationship with the Company, Employee's employment rights under Employee's Employment Agreement, Employee's participation in the Company's benefit programs (when and if eligible), Employee's access to and receipt of confidential information of the Company, and other good and valuable consideration, all of which Employee considers to have been negotiated at arm's length, Employee and Company agree to the following:

1. **Claims Covered by this Agreement.**

a. To the fullest extent permitted by law, all claims and disputes between Employee (and Employee's successors and assigns) and the Company relating in any manner whatsoever to the employment or termination of Employee, including without limitation all claims and disputes arising under this Agreement or that certain Employment Agreement entered into by and between the Company and Employee on equal date hereof, as may be amended from time to time ("Employment Agreement"), shall be resolved by mediation and arbitration as set forth herein. All persons and entities specified in the preceding sentence (other than the Company and Employee) shall be considered third-party beneficiaries of the rights and obligations created by this Agreement. Claims and disputes covered by this Agreement include without limitation those arising under:

(i) Any federal, state or local laws, regulations or statutes prohibiting employment discrimination (including, without limitation, discrimination relating to race, sex, national origin, age, disability, religion, or sexual orientation) and harassment;

(ii) Any alleged or actual agreement or covenant (oral, written or implied) between Employee and the Company;

(iii) Any Company policy, compensation, wage or related claim or benefit plan, unless the decision in question was made by an entity other than the Company;

(iv) Any public policy; and

(v) Any other claim for personal, emotional, physical or economic injury.

b. The only disputes between Employee and the Company that are not included within this Agreement are:

(i) Any claim by Employee for workers' compensation or unemployment compensation benefits; and

(ii) Any claim by Employee for benefits under a Company plan that provides for its own arbitration procedure.

2. **Mandatory Mediation of Claims and Disputes.**

a. If any claim or dispute covered under this Agreement cannot be resolved by negotiation between the parties, the following mediation and arbitration procedures shall be invoked. Before invoking the binding arbitration procedure set forth below, the Company and Employee shall first participate in mandatory mediation of any dispute or claim covered under this Agreement.

b. The claim or dispute shall be submitted to mediation before a mediator of the Judicial Arbitration and Mediation Service ("JAMS"), a mutually agreed to alternative dispute resolution ("ADR") organization. The mediation shall be conducted at a mutually agreeable location, or if a location cannot be agreed to by the parties, at a location chosen by the mediator. The administrator of the ADR organization shall select three (3) mediators. From the three (3) chosen, each party shall strike one and the remaining mediator shall preside over the mediation. The cost of the mediation shall be borne by the Company.

c. At least ten (10) business days before the date of the mediation, each side shall provide the mediator with a statement of its position and copies of all supporting documents. Each party shall send to the mediation a person who has authority to bind the party. If a subsequent dispute will involve third parties, such as insurers, they shall also be asked to participate in the mediation.

d. If a party has participated in the mediation and is dissatisfied with the outcome, that party may invoke the arbitration procedure set forth below.

3. **Binding Arbitration of Claims and Disputes.**

a. If the Company and Employee are unable to resolve a dispute or claim covered under this Agreement through mediation, they shall submit any such dispute or claim to binding arbitration, in accordance with California Code of Civil Procedure §§1280 through 1294.2. Either party may enforce the award of the arbitrator under Code of Civil Procedure §1285 by any competent court of law. Employee and the Company understand that they are, to the greatest extent permitted under California law, waiving their rights to a jury trial.

b. The party demanding arbitration shall submit a written claim to the other party, setting out the basis of the claim and proposing the name of a neutral arbitrator from JAMS, the mutually agreed to ADR organization. The responding party shall have ten (10) business days in which to respond to this demand in a written answer. If this response is not timely made, or if the responding party agrees with the person proposed as the neutral arbitrator, then the person named by the demanding party shall serve as the neutral arbitrator. If the responding party submits a written answer rejecting the proposed arbitrator then, on the request of either party, JAMS shall appoint a neutral arbitrator other than the mediator. The Employee and the Company agree to apply American Arbitration Association ("AAA") rules for the resolution of employment disputes to the arbitration even though the ADR is one other than AAA. No one who has ever had any business, financial, family, or social relationship with any party to this Agreement shall serve as an arbitrator unless the related party informs the other party of the relationship and the other party consents in writing to the use of that arbitrator.

c. The arbitration shall take place in the county of San Diego, California, at a time and place selected by the arbitrator. A pre-arbitration hearing shall be held within ten (10) business days after the arbitrator's selection. The arbitration shall be held within sixty (60) calendar days after the pre-arbitration hearing. The arbitrator shall establish all discovery and other deadlines necessary to accomplish this goal.

d. Each party shall be entitled to reasonable discovery of essential documents and witnesses, as determined by the arbitrator in accordance with the then-applicable rules of discovery for the resolution of employment disputes and the time frame set forth in this Agreement. The arbitrator may resolve any disputes over any discovery matters as they would be resolved in civil litigation.

e. The arbitrator shall have the following powers:

(i) to issue subpoenas for the attendance of witnesses and subpoenas duces tecum for the production of books, records, documents, and other evidence;

(ii) to order depositions to be used as evidence;

(iii) to enforce the rights, remedies, procedures, duties, liabilities, and obligations of discovery as if the arbitration were a civil action before a California superior court;

(iv) to conduct a hearing on the arbitrable issues; and

(v) to administer oaths to parties and witnesses.

f. Within fifteen (15 days) after completion of the arbitration, the arbitrator shall submit a tentative decision in writing, specifying the reasoning for the decision and any calculations necessary to explain the award. Each party shall have fifteen (15) days in which to submit written comments to the tentative decision. Within ten (10) days after the deadline for written comments, the arbitrator shall promulgate a final written decision.

g. The Company shall pay the arbitrator's expenses and fees, all meeting room charges, and any other expenses that would not have been incurred if the case were litigated in the judicial forum having jurisdiction over it. Each party shall pay its own attorneys' fees and witness fees, and other expenses incurred by the party for such party's own benefit and not required to be paid by the Company pursuant to the terms hereof. The arbitrator shall have the power to award all relief that would be available in a court action, including an award of attorneys' fees to the prevailing party pursuant to statute.

4. **Miscellaneous Provisions.**

a. For purposes hereof, the term "Company" shall also include all related entities, affiliates and subsidiaries, all officers, employees, directors, agents, stockholders, partners, managers, members, benefit plan sponsors, fiduciaries, administrators or affiliates of any of the above, and all successors and assigns of any of the above.

b. If either party pursues a covered claim against the other by any action, method or legal proceeding other than mediation or arbitration as provided herein, the responding party shall be entitled to dismissal or injunctive relief regarding such action and recovery of all costs, losses and attorneys' fees related to such other action or proceeding.

c. This is the complete agreement of the parties on the subject of mediation and the arbitration of disputes and claims covered hereunder. This Agreement supersedes any prior or contemporaneous oral, written or implied understanding on the subject, shall survive the termination of Employee's employment and can only be revoked or modified by a written agreement signed by Employee and the President or Chief Executive Officer of the Company, the terms of which were approved in advance in writing by the Company's Board of Directors and which specifically state an intent to revoke or modify this Agreement. If any provision of this Agreement is adjudicated to be void or otherwise unenforceable in whole or in part, such adjudication shall not affect the validity of the remainder of the Agreement, which shall remain in full force and effect.

d. This Agreement shall be construed and enforced in accordance with the laws of the State of California.

e. This Agreement shall be construed as a whole, according to its fair meaning, and not in favor of or against any party. By way of example and not in limitation, this Agreement shall not be construed in favor of the party receiving a benefit nor against the party responsible for any particular language in this Agreement. Should any dispute arise concerning the meaning or construction of any term or terms of this Agreement, no presumption for or against either as the drafting party, as set forth in California Civil Code section 1654, shall apply. The headings and captions contained in this Agreement are for convenience of reference only and shall not constitute a part of this Agreement and shall not be used in the construction or interpretation of this Agreement.

f. The failure of either party hereto at any time to require the performance by the other party hereto of any provision hereof shall in no way affect the full right to require such performance at any time thereafter, nor shall the waiver by either party hereto of a breach of any provision hereof be taken or held to be a waiver of any succeeding breach of such provision or waiver of the provision itself or a waiver of any other provision of this Agreement.

g. 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.

h. Employee's and Company's obligations under this Agreement shall survive the termination of Employee's employment and the termination of the Employment Agreement.

i. The law firm of K&L Gates LLP has prepared this Agreement on behalf of the Company based on the Company's instructions. K&L Gates LLP does not represent any other party to this Agreement. In executing this Agreement, Employee represents that Employee has neither requested nor been given legal advice or counsel by K&L Gates LLP or any of its attorneys. Employee is aware of Employee's right to obtain separate legal counsel with respect to the negotiation and execution of this Agreement and acknowledges that K&L Gates LLP has recommended that Employee retain Employee's own counsel for such purpose. Employee further acknowledges that 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.

IN WITNESS WHEREOF, the parties have executed this Agreement as of the Effective Date.

EMPLOYEE

/s/ Michael E. Fortin
Michael E. Fortin

COMPANY

Natural Alternatives International, Inc.,
a Delaware corporation

By: /s/ Mark LeDoux
Mark LeDoux, Chief Executive Officer

ATTACHMENT #2

CONFIDENTIAL INFORMATION AND INVENTION ASSIGNMENT AGREEMENT, COVENANT OF EXCLUSIVITY AND COVENANT NOT TO COMPETE

This Confidential Information and Invention Assignment Agreement, Covenant of Exclusivity and Covenant Not to Compete ("Agreement") is made by Michael E. Fortin ("Employee" or "I," "me" or "my"), and accepted and agreed to by Natural Alternatives International, Inc., a Delaware corporation ("Company"), as of October 1, 2015 ("Effective Date").

In consideration of and as a condition of my prospective and continued employment relationship with the Company (which for purposes of this Agreement shall be deemed to include any subsidiaries or affiliates of the Company, where "affiliate" shall mean any person or entity that directly or indirectly controls, is controlled by, or is under common control with the Company), my employment rights under my Employment Agreement with the Company effective as of the Effective Date, as well as my access to and receipt of confidential information of the Company, and other good and valuable consideration, I agree to the following, and I agree the following shall be in addition to the terms and conditions of any Confidential Information and Invention Assignment Agreement executed by employees of the Company generally, and which I may execute in addition hereto:

1. **Inventions.**

a . Disclosure. I will disclose promptly in writing to the appropriate officer or other representative of the Company, any idea, invention, work of authorship, design, formula, pattern, compilation, program, device, method, technique, process, improvement, development or discovery, whether or not patentable or copyrightable or entitled to legal protection as a trade secret, trademark service mark, trade name or otherwise ("Invention"), that I may conceive, make, develop, reduce to practice or work on, in whole or in part, solely or jointly with others ("Invent"), during the period of my employment with the Company.

i. The disclosure required by this Section 1(a) applies to each and every Invention that I Invent (1) whether during my regular hours of employment or during my time away from work, (2) whether or not the Invention was made at the suggestion of the Company, and (3) whether or not the Invention was reduced to or embodied in writing, electronic media or tangible form.

ii. The disclosure required by this Section 1(a) also applies to any Invention which may relate at the time of conception or reduction to practice of the Invention to the Company's business or actual or demonstrably anticipated research or development of the Company, and to any Invention which results from any work performed by me for the Company.

iii. The disclosure required by this Section 1(a) shall be received in confidence by the Company within the meaning of and to the extent required by California Labor Code §2871, the provisions of which are set forth on Exhibit A attached hereto.

iv. To facilitate the complete and accurate disclosures described above, I shall maintain complete written records of all Inventions and all work, study and investigation done by me during my employment, which records shall be the Company's property.

v. I agree that during my employment I shall have a continuing obligation to supplement the disclosure required by this Section 1(a) on a monthly basis if I Invent an Invention during the period of employment. In order to facilitate the same, the Company and I shall periodically review every six months the written records of all Inventions as outlined in this Section 1(a) to determine whether any particular Invention is in fact related to Company business.

b. Assignment. I hereby assign to the Company without royalty or any other further consideration my entire right, title and interest in and to each and every Invention I am required to disclose under Section 1(a) other than an Invention that (i) I have or shall have developed entirely on my own time without using the Company's equipment, supplies, facilities or trade secret information, (ii) does not relate at the time of conception or reduction to practice of the Invention to the Company's business, or actual or demonstrably anticipated research or development of the Company, and (iii) does not result from any work performed by me for the Company. I acknowledge that the Company has notified me that the assignment provided for in this Section 1(b) does not apply to any Invention to which the assignment may not lawfully apply under the provisions of Section §2870 of the California Labor Code, a copy of which is attached hereto as Exhibit A. I shall bear the full burden of proving to the Company that an Invention qualifies fully under Section §2870.

c. Additional Assistance and Documents. I will assist the Company in obtaining, maintaining and enforcing patents, copyrights, trade secrets, trademarks, service marks, trade names and other proprietary rights in connection with any Invention I have assigned to the Company under Section 1(b), and I further agree that my obligations under this Section 1(c) shall continue beyond the termination of my employment with the Company. Among other things, for the foregoing purposes I will (i) testify at the request of the Company in any interference, litigation or other legal proceeding that may arise during or after my employment, and (ii) execute, verify, acknowledge and deliver any proper document and, if, because of my mental or physical incapacity or for any other reason whatsoever, the Company is unable to obtain my signature to apply for or to pursue any application for any United States or foreign patent or copyright covering Inventions assigned to the Company by me, I hereby irrevocably designate and appoint each of the Company and its duly authorized officers and agents as my agent and attorney in fact to act for me and in my behalf and stead to execute and file any such applications and to do all other lawfully permitted acts to further the prosecution and issuance of any United States or foreign patent or copyright thereon with the same legal force and effect as if executed by me. I shall be entitled to reimbursement of any out-of-pocket expenses incurred by me in rendering such assistance and, if I am required to render such assistance after the termination of my employment, the Company shall pay me a reasonable rate of compensation for time spent by me in rendering such assistance to the extent permitted by law (provided, I understand that no compensation shall be paid for my time in connection with preparing for or rendering any testimony or statement under oath in any judicial proceeding, arbitration or similar proceeding).

d. Prior Contracts and Inventions; Rights of Third Parties. I represent to the Company that, except as set forth on Exhibit B attached hereto, there are no other contracts to assign Inventions now in existence between me and any other person or entity (and if no Exhibit B is attached hereto or there is no such contract(s) described thereon, then it means that by signing this Agreement, I represent to the Company that there is no such other contract(s)). In addition, I represent to the Company that I have no other employments or undertaking which do or would restrict or impair my performance of this Agreement. I further represent to the Company that Exhibit C attached hereto sets forth a brief description of all Inventions made or conceived by me prior to my employment with the Company which I desire to be excluded from this Agreement (and if no Exhibit C is attached hereto or there is no such description set forth thereon, then it means that by signing this Agreement I represent to the Company that there is no such Invention made or conceived by me prior to my employment with the Company). In connection with my employment with the Company, I promise not to use or disclose to the Company any patent, copyright, confidential trade secret or other proprietary information of any previous employer or other person that I am not lawfully entitled so to use or disclose. If in the course of my employment with the Company I incorporate into an Invention or any product process or service of the Company any Invention made or conceived by me prior to my employment with the Company, I hereby grant to the Company a royalty-free, irrevocable, worldwide nonexclusive license to make, have made, use and sell that Invention without restriction as to the extent of my ownership or interest.

2. **Trade Secrets and Confidential Information.**

a . Protecting Trade Secrets and Confidential Information. I acknowledge that during the course of my employment, I will obtain, receive or gain access to certain valuable, proprietary and confidential information of the Company that is not otherwise generally known to the public and from which the Company derives independent economic value (actual or potential), relating or pertaining to the Company's business, projects, products, customers, suppliers, inventions or trade secrets, including but not limited to: Company techniques, operations and methods of conducting business; computer programs, software and code; published and unpublished know-how, whether patented or unpatented; business and financial information; information concerning the identities of the Company's clients or potential clients, including customer names, addresses and contact information to the extent not otherwise generally known or available to the public; information reflecting the Company's clients' preferences, including prices paid and buying history, habits or needs and the methods of fulfilling those needs; confidential supplier names, addresses and pricing policies; Company pricing policies, marketing strategies, research projects or developments, and future plans relating to any aspect of the present or actual anticipated business of the Company, as well as information relating to any formula, pattern, compilation, program, device, method, technique, or process of the Company (hereinafter collectively the "Confidential Information"), except I understand that Confidential Information does not include information regarding the terms and conditions of my employment. I further acknowledge that Confidential Information may be in oral, written or electronic form and that it need not be marked or identified as "confidential."

I promise and agree that during my employment with the Company and at all times thereafter, I shall hold in strictest confidence and shall not publish, disclose or communicate any Confidential Information to any person or entity, except as required in connection with my work for the Company, and I shall not use or acquire for my own purposes or the benefit of any others, including any future employers or companies, any Confidential Information of the Company without the prior written approval of a duly authorized officer of the Company.

b. Prevention of Unauthorized Release of Company Confidential Information. I agree to take all reasonable necessary measures to prevent unauthorized persons or entities from having access to, obtaining or being furnished with any Confidential Information in my possession.

c. Confidential Information of Third Parties. I agree to preserve as confidential any private, personal or non-public information that I learn or obtain in connection with my employment from a third party or relating to a third party, such as a client or customer, that is not readily available to the public or that is entrusted to the Company by the third party, and to treat such information as though it were Company Confidential Information.

d. Confidential Information of Former Employers. I agree not to disclose to the Company and not to bring to the Company or use in any way in connection with my employment with the Company any proprietary and confidential information or trade secrets of any kind of any previous employer or other third party.

e. Termination of Employment. I agree that, upon termination of my employment with the Company (whether voluntary or otherwise), or at anytime as may otherwise be requested by the Company, I will promptly return to the Company all Confidential Information and all things belonging to the Company, including all tools, equipment, devices or property of the Company, including all documents, records, notebooks and tangible articles containing any Confidential Information, including any copies thereof, whether stored in paper, disk, tape, electronic, magnetic, digital or other form. I understand the Company may notify and provide any new employer or former employer with a copy of this Agreement.

3. **Property of the Company.** All equipment and all tangible and intangible information relating to the Company, its employees, its customers and its vendors and business furnished to, obtained by, or prepared by me or any other person during the course of or incident to employment by the Company are and shall remain the sole property of the Company ("Company Property"). For purposes of this Agreement, Company Property shall include, but not be limited to, computer equipment, books, manuals, records, reports, notes, correspondence, contracts, customer lists, business cards, advertising, sales, financial, personnel, operations, and manufacturing materials and information, data processing reports, computer programs, software, customer information and records, business records, price lists or information, and samples, and in each case shall include all copies thereof in any medium, including paper, electronic and magnetic media and all other forms of information storage. Upon termination of my employment with the Company, I agree to return all tangible Company Property to the Company promptly, but in no event later than two (2) business days following termination of employment.

4. **Duty of Loyalty and Non-Solicitation**

a. Duty of Loyalty. I agree that at all times during my employment with the Company, I will not, without the Company's express written consent, engage in any employment or business activity that is competitive with or that would otherwise conflict with the business of the Company, nor will I engage in any other activities that may conflict with my obligations or duty of loyalty to the Company.

b. Solicitation of Employees. During my employment with the Company, and for a period of one (1) year after the date of termination of my employment with the Company (whether voluntary or otherwise), I covenant and agree that I shall not, directly or indirectly, on my own behalf or for the benefit of any other person or entity, use any trade secrets or proprietary Confidential Information of the Company, including for purposes of this Section 2.b. any non-public information regarding the skills, ability or compensation of other employees, to solicit or attempt to solicit any employee of the Company to work for a different entity, or at any time unlawfully disrupt, damage, impair or interfere with the Company by raiding its work staff or unlawfully encouraging any employee, consultant or contractor of the Company to terminate their relationship with the Company.

c. Solicitation of Customers. During my employment with the Company, and for a period of one (1) year after the date of termination of my employment with the Company (whether voluntary or otherwise), I covenant and agree that I shall not in any manner, directly or indirectly, on my own behalf or for the benefit of any other person or entity, use any trade secrets or proprietary Confidential Information of the Company to solicit or attempt to solicit any confidential client or customer of the Company, or at anytime use any Confidential Information (including the confidential identity of any client or customer, or trade secret information about the client, account or customer relationship) to unlawfully induce, influence or encourage any client or customer of the Company to reduce or cease doing business with the Company.

d. Ongoing Obligations of Confidentiality. I understand that nothing in this Section 2 is intended to nor shall in any way limit or otherwise reduce my ongoing obligations and duty to maintain at all times the Confidential Information of the Company pursuant to the provisions of Section 1.a. of this Agreement.

5. **Miscellaneous Provisions.**

a. Successors and Assignees; Assignment. All representations, warranties, covenants and agreements of the parties shall bind their respective heirs, executors, personal representatives, successors and assignees ("transferees") and shall inure to the benefit of their respective permitted transferees. The Company shall have the right to assign any or all of its rights and to delegate any or all of its obligations hereunder. Employee shall not have the right to assign any rights or delegate any obligations hereunder without the prior written consent of the Company or its transferee.

b. Number and Gender; Headings. Each number and gender shall be deemed to include each other number and gender as the context may require. The headings and captions contained in this Agreement shall not constitute a part thereof and shall not be used in its construction or interpretation.

c. Severability. If any provision of this Agreement is found by any court or arbitral tribunal of competent jurisdiction to be invalid or unenforceable, the invalidity of such provision shall not affect the other provisions of this Agreement and all provisions not affected by the invalidity shall remain in full force and effect.

d. Amendment and Modification. This Agreement may be amended or modified only by a writing executed by the President or Chief Executive Officer of the Company and Employee.

e . Government Law. The laws of California shall govern the construction, interpretation and performance of this Agreement and all transactions under it.

f . Remedies. I acknowledge that my failure to carry out any obligation under this Agreement, or a breach by me of any provision herein, will constitute immediate and irreparable damage to the Company, which cannot be fully and adequately compensated in money damages and which will warrant preliminary and other injunctive relief, an order for specific performance, and other equitable relief. I further agree that no bond or other security shall be required in obtaining such equitable relief and I hereby consent to the issuance of such injunction and to the ordering of specific performance. I also understand that other action may be taken and remedies enforced against me.

g . Mediation and Arbitration. This Agreement is subject to the Mutual Agreement to Mediate and Arbitrate Claims attached to the Employment Agreement between me and the Company, incorporated into this Agreement by this reference.

h . Attorneys' Fees. Unless otherwise set forth in the Mutual Agreement to Mediate and Arbitrate Claims between Employee and the Company, should either I or the Company, or any heir, personal representative, successor or permitted assign of either party, resort to arbitration or legal proceedings to enforce this Agreement, the prevailing party (as defined in California statutory law) in such proceeding shall be awarded, in addition to such other relief as may be granted, reasonable attorneys' fees and costs incurred in connection with such proceeding.

i. No Effect on Other Terms or Conditions of Employment. I acknowledge that this Agreement does not affect any term or condition of my employment except as expressly provided in this Agreement, and that this Agreement does not give rise to any right or entitlement on my part to employment or continued employment with the Company. I further acknowledge that this Agreement does not affect in any way the right of the Company to terminate my employment.

j. Negotiated Agreement. This Agreement was jointly negotiated by the parties and/or their respective attorneys. Should any dispute arise concerning the meaning or construction of any term or terms of this Agreement, no presumption for or against either as the drafting party, as set forth in California Civil Code section 1654, shall apply.

k. Legal Representation; Advice of Counsel. The law firm of K&L Gates LLP has prepared this Agreement on behalf of the Company based on its instructions. K&L Gates LLP does not represent any other party to this Agreement. In executing this Agreement, I represent that I have neither requested nor been given legal advice or counsel by K&L Gates LLP or any of its attorneys. I am aware of my right to obtain separate legal counsel with respect to the negotiation and execution of this Agreement and acknowledge that K&L Gates LLP has recommended that I retain my own counsel for such purpose. I further acknowledge that I (i) have read and understand this Agreement and its exhibits; (ii) have had the opportunity to retain separate counsel in connection with the negotiation and execution of this Agreement; and (iii) have 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.

11. 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.

My signature below signifies that I have read, understand and agree to this Agreement.

/s/ Michael E. Fortin
Michael E. Fortin

ACCEPTED AND AGREED TO:

Natural Alternatives International, Inc.,
a Delaware corporation

By: /s/ Mark LeDoux
Mark LeDoux, Chief Executive Officer

EXHIBIT A

California Labor Code

§ 2870. Invention on Own Time-Exemption from Agreement.

(a) Any provision in an employment agreement which provides that an employee shall assign, or offer to assign, any of his or her rights in an invention to his or her employer shall not apply to an invention that the employee developed entirely on his or her own time without using the employer's equipment, supplies, facilities, or trade secret information expect for those inventions that either:

(1) Relate at the time of conception or reduction to practice of the invention to the employer's business, or actual or demonstrably anticipated research or development of the employer; or

(2) Result from any work performed by the employee for the employer.

(b) To the extent a provision in an employment agreement purports to require an employee to assign an invention otherwise excluded from being required to be assigned under subdivision (a), the provision is against the public policy of this state and is unenforceable.

§ 2871. Restrictions on Employer for Condition of Employment.

No employer shall require a provision made void or unenforceable by Section 2870 as a condition of employment or continued employment. Nothing in this article shall be construed to forbid or restrict the right of an employer to provide in contracts of employment for disclosure, provided that any such disclosures be received in confidence, of all of the employee's inventions made solely or jointly with others during the period of his or her employment, a review process by the employer to determine such issues as may arise, and for full title to certain patents and inventions to be in the United States, as required by contracts between the employer and the United States or any of its agencies.

EXHIBIT B

Except as set forth below, Employee represents to the Company that there are no other contracts to assign Inventions now in existence between Employee and any other person or entity (see Section l(d) of the Agreement):

EXHIBIT C

Set forth below is a brief description of all Inventions made or conceived by Employee prior to Employee's employment with the Company, which Employee desires to be excluded from this Agreement (see Section l(d) of the Agreement):

ATTACHMENT #3

FORM OF
SEPARATION AGREEMENT AND GENERAL RELEASE OF CLAIMS

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

RECITALS

A. Former Employee's employment with the Company terminated effective on _____.

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

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

AGREEMENT

1. Separation Payment by Company. In consideration of Former Employee's promises and covenants contained in this Agreement:

a. Company will, within ten business days following the Effective Date of this Agreement, pay to Former Employee the sum of _____ and __/100 dollars ($_____), which amount represents one-half of the amount of separation pay due Former Employee, less all applicable withholdings and deductions. The balance of separation pay shall be paid on a bi-weekly basis through the remaining severance period ending _____. 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 six (6) months' premiums for such continuation coverage.

c. Compliance with Section 409A. This Agreement is intended to comply with Section 409A of the Internal Revenue Code of 1986, as amended ("Section 409A"), where applicable, and will be interpreted and applied in a manner consistent with that intention. Notwithstanding any other provision of this Agreement, any payments provided to Former Employee under this Agreement as a result of a "separation from service" (within the meaning of Section 409A) that are treated as a "deferral of compensation" under final regulations issued pursuant to Section 409A or other applicable guidance in effect at the time of such "separation from service" will be paid as provided in this Agreement, except that if Former Employee is a "specified employee" (within the meaning of Section 409A) at the time of such "separation from service," any such payments will be deferred to the minimum extent necessary so that they are not payable before the first day of the seventh month following the date of such "separation from service" (or, if earlier, upon Former Employee's death or the earliest accelerated date that complies with Section 409A).

d. Former Employee is responsible for all tax consequences associated with the Separation Payment. In the event that the Internal Revenue Service later re-characterizes some or all of the Separation Payment as "wages" subject to income tax withholding, Former Employee agrees to indemnify and reimburse Company for any income tax payments resulting from such re-characterization.

2. Release.

(a) Former Employee does hereby unconditionally, irrevocably and absolutely release and discharge the Company and its subsidiaries and affiliates, and its and their respective directors, officers, employees, volunteers, agents, attorneys, stockholders, insurers, successors and/or assigns, 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 and the termination of said employment. Former Employee agrees and understands that 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.

3. Confidentiality.

(a) Former Employee agrees that all matters relative to this Agreement shall remain confidential. Accordingly, Former Employee hereby agrees that 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 that Company may be required to disclose certain terms, aspects or conditions of this Agreement and/or Former Employee's termination of employment in the Company's public filings made with the United States Securities and Exchange Commission and Former Employee hereby 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.

4 . Return of Documents and Equipment. Former Employee represents that Former Employee has returned to the Company all Company Property (as such term is defined in that certain Confidential Information and Invention Assignment Agreement, Covenant of Exclusivity and Covenant Not To Compete by and between Former Employee and Company). In the event Former Employee has not returned all Company Property, 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 attorneys' fees and costs.

5 . Non-solicitation. During Employee's employment with the Company and for a period of twelve (12) months after the employment relationship ends, regardless of the reason it ends, Employee will not, on his own behalf or for the benefit of any other person or entity (except on behalf of the Company):

(a) use any Confidential Information (as defined in the Confidential Information and Invention Assignment Agreement) of the Company or any non-public information regarding the skills, abilities or compensation of any employees of the Company to solicit, induce, or attempt to solicit or induce, any employee of the Company to terminate their employment in order to work for, become employed by or perform services for any business other than that of the Company; and will not unlawfully induce, raid, or encourage any employee of the Company to terminate his or her employment relationship with the Company; or

(b) use any trade secrets and Confidential Information (as defined in the Confidential Information and Invention Assignment Agreement) of the Company of the Company (including the confidential identity of any client or customer, or any actively sought prospective client or customer), or any information about the client or customer relationship that is a trade secret to, directly or indirectly, solicit or attempt to solicit any business from such client or customer (or actively sought prospective client or customer), or otherwise unlawfully induce, influence or encourage any client or customer of the Company to cease doing business with the Company, or otherwise engage in any unfair competition against the Company with respect to its clients and customers.

(c) Employee further understands and agrees that nothing in this Section is intended to nor shall limit or reduce Employee's obligations of confidentiality as set forth in the Confidential Information and Invention Assignment Agreement.

6. 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 that 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 that 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."**

(b) 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 that Former Employee may lawfully waive such rights or benefits pertaining to the released claims.

_____
Initials of Former Employee

7. OWBPA Provisions. In the event 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) for a period of seven (7) days following the execution of this Agreement, Former Employee may revoke this Agreement, and this Agreement shall not become effective or enforceable until the revocation period has expired; (iv) 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 eight (8) days after the date it is signed by Former Employee.

8. Entire Agreement. The parties declare and represent that 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 hereof, 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 hereof.

9. 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.

10. 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 thereof.

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

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

13. 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 or other electronic means 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 or other electronic means shall be deemed to be their original signatures for all purposes.

14. Representation of No Assignment. The parties represent and warrant that they have not heretofore assigned, transferred, subrogated or purported to assign, transfer or subrogate any claim released herein to any person or entity.

15. Cooperation. The parties hereto agree that, 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 that 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.

16. 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 made and entered into effective as of October 1, 2015, by and between the Company and Former Employee.

17. Legal Representation; Independent Counsel**.** The law firm of K&L Gates LLP has prepared this Agreement on behalf of the Company based on the Company's instructions. K&L Gates LLP does not represent any other party to this Agreement. In executing this Agreement, Former Employee represents that Former Employee has neither requested nor been given legal advice or counsel by K&L Gates 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 that K&L Gates LLP has recommended that Former Employee retain Former Employee's own counsel for such purpose. Former Employee further acknowledges that 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.

18. Negotiated Agreement. This Agreement was jointly negotiated by the parties and/or their respective attorneys. Should any dispute arise concerning the meaning or construction of any term or terms of this Agreement, no presumption for or against either as the drafting party, as set forth in California Civil Code section 1654, shall apply.

19. Further Acknowledgements. Each party represents and acknowledges that 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.

IN WITNESS WHEREOF, the undersigned have executed this Agreement on the date(s) shown below.

FORMER EMPLOYEE

_____
Michael E. Fortin

Dated: _____

Executed in: _____, California
(City)

COMPANY

Natural Alternatives International, Inc.,
a Delaware corporation

By: _____
(Signature)

Printed Name: _____

Title: _____

Dated: _____

Executed in : _____, California
(City)

Exhibit 31.1

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

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

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

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

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

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) 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) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

c) 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

d) 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; and

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: November 12, 2015

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

Exhibit 31.2

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

I, Michael Fortin, 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)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) 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) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

c) 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

d) 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; and

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: November 12, 2015

/s/ Michael E. Fortin
Michael E. Fortin, Chief Financial Officer

Exhibit 32

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

Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (Subsections (a) and (b) of Section 1350, Chapter 63 of Title 18, United States Code), each of the undersigned officers of Natural Alternatives International, Inc., a Delaware corporation, does hereby certify, to such officer's knowledge, that the Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2015 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: November 12, 2015

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

Date: November 12, 2015

/s/ Michael E. Fortin
Michael E. Fortin, 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.