FORM 10-K

NATURAL ALTERNATIVES INTERNATIONAL INC - NAII

Filed: September 22, 2008 (period: June 30, 2008)

Annual report which provides a comprehensive overview of the company for the past year

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

FORM 10-K

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

FOR THE FISCAL YEAR ENDED JUNE 30, 2008

000-15701
(Commission file number)

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

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

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of exchange on which registered
Common Stock, $0.01 par value per share	Nasdaq Global Market

Securities registered pursuant to Section 12(g) of the Act:

None

Indicate by check mark if Natural Alternatives International, Inc. (NAI) is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act of 1933. ☐ Yes ☒ No

Indicate by check mark if NAI is not required to file reports pursuant to Section 13 or Section 15(d) of the Securities Exchange Act of 1934. ☐ Yes ☒ No

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of NAI's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☒

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 ☒

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

The aggregate market value of NAI's common stock held by non-affiliates of NAI as of the last business day of NAI's most recently completed second fiscal quarter (December 31, 2007) was approximately $46,207,307 (based on the closing sale price of $8.63 reported by Nasdaq on December 31, 2007). For this purpose, all of NAI's officers and directors and their affiliates were assumed to be affiliates of NAI.

As of September 17, 2008, 7,037,063 shares of NAI's common stock were outstanding, net of 180,941 treasury shares.

DOCUMENTS INCORPORATED BY REFERENCE

Part III (Items 10, 11, 12, 13 and 14) of this Form 10-K incorporates by reference portions of NAI's definitive proxy statement for its Annual Meeting of Stockholders to be held December 05, 2008, to be filed on or before October 28, 2008.

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SPECIAL NOTE ABOUT FORWARD-LOOKING STATEMENTS

Certain statements in this report, including information incorporated by reference, are “forward-looking statements” within the meaning of Section 27A of the Securities Act of 1933, Section 21E of the Securities Exchange Act of 1934, and the Private Securities Litigation Reform Act of 1995. Forward-looking statements reflect current views about future events and financial performance based on certain assumptions. They include opinions, forecasts, intentions, plans, goals, projections, guidance, expectations, beliefs or other statements that are not statements of historical fact. Words such as “may,” “will,” “should,” “could,” “would,” “expects,” “plans,” “believes,” “anticipates,” “intends,” “estimates,” “approximates,” “predicts,” or “projects,” or the negative or other variation of such words, and similar expressions may identify a statement as a forward-looking statement. Any statements that refer to projections of our future financial performance, our anticipated growth and trends in our business, our goals, strategies, focus and plans, and other characterizations of future events or circumstances, including statements expressing general optimism about future operating results, are forward-looking statements. Forward-looking statements in this report may include statements about:

- future financial and operating results, including projections of net sales, revenue, income, net income per share, profit margins, expenditures, liquidity, goodwill valuation and other financial items;
- our ability to develop relationships with new customers and maintain or improve existing customer relationships;
- development of new products, brands and marketing strategies;
- the effect of the discontinuance of Dr. Cherry’s television program and our ability to develop a new marketing plan for, and to sustain, our Pathway to Healing® product line;
- distribution channels, product sales and performance, and timing of product shipments;
- inventories and the adequacy and intended use of our facilities;
- current or future customer orders;
- the impact on our business and results of operations and variations in quarterly net sales from seasonal and other factors;
- management’s goals and plans for future operations;
- our ability to improve operational efficiencies, manage costs and business risks and improve or maintain profitability;
- growth, expansion, diversification, acquisition, divestment and consolidation strategies, the success of such strategies, and the benefits we believe can be derived from such strategies;
- personnel;
- the outcome of regulatory, tax and litigation matters;
- sources and availability of raw materials;
- operations outside the United States;
- the adequacy of reserves and allowances;
- overall industry and market performance;
- competition;
- current and future economic and political conditions;
- the impact of accounting pronouncements; and
- other assumptions described in this report underlying or relating to any forward-looking statements.

The forward-looking statements in this report speak only as of the date of this report and caution should be taken not to place undue reliance on any such forward-looking statements. Forward-looking statements are subject to certain events, risks, and uncertainties that may be outside of our control. When considering forward-looking statements, you should carefully review the risks, uncertainties and other cautionary statements in this report as they identify 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 I and elsewhere in this report, as well as in other reports and documents we file with the United States Securities and Exchange Commission (SEC).

PART I

ITEM 1. BUSINESS

General

Our vision is to enrich the world through the best of nutrition.

We are a leading formulator, manufacturer and marketer of nutritional supplements and provide strategic partnering services to our customers. Our comprehensive partnership approach offers a wide range of innovative nutritional products and services to our clients including: scientific research, clinical studies, proprietary ingredients, customer-specific nutritional product formulation, product testing and evaluation, marketing management and support, packaging and delivery system design, regulatory review and international product registration assistance.

As our primary business activity, we provide private label contract manufacturing services to companies that market and distribute vitamins, minerals, herbs, and other nutritional supplements, as well as other health care products, to consumers both within and outside the United States. Additionally, we develop, manufacture and market our own branded products under the Pathway to Healing® product line, which is aimed at restoring, maintaining and improving health.

History

Originally founded in 1980, Natural Alternatives International, Inc. reorganized as a Delaware corporation in 1989. Our principal executive offices are located at 1185 Linda Vista Drive, San Marcos, California, 92078.

On January 22, 1999, Natural Alternatives International Europe S.A. (NAIE) was formed as our wholly owned subsidiary, based in Manno, Switzerland. In September 1999, NAIE opened its manufacturing facility to provide manufacturing capability in encapsulation and tablets, finished goods packaging, quality control laboratory testing, warehousing, distribution and administration.

On December 5, 2005, we acquired Real Health Laboratories, Inc. (RHL), which primarily markets branded nutritional supplements. RHL’s operations include in-house creative, supply chain management and call center and fulfillment activities.

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, NAIE, RHL and our other wholly owned subsidiaries.

Overview

Our U.S.-based operations are located in San Marcos, Vista and San Diego, California and include manufacturing and distribution, sales and marketing, in-house formulation, laboratory and other research and development services. Our manufacturing facilities were recertified on October 31, 2007 by the Therapeutic Goods Administration (TGA) of Australia after its audit of our Good Manufacturing Practices (GMP). TGA evaluates new therapeutic products, prepares standards, develops testing methods and conducts testing programs to ensure that products are high in quality, safe and effective. The TGA also conducts a range of assessment and monitoring activities including audits of the manufacturing practices of companies who export and sell products to Australia. TGA certification enables us to manufacture products for export into countries that have signed the Pharmaceutical Inspection Convention, which include most European countries as well as several Pacific Rim countries. TGA certifications are generally reviewed every eighteen months. We expect our existing TGA certification will be reviewed beginning late September 2008.

Our California facilities also have been awarded GMP registration annually by NSF International (NSF) through the NSF Dietary Supplements Certification Program since October 2002. GMP requirements are regulatory standards and guidelines establishing necessary processes, procedures and documentation for manufacturers in an effort to assure the products produced by that manufacturer have the identity, strength, composition, quality and purity they are represented to possess.

NAIE also operates a manufacturing, warehousing, packaging and distribution facility in Manno, Switzerland. In January 2004, NAIE obtained a pharmaceutical license to process pharmaceuticals for packaging, importation, export and sale within Switzerland and other countries from the Swissmedic Authority of Bern, Switzerland. In March 2007, following the expansion of NAIE's manufacturing facilities to include powder filling capabilities, NAIE obtained an additional pharmaceutical license from the Swissmedic Authority certifying NAIE's expanded facilities conform to GMP. We believe these licenses and NAIE's manufacturing capabilities help strengthen our relationships with existing customers and can improve our ability to develop relationships with new customers. The licenses are valid until January 2009.

In addition to our operations in the United States and Switzerland, we have a full-time representative in Japan who provides a range of services to our customers currently present in or seeking to expand into the Japanese market and other markets in the Pacific Rim. These services include regulatory and marketing assistance along with guidance and support in adapting products to these markets.

Business Strategy

Our goals are to achieve long-term growth and profitability and to diversify our sales base. To accomplish these goals, we have sought and intend to continue to seek to:

- leverage our state of the art facilities to increase the value of the goods and services we provide to our highly valued private label contract manufacturing customers and assist in developing relationships with additional quality oriented customers;
- provide strategic partnering services to our private label contract manufacturing customers, including, but not limited to, customized product formulation, clinical studies, regulatory assistance and product registration in foreign markets;
- invest in expanding and marketing our own branded products primarily through direct-to-consumer channels; and
- improve operational efficiencies and manage costs and business risks to improve profitability.

Overall, we believe there is an opportunity to enhance consumer confidence in the quality of our nutritional supplements and their adherence to label claims through the education provided by direct sales and direct-to-consumer marketing programs. We believe our GMP and TGA certified manufacturing operations, science based product formulations, peer-reviewed clinical studies and regulatory expertise provide us with a sustainable competitive advantage by providing our customers with a high degree of confidence in the products we manufacture.

While today's consumer may have access to a variety of information, we believe many consumers remain uneducated about nutrition and nutritional supplementation, uncertain about the relevance or reliability of the information they have or are confused about conflicting claims or information, which we believe creates a significant opportunity for the direct sales marketing channel. The direct sales marketing channel has proved, and we believe will continue to prove, to be a highly effective method for marketing high quality nutritional supplements as associates or other personalities educate consumers on the benefits of science based nutritional supplements. Our largest customers operate in the direct sales marketing channel. Thus, the majority of our business has been fueled primarily by the effectiveness of our customers in this marketing channel.

Since the acquisition of RHL, our banded products segment has included the legacy RHL business, which included the internet and catalog business "As We Change®" (AWC) and certain branded products primarily marketed through mass retail, with distribution to Food, Drug and Mass Market (FDM) retailers, and NAI's branded products primarily sold directly to consumers under the Pathway to Healing® product line. During the fourth quarter of fiscal 2008, we undertook a careful review of our branded products portfolio and operations and decided to narrow our branded products focus and developed and approved a plan to sell the legacy RHL business. We expect this plan will significantly improve our overall profitability and allow us to better pursue our growth strategies.

More specifically, on August 4, 2008, RHL sold certain assets related to its catalog and internet business conducted under the name "As We Change®" to Miles Kimball Company for a cash purchase price of $2,000,000. The purchase price was subject to certain post-closing adjustments based on a final accounting of the value of the assets sold to and the liabilities assumed by the buyer at the closing. As a result of the post-closing review, the purchase price was increased by $299,000, resulting in an aggregate purchase price of $2,299,000. Due to the sale of RHL's "As We Change" business, we are in the process of terminating approximately 30 employees that supported, either directly or indirectly, the "As We Change" business. These terminations are expected to be substantially completed by September 30, 2008. We estimate that we will incur approximately $200,000 to $275,000 in severance and related payroll costs as a result of this action.

We intend to market for sale the remaining legacy RHL business during fiscal 2009, with the exception of our Pathway to Healing® product line. As a result of our decision to sell the legacy RHL business, we have initiated an operational consolidation program during the first quarter of fiscal 2009 that will transition the remaining branded products business operations to our corporate offices. We anticipate this program will be substantially completed by September 30, 2008 and result in approximately $1.0 million to $1.2 million in severance and other business related exit costs. Due to the above changes, certain financial information in this report has been reclassified to reflect the operations of RHL as discontinued operations as discussed in more detail in our consolidated financial statements and accompanying notes to the consolidated financial statements included under Item 8 of this report.

We believe our comprehensive approach to customer service is unique within our industry. We believe this approach, together with our commitment to high quality, innovative products and investment in our continuing branded products, will provide the means to implement our strategies and achieve our goals. There can be no assurance, however, that we will successfully implement any of our business strategies or that we will increase or diversify our sales or improve our overall financial results.

Products, Principal Markets and Methods of Distribution

Our primary business activity is to provide private label contract manufacturing services to companies that market and distribute vitamins, minerals, herbs, and other nutritional supplements, as well as other health care products, to consumers both within and outside the United States. Our private label contract manufacturing customers include companies that market nutritional supplements through direct sales marketing channels, direct response television and retail stores. We manufacture products in a variety of forms, including capsules, tablets, chewable wafers and powders to accommodate a variety of consumer preferences.

We provide strategic partnering services to our private label contract manufacturing customers, including the following:

- customized product formulation;
- clinical studies;
- manufacturing;
- marketing support;
- international regulatory and label law compliance;
- international product registration; and
- packaging in multiple formats and labeling design.

Additionally, we develop, manufacture and market our own branded products and work with a nationally recognized physician to develop brand name products that reflect his individual approach to restoring, maintaining or improving health. These products are currently sold through print media and internet distribution channels.

For the last two fiscal years ended June 30, our net sales were derived from the following (dollars in thousands):

	2008		2007	
	$	%	$	%
Private Label Contract Manufacturing	$77,850	84	$80,732	83
Branded Products	3,905	4	5,834	6
Discontinued Operations	11,276	12	10,562	11
Total Net Sales	$93,031	100	$97,128	100

Research and Development

We are committed to quality research and development. We focus on the development of new science based products and the improvement of existing products. We periodically test and validate our products to help ensure their stability, potency, efficacy and safety. We maintain quality control procedures to verify that our products comply with applicable specifications and standards established by the Food and Drug Administration and other regulatory agencies. We also direct and participate in clinical research studies, often in collaboration with scientists and research institutions, to validate the benefits of a product and provide scientific support for product claims and marketing initiatives. We believe our commitment to research and development, as well as our facilities and strategic alliances with our suppliers and customers, allow us to effectively identify, develop and market high-quality and innovative products.

As part of the services we provide to our private label contract manufacturing customers, we may perform, but are not required to perform, certain research and development activities related to the development or improvement of their products. While our customers typically do not pay directly for this service, the cost of this service is included as a component of the price we charge to manufacture and deliver their products. Research and development costs, which include costs associated with international regulatory compliance services we provide to our customers, are expensed as incurred.

Our research and development expenses for the last two fiscal years ended June 30 were $2.0 million for 2008 and $1.9 million for 2007.

Sources and Availability of Raw Materials

We use raw materials in our operations including powders, excipients, empty capsules, and components for packaging and distributing our finished products. We test the raw materials we buy to ensure their quality, purity and potency before we use them in our products. We typically buy raw materials in bulk from qualified vendors located both within and outside the United States. During fiscal 2008, our two largest suppliers accounted for 31% of our total raw material purchases. We did not experience any significant shortages or difficulties obtaining adequate supplies of raw materials during fiscal 2008 and we do not anticipate any significant shortages or difficulties in the near term. During fiscal 2008, however, we experienced increases in various product raw material costs, transportation costs and the cost of petroleum based raw materials and packaging supplies used in our business, which were associated with higher oil and fuel costs. We anticipate raw material and product cost pricing pressures will continue throughout fiscal 2009.

Major Customers

NSA International, Inc. has been our largest customer over the past several years. During the fiscal year ended June 30, 2008, NSA International, Inc. accounted for approximately 49% of our net sales from continuing operations. Our second largest customer was Mannatech, Incorporated, which accounted for approximately 34% of our net sales from continuing operations during fiscal 2008. Both of these customers are private label contract manufacturing customers. No other customer accounted for 10% or more of our net sales during fiscal 2008. We continue to focus on obtaining new private label contract manufacturing customers and growing our remaining branded products to reduce the risks associated with deriving a significant portion of our sales from a limited number of customers.

Competition

We compete with other manufacturers, distributors and marketers of vitamins, minerals, herbs, and other nutritional supplements, and beauty and skin care products both within and outside the United States. The nutritional supplement industry is highly fragmented and competition for the sale of nutritional supplements comes from many sources. These products are sold primarily through retailers (drug store chains, supermarkets, and mass market discount retailers), health and natural food stores, and direct sales channels (mail order, network marketing and e-marketing companies). The products we produce for our private label contract manufacturing customers may compete with our own branded products, although we believe such competition is limited.

We believe private label contract manufacturing competition in our industry is based on, among other things, customized services offered, product quality and safety, innovation, price and customer service. We believe we compete favorably with other companies because of our ability to provide comprehensive turnkey solutions for customers, our certified manufacturing operations and our commitment to quality and safety through our research and development activities.

Our future competitive position for both private label contract manufacturing and branded products will likely depend on, but not be limited to, the following:

- the continued acceptance of our products by our customers and consumers;
- our ability to continue to develop high quality, innovative products;
- our ability to attract and retain qualified personnel;
- the effect of any future governmental regulations on our products and business;
- the results of, and publicity from, product safety and performance studies performed by governments and other research institutions;
- the continued growth of the global nutrition industry; and
- our ability to respond to changes within the industry and consumer demand, financially and otherwise.

The nutritional supplement industry is highly competitive and we expect the level of competition to remain high over the near term. We do not believe it is possible to accurately estimate the total number or size of our competitors. The nutritional supplement industry has undergone consolidation in the recent past and we expect that trend to continue in the near term.

Government Regulation

Our business is subject to varying degrees of regulation by a number of government authorities in the United States, including the United States Food and Drug Administration (FDA), the Federal Trade Commission (FTC), the Consumer Product Safety Commission, the United States Department of Agriculture, and the Environmental Protection Agency. Various agencies of the states and localities in which we operate and in which our products are sold also regulate our business, such as the California Department of Health Services, Food and Drug Branch. The areas of our business that these and other authorities regulate include, among others:

- product claims and advertising;
- product labels;
- product ingredients; and
- how we manufacture, package, distribute, import, export, sell and store our products.

The FDA, in particular, regulates the formulation, manufacturing, packaging, storage, labeling, promotion, distribution and sale of vitamin and other nutritional supplements in the United States, while the FTC regulates marketing and advertising claims. In August 2007, a new rule issued by the FDA went into effect requiring companies that manufacture, package, label, distribute or hold nutritional supplements to meet certain GMPs to ensure such products are of the quality specified and are properly packaged and labeled. Companies have up to three years to comply with the new requirements depending on the size of the company. In our case, given the current number of our employees, we are required to comply with the new requirements by June 25, 2009. We are committed to meeting or exceeding the standards set by the FDA and believe we are currently operating within the FDA mandated GMPs.

The FDA also regulates the labeling and marketing of dietary supplements and nutritional products, including:

- the identification of dietary supplements or nutritional products and their nutrition and ingredient labeling;
- requirements related to the wording used for claims about nutrients, health claims, and statements of nutritional support;
- labeling requirements for dietary supplements or nutritional products for which “high potency” and “antioxidant” claims are made;
- notification procedures for statements on dietary supplements or nutritional products; and
- premarket notification procedures for new dietary ingredients in nutritional supplements.

The Dietary Supplement Health and Education Act of 1994 (DSHEA) revised the provisions of the Federal Food, Drug and Cosmetic Act concerning the composition and labeling of dietary supplements and defined dietary supplements to include vitamins, minerals, herbs, amino acids and other dietary substances used to supplement diets. DSHEA generally provides a regulatory framework to help ensure safe, quality dietary supplements and the dissemination of accurate information about such products. The FDA is generally prohibited from regulating active ingredients in dietary supplements as drugs unless product claims, such as claims that a product may heal, mitigate, cure or prevent an illness, disease or malady, trigger drug status.

In December 2006, the Dietary Supplement and Nonprescription Drug Consumer Protection Act was passed, which further revised the provisions of the Federal Food, Drug and Cosmetic Act. Under the act, manufacturers, packers or distributors whose name appears on the product label of a dietary supplement or nonprescription drug are required to include contact information on the product label for consumers to use in reporting adverse events associated with the product's use and to notify the FDA of any serious adverse event report within 15 business days of receiving such report. Events reported to the FDA would not be considered an admission from a company that its product caused or contributed to the reported event. The act became effective in December 2007. The FDA is in the process of developing industry guidance on how to comply with this law. We are committed to meeting or exceeding the provisions of this act on a timely basis.

We are also subject to a variety of other regulations in the United States, including those relating to bioterrorism, taxes, labor and employment, import and export, the environment and intellectual property.

Our operations outside the United States are similarly regulated by various agencies and entities in the countries in which we operate and in which our products are sold. The regulations of these countries may conflict with those in the United States and may vary from country to country. The sale of our products in certain European countries is subject to the rules and regulations of the European Union, which may be interpreted differently among the countries within the European Union. In markets outside the United States, we may be required to obtain approvals, licenses or certifications from a country's ministry of health or comparable agency before we begin operations or the marketing of products in that country. Approvals or licenses may be conditioned on reformulation of our products for a particular market or may be unavailable for certain products or product ingredients. These regulations may limit our ability to enter certain markets outside the United States.

Intellectual Property

Trademarks. We have developed and use registered trademarks in our business, particularly relating to corporate, brand and product names. We own 26 trademark registrations in the United States and have three trademark applications pending with the United States Patent and Trademark Office. In most circumstances, federal registration of a trademark enables the registered owner of the mark to bar the unauthorized use of the registered mark in connection with similar goods or services by any third party anywhere in the United States, regardless of whether the registered owner has ever used the trademark in the area where the unauthorized use occurs. However, to the extent a prior, common law user has used the mark with similar goods or services in a particular area of the country, the federal registration will confer nationwide rights, subject to that geographic area.

We have filed applications and own trademark registrations and intend to register additional trademarks in foreign countries where our products are or may be sold in the future. We have one trademark registered with the Japanese Patent and Trademark Office.

We also claim ownership and protection of certain product names, unregistered trademarks and service marks under common law. While common law trademark rights do not provide the same level of protection afforded by a federal registration of a trademark, trademark rights are based on use and offer protection within the particular geographic area in which the mark is used. We believe these trademarks, whether registered or claimed under common law, constitute valuable assets, adding to the recognition of our products and services in the marketplace. These and other proprietary rights have been and will continue to be important in enabling us to compete.

Trade Secrets. We own certain intellectual property, including trade secrets we seek to protect, in part, through confidentiality agreements with employees and other parties. Although we regard our proprietary technology, trade secrets, trademarks and similar intellectual property as critical to our success, we rely on a combination of trade secrets, contract, patent, copyright and trademark law to establish and protect the rights in our products and technology. In addition, the laws of certain foreign countries may not protect our intellectual property rights to the same extent as the laws of the United States.

Patents and Patent Licenses. We own certain United States patents. In addition, we have an exclusive worldwide license to four certain United States patents, and each patent's corresponding foreign patent application, and are currently involved in research and development of products employing the licensed inventions. These patents relate to the ingredient formerly known as "Oxford Factor." We are currently selling this ingredient to a customer for use in a limited market under the name Beta-Alanine™. We also have a nonexclusive worldwide license to five certain United States patents and are currently involved in the research and development of products employing the licensed inventions.

Employees

As of June 30, 2008, from continuing operations we employed 202 full-time employees in the United States, five of whom held executive management positions. Of the remaining full-time employees, 36 were employed in research, laboratory and quality control, six in sales and marketing, and 155 in manufacturing and administration. From time to time we use temporary personnel to help us meet short-term operating requirements. These positions typically are in manufacturing and manufacturing support. As of June 30, 2008, we had 21 temporary personnel.

As of June 30, 2008, NAIE employed an additional 23 full-time employees. Most of these positions were in the areas of manufacturing and manufacturing support.

Our employees are not represented by a collective bargaining agreement and we have not experienced any work stoppages as a result of labor disputes. We believe our relationship with our employees is good.

Seasonality

Although we believe there is no material impact on our business or results of operations from seasonal factors, we have experienced and expect to continue to experience variations in quarterly net sales due to the timing of private label contract manufacturing orders.

Financial Information about Our Business Segments and Geographic Areas

Our operations are comprised of two reportable segments:

- Private label contract manufacturing, in which we primarily provide manufacturing services to companies that market and distribute nutritional supplements and other health care products; and

- Branded products, in which we market and distribute branded nutritional supplements through direct-to-consumer marketing programs, under which we develop, manufacture and market our own products and work with a nationally recognized physician to develop brand name products that reflect his individual approach to restoring, maintaining or improving health. These products are currently sold through print media and the internet.

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

For additional financial information, including financial information about our business segment and geographic areas, please see the consolidated financial statements and accompanying notes to the consolidated financial statements included under Item 8 of this report.

Our activities in markets outside the United States are subject to political, economic and other risks in the countries in which our products are sold and in which we operate. For more information about these and other risks, please see Items 1A and 7 in this report.

ITEM 1A. RISK FACTORS

You should carefully consider the risks described below, as well as the other information in this report, when evaluating our business and future prospects. If any of the following 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.

Because we derive a significant portion of our revenues from a limited number of customers, our revenues would be adversely affected by the loss of a major customer or a significant change in its business, personnel or the timing or amount of its orders.

We have in the past and expect to continue to derive a significant portion of our revenues from a relatively limited number of customers. During the fiscal year ended June 30, 2008, sales to one customer, NSA International, Inc., were approximately 49% of our total net sales from continuing operations. Our second largest customer was Mannatech, Incorporated, which accounted for approximately 34% of our net sales from continuing operations during fiscal 2008. The loss of one of these customers or other major customers, a significant decrease in sales or the growth rate of sales to these customers, or a significant change in their business or personnel, would materially affect our financial condition and results of operations. Furthermore, the timing of our customers' orders is impacted by their marketing programs, supply chain management, entry into new markets and new product introductions, all of which are outside of our control. All of these attributes have had and will have a significant impact on our business.

Our future growth and stability depends, in part, on our ability to diversify our sales. Our efforts to establish new products, brands, markets and customers could require significant initial investments, which may or may not result in higher sales and improved financial results.

Our business strategy depends in large part on our ability to develop new products, marketing strategies, brands and customer relationships. These activities often require a significant up-front investment including, among others, customized formulations, regulatory compliance, product registrations, package design, product testing, pilot production runs, marketing, brand development and the build up of initial inventory. We may experience significant delays from the time we increase our operating expenses and make investments in inventory until the time we generate net sales from new products or customers, and it is possible that we may never generate any revenue from new products or customers after incurring such expenditures. If we incur significant expenses and investments in inventory that we are not able to recover, and we are not able to compensate for those expenses, our operating results could be adversely affected.

We may, in the future, pursue acquisitions of other companies that, if not successful, could adversely affect our business, financial condition and results of operations.

In the future, we may pursue acquisitions of companies that we believe could complement or expand our business, augment our market coverage, provide us with important relationships or otherwise offer us growth opportunities. Acquisitions involve numerous risks, including:

- potential difficulties related to integrating the products, personnel and operations of the acquired company;

- failure to operate as a combined organization utilizing common information and communication systems, operating procedures, financial controls and human resources practices;
- diverting management's attention from the normal daily operations of the business;
- entering markets in which we have no or limited prior direct experience and where competitors in such markets have stronger market positions;
- potential loss of key employees of the acquired company;
- potential inability to achieve cost savings and other potential benefits expected from the acquisition;
- an uncertain sales and earnings stream from the acquired company; and
- potential impairment charges, which may be significant, against goodwill and purchased intangible assets acquired in the acquisition due to changes in conditions and circumstances that occur after the acquisition, many of which may be outside of our control.

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

We are required to assess the value of goodwill annually for potential impairment, which requires, among others, significant management judgment to forecast future operating results used in the determination. In the fourth quarter of fiscal 2007, we recorded a $7.0 million non-cash, goodwill impairment charge and may, in the future, be required to recognize additional impairment charges, which could be significant, against goodwill and purchased intangible assets due to changes in conditions and circumstances, many of which may be outside of our control.

Following the acquisition of RHL on December 5, 2005, we recorded approximately $7.5 million of goodwill. In the fourth quarter of fiscal 2007, we recorded a $7.0 million non-cash, goodwill impairment charge as a result of our annual testing of goodwill. There can be no assurance that an additional non-cash impairment charge will not be required. Any such additional charge could have a negative effect on our results of operations but would not impact our cash flows or cash position.

Our operating results will vary and there is no guarantee that we will earn a profit. Fluctuations in our operating results may adversely affect the share price of our common stock.

Our net sales and income from continuing operations declined during fiscal 2008 as compared to fiscal 2007 and there can be no assurance that our net sales will improve in the near term, or that we will earn a profit in any given year. We have experienced net losses in the past, including fiscal years 2008 and 2007, and may incur losses in the future. Our operating results will fluctuate from year to year and/or from quarter to quarter due to various factors including differences related to the timing of revenues and expenses for financial reporting purposes and other factors described in this report. At times, these fluctuations may be significant. We currently anticipate generating a net after-tax loss during the first quarter of fiscal 2009 related to severance and other business exit costs associated with discontinuing our RHL operations. Fluctuations in our operating results may adversely affect the share price of our common stock.

A significant or prolonged economic downturn could have a material adverse effect on our results of operations.

Our results of operations are affected by the level of business activity of our customers, which in turn is affected by the level of consumer demand for their products. A significant or prolonged economic downturn may adversely affect the disposable income of many consumers and may lower demand for the products we produce for our private label contract manufacturing customers, as well as our branded products. A decline in consumer demand and the level of business activity of our customers due to economic conditions could have a material adverse effect on our revenues and profit margins.

Because our direct-to-consumer sales rely on the marketability of key personalities, the inability of a key personality to perform his or her role or the existence of negative publicity surrounding a key personality may adversely affect our revenues.

For the fiscal year ended June 30, 2008, our direct-to-consumer products accounted for approximately 4% of our net sales from continuing operations. These products may be marketed with a key personality through a variety of distribution channels. The inability or failure of a key personality to fulfill his or her role, or the ineffectiveness of a key personality as a spokesperson for a product, a reduction in the exposure of a key personality due to the discontinuance of a marketing program or otherwise or negative publicity about a key personality may adversely affect the sales of our product associated with that personality and could affect the sale of other products. A decline in sales would negatively affect our results of operations and financial condition.

Our industry is highly competitive and we may be unable to compete effectively. Increased competition could adversely affect our financial condition.

The market for our products is highly competitive. Many of our competitors are substantially larger and have greater financial resources and broader name recognition than we do. Our larger competitors may be able to devote greater resources to research and development, marketing and other activities that could provide them with a competitive advantage. Our market has relatively low entry barriers and is highly sensitive to the introduction of new products that may rapidly capture a significant market share. Increased competition could result in price reductions, reduced gross profit margins or loss of market share, any of which could have a material adverse effect on our financial condition and results of operations. There can be no assurance that we will be able to compete in this intensely competitive environment.

We may not be able to raise additional capital or obtain additional financing if needed.

Our cash from operations may not be sufficient to meet our working capital needs and/or to implement our business strategies. Additionally, there can be no assurance that our existing line of credit will be sufficient to meet our working capital needs. Furthermore, if we fail to maintain certain loan covenants we may no longer have access to the credit line. During fiscal 2008 we have been in default of our quarterly net after-tax income covenant under our credit facility since the quarter ended December 31, 2007 and did not meet our annual after-tax net income covenant. While our lender agreed to waive its default rights resulting from these covenant violations there is no guarantee that the lender will continue to do so if we do not meet future covenant requirements. We anticipate a net after-tax loss during the first quarter of fiscal 2009 related to severance and other business exit costs associated with discontinuing our legacy RHL operations. As a result, we do not expect to meet our net after-tax income covenant as of September 30, 2008. To the extent we do fail to meet this covenant, we intend to request a waiver from our lender but there is no assurance when or if a waiver will be provided. The credit line terminates in November 2009. As a result, we may need to raise additional capital or obtain additional financing.

At any given time it may be difficult for companies to raise capital due to a variety of factors, some of which may be outside a company's control, including a tightening of credit markets, overall poor performance of stock markets, and/or an economic slowdown in the United States or other countries. Thus, there is no assurance we would be able to raise additional capital if needed. To the extent we do raise additional capital the ownership position of existing stockholders could be diluted. Similarly, there can be no assurance that additional financing will be available if needed or that it will be available on favorable terms. Under the terms of our credit facility, there are limits on our ability to create, incur or assume additional indebtedness without the approval of our lender.

Our inability to raise additional capital or to obtain additional financing if needed would negatively affect our ability to implement our business strategies and meet our goals. This, in turn, would adversely affect our financial condition and results of operations.

The failure of our suppliers to supply quality materials in sufficient quantities, at a favorable price, and in a timely fashion could adversely affect the results of our operations.

We buy our raw materials from a limited number of suppliers. During fiscal 2008, approximately 31% of our total raw material purchases were from two suppliers. The loss of any of our major suppliers or of a supplier that provides any hard to obtain materials could adversely affect our business operations. Although we believe that we could establish alternate sources for most of our raw materials, any delay in locating and establishing relationships with other sources could result in product shortages, with a resulting loss of sales and customers. In certain situations we may be required to alter our products or to substitute different materials from alternative sources.

We rely solely on one supplier to process certain raw materials that we use in the product line of our largest customer. The loss of or unexpected interruption in this service would materially adversely affect our results of operations and financial condition.

A shortage of raw materials or an unexpected interruption of supply could also result in higher prices for those materials. During fiscal 2008, we experienced increases in various product raw material costs, transportation costs and the cost of petroleum based raw materials and packaging supplies used in our business, which were associated with higher oil and fuel costs. We anticipate raw material and product cost pricing pressures will continue throughout fiscal 2009. Although we may be able to raise our prices in response to significant increases in the cost of raw materials, we may not be able to raise prices sufficiently or quickly enough to offset the negative effects of the cost increases on our results of operations.

There can be no assurance that suppliers will provide the quality raw materials needed by us in the quantities requested or at a price we are willing to pay. Because we do not control the actual production of these raw materials, we are also subject to delays caused by interruption in production of materials based on conditions outside of our control, including weather, transportation interruptions, strikes and natural disasters or other catastrophic events.

Our business is subject to the effects of adverse publicity, which could negatively affect our sales and revenues.

Our business can be affected by adverse publicity or negative public perception about our industry, our competitors, our customers, or our business generally. This adverse publicity may include publicity about the nutritional supplements industry generally, the efficacy, safety and quality of nutritional supplements and other health care products or ingredients in general or our products or ingredients specifically, and regulatory investigations, regardless of whether these investigations involve us or the business practices or products of our competitors, or our customers. During the second and third quarters of fiscal 2008 our Mannatech contract manufacturing sales were adversely impacted due to certain negative publicity and heightened litigation and regulatory activities that affected Mannatech's domestic recruiting efforts and corresponding consumer sales. Thus, there can be no assurance that we will be able to reestablish our prior sales levels with Mannatech, and there can be no assurance that we will be able to avoid any adverse publicity or negative public perception in the future. Any adverse publicity or negative public perception will likely have a material adverse effect on our business, financial condition and results of operations. Our business, financial condition and results of operations also could be adversely affected if any of our products or any similar products distributed by other companies are alleged to be or are proved to be harmful to consumers or to have unanticipated health consequences.

We could be exposed to product liability claims or other litigation, which may be costly and could materially adversely affect our operations.

We could face financial liability due to product liability claims if the use of our products results in significant loss or injury. Additionally, the manufacture and sale of our products involves the risk of injury to consumers from tampering by unauthorized third parties or product contamination. We could be exposed to future product liability claims that, among others: our products contain contaminants; we provide consumers with inadequate instructions about product use; or we provide inadequate warning about side effects or interactions of our products with other substances.

We maintain product liability insurance coverage, including primary product liability and excess liability coverage. The cost of this coverage has increased dramatically in recent years, while the availability of adequate insurance coverage has decreased. While we currently expect to be able to continue our product liability insurance, there can be no assurance that we will in fact be able to continue such insurance coverage, that our insurance will be adequate to cover any liability we may incur, or that our insurance will continue to be available at an economically reasonable cost.

Additionally, it is possible that one or more of our insurers could exclude from our coverage certain ingredients used in our products. In such event, we may have to stop using those ingredients or rely on indemnification or similar arrangements with our customers who wish to continue to include those ingredients in their products. A substantial increase in our product liability risk or the loss of customers or product lines could have a material adverse effect on our results of operations and financial condition.

If we or our private label contract manufacturing customers expand into additional markets outside the United States or our or their sales in markets outside the United States increase, our business would become increasingly subject to political, economic, regulatory and other risks in those markets, which could adversely affect our business.

Our future growth may depend, in part, on our ability and the ability of our private label contract manufacturing customers to expand into additional markets outside the United States or to improve sales in markets outside the United States. There can be no assurance that we or our customers will be able to expand in existing markets outside the United States, enter new markets on a timely basis, or that new markets outside the United States will be profitable. There are significant regulatory and legal barriers in markets outside the United States that must be overcome. We will be subject to the burden of complying with a wide variety of national and local laws, including multiple and possibly overlapping and conflicting laws. We also may experience difficulties adapting to new cultures, business customs and legal systems. Our sales and operations outside the United States are subject to political, economic and social uncertainties including, among others:

- changes and limits in import and export controls;
- increases in custom duties and tariffs;
- changes in government regulations and laws;
- coordination of geographically separated locations;
- absence in some jurisdictions of effective laws to protect our intellectual property rights;
- changes in currency exchange rates;
- economic and political instability; and
- currency transfer and other restrictions and regulations that may limit our ability to sell certain products or repatriate profits to the United States.

Any changes related to these and other factors could adversely affect our business, profitability and growth prospects. If we or our customers expand into additional markets outside the United States or improve sales in markets outside the United States, these and other risks associated with operations outside the United States are likely to increase.

Our products and manufacturing activities are subject to extensive government regulation, which could limit or prevent the sale of our products in some markets and could increase our costs.

The manufacturing, packaging, labeling, advertising, promotion, distribution, and sale of our products are subject to regulation by numerous national and local governmental agencies in the United States and in other countries. Failure to comply with governmental regulations may result in, among other things, injunctions, product withdrawals, recalls, product seizures, fines, and criminal prosecutions. Any action of this type by a governmental agency could materially adversely affect our ability to successfully market our products. In addition, if the governmental agency has reason to believe the law is being violated (for example, if it believes we do not possess adequate substantiation for product claims), it can initiate an enforcement action. Governmental agency enforcement could result in orders requiring, among other things, limits on advertising, consumer redress, divestiture of assets, rescission of contracts, and such other relief as may be deemed necessary. Violation of these orders could result in substantial financial or other penalties. Any action by the governmental agency could materially adversely affect our ability and our customers' ability to successfully market those products.

In markets outside the United States, before commencing operations or marketing our products, we may be required to obtain approvals, licenses, or certifications from a country's ministry of health or comparable agency. Approvals or licensing may be conditioned on reformulation of products or may be unavailable with respect to certain products or product ingredients. We must also comply with product labeling and packaging regulations that vary from country to country. Furthermore, the regulations of these countries may conflict with those in the United States and with each other. The sale of our products in certain European countries is subject to the rules and regulations of the European Union, which may be interpreted differently among the countries within the European Union. The cost of complying with these various and potentially conflicting regulations can be substantial and can adversely affect our results of operations.

We cannot predict the nature of any future laws, regulations, interpretations, or applications, nor can we determine what effect additional governmental regulations, when and if adopted, would have on our business. They could include requirements for the reformulation of certain products to meet new standards, the recall or discontinuance of certain products, additional record keeping, expanded or different labeling, and additional scientific substantiation. Any or all of these requirements could have a material adverse effect on our operations.

If we are unable to attract and retain qualified management personnel, our business will suffer.

Our executive officers and other management personnel are primarily responsible for our day-to-day operations. We believe our success depends largely on our ability to attract, maintain and motivate highly qualified management personnel. Competition for qualified individuals can be intense, and we may not be able to hire additional qualified personnel in a timely manner and on reasonable terms. Our inability to retain a skilled professional management team could adversely affect our ability to successfully execute our business strategies and achieve our goals.

Our manufacturing and third party fulfillment and call center activities are subject to certain risks.

We manufacture the vast majority of our products at our manufacturing facility in California. As a result, we are dependent on the uninterrupted and efficient operation of these facilities. Our manufacturing operations are subject to power failures, blackouts, the breakdown, failure or substandard performance of equipment, the improper installation or operation of equipment, natural or other disasters, and the need to comply with the requirements or directives of governmental agencies, including the FDA. In addition, we may in the future determine to expand or relocate our facilities, which may result in slow downs or delays in our operations. While we have implemented and are evaluating various emergency, contingency and disaster recovery plans and maintain business interruption insurance, there can be no assurance that the occurrence of these or any other operational problems at our facilities in California or at NAIE's facility in Switzerland would not have a material adverse effect on our business, financial condition and results of operations. Furthermore, there can be no assurance that our contingency plans will prove to be adequate or successful if needed or that our insurance will continue to be available at a reasonable cost or, if available, will be adequate to cover any losses that we may incur from an interruption in our manufacturing and distribution operations.

As a result of our decision to sell the legacy RHL business, we also initiated an operational consolidation program during the first quarter of fiscal 2009. This program included outsourcing our branded products fulfillment and call center activities. The operation of the third party service provider's facilities is subject to the interruption and similar risks described above for our facilities and there can be no assurance that these interruptions or any other operational problem at such third party's facilities would not have a material adverse effect on our business, financial condition and results of operations.

We may be unable to protect our intellectual property rights or may inadvertently infringe on the intellectual property rights of others.

We possess and may possess in the future certain proprietary technology, trade secrets, trademarks, tradenames, licenses and similar intellectual property. There can be no assurance that we will be able to protect our intellectual property adequately. In addition, the laws of certain foreign countries may not protect our intellectual property rights to the same extent as the laws of the United States. Litigation in the United States or abroad may be necessary to enforce our intellectual property rights, to determine the validity and scope of the proprietary rights of others or to defend against claims of infringement. This litigation, even if successful, could result in substantial costs and diversion of resources and could have a material adverse effect on our business, results of operation and financial condition. If any such claims are asserted against us, we may seek to obtain a license under the third party's intellectual property rights. There can be no assurance, however, that a license would be available on terms acceptable or favorable to us, if at all.

Collectively, our officers and directors own a significant amount of our common stock, giving them influence over corporate transactions and other matters and potentially limiting the influence of other stockholders on important policy and management issues.

Our officers and directors, together with their families and affiliates, beneficially owned approximately 23% of our outstanding shares of common stock as of June 30, 2008, including approximately 18% of our outstanding shares of common stock beneficially owned by Mark LeDoux, our Chief Executive Officer and the Chairman of the Board, and his family and affiliates. As a result, our officers and directors, and in particular Mr. LeDoux, could influence such business matters as the election of directors and approval of significant corporate transactions.

Various transactions could be delayed, deferred or prevented without the approval of stockholders, including:

- transactions resulting in a change in control;
- mergers and acquisitions;

- tender offers;
- election of directors; and
- proxy contests.

There can be no assurance that conflicts of interest will not arise with respect to the officers and directors who own shares of our common stock or that conflicts will be resolved in a manner favorable to us or our other stockholders.

If our information technology system fails, our operations could suffer.

Our business depends to a large extent on our information technology infrastructure to effectively manage and operate many of our key business functions, including order processing, customer service, product manufacturing and distribution, cash receipts and payments and financial reporting. A long term failure or impairment of any of our information technology systems could adversely affect our ability to conduct day-to-day business.

If certain provisions of our Certificate of Incorporation, Bylaws and Delaware law are triggered, the future price investors might be willing to pay for our common stock could be limited.

Certain provisions in our Certificate of Incorporation, Bylaws and Delaware corporate law help discourage unsolicited proposals to acquire our business, even if the proposal would benefit our stockholders. Our Board of Directors is authorized, without stockholder approval, to issue up to 500,000 shares of preferred stock having such rights, preferences, and privileges, including voting rights, as the Board of Directors designates. The rights of our common stockholders will be subject to, and may be adversely affected by, the rights of holders of any preferred stock that may be issued in the future. Any or all of these provisions could delay, deter or prevent a takeover of our company and could limit the price investors are willing to pay for our common stock.

Our stock price could fluctuate significantly.

Stock prices in general have been historically volatile and ours is no different. The trading price of our stock may fluctuate in response to:

- broad market fluctuations and general economic and/or political conditions;
- fluctuations in our financial results;
- relatively low trading volumes;
- future offerings of our common stock or other securities;
- the general condition of the nutritional supplement product industries;
- increased competition;
- regulatory action;
- adverse publicity;
- manipulative or illegal trading practices by third parties; and
- product and other public announcements.

The stock market has historically experienced significant price and volume fluctuations. There can be no assurance that an active market in our stock will continue to exist or that the price of our common stock will not decline. Our future operating results may be below the expectations of securities analysts and investors. If this were to occur, the price of our common stock would likely decline, perhaps substantially.

From time to time our shares may be listed for trading on one or more foreign exchanges, with or without our prior knowledge or consent. Certain foreign exchanges may have less stringent listing requirements, rules and enforcement procedures than the Nasdaq Global Market or other markets in the United States, which may increase the potential for manipulative trading practices to occur. These practices, or the perception by investors that such practices could occur, may increase the volatility of our stock price or result in a decline in our stock price, which in some cases could be significant.

ITEM 2. PROPERTIES

This table summarizes our facilities as of June 30, 2008. We believe our facilities are adequate to meet our operating requirements for the foreseeable future.

Location	Nature of Use	Square Feet	How Held	Lease Expiration Date
San Marcos, CA USA	NAI corporate headquarters	32,300	Owned/leased(5)	December 2008(5)
Vista, CA USA(1)	Manufacturing, warehousing, packaging and distribution(4)	162,000	Leased	March 2014
Manno, Switzerland(2)	Manufacturing, warehousing, packaging and distribution	46,000	Leased	December 2015
San Diego, CA USA(3)	RHL headquarters, warehousing, call center and fulfillment	16,000	Leased	May 2009

(1) This facility is used by NAI primarily for its private label contract manufacturing segment.

(2) This facility is used by NAIE, our wholly owned Swiss subsidiary, in connection with our private label contract manufacturing segment. NAIE sublets approximately 3,000 square feet to a third party.

(3) This facility is used primarily by legacy RHL, our wholly owned subsidiary, for our branded products segment. We expect to vacate the facility on or about September 30, 2008 and relocate our remaining branded products business to our San Marcos facility.

(4) We use approximately 93,000 square feet for production, 60,000 square feet for warehousing and 9,000 square feet for administrative functions.

(5) We own approximately 29,500 square feet and lease the remaining 2,800 square feet. We have an option for an additional one year term on the lease.

ITEM 3. LEGAL PROCEEDINGS

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

As of September 17, 2008, neither NAI nor its subsidiaries were a party to any material pending legal proceeding nor was any of their property the subject of any material pending legal proceeding.

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

We did not submit any matters to our stockholders for a vote during the fourth quarter ended June 30, 2008.

PART II

ITEM 5. MARKET FOR OUR COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Market Information

Our common stock trades on the Nasdaq Global Market under the symbol "NAII." Below are the high and low closing prices of our common stock as reported on the Nasdaq Global Market for each quarter of the fiscal years ended June 30, 2008 and 2007:

	Fiscal 2008		Fiscal 2007	
	High	Low	High	Low
First Quarter	$ 7.71	$ 5.81	$ 10.84	$ 7.77
Second Quarter	$ 8.68	$ 6.09	$ 9.25	$ 8.37
Third Quarter	$ 9.18	$ 8.41	$ 9.26	$ 7.90
Fourth Quarter	$ 9.00	$ 6.51	$ 8.22	$ 7.05

Holders

As of September 17, 2008, there were approximately 314 stockholders of record of our common stock.

Dividends

We have never paid a dividend on our common stock and we do not intend to pay a dividend in the foreseeable future. Our current policy is to retain all earnings to help provide funds for future growth. Additionally, under the terms of our credit facility, we are precluded from paying a dividend.

Recent Sales of Unregistered Securities

During the fiscal year ended June 30, 2008, we did not sell any unregistered securities.

Repurchases

During the fourth quarter of the fiscal year ended June 30, 2008, we did not repurchase any shares of our common stock, nor were any repurchases made on our behalf.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATION

The following discussion and analysis is intended to help you understand our financial condition and results of operations as of June 30, 2008 and 2007 and for each of the last two fiscal years then ended. You should read the following discussion and analysis together with our audited consolidated financial statements and the notes to the consolidated financial statements included under Item 8 in this report. 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. You should carefully review the risks described under Item 1A and elsewhere in this report, which identify certain important factors that could cause our future financial condition and results of operations to vary.

Executive Overview

The following overview does not address all of the matters covered in the other sections of this Item 7 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 7 and this report.

Our primary business activity is providing private label contract manufacturing services to companies that market and distribute vitamins, minerals, herbs and other nutritional supplements, as well as other health care products, to consumers both within and outside the United States. Historically, our revenue has been largely dependent on sales to one or two private label contract manufacturing customers and subject to variations in the timing of such customers' orders, which in turn is impacted by such customers' internal marketing programs, supply chain management, entry into new markets and new product introductions.

A cornerstone of our business strategy is to achieve long-term growth and profitability and to diversify our sales base. We have sought and expect to continue to seek to diversify our sales both by developing relationships with additional, quality-oriented, private label contract manufacturing customers and developing and growing our own line of branded products. To that end, during fiscal 2008, we established relationships with two new private label contract manufacturing customers.

Going forward, in an effort to enhance stockholder value, improve working capital and enable us to focus on our core contract manufacturing business, we have elected to narrow our branded products focus and portfolio. Specifically, on August 4, 2008, RHL sold certain assets related to its catalog and internet business conducted under the name "As We Change®" to Miles Kimball Company for a cash purchase price of $2,000,000. The purchase price was subject to certain post-closing adjustments based on a final accounting of the value of the assets sold to and the liabilities assumed by the buyer at the closing. As a result of the post-closing review, the purchase price was increased by $299,000, resulting in an aggregate purchase price of $2,299,000. We intend to market for sale legacy RHL's remaining business operations during fiscal 2009, with the exception of our Pathway to Healing® product line. As the plan to dispose of the legacy RHL business met the criteria of Statement of Financial Accounting Standards No. 144, *Accounting for the Disposal of Long-lived Assets* (SFAS 144), the current and prior periods presented in this report on Form 10K have been reclassified to reflect the legacy RHL business as discontinued operations.

As a result of the sale of RHL's "As We Change" business we expect to terminate approximately 30 employees that supported, either directly or indirectly, the "As We Change" business. These terminations are expected to be substantially completed by September 30, 2008. We estimate that we will incur approximately $200,000 to $275,000 in severance and related payroll costs as a result of this action.

As a result of our decision to sell the legacy RHL business, we also initiated an operational consolidation program during the first quarter of fiscal 2009 which will transition the remaining branded products business operations to our corporate offices. This operational consolidation program is anticipated to be substantially complete by September 30, 2008 and is expected to result in approximately $1.0 million to $1.2 million in severance and other business related exit costs.

During fiscal 2008, our net sales from continuing operations were 5.6% lower than in fiscal 2007. Private label contract manufacturing sales declined 3.6% due to lower volumes of existing products in existing markets sold to one of our largest customers. This decline was partially offset by an increase in sales to one of our other largest customers and sales to new customers. Net sales from our branded products declined 33.1% in fiscal 2008 as compared to fiscal 2007 due to the continued softening of our Pathway to Healing® product line.

The significant decline in our branded products sales during fiscal 2008 contributed to an increase in our revenue concentration as sales to our two largest private label contract manufacturing customers as a percentage of our total sales from continuing operations increased to 83% from 79% in fiscal 2007. We expect our contract manufacturing revenue concentration percentage for our two largest customers to decline during fiscal 2009 as sales to new customers increase over fiscal 2008 sales volumes.

During fiscal 2008, we invested substantial time and incurred substantial costs associated with hiring and training new quality assurance and other manufacturing support personnel, increased testing activity, and documentation and validation processes related to our GMPs compliance programs. These additional expenses negatively impacted our operating income from continuing operations during fiscal 2008. Although the cost of GMP compliance is significant, we believe our commitment to quality and our steadfast support of the FDA mandated GMPs makes us well positioned to operate within the higher standards of the FDA's GMPs and differentiates us from our competitors.

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

In the fourth quarter of fiscal 2007, we recorded a $7.0 million non-cash goodwill impairment charge in discontinued operations as a result of our annual testing of goodwill and other intangible assets as discussed in our Critical Accounting Policies below. Based on the required analysis performed as of the annual test date, no impairment loss was required for the fiscal year ended June 30, 2008.

During fiscal 2009, we plan to continue to focus on:

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

Critical Accounting Policies and Estimates

Our consolidated financial statements included under Item 8 in this report have been prepared in accordance with United States generally accepted accounting principles (GAAP). Our significant accounting policies are described in the notes to our consolidated financial statements. The preparation of financial statements in accordance with GAAP 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 include those listed below.

Goodwill and Intangible Asset Valuation

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

We are required to assess goodwill impairment annually using the methodology prescribed by Statement of Financial Accounting Standards No. 142, *Goodwill and Other Intangible Assets* (SFAS 142). SFAS 142 requires that goodwill be tested for impairment at the reporting unit level on an annual basis or more frequently if we believe indicators of impairment exist. Application of the goodwill impairment test requires judgment, including the identification of reporting units, assigning assets and liabilities to reporting units, assigning goodwill to reporting units and determining the fair value of each reporting unit. Goodwill impairment is determined using a two-step process. The first step of the goodwill impairment test is used to identify potential impairment by comparing the fair value of a reporting unit with the net book value (or carrying amount), including goodwill. If the fair value of the reporting unit exceeds the carrying amount, goodwill of the reporting unit is considered not impaired and the second step of the impairment test is unnecessary. If the carrying amount of the reporting unit exceeds the fair value, the second step of the goodwill impairment test is performed to measure the amount of impairment loss, if any. The second step of the goodwill impairment test compares the implied fair value of the reporting unit's goodwill with the carrying amount of that goodwill. If the carrying amount of the reporting unit's goodwill exceeds the implied fair value of that goodwill, an impairment loss is recognized in an amount equal to that excess. The implied fair value of goodwill is determined in the same manner as the amount of goodwill recognized in a business combination, accordingly the fair value of the reporting unit is allocated to all of the assets and liabilities of that unit as if the reporting unit had been acquired in a business combination and the fair value of the reporting unit was the purchase price paid to acquire the reporting unit. We have selected April 1 as the annual date to test for impairment.

In performing the first step of the fiscal 2007 goodwill impairment test, we determined there was an indicator of impairment in the branded products reporting unit because the carrying value of the reporting unit exceeded the estimated fair value. The excess of the carrying value over the estimated fair value of the branded products reporting unit was primarily due to the following developments that led to lower expected future cash flows:

- A decrease in sales from the Pathway to Healing® product line, the highest margin product line included in the branded products reporting unit;
- The lower volume of Pathway to Healing® product line sales decreased the anticipated cost savings from our integration of previously outsourced fulfillment and call center activities following the acquisition of RHL, which reduced our ability to invest in expanding and marketing our branded products;
- The additional time and investment required to expand the Real Health® Laboratories product line to additional FDM retail customers and introduce new products to existing FDM customers; and
- Investments were made in fiscal 2007 to the As We Change® catalog in an effort to increase the active customer base and sales.

In performing the second step of the goodwill impairment test, we allocated the estimated fair values of the branded products reporting unit determined in step one of the impairment test, to the assets and liabilities in accordance with SFAS No. 141, *Business Combinations* (SFAS 141). As a result our annual testing, in the fourth quarter of fiscal 2007, we recorded a $7.0 million non-cash goodwill impairment charge.

Determining the fair value of the reporting unit under the first step of the goodwill impairment test and determining the fair value of individual assets and liabilities of a reporting unit under the second step of the goodwill impairment test is judgmental in nature and often involves the use of significant estimates and assumptions. These estimates and assumptions could have a significant impact on whether or not an impairment charge is recognized and also the magnitude of any such charge. Estimates of fair value are primarily determined using discounted cash flows and market comparisons. These approaches use significant estimates and assumptions, including projection and timing of future cash flows, discount rates reflecting the risk inherent in future cash flows, perpetual growth rates, determination of appropriate market comparables, and determination of whether a premium or discount should be applied to comparables. It is reasonably possible that the plans and estimates used to value these assets may be incorrect. If our actual results, or the plans and estimates used in future impairment analyses, are lower than the original estimates used to assess the recoverability of these assets, we could incur additional impairment charges.

Based on the required analysis performed as of the annual test date, no impairment loss was required for the fiscal year ended June 30, 2008.

Impairment of Assets

In accordance with the provisions of Statement of Financial Accounting Standards No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*, our policy is to evaluate whether there has been a permanent impairment in the value of long-lived assets and certain identifiable intangibles when certain events have taken place that indicate the remaining unamortized balance may not be recoverable. When factors indicate that the intangible assets should be evaluated for possible impairment, we use an estimate of related undiscounted cash flows. Factors considered in the valuation include current operating results, trends and anticipated undiscounted future cash flows. There have been no impairment losses recorded as of and for the fiscal years ended June 30, 2008 and 2007.

Revenue Recognition

We recognize revenue in accordance with the SEC's Staff Accounting Bulletin No. 104, *Revenue Recognition in Financial Statements* (SAB 104), Statement of Financial Accounting Standards No. 48, *Revenue Recognition When Right of Return Exists* (SFAS 48), and Emerging Issues Task Force Abstract No. 01-09, *Accounting for Consideration Given by a Vendor to a Customer (Including a Reseller of the Vendor's Products)* (EITF 01-09). SAB 104 requires four basic criteria be met before revenue can be recognized: 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. SFAS 48 states that revenue from sales transactions where the buyer has the right to return the product shall be recognized at the time of sale only if (1) the seller's price to the buyer is substantially fixed or determinable at the date of sale; (2) the buyer has paid the seller, or the buyer is obligated to pay the seller and the obligation is not contingent on resale of the product; (3) the buyer's obligation to the seller would not be changed in the event of theft or physical destruction or damage of the product; (4) the buyer acquiring the product for resale has economic substance apart from that provided by the seller; (5) the seller does not have significant obligations for future performance to directly bring about resale of the product by the buyer; and (6) the amount of future returns can be reasonably estimated. 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 large product recall resulting from product nonconformance or other factors as such events are not predictable nor is the related economic impact estimable.

As part of the services we provide to our private label contract manufacturing customers, we may perform, but are not required to perform, certain research and development activities related to the development or improvement of their products. While our customers typically do not pay directly for this service, the cost of this service is included as a component of the price we charge to manufacture and deliver their products. These costs are recorded in selling, general and administrative expense.

Inventory Reserve

We operate primarily as a private label contract manufacturer that builds products based upon anticipated demand or following receipt of customer specific purchase orders. From time to time, we build inventory for private label contract manufacturing customers under a specific purchase order with delivery dates that may subsequently be rescheduled or canceled at the customer's request. We value inventory at the lower of cost or market on an item-by-item basis and establish reserves equal to all or a portion of the related inventory to reflect situations in which the cost of the inventory is not expected to be recovered. This requires us to make estimates regarding the market value of our inventory, including an assessment for excess and obsolete inventory. Once we establish an inventory reserve amount in a fiscal period, the reduced inventory value is maintained until the inventory is sold or otherwise disposed of. In evaluating whether inventory is stated at the lower of cost or market, management considers such factors as the amount of inventory on hand, the estimated time required to sell such inventory, the remaining shelf life and efficacy, the foreseeable demand within a specified time horizon and current and expected market conditions. Based on this evaluation, we record adjustments to cost of goods sold to adjust inventory to its net realizable value. These adjustments are estimates, which could vary significantly, either favorably or unfavorably, from actual requirements if future economic conditions, customer demand or other factors differ from expectations.

Accounting for Income Taxes

On July 1, 2007, we adopted the provisions of the Financial Accounting Standards Board (FASB) Interpretation No. 48, *Accounting for Uncertainty in Income Taxes – An Interpretation of FASB Statement No. 109* (FIN 48). FIN 48 prescribes detailed guidance for the financial statement recognition, measurement and disclosure of uncertain tax positions recognized in an enterprise's financial statements in accordance with FASB Statement No. 109, *Accounting for Income Taxes*. Tax positions must meet a more-likely-than-not recognition threshold at the effective date to be recognized upon the adoption of FIN 48 and in subsequent periods. Our practice is to recognize interest and/or penalties related to income tax matters in income tax expense. Upon adoption of FIN 48 on July 1, 2007, we did not record any interest or penalties.

As of June 30, 2008 and 2007, we had unrecognized tax liabilities of $47,000. The total amount of such unrecognized tax liabilities, if recognized, would not materially affect our effective tax rate.

We estimate income taxes in each of the jurisdictions in which we operate. This process involves estimating our actual current tax exposure, together with assessing temporary differences resulting from differing treatment of items, such as property and equipment depreciation, for tax and financial reporting purposes. Actual income taxes could vary from these estimates due to future changes in income tax law or results from final tax examination reviews.

We record valuation allowances to reduce our deferred tax assets to an amount that we believe is more likely than not to be realized. We consider estimated future taxable income and ongoing prudent and feasible tax planning strategies in assessing the need for a valuation allowance. If we determine we will not realize all or part of our deferred tax assets in the future, we will record an adjustment to the carrying value of the deferred tax asset, which would be reflected as income tax expense. Conversely, if we determine we will realize a deferred tax asset, which currently has a valuation allowance, we will reverse the valuation allowance, which would be reflected as income tax benefit.

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

We carefully review several factors that influence the ultimate disposition of NAIE's retained earnings declared as reinvested offshore, and apply stringent standards to overcome the presumption of repatriation. Despite this approach, because the determination involves our future plans and expectations of future events, the possibility exists that amounts declared as indefinitely reinvested offshore may ultimately be repatriated. For instance, NAI's actual cash needs may exceed our current expectations or NAIE's actual cash needs may be less than our current expectations. Additionally, changes may occur in tax laws and/or accounting standards that could change our determination of the status of NAIE's retained earnings. This would result in additional income tax expense in the fiscal year in which we determine that amounts are no longer indefinitely reinvested offshore.

On an interim basis, we estimate what our effective tax rate will be for the full fiscal year and record a quarterly income tax provision in accordance with the anticipated annual rate. As the fiscal year progresses, we refine our estimate based upon actual events and earnings by jurisdiction during the year. This continual estimation process periodically results in a change to our expected effective tax rate for the fiscal year. When this occurs, we adjust the income tax provision during the quarter in which the change in estimate occurs so that the year-to-date provision equals the expected annual rate.

We 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 at least annually, generally in the fourth quarter of each year, and adjustments are made as events occur that warrant adjustments to the reserve.

Derivative Financial Instruments

We use derivative financial instruments in the management of our foreign currency exchange risk inherent in our forecasted transactions denominated in Euros. We may hedge our foreign currency exposures by entering into offsetting forward exchange contracts and currency options. We account for derivative financial instruments using the deferral method under Financial Accounting Standard 133, *Accounting for Derivatives and Related Hedging Activity* (FAS 133), when such instruments are intended to hedge identifiable, firm foreign currency commitments or anticipated transactions and are designated as, and effective as, hedges. Foreign exchange exposures arising from certain transactions that do not meet the criteria for the deferral method are marked-to-market.

We recognize any unrealized gains and losses associated with derivative instruments in income in the period in which the underlying hedged transaction is realized. In the event the derivative instrument is deemed ineffective we would recognize the resulting gain or loss in income at that time. As of June 30, 2008, we had one option contract outstanding totaling 500,000 Euros.

Allowance for Doubtful Accounts

We maintain an allowance for doubtful accounts to reflect our estimate of current and past due receivable balances that may not be collected. The allowance for doubtful accounts is based upon our assessment of the collectibility of specific customer accounts, the aging of accounts receivable and our history of bad debts. We believe that the allowance for doubtful accounts is adequate to cover anticipated losses in the receivable balance under current conditions. However, significant deterioration in the financial condition of our customers, resulting in an impairment of their ability to make payments, could materially change these expectations and an additional allowance may be required.

Defined Benefit Pension Plan

We sponsor a defined benefit pension plan. Effective June 21, 1999, we adopted an amendment to freeze benefit accruals to the participants. The plan obligation and related assets of the plan are presented in the notes to the consolidated financial statements. Plan assets, which consist primarily of marketable equity and debt instruments, are valued based upon third party market quotations. Independent actuaries, through the use of a number of assumptions, determine plan obligation and annual pension expense. Key assumptions in measuring the plan obligation include the discount rate and estimated future return on plan assets. In determining the discount rate, we use an average long-term bond yield. Asset returns are based on the historical returns of multiple asset classes to develop a risk free rate of return and risk premiums for each asset class. The overall rate for each asset class was developed by combining a long-term inflation component, the risk free rate of return and the associated risk premium. A weighted average rate is developed based on the overall rates and the plan's asset allocation.

We have discussed the development and selection of these critical accounting policies with the Audit Committee of our Board of Directors and the Audit Committee has reviewed our disclosure relating to these policies.

Results of Operations

The following table sets forth selected consolidated operating results for each of the last two fiscal years, presented as a percentage of net sales (dollars in thousands).

	Fiscal Year Ended					
	June 30, 2008		June 30, 2007		Increase (Decrease)	
Private label contract manufacturing	$ 77,850	95%	$ 80,732	93%	$ (2,882)	(4)%
Branded products	3,905	5%	5,834	7%	(1,929)	(33)%
Total net sales	81,755	100%	86,566	100%	(4,811)	(6)%
Cost of goods sold	68,843	84%	70,844	82%	(2,001)	(3)%
Gross profit	12,912	16%	15,722	18%	(2,810)	(18)%
Selling, general & administrative expenses	11,838	14%	11,956	14%	(118)	(1)%
Operating income from continuing operations	1,074	1%	3,766	4%	(2,692)	(71)%
Other (income) expenses, net	(102)	(0)%	320	0%	(422)	(132)%
Income from continuing operations before income taxes	1,176	1%	3,446	4%	(2,270)	(66)%
Income tax expense	264	0%	739	1%	(475)	(64)%
Income from continuing operations	912	1%	2,707	3%	(1,795)	(66)%
Loss from discontinued operations, net of tax	(1,283)	(2)%	(7,992)	(9)%	6,709	(84)%
Net loss	$ (371)	(0)%	$ (5,285)	(6)%	$ 4,914	(93)%

Fiscal 2008 Compared to Fiscal 2007

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

	Percentage Change
NSA International, Inc. (NSA)	1(1)
Mannatech, Incorporated	(3)(2)
Other customers	(2)(3)
Total	(4)

1 International sales to NSA International, Inc. ("NSA") increased 33.8% during fiscal 2008 and were partially offset by a decline in domestic sales to NSA of 7.2%.

2 Net sales to Mannatech, Incorporated decreased primarily as a result of lower volumes of established products in existing markets along with a shift in sales mix to lower priced products.

3 A decrease in net sales to other customers was primarily due to the discontinuation of certain product lines and customer relationships.

Net sales from our branded products segment decreased 33% during the current fiscal year due primarily to the cessation of the Dr. Cherry weekly television program during April 2007, which has serviced as the primary acquisition vehicle in marketing the Pathway to Healing® product line.

Gross profit margin from continuing operations decreased 2.4 percentage points primarily due to the following:

	Percentage Change
Shift in sales mix	1.8
Changes in overhead expenses	(1.2)
Incremental direct and indirect labor	(3.9)
Branded products operations	0.9
Total	(2.4)

Private label contract manufacturing gross profit margin declined 1.7 percentage points to 13.7% in fiscal 2008 compared to 15.4% in fiscal 2007. The decrease in gross profit as a percentage of sales was primarily due to higher per unit private label manufacturing costs associated with lower production levels, increased product testing costs associated with new product offerings and system and process validation costs related to improving our existing processes and implementing newly required GMPs. Additionally, during fiscal 2008 we experienced a favorable sales mix shift to higher margin product sales as compared to the prior year and favorable currency exchange rates associated with our international sales.

Branded products gross profit margin increased 1.0 percentage points to 56.9% in fiscal 2008 from 55.9% in fiscal 2007 due to lower sales discounts and returns.

Selling, general and administrative expenses from continuing operations decreased $118,000, or 1%, primarily due to a $1.2 million decrease in direct-to-consumer operating costs primarily associated with lower marketing and advertising expenses, employee compensation costs and reduced call center and fulfillment expenses. These decreases were partially offset by increased consulting costs primarily related to our Sarbanes-Oxley compliance effort, increased private label contract manufacturing marketing expenses and increased research and development costs.

Other income, net increased $422,000 primarily due to a $315,000 reduction in interest expense associated with lower borrowings and interest rates during the current fiscal year and $219,000 in favorable foreign currency exchange gains due to the strengthening of the Euro and the related impact on the translation of Euro denominated cash and receivables. These amounts were partially offset by lower other income amounts in fiscal 2008 as compared to a $90,000 favorable legal settlement recorded in the prior year results.

Our effective tax rate from continuing operations for fiscal 2008 was 22.5% as compared to 21.5% in fiscal 2007. The increase in our effective rate was primarily attributed to a reduction in our tax contingency reserves in fiscal 2007 after the Internal Revenue Service completed an audit of our fiscal 2005 tax return in the fourth quarter of fiscal 2007 with no corresponding reduction in fiscal 2008.

Net Loss from Discontinued Operations

During the fourth quarter of fiscal 2008 we undertook a careful review of our branded products portfolio and operations. As a result of this review we decided, to narrow our branded product focus and portfolio, which we expect to significantly improve our overall profitability and allow us to better pursue our growth strategies. As a result, we developed and approved a plan to sell the legacy RHL business prior to the end of the current fiscal year.

More specifically, on August 4, 2008, RHL sold certain assets related to its catalog and internet business conducted under the name "As We Change ®" to Miles Kimball Company for a cash purchase price of $2,000,000. The purchase price was subject to certain post-closing adjustments based on a final accounting of the value of the assets sold to and the liabilities assumed by the buyer at the closing. As a result of the post-closing review, the purchase price was increased by $299,000, resulting in an aggregate purchase price of $2,299,000. We intend to market for sale legacy RHL's remaining business operations during fiscal 2009, with the exception of our Pathway to Healing® product line. As the plan to dispose of the legacy RHL business met the criteria of Statements of Financial Accounting Standards No. 144, *Accounting for the Disposal of Long-lived Assets* (SFAS 144), the current and prior periods presented in this report on Form 10K have been reclassified to reflect the legacy RHL business as discontinued operations.

As a result of the sale of RHL's "As We Change" business we expect to terminate approximately 30 employees that supported, either directly or indirectly, the "As We Change" business. These terminations are expected to be substantially completed by September 30, 2008. We estimate that we will incur approximately $200,000 to $275,000 in severance and related payroll costs as a result of this action.

As a result of our decision to sell the legacy RHL business, we also initiated an operational consolidation program during the first quarter of fiscal 2009 which will transition the remaining branded products business operations to our corporate offices. This operational consolidation program is anticipated to be substantially complete by September 30, 2008 and is expected to result in approximately $1.0 million to $1.2 million in severance and other business related exit costs.

For fiscal 2008, net loss from discontinued operations was $1.3 million, or $(0.18) net loss per basic share, and for fiscal 2007, net loss from discontinued operations was $8.0 million, or $(1.17) net loss per basic share.

Liquidity and Capital Resources

Our primary sources of liquidity and capital resources are cash flows provided by operating activities and the availability of borrowings under our credit facility. Net cash provided by operating activities was $2.7 million in fiscal 2008 compared to net cash provided by operating activities of $14.8 million in fiscal 2007.

At June 30, 2008, changes in accounts receivable, consisting primarily of amounts due from our private label contract manufacturing customers, used $1.5 million in cash during fiscal 2008 compared to $7.9 million of cash provided in the prior year. Cash used by accounts receivable in fiscal 2008 was due to the increase in shipments during the fourth quarter of 2008 as compared to the prior year and the timing of collections. Days sales outstanding from continuing operations was 25 days during fiscal 2008 compared to 38 days in fiscal 2007. This decrease in days sales outstanding was primarily due to timing of shipments.

At June 30, 2008, changes in inventory used $788,000 in cash during fiscal 2008 compared to $2.9 million of cash provided in fiscal 2007. The increase in inventory at June 30, 2008 was primarily related to early receipt of raw materials associated with new customer products scheduled for shipment in early fiscal 2009.

Approximately $1.1 million of our operating cash flow was generated by NAIE in fiscal 2008. In June 2005, we repatriated $2.0 million of NAIE retained earnings under the American Jobs Creation Act. As of June 30, 2008, NAIE's undistributed retained earnings are considered indefinitely reinvested.

Cash used in investing activities in fiscal 2008 was $1.4 million compared to $2.7 million in fiscal 2007. Capital expenditures were $1.4 million in fiscal 2008 compared to $2.4 million in fiscal 2007. Capital expenditures for both years were primarily for manufacturing equipment in our Vista, California and Manno, Switzerland facilities. Additionally, during fiscal 2007, we completed the expansion of our manufacturing facility in Manno, Switzerland to include powder filling capabilities.

Our consolidated debt decreased to $2.7 million at June 30, 2008 from $4.6 million at June 30, 2007 primarily due to net payments of $1.9 million to our term loan balances during fiscal 2008.

We have a bank credit facility of $10.2 million, comprised of a $7.5 million working capital line of credit and $2.7 million in outstanding term loans. The working capital line of credit is secured by our accounts receivable and other rights to payment, general intangibles, inventory and equipment, has an interest rate of Prime Rate or LIBOR plus 1.75%, as elected by NAI from time to time, and borrowings are subject to eligibility requirements for current accounts receivable and inventory balances. As of June 30, 2008 the outstanding balances on the term loans consisted of a $300,000 , 15 year term loan due June 2011, secured by our San Marcos building, at an interest rate of 8.25%; a $600,000, 10 year term loan with a twenty year amortization, secured by our San Marcos building, at an interest rate of LIBOR plus 2.25%; a $300,000, five year term loan, secured by equipment, at an interest rate of LIBOR plus 2.10%; and a $1.5 million, four year term loan, secured by equipment, at an interest rate of LIBOR plus 2.10%. Monthly payments on the term loans are approximately $153,000 plus interest. As of June 30, 2008 and June 30, 2007 our working capital line of credit balance was zero.

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

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

As of June 30, 2008, we were not in compliance with our quarterly net income and annual net income financial covenants under our credit facility, which require quarterly net income after taxes of at least $1.00 and annual fiscal year net income of at least $750,000. Our net loss was $168,000 for our fourth quarter of fiscal 2008 and $371,000 for fiscal 2008. Our lender has agreed to waive their default rights as a result of these covenant violations as of June 30, 2008. We anticipate a net after-tax loss during the first quarter of fiscal 2009 related to severance and other exit costs associated with discontinuing our RHL operations. As a result, we do not expect to meet our net after-tax income covenant as of September 30, 2008. If we fail to meet this covenant, we intend to request a waiver from our lender but there is no assurance when or if a waiver will be provided. Therefore, in accordance with Financial Accounting Standards Board (FASB) Statement No. 78, *Classification of Obligations that are Callable by the Creditor*, we have reclassified all of our long-term debt to current at June 30, 2008.

On September 22, 2006, NAIE, our wholly owned subsidiary, entered into a credit facility to provide it with a credit line of up to CHF 1,300,000, or approximately $1.3 million, which is the initial maximum aggregate amount that can be outstanding at any one time under the credit facility. This maximum amount was reduced by CHF 160,000, or approximately $157,000, as of December 31, 2007 and will be reduced by and additional CHF 160,000 at the end of each succeeding calendar year. On February 19, 2007, NAIE amended its credit facility to provide that the maximum aggregate amount that may be outstanding under the facility cannot be reduced below CHF 500,000, or approximately $491,000. As of June 30, 2008, there was no outstanding balance under the credit facility.

Under its credit facility, NAIE may draw amounts either as current account loan credits to its current or future bank accounts or as fixed loans with a maximum term of 24 months. Current account loans will bear interest at the rate of 5% per annum. Fixed loans will bear interest at a rate determined by the parties based on current market conditions and must be repaid pursuant to a repayment schedule established by the parties at the time of the loan. If a fixed loan is repaid early at NAIE's election or in connection with the termination of the credit facility, NAIE will be charged a pre-payment penalty equal to 0.1% of the principal amount of the fixed loan or CHF 1,000 (approximately $1,000), 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 June 30, 2008, we had $3.5 million in cash and cash equivalents and $7.5 million available under our line of credit. We believe our available cash, cash equivalents and potential cash flows from operations will be sufficient to fund our current working capital needs, capital expenditures and debt payments through at least the next 12 months.

Off-Balance Sheet Arrangements

As of June 30, 2008, we did not have any significant off-balance sheet debt nor did we have any transactions, arrangements, obligations (including contingent obligations) or other relationships with any unconsolidated entities or other persons that have or are reasonably likely to have a material current or future effect on our financial condition, changes in financial condition, results of operations, liquidity, capital expenditures, capital resources, or significant components of revenue or expenses material to investors.

Inflation

We do not believe that inflation or changing prices have had a material impact on our historical operations or profitability.

Recent Accounting Pronouncements

In September 2006, the FASB issued Statement of Financial Accounting Standards (SFAS) No. 157, *Fair Value Measurements* (SFAS 157). This standard provides guidance for using fair value to measure assets and liabilities and information about the extent to which companies measure assets and liabilities at fair value, the information used to measure fair value, and the effect of fair value measurements on earnings. This framework is intended to provide increased consistency in how fair value determinations are made under various existing accounting standards that permit, or in some cases require, estimates of fair market value. SFAS 157 also expands financial statement disclosure requirements about a company's use of fair value measurements, including the effect of such measures on earnings. The provisions of SFAS 157 are effective for financial statements issued for fiscal years beginning after November 15, 2007. We are in the process of determining the effects, if any, the adoption of SFAS 157 will have on our consolidated financial position or results of operations.

In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities—Including an Amendment of FASB Statements No. 115* (SFAS 159). SFAS 159 allows the irrevocable election of fair value as the initial and subsequent measurement attribute for certain financial assets and liabilities and other items on an instrument-by-instrument basis. Changes in fair value would be reflected in earnings as they occur. The objective of SFAS 159 is to improve financial reporting by providing entities with the opportunity to mitigate volatility in reported earnings caused by measuring related assets and liabilities differently without having to apply complex hedge accounting provisions. SFAS 159 is effective as of the beginning of the first fiscal year beginning after November 15, 2007. We are in the process of determining the effects, if any, the adoption of SFAS 159 will have on our consolidated financial position or results of operations.

In December 2007, the FASB revised SFAS No. 141, *Business Combinations* (SFAS 141), which establishes principles and requirements for how the acquirer in a business combination (i) recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed and any noncontrolling interest in the acquiree, (ii) recognizes and measures the goodwill acquired in the business combination or a gain from a bargain purchase, and (iii) determines what information to disclose to enable users of the financial statements to evaluate the nature and financial effects of the business combination. SFAS 141 (Revised 2007) is effective for fiscal years beginning on or after December 15, 2008 and early adoption and retrospective application is prohibited. We do not expect the adoption of this statement will have a material impact on our consolidated financial position or results of operations.

Also, in December 2007, the FASB issued SFAS No. 160, *Noncontrolling Interests in Consolidated Financial Statements: an Amendment to ARB No. 51* (SFAS 160). SFAS 160 establishes new accounting and reporting standards for the noncontrolling interest in a subsidiary and for the deconsolidation of a subsidiary. Specifically, it requires the recognition of a noncontrolling interest as equity in the consolidated financial statements, which will be separate from the parent's equity. SFAS 160 is effective for fiscal years and interim periods in those fiscal years beginning on or after December 15, 2008 and early adoption is prohibited. We do not expect the adoption of this statement will have a material impact on our consolidated financial position or results of operations.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders
Natural Alternatives International, Inc.

We have audited the accompanying consolidated balance sheets of Natural Alternatives International, Inc. as of June 30, 2008 and 2007, and the related consolidated statements of operations and comprehensive income (loss), stockholders' equity, and cash flows for each of the two years in the period ended June 30, 2008. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We were not engaged to perform an audit of the Company's internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Natural Alternatives International, Inc. at June 30, 2008 and 2007, and the consolidated results of its operations and its cash flows for each of the two years in the period ended June 30, 2008, in conformity with U.S. generally accepted accounting principles.

/s/ Ernst & Young LLP

San Diego, California
September 9, 2008

Natural Alternatives International, Inc.
Consolidated Balance Sheets
As of June 30
(Dollars in thousands, except share and per share data)

	2008	2007
Assets		
Current assets:		
Cash and cash equivalents	$ 3,518	$ 4,095
Accounts receivable - less allowance for doubtful accounts of $17 at June 30, 2008 and $15 at June 30, 2007	6,401	4,944
Inventories, net	14,135	13,346
Deferred income taxes	746	1,231
Income tax receivable	1,354	546
Prepaids and other current assets	1,223	964
Current assets of discontinued operations	6,379	2,758
Total current assets	33,756	27,884
Property and equipment, net	12,823	14,483
Deferred income taxes	271	—
Other noncurrent assets, net	160	169
Long-term assets of discontinued operations	—	4,844
Total assets	$ 47,010	$ 47,380
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	$ 7,245	$ 5,801
Accrued liabilities	1,048	1,104
Accrued compensation and employee benefits	1,332	1,238
Income taxes payable	409	270
Current portion of long-term debt	2,730	1,825
Current liabilities of discontinued operations	2,882	1,430
Total current liabilities	15,646	11,668
Long-term debt, less current portion	—	2,756
Deferred income taxes	—	223
Deferred rent	1,164	1,238
Long-term pension liability	198	76
Long-term liabilities of discontinued operations	—	1,397
Total liabilities	17,008	17,358
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 at June 30, 2008 and June 30, 2007, issued and outstanding 7,210,937 at June 30, 2008 and 7,001,230 at June 30, 2007	71	69
Additional paid-in capital	18,485	17,335
Accumulated other comprehensive loss	(261)	(184)
Retained earnings	12,806	13,177
Treasury stock, at cost, 180,941 shares at June 30, 2008 and 70,000 shares at June 30, 2007	(1,099)	(375)
Total stockholders' equity	30,002	30,022
Total liabilities and stockholders' equity	$ 47,010	$ 47,380

See accompanying notes to consolidated financial statements.

Natural Alternatives International, Inc.
Consolidated Statements Of Operations And Comprehensive Income (Loss)
For the Years Ended June 30
(Dollars in thousands, except share and per share data)

	2008	2007
Net sales	$ 81,755	$ 86,566
Cost of goods sold	68,843	70,844
Gross profit	12,912	15,722
Selling, general & administrative expenses	11,838	11,956
Operating income from continuing operations	1,074	3,766
Other income (expense):		
Interest income	20	11
Interest expense	(286)	(660)
Foreign exchange gain	296	77
Other, net	72	252
	102	(320)
Income from continuing operations before income taxes	1,176	3,446
Provision for income taxes	264	739
Income from continuing operations	912	2,707
Loss from discontinued operations, net of tax	(1,283)	(7,992)
Net loss	$ (371)	$ (5,285)
Unrealized gain resulting from change in fair value of derivative instruments, net of tax	39	54
Change in minimum pension liability, net of tax	(116)	38
Comprehensive loss	$ (448)	$ (5,193)
Net income (loss) per common share:		
Basic:		
Continuing operations	$ 0.13	$ 0.40
Discontinued operations	(0.18)	(1.17)
Net loss	$ (0.05)	$ (0.77)
Diluted:		
Continuing operations	$ 0.13	$ 0.37
Discontinued operations	(0.18)	(1.11)
Net loss	$ (0.05)	$ (0.74)
Weighted average common shares outstanding:		
Basic	6,982,852	6,836,018
Diluted	7,037,682	7,176,243

See accompanying notes to consolidated financial statements.

Natural Alternatives International, Inc.
Consolidated Statements Of Stockholders' Equity
For the Years Ended June 30
(Dollars in thousands)

	Common Stock Shares	Common Stock Amount	Additional Paid-in Capital	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Loss	Total
Balance, June 30, 2006	6,685,546	$ 67	$ 15,331	$ 18,462	$ (293)	$ (276)	$ 33,291
Issuance of common stock for employee stock purchase plan and stock option exercises	315,684	2	1,083	—	—	—	1,085
Compensation expense related to stock options and employee stock purchase plan	—	—	249	—	—	—	249
Repurchase of common stock	—	—	—	—	(82)	—	(82)
Tax benefit from exercise of stock options	—	—	672	—	—	—	672
Unrealized gain resulting from change in fair value of derivative instruments, net of tax	—	—	—	—	—	54	54
Change in minimum pension liability, net of tax	—	—	—	—	—	38	38
Net loss	—	—	—	(5,285)	—	—	(5,285)
Balance, June 30, 2007	7,001,230	69	17,335	13,177	(375)	(184)	30,022
Issuance of common stock for employee stock purchase plan and stock option exercises	209,707	2	531	—	—	—	533
Compensation expense related to stock options and employee stock purchase plan	—	—	425	—	—	—	425
Repurchase of common stock	—	—		—	(724)	—	(724)
Tax benefit from exercise of stock options	—	—	194	—	—	—	194
Unrealized gain resulting from change in fair value of derivative instruments, net of tax	—	—	—	—	—	39	39
Change in minimum pension liability, net of tax	—	—	—	—	—	(116)	(116)
Net loss	—	—	—	(371)	—	—	(371)
Balance, June 30, 2008	7,210,937	$ 71	$ 18,485	$ 12,806	$ (1,099)	$ (261)	$ 30,002

See accompanying notes to consolidated financial statements.

Natural Alternatives International, Inc.
Consolidated Statements Of Cash Flows
For the Years Ended June 30
(Dollars in thousands)

	2008	2007
Cash flows from operating activities		
Income before discontinued operations	$ 912	$ 2,707
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Provision (reduction) for uncollectible accounts receivable	2	(43)
Depreciation and amortization	2,960	3,104
Non-cash equipment impairment charge	74	201
Tax benefit from exercise of stock options	(194)	(672)
Deferred income taxes	66	(1,209)
Non-cash compensation	425	249
Pension benefit (expense), net of contributions	(72)	(78)
Loss on disposal of assets	—	(4)
Changes in operating assets and liabilities:		
Accounts receivable	(1,461)	7,912
Inventories	(788)	2,881
Other assets	(205)	64
Accounts payable and accrued liabilities	1,312	635
Income taxes payable	(475)	(1,029)
Accrued compensation and employee benefits	94	(580)
Net cash provided by operating activities from continuing operations	2,650	14,138
Net cash provided by operating activities from discontinued operations	38	677
Net cash provided by operating activities	2,688	14,815
Cash flows from investing activities		
Capital expenditures	(1,372)	(2,376)
Proceeds from sale of property & equipment	—	70
Net cash used by operating activities from continuing operations	(1,372)	(2,306)
Net cash used by operating activities from discontinued operations	(44)	(353)
Net cash used in investing activities	(1,416)	(2,659)
Cash flows from financing activities		
Payments on long-term debt	(1,852)	(1,781)
Net borrowings (payments) on line of credit	—	(9,574)
Issuance of common stock	533	1,085
Repurchase of common stock	(724)	(82)
Tax benefit from exercise of stock options	194	672
Net cash used in financing activities	(1,849)	(9,680)
Net increase (decrease) in cash and cash equivalents	(577)	2,476
Cash and cash equivalents at beginning of year	4,095	1,619
Cash and cash equivalents at end of year	$ 3,518	$ 4,095
Supplemental disclosures of cash flow information		
Cash paid during the year for:		
Taxes	$ 419	$ 698
Interest	$ 360	$ 668
Disclosure of non-cash activities:		
Net unrealized gains resulting from change in fair value of derivative instruments	$ 39	$ 54
Change in minimum pension liability, net of tax	$ 116	$ 38

See accompanying notes to consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

A. Organization and Summary of Significant Accounting Policies

Organization

We provide private label contract manufacturing services to companies that market and distribute vitamins, minerals, herbs, and other nutritional supplements, as well as other health care products, to consumers both within and outside the United States. We also develop, manufacture and market our own products.

Subsidiaries

On January 22, 1999, Natural Alternatives International Europe S.A. (NAIE) was formed as our wholly owned subsidiary, based in Manno, Switzerland. In September 1999, NAIE opened its manufacturing facility to provide manufacturing capability in encapsulation and tablets, finished goods packaging, quality control laboratory testing, warehousing, distribution and administration.

On December 5, 2005, we acquired Real Health Laboratories, Inc. (RHL), which primarily markets branded nutritional supplements and other lifestyle products. RHL's operations include in-house creative, catalog design, supply chain management and call center and fulfillment activities. During the fourth quarter of fiscal 2008 we undertook a careful review of our branded products portfolio and operations. As a result of this review, we decided to narrow our branded products focus and portfolio. As such the current and prior periods presented in this report have been reclassified to reflect the originally acquired RHL operations as discontinued operations, pursuant to Statements of Financial Accounting Standards No. 144, *Accounting for the Disposal of Long-lived Assets* (SFAS 144).

Principles of Consolidation

The consolidated financial statements include the accounts of Natural Alternatives International, Inc. (NAI) and our wholly owned subsidiary, NAIE. All significant intercompany accounts and transactions have been eliminated. The functional currency of NAIE, our foreign subsidiary, is the United States dollar. The financial statements of NAIE have been translated at either current or historical exchange rates, as appropriate, with gains and losses included in the consolidated statements of operations.

Recent Accounting Pronouncements

In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurements* (SFAS 157). This new standard provides guidance for using fair value to measure assets and liabilities and information about the extent to which companies measure assets and liabilities at fair value, the information used to measure fair value, and the effect of fair value measurements on earnings. This framework is intended to provide increased consistency in how fair value determinations are made under various existing accounting standards that permit, or in some cases require, estimates of fair market value. SFAS 157 also expands financial statement disclosure requirements about a company's use of fair value measurements, including the effect of such measures on earnings. The provisions of SFAS 157 are effective for financial statements issued for fiscal years beginning after November 15, 2007. We are in the process of determining the effects, if any, the adoption of SFAS 157 will have on our consolidated financial position or results of operations.

In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities—Including an Amendment of FASB Statements No. 115* (SFAS 159). SFAS 159 allows the irrevocable election of fair value as the initial and subsequent measurement attribute for certain financial assets and liabilities and other items on an instrument-by-instrument basis. Changes in fair value would be reflected in earnings as they occur. The objective of SFAS 159 is to improve financial reporting by providing entities with the opportunity to mitigate volatility in reported earnings caused by measuring related assets and liabilities differently without having to apply complex hedge accounting provisions. SFAS 159 is effective as of the beginning of the first fiscal year beginning after November 15, 2007. We are in the process of determining the effects, if any, the adoption of SFAS 159 will have on our consolidated financial position or results of operations.

In December 2007, the FASB revised SFAS No. 141, *Business Combinations* (SFAS 141), which establishes principles and requirements for how the acquirer in a business combination (i) recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed and any noncontrolling interest in the acquiree, (ii) recognizes and measures the goodwill acquired in the business combination or a gain from a bargain purchase, and (iii) determines what information to disclose to enable users of the financial statements to evaluate the nature and financial effects of the business combination. SFAS 141 (Revised 2007) is effective for fiscal years beginning on or after December 15, 2008 and early adoption and retrospective application is prohibited. We do not expect the adoption of this statement will have a material impact on our consolidated financial position or results of operations.

Also, in December 2007, the FASB issued SFAS No. 160, *Noncontrolling Interests in Consolidated Financial Statements: an Amendment to ARB No. 51* (SFAS 160). SFAS 160 establishes new accounting and reporting standards for the noncontrolling interest in a subsidiary and for the deconsolidation of a subsidiary. Specifically, it requires the recognition of a noncontrolling interest as equity in the consolidated financial statements, which will be separate from the parent's equity. SFAS 160 is effective for fiscal years and interim periods in those fiscal years beginning on or after December 15, 2008 and early adoption is prohibited. We do not expect the adoption of this statement will have a material impact on our consolidated financial position or results of operations.

Cash and Cash Equivalents

We consider all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

Accounts Receivable

We perform ongoing credit evaluations of our customers and adjust credit limits based on payment history and customer credit-worthiness. An allowance for estimated doubtful accounts is maintained based on historical experience and customer credit issues identified. We monitor collections regularly and adjust the allowance for doubtful accounts as necessary to recognize any changes in credit exposure. Upon conclusion that a receivable is uncollectible, we record the respective amount as a charge against allowance for doubtful accounts.

Inventories

Our inventories are recorded at the lower of cost (first-in, first-out) or market (net realizable value). Such costs include raw materials, labor and manufacturing overhead.

Property and Equipment

We state property and equipment at cost. Depreciation of property and equipment is provided using the straight-line method over their estimated useful lives, generally ranging from 1 to 39 years. We amortize leasehold improvements using the straight-line method over the shorter of the life of the improvement or the term of the lease. Maintenance and repairs are expensed as incurred. Significant expenditures that increase economic useful lives are capitalized.

Impairment of Long-Lived Assets

SFAS 144 addresses financial accounting and reporting for the impairment of long-lived assets (excluding goodwill) and for long-lived assets to be disposed of. However, SFAS 144 retains the fundamental provisions of Statement of Financial Accounting Standards No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of" for recognition and measurement of the impairment of long-lived assets to be held and used.

Long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets. We report assets to be disposed of at the lower of the carrying amount or fair value less costs to sell.

Goodwill and Other Intangible Assets

Under SFAS 142, goodwill and other intangible assets with indefinite useful lives are not amortized, but are reviewed annually for impairment or more frequently if impairment indicators arise. Separable intangible assets that have finite lives are amortized over their useful lives. Under SFAS 142, goodwill and other intangible assets with indefinite useful lives resulting from acquisitions are not amortized.

Derivative Financial Instruments

We use derivative financial instruments in the management of our foreign currency exchange risk inherent in our forecasted transactions denominated in Euros. We may hedge our foreign currency exposures by entering into offsetting forward exchange contracts and currency options. We account for derivative financial instruments using the deferral method under Statement of Financial Accounting Standards No. 133, *Accounting for Derivatives and Related Hedging Activity* (SFAS 133), when such instruments are intended to hedge identifiable, firm foreign currency commitments or anticipated transactions and are designated as, and effective as, hedges. Foreign exchange exposures arising from certain transactions that do not meet the criteria for the deferral method are marked-to-market.

We recognize any unrealized gains and losses associated with derivative instruments in income in the period in which the underlying hedged transaction is realized. In the event the derivative instrument is deemed ineffective we would recognize the resulting gain or loss in income at that time. As of June 30, 2008, we had one option contract outstanding totaling 500,000 Euros.

Revenue Recognition

We recognize revenue in accordance with the SEC's Staff Accounting Bulletin No. 104, *Revenue Recognition in Financial Statements* (SAB104), Statement of Financial Accounting Standards No. 48, *Revenue Recognition When Right of Return Exists* (SFAS 48) and Emerging Issues Task Force Abstract (EITF) No. 01-09, *Accounting for Consideration Given by a Vendor to a Customer (Including a Reseller of the Vendor's Products)* (EITF 01-09). SAB 104 requires that four basic criteria be met before revenue can be recognized: 1) there is evidence that an arrangement exists; 2) delivery has occurred; 3) the fee is fixed or determinable; and 4) collectibility is reasonably assured. SFAS 48 states that revenue from sales transactions where the buyer has the right to return the product shall be recognized at the time of sale only if (1) the seller's price to the buyer is substantially fixed or determinable at the date of sale; (2) the buyer has paid the seller, or the buyer is obligated to pay the seller and the obligation is not contingent on resale of the product; (3) the buyer's obligation to the seller would not be changed in the event of theft or physical destruction or damage of the product; (4) the buyer acquiring the product for resale has economic substance apart from that provided by the seller; (5) the seller does not have significant obligations for future performance to directly bring about resale of the product by the buyer; and (6) the amount of future returns can be reasonably estimated. 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 large product recall resulting from product nonconformance or other factors as such events are not predictable nor is the related economic impact estimable.

Cost of Goods Sold

Cost of goods sold includes raw material, labor and manufacturing overhead.

Shipping and Handling Costs

In accordance with EITF No. 00-10, *Accounting for Shipping and Handling Fees and Costs*, we include fees earned on the shipment of our products to customers in sales and include costs incurred on the shipment of product to customers in costs of goods sold.

Research and Development Costs

As part of the services we provide to our private label contract manufacturing customers, we may perform, but are not obligated to perform, certain research and development activities related to the development or improvement of their products. While our customers typically do not pay directly for this service, the cost of this service is included as a component of the price we charge to manufacture and deliver their products.

Research and development costs are expensed when incurred. Our research and development expenses for the last two fiscal years ended June 30 were $2.0 million for 2008 and $1.9 million for 2007. These costs are included in selling, general and administrative expenses.

Advertising Costs

We expense the production costs of advertising the first time the advertising takes place. We incurred and expensed advertising costs in continuing operations in the amount of $290,000 during the fiscal year ended June 30, 2008 and $805,000 during fiscal 2007. These costs were included in selling, general and administrative expenses in the accompanying statements of operations.

Income Taxes

We account for income taxes using the asset and liability method. Under this method, deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carryforwards. 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 operations in the period that includes the enactment date.

On July 1, 2007 we adopted the provisions of the Financial Accounting Standards Board (FASB) Interpretation No. 48, *Accounting for Uncertainty in Income Taxes – An Interpretation of FASB Statement No. 109* (FIN 48). FIN 48 prescribes detailed guidance for the financial statement recognition, measurement and disclosure of uncertain tax positions recognized in an enterprise's financial statements in accordance with FASB Statement No. 109, *Accounting for Income Taxes*. Tax positions must meet a more-likely-than-not recognition threshold at the effective date to be recognized upon the adoption of FIN 48 and in subsequent periods. Our practice is to recognize interest and/or penalties related to income tax matters in income tax expense. Upon adoption of FIN 48 on July 1, 2007, we did not record any interest or penalties.

As of June 30, 2008 and 2007, we had unrecognized tax liabilities of $47,000. The total amount of such unrecognized tax liabilities, if recognized, would not materially affect our effective tax rate.

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 upon 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 at least annually, generally in the fourth quarter of each year, and adjustments are made as events occur that warrant adjustments to the reserve.

Stock-Based Compensation

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

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

We estimated the fair value of the stock option awards at the date of grant and employee stock purchase plan shares at the beginning of the offering period using the Black-Scholes option valuation model. The Black-Scholes option valuation model was developed for use in estimating the fair value of traded options that have no vesting restrictions and are fully transferable. Option valuation models require the input of highly subjective assumptions. Black-Scholes uses assumptions related to volatility, the risk-free interest rate, the dividend yield (which is assumed to be zero, as we have not paid any cash dividends) and employee exercise behavior. Expected volatilities used in the model are based mainly on the historical volatility of our stock price and other factors. 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 the fiscal 2008 grants is derived from historical experience.

The per share fair value of options granted in connection with stock option plans and rights granted in connection with the employee stock purchase plan reported below has been estimated at the date of grant or beginning of the offering period, as applicable, with the following weighted average assumptions:

	Employee Stock Options Fiscal Years Ended June 30,		Employee Stock Purchase Plans Fiscal Years Ended June 30,	
	2008	2007	2008	2007
Expected life (years)	4.0	4.0 – 5.0	0.5	0.5
Risk-free interest rate	2.8 – 4.37%	4.4 – 4.9%	3.3 – 4.9%	4.8%
Volatility	39%	40%	31%	33%
Dividend yield	0%	0%	0%	0%
Weighted average fair value	$ 2.60	$ 2.75	$ 0.68	$ 0.75

For purposes of these disclosures, we have amortized the estimated fair value of our stock option awards to expense over the options' vesting periods and of our employee stock purchase plan shares to expense over the offering period.

The aggregate intrinsic value of awards outstanding as of June 30, 2008 was $1.2 million. The aggregate intrinsic value of awards exercisable as of June 30, 2008 was $1.1 million. In addition, the aggregate intrinsic value of awards exercised was $923,000 during fiscal 2008 and $1.6 million during fiscal 2007. The total remaining unrecognized compensation cost related to unvested awards amounted to $853,000 at June 30, 2008 and is expected to be recognized over the next 2.8 years. The weighted average remaining requisite service period of the unvested awards was 1.7 years. The total fair value of shares vested during the fiscal year ended June 30, 2008 was $332,000. The total fair value of shares vested during the fiscal year ended June 30, 2007 was $131,000.

Fair Value of Financial Instruments

The carrying amounts of certain of our financial instruments, including cash and cash equivalents, accounts receivable, notes receivable, accounts payable, line of credit and notes payable approximate fair value due to the relatively short maturity of such instruments. The carrying amounts for long-term debt approximate fair value as the interest rates and terms are comparable to rates and terms that could be obtained currently for similar instruments.

Use of Estimates

Our management has made a number of estimates and assumptions relating to the reporting of assets and liabilities, revenue and expenses, and the disclosure of contingent assets and liabilities to prepare these consolidated financial statements in conformity with United States generally accepted accounting principles. Actual results could differ from those estimates.

Net Income per Common Share

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

	For the Years Ended June 30,	
	2008	2007
Numerator		
Net income (loss)	$ (371)	$ (5,285)
Denominator		
Basic weighted average common shares outstanding	6,983	6,836
Dilutive effect of stock options	55	340
Diluted weighted average common shares outstanding	7,038	7,176
Basic net income (loss) per common share	$ (0.05)	$ (0.77)
Diluted net income (loss) per common share	$ (0.05)	$ (0.74)

Shares related to stock options of 708,000 for the fiscal year ended June 30, 2008 and 240,000 for fiscal 2007, were excluded from the calculation of diluted net income (loss) per common share, as the effect of their inclusion would be anti-dilutive.

Concentrations of Credit Risk

Financial instruments that subject us to concentrations of credit risk consist primarily of cash and cash equivalents and accounts receivable. We place our cash and cash equivalents with highly rated financial institutions. Credit risk with respect to receivables is concentrated with our two largest customers, whose receivable balances collectively represented 84% of gross accounts receivable at June 30, 2008 and 64% at June 30, 2007. Concentrations of credit risk related to the remaining accounts receivable balances are limited due to the number of customers comprising our remaining customer base.

B. Discontinued Operations

During the fourth quarter of fiscal 2008 we undertook a careful review of our branded products portfolio and operations. As a result of this review we decided, to narrow our branded product focus and portfolio, which we expect to significantly improve our overall profitability and allow us to better pursue our growth strategies. As a result, we developed and approved a plan to sell the legacy RHL business prior to the end of the current fiscal year.

More specifically, on August 4, 2008, RHL sold certain assets related to its catalog and internet business conducted under the name “As We Change ®” to Miles Kimball Company for a cash purchase price of $2,000,000. The purchase price was subject to certain post-closing adjustments based on a final accounting of the value of the assets sold to and the liabilities assumed by the buyer at the closing. As a result of the post-closing review, the purchase price was increased by $299,000, resulting in an aggregate purchase price of $2,299,000. We intend to market for sale legacy RHL’s remaining business operations during fiscal 2009, with the exception of our Pathway to Healing® product line. As the plan to dispose of the legacy RHL business met the criteria of Statements of Financial Accounting Standards No. 144, *Accounting for the Disposal of Long-lived Assets* (SFAS 144), the current and prior periods presented in this report on Form 10K have been reclassified to reflect the legacy RHL business as discontinued operations.

As a result of the sale of RHL’s “As We Change” business we expect to terminate approximately 30 employees that supported, either directly or indirectly, the “As We Change” business. These terminations are expected to be substantially completed by September 30, 2008. We estimate that we will incur approximately $200,000 to $275,000 in severance and related payroll costs as a result of this action.

As a result of our decision to sell the legacy RHL business, we also initiated an operational consolidation program during the first quarter of fiscal 2009 which will transition the remaining branded products business operations to our corporate offices. This operational consolidation program is anticipated to be substantially complete by September 30, 2008 and is expected to result in approximately $1.0 million to $1.2 million in severance and other business related exit costs.

The following table summarizes the results of the legacy RHL business at June 30 (dollars in thousands):

	2008	2007
Net sales	$ 11,276	$ 10,562
Cost of goods sold and operating expenses	13,119	12,010
Intangible impairment charges	—	7,037
Other expense	63	127
Loss before income taxes	(1,906)	(8,612)
Income tax benefit	(623)	(620)
Loss from discontinued operations	$ (1,283)	$ (7,992)

Assets and liabilities of the legacy RHL business included in the Consolidated Balance Sheets are summarized as follows at June 30 (dollars in thousands):

	2008	2007
Assets		
Cash	$ 575	$ 780
Accounts receivable, net	349	320
Inventory, net	805	753
Other current assets	204	694
Deferred income tax asset	80	211
Plant and equipment, net	351	576
Goodwill and intangible assets	4,015	4,268
Total assets	$ 6,379	$ 7,602
Liabilities		
Accounts payable	$ 678	$ 529
Accrued liabilities	1,046	901
Deferred income tax liability	1,158	1,397
Total liabilities	2,882	2,827
Net assets of discontinued operations	$ 3,497	$ 4,775

C. Inventories

Inventories, net consisted of the following at June 30 (dollars in thousands):

	2008	2007
Raw materials	$ 10,428	$ 8,501
Work in progress	2,517	3,391
Finished goods	1,997	3,280
Reserve	(807)	(1,826)
	$ 14,135	$ 13,346

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D. Property and Equipment

Property and equipment consisted of the following at June 30 (dollars in thousands):

	Depreciable Life In Years	2008	2007
Land	NA	$ 393	$ 393
Building and building improvements	7 – 39	2,723	2,726
Machinery and equipment	3 – 12	19,963	19,470
Office equipment and furniture	3 – 5	3,774	3,604
Vehicles	3	204	204
Leasehold improvements	1 – 15	10,283	10,220
Total property and equipment		37,340	36,617
Less: accumulated depreciation and amortization		(24,517)	(22,134)
Property and equipment, net		$ 12,823	$ 14,483

E. Goodwill and Purchased Intangibles

All previously reported goodwill and intangibles balances were related to our legacy RHL business and have been reclassified as discontinued operations in accordance with SFAS 144.

F. Debt

We have a bank credit facility of $10.2 million, comprised of a $7.5 million working capital line of credit and $2.7 million in outstanding term loans. The working capital line of credit is secured by our accounts receivable and other rights to payment, general intangibles, inventory and equipment, has an interest rate of Prime Rate or LIBOR plus 1.75%, as elected by NAI from time to time, and borrowings are subject to eligibility requirements for current accounts receivable and inventory balances. As of June 30, 2008 the outstanding balances on the term loans consisted of a $300,000 , 15 year term loan due June 2011, secured by our San Marcos building, at an interest rate of 8.25%; a $600,000, 10 year term loan with a twenty year amortization, secured by our San Marcos building, at an interest rate of LIBOR plus 2.25%; a $300,000, five year term loan, secured by equipment, at an interest rate of LIBOR plus 2.10%; and a $1.5 million, four year term loan, secured by equipment, at an interest rate of LIBOR plus 2.10%. As of June 30, 2008, we did not have an outstanding balance on the working capital line of credit. Monthly payments on the term loans are approximately $153,000 plus interest.

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

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

As of June 30, 2008, we were not in compliance with our quarterly net income and annual net income financial covenants under our credit facility, which require quarterly net income after taxes of at least $1.00 and annual fiscal year net income of at least $750,000. Our net loss was $168,000 for our fourth quarter of fiscal 2008 and $371,000 for fiscal 2008. Our lender has agreed to waive their default rights as a result of these covenant violations as of June 30, 2008. We anticipate a net after-tax loss during the first quarter of fiscal 2009 related to severance and other exit costs associated with discontinuing our RHL operations. As a result, we do not expect to meet our net after-tax income covenant as of September 30, 2008. If we fail to meet this covenant, we intend to request a waiver from our lender but there is no assurance when or if a waiver will be provided. Therefore, in accordance with Financial Accounting Standards Board (FASB) Statement No. 78, *Classification of Obligations that are Callable by the Creditor*, we have reclassified all of our long-term debt to current at June 30, 2008.

On September 22, 2006, NAIE, our wholly owned subsidiary, entered into a credit facility to provide it with a credit line of up to CHF 1,300,000, or approximately $1.3 million, which is the initial maximum aggregate amount that can be outstanding at any one time under the credit facility. This maximum amount was reduced by CHF 160,000, or approximately $157,000, as of December 31, 2007 and will be reduced by and additional CHF 160,000 at the end of each succeeding calendar year. On February 19, 2007, NAIE amended its credit facility to provide that the maximum aggregate amount that may be outstanding under the facility cannot be reduced below CHF 500,000, or approximately $491,000. As of June 30, 2008, there was no outstanding balance under the credit facility.

Under its credit facility, NAIE may draw amounts either as current account loan credits to its current or future bank accounts or as fixed loans with a maximum term of 24 months. Current account loans will bear interest at the rate of 5% per annum. Fixed loans will bear interest at a rate determined by the parties based on current market conditions and must be repaid pursuant to a repayment schedule established by the parties at the time of the loan. If a fixed loan is repaid early at NAIE's election or in connection with the termination of the credit facility, NAIE will be charged a pre-payment penalty equal to 0.1% of the principal amount of the fixed loan or CHF 1,000 (approximately $1,000), 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.

The composite interest rate on all of our outstanding debt was 7.44% at June 30, 2008 and 7.84% at June 30, 2007.

As we do not expect to meet our net after-tax net income covenant as of September 30, 2008, all of our debt amounts have been classified as current liabilities in our consolidated balance sheet as of June 30, 2008. However, the aggregate amounts of long-term debt contractual maturities as of June 30, 2008 were as follows (dollars in thousands):

2009	$1,455
2010	679
2011	146
2012	35
2013	35
Thereafter	380
	$2,730

G. Income Taxes

The provision (benefit) for income taxes for the years ended June 30 consisted of the following (dollars in thousands):

	2008	2007
Current:		
Federal	$ (293)	$ (65)
State	2	(54)
Foreign	295	96
	4	(23)
Deferred:		
Federal	99	165
State	(33)	88
	66	253
Stock option benefit recorded to additional paid in capital	194	509
Provision for income taxes	$ 264	$ 739

Net deferred tax assets and deferred tax liabilities as of June 30 were as follows (dollars in thousands):

	2008	2007
Deferred tax assets:		
Allowance for doubtful accounts	$ 3	$ 4
Accrued vacation expense	184	183
Tax credit carryforward	3	—
Allowance for inventories	292	686
Other, net	386	244
Deferred rent	283	344
Net operating loss carryforward	46	—
Total gross deferred tax assets	$ 1,197	$ 1,461
Deferred tax liabilities:		
Accumulated depreciation and amortization	(180)	(453)
Deferred tax liabilities	(180)	(453)
Net deferred tax assets (liabilities)	$ 1,017	$ 1,008

At June 30, 2008, we had state tax net operating loss carryforwards of approximately $788,000. The state tax loss carryforwards will begin to expire in 2018, unless previously utilized.

During the fourth quarter of fiscal 2007, we reduced our tax contingency reserves by $422,000 after the Internal Revenue Service completed an audit of our fiscal 2005 tax return.

NAIE's effective tax rate for Swiss federal, cantonal and communal taxes is approximately 20%. NAIE had net income of $1,181,000 for the fiscal year ended June 30, 2008. Undistributed earnings of NAIE amounted to approximately $5.6 million at June 30, 2007. These earnings are considered to be indefinitely reinvested and, accordingly, no provision for U.S. federal taxes has been provided thereon.

A reconciliation of income taxes computed by applying the statutory federal income tax rate of 34% to net income before income taxes for the year ended June 30 is as follows (dollars in thousands):

	2008	2007
Income taxes computed at statutory federal income tax rate	$ 400	$ 1,172
State income taxes, net of federal income tax expense	(5)	148
Expenses not deductible for tax purposes	75	19
Foreign tax rate differential	(207)	(140)
Return to provision – difference	2	—
Tax contingency reserve reduction	—	(422)
Other	(1)	(38)
Income taxes as reported	$ 264	$ 739
Effective tax rate	22.5%	21.5%

H. Employee Benefit Plans

We have a profit sharing plan pursuant to Section 401(k) of the Internal Revenue Code of 1986, as amended (the "Code"), whereby participants may contribute a percentage of compensation not in excess of the maximum allowed under the Code. All employees with six months of continuous employment are eligible to participate in the plan. Effective January 1, 2004, the plan was amended to require that we match 100% of the first 3% and 50% of the next 2% of a participant's compensation contributed to the plan. The total contributions under the plan charged to continuing operations totaled $266,000 for the fiscal year ended June 30, 2008 and $249,000 for fiscal 2007.

We have a "Cafeteria Plan" pursuant to Section 125 of the Code, whereby health care benefits are provided for active employees through insurance companies. Substantially all active full-time employees are eligible for these benefits. We recognize the cost of providing these benefits by expensing the annual premiums, which are based on benefits paid during the year. The premiums expensed to continuing operations for these benefits totaled $968,000 for the fiscal year ended June 30, 2008 and $823,000 for fiscal 2007.

In December 1999, we adopted an employee stock purchase plan that initially provided for the issuance of up to 150,000 shares of our common stock. Since July 1, 2004, the number of shares available for purchase under the plan has increased by 25,000 each year on July 1 and will continue to increase by such amount each July 1 until determined otherwise by the Board of Directors. The plan is intended to qualify under Section 423 of the Code and is for the benefit of qualifying employees. Under the terms of the plan, participating employees may have up to 15% of their compensation withheld through payroll deductions to purchase shares of our common stock at 85% of the closing sale price for the stock as quoted on the Nasdaq Global Market on either the first or last trading day in the offering period, whichever is lower. As of June 30, 2008, 175,184 shares of common stock were issued pursuant to this plan and 74,816 shares were available for future issuance.

We sponsor a defined benefit pension plan, which provides retirement benefits to employees based generally on years of service and compensation during the last five years before retirement. Effective June 21, 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.

Disclosure of Funded Status

The following table sets forth the defined benefit pension plan's funded status and amount recognized in our consolidated balance sheets at June 30 (dollars in thousands):

	2008	2007
Change in Benefit Obligation		
Benefit obligation at beginning of year	$ 1,549	$ 1,546
Interest cost	80	82
Actuarial (gain) loss	12	22
Benefits paid	(202)	(101)
Benefit obligation at end of year	$ 1,439	$ 1,549
Change in Plan Assets		
Fair value of plan assets at beginning of year	$ 1,473	$ 1,355
Actual return on plan assets	(81)	175
Employer contributions	50	44
Benefits paid	(202)	(101)
Fair value of plan assets at end of year	$ 1,240	$ 1,473
Reconciliation of Funded Status		
Benefit obligation in excess of fair value of plan assets	$ (198)	$ (76)
Unrecognized net actuarial loss	454	260
Net amount recognized	$ 256	$ 184
Additional Minimum Liability Disclosures		
Accrued benefit liability	$ (198)	$ (76)

The weighted-average rates used for the years ended June 30 in determining the projected benefit obligations for the defined benefit pension plan were as follows:

	2008	2007
Discount rate	5.50%	5.50%
Compensation increase rate	N/A	N/A

Net Periodic Benefit Cost

The components included in the defined benefit pension plan's net periodic benefit income for the fiscal years ended June 30 were as follows (dollars in thousands):

	2008	2007
Interest cost	$ 80	$ 82
Expected return on plan assets	(111)	(106)
Recognized actuarial loss	10	15
Net periodic benefit income	$ (21)	$ (9)

The following benefit payments are expected to be paid:

2009	$ 7
2010	13
2011	19
2012	24
2013	23
2014-2017	294
	$380

The weighted-average rates used for the years ended June 30 in determining the defined benefit pension plan's net pension costs, were as follows:

	2008	2007
Discount rate	5.50%	5.50%
Expected long-term rate of return	8.00%	8.00%
Compensation increase rate	N/A	N/A

Our expected rate of return is determined based on a methodology that considers historical returns of multiple classes analyzed to develop a risk free real rate of return and risk premiums for each asset class. The overall rate for each asset class was developed by combining a long-term inflation component, the risk free real rate of return, and the associated risk premium. A weighted average rate was developed based on those overall rates and the target asset allocation of the plan.

Our defined benefit pension plan's weighted average asset allocation at June 30 and weighted average target allocation were as follows:

	2008	2007	Target Allocation
Equity securities	57%	63%	60%
Debt securities	40%	37%	40%
Cash and money market funds	3%	0%	0%
	100%	100%	100%

The underlying basis of the investment strategy of our defined benefit pension plan is to ensure that pension funds are available to meet the plan's benefit obligations when they are due. Our investment strategy is a long-term risk controlled approach using diversified investment options with relatively minimal exposure to volatile investment options like derivatives.

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I. Stockholders' Equity

Treasury Stock

On September 25, 2006, our former Chief Scientific Officer surrendered 9,000 shares of our common stock as payment of the exercise price for incentive stock options.

On June 29, 2007, the independent members of the Board of Directors approved the repurchase of 100,000 shares of our common stock from Mark LeDoux, our Chief Executive Officer and the Chairman of the Board, his wife, their family limited partnership and related children's trust, conditioned on a purchase price equal to a 10% discount from the closing price on such date. The repurchase was completed on July 6, 2007 at a total cost of $650,000.

Stock Option Plans

On December 6, 1999, our stockholders approved the adoption of the 1999 Omnibus Equity Incentive Plan (the "1999 Plan"). As of June 30, 2008, a total of 2.4 million shares of common stock are reserved under the 1999 Plan for issuance to our directors, officers, other employees, and consultants. Under the terms of the 1999 Plan, the aggregate number of shares of common stock that may be awarded is automatically increased on January 1st of each year, commencing January 1, 2000, by a number equal to the lesser of 2.5% of the total number of common shares then outstanding or 100,000 shares. The 1999 Plan has increased by 100,000 common shares on January 1 of each year from 2000 through 2007.

Grants under the 1999 Plan can be either incentive stock options or nonqualified stock options. Options granted under the 1999 Plan have either a five or a ten-year term.

Stock option activity for the two years ended June 30, 2008 was as follows:

	1999 Plan	Weighted Average Exercise Price
Outstanding at June 30, 2006	1,406,100	$ 5.54
Exercised	(388,305)	$ 4.61
Forfeited	(20,400)	$ 8.00
Granted	240,000	$ 8.89
Outstanding at June 30, 2007	1,237,395	$ 6.45
Exercised	(276,595)	$ 3.93
Forfeited	(48,000)	$ 8.24
Granted	225,000	$ 9.04
Outstanding at June 30, 2008	1,137,800	$ 7.50
Weighted-average remaining contractual life in years	2.48	
Available for grant at June 30, 2008	379,652	

The following is a further breakdown of the options outstanding at June 30, 2008:

Range of Exercise Prices	Number Outstanding	Weighted Average Exercise Price	Number Exercisable	Weighted Average Exercise Price
$2.00 - $3.02	54,000	$ 2.19	54,000	$ 2.19
$3.70 - $5.59	190,000	$ 5.19	190,000	$ 5.19
$6.50 - $7.93	350,800	$ 7.10	226,300	$ 6.89
$8.05 - $10.47	543,000	$ 9.10	270,900	$ 8.76
$2.00 - $10.47	1,137,800	$ 7.50	741,200	$ 6.80
Weighted-average remaining contractual life in years	2.48		1.65	

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J. Commitments

We lease a total of 164,800 square feet of our facilities from unaffiliated third parties under non-cancelable operating leases, including 162,000 square feet at our manufacturing facility in Vista, California and 2,800 square feet at our San Marcos, California facility. The lease for approximately 2,800 square feet at San Marcos terminates in December 2008. The lease on the Vista facility expires in March 2014.

NAIE leases facility space in Manno, Switzerland. The leased space totals approximately 46,000 square feet. We primarily use the facilities for manufacturing, packaging, warehousing and distributing nutritional supplement products for the European marketplace. The lease expires in December 2015.

On March 28, 2007, we entered into an agreement to sublet approximately 3,000 square feet at our Manno, Switzerland facility. The sublease is for a term of two years that began on April 1, 2007, and provides for monthly rental income equal to our rental expense for the space.

RHL leases facility space in San Diego, California totaling approximately 16,000 square feet. We expect to vacate the facility on or about September 30, 2008 and relocate our remaining branded products business to our San Marcos facility. We will, however, remain obligated under the lease until May 2009.

Minimum rental commitments (exclusive of property tax, insurance and maintenance) under all non-cancelable operating leases with initial or remaining lease terms in excess of one year, including the lease agreements referred to above, are set forth below as of June 30, 2008 (dollars in thousands):

	2009	2010	2011	2012	2013	There-after	Total
Gross minimum rental commitments	$ 2,442	$ 2,351	$ 2,390	$ 2,430	$ 2,471	$ 3,728	$ 15,812
Sublease income commitments	(38)	—	—	—	—	—	(38)
	$ 2,404	$ 2,351	$ 2,390	$ 2,430	$ 2,471	$ 3,728	$ 15,774

Rental expense from continuing operations totaled $2.2 million for the fiscal year ended June 30, 2008 and $2.1 million for fiscal 2007. Rental expense was offset by sublease rental income in the amount of $53,000 in fiscal 2008 and $11,000 in fiscal 2007.

K. Foreign Currency Instruments

On July 6, 2006, we purchased 12 option contracts designated and effective as cash flow hedges to protect against the foreign currency exchange risk inherent in a portion of our forecasted transactions denominated in Euros. The 12 options expired monthly beginning August 2006 and ending July 2007. The option contracts had a notional amount of $8.9 million, a weighted average strike price of $1.24, and a purchase price of $103,000. The risk of loss associated with the options was limited to the purchase price paid for the option contracts. As of June 30, 2007, 11 of the options had expired. As of June 30, 2007, $7,000 of unrealized losses associated with previously sold options was recognized in cost of goods sold under the original monthly option contract expiration dates.

On January 18, 2007, we purchased three option contracts designated and effective as cash flow hedges to protect against the foreign currency exchange risk inherent in a portion of our forecasted transactions denominated in Euros. The three options expired monthly beginning August 2007 and ending October 2007. The option contracts had a notional amount of $1.9 million, a weighted average strike price of $1.24, and a purchase price of $12,000. The risk of loss associated with the options was limited to the purchase price paid for the option contracts.

On April 3, 2007, we purchased three option contracts designated and effective as cash flow hedges to protect against the foreign currency exchange risk inherent in a portion of our forecasted transactions denominated in Euros. The three options expired monthly beginning November 2007 and ending January 2008. The option contracts had a notional amount of $1.9 million, a weighted average strike price of $1.29, and a purchase price of $18,000. The risk of loss associated with the options was limited to the purchase price paid for the option contracts.

On August 14, 2007, we purchased three option contracts designated and effective as cash flow hedges to protect against the foreign currency exchange risk inherent in a portion of our forecasted transactions denominated in Euros. The three options expired monthly beginning February 2008 and ending April 2008. The option contracts had a notional amount of $1.9 million, a weighted average strike price of $1.29, and a purchase price of $10,000. The risk of loss associated with the options was limited to the purchase price paid for the option contracts.

On September 7, 2007, we purchased three option contracts designated and effective as cash flow hedges to protect against the foreign currency exchange risk inherent in a portion of our forecasted transactions denominated in Euros. The three options expired monthly beginning May 2008 and ending July 2008. The option contracts had a notional amount of $1.9 million, a weighted average strike price of $1.29, and a purchase price of $12,000. The risk of loss associated with the options was limited to the purchase price paid for the option contracts.

For the fiscal years ended June 30, 2008 and 2007, approximately $68,000 and $219,000 was charged to income for option contracts expiring during the year.

L. Economic Dependency

We had substantial net sales from continuing operations to certain customers during the fiscal years ended June 30 shown in the following table. The loss of any of these customers, or a significant decline in sales or the growth rate of sales to these customers could have a material adverse impact on our net sales and net income from continuing operations. Net sales from continuing operations to any one customer representing 10% or more of the respective year's total net sales for the two years ended June 30 were as follows (dollars in thousands):

	2008		2007	
	Net Sales by Customer	% of Total Net Sales	Net Sales by Customer	% of Total Net Sales
Customer 1	$ 39,927	49%	$ 38,786	45%
Customer 2	27,821	34%	29,822	34%
	$ 67,748	83%	$ 68,608	79%

Accounts receivable from these customers totaled $5.4 million at June 30, 2008 and $3.2 million at June 30, 2007.

We buy certain products from a limited number of raw material suppliers. The loss of any of these suppliers could have a material adverse impact on our net sales and net income. During fiscal 2008, approximately 31% of our total raw material purchases were from two suppliers. Accounts payable to these suppliers were $437,000 at June 30, 2008. No other supplier comprised 10% or more of our raw material purchases for the year ended June 30, 2008.

M. 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.

As of September 17, 2008, neither NAI nor its subsidiaries were a party to any material pending legal proceeding nor was any of their property the subject of any material pending legal proceeding.

N. Segment Information

Our business consists of two segments, as defined by Statement of Financial Accounting Standards No. 131, *Disclosures about Segments of an Enterprise and Related Information*, identified as private label contract manufacturing, which primarily provides private label contract manufacturing services to companies that market and distribute nutritional supplements and other health care products, and branded products, which markets and distributes branded nutritional supplements.

During the fourth quarter of fiscal 2008 we undertook a careful review of our branded products portfolio and operations. As a result of this review we decided, to narrow our branded product focus and portfolio, which we expect to significantly improve our overall profitability and allow us to better pursue our growth strategies. As a result, we developed and approved a plan to sell the legacy RHL business prior to the end of the current fiscal year.

More specifically, on August 4, 2008, RHL sold certain assets related to its catalog and internet business conducted under the name "As We Change ®" to Miles Kimball Company for a cash purchase price of $2,000,000. The purchase price was subject to certain post-closing adjustments based on a final accounting of the value of the assets sold to and the liabilities assumed by the buyer at the closing. As a result of the post-closing review, the purchase price was increased by $299,000, resulting in an aggregate purchase price of $2,299,000. We intend to market for sale legacy RHL's remaining business operations during fiscal 2009, with the exception of our Pathway to Healing® product line. As the plan to dispose of the legacy RHL business met the criteria of Statements of Financial Accounting Standards No. 144, *Accounting for the Disposal of Long-lived Assets* (SFAS 144), the current and prior periods presented in this report on Form 10K have been reclassified to reflect the legacy RHL business as discontinued operations.

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

Our operating results by business segment for the years ended June 30 were as follows (dollars in thousands):

	2008	2007
Net Sales		
Private label contract manufacturing	$ 77,850	$ 80,732
Branded products	3,905	5,834
	$ 81,755	$ 86,566

	2008	2007
Operating Income from Continuing Operations		
Private label contract manufacturing	$ 8,166	$ 10,315
Branded products	400	225
Income from operations of reportable segments	8,566	10,540
Corporate expenses not allocated to segments	(7,492)	(6,774)
	$ 1,074	$ 3,766

	2008
Total Assets	
Private label contract manufacturing	$ 40,569
Branded products	62
	$ 40,631

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

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Net sales by geographic region, based upon the customers' location, for the two years ended June 30 were as follows (dollars in thousands):

	2008	2007
United States	$ 57,597	$ 65,746
Markets outside the United States	24,158	20,820
Total net sales	$ 81,755	$ 86,566

Products manufactured by NAIE accounted for 52% of net sales in markets outside the United States in fiscal 2008 and 45% in fiscal 2007. No products manufactured by NAIE were sold in the United States during the fiscal years ended June 30, 2008 and 2007.

Assets and capital expenditures by geographic region, based on the location of the company or subsidiary at which they were located or made, for the two years ended June 30 were as follows (dollars in thousands):

2008	Long-Lived Assets	Total Assets	Capital Expenditures
United States	$ 11,473	$ 33,196	$ 1,232
Europe	1,781	7,435	140
	$ 13,254	$ 40,631	$ 1,372

2007	Long-Lived Assets	Total Assets	Capital Expenditures
United States	$ 12,687	$ 33,891	$ 1,328
Europe	1,965	5,887	1,048
	$ 14,652	$ 39,778	$ 2,376

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

ITEM 9A. CONTROLS AND PROCEDURES

(a) Evaluation of Disclosure 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, evaluated the effectiveness of the design and operation of our disclosure controls and procedures as of June 30, 2008. Based on such evaluation, which included a determination that the material weakness in internal control over financial reporting regarding our annual goodwill impairment analysis that existed as of June 30, 2007 and was previously disclosed in our Annual Report on Form 10-K for the fiscal year ended June 30, 2007 had been remediated, 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 June 30, 2008.

(b) Management's Annual Report on Internal Control Over Financial Reporting

Management is responsible for establishing and maintaining adequate internal control over financial reporting, and for performing an assessment of the effectiveness of internal control over financial reporting as of June 30, 2008. Internal control over financial reporting is defined in Rule 13a-15(f) or 15d-15(f) promulgated under the Securities Exchange Act of 1934 as a process designed by, or under the supervision of, the Company's principal executive and principal financial officers and effected by the Company's board of directors, management and other personnel, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with U.S. generally accepted accounting principles. Internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with U.S. generally accepted accounting principles, and that receipts and expenditures of the Company are being made only in accordance with authorizations of management and directors of the Company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Management performed an assessment of the effectiveness of the Company's internal control over financial reporting as of June 30, 2008 based upon criteria in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO"). Based on this assessment, management believes that the Company's internal control over financial reporting was effective as of June 30, 2008 based on those criteria issued by COSO.

This report does not include an attestation report of the Company's independent registered public accounting firm regarding internal control over financial reporting. Management's report was not subject to attestation by the Company's independent registered public accounting firm pursuant to temporary rules of the SEC that permit the Company to provide only management's report in this report.

(c) Changes in Internal Control Over Financial Reporting

During the fourth quarter ended June 30, 2008, we implemented certain processes designed to remediate the material weakness in internal control over financial reporting regarding our annual goodwill impairment analysis that existed as of June 30, 2007 and was previously disclosed in our Annual Report on Form 10-K for the fiscal year ended June 30, 2007. Specifically, we identified and implemented processes to develop and support the forecasts and plans necessary to complete our annual goodwill impairment analysis in a timely manner and, as a result, were able to timely complete our goodwill impairment analysis for the fiscal year ended June 30, 2008. There were no other changes to our internal controls during the fourth quarter ended June 30, 2008 that have materially affected, or that are reasonably likely to materially affect, our internal controls.

ITEM 9B. OTHER INFORMATION

None.

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

The information for this item is incorporated by reference to the sections “Our Board of Directors,” “Our Executive Officers,” “Section 16(a) Beneficial Ownership Reporting Compliance,” and “Code of Ethics” in our definitive proxy statement for our Annual Meeting of Stockholders to be held on December 5, 2008, to be filed on or before October 28, 2008.

ITEM 11. EXECUTIVE COMPENSATION

The information for this item is incorporated by reference to the sections “Director Compensation” and “Executive Officer Compensation” in our definitive proxy statement for our Annual Meeting of Stockholders to be held on December 5, 2008, to be filed on or before October 28, 2008.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

The information for this item is incorporated by reference to the sections “Stock Holdings of Certain Owners and Management” and “Securities Authorized for Issuance Under Equity Compensation Plans” in our definitive proxy statement for our Annual Meeting of Stockholders to be held on December 5, 2008, to be filed on or before October 28, 2008.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

The information for this item is incorporated by reference to the sections “Certain Relationships and Related Transactions” and “Our Board of Directors – Independence” in our definitive proxy statement for our Annual Meeting of Stockholders to be held on December 5, 2008, to be filed on or before October 28, 2008.

ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES

The information for this item is incorporated by reference to the sections “Audit Fees,” “Audit-Related Fees,” “Tax Fees,” “All Other Fees” and “Pre-Approval Polices and Procedures” in our definitive proxy statement for our Annual Meeting of Stockholders to be held on December 5, 2008, to be filed on or before October 28, 2008.

PART IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

The following documents are filed as part of this report:

(1) Financial Statements. The financial statements listed below are included under Item 8 of this report:

- Consolidated Balance Sheets as of June 30, 2008 and 2007;
- Consolidated Statements of Operations and Comprehensive Income (Loss) for the years ended June 30, 2008 and 2007;
- Consolidated Statements of Stockholders' Equity for the years ended June 30, 2008 and 2007;
- Consolidated Statements of Cash Flows for the years ended June 30, 2008 and 2007; and
- Notes to Consolidated Financial Statements.

(2) Exhibits. The following exhibit index shows those exhibits filed with this report and those incorporated by reference:

EXHIBIT INDEX

Exhibit Number	Description	Incorporated By Reference To
3(i)	Amended and Restated Certificate of Incorporation of Natural Alternatives International, Inc. filed with the Delaware Secretary of State on January 14, 2005	Exhibit 3(i) of NAI's Quarterly Report on Form 10-Q for the quarterly period ended December 31, 2004, filed with the commission on February 14, 2005
3(ii)	By-laws of Natural Alternatives International, Inc. dated as of December 21, 1990	NAI's Registration Statement on Form S-1 (File No. 33-44292) filed with the commission on December 21, 1992
3(iii)	Amendment to the By-laws of Natural Alternatives International, Inc. effective as of June 29, 2007	Exhibit 3(ii) of NAI's Current Report on Form 8-K dated June 29, 2007, filed with the commission on July 6, 2007
4(i)	Form of NAI's Common Stock Certificate	Exhibit 4(i) of NAI's Annual Report on Form 10-K for the fiscal year ended June 30, 2005, filed with the commission on September 8, 2005
10.1	1999 Omnibus Equity Incentive Plan as adopted effective May 10, 1999, amended effective January 30, 2004, and further amended effective December 3, 2004*	Exhibit 10.1 of NAI's Quarterly Report on Form 10-Q for the quarterly period ended December 31, 2004, filed with the commission on February 14, 2005
10.2	1999 Employee Stock Purchase Plan as adopted effective October 18, 1999	Exhibit B of NAI's definitive Proxy Statement filed with the commission on October 21, 1999
10.3	Management Incentive Plan*	Exhibit 10.3 of NAI's Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2003, filed with the commission on November 5, 2003
10.4	Amended and Restated Employment Agreement dated as of January 30, 2004, by and between NAI and Randell Weaver*	Exhibit 10.5 of NAI's Annual Report on Form 10-K for the fiscal year ended June 30, 2004, filed with the commission on September 14, 2004
10.5	Amended and Restated Employment Agreement dated as of January 30, 2004, by and between NAI and Mark A. LeDoux*	Exhibit 10.6 of NAI's Annual Report on Form 10-K for the fiscal year ended June 30, 2004, filed with the commission on September 14, 2004
10.6	Amended and Restated Exclusive License Agreement effective as of September 1, 2004 by and among NAI and Dr. Reginald B. Cherry	Exhibit 10.11 of NAI's Annual Report on Form 10-K for the fiscal year ended June 30, 2004, filed with the commission on September 14, 2004
10.7	Exclusive License Agreement effective as of September 1, 2004 by and among NAI and Reginald B. Cherry Ministries, Inc.	Exhibit 10.12 of NAI's Annual Report on Form 10-K for the fiscal year ended June 30, 2004, filed with the commission on September 14, 2004
10.8	First Amendment to Exclusive License Agreement effective as of December 10, 2004 by and among NAI and Reginald B. Cherry Ministries, Inc.	Exhibit 10.3 of NAI's Quarterly Report on Form 10-Q for the quarterly period ended December 31, 2004, filed with the commission on February 14, 2005
10.9	Lease of Facilities in Vista, California between NAI and Calwest Industrial Properties, LLC, a California limited liability company (lease reference date June 12, 2003)	Exhibit 10.10 of NAI's Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2003, filed with the commission on November 5, 2003

10.10	Credit Agreement dated as of May 1, 2004 by and between NAI and Wells Fargo Bank, National Association	Exhibit 10.11 of NAI's Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2004, filed with the commission on May 17, 2004
10.11	First Amendment to Credit Agreement dated as of February 1, 2005 by and between NAI and Wells Fargo Bank, National Association	Exhibit 10.1 of NAI's Current Report on Form 8-K dated February 1, 2005, filed with the commission on February 7, 2005
10.12	Form of Indemnification Agreement entered into between NAI and each of its directors	Exhibit 10.15 of NAI's Annual Report on Form 10-K for the fiscal year ended June 30, 2004, filed with the commission on September 14, 2004
10.13	Lease of Facilities in Manno, Switzerland between NAIE and Mr. Silvio Tarchini dated May 9, 2005 (English translation)	Exhibit 10.19 of NAI's Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2005, filed with the commission on May 13, 2005
10.14	Lease of Facilities in Manno, Switzerland between NAIE and Mr. Silvio Tarchini dated July 25, 2003 (English translation)	Exhibit 10.19 of NAI's Annual Report on Form 10-K for the fiscal year ended June 30, 2005, filed with the commission on September 8, 2005
10.15	Lease of Facilities in Manno, Switzerland between NAIE and Mr. Silvio Tarchini dated June 8, 2004 (English translation)	Exhibit 10.20 of NAI's Annual Report on Form 10-K for the fiscal year ended June 30, 2005, filed with the commission on September 8, 2005
10.16	Lease of Facilities in Manno, Switzerland between NAIE and Mr. Silvio Tarchini dated February 7, 2005 (English translation)	Exhibit 10.21 of NAI's Annual Report on Form 10-K for the fiscal year ended June 30, 2005, filed with the commission on September 8, 2005
10.17	License Agreement effective as of April 28, 1997 by and among Roger Harris, Mark Dunnett and NAI	Exhibit 10.22 of NAI's Annual Report on Form 10-K for the fiscal year ended June 30, 2005, filed with the commission on September 8, 2005
10.18	Amendment to License Agreement effective as of March 17, 2001 by and among Roger Harris, Mark Dunnett and NAI	Exhibit 10.23 of NAI's Annual Report on Form 10-K for the fiscal year ended June 30, 2005, filed with the commission on September 8, 2005
10.19	Amendment effective as of September 15, 2005 to Lease of Facilities in Manno, Switzerland between NAIE and Mr. Silvio Tarchini dated May 9, 2005 (English translation)	Exhibit 10.24 of NAI's Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2005, filed with the commission on November 4, 2005
10.20	Employment Agreement effective as of December 5, 2005, by and between RHL and John F. Dullea*	Exhibit 10.3 of NAI's Current Report on Form 8-K dated December 5, 2005, filed with the commission on December 9, 2005
10.21	Lease of RHL Facilities in San Diego, California between RHL and Lessor dated February 5, 2003	Exhibit 10.4 of NAI's Current Report on Form 8-K dated December 5, 2005, filed with the commission on December 9, 2005
10.22	Promissory Note made by NAI for the benefit of Wells Fargo Equipment Finance, Inc. in the amount of $3,800,000	Exhibit 10.5 of NAI's Current Report on Form 8-K dated December 5, 2005, filed with the commission on December 9, 2005

10.23	Patent License Agreement by and between Unither Pharma, Inc. and RHL dated May 1, 2002	Exhibit 10.6 of NAI's Current Report on Form 8-K dated December 5, 2005, filed with the commission on December 9, 2005
10.24	Second Amendment to Credit Agreement dated as of December 1, 2005 by and between NAI and Wells Fargo Bank, National Association	Exhibit 10.30 of NAI's Quarterly Report on Form 10-Q for the quarterly period ended December 31, 2005, filed with the commission on February 14, 2006
10.25	Exclusive License Agreement by and between NAI and Richard Linchitz, M.D. effective as of August 23, 2005	Exhibit 10.32 of NAI's Quarterly Report on Form 10-Q for the quarterly period ended December 31, 2005, filed with the commission on February 14, 2006
10.26	Letter amendment to Lease of RHL Facilities in San Diego, California between RHL and Lessor dated January 10, 2006	Exhibit 10.33 of NAI's Quarterly Report on Form 10-Q for the quarterly period ended December 31, 2005, filed with the commission on February 14, 2006
10.27	First Amendment to Lease of Facilities in Vista, California between NAI and Calwest Industrial Properties, LLC, a California limited liability company, effective December 21, 2004	Exhibit 10.34 of NAI's Quarterly Report on Form 10-Q for the quarterly period ended December 31, 2005, filed with the commission on February 14, 2006
10.28	Second Amendment to Lease of Facilities in Vista, California between NAI and Calwest Industrial Properties, LLC, a California limited liability company, effective January 13, 2006	Exhibit 10.35 of NAI's Quarterly Report on Form 10-Q for the quarterly period ended December 31, 2005, filed with the commission on February 14, 2006
10.29	Third Amendment to Credit Agreement dated as of March 15, 2006 by and between NAI and Wells Fargo Bank, National Association	Exhibit 10.35 of NAI's Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2006, filed with the commission on May 9, 2006
10.30	Standard Sublease Multi-Tenant by and between J. Gelt Corporation dba Casa Pacifica and RHL (lease reference date March 6, 2006)	Exhibit 10.37 of NAI's Annual Report on Form 10-K for the fiscal year ended June 30, 2006, filed with the commission on September 18, 2006
10.31	Loan Agreement between NAIE and Credit Suisse dated as of September 22, 2006, including general conditions (portions of the Loan Agreement have been omitted pursuant to a request for confidential treatment)	Exhibit 10.36 of NAI's Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2006, filed with the commission on November 1, 2006
10.32	Employment Agreement effective as of November 20, 2006, by and between NAI and Alvin McCurdy*	Exhibit 10.1 of NAI's Current Report on Form 8-K dated November 20, 2006, filed with the commission on November 21, 2006
10.33	Fourth Amendment to Credit Agreement dated as of November 1, 2006, and entered into on January 24, 2007, by and between NAI and Wells Fargo Bank, National Association	Exhibit 10.37 of NAI's Quarterly Report on Form 10-Q for the quarterly period ended December 31, 2006, filed with the commission on January 30, 2007
10.34	Sublease Contract for facilities in Manno, Switzerland, between NAIE and Vertime SA effective as of April 1, 2007 (portions of the Sublease Contract have been omitted pursuant to a request for confidential treatment) (English translation)	Exhibit 10.39 of NAI's Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2006, filed with the commission on May 14, 2007
10.35	Second Amendment to License Agreement Amending The First Amendment Dated March 17, 2001 to License Agreement Dated April 28, 1997 by and among Roger Harris, Mark Dunnett and NAI dated as of March 26, 2007	Exhibit 10.40 of NAI's Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2007, filed with the commission on May 14, 2007

10.36	First Amendment to Loan Agreement between NAIE and Credit Suisse dated as of February 19, 2007	Exhibit 10.41 of NAI's Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2007, filed with the commission on May 14, 2007
10.37	Settlement Agreement and Release of Claims and Rights between NAI and DHL Express, Inc. dated April 16, 2007	Exhibit 10.42 of NAI's Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2007, filed with the commission on May 14, 2007
10.38	Consulting Agreement effective as of July 1, 2007, by and between Dr. John A. Wise and NAI	Exhibit 10.44 of NAI's Annual Report on Form 10-K for the fiscal year ended June 30, 2007, filed with the commission on October 15, 2007.
10.39	Fifth Amendment to Credit Agreement dated as of November 1, 2007, and entered into on December 18, 2007, by and between NAI and Wells Fargo Bank, National Association	Exhibit 10.40 of NAI's Quarterly Report on Form 10-Q for the quarterly period ended December 31, 2007, filed with the commission on February 8, 2008
10.40	Revolving Line of Credit Note made by NAI for the benefit of Wells Fargo Bank, National Association in the amount of $7,500,000	Exhibit 10.41 of NAI's Quarterly Report on Form 10-Q for the quarterly period ended December 31, 2007, filed with the commission on February 8, 2008
10.41	Separation Agreement and General Release of Claims effective as of November 27, 2007, by and between NAI and John Reaves	Exhibit 10.42 of NAI's Quarterly Report on Form 10-Q for the quarterly period ended December 31, 2007, filed with the commission on February 8, 2008
10.42	Employment Agreement effective as of February 11, 2008, by and between NAI and Kenneth Wolf*	Exhibit 10.1 of NAI's Current Report on Form 8-K dated February 11, 2008, filed with the commission on February 14, 2008
10.43	Asset Purchase Agreement by and between RHL and Miles Kimball Company dated August 4, 2008	Exhibit 10.1 of NAI's Current Report on Form 8-K dated August 4, 2008, filed with the commission on August 8, 2008
10.44	First Amendment to the Amended and Restated Employment Agreement dated January 30, 2004 by and between NAI and Randell Weaver, entered into effective as of June 28, 2008*	Filed herewith
10.45	First Amendment to Employment Agreement dated November 20, 2006 by and between NAI and Alvin McCurdy, entered into effective as of June 28, 2008*	Filed herewith
21	Subsidiaries of the Company	Filed herewith
23.1	Consent of Independent Registered Public Accounting Firm	Filed herewith
31.1	Rule 13a-14(a)/15d-14(a) Certification of Chief Executive Officer	Filed herewith
31.2	Rule 13a-14(a)/15d-14(a) Certification of Chief Financial Officer	Filed herewith
32	Section 1350 Certification	Filed herewith

* Indicates management contract or compensatory plan or arrangement.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, Natural Alternatives International, Inc., the registrant, has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Date: September 22, 2008

NATURAL ALTERNATIVES INTERNATIONAL, INC.

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

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of Natural Alternatives International, Inc., in the capacities and on the dates indicated.

Signature	Title	Date
/s/ Mark A. LeDoux (Mark A. LeDoux)	Chief Executive Officer and Chairman of the Board of Directors (principal executive officer)	September 22, 2008
/s/ Ken Wolf (Ken Wolf)	Chief Financial Officer (principal financial officer and principal accounting officer)	September 22, 2008
/s/ Joe E. Davis (Joe E. Davis)	Director	September 22, 2008
/s/ Alan G. Dunn (Alan G. Dunn)	Director	September 22, 2008
/s/ Alan J. Lane (Alan J. Lane)	Director	September 22, 2008
/s/ Lee G. Weldon (Lee G. Weldon)	Director	September 22, 2008

FIRST AMENDMENT TO
AMENDED AND RESTATED EMPLOYMENT AGREEMENT

This First Amendment ("Amendment") to the Amended and Restated Employment Agreement by and between Natural Alternatives International, Inc., a Delaware corporation ("Company"), and Randell Weaver ("Employee"), dated effective as of January 30, 2004 ("Agreement"), is made and entered into effective as of June 28, 2008. Unless otherwise defined herein, capitalized terms shall have the meanings given them in the Agreement.

1. Pursuant to Section 4(a) of the Agreement, Employee's base salary is hereby increased to Three Hundred Twenty Five Thousand dollars ($325,000) effective as of June 28, 2008.

2. Except as set forth herein, all other terms and conditions of the Agreement shall remain in full force and effect.

IN WITNESS WHEREOF, the undersigned have executed this Amendment as of June 28, 2008.

EMPLOYEE

/s/ Randell Weaver
Randell Weaver

COMPANY

Natural Alternatives International, Inc.,
a Delaware corporation

/s/ Mark LeDoux
Mark LeDoux, Chief Executive Officer

Exhibit 10.45

FIRST AMENDMENT TO EMPLOYMENT AGREEMENT

This First Amendment (“Amendment”) to the Employment Agreement by and between Natural Alternatives International, Inc., a Delaware corporation (“Company”), and Alvin McCurdy (“Employee”), dated effective as of November 20, 2006 (“Agreement”), is made and entered into effective as of June 28, 2008. Unless otherwise defined herein, capitalized terms shall have the meanings given them in the Agreement.

1. Pursuant to Section 4(a) of the Agreement, Employee’s base salary is hereby increased to Two Hundred Twenty Five Thousand dollars ($225,000) effective as of June 28, 2008.

2. Except as set forth herein, all other terms and conditions of the Agreement shall remain in full force and effect.

IN WITNESS WHEREOF, the undersigned have executed this Amendment as of June 28, 2008.

EMPLOYEE

/s/ Alvin McCurdy
Alvin McCurdy

COMPANY

Natural Alternatives International, Inc.,
a Delaware corporation

/s/ Randell Weaver
Randell Weaver, President

List of Subsidiaries of
Natural Alternatives International, Inc., a Delaware corporation

Name of Subsidiary	State or other Jurisdiction of Incorporation or Organization
Natural Alternatives International Europe S.A.	Switzerland
Transformative Health Products, Inc.	Delaware, USA
Real Health Laboratories, Inc.	California, USA

Consent of Independent Registered Public Accounting Firm

We consent to the incorporation by reference in the Registration Statements:

1. Form S-8 No. 333-140185, pertaining to the 1999 Omnibus Equity Incentive Plan and the 1999 Employee Stock Purchase Plan.

2. Form S-3 No. 333-132191, as amended, and related prospectus, pertaining to the registration of 510,000 shares of Natural Alternatives International, Inc. Common Stock,

3. Form S-8 No. 333-131968, pertaining to the 1999 Omnibus Equity Incentive Plan and the 1999 Employee Stock Purchase Plan,

4. Form S-8 No. 333-32828, pertaining to the 1999 Omnibus Equity Incentive Plan, the 1999 Employee Stock Purchase Plan, and the Two Outstanding Non-Employee Director Option Agreements outside of any plan,

5. Form S-8 No. 333-117020, pertaining to the 1999 Omnibus Equity Incentive Plan

of our report dated September 9, 2008, with respect to the consolidated financial statements of Natural Alternatives International, Inc. included in its Annual Report (Form 10-K) for the year ended June 30, 2008.

/s/ Ernst & Young LLP

San Diego, California
September 17, 2008

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 Annual Report on Form 10-K 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;

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: September 22, 2008

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

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

I, Ken Wolf, Chief Financial Officer of Natural Alternatives International, Inc., certify that:

1. I have reviewed this Annual Report on Form 10-K 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;

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: September 22, 2008

/s/ Ken Wolf
Ken Wolf, Chief Financial Officer

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

Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (Subsections (a) and (b) of Section 1350, Chapter 63 of Title 18, United States Code), each of the undersigned officers of Natural Alternatives International, Inc., a Delaware corporation, does hereby certify, to such officer's knowledge, that the Annual Report on Form 10-K for the fiscal year ended June 30, 2008 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: September 22, 2008	/s/ Mark A. LeDoux Mark A. LeDoux, Chief Executive Officer
Date: September 22, 2008	/s/ Ken Wolf Ken Wolf, 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-K or as a separate disclosure document.