

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

FORM 10-Q

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

For the quarterly period ended SEPTEMBER 30, 1996

OR

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

Commission file number 0-15701

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

Delaware
(State of other jurisdiction of incorporation or
organization)

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

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

(619) 744-7340
(Registrant's telephone number, including area code)

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes No

5,269,875

(Number of shares of common stock of the registrant outstanding as of October 31, 1996)

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NATURAL ALTERNATIVES INTERNATIONAL, INC.
PART I - FINANCIAL INFORMATION

CONSOLIDATED BALANCE SHEETS

ASSETS

	September 30 1996 (Unaudited) -----	June 30 1996 -----
CURRENT ASSETS:		
Cash and cash equivalents	\$ 1,935,533	\$ 1,887,427
Accounts receivable - less allowance for doubtful		

accounts of \$410,000 at September 30, 1996 and \$319,000 at June 30, 1996		
Accounts receivable - related party	5,271,327	5,026,204
Inventory	660,490	932,490
Notes receivable - current portion	8,347,449	6,399,592
Deferred income taxes	174,979	157,155
Deposits	425,000	425,000
Other current assets	337,043	100,513
	957,864	781,754
	-----	-----
TOTAL CURRENT ASSETS	18,109,685	15,710,135
	-----	-----
PROPERTY AND EQUIPMENT, at cost, less accumulated depreciation and amortization of \$4,928,000 at September 30, 1996 and \$4,641,640 at June 30, 1996	7,221,685	7,278,078
	-----	-----
OTHER ASSETS:		
Investments	74,890	74,890
Notes receivable, less current portion	275,026	285,470
Other non-current assets	206,348	212,618
	-----	-----
TOTAL OTHER ASSETS	556,264	572,978
	-----	-----
TOTAL ASSETS	\$25,887,634	\$23,561,191
	=====	=====

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NATURAL ALTERNATIVES INTERNATIONAL, INC.
PART I - FINANCIAL INFORMATION

CONSOLIDATED BALANCE SHEETS (continued)

LIABILITIES AND STOCKHOLDERS' EQUITY

	September 30 1996 (Unaudited)	June 30 1996
	-----	-----
CURRENT LIABILITIES:		
Accounts payable	\$ 4,930,411	\$ 3,658,897
Current installments of long-term debt	237,350	234,736
Current installments of capital lease obligations	23,454	22,860
Accrued compensation and employee benefits	218,309	280,340
Income taxes payable	644,387	520,246
Customer deposits	2,606	2,606
	-----	-----
TOTAL CURRENT LIABILITIES	6,056,517	4,719,685
Deferred income taxes	357,000	357,000
Long-term debt, less current installments	1,208,953	1,276,118
Capital lease obligations, less current installments	42,805	48,802
	-----	-----
TOTAL LIABILITIES	7,665,275	6,401,605
	-----	-----
STOCKHOLDERS' EQUITY:		
Preferred stock; \$.01 par value; 500,000 shares authorized; none issued or outstanding	--	--
Common stock; \$.01 par value; 8,000,000 shares authorized; issued and outstanding 5,375,875 at September 30, 1996 and 5,351,875 at June 30, 1996	53,759	53,519
Additional paid-in capital	6,382,356	6,220,196
Retained earnings	11,801,466	10,901,093
Net unrealized losses on investments	(15,222)	(15,222)
	-----	-----
TOTAL STOCKHOLDERS' EQUITY	18,222,359	17,159,586
	-----	-----
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 25,887,634	\$ 23,561,191
	=====	=====

See accompanying notes to consolidated financial statements

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NATURAL ALTERNATIVES INTERNATIONAL, INC.
PART I - FINANCIAL INFORMATION

CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)

	For the Three Months Ended September 30	
	1996	1995
Net sales	\$ 11,437,022	\$ 10,353,801
Cost of goods sold	8,176,382	7,659,586
GROSS PROFIT	3,260,640	2,694,215
Selling, general & administrative expenses	1,747,915	1,717,545
OPERATING INCOME	1,512,725	976,670
Other income (expense):		
Interest income	46,691	26,789
Interest expense	(42,543)	(28,279)
Other, net	1,500	2,710
	5,648	1,220
EARNINGS BEFORE INCOME TAXES	1,518,373	977,890
Income taxes	618,000	389,000
NET EARNINGS	\$ 900,373	\$ 588,890
NET EARNINGS PER COMMON SHARE:	\$.16	\$.11

See accompanying notes to consolidated financial statements

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NATURAL ALTERNATIVES INTERNATIONAL, INC.
PART I - FINANCIAL INFORMATION

CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY
(Unaudited)

	Common Stock		Additional	Retained	Net	Total
	Shares	Amount	Paid-In Capital	Earnings	Unrealized Gains (Losses)	
Balance at June 30, 1996	5,351,875	\$53,519	\$6,220,196	\$10,901,093	\$(15,222)	\$17,159,586
Issuance of common stock upon exercise of employee stock options	24,000	240	116,260	--	--	116,500
Income tax benefit from						

stock options exercised	--	--	45,900	--	--	45,900
Net unrealized gains on investments	--	--	--	--	--	--
Net earnings	--	--	--	900,373	--	900,373
Balance at September 30, 1996	5,375,875	\$53,759	\$6,382,356	\$11,801,466	\$(15,222)	\$18,222,359

See accompanying notes to consolidated financial statements

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NATURAL ALTERNATIVES INTERNATIONAL, INC.
PART I - FINANCIAL INFORMATION

CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

	For the Three Months Ended September 30	
	1996	1995
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net earnings	\$ 900,373	\$ 588,890
Adjustments to reconcile net earnings to net cash provided by (used in) operating activities:		
Bad debt expense	96,621	47,000
Tax benefit on option exercise	45,900	48,500
Depreciation and amortization	293,026	249,157
Deferred income taxes	--	183,000
Gain on disposal of assets	1,500	(2,497)
Other	(6,704)	--
Changes in operating assets and liabilities:		
(Increase) decrease in:		
Accounts receivable	(63,273)	333,150
Inventory	(1,947,857)	(1,408,974)
Deposits	(236,530)	(23,090)
Other assets	(176,012)	(2,570)
(Decrease) increase in:		
Accounts payable	1,271,514	(77,308)
Accrued compensation and employee benefits	(62,031)	(391,909)
Income taxes payable	124,141	(533,500)
Other current liabilities	--	(2,097)
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	240,668	(992,248)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from sale of property and equipment	1,250	53,837
Proceeds from sale of investments	--	17,000
Capital expenditures	(233,107)	(246,194)
Investments	--	(11,000)
Issuance of notes receivable	(26,000)	(21,502)
Repayment of notes receivable	18,749	25,429
NET CASH (USED IN) INVESTING ACTIVITIES	(239,108)	(182,430)

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NATURAL ALTERNATIVES INTERNATIONAL, INC.
PART I - FINANCIAL INFORMATION

CONSOLIDATED STATEMENTS OF CASH FLOWS (continued)

(Unaudited)

	For the Three Months Ended September 30	
	1996	1995
CASH FLOWS FROM FINANCING ACTIVITIES:		
Payments on long-term debt and capital leases	\$ (69,954)	\$ (83,571)
Proceeds from issuance of common stock	116,500	107,250
NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES	46,546	23,679
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	48,106	(1,150,999)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	1,887,427	2,526,839
CASH AND CASH EQUIVALENTS AT END OF PERIOD	\$ 1,935,533	\$ 1,375,840

See accompanying notes to consolidated financial statements

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NATURAL ALTERNATIVES INTERNATIONAL, INC.
PART I - FINANCIAL INFORMATION

NOTES TO CONDENSED
CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 - BASIS OF PRESENTATION

The accompanying unaudited consolidated financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments, consisting of a normal recurring nature considered necessary for a fair presentation, have been included. It is suggested that these consolidated financial statements be read in conjunction with the financial statements and notes thereto included in the Company's annual report on Form 10-K for the year ended June 30, 1996. The results of operations for the periods ended September 30, 1996 and 1995 are not necessarily indicative of the operating results for the full year.

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

NOTE 2 - PRINCIPLES OF CONSOLIDATION

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries, Pro-Lean, Inc. (formerly Sonergy, Inc.), CellLife International, Inc. and CellLife Pharmaceuticals International, Inc. All significant intercompany accounts and transactions have been eliminated.

NOTE 3 - INVENTORIES

Inventories are comprised of:

September 30
1996

June 30
1996

Raw materials	\$4,271,019	\$2,865,438
Work in process	3,312,865	2,911,778
Finished goods	763,565	622,376
	-----	-----
	\$8,347,449	\$6,399,592
	=====	=====

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NATURAL ALTERNATIVES INTERNATIONAL, INC.
PART I - FINANCIAL INFORMATION

NOTES TO CONDENSED
CONSOLIDATED FINANCIAL STATEMENTS

NOTE 4 - NET EARNINGS PER SHARE

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

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

	For the Three Months Ended September 30	
	-----	-----
	1996	1995
	-----	-----
Primary	5,653,956	5,539,187
Fully Diluted	5,653,956	5,593,334

NOTE 5 - STOCKHOLDERS' EQUITY

Effective June 5, 1992, the Company adopted the 1992 Incentive Stock Option Plan (Plan) and reserved a total of 200,000 common shares for issuance to key employees of the Company. The Plan provides that no option may be granted at an exercise price less than the fair market value of the common share of the Company on the date of grant. Effective December 9, 1994, the Shareholders approved an amendment to the Plan, increasing the number of common shares that may be granted thereunder from 200,000 to 500,000, to enable additional officers, directors, and employees to participate in the Plan. On September 9, 1993, 200,000 shares were granted at the fair market value price of \$4.875 per share. As of September 30, 1996, 95,998 options had been exercised and 104,002 options are exercisable.

Also effective June 5, 1992, the Company adopted the 1992 Nonqualified Stock Option Plan and reserved a total of 250,000 common shares for issuance to officers, employees, and consultants of the Company. On September 9, 1993, 250,000 options were granted at the fair market value price of \$4.875 per share. As of September 30, 1996, 18,502 options had been exercised and 231,498 options are exercisable.

Effective December 9, 1994, the Board of Directors approved the 1994 Nonqualified Stock Option Plan and reserved a total of 500,000 common shares for issuance to officers, employees, and consultants of the Company. On January 24, 1995, 500,000 options were granted at the fair market value price of \$4.625 per share. As of September 30, 1996, 13,000 options had been exercised and 487,000

options are exercisable.

Effective January 24, 1995, 100,000 options were granted pursuant to a consulting agreement at the fair market value price of \$4.625 per share. No options had been exercised as of September 30, 1996.

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NATURAL ALTERNATIVES INTERNATIONAL, INC.
PART I - FINANCIAL INFORMATION

NOTES TO CONDENSED
CONSOLIDATED FINANCIAL STATEMENTS

NOTE 6 - MAJOR CUSTOMERS

The Company had substantial sales to three and four customers for the three months ended September 30, 1996 and 1995, respectively. The loss of any of these customers would have an adverse impact on the Company's revenues and earnings in the short-term. Sales to these customers were as follows:

Industry Segment	Three Months Ended			
	September 30, 1996		September 30, 1995	
	Total Revenue	% of Total Revenue	Total Revenue	% of Total Revenue
Weight Loss & Nutrition	\$ N.A.	--%	\$1,078,030	10%
Multi-level Distribution	6,859,811	60%	6,328,131	61%
Totals	\$6,859,811	60%	\$7,406,161	71%

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NATURAL ALTERNATIVES INTERNATIONAL, INC.
PART I - FINANCIAL INFORMATION

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

RESULTS OF OPERATIONS

FIRST QUARTER OF FISCAL 1997 AND 1996

The Company's consolidated revenues for the quarter ending September 30, 1996, amounted to \$11.4 million, an increase of \$1.1 million from the \$10.4 million generated during the quarter ending September 30, 1995. The 10% increase in revenue is primarily attributable to moderate increases in sales primarily from existing customers.

International sales for the quarter ending September 30, 1996, amounted to \$.3 million compared to \$.9 million for the quarter ending September 30, 1995. The decrease is the result of a customer build-up of inventories prior to the start of the current year quarter coupled with a restructuring of European ownership for the same customer.

Gross margins were 28.5% for the quarter ending September 30, 1996, compared to 26.0% for the quarter ending September 30, 1995. The increase in margins was due to an unusually high profit sales mix for the quarter ending September 30, 1996. Gross profits increased in real dollars by \$566,000, or 21.0% as a result of the

10% increase in sales and the increase in gross margins.

Selling, general and administrative expenses decreased moderately as a percentage of revenues to 15.3% for the quarter ending September 30, 1996 from 16.6% for the quarter ending September 30, 1995. The decrease is attributable to both sales growth and more effective means of controlling costs.

Net earnings for the quarter ending September 30, 1996, amounted to \$.9 million, a \$.3 million increase from the \$.6 million in net income produced for the quarter ending September 30, 1995. The increase in net earnings was due primarily to the 21.0% increase in gross profit, noted above, while selling, general and administrative expenses increased by just 1.8%.

Earnings per share for the quarter ending September 30, 1996, was \$.16 compared to \$.11 for the quarter ending September 30, 1995. The increase was due to the reasons discussed above and was only slightly impacted by the increase in the Company's weighted average number of shares outstanding and the dilutive effect of common stock equivalents on the current quarter.

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NATURAL ALTERNATIVES INTERNATIONAL, INC.
PART I - FINANCIAL INFORMATION

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

LIQUIDITY AND CAPITAL RESOURCES

At September 30, 1996, the Company had working capital of \$12,053,000 compared to \$10,990,000 as of June 30, 1996. The working capital items which represented the most significant increases were inventory, which increased by \$1.9 million and accounts payable, which increased by \$1.3 million. Inventory levels at September 30, 1996, compared to sales, increased moderately relative to historical levels, due principally to build-ups in anticipation of price increases and broader raw material stocking requirements to cover additional products for new and existing customers.

The Company has purchase commitments approximating \$500,000 for additional production equipment which is expected to be placed in service in the second quarter. The Company will also be expending approximately \$200,000 in the second quarter for leasehold improvements to expand its production facilities. These expenditures are expected to be funded from a combination of cash flow from operating activities and draws on the Company's lines of credit.

The Company believes it has sufficient sources of funds to finance its ongoing operations and meet its capital asset purchases, as well as future growth through a combination of internally generated cash flow, revolving lines of credit and equipment financing. The Company has revolving line of credit agreements permitting borrowings up to \$3,000,000, which are secured by the Company's receivables, inventory, equipment, and vehicles and bear interest at the bank's prime rate. The bank's prime rate at September 30, 1996 was 8.25%. Of the lines of credit, \$1,000,000 expires on December 5, 1996 and \$2,000,000 expires on December 5, 1997; management expects such lines to be renewed in the normal course of business. As of September 30, 1996 and June 30, 1996, there were no borrowings under these credit lines.

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NATURAL ALTERNATIVES INTERNATIONAL, INC.
PART II - OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

The Company is involved in various claims and legal actions arising in the ordinary course of business. In the opinion of management, based in part on the advice of counsel, the ultimate disposition of these matters will not have a

material adverse impact on the Company's consolidated financial position, operations or cash flows.

ITEM 2. CHANGES IN SECURITIES

None.

ITEM 3. DEFAULTS BY THE COMPANY ON ITS SENIOR SECURITIES

None.

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

None.

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

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

11.0. Computation of weighted average number common shares outstanding.

(b) No reports on Form 8-K were filed during the quarter ended September 30, 1996.

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SIGNATURES

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

NATURAL ALTERNATIVES INTERNATIONAL, INC.

MARK A. LE DOUX

Date: November 13, 1996

Mark A. Le Doux
President

WILLIAM P. SPENCER

Date: November 13, 1996

William P. Spencer
Executive Vice President

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

For the Three Months Ended September 30, 1996

	Outstanding -----		Days Out- stand- ing -----	Shares -----	Primary Weighted Average Shares Outstanding -----	Fully Diluted Weighted Average Shares Outstanding -----
	From -----	To -----				
Beginning shares	07/01/96	09/30/96	92	5,351,875	5,351,875	5,351,875
Dilutive effect of common stock equivalents:						
At average price per share					284,722	
At closing price per share						284,722
Exercise of employee stock options	07/05/96	09/30/96	88	5,000	4,783	4,783
Exercise of employee stock options	07/22/96	09/30/96	71	4,000	3,087	3,087
Exercise of employee stock options	07/25/96	09/30/96	68	6,000	4,435	4,435
Exercise of employee stock options	08/07/96	09/30/96	55	4,000	2,392	2,392
Exercise of employee stock options	08/13/96	09/30/96	49	5,000	2,663	2,663
Ending shares				5,375,875	5,653,956	5,653,956
Net Earnings					\$ 900,373	\$ 900,373
Net Earnings Per Share					\$.16	\$.16

(Continued)

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

For the Three Months Ended September 30, 1995

Outstanding	Days	Primary Weighted	Fully Diluted Weighted
-------------	------	---------------------	---------------------------

Out-	Average		Average stand- ing	Shares	Shares Outstanding	Shares Outstanding
	From	To				
Beginning shares	07/01/95	09/30/95	92	5,257,875	5,257,875	5,257,875
Dilutive effect of common stock equivalents:						
At average price per share					278,209	
At closing price per share						332,356
Exercise of employee stock options	08/21/95	09/30/95	40	1,500	652	652
Exercise of employee stock options	09/20/95	09/30/95	11	20,500	2,451	2,451
Ending shares				5,279,875	5,539,187	5,593,334
Net Earnings					\$ 588,890	\$ 588,890
Net Earnings Per Share					\$.11	\$.11

<ARTICLE> 5

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The schedule contains summary financial information extracted from the unaudited consolidated financial statements for the quarter ended September 30, 1996, and is qualified in its entirety by reference to such financial statements.

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