

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, 2000 Commission file number 0-15701

NATURAL ALTERNATIVES INTERNATIONAL, INC.

Incorporated in Delaware
1185 Linda Vista Drive, San Marcos, California
92069
(760) 744-7340

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

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

Common Stock - \$.01 par value

Nasdaq Stock Market

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

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 registrant'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.

The aggregate market value of shares of voting stock held by non-affiliates (assuming for this purpose that all officers and directors, and affiliates of directors, are affiliates) of the Registrant was approximately \$9.0 million based on the closing sale price as of October 9, 2000.

At October 9, 2000, the Registrant had 5,761,880 outstanding shares of Common Stock, \$.01 par value, net of 262,500 shares held in the treasury.

Documents Incorporated by Reference

Registrant's Proxy Statement, for the 2001 Annual Meeting of Stockholders, to be filed within 120 days from June 30, 2000, is incorporated herein by reference.

PART I

ITEM 1. BUSINESS

Natural Alternatives International, Inc. and its subsidiaries (referred to collectively herein as "Natural Alternatives", "NAI", or the "Company") are engaged in the formulation, manufacturing and packaging of encapsulated and compressed tablets and powder blended vitamins and related nutritional supplements including phytochemicals derived from botanicals and foods. The Company provides private label contract manufacturing services to various companies engaged in the marketing and distribution of vitamins, mineral supplements, herbs and other health and nutrition consumer products. The Company also provides various services to these customers including, customer-specific nutritional product formulation; clinical studies assessment; product development; assistance with international product registration; packaging and delivery system design; and other marketing related services. The Company seeks to further its customers' objectives by assisting them in expanding their market share through a variety of special marketing and research programs and services.

The Company's near term strategy is to strengthen both the board of directors and management team; diversify its revenue base, improve quality control and customer service, and restore its financial position. The Company believes it can successfully implement its strategy by continuing to capitalize on its core product development and manufacturing strengths: its ability to develop innovative science-based products; adherence to stringent quality control and assurance standards; the utilization of fully integrated manufacturing and distribution; and the leadership of an experienced management team.

The Company's long-term growth strategies are focused on geographic diversification through its European manufacturing facility and Asian sales presence, introduction of branded direct-to-consumer product lines and development of strategic alliances with health companies focused on consumer sales.

MANAGEMENT

The Company experienced significant changes in its management team and board of directors during both fiscal 1999 and fiscal 2000.

During fiscal 2000, NAI's management team was strengthened in November 1999 with the addition of Peter C. Wulff as Chief Financial Officer and Treasurer. Also, Joe E. Davis was appointed to the Board of Directors in February 2000. Mr. Davis replaces William R. Kellas, Ph.D. who resigned as a director in November 1999.

PROFIT RESTORATION PLAN

The Company lost a major customer in December 1999, which represented approximately 20% of net sales for the first quarter of fiscal 2000 and approximately 32% of net sales for fiscal 1999. In response to losing this major customer the Company initiated in January 2000 a cost containment program aimed at reducing overall company expenses. The Company reduced executive compensation and reduced the workforce by approximately 47% to a level commensurate with its current operating levels. These cost containment initiatives, completed in May 2000, are estimated to have reduced annual compensation costs by \$3.25 million. In addition, management reduced costs in other expenditure and professional service categories that were deemed non-essential to its business objectives.

Additional measures taken to reduce operating expenses included the lease termination of the abandoned corporate office and manufacturing facility in Carlsbad, California and the integration of in-house finished goods packaging capabilities, as discussed further below. The termination of the lease obligation in June 2000 eliminated \$1.5 million in annual cash outflows related to this lease. The commencement of in-house packaging in April of 2000 substantially eliminates the need to use outside packaging services to produce finished goods manufactured by the Company.

BUSINESS DEVELOPMENT INITIATIVES

During fiscal 2000, the Company worked to diversify its sales channels while solidifying its core customer base in private label manufacturing. The Company initiated a direct-to-consumer marketing program for its own products, as well as, entered into joint venture and manufacturing agreements with other companies. Sales channels include: physicians branding; health and fitness facilities; direct mail and other media channels; and E-commerce. The Company expects to continue to expand these efforts as an integral component of its long-term growth strategy.

PHYSICIANS BRANDED PRODUCTS

In March 2000, the Company entered into an amended and restated 10-year worldwide exclusive licensing agreement with Dr. Reginald B. Cherry, M.D. to develop and distribute natural products. The Company is responsible for collaborating with Dr. Cherry in the design, formulation and development of these nutritional products, and the Company retains exclusive rights for the manufacturing, marketing and distribution of these products. The Company promotes the sale of these nutritional products through Dr. Cherry's weekly television program and monthly medical newsletter, direct mail solicitation, Website, books, study guides, and audiotapes.

In March 2000, the Company launched the first product, Basic Nutrient Support(TM), under the new Dr. Cherry brand and recorded slightly less than \$1 million in net sales for the four month period ended June 30, 2000. The Company is planning other marketing initiatives to expand into additional sales channels and is developing new product offerings for introduction in fiscal 2001.

The Company continues to seek additional physicians interested in developing branded products. The ability to execute these opportunities depends on many factors, including but not limited to, the identification of reputable and renowned medical professionals, the ability to reach a business agreement and the ability to create and market nutritional products in an effective and profitable manner.

CUSTOM NUTRITION JOINT VENTURE

In November 1999, the Company entered into a strategic alliance with FitnessAge Incorporated ("FitnessAge"), a privately held development stage company based in San Diego, California. FitnessAge is a consumer health marketing company that has a unique and patented software assessment program that measures an individual's physiological age ("FitnessAge calculator"). FitnessAge is seeking to market the FitnessAge calculator to consumers through diverse channels including health and fitness facilities, corporate wellness centers, healthcare facilities and medical practitioners. FitnessAge is also developing an interactive website to cross-promote its products and services, including online tracking of its relationships with its customers.

The Company and FitnessAge entered into a joint venture agreement in November 1999, to establish Custom Nutrition LLC ("Custom Nutrition"), a Delaware limited liability company. Custom Nutrition was formed for the purpose of developing, merchandising, selling and distributing customized nutritional supplements and related products through various channels to individuals who have taken the FitnessAge assessment. Custom Nutrition is one of the first supplement retailers to provide personalized nutritional supplements and products based on an individual's fitness assessment results. The FitnessAge software has been modified to automatically generate recommendations from the exclusive supplement product line, and will provide the ability for consumers to purchase these products using the internet.

The Company has a 40% equity interest in Custom Nutrition with FitnessAge holding the remaining 60% equity interest. In accordance with the Operating Agreement, the Company made a capital contribution of \$100,000 to Custom Nutrition. The Company also provided funds to FitnessAge in exchange for a \$750,000 convertible secured promissory note due in November 2000, which is secured by certain FitnessAge assets and is convertible into 1,000,000 shares of FitnessAge common stock. The Company also invested \$150,000 for 300,000 shares

of FitnessAge common stock in fiscal 1999. In addition, under terms of a 10-year Exclusive Manufacturing Agreement, the Company is the exclusive manufacturer for all nutritional supplements and related products sold by Custom Nutrition. Custom Nutrition has obtained an exclusive royalty free license of FitnessAge's proprietary software technology, including their physical fitness assessments, known as the FitnessAge System, as well as, software under development designed to provide customized nutritional assessments.

3

4

During the year ended June 30, 2000, the Company had sales of \$135,000 to Custom Nutrition. At June 30, 2000, the net accounts receivable from Custom Nutrition was approximately \$80,000.

PRODUCTS AND MANUFACTURING

The Company is engaged in the research, design and manufacture of private label customized nutritional supplements for domestic and international personal care and health product companies engaged in marketing and distribution in a variety of sales channels. The Company purchases raw materials in bulk from qualified vendors, and, after quality control testing and release, weighs and blends these materials and then either encapsulates them, processes the powder blends into jars, or compresses them into solid dosage forms of either chewable wafers or tablets.

In October 1999, the Company opened a new facility in Vista, California for materials receiving, warehousing, weighing and blending, and distribution. The facility consolidates these operations into one location to improve materials and inventory management, work-in-process manufacturing, product distribution, as well as improve overall manufacturing and quality process controls.

In April 2000, the Company began operating its own finished goods packaging facility, adjacent to the warehousing and distribution facility. This new capability substantially eliminates the need to use outside packaging services to produce finished goods manufactured by the Company. The Company's packaging capabilities include bottles, powder fill, blister cards and packets. Management believes that the ability to offer in-house packaging will help control and reduce manufacturing costs, improve inventory management and quality control, simplify manufacturing logistics and provide more dependable service to its customers.

In October 1999, the Therapeutic Goods Administration ("TGA") of Australia re-certified the Company's encapsulation and tableting operations. In March 2000, the Company was also certified TGA compliant in areas including the new finished goods packaging operations. The TGA evaluates new therapeutic products, prepares standards, develops testing methods and conducts testing programs to ensure that products are of high quality, safe and effective. TGA certification also enables the Company to manufacture products for export into countries which have signed the Pharmaceutical Inspection Convention, and includes most European countries as well as several Pacific Rim countries.

The United States Pharmacopeia XXIV compendia ("USP") contain specifications for vitamin and mineral supplements. This USP monograph has long been the basis for determining the potency, purity, content uniformity, disintegration, dissolution and bio-burden of drugs and related articles. The Company believes it has the technical and quality control expertise to conform to all aspects of USP specifications. Conformance with USP specifications allows the Company to use the USP designation on products manufactured for its customers.

The Company believes its international manufacturing facilities, research & development, laboratory and quality control capabilities are a major factor in customer relationships. The standards for formulating, manufacturing and labeling nutritional products should, in the opinion of management, assist the Company in serving its present and future customers and, ultimately, the

consumer.

INTERNATIONAL OPERATIONS

In 1999, the Company initiated its geographic expansion strategy to develop a manufacturing facility in Europe. This strategic initiative intended to provide the Company's customers doing business in Europe the ability to source products locally, thereby reducing costs in distribution; reducing duties and tariffs; minimizing exchange exposure; reducing inventory; shortening lead times and improving customer service.

In September 1999, Natural Alternatives International Europe S.A. ("NAIE"), a wholly-owned subsidiary of the Company, opened its facility in Manno Switzerland, which is adjacent to the city of Lugano. The new manufacturing facility provides manufacturing capability in encapsulation and tablets, finished goods packaging, quality control laboratory testing, warehousing, distribution and administration. Over the last six months of fiscal 2000, the facility was profitable with a growing revenue base. Upon formation, NAIE obtained from the Swiss tax authorities a five-year federal and local income tax holiday ending in fiscal 2005.

4

5

In fiscal 2000, the Company's percentage of net sales of products marketed by its customers into international markets was approximately 32%, including approximately 7% of net sales of products manufactured by NAIE for customers marketing in the European marketplace.

RESEARCH AND DEVELOPMENT

The primary emphasis of the Company's research and development activities is the development of new products and enhancement of existing products. In addition, the Company continuously produces pilot or sample runs of product formulation prototypes to ensure stability and/or efficacy and to determine ingredient interaction and prospective customer acceptance of the final product. The Company has implemented quality control procedures to verify that all products comply with established specifications and standards in compliance with both USP and Good Manufacturing Practices promulgated by the Food and Drug Administration. The Company also directs and participates in clinical research studies for measuring the efficacy of certain products and/or formulations. These studies are conducted to establish consumer benefits and scientific efficacy supporting both product claims and marketing initiatives. The Company often collaborates with scientists and institutions, and the study results are generally presented at various scientific meetings and symposia, and published in numerous peer reviewed scientific journals. Research of this type is a part of the operating expenses incurred by the Company, and the associated costs have not been significant to date.

SOURCES AND AVAILABILITY OF RAW MATERIALS

Raw materials used in the Company's products consist of nutrient powders, excipients, empty gelatin capsules, and necessary components for packaging and distribution of finished vitamin and nutritional supplement products. The nutrient powders and the empty gelatin capsules are purchased from manufacturers in the United States, and foreign countries. All materials procured by the Company undergo quality control review to ensure conformance to product specification prior to acceptance and release into materials inventory. To date, the Company has not experienced any difficulty in obtaining adequate sources of supply. Although there can be no assurance that the Company will continue to be able to obtain adequate sources in the future, the Company believes that it will be able to do so.

MAJOR CUSTOMERS

NSA International, Inc. ("NSA") and Mannatech Incorporated ("Mannatech")

represented 62% of the Company's net sales for the fiscal year ended June 30, 2000. No other customers represented 10% or more of the Company's net sales for the fiscal year ended June 30, 2000. For the year ended June 30, 1999, NuSkin Enterprises, Inc., NSA and Pharmavite Corporation together represented 71% of the Company's net sales.

The Company is strengthening the manner in which it conducts business with its customers by entering into multi-year manufacturing services and supply agreements. These agreements may be either exclusive or non-exclusive covering markets for either the United States, certain countries or worldwide. Most of the Company's current customers conduct business under such agreements, whereby both parties agree to specific terms and conditions for product formulation, clinical research assessment, proprietary and confidential business information, product specifications, manufacturing standards, product pricing, delivery and payment terms.

The majority of the Company's existing customers are either public or privately held direct marketing organizations who distribute a variety of nutritional and health related products throughout the United States, Europe and the Pacific Rim.

As of June 30, 2000, the Company's sales backlog was approximately \$13.6 million.

COMPETITION

The Company's products are sold in domestic and foreign markets in competition with other private label manufacturing and marketing companies. The vitamin and nutritional supplement industry is highly competitive, and competition continues to increase. Competition for the sale of vitamins and supplements comes from many sources, including companies which sell vitamins to supermarkets, large chain discount retailers, drug store chains and independent drug stores, health food stores, pharmaceutical companies

5

6

and others who sell to wholesalers, as well as mail order vendors, eCommerce and network marketing companies. The Company does not believe it is possible to accurately estimate the number or size of its many competitors since the vitamin industry is largely privately held and highly fragmented.

The Company believes the industry continues to see significant consolidation with merger and acquisition activity totaling over \$4 billion in transactions during the first half of calendar 2000. Most industry experts expect this activity to continue for the foreseeable future in food and nutrition companies, multilevel marketing organizations and eCommerce internet firms.

The Company believes competition among manufacturers of vitamin and supplement products is based, among other things, on price, timely delivery, product quality, safety, availability, product innovation, marketing assistance and customer service. The competitive position of the Company will likely depend upon continued acceptance of its products, its ability to attract and retain qualified personnel, future governmental regulations affecting vitamins and nutritional supplements, and publication of vitamin product safety and efficacy studies by the government and authoritative health and medical authorities.

Based on industry data, the botanicals and supplements industry experienced a 30% sales growth in calendar year 1998, while 1999 experienced a decelerating growth rate of 7.8%. Intense competition among industry members during the same period narrowed overall operating margins from 9.7% to 4.3%. The industry is believed to be moving into a mature stage where greater price pressure and modest market expansion will continue to increase competition.

The Company's operations are subject to the risks normally associated with manufacturing vitamins and nutritional products, including shortage of certain

raw materials and damage to property or injury to persons.

EMPLOYEES

As of June 30, 2000, the Company employed in the United States 101 full-time employees, with five employed in executive management positions, twenty in the area of research, laboratory and quality control, six in sales and marketing, while the remaining employees are engaged in production and administration. The Company uses in its normal course of operations temporary personnel to meet short term operating level requirements primarily in manufacturing and manufacturing support. As of June 30, 2000 approximately 34 individuals were employed as temporary personnel.

As of June 30, 2000, the Company employed 12 full-time employees and 11 temporary personnel in Switzerland. Most of these employees were engaged in manufacturing and manufacturing support.

The Company has never experienced a work stoppage, and none of its employees are currently represented by a union or any other form of collective bargaining unit. The Company believes its relations with its employees are good.

GOVERNMENT REGULATION

The formulation, manufacturing, packaging, labeling, advertising and distribution of the Company's products are subject to regulation by one or more federal agencies, including the United States Food and Drug Administration ("FDA"), the Federal Trade Commission ("FTC"), the Consumer Product Safety Commission ("CPSC"), the United States Department of Agriculture ("DOA") and the Environmental Protection Agency ("EPA"). These activities are also regulated by various agencies of the states and localities in which the Company's products are sold, including without limitation the California Department of Health Services, Food and Drug branch. The FDA in particular regulates the advertising, labeling and sales of vitamin and mineral supplements and may take regulatory action concerning medical claims, misleading or untruthful advertising, and product safety issues. These regulations include the FDA's Good Manufacturing Practices ("GMP") for foods. Detailed dietary supplement GMPs have been proposed but no regulations have been adopted. Additional dietary supplement regulations were adopted by the FDA pursuant to the implementation of the Dietary Supplement Health and Education Act of 1994 ("DSHEA").

6

7

The Company may be subject, from time to time, to additional laws or regulations administered by the FDA or other Federal, State or foreign regulatory authorities, or to revised interpretations of current laws or regulations. The Company is unable to predict the nature of such future laws, regulations, interpretations or applications, nor can it predict what effect additional governmental regulations or administrative orders, when and if promulgated, would have on its business in the future. They could, however, require the Company to: reformulate certain products to meet new standards; recall or discontinue certain products not able to be reformulated; expand documentation of the properties of certain products; expand or provide different labeling and scientific substantiation; or, impose additional record keeping requirements. Any or all such requirements could have a material adverse effect on the Company's results of operations and financial position.

7

8

ITEM 2. PROPERTIES

The Company's corporate and manufacturing facilities consist of approximately 123,000 square feet and are located in San Marcos and Vista, California. Of this

space, the Company owns approximately 29,500 square feet and leases the remaining space. Approximately 68,000 square feet is used for production related activities, 35,000 square feet is used for warehousing, 5,000 square feet is used for laboratory and product development, and 15,000 square feet is used for offices.

In August 1997, the Company entered into a 15-year lease agreement under which the lessor was to construct a build-to-suit 82,000 square foot corporate office and manufacturing facility in Carlsbad, California. In March 1999, the Company made the decision to abandon the facility and sublease, and not occupy, the partially completed facility. The decision to abandon the facility was based on subsequent management determination that considered the inadequate size, location, utility and the expense of the building. In fiscal 1999, the Company recorded a \$5.4 million loss on abandonment of leased facility consisting of: (1) \$2.3 million impairment of leasehold improvement costs, (2) an unfavorable lease obligation accrual of \$2.7 million representing the present value of the excess of future lease payments over the estimated sub-lease income and (3) \$0.4 million facility lease payments.

In June 2000, the Company successfully terminated the long-term lease obligation related to the Carlsbad facility. In April and May 2000, the Company entered into two sublease agreements for the entire premises for approximately five years. In June 2000, the Company completed a termination agreement of the fifteen-year lease obligation from the landlord for a \$3.0 million settlement fee. The buyout agreement provided for the sale of the Company's leasehold interests and obligations to the landlord for essentially the same cost of performing its obligations pursuant to the sublease agreements. The Company recorded an additional \$1.7 million charge to results of operations in the year ended June 30, 2000, reflecting the final cost for exiting the long-term lease commitment, lease payments and property taxes. The Company incurred total expenses of approximately \$7.1 million over the duration of this abandoned facility commitment, including facility lease payments and property taxes. The buyout terminated the Company's obligation for the facility saving cash outflows of approximately \$1.5 million per year related to the leased facility and terminated a \$20.0 million long-term lease commitment.

The Company entered into two new lease agreements during fiscal year 1999 for two adjacent buildings located in Vista, California. The facilities are leased from an unaffiliated third party and consist of a total of approximately 74,000 square feet. The lease for the first building commenced in August 1998 under a 5-year lease agreement and consists of approximately 54,000 square feet to be utilized as a materials warehousing, weighing, blending, and distribution facility. The lease for the second building commenced in March 1999 under a 3.5 year lease agreement for the rental of approximately 20,000 square feet to be utilized as a finished goods packaging facility. The consolidation of receiving, warehousing, weighing, blending and distribution space is expected to increase operating efficiencies to allow the Company to meet demand for its products, as well as maintain stringent inventory and quality controls. The Company will continue to utilize its facilities in San Marcos as its corporate and administrative offices, laboratory, pilot manufacturing and encapsulation and tablet bulk product production.

The Company leases approximately 18,000 square feet in Manno, a town adjacent to Lugano, Switzerland. The facilities are used primarily for the use of manufacturing, packaging and distribution of nutritional supplement products for the European marketplace. The Company entered into a five-year lease agreement in March 1999, with the facility becoming fully operational for manufacturing operations in September 1999.

The Company expects to renew its leases in the normal course of business. The Company believes that its current facilities are adequate to meet its operating requirements for the foreseeable future.

ITEM 3. LEGAL PROCEEDINGS

The Company is a party to a lawsuit filed by its former President, Director and Chief Financial Officer, William P. Spencer. The lawsuit was filed in January 2000, and was served upon the Company in March 2000. Mr. Spencer was terminated by the Company for cause in January 1999. The lawsuit alleges damages for wrongful termination, breach of option contract, conversion, breach of employment contract, discriminatory and retaliatory discharge, workplace harassment and slander. The lawsuit seeks damages in an amount to be proved at trial, and alleges damages in excess of six million dollars. The Company has responded to the lawsuit and has denied it has any liability. Management believes the claims against the Company are without merit. The Company has filed a cross-complaint in the lawsuit against Mr. Spencer and Imagenetix, Inc., a corporation in which Mr. Spencer is currently a director, principal shareholder and chief executive, and three other individuals, two of whom are former employees of the Company and the other a former consultant to the Company. The cross-complaint seeks damages and injunctive relief for breach of fiduciary duty; fraud-concealment of material facts; intentional interference with prospective economic advantage; negligent interference with prospective economic advantage; civil conspiracy; intentional interference with contract; trade libel; slander per se; breach of contract; conversion; misappropriation of trade secrets; breach of duty of loyalty; unlawful, unfair and/or fraudulent business acts or practices and an accounting. The additional defendants in NAI's cross-complaint subsequently filed cross-actions against NAI, alleging similar claims to those alleged by Mr. Spencer. The complaint against NAI was also amended to add Imagenetix, Inc. as a claimant. Management believes the additional claims are without merit, and the Company will prevail in its cross-complaint against each cross-defendant. The Company subsequently amended its complaint, adding additional claims against certain parties. In the event a judgment is obtained against the Company in the amount of the damages alleged in the lawsuit or any significant portion thereof, it would have a material adverse impact upon the financial condition of the Company.

The Company is a plaintiff in an anti-trust lawsuit against several manufacturers of vitamins and other raw materials purchased by the Company. Other similarly situated companies have filed a number of similar lawsuits against some or all of the same manufacturers. The Company's lawsuit has been consolidated with some of the others and is captioned In re: Vitamin Antitrust Litigation, and is pending in U.S. District Court in Washington D.C. One or more consumer class actions have also been filed against some or all of the same defendants, and at least one of these is presently in a settlement process. The Company brought its own action to insure it understood what actually occurred. There can be no assurance the claims will be resolved, or, if they are, that it will result in a material benefit to the Company.

The Company is involved in various claims and legal actions arising in the ordinary course of business. In the opinion of management, after consultation with its legal counsel, the ultimate disposition of these matters will not have a material adverse effect on the Company's consolidated financial position, results of operations or liquidity.

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

None.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

The Company's common stock trades on the Nasdaq National Market tier of The Nasdaq Stock Market under the Symbol: NAII. The common stock of the Company had previously been traded on the American Stock Exchange (AMEX) since November 17,

1992, under the stock symbol NAI. The table below sets forth the high and low sales prices of the Company's stock for fiscal 2000 and 1999.

	High -----	Low -----
First Quarter Ended September 30, 1999	\$ 4.875	\$ 3.188
Second Quarter Ended December 31, 1999	\$ 4.250	\$ 2.531
Third Quarter Ended March 31, 2000	\$ 3.500	\$ 1.750
Fourth Quarter Ended June 30, 2000	\$ 2.125	\$ 1.313
First Quarter Ended September 30, 1998	\$26.625	\$12.125
Second Quarter Ended December 31, 1998	\$15.063	\$ 9.125
Third Quarter Ended March 31, 1999	\$14.000	\$ 4.188
Fourth Quarter Ended June 30, 1999	\$ 5.125	\$ 3.125

As of June 30, 2000, there were approximately 422 stockholders of record of NAII Common Stock.

The Company has never paid a dividend on its Common Stock. It is the Company's present policy to retain all earnings to provide funds for the future growth of the Company.

10

11

PART II

ITEM 6. SELECTED FINANCIAL DATA

FIVE YEAR SUMMARY OF SELECTED FINANCIAL DATA

	2000 -----	1999 -----	1998 -----	1997 -----	1996 -----
Net Sales	\$ 47,827	\$ 57,430	\$ 67,894	\$ 49,444	\$ 47,622
Income (Loss) from Operations	\$ (6,724)	\$ (4,937)	\$ 9,623	\$ 1,815	\$ 5,263
Net Earnings (Loss)	\$ (4,472)	\$ (2,923)	\$ 5,872	\$ 1,120	\$ 3,222
Net Earnings (Loss) Per Common Share:					
Basic	\$ (0.78)	\$ (0.50)	\$ 1.06	\$ 0.21	\$ 0.61
Diluted	\$ (0.78)	\$ (0.50)	\$ 1.00	\$ 0.20	\$ 0.58
Current Assets	\$ 17,456	\$ 23,239	\$ 30,642	\$ 18,858	\$ 15,710

Total Assets	\$ 34,875	\$ 38,596	\$ 42,987	\$ 28,109	\$ 23,561
Long-Term Debt and Capital Lease Obligations, Less Current Installments	\$ 3,345	\$ 927	\$ 977	\$ 1,124	\$ 1,325
Stockholders' Equity	\$ 20,486	\$ 25,091	\$ 27,660	\$ 18,700	\$ 17,160

11

12

PART II

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

This Form 10-K contains certain "forward-looking statements" as such term is defined in the Private Securities Litigation Reform Act of 1995 or by the Securities and Exchange Commission in its rules, regulations and releases. These statements represent the Company's expectations or beliefs, including, but not limited to, statements concerning future financial and operating results, anticipated growth in revenues and profit margins, improvements in management personnel, the impact of European operations, and the utilization of inventories and facilities, statements concerning industry performance, the Company's operations, economic performance, financial condition, growth and acquisition strategies, margins and growth in sales of the Company's products. For this purpose, any statements contained in this Report that are not statements of historical fact may be deemed to be forward-looking statements. Without limiting the generality of the foregoing, words such as "may", "will", "expect", "believe", "anticipate", "intend", "could", "estimate" or "continue" or the negative or other variations thereof or comparable terminology are intended to identify forward-looking statements. These statements by their nature involve substantial risks and uncertainties, certain of which are beyond the Company's control, and actual results may differ materially depending on a variety of important factors, including uncertainty related to government regulation, the effect of adverse publicity, litigation, the centralized location of the Company's manufacturing operations, availability of raw materials, risks associated with international operations, competition, product liability claims, volatility of stock price and those factors described in this and other Company filings with the Securities and Exchange Commission.

RESULTS OF OPERATIONS

The following discussion refers to the twelve-month period ended June 30, 2000, the twelve-month period ended June 30, 1999, and the twelve-month period ended June 30, 1998, respectively.

FISCAL 2000 COMPARED TO FISCAL 1999

Fiscal 2000 net sales of \$47.8 million decreased \$9.6 million, or 17%, compared to net sales of approximately \$57.4 million for fiscal 1999. The decrease was primarily due to the loss of a major customer, Nu Skin Enterprises Inc., which accounted for sales of approximately \$4.3 million, or 9%, for fiscal 2000 and \$18.4 million, or 32%, for fiscal 1999. NuSkin informed the Company in December 1999 that its production needs have been transitioned to other vendors for the foreseeable future. The sales decrease from fiscal 1999 was also impacted due to the loss of commodity herbal product sales to Pharmavite Corporation of approximately \$9.4 million. The Company experienced the sales decrease to Pharmavite commencing in the third quarter fiscal 1999 as a result of a sharp sales decrease in the mass drug and retail consumer market starting during the time period of mid to late 1998. The loss of these major customers was partially offset by increased sales to existing and new customers in the private label product line and the launch in March 2000 of the Company's first direct-to-consumer physicians branded product line. The sales increase attributed to the Company's largest customer increased to \$20.8 million, over

fiscal year 1999 sales of \$13.4 million, an increase of \$7.4 million. The Company's second largest customer in fiscal 2000 also increased sales from \$2.5 million in fiscal 1999 to \$9.0 million in fiscal 2000, an increase of \$6.5 million. In addition, sales attributed to a new private label product line customer contributed approximately \$3.1 million in sales for fiscal 2000.

Management continues to focus its growth strategy through diversifying and expanding geographic sales channels. The geographic expansion in fiscal 2000 through the wholly-owned manufacturing subsidiary, located in Switzerland, commenced operations in September 1999 and contributed \$3.4 million, or 7%, in net sales fiscal 2000. The Company believes that the new Swiss manufacturing facility is tracking to its business plan and sales volumes are anticipated to grow to meet European market demand. During the latter part of the third quarter of fiscal 2000, the Company also launched its first physician branded product line under the Dr. Cherry label. This new direct-to-consumer product line contributed slightly less than \$1.0 million in revenues during the fourth quarter fiscal 2000. The Company has a 10-year Exclusive Licensing and Manufacturing Agreement for the distribution and manufacture of these products and has contracted

12

13

with an outside company to utilize their specialized services to meet direct-to-consumer call center and order fulfillment capabilities. These fulfillment services support future direct television, radio, monthly medical newsletter, direct mail, study guides, books and e-commerce channels, specifically targeted to the direct-to-consumer market. In addition, the Company developed and sold to Custom Nutrition, a joint venture with FitnessAge Incorporated, customized sports nutritional supplements in anticipation of FitnessAge launching its consumer health marketing programs during the second half of calendar year 2000.

During fiscal 2000, the Company experienced an increase in cost of goods sold as a percentage of sales, excluding the inventory write-off of \$2.0 million, to 86.7% compared to 78.4% for fiscal 1999. The increase reflects reduced selling prices which were not completely offset by reduced material costs; increased manufacturing labor and overhead costs; and increased costs in quality control to ensure product compliance with established GMP specifications and standards. During the second quarter fiscal 2000, the Company wrote-off inventory of \$2.0 million, which included \$735,000 for deposits on inventory. The analysis of inventory balances and subsequent write-off related primarily to the loss of a major customer in December 1999, a decline in market share and continuing competitive pressures, which caused the Company to re-evaluate all product lines and reduce or slow production of products with limited future commercial value. The decrease in sales, increase in cost of goods sold and the inventory write-off resulted in a reduction of gross profit of \$8.1 million to approximately \$4.3 million for fiscal 2000 compared to \$12.4 million for fiscal 1999. The Company reduced manufacturing labor and overhead costs by \$1.0 million and outside packaging costs by \$1.6 million during the last six months of fiscal 2000 primarily attributable to the cost containment program discussed below.

Selling, general and administrative expenses for fiscal 2000 were \$9.3 million, or 19.5% as a percentage of sales, which represented a decrease from 20.8% for fiscal 1999. In absolute dollars, the expenses decreased by approximately \$2.7 million to \$9.3 million for fiscal 2000 from \$12.0 million for fiscal 1999. The expense reduction was primarily the result of the previously announced cost containment program, including reductions in consulting, commissions and travel expenses. In addition, during fiscal 1999, the Company incurred approximately \$0.6 million of expenses related to the restructuring of the senior management team. Total selling, general and administrative expenses have declined over the last preceding four quarters in fiscal 2000 primarily attributable to the cost containment program discussed below.

The Company's loss from operations was \$6.7 million for fiscal 2000 compared to a loss of \$4.9 million for fiscal 1999. The increase in loss from operations of

\$1.8 million was due to a decrease in gross profit of \$8.1 million, partially offset by the decrease in selling, general and administrative expenses of \$2.7 million and the loss on abandonment of leased facility of approximately \$3.7 million. Cumulative loss from operations for the two fiscal years 2000 and 1999 of \$11.7 million included expenses relating to the loss on abandonment of the Carlsbad facility of \$7.1 million and the inventory write-off of \$2.0 million. Loss from operations during both fiscal 2000 and 1999 also included professional and consulting fees relating to the training in new computer systems and management restructuring. These costs are expected to reduce significantly as a result of both the cost containment program and cessation of such events.

The Company recorded a net loss for 2000 of \$4.5 million compared to a net loss of \$2.9 million for fiscal 1999. The increase in net loss was due to the reasons described above. The income tax benefit of 35.2% compares with a benefit of 39.4% for fiscal 2000 and 1999, respectively. The lower percentage is partially due to the consolidation of NAIE, the wholly-owned subsidiary located in Switzerland, which has five-year income tax holiday ending in fiscal 2005. NAIE contributed in its first year of operations a net loss of less than \$0.2 million during fiscal 2000, which included start-up and development expenses, and provided net earnings for the last six months of fiscal 2000 of approximately \$0.5 million. Diluted net loss per common share was \$0.78 for fiscal 2000 compared to diluted net loss per common share of \$0.50 for 1999.

COST CONTAINMENT PROGRAM

Based on the Company's net operating losses in fiscal 2000 and previous quarters during fiscal 1999, management is committed to the restoration of future operating profits by adjusting its operating cost structure in line with its operating levels.

In the second quarter fiscal 2000, the Company announced a cost containment program designed to reduce future operating expenses in response to the loss of a major customer in December 1999. The program initiated expense control measures intended to counteract the loss of a major customer and streamline business processes to improve future operating performance. The program included an immediate reduction of approximately 27% in the Company workforce, consisting of both permanent and temporary personnel.

In the fourth quarter fiscal 2000 the following additional cost containment initiatives completed were:

- (i) Substantial reduction of outside packaging services, as a result of the capital expansion initiative to invest in the integration of in-house finished goods packaging capabilities and to substantially eliminate future outside packaging services.
- (ii) An additional reduction in force of 25% effective May 2000, including reductions in executive compensation and benefits.
- (iii) Successfully terminating the long-term lease obligation related to the Carlsbad facility in June 2000. Initially the Company entered into two sublease agreements for the entire premises for approximately five years. Shortly thereafter, the Company completed a buyout of the fifteen-year lease obligation from the landlord. The buyout agreement provided for the sale of the Company's leasehold interests and obligations to the landlord for essentially the same cost of performing its obligations pursuant to the sublease agreements, resulting in the Company paying a \$3.0 million settlement fee to the landlord.

Since January 2000, the Company eliminated approximately 95 positions, or 47% of its United States workforce, excluding the effect of new positions created in the fourth quarter fiscal 2000 for its new in-house packaging facility. The Company estimates that the cumulative effect of the reductions will reduce

annual operating expenses by approximately \$3.25 million. The two reduction-in-force initiatives did not result in significant separation agreement or other termination costs during fiscal 2000.

The Company will continue to concentrate and adhere to its efforts on improving operational efficiencies, streamlining resource requirements, and upgrading core business processes to improve operating performance. In addition, the Company will continue to focus on existing customers and realize the returns from the strategies implemented to diversify and expand geographical and distribution channels through its Swiss manufacturing operations, physician branding direct to consumer initiatives and Custom Nutrition joint venture.

FISCAL 1999 COMPARED TO FISCAL 1998

Net sales decreased 15.4% or \$10.5 million to \$57.4 million in fiscal 1999 from \$67.9 million in fiscal 1998. Management believes the decrease in sales is attributable to increased product and price competition in the nutritional supplement market as well as increased competition for new distributors. In addition, sales growth was negatively impacted by the reduction in market demand for several herbal products, resulting in depressed market prices and sales volumes. The Company expects competition to remain strong for the foreseeable future.

Sales of products by our customers into international markets increased 18.8% to \$17.7 million in fiscal 1999 from \$14.9 million in fiscal 1998. The increase is primarily the result of existing customers continued expansion into Asian and European markets through their international distribution channels.

In fiscal 1999, the Company experienced an increase in cost of goods sold, as a percentage of sales, to 78.4% compared to 72.4% for the prior year. The increase was primarily due to liquidation of excess or slow moving inventories at or below cost and inventory write-downs to net realizable values, caused by depressed market prices due to reduced industry demand. The increase in cost of goods sold resulted in a reduction of gross profit margins to 21.6% in fiscal 1999 compared to 27.6% in fiscal 1998.

Selling, general and administrative expenses increased as a percentage of net sales to 20.8% in fiscal 1999 from 13.4% in fiscal 1998, increasing in absolute dollars to \$12.0 million in fiscal 1999 from \$9.1 million in fiscal 1998. The percentage increase was due primarily to the fixed nature of selling, general and administrative expenses and the decrease in net sales as noted above. The increase in absolute dollars was due to: upgrades in systems and computers related to Y2K compliance; expenses related to management restructuring; and higher rents in connection with entering into additional leases for new blending, warehousing and packaging facilities. Additionally, professional fees increased because of increased activity in seeking additional manufacturing agreements.

The Company recorded charges related to the loss on abandonment of leased facility of \$5.4 million during fiscal 1999. The expense relates to the Company's decision to sublease, and not occupy, a partially completed office and manufacturing facility in Carlsbad, California. In fiscal 1999, the Company recorded a \$2.3 million charge for impairment of leasehold assets, an unfavorable lease obligation accrual of \$2.7 million representing the present value of the excess of future lease payments over estimated sub-lease income, and \$0.4 million in lease payments.

The Company's loss from operations was \$4.9 million compared to income from operations of \$9.6 million in fiscal 1998. This was due to an \$6.3 million decrease in gross profit, \$2.9 million increase in selling, general and administrative expenses, and the \$5.4 million provision for loss on abandonment of leased facility and other expense.

The Company incurred a net loss for fiscal 1999 of \$2.9 million compared to net income of \$5.9 million in fiscal 1998. This loss was due to the reasons described above. Diluted loss per common share was (\$.50) in fiscal 1999 compared to diluted earnings per common share of \$1.00 in fiscal 1998.

LIQUIDITY AND CAPITAL RESOURCES

The Company has historically financed its operations through cash flow from operations, capital and operating lease transactions, working capital credit facility and equipment financing arrangements.

At June 30, 2000, the Company had cash of approximately \$0.8 million, a decrease from approximately \$1.1 million at June 30, 1999. The Company used approximately \$6.0 million in investing activities primarily to fund manufacturing facility improvements in both the United States and Switzerland, and a convertible secured promissory note from FitnessAge Incorporated as discussed in footnote L to the financial statements. The Company also utilized approximately \$1.6 million to fund cash used in operating activities. The cash used in both investing and operating activities were primarily funded by cash provided by financing activities of approximately \$7.4 million.

Capital expenditures for fiscal 2000 amounted to approximately \$5.2 million. These expenditures relate primarily to the development of the new Swiss manufacturing facility of approximately \$1.4 million and domestic manufacturing facility improvements of approximately \$3.7 million. The domestic capital expenditures were spent on expanding and upgrading the Company's materials warehouse, weighing, blending, and distribution facility, as well as the addition of the new finished goods packaging facility. These expenditures were primarily for consolidating operations into adjacent facilities to improve overall manufacturing, quality and process controls, as well as to vertically integrate finished goods packaging and labeling capabilities. In April 2000, the Company began operating its own finished goods packaging facility, adjacent to the warehousing and distribution facility. This new capability substantially eliminates the need to use outside packaging services to produce finished goods manufactured by the Company. The Company packages bottles, powder filling, blister cards or packets. Management believes that the ability to offer in-house packaging will help control and reduce manufacturing costs, improve inventory management and quality control, simplify manufacturing logistics and provide more dependable service to its customers. These expenditures were funded primarily from borrowings under the Company's term note described below.

At June 30, 2000, the Company had working capital of approximately \$7.6 million compared to approximately \$14.1 million at June 30, 1999. The \$6.5 million decrease in working capital was primarily the result of a decrease in current assets of \$5.8 million and an increase of current liabilities of \$0.7 million. Current assets decreased primarily due to a decrease in inventories of approximately \$2.2 million and accounts receivable of \$3.4 million. Current liabilities increased primarily due to an increase in lines of

credit, current notes payable and current portion of long-term debt of \$5.0 million partially offset by a decrease in accounts payable of \$3.9 million and other liabilities of \$0.4 million.

For fiscal 2000, the Company's consolidated outstanding debt increased to approximately \$8.4 million from approximately \$1.0 million at June 30, 1999. The increase of \$7.4 million in total debt to fund the following Company initiatives in fiscal 2000: capital expenditures related primarily to domestic manufacturing facility improvements of \$3.7 million; cash used in operating activities of \$1.6 million; increase of debt of \$0.8 million for the development of the new manufacturing subsidiary in Switzerland; and cash used in investing activities of \$0.9 million for FitnessAge and Custom Nutrition. The composite interest rate on all outstanding debt as of June 30, 2000 was approximately 8.95%.

The Company has access to funds from existing working capital credit facilities to support future ongoing operating requirements of approximately \$6.2 million, net of borrowings outstanding under these facilities as of June 30, 2000 of approximately \$2.8 million. The working capital line of credit facilities are subject to eligibility requirements for current accounts receivable and inventory balances. As of June 30, 2000 total excess borrowing capacity based on eligible working capital balances was approximately \$1.0 million. One or more of the Company's loan agreements contain a number of covenants that restrict the operations of the Company. Such restrictions include requiring the Company to comply with specified financial ratios and tests, including minimum tangible net worth requirements, maximum leverage ratios, debt coverage ratios, and minimum Earnings before Interest, Depreciation and Amortization ("EBITDA") to cash interest expense ratios. The Company was not in compliance with certain of these ratios as of June 30, 2000, which the lender has agreed to waive through June 30, 2000. As of July 1, 2000 the Company and the lender have amended the credit agreement to provide new debt covenant restrictions under which the Company is compliant. The Company is negotiating with various lenders to establish new loan arrangements.

The Company believes that its available cash and existing credit facilities should be sufficient to fund near-term operating activities. However, the Company's ability to fund future operations and meet capital requirements will depend on many factors, including but not limited to: the ability to seek additional capital; the effectiveness of the Company's diversified growth strategy; the effectiveness of the cost containment program; vertical integration of packaging operations; the expansion of Switzerland manufacturing operations; and the ability to establish additional customers or changes to existing customer's business.

NEW ACCOUNTING PRONOUNCEMENTS

In December 1999, the Securities and Exchange Commission ("SEC") issued Staff Accounting Bulletin No. 101, "Revenue Recognition in Financial Statements" ("SAB No. 101"). SAB No. 101, as amended by SAB No. 101B, summarizes certain of the SEC's staff's views in applying generally accepted accounting principles to revenue recognition in financial statements. The Company is required to implement SAB No. 101 by the fourth quarter fiscal 2001 and does not believe that it will have a significant effect on its financial statements.

In June 1999, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities" (SFAS 133), which was amended by Statement of Financial Accounting Standards No. 137 (SFAS 137). SFAS 133 and SFAS 137 require companies to recognize all derivatives as either assets or liabilities, with the instruments measured at fair value. The accounting for changes in fair value gains and losses depends on the intended use of the derivative and its resulting designation. SFAS 133 and SFAS 137 become effective for the Company on July 1, 2000, however, the Company does not believe their adoption will have a material impact on its financial statements.

In March of 2000, the Financial Accounting Standards Boards ("FASB") issued FASB Interpretation No. 44 ("FIN 44"), Accounting for Certain Transactions Involving Stock Compensation - an Interpretation of Accounting Principles Board Opinion No. 25. FIN 44 is effective July 1, 2000. The Company does not expect the application of FIN 44 to have a significant effect on its financial statements.

ITEM 7a. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We are exposed to a variety of risks, including changes in interest rates affecting the return on our investments and the cost of our debt.

At June 30, 2000, the Company maintained its cash and cash equivalents in financial instruments with original maturities of three months or less.

The Company's debt totaled \$8.4 million as of June 30, 2000 and was comprised principally of term notes and lines of credit. The Company's debt obligations bear a composite rate of 9.0%. An immediate change of one hundred basis points in interest rates would not have a material effect on our financial condition or results of operations due to the fixed rate nature of the term notes.

RISK FACTORS THAT MAY AFFECT FUTURE OPERATING RESULTS

In addition to the other information included in this Report, the following factors should be considered in evaluating the Company's business and future prospects. The Company's business and results of operations could be seriously harmed by any of the following risks. In addition, the market price of our common stock could decline due to any of these risks.

RECENT LOSSES; DECLINING SALES

The Company incurred a net loss of approximately \$4.5 million for the fiscal year ended June 30, 2000. Sales for the fiscal year ended June 30, 2000, declined to approximately \$47.8 million, compared to approximately \$57.4 million for the fiscal year ended June 30, 1999. The Company has implemented a cost containment program and a return to profitability program in an effort to reduce expenses to be consistent with current operating levels. There can be no assurance these programs will be effective, or if they are, the Company cannot predict the level of profitability or whether the Company will be able to maintain profitability. The Company expects that operating results will fluctuate from period to period as a result of differences in when it incurs expenses and recognizes revenues from product sales. Some of these fluctuations may be significant.

DECLINE IN STOCK PRICE

The Company's stock price has experienced significant volatility at times during the past few years and is currently at historic lows. In view of the Company's recent losses and the fact there can be no assurances of future profitability, there can be no assurance that the stock price will not continue to decline. Market conditions in the vitamin and nutritional supplement industry, such as increased price competition, consolidation, oversupply of vitamin and supplement products, operating results of competitors, adverse publicity and other factors such as customer and product announcements by the Company and operating results which are lower than the expectations of analysts and our investors, may have a continuing adverse affect on the price of the Company's stock.

RELIANCE ON LIMITED NUMBER OF CUSTOMERS FOR MAJORITY OF REVENUE

For the fiscal year ended June 30, 2000, the Company had 2 major customers, which together accounted for approximately 62% of the Company's net sales. The loss of either of these major customers, or any substantial reduction of their purchases from the Company, would have a material adverse impact on the business, operations and financial condition of the Company.

LOSS OF MAJOR CUSTOMER

During the quarter ended December 31, 1999, one of the Company's major customers, NuSkin Enterprises, Inc. ("NuSkin"), advised the Company it would stop purchasing products from the Company, and no longer purchases any Company products. For the fiscal year ended June 30, 1999, NuSkin accounted for approximately \$18.4 million or approximately 32% of the Company's net sales. For the year ended June 30, 2000, NuSkin accounted for approximately \$4.3 million or 9% of the Company's net sales. The loss of

operating results of the Company. There can be no assurance the Company will be able to generate revenue from any source in an amount sufficient to offset the loss of NuSkin as a customer.

RESTRICTIVE FINANCING COVENANTS.

One or more of the Company's loan agreements contain a number of covenants that restrict the operations of the Company. Such restrictions include requiring the Company to comply with specified financial ratios and tests, including minimum tangible net worth requirements, maximum leverage ratios, debt coverage ratios, and minimum Earnings before Interest, Depreciation and Amortization ("EBITDA") to cash interest expense ratios. The Company was not in compliance with certain of these ratios at June 30, 2000, which the lender has agreed to waive through June 30, 2000. The credit agreement was subsequently amended to provide new debt covenant restrictions under which the Company was compliant at 6/30/00. The Company is negotiating with various lenders to establish new loan arrangements. There can be no assurance the Company will successfully enter into new loan agreements and will be able to comply with the covenants or restrictions contained therein during future quarters. The Company's ability to comply with such covenants and other restrictions may be affected by events beyond its control, including prevailing economic, financial and industry conditions. The breach of any such covenants or restrictions could result in a default under the various loan agreements that would permit the lenders to declare all amounts outstanding thereunder to be immediately due and payable, together with accrued and unpaid interest, and to terminate their commitments to make further extensions of credit. Any such action could have a material adverse impact upon the business operations and financial condition of the Company.

SECURED PROMISSORY NOTE RECEIVABLE

The Company has loaned approximately \$750,000 to its joint venture partner in a limited liability company. The debt is convertible into the private company's common stock and will become due and payable in the second fiscal quarter of 2001. The borrower is a development stage company and there can be no assurance it will have the funds to repay the debt when it becomes due. In the event it does not, the Company may elect to renegotiate the terms or grant an extension or convert the debt into the stock of the borrower on the same or revised terms as exist in the current loan agreements.

LAWSUIT BY FORMER PRESIDENT, DIRECTOR AND CHIEF FINANCIAL OFFICER

The Company is a party to a lawsuit filed by its former President, Director and Chief Financial Officer, William P. Spencer. Mr. Spencer was terminated by the Company for cause in January 1999. The lawsuit includes various claims, and alleges damages in excess of six million dollars. The Company has responded to the lawsuit and has denied it has any liability associated with the claim. Management believes the claims against the Company are without merit. The Company filed a cross-complaint in the lawsuit against Mr. Spencer and Imagenetix, Inc., a corporation in which he is currently a director, principal shareholder and chief executive, and three other individuals, two of whom are former employees of the Company and the other a former consultant to the Company. Both the Company's and the other parties' complaints have been amended, and additional parties have been added. Management believes the Company will not be found liable on any claim, and will prevail in its cross-complaint against each cross-defendant. In the event a judgment is obtained against the Company in the amount of the damages alleged in the lawsuit or any significant portion thereof, it would have a material adverse impact upon the financial condition of the Company.

POTENTIAL FOR INCREASED COMPETITION

The market for the Company's products is highly competitive. The Company competes with other dietary supplement products and over-the-counter pharmaceutical manufacturers. Among other factors, competition among these manufacturers is based upon price. If one or more manufacturers significantly reduce their prices in an effort to gain market share, the Company's business, operations and financial condition could be adversely affected. Many of the Company's competitors, particularly manufacturers of nationally advertised brand

name products, are larger and have resources substantially greater than those of the Company. There has been speculation about the potential for increased participation in these markets by major international pharmaceutical companies. In the future, if not already, one or more of these companies could seek to compete more directly with the Company by manufacturing and distributing

18

19

their own or others' products, or by significantly lowering the prices of existing national brand products. The Company sells substantially all of its supplement products to customers who re-sell and distribute the products. Although the Company does not currently participate significantly in other channels such as health food stores, direct mail, internet sales and direct sales, the Company is expanding its operations and its products, and will likely face increased competition in such distribution and sales channels as more vendors and customers utilize them.

RELIANCE ON LIMITED NUMBER OF SUPPLIERS; AVAILABILITY AND COST OF PURCHASED MATERIALS

The Company purchases certain products it does not manufacture from a limited number of raw material suppliers. No supplier represented more than 10% of total raw material purchases for the fiscal year ended June 30, 2000. Although the Company currently has supply arrangements with several suppliers of these raw materials, and such materials are generally available from numerous sources, the termination of the supply relationship by any material supplier or an unexpected interruption of supply could materially adversely affect the Company's business, operations and financial condition.

The Company relies on a single supplier to process certain raw materials for a product line of the Company's largest customer. An unexpected interruption of supply of this service would materially adversely affect the Company's business, operations and financial condition.

EFFECT OF ADVERSE PUBLICITY

The Company's products consist primarily of dietary supplements (vitamins, minerals, herbs and other ingredients). The Company regards these products as safe when taken as suggested by the Company. In addition, various scientific studies have suggested the ingredients in some of the Company's products may involve health benefits. The Company believes the growth in the dietary supplements business of the last several years may, in part, be based on significant media attention and various scientific research suggesting potential health benefits from the consumption of certain vitamin products. The Company is indirectly dependent upon its customers' perception of the overall integrity of its business, as well as the safety and quality of its products and similar products distributed by other companies which may not adhere to the same quality standards as the Company. The business, operations, and financial condition of the Company could be adversely affected if any of the Company's products or any similar products distributed by other companies should prove or be asserted to be harmful to consumers, or should scientific studies provide unfavorable findings regarding the effect of products similar to those produced by the Company.

EXPOSURE TO PRODUCT LIABILITY CLAIMS

The Company, like other retailers, distributors and manufacturers of products that are ingested, faces a risk of exposure to product liability claims in the event that, among other things, the use of its products results in injury. The Company maintains product liability insurance coverage, including primary product liability and excess liability coverage. There can be no assurance that product liability insurance will continue to be available at an economically reasonable cost or that the Company's insurance will be adequate to cover any liability the Company incurs in respect to all possible product liability claims. In addition, some of the ingredients included in one or more of the

products manufactured by the Company are subject to controversy involving potential negative side effects or questionable health benefits. Some insurers have recently excluded certain of these ingredients from their product liability coverage. Although the Company's product liability insurance does not presently have any such limitations, the Company's insurer could require such exclusions or limitations on coverage in the future. In such event, the Company may have to cease utilizing the ingredients or may have to rely on indemnification or similar arrangements with its customers who wish to continue to include such ingredients in their products. In such an event, the consequential increase in product liability risk or the loss of customers or product lines could have a material adverse impact on the Company's business, operations, and financial condition.

RISKS ASSOCIATED WITH INTERNATIONAL MARKETS

The Company's growth may be dependent in part upon its ability to expand its operations and those of its customers into new markets, including international markets. For the fiscal year ended June 30, 2000, the percentage of the Company's net sales to customers in international markets was approximately 32%. The

Company has a manufacturing facility in Switzerland, which is intended to facilitate an increase in sales of the Company's products overseas and which contributed approximately 7% of the Company's net sales for the fiscal year ended June 30, 2000. The Company may experience difficulty entering new international markets due to regulatory barriers, the necessity of adapting to new regulatory systems, and problems related to entering new markets with different cultural bases and political systems. Operating in international markets exposes the Company to certain risks, including, among other things, (1) changes in or interpretations of foreign import, currency transfer and other restrictions and regulations that among other things may limit the Company's ability to sell certain products or repatriate profits to the United States, (2) exposure to currency fluctuations, (3) the potential imposition of trade or foreign exchange restrictions or increased tariffs, and (4) economic and political instability. As the Company continues to expand its international operations, these and other risks associated with international operations are likely to increase.

GOVERNMENT REGULATION

The manufacturing, processing, formulation, packaging, labeling and advertising of the Company's products are subject to regulation by one or more federal agencies, 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, the United States Postal Service, the United States Environmental Protection Agency, and the Occupational Safety and Health Administration. The Company's activities are also regulated by various agencies of the states and localities in which the Company's products are sold. In particular, the FDA regulates the safety, labeling and distribution of dietary supplements, including vitamins, minerals, herbs, food, and over-the-counter and prescription drugs and cosmetics. In addition, the FTC has overlapping jurisdiction with the FDA to regulate the labeling, promotion and advertising of vitamins, over-the-counter drugs, cosmetics and foods.

The Dietary Supplement Health and Education Act of 1994 ("DSHEA") was enacted on October 25, 1994. DSHEA amends the Federal Food, Drug and Cosmetic Act by defining dietary supplements, which include vitamins, minerals, nutritional supplements and herbs as a new category of food separate from conventional food. DSHEA provides a regulatory framework to ensure safe, quality dietary supplements and the dissemination of accurate information about such products. Under DSHEA, the FDA is generally prohibited from regulating the 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.

DSHEA provides for specific nutritional labeling requirements for dietary supplements. DSHEA permits substantiated, truthful and non-misleading statements of nutritional support to be made in labeling, such as statements describing general well being resulting from consumption of a dietary ingredient or the role of a nutrient or dietary ingredient in affecting or maintaining a structure or function of the body. The Company anticipates the FDA will finalize manufacturing process regulations that are specific to dietary supplements and require at least some of the quality control provisions applicable to drugs. The Company currently manufactures its vitamins and nutritional supplement products in compliance with the food good manufacturing processes.

The FDA is developing additional regulations to implement DSHEA. Labeling regulations may require expanded or different labeling for the Company's vitamin and nutritional products. The Company cannot determine what effect such regulations, when fully implemented, will have on its business in the future. Such regulations could, among other things, require the recall, reformulation or discontinuance of certain products, additional record keeping, warnings, notification procedures and expanded documentation of the properties of certain products or scientific substantiation regarding ingredients, product claims, safety or efficacy. Failure to comply with applicable FDA requirements could result in sanctions being imposed on the Company or the manufacturers of its products, including warning letters, fines, product recalls and seizures.

Governmental regulations in foreign countries where the Company plans to commence or expand sales may prevent or delay entry into a market or prevent or delay the introduction, or require the reformulation of, certain of the Company's products. In addition, the Company cannot predict whether new domestic or foreign legislation regulating its activities will be enacted. Such new legislation could have a material adverse effect on the business, operations and financial condition of the Company.

20

21

DISTRIBUTION AND MANAGEMENT OF OPERATIONS

In fiscal 1999, the Company leased and commenced operating three additional facilities. Two adjacent facilities, comprising 74,000 square feet in Vista, California, and used as a receiving, warehousing, weighing, blending, finished goods packaging, and distribution facility. The third new facility is an 18,000 square foot manufacturing facility in Lugano, Switzerland. Both of these facilities were completed and became fully operational during fiscal 2000. During fiscal 1999, the Company also implemented an entirely new software system to manage its materials, manufacturing and accounting operations, and use of this system has continued to be refined in fiscal 2000. While the Company believes new facilities and operating systems will increase the Company's manufacturing and distribution capabilities, there can be no assurance that they will result in improved sales, profit margins or earnings. A significant, unexpected disruption of these systems and facilities could have a material adverse effect on the Company's results of operations.

FAILURE TO ATTRACT AND RETAIN MANAGEMENT COULD HARM OUR ABILITY TO ACHIEVE PROFITABILITY AND GAIN

The Company's success is dependent in large part upon its continued ability to identify, hire, retain, and motivate highly skilled management employees. These types of qualified individuals are currently in great demand in the marketplace. Competition for these employees is intense, and the Company may not be able to hire additional qualified personnel in a timely manner and on reasonable terms. The majority of the Company's current corporate officers began their employment with the Company in fiscal years 1999 and 2000. The inability of the Company to retain competent professional management could adversely effect our ability to execute our business strategy.

CENTRALIZED LOCATION OF MANUFACTURING OPERATIONS

The Company currently manufactures the vast majority of its products at its manufacturing facilities in San Marcos, California. Accordingly, any event resulting in the slowdown or stoppage of the Company's manufacturing operations or distribution facilities in San Marcos could have a material adverse affect on the Company. The Company maintains business interruption insurance. There can be no assurance, however, that such insurance will continue to be available at a reasonable cost or, if available, will be adequate to cover any losses that may be incurred from an interruption in the Company's manufacturing and distribution operations.

CONCENTRATION OF OWNERSHIP; CERTAIN ANTI-TAKEOVER CONSIDERATIONS

The Company's directors and executive officers beneficially own in excess of 24.9% of the outstanding Common Stock as of June 30, 2000. Accordingly, these shareholders will continue to have the ability to substantially influence the management, policies, and business operations of the Company. The Company's Board of Directors has the authority to approve the issuance of 500,000 shares of preferred stock and to fix the rights, preferences, privileges and restrictions, including voting rights, of those shares without any further vote or action by the Company's shareholders. The rights of the holders of Common Stock 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. Certain provisions of Delaware law, as well as the issuance of preferred stock, and other "anti-takeover" provisions in the Company's Articles and Bylaws, could delay or inhibit the removal of incumbent directors and could delay, defer, make more difficult or prevent a merger, tender offer or proxy content, or any change in control involving the Company, as well as the removal of management, even if such events would be beneficial to the interests of the Company's shareholders, and may limit the price certain investors may be willing to pay in the future for shares of Common Stock.

21

22

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The financial statements and supplementary data as required by this item are set forth on pages 26 through 53.

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

None.

22

23

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

The information required by this item will be included under the caption "Directors and Executive Officers of the Registrant" in the Registrant's Proxy Statement for the 2001 Annual Meeting of Stockholders and is incorporated herein by reference.

ITEM 11. EXECUTIVE COMPENSATION

The information required by this item will be included under the caption "Executive Compensation" in the Registrant's Proxy Statement for the 2001 Annual

Meeting of Stockholders and is incorporated herein by reference.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The information required by this item will be included under the caption "Security Ownership of Certain Beneficial Owners and Management" in the Registrant's Proxy Statement for the 2001 Annual Meeting of Stockholders and is incorporated herein by reference.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

The information required by this item will be included under the caption "Certain Relationships and Related Transactions" in the Registrant's Proxy Statement for the 2001 Annual Meeting of Stockholders and is incorporated herein by reference.

23

24

PART IV

ITEM 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES AND REPORTS ON FORM 8-K

(a) 1. FINANCIAL STATEMENTS

The financial statements listed in the accompanying index to the consolidated financial statements are filed as part of this report.

2. FINANCIAL STATEMENT SCHEDULES

The financial statement schedule listed in the accompanying index to the consolidated financial statements is filed as part of this annual report. Schedules not included have been omitted because they are not applicable or the information required is included in the financial statements and notes thereto.

(b) EXHIBITS

- 10.1 Standard Industrial/Commercial Multi-Tenant Lease - Modified Net dated March 3, 1999, by and between Pacific Gulf Properties, Inc. and Natural Alternatives International, Inc., as amended.
- 10.2 Industrial Real Estate Lease (Multi-Tenant Facility) dated July 17, 1998, by and between Pacific Gulf Properties, Inc. and Natural Alternatives International, Inc.
- 10.3 Standard Business Park Lease dated January 9, 1995, by and between Brigitte Zemmrich and Natural Alternatives International, Inc., located at 425 Ryan Drive, Suite A, San Marcos, CA 92069, as amended.
- 10.4 Standard Industrial/Commercial Multi-Tenant Lease-Gross dated April 11, 1994, by and between Brigitte Zemmrich and Natural Alternatives International, Inc., located at 425 Ryan Drive, Suite B, San Marcos, CA 92069, as amended.
- 10.5 Buy Out of Leasehold Interest dated June 30, 2000, between Pacific View Corporate Center, L.L.C. and Natural Alternatives International, Inc.
- 10.6 Natural Alternatives International, Inc. 1999 Omnibus Equity Incentive Plan Effective May 10, 1999 (incorporated by reference to the Company's Proxy Statement on Schedule 14A filed with the Commission on October 27, 1999.)

- 10.7 Natural Alternatives International, Inc. 1999 Employee Stock Purchase Plan (incorporated by reference to the Company's Proxy Statement on Schedule 14A filed with the Commission on October 27, 1999.)
- 10.8 Executive Employment Agreement dated October 1, 1999, between Douglas E. Flaker and Natural Alternatives International, Inc.
- 10.9 Executive Employment Agreement dated October 1, 1999, between Mark A. LeDoux and Natural Alternatives International, Inc.
- 10.10 Executive Employment Agreement dated October 1, 1999, between David Lough and Natural Alternatives International, Inc.
- 10.11 Executive Employment Agreement dated October 1, 1999, between John A. Wise and Natural Alternatives International, Inc.
- 10.12 Executive Employment Agreement dated October 25, 1999, between Peter C. Wulff and Natural Alternatives International, Inc.

24

25

- 10.13 Operating Agreement of Custom Nutrition, LLC dated December 6, 1999, by and among FitnessAge Incorporated, as one member, and Natural Alternatives International, Inc. (incorporated by reference to the Company's Report on Form 10-Q, for the quarter ended December 31, 1999.)
- 10.14 Loan Agreement dated November 11, 1999, by and between FitnessAge, Inc. and Natural Alternatives International, Inc. (incorporated by reference to the Company's Report on Form 10-Q, for the quarter ended December 31, 1999.)
- 10.15 First Amendment to Loan Agreement and Security Agreement dated December 6, 1999 by and between FitnessAge, Inc. and Natural Alternatives International, Inc. (incorporated by reference to the Company's Report on Form 10-Q, for the quarter ended December 31, 1999.)
- 23.1 Consent of KPMG L.L.P., Independent Auditors
- 27.1 Financial Data Schedule

(c) REPORTS FORM 8-K

Not Applicable

25

26

NATURAL ALTERNATIVES INTERNATIONAL, INC. AND SUBSIDIARIES
INDEX TO CONSOLIDATED FINANCIAL STATEMENTS
AND FINANCIAL STATEMENT SCHEDULE
JUNE 30, 2000

Independent Auditors' Report	27
Consolidated Balance Sheets as of June 30, 2000 and 1999	28
Consolidated Statements of Operations and Comprehensive Income (Loss)	

for the years ended June 30, 2000, 1999 and 1998	30
Consolidated Statements of Stockholders' Equity for the years ended June 30, 2000, 1999 and 1998	31
Consolidated Statements of Cash Flows for the years ended June 30, 2000, 1999 and 1998	32
Notes to Consolidated Financial Statements	34
Schedule II - Valuation and Qualifying Accounts for the years ended June 30, 2000, 1999 and 1998	53

INDEPENDENT AUDITORS' REPORT

The Board of Directors and Stockholders
NATURAL ALTERNATIVES INTERNATIONAL, INC.:

We have audited the consolidated financial statements of Natural Alternatives International, Inc. and subsidiaries as listed in the accompanying index. In connection with our audits of the consolidated financial statements, we have also audited the financial statement schedule as listed in the accompanying index. These consolidated financial statements and financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements and financial statement schedule based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Natural Alternatives International, Inc. and subsidiaries as of June 30, 2000 and 1999, and the results of their operations and their cash flows for each of the years in the three-year period ended June 30, 2000, in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the related financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

KPMG LLP

San Diego, California
October 9, 2000

NATURAL ALTERNATIVES INTERNATIONAL, INC.
CONSOLIDATED BALANCE SHEETS
JUNE 30, 2000 AND 1999

ASSETS

(Amounts in thousands except share data)	June 30 2000 -----	June 30 1999 -----
Current Assets:		
Cash and cash equivalents	\$ 815	\$ 1,063
Accounts receivable - less allowance for doubtful accounts of \$330 at June 30, 2000 and \$472 at June 30, 1999 (Notes F and M)	4,097	7,515
Inventories (Notes C and F)	7,627	9,876
Income tax refund receivable (Note G)	1,500	2,229
Deferred income taxes	1,467	--
Related parties notes receivable - current portion (Note K)	815	126
Prepaid expenses	635	371
Deposits	390	1,265
Other current assets	110	794
	-----	-----
Total Current Assets	17,456	23,239
	-----	-----
Property and equipment, net (Notes D and F)	15,037	12,274
	-----	-----
Other Assets:		
Deferred income taxes (Note G)	1,592	1,979
Investments (Note E)	232	196
Related parties notes receivable, less current portion (Note K)	444	401
Other noncurrent assets, net	114	507
	-----	-----
Total Other Assets	2,382	3,083
	-----	-----
TOTAL ASSETS	\$34,875	\$38,596
	=====	=====

See accompanying notes to consolidated financial statements.

(continued)

NATURAL ALTERNATIVES INTERNATIONAL, INC.
CONSOLIDATED BALANCE SHEETS (CONTINUED)
JUNE 30, 2000 AND 1999

LIABILITIES AND STOCKHOLDERS' EQUITY

(Amounts in thousands except share data)	June 30 2000 -----	June 30 1999 -----
Current Liabilities:		
Accounts payable	\$ 4,422	\$ 8,305
Lines of credit (Note F)	2,803	--
Notes payable (Note F)	1,741	--
Current installments of long-term debt (Note F)	490	50
Income taxes payable (Note G)	--	--
Current accrual for loss on lease obligation	50	--
Accrued compensation and employee benefits	355	786
	-----	-----
Total Current Liabilities	9,861	9,141
Deferred income taxes (Note G)	766	593
Long-term debt, less current installments (Note F)	3,345	927
Accrual for loss on lease obligation	--	2,434
Long-term pension liability (Note H)	417	410
	-----	-----
Total Liabilities	14,389	13,505
	-----	-----
Stockholders' Equity (Note I):		
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 6,024,380 at June 30, 2000 and 6,002,375 at June 30, 1999	60	60
Additional paid-in capital	11,272	11,237
Retained earnings	10,498	14,970
Treasury stock, at cost, 262,500 shares at June 30, 2000 and 212,500 shares at June 30, 1999	(1,283)	(1,116)
Accumulated other comprehensive loss (Note E)	(61)	(60)
	-----	-----
Total Stockholders' Equity	20,486	25,091
	-----	-----
Commitments and contingencies (Notes H, J and N)		
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 34,875 =====	\$ 38,596 =====

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, 2000, 1999 AND 1998

(Dollars in thousands except share data)	2000 -----	1999 -----	1998 -----
Net sales	\$ 47,827	\$ 57,430	\$ 67,894
Cost of goods sold	41,503	45,010	49,157
Inventory write-off	2,000	--	--
	-----	-----	-----
GROSS PROFIT	4,324	12,420	18,737
Selling, general &			

administrative expenses	9,319	11,965	9,114
Loss on abandonment of leased facility	1,729	5,392	--
	-----	-----	-----
INCOME (LOSS) FROM OPERATIONS	(6,724)	(4,937)	9,623
	-----	-----	-----
Other income (expense):			
Interest income	139	185	194
Interest expense	(399)	(85)	(110)
Equity in loss of unconsolidated joint venture	(62)	--	--
Foreign exchange gain	74	--	--
Other, net	71	15	(40)
	-----	-----	-----
	(177)	115	44
	-----	-----	-----
EARNINGS (LOSS) BEFORE INCOME TAXES	(6,901)	(4,822)	9,667
Provision for income taxes (benefit) (Note G)	(2,429)	(1,899)	3,795
	-----	-----	-----
NET EARNINGS (LOSS)	\$ (4,472)	\$ (2,923)	\$ 5,872
	=====	=====	=====
Unrealized gain (loss) on investments	(1)	(12)	3
	-----	-----	-----
Comprehensive Income (loss)	\$ (4,473)	\$ (2,935)	\$ 5,875
	=====	=====	=====
NET EARNINGS (LOSS) PER COMMON SHARE:			
Basic	\$ (0.78)	\$ (0.50)	\$ 1.06
	=====	=====	=====
Diluted	\$ (0.78)	\$ (0.50)	\$ 1.00
	=====	=====	=====
Weighted average common shares outstanding:			
Basic shares	5,756,705	5,868,159	5,544,337
Diluted shares	5,756,705	5,868,159	5,866,640

See accompanying notes to consolidated financial statements.

NATURAL ALTERNATIVES INTERNATIONAL, INC.
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
FOR THE YEARS ENDED JUNE 30, 2000, 1999 AND 1998

(Dollars in thousands)	Common Stock		Additional Paid-in Capital	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Income (Loss)	Total
	Shares	Amount					
Balance, June 30, 1997	5,429,764	\$ 54	\$ 6,676	\$ 12,021	--	\$ (51)	\$ 18,700
Issuance of common stock upon exercise of employee stock options	338,445	4	1,646	--	--	--	1,650
Income tax benefit from stock options exercised	--	--	1,435	--	--	--	1,435
Net unrealized gains on investments	--	--	--	--	--	3	3

Net earnings	--	--	--	5,872	--	--	5,872
Balance, June 30, 1998	5,768,209	\$ 58	\$ 9,757	\$ 17,893	--	\$ (48)	\$ 27,660
Issuance of common stock upon exercise of stock options	234,166	2	1,106	--	--	--	1,108
Income tax benefit from stock options exercised	--	--	374	--	--	--	374
Treasury stock purchased	--	--	--	--	(1,116)	--	(1,116)
Net unrealized loss on investments	--	--	--	--	--	(12)	(12)
Net loss	--	--	--	(2,923)	--	--	(2,923)
Balance, June 30, 1999	6,002,375	\$ 60	\$ 11,237	\$ 14,970	\$ (1,116)	\$ (60)	\$ 25,091
Issuance of common stock for employee stock purchase plan	22,005	--	35	--	--	--	35
Treasury stock purchased	--	--	--	--	(167)	--	(167)
Net unrealized loss on investments	--	--	--	--	--	(1)	(1)
Net loss	--	--	--	(4,472)	--	--	(4,472)
Balance, June 30, 2000	6,024,380	\$ 60	\$ 11,272	\$ 10,498	\$ (1,283)	\$ (61)	\$ 20,486

See accompanying notes to consolidated financial statements.

31

32

NATURAL ALTERNATIVES INTERNATIONAL, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2000, 1999 AND 1998

(Dollars in thousands)	2000	1999	1998
	-----	-----	-----
CASH FLOWS (USED IN)/PROVIDED BY OPERATING ACTIVITIES:			
Net earnings (loss)	\$(4,472)	\$(2,923)	\$ 5,872
Adjustments to reconcile net (loss) earnings to net cash provided by operating activities:			
Bad debt provision	(142)	566	360
Write-off of inventory	2,000	--	--
Write-off of notes receivable	80	353	--
Tax benefit on option exercise	--	374	1,435
Depreciation and amortization	2,182	1,638	1,515
Deferred income taxes	(907)	(1,032)	10
Pension expense, net of contributions	7	163	89
Loss on disposal of assets	162	5	55
Loss on investments	63	1	--
Loss on abandonment of leased facility, net of amounts paid	(2,384)	4,739	--
Other	--	10	(37)
Foreign exchange gains	(86)	--	--
Changes in operating assets and liabilities:			
(Increase) decrease in:			
Accounts receivable	3,560	4,477	(6,029)
Inventories	249	1,629	(5,814)
Tax refund receivable	729	(2,229)	842
Prepaid expenses	420	28	(189)
Deposits	875	(624)	(319)
Accrued interest on related parties notes receivable	(64)	--	--
Other noncurrent assets	393	--	--
(Decrease) increase in:			
Accounts payable	(3,883)	(3,997)	5,045
Income taxes payable	--	(378)	378
Accrued compensation and employee benefits	(431)	348	117

Net Cash (Used in) Provided by Operating Activities	\$ (1,649)	\$ 3,148	\$ 3,330
	-----	-----	-----

(continued)

32

33

NATURAL ALTERNATIVES INTERNATIONAL, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)
FOR THE YEARS ENDED JUNE 30, 2000, 1999 AND 1998

	2000	1999	1998
	-----	-----	-----
CASH FLOWS FROM INVESTING ACTIVITIES:			
Proceeds from sale of property and equipment	\$ 54	\$ 10	\$ 65
Capital expenditures	(5,161)	(5,700)	(3,475)
Issuance of notes receivable	(826)	(641)	(5)
Repayment of notes receivable	78	343	143
Investment purchases	(100)	(334)	--
Other assets	--	(399)	(198)
	-----	-----	-----
Net Cash (Used in) Investing Activities	(5,955)	(6,721)	(3,470)
	-----	-----	-----
CASH FLOWS FROM FINANCING ACTIVITIES:			
Borrowings on lines of credit	3,805	700	--
Borrowings on long-term debt	5,455	--	--
Payments on lines of credit	(972)	(700)	--
Payments on long-term debt and capital leases	(800)	(70)	(266)
Issuance of common stock	35	1,108	1,650
Treasury stock acquisitions	(167)	(1,116)	--
	-----	-----	-----
Net Cash (Used in) Provided by Financing Activities	7,356	(78)	1,384
	-----	-----	-----
Net Increase (Decrease) in Cash and Cash Equivalents	(248)	(3,651)	1,244
Cash and Cash Equivalents at Beginning of Year	1,063	4,714	3,470
	-----	-----	-----
Cash and Cash Equivalents at End of Year	\$ 815	\$ 1,063	\$ 4,714
	=====	=====	=====
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:			
Cash paid during the year for:			
Interest	\$ 365	\$ 84	\$ 100
Income taxes (refunded) paid	(2,252)	1,196	1,494
	=====	=====	=====
Disclosure of non-cash activities:			
Net unrealized gains (losses) on investments	\$ (1)	\$ (12)	\$ 3
Fixed asset purchases in accounts payable	--	--	433
Issuance of note receivable for payment of account receivable	--	--	100
Write-off of notes receivable through the allowance for doubtful accounts	--	--	--
	=====	=====	=====

See accompanying notes to consolidated financial statements.

NATURAL ALTERNATIVES INTERNATIONAL, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

A. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

ORGANIZATION

Natural Alternatives International, Inc. manufactures vitamins, micronutrients and related nutritional supplements, and provides innovative private-label products for specialized corporate, institutional and commercial accounts worldwide.

PRINCIPLES OF CONSOLIDATION

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

CASH AND CASH EQUIVALENTS

The Company considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

INVENTORIES

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

Property and equipment are stated at cost. Depreciation of property and equipment is provided using the straight-line method over their estimated useful lives, generally ranging from 3 to 39 years. Leasehold improvements are amortized using the straight-line method over the shorter of the life of the improvement or the remaining 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

Long-lived assets and certain identifiable intangibles 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 exceed the fair value of the assets. Assets to be disposed of are reported at the lower of the carrying amount or fair value less costs to sell. In fiscal 1999, the Company recorded a \$2.3 million charge for the impairment of certain leasehold improvements. See Note J for discussion.

(continued)

NATURAL ALTERNATIVES INTERNATIONAL, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

A. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

INVESTMENTS

The Company's investments include equity securities classified as available for sale and carried at fair value, with unrealized gains and losses excluded from net earnings and area included in Accumulated Other Comprehensive Loss.

The Company has a 4.2% investment, on a converted basis, in FitnessAge Incorporated, which is accounted for under the cost method. The Company also holds a 40% investment in Custom Nutrition L.L.C., which is accounted for under the equity method, as the Company has the ability to exercise significant influence over Custom Nutrition L.L.C. (Note L).

REVENUE RECOGNITION

Revenue from sales of product, and related cost of products sold, is recognized upon shipment of product at which time title passes to the customer. Customers generally do not have the right to return product unless damaged or defective.

COST OF GOODS SOLD

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

INCOME TAXES

The Company accounts 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 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.

STOCK OPTION PLANS

The Company accounts for its stock-based employee compensation for stock options using the intrinsic value method prescribed by Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees", and related interpretations, as allowed under SFAS 123. Accordingly, compensation cost is measured as the excess, if any, of the fair value of the Company's stock at the date of the grant over the price the employee must pay to acquire the stock.

FAIR VALUE OF FINANCIAL INSTRUMENTS

The carrying amounts of certain of the Company's financial instruments, including cash and cash equivalents, accounts receivable, notes receivable, investments, accounts payable, line of credit and note payable approximates 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.

NATURAL ALTERNATIVES INTERNATIONAL, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

A. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

USE OF ESTIMATES

Management of the Company 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 generally accepted accounting principles. Actual results could differ from those estimates.

NET EARNINGS (LOSS) PER SHARE

The Company computes net earnings (loss) per share in accordance with Statement of Financial Accounting Standards No. 128, "Earnings Per Share" ("SFAS 128"). This statement requires the presentation of basic earnings (loss) per share, computed using the weighted average number of shares outstanding during the period, and diluted earnings (loss) per share, computed 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 the Company's diluted earnings (loss) per share computation. Basic and diluted earnings (loss) per share have been calculated as follows:

For the Years Ended June 30, 2000, 1999, and 1998
(Amounts in thousands except share data)

	2000 -----	1999 -----	1998 -----
NUMERATOR:			
Net earnings (loss) - Numerator for basic and diluted earnings (loss) per share - earnings (loss) available to common shareholders (In thousands)	\$ (4,472) =====	\$ (2,923) =====	\$ 5,872 =====
DENOMINATOR:			
Denominator for basic earnings (loss) per share - weighted average shares	5,756,705	5,868,159	5,544,337
Effect of dilutive securities - employee stock options	-- -----	-- -----	322,303 -----
Denominator for diluted earnings (loss) per share - adjusted weighted average shares with assumed conversions	5,756,705 =====	5,868,159 =====	5,866,640 =====
Basic earnings (loss) per share	\$ (0.78)	\$ (0.50)	\$ 1.06
Diluted earnings (loss) per share	\$ (0.78)	\$ (0.50)	\$ 1.00

For the years ended June 30, 2000 and 1999, respectively, shares related to stock options of 313,000 and 352,750, respectively, were excluded from the

calculation of diluted loss per share, as the effect of their inclusion would be anti-dilutive.

(continued)

36

37

NATURAL ALTERNATIVES INTERNATIONAL, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

A. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

SEGMENT REPORTING

In fiscal 1999, the Company adopted SFAS 131, Disclosures about Segments of an Enterprise and Related Information, which establishes reporting standards for a company's operating segments and related disclosures about its products, services, geographic areas and major customers. An operating segment is defined as a component of an enterprise that engages in business activities from which it may earn revenues and incur expenses, and about which separate financial information is regularly evaluated by the chief operating decision maker in deciding how to allocate resources. This Statement allows aggregation of similar operating segments into a single operating segment if businesses are considered similar under the criteria of this Statement. The Company believes it operates in a single segment, nutritional supplements.

CONCENTRATIONS OF CREDIT RISK

Financial instruments that subject the Company to concentrations of credit risk consist primarily of cash and cash equivalents and accounts receivable. The Company places its cash and cash equivalents with highly rated financial institutions. Credit risk with respect to receivables is concentrated with the Company's two largest customers (see Note M). These two customers' receivable balances collectively represent 65% of gross accounts receivable at June 30, 2000 and 28% at June 30, 1999. Concentrations of credit risk related to the remaining accounts receivable balances are limited due to the number of customers comprising the Company's remaining customer base.

RECLASSIFICATIONS

Certain amounts in prior years' consolidated financial statements have been reclassified to conform to the fiscal 2000 presentation.

B. INTERNATIONAL SUBSIDIARY

On January 22, 1999, NAIE Natural Alternatives International Europe, SA ("NAIE"), was incorporated as a wholly-owned subsidiary of the Company, based in Manno Switzerland, which is adjacent to the city of Lugano. In September 1999, NAIE opened its new manufacturing facility to provide manufacturing capability in encapsulation and tablets, finished goods packaging, quality control laboratory testing, warehousing, distribution and administration. Upon formation, NAIE obtained from the Swiss tax authorities a five-year federal and local income tax holiday ending in fiscal 2005.

C. INVENTORIES

Inventories are comprised of the following at June 30:

(Dollars in thousands)	2000	1999
	-----	-----
Raw materials	\$4,187	\$6,722
Work in progress	2,409	270
Finished goods	1,031	2,884
	-----	-----
	\$7,627	\$9,876
	=====	=====

37

38

NATURAL ALTERNATIVES INTERNATIONAL, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

D. PROPERTY AND EQUIPMENT

The following is a summary of property and equipment at June 30:

(Dollars in thousands)	Life Used For Depreciation	2000	1999
	-----	-----	-----
Land	NA	\$ 393	\$ 393
Building and building improvements	5 - 39 years	3,285	3,233
Machinery and equipment	3 - 15 years	14,301	12,784
Office equipment and furniture	5 to 7 years	3,679	2,549
Vehicles	3 years	179	179
Leasehold improvements	5 to 39 years	3,920	1,842
		-----	-----
Total property and equipment		25,757	20,980
Less accumulated depreciation and amortization		(10,720)	(8,706)
		-----	-----
Property and equipment, net		\$ 15,037	\$ 12,274
		=====	=====

E. INVESTMENTS

Investments includes marketable securities. Securities held at June 30, 2000 and 1999 are considered "available for sale securities." Securities are valued at \$44,000 and \$46,000 as of June 30, 2000 and 1999. The security portfolio includes gross unrealized losses, net of tax, of \$61,000 and \$60,000 at June 30, 2000 and 1999, respectively.

In addition to marketable securities, the Company has investments in FitnessAge Incorporated, which is accounted for under the cost method, and Custom Nutrition L.L.C., which is accounted for under the equity method. The investment in FitnessAge Incorporated as of June 30, 2000 and June 30, 1999 was \$150,000, respectively. The investment in Custom Nutrition L.L.C. as of June 30, 2000 was \$38,000 consisting of a \$100,000 initial investment less \$62,000 of equity in loss of unconsolidated joint venture. (See Note L)

F. DEBT

On October 4, 1999, the Company replaced an existing \$3.0 million working capital line of credit with \$9.0 million in new financing. The new financing consists of a \$5.0 million working capital line of credit at an annual interest rate of prime and a \$4.0 million term note at an annual interest rate of prime plus 0.25%, for an effective interest rate of 9.50% and 9.75%, respectively, at June 30, 2000. Borrowings under the working capital line of credit are collateralized by eligible accounts receivable and inventory, as defined in the agreement; proceeds are to be used to support ongoing operating requirements. As of June 30, 2000, the Company was not in compliance with certain financial covenant provisions of the credit agreement, which the financial institution has waived through June 30, 2000. The credit agreement was subsequently amended to provide new debt covenant restrictions under which the Company was compliant at June 30, 2000.

The line of credit expires on December 1, 2000. The term note expires on November 1, 2000. As of June 30, 2000, amounts outstanding under the line of credit and term note were \$2.65 million and \$1.74 million, respectively. The Company expects this line to be renewed in the normal course of business and the Company is negotiating with various lenders to establish new working capital credit facility arrangements.

38

39

The Company also has a term note secured by a building due June 2011 with the same lender that also provides the working capital credit facility. As of June 30, 2000 the outstanding amount is \$927,000.

The Company's wholly owned subsidiary in Switzerland has a line of credit agreement permitting borrowings up to CHF 2.0 million, or approximately \$1.2 million at June 30, 2000 at an annual interest rate of 5.5%. The line of credit requires minimum annual principal payments of CHF250,000, or \$150,000, due annually on December 31; management expects this line to be renewed in the normal course of business. The agreement contains no financial covenants. As of June 30, 2000, the Company converted approximately \$645,000 into various unsecured term notes with maturities from six to twelve months at interest rates ranging from 5.5% to 6.0%. The amount outstanding under the line of credit is approximately \$153,000.

On November 9, 1999, the Company entered into a term note agreement for \$2.5 million, secured by equipment, at an annual interest rate of 9.2%. The note has a five-year term that provides for principal and interest payable in monthly installments of \$52,000; proceeds have been used to support working capital requirements. As of June 30, 2000 the outstanding amount is \$2.26 million. The composite interest rate on all outstanding debt was 8.95%.

Aggregate amounts of long-term debt maturities as of June 30, 2000 are as follows:

(Dollars in thousands)

2001	\$ 490
2002	687
2003	738
2004	793
2005	481
Thereafter	646

 \$3,835
 =====

NATURAL ALTERNATIVES INTERNATIONAL, INC.
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

G. INCOME TAXES

Income taxes (benefit) for the year ended June 30 consist of the following:

(Dollars in thousands)	2000	1999	1998
	-----	-----	-----
Current:			
Federal	\$ (1,525)	\$ (857)	\$ 3,104
State	3	(10)	681
	-----	-----	-----
	(1,522)	(867)	3,785
	-----	-----	-----
Deferred:			
Federal	(755)	(689)	9
State	(152)	(343)	1
	-----	-----	-----
	(907)	(1,032)	10
	-----	-----	-----
Income taxes (benefit)	\$ (2,429)	\$ (1,899)	\$ 3,795
	=====	=====	=====

The provision (benefit) for deferred income taxes for the year ended June 30 consists of the following:

(Dollars in thousands)	2000	1999	1998
	-----	-----	-----
Accrual for loss on lease obligation	\$ 951	\$ (971)	\$ --
Accelerated depreciation and amortization for tax purposes	21	93	13
Increase in valuation allowance	83	--	--
Inventories	(697)	(106)	(24)
Bad debt expense	308	(245)	238
Accrued vacation expense	(15)	7	1
Customer deposits	(80)	--	--
State income taxes	--	232	(207)
Credit carryforward	(126)	--	--
Investment loss carryforward	36	--	--

Other, net	(102)	14	(11)
Net operating loss carryforward	(1,286)	(56)	--
	-----	-----	-----
	\$ (907)	\$ (1,032)	\$ 10
	=====	=====	=====

(continued)

40

41

NATURAL ALTERNATIVES INTERNATIONAL, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

G. INCOME TAXES (CONTINUED)

Net deferred tax assets and deferred tax liabilities as of June 30 are as follows:

(Dollars in thousands)	2000	1999
	-----	-----
Deferred tax assets:		
Accrual for loss on lease obligation	\$ 20	\$ 971
Allowance for doubtful accounts	135	443
Accrued vacation expense	61	46
Investment loss carryforward	--	36
Credit carryforward	126	--
Allowance for inventories	1,160	463
Other, net	102	--
Deposits	80	--
Net operating loss carryforward	1,494	56
	-----	-----
Total gross deferred tax assets	3,178	2,015
Less valuation allowance	119	36
	-----	-----
Net deferred tax assets	3,059	1,979
Deferred tax liabilities:		
Accumulated depreciation and amortization	614	593
Federal impact of state NOL carryforward	152	--
	-----	-----
Net deferred tax liabilities	766	593
	-----	-----
Net deferred tax asset	\$2,293	\$1,386
	=====	=====

The valuation allowance for deferred tax assets was \$119,000 and \$36,000 at June 30, 2000 and 1999, respectively. In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. Management considers, among other things, the scheduled reversal of deferred tax

liabilities, projected future taxable income, and other planning strategies. As of June 30, 2000 and 1999 management believes it is more likely than not that the Company will realize the benefit of the net deferred tax asset, net of the existing valuation allowance.

(continued)

NATURAL ALTERNATIVES INTERNATIONAL, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

G. INCOME TAXES (CONTINUED)

A reconciliation of income taxes computed by applying the statutory federal income tax rate of 34% to earnings before income taxes for the year ended June 30 is as follows:

(Dollars in thousands)	2000	1999	1998
	-----	-----	-----
Income taxes (benefit) computed at statutory federal income tax rate	\$(2,346)	\$(1,640)	\$ 3,287
State income taxes (benefit), net of federal income tax benefit (expense)	(214)	(220)	451
Increase (decrease) in valuation allowance	83	--	--
Expenses not deductible for tax purposes	68	32	35
Foreign tax holiday	57	--	--
Other	(77)	(71)	22
	-----	-----	-----
Income taxes (benefit) as reported	\$(2,429)	\$(1,899)	\$ 3,795
	=====	=====	=====
Effective tax rate	35.2%	39.4%	39.3%
	=====	=====	=====

H. EMPLOYEE BENEFIT PLANS

The Company has a profit sharing plan pursuant to Section 401(k) of the Internal Revenue Code, whereby participants may contribute a percentage of compensation, but not in excess of the maximum allowed under the Code. All employees with twelve months and at least one thousand hours of service during the twelve-month period are eligible to participate in the plan. The Company may make contributions at the discretion of its Board of Directors. The Company contributed and expensed \$117,000, \$167,000, and \$146,000 in 2000, 1999, and 1998, respectively.

The Company has a "Cafeteria Plan" pursuant to Section 125 of the Internal Revenue Code, whereby health care benefits are provided for active employees through insurance companies. Substantially all active full-time employees are eligible for these benefits. The Company recognizes the cost of providing these benefits by expensing the annual premiums, which are based on benefits paid during the year. The premiums expensed for these benefits totaled \$348,000, \$366,000, and \$242,000 for 2000, 1999, and 1998, respectively.

In December 1999, the Company adopted an employee stock purchase plan that provides for the issuance of up to 150,000 shares of Common Stock. The plan is

intended to qualify under Section 423 of the Internal Revenue Code and is for the benefit of qualifying employees, as designated by the Compensation and Stock Option Committee of the Board of Directors. Under the terms of the plan, participating employees are eligible to have a maximum of 10% of their compensation withheld through payroll deductions to purchase shares of Common Stock at the lower of 85% of (i) the fair market value at the beginning of each offering period or (ii) the fair market value on predetermined dates. As of June 30, 2000, 22,005 shares of Common Stock have been issued pursuant to this plan.

The Company sponsors a defined benefit pension plan (the "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, the Company adopted an amendment to freeze benefit accruals of the participants of the Plan, resulting in the recognition of \$97,606 of net curtailment gains in 1999. The gain resulted from the net decrease of the Company's benefit obligation. At June 30, 2000, the estimated amortized portion of the unfunded estimated accrued liability for prior service cost, using a 30-year funding period, amounted to approximately \$417,000. This amount has been accrued. The Company's policy is to fund the net pension cost accrued. However, the Company would not contribute an amount less than the minimum funding requirements of the Employee Retirement Income Security Act of 1974 or more than the maximum tax-deductible amount.

(continued)

NATURAL ALTERNATIVES INTERNATIONAL, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

H. EMPLOYEE BENEFIT PLANS (CONTINUED)

DISCLOSURE OF FUNDED STATUS

The following table sets forth the Plan's funded status and amount recognized in the Company's consolidated balance sheets at June 30, after the effect of curtailment:

(Dollars in thousands)	2000	1999
	-----	-----
Change in Benefit Obligation		
Benefit obligation at beginning of year	\$ 1,179	\$ 2,084
Service cost	--	527
Interest cost	69	124
Actuarial (gain)/loss	(227)	166
Benefits paid	(33)	--
Effect of curtailment	--	(1,722)
	-----	-----
Benefit obligation at end of year	\$ 988	\$ 1,179
	=====	=====
Change in Plan Assets		
Fair value of plan assets at beginning of year	\$ 769	\$ 314

Actual return on plan assets	32	19
Employer contributions	--	436
Benefits paid	(33)	--
	-----	-----
Fair value of plan assets at end of year	\$ 768	\$ 769
	=====	=====
Reconciliation of Funded Status		
Funded status (under)/over funded	\$ (220)	\$ (410)
Unrecognized net actuarial (gain)/loss	(197)	--
	-----	-----
(Accrued)/Prepaid benefit cost	\$ (417)	\$ (410)
	=====	=====
Additional Minimum Liability Disclosures		
Accrued benefit liability	\$ (220)	\$ --
Intangible asset	\$ --	\$ --
Other comprehensive income, not adjusted for applicable income tax	\$ --	\$ --

(continued)

43

44

NATURAL ALTERNATIVES INTERNATIONAL, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

H. EMPLOYEE BENEFIT PLANS (CONTINUED)

NET PERIODIC BENEFIT COST

The Net Periodic Benefit Cost for the fiscal years ending June 30 includes the following components:

(Dollars in thousands)	2000	1999
	-----	-----
Components of Net Periodic Benefit Cost		
Service cost	--	\$ 528
Interest cost	68	124
Expected return on Plan Assets	(61)	(32)
Recognized net actuarial (gain)/loss	--	18
Amortization of prior service cost	--	59
Effect of special events (curtailment)	--	(98)
	=====	=====
Net periodic benefit cost	\$ 7	\$ 599
	=====	=====

ASSUMPTION AND METHOD DISCLOSURES

2000

1999

	----	----
Discount rate	7.00%	6.00%
Expected long term rate of return	7.50%	7.50%
Weighted average rate of compensation increase	--	--
Amortization method	Straight-line	Straight-line

I. STOCKHOLDERS' EQUITY

TREASURY STOCK

In February 1999, the Board of Directors approved a repurchase program of up to 500,000 shares of the Company's common stock. As of June 30, 2000, 262,500 shares had been repurchased under this repurchase approval. During 1999, the Company also repurchased 13,000 shares from an officer of the Company.

STOCK OPTION PLANS

Effective June 5, 1992, the Company adopted the 1992 Incentive Stock Option Plan for which 500,000 common shares have been reserved for issuance to officers, directors, and 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 stock of the Company on the date of grant. On September 9, 1993, 200,000 options were granted with an exercise price equal to the fair market value price of \$4.875 per share. On January 21, 1998, 300,000 options were granted with an exercise price equal to the fair market value price of \$10.50 per share. During 1999, 188,250 options were forfeited, and on May 10, 1999 an additional 70,000 options were granted with an exercise price equal to the fair market value price of \$3.78 per share. During fiscal 2000 an additional 30,000 options were granted on December 6, 1999 to equal the fair market value price of \$3.19 per share and 38,750 options were forfeited.

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NATURAL ALTERNATIVES INTERNATIONAL, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

I. STOCKHOLDERS' EQUITY (CONTINUED)

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 with an exercise price equal to the fair market value price of \$4.875 per share. All remaining options under this plan were exercised or forfeited as of June 30, 1999. As of June 30, 2000, no additional shares are reserved.

Effective December 9, 1994, the Board of Directors approved the 1994 Nonqualified Stock Option Plan for which 500,000 common shares were reserved for issuance to officers, employees, and consultants of the Company. On January 24, 1995, 500,000 options were granted with an exercise price equal to the fair market value price of \$4.625 per share. During the fiscal years 2000 and 1999, a total of 34,166 options were exercised, while 296,000 options were forfeited. As of June 30, 2000, no additional shares are reserved.

On October 28, 1998, and as amended March 11, 1999, the Board of Directors adopted the 1998 Outside Director Compensation Plan that provided non-employee directors and annual grant of nonqualified stock options. During fiscal 2000, three options for 10,000 shares each, were granted as of March 11, 1999, at a fair market value price of \$5.75 per share, and one grant of 10,000 shares was subsequently forfeited.

At the Company's Annual Meeting held on December 6, 1999, the Stockholders approved the adoption of the 1999 Omnibus Equity Incentive Plan (the "1999 Plan") and reserved a total of 500,000 common shares for issuance to officers, employees, and consultants of the Company. Grants under this Plan can be either Incentive Stock Options, or Nonqualified Stock Options. There have been three grants under this Plan - 108,500 options were granted at \$2.031 per share, 30,000 options were granted at \$2.156 per share, and 12,000 options were granted at \$1.813 per share on February 10, 2000, March 1, 2000, and June 29, 2000, respectively. Of the 150,500 options granted in fiscal 2000, 30,500 have been forfeited as of June 30, 2000.

With the exception of the 1999 Plan; all stock options under each of the plans have five-year terms and all options become fully vested within three years of their grant date. The stock options granted under the 1999 Plan have either a five or a ten-year term and become fully vested within three years of their grant date.

(continued)

Stock option activity during the periods indicated is summarized below:

	1992 Incentive Plan	1992 Nonqualified Plan	1994 Nonqualified Plan	1998 Outside Director Plan	1999 Plan
	-----	-----	-----	-----	-----
Outstanding at June 30, 1997	96,169	220,942	451,500	--	--
Exercised	(57,778)	(159,333)	(121,334)	--	--
Granted	300,000	--	--	--	--
Outstanding and exercisable at June 30, 1998	338,391	61,609	330,166	--	--
Exercised	(38,391)	(61,609)	(34,166)	--	--
Forfeited	(188,250)	--	(125,000)	--	--
Granted	70,000	--	--	--	--
Outstanding at June 30, 1999	181,750	--	171,000	--	--
Exercised	--	--	--	--	--
Forfeited	(38,750)	--	(171,000)	(10,000)	(30,500)
Granted	30,000	--	--	30,000	150,500
Outstanding at June 30, 2000	173,000	--	--	20,000	120,000
Exercisable at June 30, 2000	113,000	--	--	--	--
Weighted-average exercise price:					
June 30, 2000	\$ 7.29	\$ --	\$ --	\$ 5.75	\$ 2.04
June 30, 1999	\$ 7.91	\$ --	\$ 4.63	\$ --	\$ --
Weighted-average remaining contractual life in years	3.4	--	--	3.4	6.5
Available for grant at June 30, 2000	135,000	--	--	--	380,000
	-----	-----	-----	-----	-----

The fair value of the option grants was estimated on the date of the grant using the Black-Scholes option-pricing model with the following assumptions for fiscal 2000: risk-free interest rate of 6.0% at the grant date; dividend yield of zero; expected life of three to six years depending on the option termination date; and volatility of 88%. The weighted average fair value of the options granted during fiscal 2000 was \$1.61 per share.

The fair value of the option grants was estimated on the date of the grant using

the Black-Scholes option-pricing model with the following assumptions for fiscal 1999: risk-free interest rate of 5.9% at the grant date; dividend yield of zero; expected life of three to six years depending on the option termination date; and volatility of 62.1%. The weighted average fair value of the options granted during fiscal 2000 was \$1.74 per share.

The Company applies APB Opinion No. 25 in accounting for its Plans and, accordingly, no compensation cost has been recognized for its stock option grants to employees in the financial statements. Had the Company determined compensation cost based on the fair value at the grant date for its stock options under SFAS No. 123, the Company's net earnings (loss) would have been the pro forma amounts indicated below:

(Dollars in thousands except per share data)	2000 -----	1999 -----	1998 -----
Net earnings (loss), as reported	\$(4,472)	\$(2,923)	\$ 5,872
Pro forma net earnings (loss)	\$(4,750)	\$(3,311)	\$ 5,701
Basic earnings (loss) per share, as reported	\$ (0.78)	\$ (0.50)	\$ 1.06
Pro forma basic earnings (loss) per share	\$ (0.83)	\$ (0.56)	\$ 1.03
Diluted earnings (loss) per share, as reported	\$ (0.78)	\$ (0.50)	\$ 1.00
Pro forma diluted earnings (loss) per share	\$ (0.83)	\$ (0.56)	\$ 0.97

OTHER STOCK OPTIONS

On January 24, 1995, the Board of Directors granted 100,000 options with an exercise price of \$4.625 in exchange for consulting services and reserved 100,000 common shares. The options were exercised in January 1999. As of June 30, 2000, no additional shares are reserved.

J. COMMITMENTS

The Company leases part of its main facilities under leases that are classified as non-cancelable operating leases.

In August 1997, the Company entered into a 15-year lease agreement under which the lessor was to construct a build-to-suit 82,000 square foot corporate office and manufacturing facility in Carlsbad, California. In March 1999, the Company made the decision to abandon the facility and sublease, and not occupy, the partially completed facility. In fiscal 1999, the Company recorded a \$5.4 million loss on abandonment of leased facility consisting of: (1) \$2.3 million impairment of leasehold improvement costs, (2) an unfavorable lease obligation accrual of \$2.7 million representing the present value of the excess of future lease payments over the estimated sub-lease income and (3) \$0.4 million facility lease payments.

In June 2000, the Company successfully terminated the long-term lease obligation related to the Carlsbad facility.

In April and May 2000, the Company entered into two sublease agreements for the entire premises for approximately five years. In June 2000, the Company completed a buyout of the fifteen-year lease obligation from the landlord. The buyout agreement provided for the sale of the Company's leasehold interests and obligations to the landlord for essentially the same cost of performing its obligations pursuant to the sublease agreements, resulting in the Company paying a \$3.0 million settlement fee to the landlord. The Company recorded an

additional \$1.7 million charge to results of operations in the fiscal 2000, reflecting the final cost for exiting the long-term lease commitment including lease payments and property taxes paid in fiscal 2000. The Company incurred total expenses of approximately \$7.1 million over the duration of this abandoned facility commitment, including facility occupancy costs. The buyout terminated the Company's obligation for the facility for the entire term of the original 15 year lease.

The Company entered into two lease agreements during fiscal year 1999 for adjacent buildings located in Vista, California. The facilities are leased from an unaffiliated third party and consist of a total of approximately 74,000 square feet. The lease for the first building commenced in August 1998 under a 5-year lease agreement and consists of approximately 54,000 square feet to be utilized as a warehousing and blending facility. The lease for the second building commenced in March 1999 under a 3.5-year lease agreement for the rental of approximately 20,000 square feet to be utilized as a packaging facility.

Minimum rental commitments (exclusive of property tax, insurance and maintenance) under all noncancelable operating leases, including the lease agreements referred to above, (with initial or remaining lease terms in excess of one year) are set forth below:

(Dollars in thousands)

2001	\$ 824
2002	749
2003	757
2004	232
2005	23

	\$2,585
	=====

Rental expense totaled \$647,000, \$419,000, and \$193,000 for the years ended June 30, 2000, 1999, and 1998, respectively. Rental expense excludes payments related to the abandoned Carlsbad facility.

K. RELATED PARTY TRANSACTIONS

During the fiscal years ended June 30, 2000, 1999, and 1998, the Company had sales of \$-0-, \$-0-, and \$15,000, respectively, to a customer in which certain directors, officers and employees previously had direct or indirect equity ownership. At June 30, 1997, the amount receivable from this company was \$775,000, which was fully reserved because the Company had determined the account was uncollectible. The Company recovered \$263,000 in the year ended June 30, 1998 and \$512,000 was written off in the year ended June 30, 1999.

The Company had a note receivable from a company in which a certain officers had direct or indirect equity ownership. At June 30, 1999, the amount receivable from this company was \$26,000. This amount was written off during fiscal 2000.

The Company had sales of \$24,000, \$553,000, and \$875,000 for fiscal year 2000, 1999, and 1998, respectively, to a customer in which directors, officers and employees previously had direct and indirect equity ownership. At June 30, 1999 the amount receivable from this company was \$91,000, net of a \$74,000 bad debt

allowance reserve. During fiscal 2000, the Company received payments of \$155,000 and wrote off the remaining balance of \$34,000. In addition, at June 30, 1999 the Company had a net note receivable from this customer of \$50,000. This entire amount was written off during the year ended June 30, 2000.

The Company entered into an agreement with the father-in-law and mother-in-law of the Chief Executive Officer of the Company in December 1991, which provided for payment of commissions of 5% on sales to a particular customer. Amounts paid under this agreement were \$50,000, \$100,000 and \$100,000 for the fiscal years ended June 30, 2000, 1999, and 1998, respectively. There were no amounts owed under the agreement at June 30, 2000 or 1999. The agreement expires in December 2001.

During fiscal 1999, the Company made 6% interest-bearing loans of \$20,000, secured by Company common stock, to the Vice President of Science and Technology, the Vice President, Marketing, and the Vice President, Operations. During fiscal 2000 an additional loan of \$19,000, with interest at 6% and secured by a second deed of trust on a principal residence, was made to the Vice President, Marketing. During fiscal 2000 the loan amount, including accrued interest, to the Vice President, Operations, was repaid upon termination of his employment.

During fiscal 1999 and 2000, the Company paid the brother and sister-in-law of the Chief Executive Officer approximately \$33,000 and \$58,000, respectively, in settlement of an existing consulting arrangement. As of June 30, 2000, the agreement and any underlying obligations on the part of the Company have expired.

In addition, during fiscal 1999, the Company made a 5-1/2% interest-bearing loan to the Executive Vice President in the amount of \$250,000. The loan, including accrued interest, was repaid in February 1999.

During each of the fiscal years 2000, 1999 and 1998, the Company made non-interest loans to the Chairperson of the Board of \$50,000. Amounts owed on these loans, which are secured by proceeds from life insurance policies, were \$300,000, \$250,000, and \$200,000 at June 30, 2000, 1999 and 1998, respectively.

During fiscal 1999, the Company made non-interest loans to its former President of approximately \$7,000. The total loan amounts outstanding of \$101,000 was written off during fiscal 1999, including \$83,000 loaned in fiscal 1998 and accrued interest.

48

49

The balances of these notes receivables from related parties and employees as of June 30, including accrued interest are shown below.

(Dollars in thousands)	2000 -----	1999 -----
Chief Executive Officer	67	63
Vice President of Science and Technology	21	20
Vice President, Marketing	41	20
Chairperson - Board of Directors	300	250
Other Current Employees	24	32
Former Officers	--	23
Former Employees	1	20
Other	0	23
Former Customers	0	76

FitnessAge (See Note L)	805	--
	-----	-----
	1,259	527
	=====	=====

The Company accrued interest from related parties notes receivable of \$67,000 and \$33,000 for fiscal 2000 and fiscal 1999, respectively.

L. CUSTOM NUTRITION JOINT VENTURE

In March 1999, the Company entered into a letter of intent to form a joint venture with FitnessAge Incorporated, a privately held development stage company based in San Diego, CA ("FitnessAge"). In connection therewith, on March 30, 1999 the Company purchased 300,000 shares of FitnessAge common stock for \$150,000. On or about the same date, the family limited partnership of the Chief Executive Officer and the Secretary and Chairperson of the Board of Directors purchased 200,000 shares of the Common Stock of FitnessAge for \$100,000.

During December 1999, the Company and FitnessAge formalized the joint venture by forming a new company named Custom Nutrition, LLC, a Delaware limited liability company ("Custom Nutrition") in which the Company has a 40% ownership. Custom Nutrition was formed for the purpose of developing, merchandising, selling and distributing customized nutritional and related products to health and fitness clubs, as well as over the internet. Under terms of a 10-year Exclusive Manufacturing Agreement, the Company is the exclusive manufacturer of all nutritional supplements for Custom Nutrition. In addition, Custom Nutrition obtained an exclusive royalty free license to FitnessAge's proprietary software technology, including their physical fitness assessments known as the FitnessAge System, as well as, software under development designed to provide customized nutritional assessments. In accordance with its Operating Agreement, the Company was required to make an initial capital contribution of \$100,000, which was funded during the fourth quarter fiscal 2000; income and losses are to be allocated and any additional capital contribution requirements of Custom Nutrition are to be made 60% to FitnessAge and 40% to the Company.

In addition, in November and December 1999, the Company loaned FitnessAge a total of \$734,000, net of \$16,000 of legal fees, as part of a convertible secured loan (the "Loan"). The Loan is collateralized by certain assets of FitnessAge and includes interest accruing at an annual rate of 12%. The principal together with all accrued and unpaid interest is due November 10, 2000. The Company has the right at any time to convert all or any portion of the amount due on the Loan into the common stock of FitnessAge at a conversion price of \$0.75 per share. As of June 30, 2000, the balance of the Loan, including all accrued and unpaid interest, was \$805,000, and the Company's direct aggregate investment in FitnessAge was approximately \$955,000. The Company is currently accounting for this investment under the cost method of accounting.

In conjunction with the Loan, the Company received a three-year Warrant (the "Warrant") to purchase up to 150,000 shares of Common Stock of FitnessAge for \$0.75 per share. The Company may exercise the Warrant at any time up to and including November 1, 2002. The Company was issued two additional warrants to purchase common stock as additional consideration for providing a short-term loan to FitnessAge which was repaid prior to June 30, 2000. One warrant provides for the purchase of 80,000 shares of FitnessAge common stock for \$1.25 per share and the other warrant provides for the purchase of 80,000 shares of FitnessAge common stock for \$2.00 per share. The Company may exercise these two Warrants at any time up to and including June 12, 2003. As of June 30, 2000, the Company had not exercised any portion of these Warrants. The Company also obtained: the right to designate one representative of the Company to be a member of

FitnessAge's Board of Directors, which consists of five board members; and registration rights and certain other rights as defined by the loan documents and by an Investor Rights Agreement. If the Company converted the Loan and exercised the Warrants, the Company would own less than five percent, on an as converted basis, of FitnessAge common stock.

During the year ended June 30, 2000, the Company had sales of \$135,000 to Custom Nutrition, a company formed under its joint venture with FitnessAge. At June 30, 2000, the net accounts receivable from this customer was approximately \$80,000.

M. ECONOMIC DEPENDENCY

The Company had substantial sales to four separate customers during one or more of the periods shown in the following table. The loss of any of these customers could have a material adverse impact on the Company's revenues and earnings. Sales by customer, representing 10% or more of the respective year's total sales, are shown below:

Customer	2000		1999		1998	
	Sales by Customer	% (a)	Sales by Customer	% (a)	Sales by Customer	% (a)
Customer 1	\$20,818,000	44%	\$13,393,000	23%	\$11,660,000	17%
Customer 2	8,958,000	18%	(b)		(b)	
Customer 3	(b)		18,390,000	32%	24,914,000	37%
Customer 4	(b)		9,383,000	16%	(b)	
	29,776,000	62%	41,166,000	71%	36,574,000	54%
	=====	==	=====	==	=====	==

(a) Percent of total sales

(b) Sales for the year were less than 10% of total sales.

Accounts receivable from these customers totaled \$2,889,000 and \$4,397,000 at June 30, 2000 and 1999, respectively.

N. CONTINGENCIES

The Company is a party to a lawsuit filed by its former President, Director and Chief Financial Officer, William P. Spencer. The lawsuit was filed in January 2000, and was served upon the Company in March 2000. Mr. Spencer was terminated by the Company for cause in January 1999. The lawsuit alleges damages for wrongful termination, breach of option contract, conversion, breach of employment contract, discriminatory and retaliatory discharge, workplace harassment and slander. The lawsuit seeks damages in an amount to be proved at trial, and alleges damages in excess of six million dollars. The Company has responded to the lawsuit and has denied it has any liability. Management believes the claims against the Company are without merit. The Company has filed a cross-complaint in the lawsuit against Mr. Spencer and Imagenetix, Inc., a corporation in which Mr. Spencer is currently a director, principal shareholder and chief executive, and three other individuals, two of whom are former employees of the Company and the other a former consultant to the Company. The cross-complaint seeks damages and injunctive relief for breach of fiduciary duty; fraud-concealment of material facts; intentional interference with prospective economic advantage; negligent interference with prospective economic advantage; civil conspiracy; intentional interference with contract; trade libel; slander per se; breach of contract; conversion;

misappropriation of trade secrets; breach of duty of loyalty; unlawful, unfair and/or fraudulent business acts or practices and an accounting. The additional defendants in NAI's cross-complaint subsequently filed cross-actions, alleging similar claims against Mr. Spencer. The complaint against the Company was further amended to add Imagenetix, Inc. as a claimant and several current or former employees of the Company as defendants. Management believes the additional claims are without merit, and the Company will prevail in its cross-complaint against each cross-defendant. The Company subsequently amended its complaint, adding additional claims against certain parties. In the event a judgment is obtained against the Company in the amount of the damages alleged in the lawsuit or any significant portion thereof, it would have a material adverse impact upon the financial condition of the Company.

While the Company believes the allegations contained in these lawsuits are without merit, the claims have not progressed sufficiently for the Company to estimate the possible exposure, if any.

The Company is a plaintiff in an anti-trust lawsuit against several manufacturers of vitamins and other raw materials purchased by the Company. Other similarly situated companies have filed a number of similar lawsuits against some or all of the same manufacturers. The Company's lawsuit has been consolidated with some of the others and is captioned In re: Vitamin Antitrust Litigation, and is pending in U.S. District Court in Washington D.C. One or more consumer class actions have also been filed against some or all of the same defendants, and at least one of these is presently in a settlement process. The Company brought its own action to insure it understood what actually occurred. The Company is eager to resolve its claims. There can be no assurance the claims will be resolved, or, if they are, that it will result in a material benefit to the Company.

The Company is involved in various claims and legal actions arising in the ordinary course of business. In the opinion of management, after consultation with its legal counsel, the ultimate disposition of these matters will not have a material adverse effect on the Company's consolidated financial position, results of operations or liquidity.

O. SEGMENT INFORMATION

Prior to July 1, 1999 the Company operated solely within the United States. During the year ended June 30, 2000 the Company opened its new wholly owned manufacturing subsidiary in Switzerland. The Company's segment information by geographic area as of and for the year ended June 30, 2000 is as follows:

	Sales -----	Long Lived Assets -----	Total Assets -----	Capital Expenditures -----
United States	\$44,429	\$14,560	\$32,006	\$ 3,742
Europe	3,398	1,267	2,869	1,419
	-----	-----	-----	-----
	\$47,827	\$15,827	\$34,875	\$ 5,161
	=====	=====	=====	=====

P. QUARTERLY DATA (UNAUDITED)

The following is a summary of unaudited quarterly data:

Year Ended June 30, 2000					
	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter	Total
(Amounts in thousands except per share amounts)					
Net sales	\$ 15,264	\$ 12,064	\$ 9,538	\$ 10,961	\$ 47,827
Gross profit	3,189	(522)	287	1,370	4,324
Net earnings (loss)	\$ 87	\$ (2,411)	\$ (1,763)	\$ (385)	\$ (4,472)
Net earnings (loss) per common share:					
Basic	\$ 0.02	\$ (0.42)	\$ (0.31)	\$ (0.07)	\$ (0.78)
Diluted	\$ 0.02	\$ (0.42)	\$ (0.31)	\$ (0.07)	\$ (0.78)

Year Ended June 30, 1999					
	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter	Total
(Amounts in thousands except per share amounts)					
Net sales	\$ 16,986	\$ 17,317	\$ 13,123	\$ 10,004	\$ 57,430
Gross profit	4,654	3,265	1,891	2,609	12,419
Net earnings	\$ 1,520	\$ 383	\$ (4,321)	\$ (505)	\$ (2,923)
Net earnings per common share:					
Basic	\$ 0.26	\$ 0.06	\$ (0.73)	\$ (0.09)	\$ (0.50)
Diluted	\$ 0.25	\$ 0.06	\$ (0.73)	\$ (0.09)	\$ (0.50)

SCHEDULE II

NATURAL ALTERNATIVES INTERNATIONAL, INC.
VALUATION AND QUALIFYING ACCOUNTS
FOR THE YEARS ENDED JUNE 30, 2000, 1999 AND 1998

Allowance for doubtful accounts	Balance at beginning of period	Provision	(Deductions)	Balance at end of period
(Dollars in thousands)				
Year ended June 30, 2000	\$ 472	\$ 389	\$ (531)	\$ 330
Year ended June 30, 1999	\$ 1,073	\$ 567	\$ (1,168)	\$ 472
Year ended June 30, 1998	\$ 1,006	\$ 360	\$ (293)	\$ 1,073

See accompanying independent auditors report.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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.
(Registrant)

Date: October 9, 2000

By: /s/ MARK A. LEDOUX

(Mark A. LeDoux, Chief Executive Officer,
President and Assistant Treasurer)

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

Signature -----	Title -----	Date -----
/s/ MARIE A. LEDOUX ----- (Marie A. LeDoux)	Chairperson of the Board, Secretary, and Director	October 9, 2000
/s/ MARK A. LEDOUX ----- (Mark A. LeDoux)	Chief Executive Officer, President, Assistant Treasurer, and Director	October 9, 2000
/s/ PETER C. WULFF ----- (Peter C. Wulff)	Chief Financial Officer and Treasurer	October 9, 2000
/s/ JOE E. DAVIS ----- (Joe E. Davis)	Director	October 9, 2000
/s/ LEE G. WELDON ----- (Lee G. Weldon)	Director	October 9, 2000
/s/ J. SCOTT SCHMIDT ----- (J. Scott Schmidt)	Director	October 9, 2000

STANDARD INDUSTRIAL/COMMERCIAL MULTI-TENANT LEASE -- MODIFIED NET

AMERICAN INDUSTRIAL REAL ESTATE ASSOCIATION

[LOGO]

1. BASIC PROVISIONS ("BASIC PROVISIONS").

1.1 PARTIES: This Lease ("LEASE"), dated for reference purposes only, March 3, 1999, is made by and between PACIFIC GULF PROPERTIES INC., a Maryland corporation ("LESSOR") and NATURAL ALTERNATIVES INTERNATIONAL, INC., a Delaware corporation ("LESSEE"), (collectively the "PARTIES," or individually a "PARTY").

1.2(a) PREMISES: That certain portion of the Building, including all improvements therein or to be provided by Lessor under the terms of this Lease, commonly known by the street address of 1211 Park Center Dr. Suite C, located in the City of Vista, County of San Diego, State of CA, with zip code 92083, as outlined on Exhibit A attached hereto ("PREMISES"). The "BUILDING" is that certain building containing the Premises and generally described as (describe briefly the nature of the Building): an office/warehouse unit of approximately 20,000 sq. ft. located in Bldg. 1211 of Vista Distribution Center. In addition to Lessee's rights to use and occupy the Premises as hereinafter specified, Lessee shall have non-exclusive rights to the Common Areas (as defined in Paragraph 2.7 below) as hereinafter specified, but shall not have any rights to the roof, exterior walls or utility raceways of the Building or to any other buildings in the Industrial Center. The Premises, the Building, the Common Areas, the land upon which they are located, along with all other buildings and improvements thereon, are herein collectively referred to as the "INDUSTRIAL CENTER." (Also see Paragraph 2.)

1.2(b) PARKING: in common unreserved vehicle parking spaces ("UNRESERVED PARKING SPACES"); and N/A reserved vehicle parking spaces ("RESERVED PARKING SPACES"). (Also see Paragraph 2.6.)

1.3 TERM: One(1) years and seventeen (17) days ("ORIGINAL TERM") commencing March 15, 1999 ("COMMENCEMENT DATE") and ending March 31, 2000 ("EXPIRATION DATE"). (Also see Paragraph 3.)

1.4 EARLY POSSESSION: N/A ("EARLY POSSESSION DATE"). (Also see Paragraphs 3.2 and 3.3.)

1.5 BASE RENT: \$10,000.00 per month ("BASE RENT"), payable on the 1st day of each month commencing March 15, 1999 (Also see Paragraph 4.)

[] If this box is checked, this Lease provides for the Base Rent to be adjusted per Addendum _____, attached hereto.

1.6(a) BASE RENT PAID UPON EXECUTION: \$15,483.87 as Base Rent for the period 3/15/99 - 4/30/99.

1.6(b) LESSEE'S SHARE OF COMMON AREA OPERATING EXPENSES: -- percent (5.6%) ("LESSEE'S SHARE") as determined by [] prorata square footage of the Premises as compared to the total square footage of the Building or [x] other criteria as described in Addendum 50.

1.7 SECURITY DEPOSIT: \$10,000.00 ("SECURITY DEPOSIT"). (Also see Paragraph 5.)

1.8 PERMITTED USE: shall be used as general office manufacturing, distribution, and warehousing of nutritional supplements and other related products for NATURAL ALTERNATIVES INTERNATIONAL, INC., and for no other

purpose. ("PERMITTED USE") (Also see Paragraph 6.)

1.9 INSURING PARTY. Lessor is the "INSURING PARTY." (Also see Paragraph 8.)

1.10(a) REAL ESTATE BROKERS. The following real estate broker(s) (collectively, the "BROKERS") and brokerage relationships exist in this transaction and are consented to by the Parties (check applicable boxes):

CB Richard Ellis-Onosko represents Lessor exclusively ("LESSOR'S BROKER");

_____ represents Lessee exclusively ("LESSEE'S BROKER"); or

_____ represents both Lessor and Lessee ("DUAL AGENCY").
(Also see Paragraph 15.)

1.10(b) PAYMENT TO BROKERS. Upon the execution of this Lease by both Parties, Lessor shall pay to said Broker(s) jointly, or in such separate shares as they may mutually designate in writing, a fee as set forth in a separate written agreement between Lessor and said Broker(s) (or in the event there is no separate written agreement between Lessor and said Broker(s), the sum of \$N/A) for brokerage services rendered by said Broker(s) in connection with this transaction.

1.11 GUARANTOR. The obligations of the Lessee under this Lease are to be guaranteed by N/A ("GUARANTOR"). (Also see Paragraph 37.)

1.12 ADDENDA AND EXHIBITS. Attached hereto is an Addendum or Addenda consisting of Paragraphs 49 through 52, and Exhibits A through C, all of which constitute a part of this Lease.

2. PREMISES, PARKING AND COMMON AREAS.

2.1 LETTING. Lessor hereby leases to Lessee, and Lessee hereby leases from Lessor, the Premises, for the term, at the rental, and upon all of the terms, covenants and conditions set forth in this Lease. Unless otherwise provided herein, any statement of square footage set forth in this Lease, or that may have been used in calculating rental and/or Common Area Operating Expenses, is an approximation which Lessor and Lessee agree is reasonable and the rental and Lessee's Share (as defined in Paragraph 1.6(b)) based thereon is not subject to revision whether or not the actual square footage is more or less.

2.2 CONDITION. Lessor shall deliver the Premises to Lessee clean and free of debris on the Commencement Date and warrants to Lessee that the existing plumbing, electrical systems, fire sprinkler system, lighting, air conditioning and heating systems, and loading doors, if any, in the Premises, other than those constructed by Lessee, shall be in good operating condition on the Commencement Date. If a non-compliance with said warranty exists as of the Commencement Date, Lessor shall, except as otherwise provided in this Lease, promptly after receipt of written notice from Lessee setting forth with specificity the nature and extent of such non-compliance, rectify same at Lessor's expense. If Lessee does not give Lessor written notice of a non-compliance with this warranty within thirty (30) days after the Commencement Date, correction of that non-compliance shall be the obligation of Lessee at Lessee's sole cost and expense.

2.3 COMPLIANCE WITH COVENANTS, RESTRICTIONS AND BUILDING CODE. Lessor warrants that any improvements (other than those constructed by Lessee or at Lessee's direction) on or in the Premises which have been constructed or installed by Lessor or with Lessor's consent or at Lessor's direction shall comply with all applicable covenants or restrictions of record and applicable building codes, regulations and ordinances in effect on the Commencement Date. Lessor further warrants to Lessee that Lessor has no knowledge of any claim having been made by any governmental agency that a violation or violations of applicable building codes, regulations, or ordinances exist with regard to the Premises as of the Commencement Date. Said warranties shall not apply to any Alterations or Utility Installations (defined in Paragraph 7.3(a)) made or to be made by Lessee. If the Premises do not comply with said warranties, Lessor shall, except as otherwise provided in this Lease, promptly after receipt of

written notice from Lessee given within six (6) months following the Commencement Date and setting forth with specificity the nature and extent of such non-compliance, take such action, at Lessor's expense, as may be

Page 1 of 13

2

reasonable or appropriate to rectify the non-compliance. Lessor makes no warranty that the Permitted Use in Paragraph 1.8 is permitted for the Premises under Applicable Laws (as defined in Paragraph 2.4).

2.4 ACCEPTANCE OF PREMISES. Lessee hereby acknowledges: (a) that it has been advised by the Broker(s) to satisfy itself with respect to the condition of the Premises (including, but not limited to, the electrical and fire sprinkler systems, security, environmental aspects, seismic and earthquake requirements, and compliance with the Americans with Disabilities Act and applicable zoning, municipal, county, state and federal laws, ordinances and regulations, and any covenants or restrictions of record (collectively, "APPLICABLE LAWS") and the present and future suitability of the Premises for Lessee's intended use; (b) that Lessee has made such investigation as it deems necessary with reference to such matters, is satisfied with reference thereto, and assumes all responsibility therefore as the same relate to Lessee's occupancy of the Premises and/or the terms of this Lease; and (c) that neither Lessor, nor any of Lessor's agents, has made any oral or written representations or warranties with respect to said matters other than as set forth in this Lease.

2.5 LESSEE AS PRIOR OWNER/OCCUPANT. The warranties made by Lessor in this Paragraph 2 shall be of no force or effect if immediately prior to the date set forth in Paragraph 1.1 Lessee was the owner or occupant of the Premises. In such event, Lessee shall, at Lessee's sole cost and expense, correct any non-compliance of the Premises with said warranties.

2.6 VEHICLE PARKING. Lessee shall be entitled to use the number of Unreserved Parking Spaces and Reserved Parking Spaces specified in Paragraph 1.2(b) on those portions of the Common Areas designated from time to time by Lessor for parking. Lessee shall not use more parking spaces than said number. Said parking spaces shall be used for parking by vehicles no larger than full-size passenger automobiles or pick-up trucks, herein called "PERMITTED SIZE VEHICLES." Vehicles other than Permitted Size Vehicles shall be parked and loaded or unloaded as directed by Lessor in the Rules and Regulations (as defined in Paragraph 40) issued by Lessor. (Also see Paragraph 2.9.)

(a) Lessee shall not permit or allow any vehicles that belong to or are controlled by Lessee or Lessee's employees, suppliers, shippers, customers, contractors or invitees to be loaded, unloaded, or parked in areas other than those designated by Lessor for such activities.

(b) If Lessee permits or allows any of the prohibited activities described in this Paragraph 2.6, then Lessor shall have the right, without notice, in addition to such other rights and remedies that it may have, to remove or tow away the vehicle involved and charge the cost to Lessee, which cost shall be immediately payable upon demand by Lessor.

(c) Lessor shall at the Commencement Date of this Lease provide the parking facilities required by Applicable Law.

2.7 COMMON AREAS -- DEFINITION. The term "COMMON AREAS" is defined as all areas and facilities outside the Premises and within the exterior boundary line of the Industrial Center and interior utility raceways within the Premises that are provided and designated by the Lessor from time to time for the general nonexclusive use of Lessor, Lessee and other lessees of the Industrial Center and their respective employees, suppliers, shippers, customers, contractors and invitees, including parking areas, loading and unloading areas, trash areas, roadways, sidewalks, walkways, parkways, driveways and landscaped areas.

2.8 COMMON AREAS -- LESSEE'S RIGHTS. Lessor hereby grants to Lessee, for the benefit of Lessee and its employees, suppliers, shippers, contractors, customers and invitees, during the term of this Lease, the non-exclusive right

to use, in common with others entitled to such use, the Common Areas as they exist from time to time, subject to any rights, powers, and privileges reserved by Lessor under the terms hereof or under the terms of any rules and regulations or restrictions governing the use of the Industrial Center. Under no circumstances shall the right herein granted to use the Common Areas be deemed to include the right to store any property, temporarily or permanently, in the Common Areas. Any such storage shall be permitted only by the prior written consent of Lessor or Lessor's designated agent, which consent may be revoked at any time. In the event that any unauthorized storage shall occur then Lessor shall have the right, without notice, in addition to such other rights and remedies that it may have, to remove the property and charge the cost to Lessee, which cost shall be immediately payable upon demand by Lessor.

2.9 COMMON AREAS -- RULES AND REGULATIONS. Lessor or such other person(s) as Lessor may appoint shall have the exclusive control and management of the Common Areas and shall have the right, from time to time, to establish, modify, amend and enforce reasonable Rules and Regulations with respect thereto in accordance with Paragraph 40. Lessee agrees to abide by and conform to all such Rules and Regulations, and to cause its employees, suppliers, shippers, customers, contractors and invitees to so abide and conform. Lessor shall not be responsible to Lessee for the non-compliance with said rules and regulations by other lessees of the Industrial Center.

2.10 COMMON AREAS -- CHANGES. Lessor shall have the right, in Lessor's sole discretion, from time to time:

(a) To make changes to the Common Areas, including, without limitation, changes in the location, size, shape and number of driveways, entrances, parking spaces, parking areas, loading and unloading areas, ingress, egress, direction of traffic, landscaped areas, walkways and utility raceways;

(b) To close temporarily any of the Common Areas for maintenance purposes so long as reasonable access to the Premises remains available;

(c) To designate other land outside the boundaries of the Industrial Center to be a part of the Common Areas;

(d) To add additional buildings and improvements to the Common Areas;

(e) To use the Common Areas while engaged in making additional improvements, repairs or alterations to the Industrial Center, or any portion thereof; and

(f) To do and perform such other acts and make such other changes in, to or with respect to the Common Areas and Industrial Center as Lessor may, in the exercise of sound business judgment, deem to be appropriate.

3. TERM.

3.1 TERM. The Commencement Date, Expiration Date and Original Term of this Lease are as specified in Paragraph 1.3.

4. RENT.

4.1 BASE RENT. Lessee shall pay Base Rent and other rent or charges, as the same may be adjusted from time to time, to Lessor in lawful money of the United States, without offset or deduction, on or before the day on which it is due under the terms of this Lease. Base Rent and all other rent and charges for any period during the term hereof which is for less than one full month shall be prorated based upon the actual number of days of the month involved. Payment of Base Rent and other charges shall be made to Lessor at its address stated herein or to such other persons or at such other addresses as Lessor may from time to time designate in writing to Lessee.

4.2 COMMON AREA OPERATING EXPENSES. Lessee shall pay to Lessor during the term hereof, in addition to the Base Rent, Lessee's Share (as specified in Paragraph 1.6(b)) of all Common Area Operating Expenses, as hereinafter defined,

during each calendar year of the term of this Lease, in accordance with the following provisions:

(a) "COMMON AREA OPERATING EXPENSES" are defined, for purposes of this Lease, as all costs incurred by Lessor relating to the ownership and operation of the Industrial Center, including, but not limited to, the following:

(i) The operation, repair and maintenance, in neat, clean, good order and condition, of the following:

(aa) The Common Areas, including parking areas, loading and unloading areas, trash areas, roadways, sidewalks, walkways, parkways, driveways, landscaped areas, striping, bumpers, irrigation systems, Common Area lighting facilities, fences and gates, elevators and roof.

(bb) Exterior signs and any tenant directories.

Page 2 of 13

3

(cc) Fire detection and sprinkler systems.

(ii) The cost of water, gas, electricity and telephone to service the Common Areas.

(iii) Trash disposal, property management and security services and the costs of any environmental inspections.

(iv) Reserves set aside for maintenance and repair of Common Areas.

(v) Real Property Taxes (as defined in Paragraph 10.2) to be paid by Lessor for the Building and the Common Areas under Paragraph 10 hereof.

(vi) The costs of the premiums for the insurance policies maintained by Lessor under Paragraph 8 hereof.

(vii) Any deductible portion of an insured loss concerning the Building or the Common Areas.

(viii) Any other services to be provided by Lessor that are stated elsewhere in this Lease to be a Common Area Operating Expense.

(b) Any Common Area Operating Expenses and Real Property Taxes that are specifically attributable to the Building or to any other building in the Industrial Center or to the operation, repair and maintenance thereof, shall be allocated entirely to the Building or to such other building. However, any Common Area Operating Expenses and Real Property Taxes that are not specifically attributable to the Building or to any other building or to the operation, repair and maintenance thereof, shall be equitably allocated by Lessor to all buildings in the Industrial Center.

(c) The inclusion of the improvements, facilities and services set forth in Subparagraph 4.2(a) shall not be deemed to impose an obligation upon Lessor to either have said improvements or facilities or to provide those services unless the Industrial Center already has the same, Lessor already provides the services, or Lessor has agreed elsewhere in this Lease to provide the same or some of them.

(d) Lessee's Share of Common Area Operating Expenses shall be payable by Lessee within ten (10) days after a reasonably detailed statement of actual expenses is presented to Lessee by Lessor. At Lessor's option, however, an amount may be estimated by Lessor from time to time of Lessee's Share of annual Common Area Operating Expenses and the same shall be payable monthly or

quarterly, as Lessor shall designate, during each 12-month period of the Lease term, on the same day as the Base Rent is due hereunder. Lessor shall deliver to Lessee within sixty (60) days after the expiration of each calendar year a reasonably detailed statement showing Lessee's Share of the actual Common Area Operating Expenses incurred during the preceding year. If Lessee's payments under this Paragraph 4.2(d) during said preceding year exceed Lessee's Share as indicated on said statement, Lessee shall be credited the amount of such overpayment against Lessee's Share of Common Area Operating Expenses next becoming due. If Lessee's payments under this Paragraph 4.2(d) during said preceding year were less than Lessee's Share as indicated on said statement, Lessee shall pay to Lessor the amount of the deficiency within ten (10) days after delivery by Lessor to Lessee of said statement.

5. SECURITY DEPOSIT. Lessee shall deposit with Lessor upon Lessee's execution hereof the Security Deposit set forth in Paragraph 1.7 as security for Lessee's faithful performance of Lessee's obligations under this Lease. If Lessee fails to pay Base Rent or other rent or charges due hereunder, or otherwise Defaults under this Lease (as defined in Paragraph 13.1), Lessor may use, apply or retain all or any portion of said Security Deposit for the payment of any amount due Lessor or to reimburse or compensate Lessor for any liability, cost, expense, loss or damage (including attorneys' fees) which Lessor may suffer or incur by reason thereof. If Lessor uses or applies all or any portion of said Security Deposit, Lessee shall within ten (10) days after written request therefore deposit monies with Lessor sufficient to restore said Security Deposit to the full amount required by this Lease. Any time the Base Rent increases during the term of this Lease, Lessee shall, upon written request from Lessor, deposit additional monies with Lessor as an addition to the Security Deposit so that the total amount of the Security Deposit shall at all times bear the same proportion to the then current Base Rent as the initial Security Deposit bears to the initial Base Rent set forth in Paragraph 1.5. Lessor shall not be required to keep all or any part of the Security Deposit separate from its general accounts. Lessor shall, at the expiration or earlier termination of the term hereof and after Lessee has vacated the Premises, return to Lessee (or, at Lessor's option, to the last assignee, if any, of Lessee's interest herein), that portion of the Security Deposit not used or applied by Lessor. Unless otherwise expressly agreed in writing by Lessor, no part of the Security Deposit shall be considered to be held in trust, to bear interest or other increment for its use, or to be prepayment for any monies to be paid by Lessee under this Lease.

6. USE.

6.1 PERMITTED USE.

(a) Lessee shall use and occupy the Premises only for the Permitted Use set forth in Paragraph 1.8, or any other legal use which is reasonably comparable thereto, and for no other purpose. Lessee shall not use or permit the use of the Premises in a manner that is unlawful, creates waste or a nuisance, or that disturbs owners and/or occupants of, or causes damage to the Premises or neighboring premises or properties.

(b) Lessor hereby agrees to not unreasonably withhold or delay its consent to any written request by Lessee, Lessee's assignees or subtenants, and by prospective assignees and subtenants of Lessee, its assignees and subtenants, for a modification of said Permitted Use, so long as the same will not impair the structural integrity of the improvements on the Premises or in the Building or the mechanical or electrical systems therein, does not conflict with uses by other lessees, is not significantly more burdensome to the Premises or the Building and the improvements thereon, and is otherwise permissible pursuant to this Paragraph 6. If Lessor elects to withhold such consent, Lessor shall within five (5) business days after such request give a written notification of same, which notice shall include an explanation of Lessor's reasonable objections to the change in use.

6.2 HAZARDOUS SUBSTANCES.

(a) REPORTABLE USES REQUIRE CONSENT. The term "HAZARDOUS SUBSTANCE" as used in this Lease shall mean any product, substance, chemical, material or waste whose presence, nature, quantity and/or intensity of

existence, use, manufacture, disposal, transportation, spill, release or effect, either by itself or in combination with other materials expected to be on the Premises, is either: (i) potentially injurious to the public health, safety or welfare, the environment, or the Premises; (ii) regulated or monitored by any governmental authority; or (iii) a basis for potential liability of Lessor to any governmental agency or third party under any applicable statute or common law theory. Hazardous Substance shall include, but not be limited to, hydrocarbons, petroleum, gasoline, crude oil or any products or by-products thereof. Lessee shall not engage in any activity in or about the Premises which constitutes a Reportable Use (as hereinafter defined) of Hazardous Substances without the express prior written consent of Lessor and compliance in a timely manner (at Lessee's sole cost and expense) with all Applicable Requirements (as defined in Paragraph 6.3). "REPORTABLE USE" shall mean (i) the installation or use of any above or below ground storage tank; (ii) the generation, possession, storage, use, transportation, or disposal of a Hazardous Substance that requires a permit from, or with respect to which a report, notice, registration or business plan is required to be filed with, any governmental authority; and (iii) the presence in, on or about the Premises of a Hazardous Substance with respect to which any Applicable Laws require that a notice be given to persons entering or occupying the Premises or neighboring properties. Notwithstanding the foregoing, Lessee may, without Lessor's prior consent, but upon notice to Lessor and in compliance with all Applicable Requirements, use any ordinary and customary materials reasonably required to be used by Lessee in the normal course of the Permitted Use, so long as such use is not a Reportable Use and does not expose the Premises or neighboring properties to any meaningful risk of contamination or damage or expose Lessor to any liability therefor. In addition, Lessor may (but without any obligation to do so) condition its consent to any Reportable Use of any Hazardous Substance by Lessee upon Lessee's giving Lessor such additional assurances as Lessor, in its reasonable discretion, deems necessary to protect itself, the public, the Premises and the environment against damage, contamination or injury and/or liability therefor, including, but not limited to, the installation (and, at Lessor's option, removal on or before Lease expiration or earlier termination) of reasonably necessary protective modifications to the Premises (such as concrete encasements) and/or the deposit of an additional Security Deposit under Paragraph 5 hereof.

(b) DUTY TO INFORM LESSOR. If Lessee knows, or has reasonable cause to believe, that a Hazardous Substance has come to be located in, on, under or about the Premises or the Building, other than as previously consented to by Lessor, Lessee shall immediately give Lessor written notice thereof, together with a copy of any statement, report, notice, registration, application, permit, business plan, license, claim, action, or proceeding given to, or received from, any governmental authority or private party concerning the presence, spill, release, discharge of, or exposure to, such Hazardous Substance including, but not limited to, all such documents as may be involved in any Reportable Use involving the Premises. Lessee shall not cause or permit any Hazardous Substance to be spilled or released in, on, under or about the Premises (including, without limitation, through the plumbing or sanitary sewer system).

(c) INDEMNIFICATION. Lessee shall indemnify, protect, defend and hold Lessor, its agents, employees, lenders and ground lessor, if any, and the Premises, harmless from and against any and all damages, liabilities, judgments, costs, claims, liens, expenses, penalties, loss of permits and attorneys' and consultants' fees arising out of or involving any Hazardous Substance brought onto the Premises by or for Lessee or by anyone under Lessee's control. Lessee's obligations under this Paragraph 6.2(c) shall include, but not be limited to, the effects of any contamination or injury to person, property or the environment created or suffered by Lessee, and the cost of investigation (including consultants' and attorneys' fees and testing), removal, remediation, restoration and/or abatement thereof, or of any contamination therein involved, and shall survive the expiration or earlier termination of this Lease. No termination, cancellation or release agreement entered into by Lessor and Lessee shall release Lessee from its obligations under this Lease with respect to Hazardous Substances, unless specifically so agreed by Lessor in writing at the time of such agreement.

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6.3 LESSEE'S COMPLIANCE WITH REQUIREMENTS. Lessee shall, at Lessee's sole

cost and expense, fully, diligently and in a timely manner, comply with all "APPLICABLE REQUIREMENTS," which term is used in this Lease to mean all laws, rules, regulations, ordinances, directives, covenants, easements and

*See Addendum 6.2(d)

Page 3 of 13

4

restrictions of record, permits, the requirements of any applicable fire insurance underwriter or rating bureau, and the recommendations of Lessor's engineers and/or consultants, relating in any manner to the Premises (including, but not limited to, matters pertaining to (i) industrial hygiene; (ii) environmental conditions on, in, under or about the Premises, including soil and groundwater conditions; and (iii) the use, generation, manufacture, production, installation, maintenance, removal, transportation, storage, spill, or release of any Hazardous Substance), now in effect or which may hereafter come into effect. Lessee shall, within five (5) days after receipt of Lessor's written request, provide Lessor with copies of all documents and information, including, but not limited to, permits, registrations, manifests, applications, reports and certificates, evidencing Lessee's compliance with any Applicable Requirements specified by Lessor, and shall immediately upon receipt, notify Lessor in writing (with copies of any documents involved) of any threatened or actual claim, notice, citation, warning, complaint or report pertaining to or involving failure by Lessee or the Premises to comply with any Applicable Requirements.

6.4 INSPECTION; COMPLIANCE WITH LAW. Lessor, Lessor's agents, employees, contractors and designated representatives, and the holders of any mortgages, deeds of trust or ground leases on the Premises ("LENDERS") shall have the right to enter the Premises at any time in the case of an emergency, and otherwise at reasonable times, for the purpose of inspecting the condition of the Premises and for verifying compliance by Lessee with this Lease and all Applicable Requirements (as defined in Paragraph 6.3), and Lessor shall be entitled to employ experts and/or consultants in connection therewith to advise Lessor with respect to Lessee's activities, including but not limited to Lessee's installation, operation, use, monitoring, maintenance, or removal of any Hazardous Substance on or from the Premises. The costs and expenses of any such inspections shall be paid by the party requesting same, unless a Default or Breach of this Lease by Lessee or a violation of Applicable Requirements or a contamination, caused or materially contributed to by Lessee, is found to exist or to be imminent, or unless the inspection is requested or ordered by a governmental authority as the result of any such existing or imminent violation or contamination. In such case, Lessee shall upon request reimburse Lessor or Lessor's Lender, as the case may be, for the costs and expenses of such inspections.

7. MAINTENANCE, REPAIRS, UTILITY INSTALLATIONS, TRADE FIXTURES AND ALTERATIONS.

7.1 LESSEE'S OBLIGATIONS.

(a) Subject to the provisions of Paragraphs 2.2 (Condition), 2.3 (Compliance with Covenants, Restrictions and Building Code), 7.2 (Lessor's Obligations), 9 (Damage or Destruction), and 14 (Condemnation), Lessee shall, at Lessee's sole cost and expense and at all times, keep the Premises and every part thereof in good order, condition and repair (whether or not such portion of the Premises requiring repair, or the means of repairing the same, are reasonably or readily accessible to Lessee, and whether or not the need for such repairs occurs as a result of Lessee's use, any prior use, the elements or the age of such portion of the Premises), including, without limiting the generality of the foregoing, all equipment or facilities specifically serving the Premises, such as plumbing, heating, air conditioning, ventilating, electrical, lighting facilities, boilers, fired or unfired pressure vessels, fire hose connections if within the Premises, fixtures, interior walls, interior surfaces of exterior walls, ceilings, floors, windows, doors, plate glass, and skylights, but excluding any items which are the responsibility of Lessor pursuant to Paragraph

7.2 below. Lessee, in keeping the Premises in good order, condition and repair, shall exercise and perform good maintenance practices. Lessee's obligations shall include restorations, replacements or renewals when necessary to keep the Premises and all improvements thereon or a part thereof in good order, condition and state of repair.

(b) Lessee shall, at Lessee's sole cost and expense, procure and maintain a contract, with copies to Lessor, in customary form and substance for and with a contractor specializing and experienced in the inspection, maintenance and service of the heating, air conditioning and ventilation system for the Premises. However, Lessor reserves the right, upon notice to Lessee, to procure and maintain the contract for the heating, air conditioning and ventilating systems, and if Lessor so elects, Lessee shall reimburse Lessor, upon demand, for the cost thereof.

(c) If Lessee fails to perform Lessee's obligations under this Paragraph 7.1, Lessor may enter upon the Premises after ten (10) days' prior written notice to Lessee (except in the case of an emergency, in which case no notice shall be required), perform such obligations on Lessee's behalf, and put the Premises in good order, condition and repair, in accordance with Paragraph 13.2 below.

7.2 LESSOR'S OBLIGATIONS. Subject to the provisions of Paragraphs 2.2 (Condition), 2.3 (Compliance with Covenants, Restrictions and Building Code), 4.2 (Common Area Operating Expenses), 6 (Use), 7.1 (Lessee's Obligations), 9 (Damage or Destruction) and 14 (Condemnation), Lessor, subject to reimbursement pursuant to Paragraph 4.2, shall keep in good order, condition and repair the foundations, exterior walls, structural condition of interior bearing walls, exterior roof, fire sprinkler and/or standpipe and hose (if located in the Common Areas) or other automatic fire extinguishing system including fire alarm and/or smoke detection systems and equipment, fire hydrants, parking lots, walkways, parkways, driveways, landscaping, fences, signs and utility systems serving the Common Areas and all parts thereof, as well as providing the services for which there is a Common Area Operating Expense pursuant to Paragraph 4.2. Lessor shall not be obligated to paint the exterior or interior surfaces of exterior walls nor shall Lessor be obligated to maintain, repair or replace windows, doors or plate glass of the Premises. Lessee expressly waives the benefit of any statute now or hereafter in effect which would otherwise afford Lessee the right to make repairs at Lessor's expense or to terminate this Lease because of Lessor's failure to keep the Building, Industrial Center or Common Areas in good order, condition and repair.*

7.3 UTILITY INSTALLATIONS, TRADE FIXTURES, ALTERATIONS.

(a) DEFINITIONS; CONSENT REQUIRED. The term "UTILITY INSTALLATIONS" is used in this Lease to refer to all air lines, power panels, electrical distribution, security, fire protection systems, communications systems, lighting fixtures, heating, ventilating and air conditioning equipment, plumbing, and fencing in, on or about the Premises. The term "TRADE FIXTURES" shall mean Lessee's machinery and equipment which can be removed without doing material damage to the Premises. The term "ALTERATIONS" shall mean any modification of the improvements on the Premises which are provided by Lessor under the terms of this Lease, other than Utility Installations or Trade Fixtures. "LESSEE-OWNED ALTERATIONS AND/OR UTILITY INSTALLATIONS" are defined as Alterations and/or Utility Installations made by Lessee that are not yet owned by Lessor pursuant to Paragraph 7.4(a). Lessee shall not make nor cause to be made any Alterations or Utility Installations in, on, under or about the Premises without Lessor's prior written consent. Lessee may, however, make non-structural Utility Installations to the interior of the Premises (excluding the roof) without Lessor's consent but upon notice to Lessor, so long as they are not visible from the outside of the Premises, do not involve puncturing, relocating or removing the roof or any existing walls, or changing or interfering with the fire sprinkler or fire detection systems and the cumulative cost thereof during the term of this Lease as extended does not exceed \$10,000.00.

(b) CONSENT. Any Alterations or Utility Installations that Lessee shall desire to make and which require the consent of the Lessor shall be

presented to Lessor in written form with detailed plans. All consents given by Lessor, whether by virtue of Paragraph 7.3(a) or by subsequent specific consent, shall be deemed conditioned upon: (i) Lessee's acquiring all applicable permits required by governmental authorities; (ii) the furnishing of copies of such permits together with a copy of the plans and specifications for the Alteration or Utility Installation to Lessor prior to commencement of the work thereon; and (iii) the compliance by Lessee with all conditions of said permits in a prompt and expeditious manner. Any Alterations or Utility Installations by Lessee during the term of this Lease shall be done in a good and workmanlike manner, with good and sufficient materials, and be in compliance with all Applicable Requirements. Lessee shall promptly upon completion thereof furnish Lessor with as-built plans and specifications therefor. Lessor may (but without obligation to do so) condition its consent to any requested Alteration or Utility Installation that costs \$2,500.00 or more upon Lessee's providing Lessor with a lien and completion bond in an amount equal to one and one-half times the estimated cost of such Alteration or Utility Installation.

(c) LIEN PROTECTION. Lessee shall pay when due all claims for labor or materials furnished or alleged to have been furnished to or for Lessee at or for use on the Premises, which claims are or may be secured by any mechanic's or materialmen's lien against the Premises or any interest therein. Lessee shall give Lessor not less than ten (10) days' notice prior to the commencement of any work in, on, or about the Premises, and Lessor shall have the right to post notices of non-responsibility in or on the Premises as provided by law. If Lessee shall, in good faith, contest the validity of any such lien, claim or demand, then Lessee shall, at its sole expense, defend and protect itself, Lessor and the Premises against the same and shall pay and satisfy any such adverse judgment that may be rendered thereon before the enforcement thereof against the Lessor or the Premises. If Lessor shall require, Lessee shall furnish to Lessor a surety bond satisfactory to Lessor, in an amount equal to one and one-half times the amount of such contested lien claim or demand, indemnifying Lessor against liability for the same, as required by law for the holding of the Premises free from the effect of such lien or claim. In addition, Lessor may require Lessee to pay Lessor's attorneys' fees and costs in participating in such action if Lessor shall decide it is to its best interest to do so.

7.4 OWNERSHIP, REMOVAL, SURRENDER, AND RESTORATION.

(a) OWNERSHIP. Subject to Lessor's right to require their removal and to cause Lessee to become the owner thereof as hereinafter provided in this Paragraph 7.4, all Alterations and Utility Installations made to the Premises by Lessee shall be the property of and owned by Lessee, but considered a part of the Premises. Lessor may, at any time and at its option, elect in writing to Lessee to be the owner of all or any specified part of the Lessee-Owned Alterations and Utility Installations. Unless otherwise instructed per Subparagraph 7.4(b) hereof, all Lessee-Owned Alterations and Utility Installations shall, at the expiration or earlier termination of this Lease, become the property of Lessor and remain upon the Premises and be surrendered with the Premises by Lessee.

(b) REMOVAL. Unless otherwise agreed in writing, Lessor may require that any or all Lessee-Owned Alterations or Utility Installations be removed by the expiration or earlier termination of this Lease, notwithstanding that their installation may have been consented to by Lessor. Lessor may

* See Addendum

require the removal at any time of all or any part of any Alterations or Utility Installations made without the required consent of Lessor.

(c) SURRENDER/RESTORATION. Lessee shall surrender the Premises by the end of the last day of the Lease term or any earlier termination date, clean and free of debris and in good operating order, condition and state of repair,

ordinary wear and tear excepted. Ordinary wear and tear shall not include any damage or deterioration that would have been prevented by good maintenance practice or by Lessee performing all of its obligations under this Lease. Except as otherwise agreed or specified herein, the Premises, as surrendered, shall include the Alterations and Utility Installations. The obligation of Lessee shall include the repair of any damage occasioned by the installation, maintenance or removal of Lessee's Trade Fixtures, furnishings, equipment, and Lessee-Owned Alterations and Utility Installations, as well as the removal of any storage tank installed by or for Lessee, and the removal, replacement, or remediation of any soil, material or ground water contaminated by Lessee, all as may then be required by Applicable Requirements and/or good practice. Lessee's Trade Fixtures shall remain the property of Lessee and shall be removed by Lessee subject to its obligation to repair and restore the Premises per this Lease.

8. INSURANCE; INDEMNITY.

8.1 PAYMENT OF PREMIUMS. The cost of the premiums for the insurance policies maintained by Lessor under this Paragraph 8 shall be a Common Area Operating Expense pursuant to Paragraph 4.2 hereof. Premiums for policy periods commencing prior to, or extending beyond, the term of this Lease shall be prorated to coincide with the corresponding Commencement Date or Expiration Date.

8.2 LIABILITY INSURANCE.

(a) CARRIED BY LESSEE. Lessee shall obtain and keep in force during the term of this Lease a Commercial General Liability policy of insurance protecting Lessee, Lessor and any Lender(s) whose names have been provided to Lessee in writing (as additional insureds) against claims for bodily injury, personal injury and property damage based upon, involving or arising out of the ownership, use, occupancy or maintenance of the Premises and all areas appurtenant thereto. Such insurance shall be on an occurrence basis providing single limit coverage in an amount not less than \$1,000,000 per occurrence with an "Additional Insured-Managers or Lessors of Premises" endorsement and contain the "Amendment of the Pollution Exclusion" endorsement for damage caused by heat, smoke or fumes from a hostile fire. The policy shall not contain any intra-insured exclusions as between insured persons or organizations, but shall include coverage for liability assumed under this Lease as an "INSURED CONTRACT" for the performance of Lessee's indemnity obligations under this Lease. The limits of said insurance required by this Lease or as carried by Lessee shall not, however, limit the liability of Lessee nor relieve Lessee of any obligation hereunder. All insurance to be carried by Lessee shall be primary to and not contributory with any similar insurance carried by Lessor, whose insurance shall be considered excess insurance only.

(b) CARRIED BY LESSOR. Lessor shall also maintain liability insurance described in Paragraph 8.2(a) above, in addition to and not in lieu of, the insurance required to be maintained by Lessee. Lessee shall not be named as an additional insured therein.

8.3 PROPERTY INSURANCE - BUILDING, IMPROVEMENTS AND RENTAL VALUE.

(a) BUILDING AND IMPROVEMENTS. Lessor shall obtain and keep in force during the term of this Lease a policy or policies in the name of Lessor, with loss payable to Lessor and to any Lender(s), insuring against loss or damage to the Premises. Such insurance shall be for full replacement cost, as the same shall exist from time to time, or the amount required by any Lender(s), but in no event more than the commercially reasonable and available insurable value thereof if, by reason of the unique nature or age of the improvements involved, such latter amount is less than full replacement cost. Lessee-Owned Alterations and Utility Installations, Trade Fixtures and Lessee's personal property shall be insured by Lessee pursuant to Paragraph 8.4. If the coverage is available and commercially appropriate, Lessor's policy or policies shall insure against all risks of direct physical loss or damage (except the perils of flood and/or earthquake unless required by a Lender), including coverage for any additional costs resulting from debris removal and reasonable amounts of coverage for the enforcement of any ordinance or law regulating the

reconstruction or replacement of any undamaged sections of the Building required to be demolished or removed by reason of the enforcement of any building, zoning, safety or land use laws as the result of a covered loss, but not including plate glass insurance. Said policy or policies shall also contain an agreed valuation provision in lieu of any co-insurance clause, waiver of subrogation, and inflation guard protection causing an increase in the annual property insurance coverage amount by a factor of not less than the adjusted U.S. Department of Labor Consumer Price Index for All Urban Consumers for the city nearest to where the Premises are located.

(b) RENTAL VALUE. Lessor shall also obtain and keep in force during the term of this Lease a policy or policies in the name of Lessor, with loss payable to Lessor and any Lender(s), insuring the loss of the full rental and other charges payable by all lessees of the Building to Lessor for one year (including all Real Property Taxes, insurance costs, all Common Area Operating Expenses and any scheduled rental increases). Said insurance may provide that in the event the Lease is terminated by reason of an insured loss, the period of indemnity for such coverage shall be extended beyond the date of the completion of repairs or replacement of the Premises, to provide for one full year's loss of rental revenues from the date of any such loss. Said insurance shall contain an agreed valuation provision in lieu of any co-insurance clause, and the amount of coverage shall be adjusted annually to reflect the projected rental income, Real Property Taxes, insurance premium costs and other expenses, if any, otherwise payable, for the next 12-month period. Common Area Operating Expenses shall include any deductible amount in the event of such loss.

(c) ADJACENT PREMISES. Lessee shall pay for any increase in the premiums for the property insurance of the Building and for the Common Areas or other buildings in the Industrial Center if said increase is caused by Lessee's acts, omissions, use or occupancy of the Premises.

(d) LESSEE'S IMPROVEMENTS. Since Lessor is the Insuring Party, Lessor shall not be required to insure Lessee-Owned Alterations and Utility Installations unless the item in question has become the property of Lessor under the terms of this Lease.

8.4 LESSEE'S PROPERTY INSURANCE. Subject to the requirements of Paragraph 8.5, Lessee at its cost shall either by separate policy or, at Lessor's option, by endorsement to a policy already carried, maintain insurance coverage on all of Lessee's personal property, Trade Fixtures and Lessee-Owned Alterations and Utility Installations in, on, or about the Premises similar in coverage to that carried by Lessor as the Insuring Party under Paragraph 8.3(a). Such insurance shall be full replacement cost coverage with a deductible not to exceed \$1,000 per occurrence. The proceeds from any such insurance shall be used by Lessee for the replacement of personal property and the restoration of Trade Fixtures and Lessee-Owned Alterations and Utility Installations. Upon request from Lessor, Lessee shall provide Lessor with written evidence that such insurance is in force.

8.5 INSURANCE POLICIES. Insurance required hereunder shall be in companies duly licensed to transact business in the state where the Premises are located, and maintaining during the policy term a "General Policyholders Rating" of at least B+, V, or such other rating as may be required by a Lender, as set forth in the most current issue of "Best's Insurance Guide." Lessee shall not do or permit to be done anything which shall invalidate the insurance policies referred to in this Paragraph 8. Lessee shall cause to be delivered to Lessor, within seven (7) days after the earlier of the Early Possession Date or the Commencement Date, certified copies of, or certificates evidencing the existence and amounts of, the insurance required under Paragraph 8.2(a) and 8.4. No such policy shall be cancelable or subject to modification except after thirty (30) days' prior written notice to Lessor. Lessee shall, at least thirty (30) days prior to the expiration of such policies, furnish Lessor with evidence of renewals or "insurance binders" evidencing renewal thereof, or Lessor may order such insurance and charge the cost thereof to Lessee, which amount shall be payable by Lessee to Lessor upon demand. See Addendum.

8.6 WAIVER OF SUBROGATION. Without affecting any other rights or remedies, Lessee and Lessor each hereby release and relieve the other, and waive their

entire right to recover damages (whether in contract or in tort) against the other, for loss or damage to their property arising out of or incident to the perils required to be insured against under Paragraph 8. The effect of such releases and waivers of the right to recover damages shall not be limited by the amount of insurance carried or required, or by any deductibles applicable thereto. Lessor and Lessee agree to have their respective insurance companies issuing property damage insurance waive any right to subrogation that such companies may have against Lessor or Lessee, as the case may be, so long as the insurance is not invalidated thereby.

8.7 INDEMNITY. Except for Lessor's negligence and/or breach of express warranties, Lessee shall indemnify, protect, defend and hold harmless the Premises, Lessor and its agents, Lessor's master or ground lessor, partners and Lenders, from and against any and all claims, loss of rents and/or damages, costs, liens, judgments, penalties, loss of permits, attorneys' and consultants' fees, expenses and/or liabilities arising out of, involving, or in connection with, the occupancy of the Premises by Lessee, the conduct of Lessee's business, any act, omission or neglect of Lessee, its agents, contractors, employees or invitees, and out of any Default or Breach by Lessee in the performance in a timely manner of any obligation on Lessee's part to be performed under this Lease. The foregoing shall include, but not be limited to, the defense or pursuit of any claim or any action or proceeding involved therein, and whether or not (in the case of claims made against Lessor) litigated and/or reduced to judgment. In case any action or proceeding be brought against Lessor by reason of any of the foregoing matters, Lessee, upon notice from Lessor, shall defend the same at Lessee's expense by counsel reasonably satisfactory to Lessor and Lessor shall cooperate with Lessee in such defense. Lessor need not have first paid any such claim in order to be so indemnified.

8.8 EXEMPTION OF LESSOR FROM LIABILITY. Lessor shall not be liable for injury or damage to the person or goods, wares, merchandise or other property of Lessee, Lessee's employees, contractors, invitees, customers, or any other person in or about the Premises, whether such damage or injury is caused by or results from fire, steam, electricity, gas, water or rain, or from the breakage, leakage, obstruction or other defects of pipes, fire sprinklers, wires, appliances, plumbing, air conditioning or lighting fixtures, or from any other cause, whether said injury or damage results from conditions arising upon the

6

Premises or upon other portions of the Building of which the Premises are a part, from other sources or places, and regardless of whether the cause of such damage or injury or the means of repairing the same is accessible or not. Lessor shall not be liable for any damages arising from any act or neglect of any other lessee of Lessor nor from the failure by Lessor to enforce the provisions of any other lease in the Industrial Center. Notwithstanding Lessor's negligence or breach of this Lease, Lessor shall under no circumstances be liable for injury to Lessee's business or for any loss of income or profit therefrom.

9. DAMAGE OR DESTRUCTION.

9.1 DEFINITIONS.

(a) "PREMISES PARTIAL DAMAGE" shall mean damage or destruction to the Premises, other than Lessee-Owned Alterations and Utility Installations, the repair cost of which damage or destruction is less than fifty percent (50%) of the then Replacement Cost (as defined in Paragraph 9.1(d)) of the Premises (excluding Lessee-Owned Alterations and Utility Installations and Trade Fixtures) immediately prior to such damage or destruction.

(b) "PREMISES TOTAL DESTRUCTION" shall mean damage or destruction to the Premises, other than Lessee-Owned Alterations and Utility Installations, the repair cost of which damage or destruction is fifty percent (50%) or more of the then Replacement Cost of the Premises (excluding Lessee-Owned Alterations and Utility Installations and Trade Fixtures) immediately prior to such damage or destruction. In addition, damage or destruction to the Building, other than Lessee-Owned Alterations and Utility Installations and Trade Fixtures of any lessees of the Building, the cost of which damage or destruction is fifty percent (50%) or more of the then Replacement Cost (excluding Lessee-Owned

Alterations and Utility Installations and Trade Fixtures of any lessees of the Building) of the Building shall, at the option of Lessor, be deemed to be Premises Total Destruction.

(c) "INSURED LOSS" shall mean damage or destruction to the Premises, other than Lessee-Owned Alterations and Utility Installations and Trade Fixtures, which was caused by an event required to be covered by the insurance described in Paragraph 8.3(a) irrespective of any deductible amounts or coverage limits involved.

(d) "REPLACEMENT COST" shall mean the cost to repair or rebuild the improvements owned by Lessor at the time of the occurrence to their condition existing immediately prior thereto, including demolition, debris removal and upgrading required by the operation of applicable building codes, ordinances or laws, and without deduction for depreciation.

(e) "HAZARDOUS SUBSTANCE CONDITION" shall mean the occurrence or discovery of a condition involving the presence of, or a contamination by, a Hazardous Substance as defined in Paragraph 6.2(a), in, on, or under the Premises.

9.2 PREMISES PARTIAL DAMAGE -- INSURED LOSS. If Premises Partial Damage that is an Insured Loss occurs, then Lessor shall, at Lessor's expense, repair such damage (but not Lessee's Trade Fixtures or Lessee-Owned Alterations and Utility Installations) as soon as reasonably possible and this Lease shall continue in full force and effect. In the event, however, that there is a shortage of insurance proceeds and such shortage is due to the fact that, by reason of the unique nature of the improvements in the Premises, full replacement cost insurance coverage was not commercially reasonable and available, Lessor shall have no obligation to pay for the shortage in insurance proceeds or to fully restore the unique aspects of the Premises unless Lessee provides Lessor with the funds to cover same, or adequate assurance thereof, within ten (10) days following receipt of written notice of such shortage and request therefor. If Lessor receives said funds or adequate assurance thereof within said ten (10) day period, Lessor shall complete them as soon as reasonably possible and this Lease shall remain in full force and effect. If Lessor does not receive such funds or assurance within said period, Lessor may nevertheless elect by written notice to Lessee within ten (10) days thereafter to make such restoration and repair as is commercially reasonable with Lessor paying any shortage in proceeds, in which case this Lease shall remain in full force and effect. If Lessor does not receive such funds or assurance within such ten (10) day period, and if Lessor does not so elect to restore and repair, then this Lease shall terminate sixty (60) days following the occurrence of the damage or destruction. Unless otherwise agreed, Lessee shall in no event have any right to reimbursement from Lessor for any funds contributed by Lessee to repair any such damage or destruction. Premises Partial Damage due to flood or earthquake shall be subject to Paragraph 9.3 rather than Paragraph 9.2, notwithstanding that there may be some insurance coverage, but the net proceeds of any such insurance shall be made available for the repairs if made by either Party. See Addendum.

9.3 PARTIAL DAMAGE -- UNINSURED LOSS. If Premises Partial Damage that is not an Insured Loss occurs, unless caused by a negligent or willful act of Lessee (in which event Lessee shall make the repairs at Lessee's expense and this Lease shall continue in full force and effect), Lessor may, at Lessor's option, either (i) repair such damage as soon as reasonably possible at Lessor's expense, in which event this Lease shall continue in full force and effect, or (ii) give written notice to Lessee within thirty (30) days after receipt by Lessor of knowledge of the occurrence of such damage of Lessor's desire to terminate this Lease as of the date sixty (60) days following the date of such notice. In the event Lessor elects to give such notice of Lessor's intention to terminate this Lease, Lessee shall have the right within ten (10) days after the receipt of such notice to give written notice to Lessor of Lessee's commitment to pay for the repair of such damage totally at Lessee's expense and without reimbursement from Lessor. Lessee shall provide Lessor with the required funds or satisfactory assurance thereof within thirty (30) days following such commitment from Lessee. In such event this Lease shall continue in full force and effect, and Lessor shall proceed to make such repairs as soon as reasonably

possible after the required funds are available. If Lessee does not give such notice and provide the funds or assurance thereof within the times specified above, this Lease shall terminate as of the date specified in Lessor's notice of termination.

9.4 TOTAL DESTRUCTION. Notwithstanding any other provision hereof, if Premises Total Destruction occurs (including any destruction required by any authorized public authority), this Lease shall terminate sixty (60) days following the date of such Premises Total Destruction, whether or not the damage or destruction is an Insured Loss or was caused by a negligent or willful act of Lessee. In the event, however, that the damage or destruction was caused by Lessee, Lessor shall have the right to recover Lessor's damages from Lessee except as released and waived in Paragraph 9.7.

9.5 DAMAGE NEAR END OF TERM. If at any time during the last six (6) months of the term of this Lease there is damage for which the cost to repair exceeds one month's Base Rent, whether or not an Insured Loss, Lessor may, at Lessor's option, terminate this Lease effective sixty (60) days following the date of occurrence of such damage by giving written notice to Lessee of Lessor's election to do so within thirty (30) days after the date of occurrence of such damage. Provided, however, if Lessee at that time has an exercisable option to extend this Lease or to purchase the Premises, then Lessee may preserve this Lease by (a) exercising such option, and (b) providing Lessor with any shortage in insurance proceeds (or adequate assurance thereof) needed to make the repairs on or before the earlier of (i) the date which is ten (10) days after Lessee's receipt of Lessor's written notice purporting to terminate this Lease, or (ii) the day prior to the date upon which such option expires. If Lessee duly exercises such option during such period and provides Lessor with funds (or adequate assurance thereof) to cover any shortage in insurance proceeds, Lessor shall, at Lessor's expense, repair such damage as soon as reasonably possible and this Lease shall continue in full force and effect. If Lessee fails to exercise such option and provide such funds or assurance during such period, then this Lease shall terminate as of the date set forth in the first sentence of this Paragraph 9.5.

9.6 ABATEMENT OF RENT; LESSEE'S REMEDIES.

(a) In the event of (i) Premises Partial Damage or (ii) Hazardous Substance Condition for which Lessee is not legally responsible, the Base Rent, Common Area Operating Expenses and other charges, if any, payable by Lessee hereunder for the period during which such damage or condition, its repair, remediation or restoration continues, shall be abated in proportion to the degree to which Lessee's use of the Premises is impaired, but not in excess of proceeds from insurance required to be carried under Paragraph 8.3(b). Except for abatement of Base Rent, Common Area Operating Expenses and other charges, if any, as aforesaid, all other obligations of Lessee hereunder shall be performed by Lessee, and Lessee shall have no claim against Lessor for any damage suffered by reason of any such damage, destruction, repair, remediation or restoration.

(b) If Lessor shall be obligated to repair or restore the Premises under the provisions of this Paragraph 9 and shall not commence, in a substantial and meaningful way, the repair or restoration of the Premises within ninety (90) days after such obligation shall accrue, Lessee may, at any time prior to the commencement of such repair or restoration, give written notice to Lessor and to any Lenders of which Lessee has actual notice of Lessee's election to terminate this Lease on a date not less than sixty (60) days following the giving of such notice. If Lessee gives such notice to Lessor and such Lenders and such repair or restoration is not commenced within thirty (30) days after receipt of such notice, this Lease shall terminate as of the date specified in said notice. If Lessor or a Lender commences the repair or restoration of the Premises within thirty (30) days after the receipt of such notice, this Lease shall continue in full force and effect. "COMMENCE" as used in this Paragraph 9.6 shall mean either the unconditional authorization of the preparation of the required plans, or the beginning of the actual work on the Premises, whichever occurs first.

9.7 HAZARDOUS SUBSTANCE CONDITIONS. If a Hazardous Substance Condition occurs, unless Lessee is legally responsible therefor (in which case Lessee

shall make the investigation and remediation thereof required by Applicable Requirements and this Lease shall continue in full force and effect, but subject to Lessor's rights under Paragraph 6.2(c) and Paragraph 13), Lessor may, at Lessor's option, either (i) investigate and remediate such Hazardous Substance Condition, if required, as soon as reasonably possible at Lessor's expense, in which event this Lease shall continue in full force and effect, or (ii) if the estimated cost to investigate and remediate such condition exceeds twelve (12) times the then monthly Base Rent or \$100,000, whichever is greater, give written notice to Lessee within thirty (30) days after receipt by Lessor of knowledge of the occurrence of such Hazardous Substance Condition of Lessor's desire to terminate this Lease as of the date sixty (60) days following the date of such notice. In the event Lessor elects to give such notice of Lessor's

Page 6 of 13

7

intention to terminate this Lease, Lessee shall have the right within ten (10) days after the receipt of such notice to give written notice to Lessor of Lessee's commitment to pay for the excess costs of (a) investigation and remediation of such Hazardous Substance Condition to the extent required by Applicable Requirements, over (b) an amount equal to twelve (12) times the then monthly Base Rent or \$100,000, whichever is greater. Lessee shall provide Lessor with the funds required of Lessee or satisfactory assurance thereof within thirty (30) days following said commitment by Lessee. In such event this Lease shall continue in full force and effect, and Lessor shall proceed to make such investigation and remediation as soon as reasonably possible after the required funds are available. If Lessee does not give such notice and provide the required funds or assurance thereof within the time period specified above, this Lease shall terminate as of the date specified in Lessor's notice of termination.

9.8 TERMINATION - ADVANCE PAYMENTS. Upon termination of this Lease pursuant to this Paragraph 9, Lessor shall return to Lessee any advance payment made by Lessee to Lessor and so much of Lessee's Security Deposit as has not been, or is not then required to be, used by Lessor under the terms of this Lease.

9.9 WAIVER OF STATUTES. Lessor and Lessee agree that the terms of this Lease shall govern the effect of any damage to or destruction of the Premises and the Building with respect to the termination of this Lease and hereby waive the provisions of any present or future statute to the extent it is inconsistent herewith.

10. REAL PROPERTY TAXES.

10.1 PAYMENT OF TAXES. Lessor shall pay the Real Property Taxes, as defined in Paragraph 10.2, applicable to the Industrial Center, and except as otherwise provided in Paragraph 10.3, any such amounts shall be included in the calculation of Common Area Operating Expenses in accordance with the provisions of Paragraph 4.2.

10.2 REAL PROPERTY TAX DEFINITION. As used herein, the term "REAL PROPERTY TAXES" shall include any form of real estate tax or assessment, general, special, ordinary or extraordinary, and any license fee, commercial rental tax, improvement bond or bonds, levy or tax (other than inheritance, personal income or estate taxes) imposed upon the Industrial Center by any authority having the direct or indirect power to tax, including any city, state or federal government, or any school, agricultural, sanitary, fire, street, drainage, or other improvement district thereof, levied against any legal or equitable interest of Lessor in the Industrial Center or any portion thereof, Lessor's right to rent or other income therefrom, and/or Lessor's business of leasing the Premises. The term "REAL PROPERTY TAXES" shall also include any tax, fee, levy, assessment or charge, or any increase therein, imposed by reason of events occurring, or changes in Applicable Law taking effect, during the term of this Lease, including, but not limited to, a change in the ownership of the Industrial Center or in the improvements thereon, the execution of this Lease, or any modification, amendment or transfer thereof, and whether or not contemplated by the Parties. In calculating Real Property Taxes for any calendar year, the Real Property Taxes for any real estate tax year shall be included in

the calculation of Real Property Taxes for such calendar year based upon the number of days which such calendar year and tax year have in common.

10.3 ADDITIONAL IMPROVEMENTS. Common Area Operating Expenses shall not include Real Property Taxes specified in the tax assessor's records and work sheets as being caused by additional improvements placed upon the Industrial Center by other lessees or by Lessor for the exclusive enjoyment of such other lessees. Notwithstanding Paragraph 10.1 hereof, Lessee shall, however, pay to Lessor at the time Common Area Operating Expenses are payable under Paragraph 4.2, the entirety of any increase in Real Property Taxes if assessed solely by reason of Alterations, Trade Fixtures or Utility Installations placed upon the Premises by Lessee or at Lessee's request.

10.4 JOINT ASSESSMENT. If the Building is not separately assessed, Real Property Taxes allocated to the Building shall be an equitable proportion of the Real Property Taxes for all of the land and improvements included within the tax parcel assessed, such proportion to be determined by Lessor from the respective valuations assigned in the assessor's work sheets or such other information as may be reasonably available. Lessor's reasonable determination thereof, in good faith, shall be conclusive.

10.5 LESSEE'S PROPERTY TAXES. Lessee shall pay prior to delinquency all taxes assessed against and levied upon Lessee-Owned Alterations and Utility Installations, Trade Fixtures, furnishings, equipment and all personal property of Lessee contained in the Premises or stored within the Industrial Center. When possible, Lessee shall cause its Lessee-Owned Alterations and Utility Installations, Trade Fixtures, furnishings, equipment and all other personal property to be assessed and billed separately from the real property of Lessor. If any of Lessee's said property shall be assessed with Lessor's real property, Lessee shall pay Lessor the taxes attributable to Lessee's property within ten (10) days after receipt of a written statement setting forth the taxes applicable to Lessee's property.

11. UTILITIES. Lessee shall pay directly for all utilities and services supplied to the Premises, including, but not limited to, electricity, telephone, security, gas and cleaning of the Premises, together with any taxes thereon. If any such utilities or services are not separately metered to the Premises or separately billed to the Premises, Lessee shall pay to Lessor a reasonable proportion to be determined by Lessor of all such charges jointly metered or billed with other premises in the Building, in the manner and within the time periods set forth in Paragraph 4.2(d).

12. ASSIGNMENT AND SUBLETTING.

12.1 LESSOR'S CONSENT REQUIRED.

(a) Lessee shall not voluntarily or by operation of law assign, transfer, mortgage or otherwise transfer or encumber (collectively, "assign") or sublet all or any part of Lessee's interest in this Lease or in the Premises without Lessor's prior written consent given under and subject to the terms of Paragraph 36.

(c) The involvement of Lessee or its assets in any transaction, or series of transactions (by way of merger, sale, acquisition, financing, refinancing, transfer, leveraged buy-out or otherwise), whether or not a formal assignment or hypothecation of this Lease or Lessee's assets occurs, which results or will result in a reduction of the Net Worth of Lessee, as hereinafter defined, by an amount equal to or greater than twenty-five percent (25%) of such Net Worth of Lessee as it was represented to Lessor at the time of full execution and delivery of this Lease or at the time of the most recent assignment to which Lessor has consented, or as it exists immediately prior to said transaction or transactions constituting such reduction, at whichever time said Net Worth of Lessee was or is greater, shall be considered an assignment of this Lease by Lessee to which Lessor may reasonably withhold its consent. "NET WORTH OF LESSEE" for purposes of this Lease shall be the net worth of Lessee (excluding any Guarantors) established under generally accepted accounting principles consistently applied.

(d) An assignment or subletting of Lessee's interest in this Lease without Lessor's specific prior written consent shall, at Lessor's option, be a Default curable after notice per Paragraph 13.1, or a non-curable Breach without the necessity of any notice and grace period. If Lessor elects to treat such unconsented to assignment or subletting as a non-curable Breach, Lessor shall have the right to either: (i) terminate this Lease, or (ii) upon thirty (30) days' written notice ("LESSOR'S NOTICE"), increase the monthly Base Rent for the Premises to the greater of the then fair market rental value of the Premises, as reasonably determined by Lessor, or one hundred ten percent (110%) of the Base Rent then in effect. Pending determination of the new fair market rental value, if disputed by Lessee, Lessee shall pay the amount set forth in Lessor's Notice, with any overpayment credited against the next installment(s) of Base Rent coming due, and any underpayment for the period retroactively to the effective date of the adjustment being due and payable immediately upon the determination thereof. Further, in the event of such Breach and rental adjustment, (i) the purchase price of any option to purchase the Premises held by Lessee shall be subject to similar adjustment to the then fair market value as reasonably determined by Lessor (without the Lease being considered an encumbrance or any deduction for depreciation or obsolescence, and considering the Premises at its highest and best use and in good condition) or one hundred ten percent (110%) of the price previously in effect, (ii) any index-oriented rental or price adjustment formulas contained in this Lease shall be adjusted to require that the base index be determined with reference to the index applicable to the time of such adjustment, and (iii) any fixed rental adjustments scheduled during the remainder of the Lease term shall be increased in the same ratio as the new rental bears to the Base Rent in effect immediately prior the adjustment specified in Lessor's Notice.

(e) Lessee's remedy for any breach of this Paragraph 12.1 by Lessor shall be limited to compensatory damages and/or injunctive relief.

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12.2 TERMS AND CONDITIONS APPLICABLE TO ASSIGNMENT AND SUBLETTING.

(a) Regardless of Lessor's consent, any assignment or subletting shall not (i) be effective without the express written assumption by such assignee or sublessee of the obligations of Lessee under this Lease, (ii) release Lessee of any obligations hereunder, nor (iii) alter the primary liability of Lessee for the payment of Base Rent and other sums due Lessor hereunder or for the performance of any other obligations to be performed by Lessee under this Lease.

(b) Lessor may accept any rent or performance of Lessee's obligations from any person other than Lessee pending approval or disapproval of an assignment. Neither a delay in the approval or disapproval of such assignment nor the acceptance of any rent for performance shall constitute a waiver or estoppel of Lessor's right to exercise its remedies for the Default or Breach by Lessee of any of the terms, covenants or conditions of this Lease.

(c) The consent of Lessor to any assignment or subletting shall not constitute a consent to any subsequent assignment or subletting by Lessee

* See Addendum

or to any subsequent or successive assignment or subletting by the assignee or sublessee. However, Lessor may consent to subsequent sublettings and assignments of the sublease or any amendments or modifications thereto without notifying Lessee or anyone else liable under this Lease or the sublease and without obtaining their consent, and such action shall not relieve such persons from liability under this Lease or the sublease.

(d) In the event of any Default or Breach of Lessee's obligation under this Lease, Lessor may proceed directly against Lessee, any Guarantors or anyone else responsible for the performance of the Lessee's obligations under this Lease, including any sublessee, without first exhausting Lessor's remedies against any other person or entity responsible therefor to Lessor, or any

security held by Lessor.

(e) Each request for consent to an assignment or subletting shall be in writing, accompanied by information relevant to Lessor's determination as to the financial and operational responsibility and appropriateness of the proposed assignee or sublessee, including, but not limited to, the intended use and/or required modification of the Premises, if any, together with a non-refundable deposit of \$350.00 as reasonable consideration for Lessor's considering and processing the request for consent. Lessee agrees to provide Lessor with such other or additional information and/or documentation as may be reasonably requested by Lessor.

(f) Any assignee of, or sublessee under, this Lease shall, by reason of accepting such assignment or entering into such sublease, be deemed, for the benefit of Lessor, to have assumed and agreed to conform and comply with each and every term, covenant, condition and obligation herein to be observed or performed by Lessee during the term of said assignment or sublease, other than such obligations as are contrary to or inconsistent with provisions of an assignment or sublease to which Lessor has specifically consented in writing.

12.3 ADDITIONAL TERMS AND CONDITIONS APPLICABLE TO SUBLETTING. The following terms and conditions shall apply to any subletting by Lessee of all or any part of the Premises and shall be deemed included in all subleases under this Lease whether or not expressly incorporated therein:

(a) Lessee hereby assigns and transfers to Lessor all of Lessee's interest in all rentals and income arising from any sublease of all or a portion of the Premises heretofore or hereafter made by Lessee, and Lessor may collect such rent and income and apply same toward Lessee's obligations under this Lease; provided, however, that until a Breach (as defined in Paragraph 13.1) shall occur in the performance of Lessee's obligations under this Lease, Lessee may, except as otherwise provided in this Lease, receive, collect and enjoy the rents accruing under such sublease. Lessor shall not, by reason of the foregoing provision or any other assignment of such sublease to Lessor, nor by reason of the collection of the rents from a sublessee, be deemed liable to the sublessee for any failure of Lessee to perform and comply with any of Lessee's obligations to such sublessee under such Sublease. Lessee hereby irrevocably authorizes and directs any such sublessee, upon receipt of a written notice from Lessor stating that a Breach exists in the performance of Lessee's obligations under this Lease, to pay to Lessor the rents and other charges due and to become due under the sublease. Sublessee shall rely upon any such statement and request from Lessor and shall pay such rents and other charges to Lessor without any obligation or right to inquire as to whether such Breach exists and notwithstanding any notice from or claim from Lessee to the contrary. Lessee shall have no right or claim against such sublessee, or, until the Breach has been cured, against Lessor, for any such rents and other charges so paid by said sublessee to Lessor.

(b) In the event of a Breach by Lessee in the performance of its obligations under this Lease, Lessor, at its option and without any obligation to do so, may require any sublessee to attorn to Lessor, in which event Lessor shall undertake the obligations of the sublessor under such sublease from the time of the exercise of said option to the expiration of such sublease; provided, however, Lessor shall not be liable for any prepaid rents or security deposit paid by such sublessee to such sublessor or for any other prior defaults or breaches of such sublessor under such sublease.

(c) Any matter or thing requiring the consent of the sublessor under a sublease shall also require the consent of Lessor herein.

(d) No sublessee under a sublease approved by Lessor shall further assign or sublet all or any part of the Premises without Lessor's prior written consent.

(e) Lessor shall deliver a copy of any notice of Default or Breach by Lessee to the sublessee, who shall have the right to cure the Default of Lessee within the grace period, if any, specified in such notice. The sublessee shall have a right of reimbursement and offset from and against Lessee for any

such Defaults cured by the sublessee.

13. DEFAULT; BREACH; REMEDIES.

13.1 DEFAULT; BREACH. Lessor and Lessee agree that if an attorney is consulted by Lessor in connection with a Lessee Default or Breach (as hereinafter defined), \$350.00 is a reasonable minimum sum per such occurrence for legal services and costs in the preparation and service of a notice of Default, and that Lessor may include the cost of such services and costs in said notice as rent due and payable to cure said default. A "DEFAULT" by Lessee is defined as a failure by Lessee to observe, comply with or perform any of the terms, covenants, conditions or rules applicable to Lessee under this Lease. A "BREACH" by Lessee is defined as the occurrence of any one or more of the following Defaults, and, where a grace period for cure after notice is specified herein, the failure by Lessee to cure such Default prior to the expiration of the applicable grace period, and shall entitle Lessor to pursue the remedies set forth in Paragraphs 13.2 and/or 13.3:

(b) Except as expressly otherwise provided in this Lease, the failure by Lessee to make any payment of Base Rent, Lessee's Share of Common Area Operating Expenses, or any other monetary payment required to be made by Lessee hereunder as and when due, the failure by Lessee to provide Lessor with reasonable evidence of insurance or surety bond required under this Lease, or the failure of Lessee to fulfill any obligation under this Lease which endangers or threatens life or property, where such failure continues for a period of three (3) days following written notice thereof by or on behalf of Lessor to Lessee.

(c) Except as expressly otherwise provided in this Lease, the failure by Lessee to provide Lessor with reasonable written evidence (in duly executed original form, if applicable) of (i) compliance with Applicable Requirements per Paragraph 6.3, (ii) the inspection, maintenance and service contracts required under Paragraph 7.1(b), (iii) the rescission of an unauthorized assignment or subletting per Paragraph 12.1, (iv) a Tenancy Statement per Paragraphs 16 or 37, (v) the subordination or non-subordination of this Lease per Paragraph 30, (vi) the guaranty of the performance of Lessee's obligations under this Lease if required under Paragraphs 1.11 and 37, (vii) the execution of any document requested under Paragraph 42 (easements), or (viii) any other documentation or information which Lessor may reasonably require of Lessee under the terms of this Lease, where any such failure continues for a period of ten (10) days following written notice by or on behalf of Lessor to Lessee.

(d) A Default by Lessee as to the terms, covenants, conditions or provisions of this Lease, or of the rules adopted under Paragraph 40 hereof that are to be observed, complied with or performed by Lessee, other than those described in Subparagraphs 13.1(a), (b) or (c), above, where such Default continues for a period of thirty (30) days after written notice thereof by or on behalf of Lessor to Lessee; provided, however, that if the nature of Lessee's Default is such that more than thirty (30) days are reasonably required for its cure, then it shall not be deemed to be a Breach of this Lease by Lessee if Lessee commences such cure within said thirty (30) day period and thereafter diligently prosecutes such cure to completion.

(e) The occurrence of any of the following events: (i) the making by Lessee of any general arrangement or assignment for the benefit of creditors; (ii) Lessee's becoming a "debtor" as defined in 11 U.S. Code Section 101 or any successor statute thereto (unless, in the case of a petition filed against Lessee, the same is dismissed within sixty (60) days); (iii) the appointment of a trustee or receiver to take possession of substantially all of Lessee's assets located at the Premises or of Lessee's interest in this Lease, where possession is not restored to Lessee within thirty (30) days; or (iv) the attachment, execution or other judicial seizure of substantially all of Lessee's assets located at the Premises or of Lessee's interest in this Lease, where such seizure is not discharged within thirty (30) days; provided, however, in the event that any provision of this Subparagraph 13.1(e) is contrary to any applicable law, such provision shall be of no force or effect, and shall not affect the validity of the remaining provisions.

(f) The discovery by Lessor that any financial statement of Lessee or of any Guarantor, given to Lessor by Lessee or any Guarantor, was materially false.

(g) If the performance of Lessee's obligations under this Lease is guaranteed: (i) the death of a Guarantor, (ii) the termination of a Guarantor's liability with respect to this Lease other than in accordance with the terms of such guaranty, (iii) a Guarantor's becoming insolvent or the subject of a bankruptcy filing, (iv) a Guarantor's refusal to honor the guaranty, or (v) a Guarantor's breach of its guaranty obligation on an anticipatory breach basis, and Lessee's failure, within sixty (60) days following written notice by or on behalf of Lessor to Lessee of any such event, to provide Lessor with written alternative assurances of security, which, when coupled with the then existing resources of Lessee, equals or exceeds the combined financial resources of Lessee and

Page 8 of 13

9

the Guarantors that existed at the time of execution of this Lease.

13.2 REMEDIES. If Lessee fails to perform any affirmative duty or obligation of Lessee under this Lease, within ten (10) days after written notice to Lessee (or in case of an emergency, without notice), Lessor may at its option (but without obligation to do so), perform such duty or obligation on Lessee's behalf, including, but not limited to, the obtaining of reasonably required bonds, insurance policies, or governmental licenses, permits or approvals. The costs and expenses of any such performance by Lessor shall be due and payable by Lessee to Lessor upon invoice therefor. If any check given to Lessor by Lessee shall not be honored by the bank upon which it is drawn, Lessor, at its own option, may require all future payments to be made under this Lease by Lessee to be made only by cashier's check. In the event of a Breach of this Lease by Lessee (as defined in Paragraph 13.1), with or without further notice or demand, and without limiting Lessor in the exercise of any right or remedy which Lessor may have by reason of such Breach, Lessor may:

(a) Terminate Lessee's right to possession of the Premises by any lawful means, in which case this Lease and the term hereof shall terminate and Lessee shall immediately surrender possession of the Premises to Lessor. In such event Lessor shall be entitled to recover from Lessee: (i) the worth at the time of the award of the unpaid rent which had been earned at the time of termination; (ii) the worth at the time of award of the amount by which the unpaid rent which would have been earned after termination until the time of award exceeds the amount of such rental loss that the Lessee proves could have been reasonably avoided; (iii) the worth at the time of award of the amount by which the unpaid rent for the balance of the term after the time of award exceeds the amount of such rental loss that the Lessee proves could be reasonably avoided; and (iv) any other amount necessary to compensate Lessor for all the detriment proximately caused by the Lessee's failure to perform its obligations under this Lease or which in the ordinary course of things would be likely to result therefrom, including, but not limited to, the cost of recovering possession of the Premises, expenses of reletting, including necessary renovation and alteration of the Premises, reasonable attorneys' fees, and that portion of any leasing commission paid by Lessor in connection with this Lease applicable to the unexpired term of this Lease. The worth at the time of award of the amount referred to in provision (iii) of the immediately preceding sentence shall be computed by discounting such amount at the discount rate of the Federal Reserve Bank of San Francisco or the Federal Reserve Bank District in which the Premises are located at the time of award plus one percent (1%). Efforts by Lessor to mitigate damages caused by Lessee's Default or Breach of this Lease shall not waive Lessor's right to recover damages under this Paragraph 13.2. If termination of this Lease is obtained through the provisional remedy of unlawful detainer, Lessor shall have the right to recover in such proceeding the unpaid rent and damages as are recoverable therein, or Lessor may reserve the right to recover all or any part thereof in a separate suit for such rent and/or damages. If a notice and grace period required under Subparagraphs 13.1(b), (c) or (d) was not previously given, a notice to pay rent or quit, or

to perform or quit, as the case may be, given to Lessee under any statute authorizing the forfeiture of leases for unlawful detainer shall also constitute the applicable notice for grace period purposes required by Subparagraph 13.1(b), (c) or (d). In such case, the applicable grace period under the unlawful detainer statute shall run concurrently after the one such statutory notice, and the failure of Lessee to cure the Default within the greater of the two (2) such grace periods shall constitute both an unlawful detainer and a Breach of this Lease entitling Lessor to the remedies provided for in this Lease and/or by said statute.

(b) Continue the Lease and Lessee's right to possession in effect (in California under California Civil Code Section 1951.4) after Lessee's Breach and recover the rent as it becomes due, provided Lessee has the right to sublet or assign, subject only to reasonable limitations. Lessor and Lessee agree that the limitations on assignment and subletting in this Lease are reasonable. Acts of maintenance or preservation, efforts to relet the Premises, or the appointment of a receiver to protect the Lessor's interest under this Lease, shall not constitute a termination of the Lessee's right to possession.

(c) Pursue any other remedy now or hereafter available to Lessor under the laws or judicial decisions of the state wherein the Premises are located.

(d) The expiration or termination of this Lease and/or the termination of Lessee's right to possession shall not relieve Lessee from liability under any indemnity provisions of this Lease as to matters occurring or accruing during the term hereof or by reason of Lessee's occupancy of the Premises.

13.3 INDUCEMENT RECAPTURE IN EVENT OF BREACH. Any agreement by Lessor for free or abated rent or other charges applicable to the Premises, or for the giving or paying by Lessor to or for Lessee of any cash or other bonus, inducement or consideration for Lessee's entering into this Lease, all of which concessions are hereinafter referred to as "INDUCEMENT PROVISIONS" shall be deemed conditioned upon Lessee's full and faithful performance of all of the terms, covenants and conditions of this Lease to be performed or observed by Lessee during the term hereof as the same may be extended. Upon the occurrence of a Breach (as defined in Paragraph 13.1) of this Lease by Lessee, any such Inducement Provision shall automatically be deemed deleted from this Lease and of no further force or effect, and any rent, other charge, bonus, inducement or consideration theretofore abated, given or paid by Lessor under such an Inducement Provision shall be immediately due and payable by Lessee to Lessor, and recoverable by Lessor, as additional rent due under this Lease, notwithstanding any subsequent cure of said Breach by Lessee. The acceptance by Lessor of rent or the cure of the Breach which initiated the operation of this Paragraph 13.3 shall not be deemed a waiver by Lessor of the provisions of this Paragraph 13.3 unless specifically so stated in writing by Lessor at the time of such acceptance.

13.4 LATE CHARGES. Lessee hereby acknowledges that late payment by Lessee to Lessor of rent and other sums due hereunder will cause Lessor to incur costs not contemplated by this Lease, the exact amount of which will be extremely difficult to ascertain. Such costs include, but are not limited to, processing and accounting charges, and late charges which may be imposed upon Lessor by the terms of any ground lease, mortgage or deed of trust covering the Premises. Accordingly, if any installment of rent or other sum due from Lessee shall not be received by Lessor or Lessor's designee within ten (10) days after such amount shall be due, then, without any requirement for notice to Lessee, Lessee shall pay to Lessor a late charge equal to six percent (6%) of such overdue amount. The Parties hereby agree that such late charge represents a fair and reasonable estimate of the costs Lessor will incur by reason of late payment by Lessee. Acceptance of such late charge by Lessor shall in no event constitute a waiver of Lessee's Default or Breach with respect to such overdue amount, nor prevent Lessor from exercising any of the other rights and remedies granted hereunder. In the event that a late charge is payable hereunder, whether or not collected, for three (3) consecutive installments of Base Rent, then notwithstanding Paragraph 4.1 or any other provision of this Lease to the contrary, Base Rent shall, at Lessor's option, become due and payable quarterly

in advance. See Addendum.

13.5 BREACH BY LESSOR. Lessor shall not be deemed in breach of this Lease unless Lessor fails within a reasonable time to perform an obligation required to be performed by Lessor. For purposes of this Paragraph 13.5, a reasonable time shall in no event be less than thirty (30) days after receipt by Lessor, and by any Lender(s) whose name and address shall have been furnished to Lessee in writing for such purpose, of written notice specifying wherein such obligation of Lessor has not been performed; provided, however, that if the nature of Lessor's obligation is such that more than thirty (30) days after such notice are reasonably required for its performance, then Lessor shall not be in breach of this Lease if performance is commenced within such thirty (30) day period and thereafter diligently pursued to completion.

14. CONDEMNATION. If the Premises or any portion thereof are taken under the power of eminent domain or sold under the threat of the exercise of said power (all of which are herein called "condemnation"), this Lease shall terminate as to the part so taken as of the date the condemning authority takes title or possession, whichever first occurs. If more than ten percent (10%) of the floor area of the Premises, or more than twenty-five percent (25%) of the portion of the Common Areas designated for Lessee's parking, is taken by condemnation, Lessee may, at Lessee's option, to be exercised in writing within ten (10) days after Lessor shall have given Lessee written notice of such taking (or in the absence of such notice, within ten (10) days after the condemning authority shall have taken possession) terminate this Lease as of the date the condemning authority takes such possession. If Lessee does not terminate this Lease in accordance with the foregoing, this Lease shall remain in full force and effect as to the portion of the Premises remaining, except that the Base Rent shall be reduced in the same proportion as the rentable floor area of the Premises taken bears to the total rentable floor area of the Premises. No reduction of Base Rent shall occur if the condemnation does not apply to any portion of the Premises. Any award for the taking of all or any part of the Premises under the power of eminent domain or any payment made under threat of the exercise of such power shall be the property of Lessor, whether such award shall be made as compensation for diminution of value of the leasehold or for the taking of the fee, or as severance damages; provided, however, that Lessee shall be entitled to any compensation, separately awarded to Lessee for Lessee's relocation expenses and/or loss of Lessee's Trade Fixtures. In the event that this Lease is not terminated by reason of such condemnation, Lessor shall to the extent of its net severance damages received, over and above Lessee's share of the legal and other expenses incurred by Lessor in the condemnation matter, repair any damage to the Premises caused by such condemnation authority. Lessee shall be responsible for the payment of any amount in excess of such net severance damages required to complete such repair.

15. BROKERS' FEES

15.1 PROCURING CAUSE. The Broker(s) named in Paragraph 1.10 is/are the procuring cause of this Lease.

15.2 ADDITIONAL TERMS. Unless Lessor and Broker(s) have otherwise agreed in writing, Lessor agrees that: (a) if Lessee exercises any Option (as defined in Paragraph 39.1) granted under this Lease or any Option subsequently granted, or (b) if Lessee acquires any rights to the Premises or other premises in which Lessor has an interest, or (c) if Lessee remains in possession of the Premises with the consent of Lessor after the expiration of the term of this Lease after having failed to exercise an Option, or (d) if said Brokers are the procuring cause of any other lease or sale entered into between the Parties pertaining to the Premises and/or any adjacent property in which Lessor has an interest, or (e) if Base Rent is increased, whether by agreement or operation of an escalation clause herein, then as to any of said transactions, Lessor shall pay said Broker(s) a fee in accordance with the schedule of said Broker(s) in

15.3 ASSUMPTION OF OBLIGATIONS. Any buyer or transferee of Lessor's interest in this Lease, whether such transfer is by agreement or by operation of law, shall be deemed to have assumed Lessor's obligation under this Paragraph 15. Each Broker shall be an intended third party beneficiary of the provisions of Paragraph 1.10 and of this Paragraph 15 to the extent of its interest in any commission arising from this Lease and may enforce that right directly against Lessor and its successors.*

15.4 REPRESENTATIONS AND WARRANTIES. Lessee and Lessor each represent and warrant to the other that it has had no dealings with any person, firm, broker or finder other than as named in Paragraph 1.10(a) in connection with the negotiation of this Lease and/or the consummation of the transaction contemplated hereby, and that no broker or other person, firm or entity other than said named Broker(s) is entitled to any commission or finder's fee in connection with said transaction. Lessee and Lessor do each hereby agree to indemnify, protect, defend and hold the other harmless from and against liability for compensation or charges which may be claimed by any such unnamed broker, finder or other similar party by reason of any dealings or actions of the indemnifying Party, including any costs, expenses, and/or attorneys' fees reasonably incurred with respect thereto.

16. TENANCY AND FINANCIAL STATEMENTS.

16.1 TENANCY STATEMENT. Each Party (as "RESPONDING PARTY") shall within ten (10) days after written notice from the other Party (the "REQUESTING PARTY") execute, acknowledge and deliver to the Requesting Party a statement in writing in a form similar to the then most current "TENANCY STATEMENT" form published by the American Industrial Real Estate Association, plus such additional information, confirmation and/or statements as may be reasonably requested by the Requesting Party.

16.2 FINANCIAL STATEMENT. If Lessor desires to finance, refinance, or sell the Premises or the Building, or any part thereof, Lessee and all Guarantors shall deliver to any potential lender or purchaser designated by Lessor such financial statements of Lessee and such Guarantors as may be reasonably required by such lender or purchaser, including, but not limited to, Lessee's financial statements for the past three (3) years. All such financial statements shall be received by Lessor and such lender or purchaser in confidence and shall be used only for the purposes herein set forth.

17. LESSOR'S LIABILITY. The term "LESSOR" as used herein shall mean the owner or owners at the time in question of the fee title to the Premises. In the event of a transfer of Lessor's title or interest in the Premises or in this Lease, Lessor shall deliver to the transferee or assignee (in cash or by credit) any unused Security Deposit held by Lessor at the time of such transfer or assignment. Except as provided in Paragraph 15.3, upon such transfer or assignment and delivery of the Security Deposit, as aforesaid, the prior Lessor shall be relieved of all liability with respect to the obligations and/or covenants under this Lease thereafter to be performed by the Lessor. Subject to the foregoing, the obligations and/or covenants in this Lease to be performed by the Lessor shall be binding only upon the Lessor as hereinabove defined.*

18. SEVERABILITY. The invalidity of any provision of this Lease, as determined by a court of competent jurisdiction, shall in no way affect the validity of any other provision hereof.

19. INTEREST ON PAST-DUE OBLIGATIONS. Any monetary payment due Lessor hereunder, other than late charges, not received by Lessor within ten (10) days following the date on which it was due, shall bear interest from the date due at the prime rate charged by the largest state chartered bank in the state in which the Premises are located plus four percent (4%) per annum, but not exceeding the maximum rate allowed by law, in addition to the potential late charge provided for in Paragraph 13.4.

20. TIME OF ESSENCE. Time is of the essence with respect to the performance of all obligations to be performed or observed by the Parties under this Lease.

21. RENT DEFINED. All monetary obligations of Lessee to Lessor under the terms

of this Lease are deemed to be rent.*

22. NO PRIOR OR OTHER AGREEMENTS; BROKER DISCLAIMER. This Lease contains all agreements between the Parties with respect to any matter mentioned herein, and no other prior or contemporaneous agreement or understanding shall be effective. Lessor and Lessee each represents and warrants to the Brokers that it has made, and is relying solely upon, its own investigation as to the nature, quality, character and financial responsibility of the other Party to this Lease and as to the nature, quality and character of the Premises. Brokers have no responsibility with respect thereto or with respect to any default or breach hereof by either Party. Each Broker shall be an intended third party beneficiary of the provisions of this Paragraph 22.

23. NOTICES.

23.1 NOTICE REQUIREMENTS. All notices required or permitted by this Lease shall be in writing and may be delivered in person (by hand or by messenger or courier service) or may be sent by regular, certified or registered mail or U.S. Postal Service Express Mail, with postage prepaid, or by facsimile transmission during normal business hours, and shall be deemed sufficiently given if served in a manner specified in this Paragraph 23. The addresses noted adjacent to a Party's signature on this Lease shall be that Party's address for delivery or mailing of notice purposes. Either Party may by written notice to the other specify a different address for notice purposes, except that upon Lessee's taking possession of the Premises, the Premises shall constitute Lessee's address for the purpose of mailing or delivering notices to Lessee. A copy of all notices required or permitted to be given to Lessor hereunder shall be concurrently transmitted to such party or parties at such addresses as Lessor may from time to time hereafter designate by written notice to Lessee.

23.2 DATE OF NOTICE. Any notice sent by registered or certified mail, return receipt requested, shall be deemed given on the date of delivery shown on the receipt card, or if no delivery date is shown, the postmark thereon. If sent by regular mail, the notice shall be deemed given forty-eight (48) hours after the same is addressed as required herein and mailed with postage prepaid. Notices delivered by United States Express Mail or overnight courier that guarantees next day delivery shall be deemed given twenty-four (24) hours after delivery of the same to the United States Postal Service or courier. If any notice is transmitted by facsimile transmission or similar means, the same shall be deemed served or delivered upon telephone or facsimile confirmation of receipt of the transmission thereof, provided a copy is also delivered via delivery or mail. If notice is received on a Saturday or a Sunday or a legal holiday, it shall be deemed received on the next business day.

24. WAIVERS. No waiver by Lessor of the Default or Breach of any term, covenant or condition hereof by Lessee, shall be deemed a waiver of any other term, covenant or condition hereof, or of any subsequent Default or Breach by Lessee of the same or any other term, covenant or condition hereof. Lessor's consent to, or approval of, any such act shall not be deemed to render unnecessary the obtaining of Lessor's consent to, or approval of, any subsequent or similar act by Lessee, or be construed as the basis of an estoppel to enforce the provision or provisions of this Lease requiring such consent. Regardless of Lessor's knowledge of a Default or Breach at the time of accepting rent, the acceptance of rent by Lessor shall not be a waiver of any Default or Breach by Lessee of any provision hereof. Any payment given Lessor by Lessee may be accepted by Lessor on account of monies or damages due Lessor, notwithstanding any qualifying statements or conditions made by Lessee in connection therewith, which such statements and/or conditions shall be of no force or effect whatsoever unless specifically agreed to in writing by Lessor at or before the time of deposit of such payment.

25. RECORDING. Either Lessor or Lessee shall, upon request of the other, execute, acknowledge and deliver to the other a short form memorandum of this Lease for recording purposes. The Party requesting recordation shall be responsible for payment of any fees or taxes applicable thereto.*

26. NO RIGHT TO HOLDOVER. Lessee has no right to retain possession of the Premises or any part thereof beyond the expiration or earlier termination of

this Lease. In the event that Lessee holds over in violation of this Paragraph 26 then the Base Rent payable from and after the time of the expiration or earlier termination of this Lease shall be increased to two hundred percent (200%) of the Base Rent applicable during the month immediately preceding such expiration or earlier termination. Nothing contained herein shall be construed as a consent by Lessor to any holding over by Lessee.*

27. CUMULATIVE REMEDIES. No remedy or election hereunder shall be deemed exclusive but shall, wherever possible, be cumulative with all other remedies at law or in equity.

28. COVENANTS AND CONDITIONS. All provisions of this Lease to be observed or performed by Lessee are both covenants and conditions.

29. BINDING EFFECT; CHOICE OF LAW. This Lease shall be binding upon the Parties, their personal representatives, successors and assigns and be governed by the laws of the state in which the Premises are located. Any litigation between the Parties hereto concerning this Lease shall be initiated in the county in which the Premises are located.

30. SUBORDINATION; ATTORNMENT; NON-DISTURBANCE.

30.1 SUBORDINATION. This Lease and any Option granted hereby shall be subject and subordinate to any ground lease, mortgage, deed of trust, or other hypothecation or security device (collectively, "SECURITY DEVICE"), now or hereafter placed by Lessor upon the real property of which the Premises are a part, to any and all advances made on the security thereof, and to all renewals, modifications, consolidations, replacements and extensions thereof. Lessee agrees that the Lenders holding any such Security Device shall have no duty, liability or obligation to perform any of the obligations of Lessor under this Lease, but that in the event of Lessor's default with respect to any such obligation, Lessee will give any Lender whose name and address have been furnished Lessee in writing for such purpose notice of Lessor's default pursuant to Paragraph 13.5. If any Lender shall elect to have this Lease and/or any Option granted hereby superior to the lien of its Security Device and shall give written notice thereof to Lessee, this Lease and such Options shall be deemed prior to such Security Device, notwithstanding the relative dates of the documentation or recordation thereof.*

30.2 ATTORNMENT. Subject to the non-disturbance provisions of Paragraph 30.3, Lessee agrees to attorn to a Lender or any other party who acquires

* See Addendum

ownership of the Premises by reason of a foreclosure of a Security Device, and that in the event of such foreclosure, such new owner shall not: (i) be liable for any act or omission of any prior lessor or with respect to events occurring prior to acquisition of ownership, (ii) be subject to any offsets or defenses which Lessee might have against any prior lessor, or (iii) be bound by prepayment of more than one (1) month's rent.

30.3 NON-DISTURBANCE. With respect to Security Devices entered into by Lessor after the execution of this Lease, Lessee's subordination of this Lease shall be subject to receiving assurance (a "non-disturbance agreement") from the Lender that Lessee's possession and this Lease, including any options to extend the term hereof, will not be disturbed so long as Lessee is not in Breach hereof and attorns to the record owner of the Premises.

30.4 SELF-EXECUTING. The agreements contained in this Paragraph 30 shall be effective without the execution of any further documents; provided, however, that upon written request from Lessor or a Lender in connection with a sale, financing or refinancing of Premises, Lessee and Lessor shall execute such further writings as may be reasonably required to separately document any such

subordination or non-subordination, attornment and/or non-disturbance agreement as is provided for herein.

31. ATTORNEYS' FEES. If any Party or Broker brings an action or proceeding to enforce the terms hereof or declare rights hereunder, the Prevailing Party (as hereafter defined) in any such proceeding, action, or appeal thereon, shall be entitled to reasonable attorneys' fees. Such fees may be awarded in the same suit or recovered in a separate suit, whether or not such action or proceeding is pursued to decision or judgment. The term "PREVAILING PARTY" shall include, without limitation, a Party or Broker who substantially obtains or defeats the relief sought, as the case may be, whether by compromise, settlement, judgment, or the abandonment by the other Party or Broker of its claim or defense. The attorneys' fee award shall not be computed in accordance with any court fee schedule, but shall be such as to fully reimburse all attorneys' fees reasonably incurred. Lessor shall be entitled to attorneys' fees, costs and expenses incurred in preparation and service of notices of Default and consultations in connection therewith, whether or not a legal action is subsequently commenced in connection with such Default or resulting Breach. Broker(s) shall be intended third party beneficiaries of this Paragraph 31. See Addendum.

32. LESSOR'S ACCESS; SHOWING PREMISES; REPAIRS. Lessor and Lessor's agents shall have the right to enter the Premises at any time, in the case of an emergency, and otherwise at reasonable times for the purpose of showing the same to prospective purchasers, lenders, or lessees, and making such alterations, repairs, improvements or additions to the Premises or to the Building, as Lessor may reasonably deem necessary. Lessor may at any time place on or about the Premises or Building any ordinary "For Sale" signs and Lessor may at any time during the last one hundred eighty (180) days of the term hereof place on or about the Premises any ordinary "For Lease" signs. All such activities of Lessor shall be without abatement of Rent or liability to Lessee.

33. AUCTIONS. Lessee shall not conduct, nor permit to be conducted, either voluntarily or involuntarily, any auction upon the Premises without first having obtained Lessor's prior written consent. Notwithstanding anything to the contrary in this Lease, Lessor shall not be obligated to exercise any standard of reasonableness in determining whether to grant such consent.

34. SIGNS. Lessee shall not place any sign upon the exterior of the Premises or the Building, except that Lessee may, with Lessor's prior written consent, install (but not on the roof) such signs as are reasonably required to advertise Lessee's own business so long as such signs are in a location designated by Lessor and comply with Applicable Requirements and the signage criteria established for the Industrial Center by Lessor. The installation of any sign on the Premises by or for Lessee shall be subject to the provisions of Paragraph 7 (Maintenance, Repairs, Utility Installations, Trade Fixtures and Alterations). Unless otherwise expressly agreed herein, Lessor reserves all rights to the use of the roof of the Building, and the right to install advertising signs on the Building, including the roof, which do not unreasonably interfere with the conduct of Lessee's business; Lessor shall be entitled to all revenues from such advertising signs.

35. TERMINATION; MERGER. Unless specifically stated otherwise in writing by Lessor, the voluntary or other surrender of this Lease by Lessee, the mutual termination or cancellation hereof, or a termination hereof by Lessor for Breach by Lessee, shall automatically terminate any sublease or lesser estate in the Premises; provided, however, Lessor shall, in the event of any such surrender, termination or cancellation, have the option to continue any one or all of any existing subtenancies. Lessor's failure within ten (10) days following any such event to make a written election to the contrary by written notice to the holder of any such lesser interest, shall constitute Lessor's election to have such event constitute the termination of such interest.

36. CONSENTS.

(a) Except for Paragraph 33 hereof (Auctions) or as otherwise provided herein, wherever in this Lease the consent of a Party is required to an act by or for the other Party, such consent shall not be unreasonably withheld or delayed. Lessor's actual reasonable costs and expenses (including, but not

limited to, architects', attorneys', engineers' and other consultants' fees) incurred in the consideration of, or response to, a request by Lessee for any Lessor consent pertaining to this Lease or the Premises, including, but not limited to, consents to an assignment, a subletting or the presence or use of a Hazardous Substance, shall be paid by Lessee to Lessor upon receipt of an invoice and supporting documentation therefor. In addition to the deposit described in Paragraph 12.2(e), Lessor may, as a condition to considering any such request by Lessee, require that Lessee deposit with Lessor an amount of money (in addition to the Security Deposit held under Paragraph 5) reasonably calculated by Lessor to represent the cost Lessor will incur in considering and responding to Lessee's request. Any unused portion of said deposit shall be refunded to Lessee without interest. Lessor's consent to any act, assignment of this Lease or subletting of the Premises by Lessee shall not constitute an acknowledgment that no Default or Breach by Lessee of this Lease exists, nor shall such consent be deemed a waiver of any then existing Default or Breach, except as may be otherwise specifically stated in writing by Lessor at the time of such consent.

(b) All conditions to Lessor's consent authorized by this Lease are acknowledged by Lessee as being reasonable. The failure to specify herein any particular condition to Lessor's consent shall not preclude the impositions by Lessor at the time of consent of such further or other conditions as are then reasonable with reference to the particular matter for which consent is being given.

37. GUARANTOR.

37.1 FORM OF GUARANTY. If there are to be any Guarantors of this Lease per Paragraph 1.11, the form of the guaranty to be executed by each such Guarantor shall be in the form most recently published by the American Industrial Real Estate Association, and each such Guarantor shall have the same obligations as Lessee under this Lease, including, but not limited to, the obligation to provide the Tenancy Statement and information required in Paragraph 16.

37.2 ADDITIONAL OBLIGATIONS OF GUARANTOR. It shall constitute a Default of the Lessee under this Lease if any such Guarantor fails or refuses, upon reasonable request by Lessor to give: (a) evidence of the due execution of the guaranty called for by this Lease, including the authority of the Guarantor (and of the party signing on Guarantor's behalf) to obligate such Guarantor on said guaranty, and resolution of its board of directors authorizing the making of such guaranty, together with a certificate of incumbency showing the signatures of the persons authorized to sign on its behalf, (b) current financial statements of Guarantor as may from time to time be requested by Lessor, (c) a Tenancy Statement, or (d) written confirmation that the guaranty is still in effect.

38. QUIET POSSESSION. Upon payment by Lessee of the Rent for the Premises and the performance of all of the covenants, conditions and provisions on Lessee's part to be observed and performed under this Lease, Lessee shall have quiet possession of the Premises for the entire term hereof subject to all of the provisions of this Lease.

39. OPTIONS.

39.1 DEFINITION. As used in this Lease, the word "OPTION" has the following meaning: (a) the right to extend the term of this Lease or to renew this Lease or to extend or renew any lease that Lessee has on other property of Lessor; (b) the right of first refusal to lease the Premises or the right of first offer to lease the Premises or the right of first refusal to lease other property of Lessor or the right of first offer to lease other property of Lessor; (c) the right to purchase the Premises, or the right of first refusal to purchase the Premises, or the right of first offer to purchase the Premises, or the right to purchase other property of Lessor, or the right of first refusal to purchase other property of Lessor, or the right of first offer to purchase other property of Lessor.

39.2 OPTIONS PERSONAL TO ORIGINAL LESSEE. Each Option granted to Lessee in this Lease is personal to the original Lessee named in Paragraph 1.1 hereof, and

cannot be voluntarily or involuntarily assigned or exercised by any person or entity other than said original Lessee while the original Lessee is in full and actual possession of the Premises and without the intention of thereafter assigning or subletting. The Options, if any, herein granted to Lessee are not assignable, either as a part of an assignment of this Lease or separately or apart therefrom, and no Option may be separated from this Lease in any manner, by reservation or otherwise.

39.3 MULTIPLE OPTIONS. In the event that Lessee has any multiple Options to extend or renew this Lease, a later option cannot be exercised unless the prior Options to extend or renew this Lease have been validly exercised.

39.4 EFFECT OF DEFAULT ON OPTIONS.

(a) Lessee shall have no right to exercise an Option, notwithstanding any provision in the grant of Option to the contrary: (i) during the period commencing with the giving of any notice of Default under Paragraph 13.1 and continuing until the noticed Default is cured, or (ii) during the period of time any monetary obligation due Lessor from Lessee is unpaid (without regard to whether notice thereof is given Lessee), or (iii) during the time Lessee is in Breach of this Lease, or (iv) in the event that Lessor has given to Lessee three (3) or more notices of separate Default under Paragraph 13.1 during the twelve (12) month period immediately preceding the exercise of the Option, whether or not the Defaults are cured.

Page 11 of 13

12

(b) The period of time within which an Option may be exercised shall not be extended or enlarged by reason of Lessee's inability to exercise an Option because of the provisions of Paragraph 39.4(a).

(c) All rights of Lessee under the provisions of an Option shall terminate and be of no further force or effect, notwithstanding Lessee's due and timely exercise of the Option, if, after such exercise and during the term of this Lease, (i) Lessee fails to pay to Lessor a monetary obligation of Lessee for a period of thirty (30) days after such obligation becomes due (without any necessity of Lessor to give notice thereof to Lessee), or (ii) Lessor gives to Lessee three (3) or more notices of separate Defaults under Paragraph 13.1 during any twelve (12) month period, whether or not the Defaults are cured, or (iii) if Lessee commits a Breach of this Lease.

40. RULES AND REGULATIONS. Lessee agrees that it will abide by, and keep and observe all reasonable rules and regulations ("RULES AND REGULATIONS") which Lessor may make from time to time for the management, safety, care, and cleanliness of the grounds, the parking and unloading of vehicles and the preservation of good order, as well as for the convenience of other occupants or tenants of the Building and the Industrial Center and their invitees.

41. SECURITY MEASURES. Lessee hereby acknowledges that the rental payable to Lessor hereunder does not include the cost of guard service or other security measures, and that Lessor shall have no obligation whatsoever to provide same. Lessee assumes all responsibility for the protection of the Premises, Lessee, its agents and invitees and their property from the acts of third parties.

42. RESERVATIONS. Lessor reserves the right, from time to time, to grant, without the consent or joinder of Lessee, such easements, rights of way, utility raceways, and dedications that Lessor deems necessary, and to cause the recordation of parcel maps and restrictions, so long as such easements, rights of way, utility raceways, dedications, maps and restrictions do not reasonably interfere with the use of the Premises by Lessee. Lessee agrees to sign any documents reasonably requested by Lessor to effectuate any such easement rights, dedication, map or restrictions.

43. PERFORMANCE UNDER PROTEST. If at any time a dispute shall arise as to any amount or sum of money to be paid by one Party to the other under the provisions hereof, the Party against whom the obligation to pay the money is asserted shall

have the right to make payment "under protest" and such payment shall not be regarded as a voluntary payment and there shall survive the right on the part of said Party to institute suit for recovery of such sum. If it shall be adjudged that there was no legal obligation on the part of said Party to pay such sum or any part thereof, said Party shall be entitled to recover such sum or so much thereof as it was not legally required to pay under the provisions of this Lease.

44. AUTHORITY. If either Party hereto is a corporation, trust, or general or limited partnership, each individual executing this Lease on behalf of such entity represents and warrants that he or she is duly authorized to execute and deliver this Lease on its behalf. If Lessee is a corporation, trust or partnership, Lessee shall, within thirty (30) days after request by Lessor, deliver to Lessor evidence satisfactory to Lessor of such authority.

45. CONFLICT. Any conflict between the printed provisions of this Lease and the typewritten or handwritten provisions shall be controlled by the typewritten or handwritten provisions.

46. OFFER. Preparation of this Lease by either Lessor or Lessee or Lessor's agent or Lessee's agent and submission of same to Lessee or Lessor shall not be deemed an offer to lease. This Lease is not intended to be binding until executed and delivered by all Parties hereto.

47. AMENDMENTS. This Lease may be modified only in writing, signed by the Parties in interest at the time of the modification. The Parties shall amend this Lease from time to time to reflect any adjustments that are made to the Base Rent or other rent payable under this Lease. As long as they do not materially change Lessee's obligations hereunder, Lessee agrees to make such reasonable non-monetary modifications to this Lease as may be reasonably required by an institutional insurance company or pension plan Lender in connection with the obtaining of normal financing or refinancing of the property of which the Premises are a part.

48. MULTIPLE PARTIES. Except as otherwise expressly provided herein, if more than one person or entity is named herein as either Lessor or Lessee, the obligations of such multiple parties shall be the joint and several responsibility of all persons or entities named herein as such Lessor or Lessee.

See Addendum 49, 50, 51, 52.

LESSOR AND LESSEE HAVE CAREFULLY READ AND REVIEWED THIS LEASE AND EACH TERM AND PROVISION CONTAINED HEREIN, AND BY THE EXECUTION OF THIS LEASE SHOW THEIR INFORMED AND VOLUNTARY CONSENT THERETO. THE PARTIES HEREBY AGREE THAT, AT THE TIME THIS LEASE IS EXECUTED, THE TERMS OF THIS LEASE ARE COMMERCIALY REASONABLE AND EFFECTUATE THE INTENT AND PURPOSE OF LESSOR AND LESSEE WITH RESPECT TO THE PREMISES.

IF THIS LEASE HAS BEEN FILLED IN, IT HAS BEEN PREPARED FOR YOUR ATTORNEY'S REVIEW AND APPROVAL. FURTHER, EXPERTS SHOULD BE CONSULTED TO EVALUATE THE CONDITION OF THE PROPERTY FOR THE POSSIBLE PRESENCE OF ASBESTOS, UNDERGROUND STORAGE TANKS OR HAZARDOUS SUBSTANCES. NO REPRESENTATION OR RECOMMENDATION IS MADE BY THE AMERICAN INDUSTRIAL REAL ESTATE ASSOCIATION OR BY THE REAL ESTATE BROKERS OR THEIR CONTRACTORS, AGENTS OR EMPLOYEES AS TO THE LEGAL SUFFICIENCY, LEGAL EFFECT, OR TAX CONSEQUENCES OF THIS LEASE OR THE TRANSACTION TO WHICH IT RELATES; THE PARTIES SHALL RELY SOLELY UPON THE ADVICE OF THEIR OWN COUNSEL AS TO THE LEGAL AND TAX CONSEQUENCES OF THIS LEASE. IF THE SUBJECT PROPERTY IS IN A STATE OTHER THAN CALIFORNIA, AN ATTORNEY FROM THE STATE WHERE THE PROPERTY IS LOCATED SHOULD BE CONSULTED.

The Parties hereto have executed this Lease at the place and on the dates specified above their respective signatures.

Executed at: _____ Executed at: _____

on: _____ on: _____

BY LESSOR:
PACIFIC GULF PROPERTIES

a Maryland corporation

BY LESSEE:
NATURAL ALTERNATIVES INTERNATIONAL, INC.

a Delaware corporation

By: /s/ ROBERT A. DEWEY

By: /s/ DAVID LOUGH

Name Printed: ROBERT A. DEWEY

Name Printed: DAVID LOUGH

Title: Senior Vice President

Title: EXEC. VICE PRESIDENT

By: /s/ JOHN ITZEL

By:

Name Printed: John Itzel

Name Printed:

Title: Regional Manager

Title:

Address: 4220 Von Karman 2nd Floor

Newport Beach, CA 92660

Address:

Telephone: (949) 223-5000

Telephone: ()

Facsimile: (949) 223-5032

Facsimile: ()

BROKER:

BROKER:

Executed at: _____

Executed at: _____

on: _____

on: _____

By: _____

By: _____

Name Printed: _____

Name Printed: _____

Title: _____

Title: _____

Address: _____

Address: _____

Telephone: () _____

Telephone: () _____

Facsimile: () _____

Facsimile: () _____

NOTE: These forms are often modified to meet changing requirements of law and needs of the industry. Always write or call to make sure you are utilizing the most current form: AMERICAN INDUSTRIAL REAL ESTATE ASSOCIATION, 700 South Flower Street, Suite 600, Los Angeles, California 90017. (213) 687-8777.

ADDENDUM TO STANDARD AIR INDUSTRIAL LEASE

This Addendum (the "Addendum") is made as of the 3rd day of March, 1999, between Pacific Gulf Properties Inc., a Maryland corporation ("Lessor") and NATURAL ALTERNATIVES INTERNATIONAL, INC., a Delaware corporation ("Lessee").

The parties hereby acknowledge that they are contemporaneously entering into that certain Lease dated March 3, 1999 (the "Lease"). Unless otherwise specifically provided in this Addendum, all capitalized terms used herein shall have the same meanings set forth in the Lease. In the event of any conflict between the Lease and this Addendum, this Addendum shall control. This Addendum amends and supplements the Lease as follows:

ADDENDUM PARAGRAPH 6.2(d) [Hazardous Materials]

"6.2(d) Notwithstanding anything to the contrary contained in Lease Paragraph 6.2:

A. Lessee warrants that Lessee's business and all activities to be performed by Lessee in, on or about the Premises shall comply with all Applicable Laws respecting Hazardous Substances and Lessee agrees to change any such activity or install any equipment, safety devices, pollution control systems and/or other installations as may be required at any time during the Lease term to comply therewith.

B. Lessee shall not cause or permit any Hazardous Substance other than those normally used in the course of its business which are disclosed in Exhibit C to be brought upon, kept, or used in or about the Premises by Lessee, its agents, employees, contractors or invitees, without the prior written consent of Lessor. If Lessee breaches the obligations stated in the preceding sentence, or if the presence of Hazardous Substance on the Premises caused or permitted by Lessee or otherwise caused to be located upon the Premises during the Lease term results in contamination of the Premises or any adjacent property, then Lessee shall indemnify, defend and hold Lessor harmless from any and all claims, judgments, damages, penalties, fines, costs, liabilities or losses (including, without limitation, diminution in value of the Premises and/or adjacent property, damages for the loss or restriction on use of rentable or usable space or of any amenity of the Premises and/or adjacent property, damages arising from any adverse impact on marketing of the Premises and/or adjacent property, and sums paid in settlement of claims, attorneys' fees, consultant fees and expert fees) which arise during or after the Lease term (including any Option Term) as a result of such contamination. This indemnification of Lessor by Lessee includes, without limitation, costs incurred in connection with any investigation of site conditions or any cleanup, remedial, removal or restoration work required by any federal, state or local governmental agency or political subdivision because of Hazardous Substance present in the soil or ground water on or under the Premises and/or adjacent property. Without limiting the foregoing, if the presence of any Hazardous Substance on the Premises caused or permitted by Lessee results in any contamination of the Premises and/or adjacent property, Lessee shall promptly take all actions at its sole expense as are necessary to return the Premises and/or adjacent property to the condition existing prior to the introduction of any such Hazardous Substance to the Premises and/or adjacent property, provided that Lessor's approval of such actions shall first be obtained, which approval shall not be unreasonably withheld so long as such actions would not potentially have any material adverse long-term or short-term effect on the Premises or adjacent property.

C. Lessor shall have the right, but not the duty, to inspect the Premises at any time to determine whether Lessee is complying with the requirements of the Lease (as hereby amended). If Lessee is not in compliance

with the requirements of the provisions of the Lease (as hereby amended) relating to Hazardous Substances, Lessor shall have the right, but not the obligation, to immediately enter upon the Premises to remedy any condition caused by Lessee's failure to comply with the requirements of the Lease (as hereby amended). Lessor shall use reasonable efforts to minimize interference with Lessee's business as a result of any such entry by Lessor but shall not be liable for any interference caused thereby "

ADDENDUM PARAGRAPH 7.2 [Lessor's Obligations]

The following is hereby added to the end of Paragraph 7.2:

"However, any such repairs or maintenance which is necessitated by the negligence or willful misconduct of Lessee, its servants, agents, employees or contractors or anyone claiming under Lessee, or by reason of the failure of Lessee to perform or observe any condition or agreement contained in this Lease, or caused by alterations, additions or improvements made by Lessee or anyone claiming under Lessee, shall be made by Lessee or, at Lessor's option, by Lessor at Lessee's sole cost and expense. In addition, at Lessor's option, Lessor shall have the right, but not the obligation, to maintain any of the service contracts otherwise to be maintained by Lessee pursuant to Paragraph 7.1(b) above, as an item of Operating Expenses. Notwithstanding anything to the contrary contained in this Lease, Lessor shall not be liable to Lessee for failure to make repairs as herein specifically required of it unless Lessee has previously notified Lessor, in writing, of the need for such repairs and Lessor has failed to commence and complete said repairs within a reasonable time following receipt of Lessee's written notification."

ADDENDUM PARAGRAPH 7.3(a) [Utility Installations]

The following is hereby added at the end of Paragraph 7.3(a):

"Notwithstanding anything to the contrary contained herein, no addition, alteration, change, installation or improvement shall be made which will weaken the structural strength, lessen the value of, interfere or make inoperable any portion of the Premises or change the architectural appearance of the Premises."

ADDENDUM PARAGRAPH 8.5 (Insurance Policies)

The following is added to the end of Paragraph 8.5:

"For any period or periods in which Lessee fails to maintain any insurance required hereunder, Base Rent for the first month for any such period in which Lessee is notified by Lessor of such failure shall be increased by One Hundred Dollars (\$100). The foregoing shall not limit any other right or remedy of Lessor or relieve Lessee of its obligations regarding maintenance of insurance as provided by the Lease."

16

ADDENDUM PARAGRAPH 9.2

The following is added at the end of Paragraph 9.2:

"Lessor may terminate this Lease in the event any repair or reconstruction is restricted by any governmental authority."

ADDENDUM PARAGRAPH 12.1(f) [Recapture]

New Subparagraph 12.1(f) is hereby added as follows:

"(f) In addition to Lessor's right of approval of any proposed assignment

or subletting and without limiting the other provisions of this Paragraph 12, Lessor shall have the option, in the event of any proposed assignment or subletting, to terminate the Lease as to the affected portion of the Premises as of the proposed effective date of the proposed assignment or subletting set forth in Lessee's notice. Such option to terminate shall be exercised, if at all, by Lessor giving Lessee written notice thereof within sixty (60) days following Lessor's receipt of Lessee's written request. In the event of such termination by Lessor, from and after the effective date of such termination, Lessor and Lessee shall have no further obligations or liabilities to each other with respect to the affected portion of the Premises, except with respect to obligations or liabilities which have accrued as of, or survive, such termination (in the same manner as if such termination date were the date originally fixed for the expiration of the Lease term). Without in any manner limiting the rights of Lessor, following any such termination by Lessor, Lessor may lease the affected portion of the Premises to the prospective assignee or subtenant proposed by Lessee, without liability to the Lessee. Lessor's failure to exercise such termination right as herein provided shall not be construed as Lessor's consent to the proposed assignment or subletting."

ADDENDUM PARAGRAPH 13.4 [Late Fee]

The words "six percent (6%)" contained in Paragraph 13.4 are hereby deleted, and the words "ten percent (10%)" are substituted in lieu thereof.

ADDENDUM PARAGRAPH 15 [Broker's Fees]

Paragraphs 15.2 and 15.3 are hereby deleted and the following is substituted in lieu thereof.

"Lessor shall be responsible for payment of the commission owing to such Brokers in connection with this Lease pursuant to separate written agreement."

ADDENDUM PARAGRAPH 17 [Lessor's Liability]

The following is added at the end of Paragraph 17 as follows:

"Lessee hereby agrees that, in the event of any actual or alleged failure, breach or default hereunder by Lessor, Lessee's sole and exclusive remedy shall be against the Lessor's interest in the Industrial Center. Lessee agrees that the obligations of Lessor under this Lease do not constitute personal obligations of the individual directors, officers or shareholders of Lessor, and Lessee shall not seek recourse against the individual directors, officers or shareholders of Lessor or any of their personal assets for satisfaction of any liability with respect to this Lease."

ADDENDUM PARAGRAPH 21 [Rent Defined]

The following is added at the end of Paragraph 21:

"Without limiting the foregoing, any fees or costs incurred by Lessor in connection with the execution and enforcement of Lessor's remedies, including, without limitation, the cost of credit reports, asset searches, fees for returned checks and insurance compliance charges shall be promptly reimbursed by Lessee to Lessor on demand, and such amounts shall be considered additional rent."

ADDENDUM PARAGRAPH 25 [Recording]

Paragraph 25 of the Lease is hereby deleted in its entirety, and the following is inserted in place thereof:

"Neither this Lease nor a short form of memorandum of this Lease shall be recorded in the office of any county recorder without Lessor's express

written consent. In the event of any such recordation, Lessee shall be solely responsible for any documentary transfer taxes or other taxes relating to or arising out of any such recordation."

ADDENDUM PARAGRAPH 26 [Holding Over]

Paragraph 26 of the Lease is hereby deleted in its entirety, and the following is inserted in place thereof:

-3-

17

"Lessee has no right to retain possession of the Premises or any part thereof beyond the expiration or earlier termination of this Lease. Any holding over by Lessee after the expiration or earlier termination of this Lease shall be construed to be a tenancy at sufferance on all of the terms and conditions set forth herein to the extent not inconsistent with a tenancy at sufferance, provided that the Base Rent for such holdover period shall be an amount equal to one hundred twenty-five percent (125%) the monthly Base Rent due for the last full month of the Term. Acceptance by Lessor of rent or any other sum payable hereunder after such expiration or earlier termination shall not result in an extension or renewal of this Lease. If Lessee fails to surrender the Premises upon the expiration or earlier termination of this Lease, Lessee shall indemnify, defend and hold harmless Lessor from and against all loss, damage, cost, liability or expense (including, without limitation, attorneys' fees and expenses) resulting from or relating to such failure to surrender the Premises including, without limitation, any claim made by any succeeding tenant."

ADDENDUM PARAGRAPH 30.1 [Subordination]

The following is inserted at the end of Paragraph 30.1:

"In the event of Lessor's default with respect to any such obligation, Lessee will give any Lender whose name and address have been furnished Lessee in writing for such purpose notice of Lessor's default and allow such Lender thirty (30) days (or if more than thirty (30) days is required to effect such cure, such additional time as may be necessary) following receipt of such notice for the cure of said default before invoking any remedies Lessee may have by reason thereof."

ADDENDUM PARAGRAPH 31 [Attorney's Fees]

Paragraph 31 is modified as follows

The last sentence of Paragraph 31 is hereby deleted, and the following is hereby added at the end of Paragraph 31:

"Attorney's fees reasonably incurred by Lessor shall include attorneys fees and costs in connection with asset searches or other investigations of Lessee in connection with the execution and enforcement of Lessor's remedies."

ADDENDUM PARAGRAPH 49 [Lessor as Real Estate Investment Trust]

The following is hereby added as a new Paragraph 49:

"Lessor hereby advises Lessee that Lessor is qualified as a real estate investment trust under the provisions of the Internal Revenue Code of 1986, as amended, and that the maintaining of such status and the avoiding of any activity which might cause a penalty tax to be applied is of material concern to Lessor. Accordingly, Lessee agrees to make any modifications or amendments to this Lease requested by Lessor that may be necessary for Lessor to maintain its status as a real estate investment trust or in order for it to avoid a penalty tax; provided, however, that

Lessee shall have no obligation to enter into any such modification or amendment that would materially alter or affect Lessee's rights, duties, or obligations under this Lease. If Lessee declines to modify or amend this Lease for any reason in a manner which Lessor determines, in the good faith exercise of its reasonable business judgment, is necessary to maintain its status as a real estate investment trust, Lessor shall have the right to terminate this Lease by written notice delivered to Lessee. Further, in the event Lessor consents to any assignment or sublease of this Lease, Lessee no amount received or accrued, directly or indirectly, with respect to such assignment or sublease shall depend in whole or in part on the income or profits of the assignee or sublessee, or any other person deriving income from the Premises."

49. MONTHLY RENT: The monthly rental rate shall be as follows.

03/15/99 - 03/31/00 \$10,000.00

50. NNN CHARGES: NNN charges are estimated at \$0.85 PSF (\$1700.00/MO) and shall be paid monthly as additional rent.

51. LESSOR IMPROVEMENTS: Lessor shall, at Lessor's sole cost and expense, provide the following:

- a. Paint the existing office area with Lessor's standard paint.
- b. Install carpet in the existing office area with Lessor's standard carpet.
- c. All three (3) roll-up doors shall be in reasonable working order.
- d. All electrical, plumbing and HVAC shall be in reasonable working order.

ALL ADDITIONAL MODIFICATIONS, REFURBISHMENTS AND/OR IMPROVEMENTS SHALL BE AT LESSEE'S SOLE COST AND EXPENSE.

-4-

18

52. SECOND RIGHT OF REFUSAL: Joseph Webb Foods has First Right of Refusal on any vacant space within Building 1211. If upon written notice to them of the vacancy, they should refuse the space, Lessee shall be notified in writing of the vacancy and shall have five (5) business days to respond to Lessor as to intent to Lease.

THE SUBMISSION OF THIS DOCUMENT FOR EXAMINATION AND NEGOTIATION DOES NOT CONSTITUTE AN OFFER TO LEASE, OR A RESERVATION OF, OR OPTION FOR, THE PREMISES, THIS DOCUMENT BECOMES EFFECTIVE AND BINDING ONLY UPON EXECUTION AND DELIVERY HEREOF BY LESSOR. NO ACT OR OMISSION OF ANY EMPLOYEE OR AGENT OF LESSOR OR OF LESSOR'S BROKER SHALL ALTER, CHANGE OR MODIFY ANY OF THE PROVISIONS HEREOF.

"LESSEE"

"LESSOR"

NATURAL ALTERNATIVES INTERNATIONAL, INC
A Delaware corporation

PACIFIC GULF PROPERTIES INC,
a Maryland corporation

By: /s/ DAVID LOUGH

By: /s/ ROBERT A. DEWEY

David Lough

Robert A Dewey

Its Exec. Vice President

Its: Senior Vice President

By:

By: /s/ JOHN ITZEL

John Itzel

Its:

Its: Regional Manager

EXHIBIT "A"

SITE PLAN

THIS EXHIBIT IS ATTACHED TO AND MADE PART OF THE LEASE DATED March 3, 1999 BY AND BETWEEN: PACIFIC GULF PROPERTIES INC., a Maryland corporation as LESSOR, and NATURAL ALTERNATIVES INTERNATIONAL, INC., a Delaware corporation as LESSEE, for the premises located at 1211 Park Center Drive, Suite C, Vista, CA 92083.

VISTA DISTRIBUTION CENTER

[SITE PLAN]

EXHIBIT "B"
RULES & REGULATIONS

THIS EXHIBIT IS ATTACHED TO AND MADE PART OF THE LEASE dated March 3, 1999, BY AND BETWEEN: PACIFIC GULF PROPERTIES, INC., a Maryland corporation as Lessor and NATURAL ALTERNATIVES INTERNATIONAL, INC., a Delaware corporation as LESSEE, for the premises located at 1211 Park Center Dr., Suite C, Vista, CA 92083.

1. Lessee shall be entitled to park in the vehicle parking spaces provided in Section 1.11 in common with other tenants of Lessor. Lessee agrees not to overburden the parking facilities and agrees to cooperate with Lessor and other tenants in the use of parking facilities. Lessor reserves the right in its absolute discretion to determine whether parking facilities are becoming crowded and, in such event, to allocate parking spaces among Tenants or to designate specific areas within which Lessee must park.
2. No automobile, recreational vehicle or equipment, other than Lessee's trucks, shall remain upon the common area longer than twenty-four (24) hours. No automobile, recreational vehicle, commercial vehicle and/or equipment may be dismantled, repaired, serviced, washed, waxed and/or cleaned within the common area.
3. Lessee shall not permit the obstruction of any Common Areas, including driveways, walkways and stairways.
4. Signs shall conform to Sign Criteria established from time-to-time by Lessor. No other signs, placards, A-Frames, pictures, advertisements, merchandise, balloons, names or notices shall be inscribed, displayed, printed or affixed on or to any part of the outside of the building and/or common areas, without the prior written consent of Lessor. Lessor shall have the right to remove any such non-conforming signs, placards, A-Frames, pictures, advertisements, merchandise, balloons, names and/or notices, at any time, without notice to Lessee and at the expense of Lessee. No rooftop and/or ground level cold air balloons shall be displayed without prior written consent of Lessor. No parking lot sales shall be permitted, except at times and dates previously determined by Lessor and with prior written consent by Lessor.
5. No Lessee, employee and/or invitee shall go upon the roof of the building without Lessor's prior written consent.
6. Lessee is responsible for placing all garbage and refuse in the trash bins provided throughout the common area by Lessor. Trash bins are to remain in the trash enclosures provided by Lessor.

Lessee may contract for Lessee's own trash bin to be kept inside the leased premises. If Lessee is regularly disposing of an unusually large amount of trash, Lessee shall receive written notice from Lessor, and Lessee shall be required to contract for trash bin to be kept inside the leased premises.

7. Recycle bins are provided throughout the common area for all cardboard. All empty cardboard boxes are to be placed inside the recycle bins, not the regular trash bins.
8. No furniture, mattresses, large appliances, pallets, concrete, large construction materials and/or oversized items of any kind are to be placed in the trash bins, in the trash enclosures, or on the ground anywhere in the common area. No trash, regardless of size, is to be left anywhere in the common area, except in the trash bins provided.

If Lessee is found to be in violation of this regulation, Lessor shall have the items picked up and placed in the bins, and/or hauled away, and Lessee shall be fined fifty dollars (\$50.00) for each occurrence and in addition, shall be charged the hauling fees.
9. No open storage shall be permitted anywhere within the common areas.
10. Lessee shall not install any radio or television antenna, satellite dish, loudspeaker, or other device on the roof or exterior walls of the building. No loudspeakers, televisions, phonographs, radios or other devices shall be used in such a way as to be heard or seen outside of the premises without the prior written consent of the Lessor.
11. No vending machines(s) of any description shall be installed, maintained or operated upon the common areas.

21

Rules & Regulations

Page two

12. No noxious or offensive trade or activity shall be carried on upon any units or any part of the common area, nor shall anything be done thereon which may be or which shall in any way interfere with the quiet enjoyment of each of the other tenants of the Center or which shall in any way increase the rate of insurance or overburden utility facilities from time-to-time existing in the Center.
13. The leased premises shall not be used for lodging or for any improper, immoral or objectionable purpose.

No cooking shall be done or permitted by Lessee on the Premises, except that use by Lessee of Underwriters Laboratory approved equipment for brewing coffee, tea, hot chocolate and/or similar beverages, which shall be permitted, provided that such equipment and use is in accordance with all applicable federal, state, county and city laws, codes, ordinances, rules and regulations. Lessee shall have the right to use microwave ovens and refrigerators to serve its employees and customers.
14. Shutters and/or blinds may be installed as window covers. No windows shall be covered with aluminum foil, newspapers or other material, not designed for use as a window cover.
15. There shall be no domestic animals allowed in or on the premises and/or common areas at any time, unless with Lessor's prior written consent. Lessor reserves the right to revoke said consent at any time.

* Lessor may waive any one or more of these Rules & Regulations for the benefit of Lessee, but no such waiver by Lessor shall be construed as a

waiver of such Rules & Regulations in favor of Lessee, nor prevent Lessor from thereafter enforcing any such Rules & Regulations against any or all of the Tenants in the Project.

* These Rules & Regulations are in addition to, and shall not be construed to, in any way, modify or amend, in whole or in part, the terms, covenants, agreements and conditions of this Lease Agreement.

* Lessor reserves the right to change, rescind or to make such other and reasonable rules and regulations as to its judgement may from time to time be needed for safety and security, for care and cleanliness of the Project and/or for the preservation of good order therein.

* Lessee shall be deemed to have read these Rules & Regulations and to have agreed to abide by them, and any additional rules and regulations which are adopted, as a condition of Lessee's occupancy of the premises herein leased.

* Lessee shall also be responsible for the observance of all of the foregoing rules and regulations by Lessee's employees, agents, clients, customers, invitees and/or guests.

HAZARDOUS MATERIALS DISCLOSURE
EXHIBIT "C"

THIS EXHIBIT IS ATTACHED TO AND MADE PART OF THE LEASE DATED March 3, 1999 BY AND BETWEEN: PACIFIC GULF PROPERTIES, INC., a Maryland corporation as LESSOR, and NATURAL ALTERNATIVES INTERNATIONAL, INC., a Delaware corporation as LESSEE, for the premises located at 1211 Park Center Dr., Suite C, Vista, CA 92083.

I, DAVID LOUGH represent that the following disclosure accurately reflects the usage or non-usage of hazardous materials on the above referenced premises:

Description of Lessee's usage and business operations (if not applicable, please state "none"):

SEE ATTACHMENT

Petroleum products, chemicals, container sizes, and amounts to be utilized by Lessee at any time during tenancy:

Method and storage locations of hazardous materials:

List any operations discharges in or on Premises:

I, DAVID LOUGH, certify that I will comply fully with all applicable environmental laws governing hazardous materials and their usage in our operations.

"LESSEE"

NATURAL ALTERNATIVES INTERNATIONAL, INC.
a Delaware corporation

BY: /s/ DAVID LOUGH

David Lough

Its: Exec. Vice Pres.

23

LABORATORY CHEMICALS

(WITH VOLUMES KEPT ON SITE LISTED BELOW)

1. ACETONE - 10 LITERS
2. PYRIDINE - 2 LITERS
3. ACETONITRILE - 15 LITERS
4. ETHYL ACETATE - 3 LITERS
5. BUTYL ALCOHOL - 3 LITERS
6. 2-PROPANOL - 20 GALLONS
7. TETRAHYDROFURAN - 8 LITERS
8. HEPTANE - 3 LITERS
9. ETHER - 3 LITERS
10. TRIETHYLAMINE - 3 LITERS
11. PHENOLPHTHALEIN - 1/2 LITER
12. DIMETHOXYPROPANE - 3 LITERS
13. ETHYL ALCOHOL - 3 LITERS
14. ISOPROPINOL - 20 GALLONS
15. METHANOL - 15 LITERS
16. HEXANES - 15 LITERS

24

22. PHOSPHORIC ACID - 1/4 LITER
23. FORMIC ACID - 1/4 LITER
24. ACETIC ACID, GLACIAL - 3 LITERS
25. NITRIC ACID - 3 LITERS
26. HYDROCHLORIC ACID - 3 LITERS
27. SULFURIC ACID, ION - 3 LITERS

PRODUCTION CHEMICALS

1. ISOPROPYL ALCOHOL - 5 GALLONS
2. BLEACH - 1-3 GALLONS

ADDITIONAL CHEMICALS ON SITE

1. ARGON - 1-160 LITER DEWER

2. NITROGEN - D SIZE CYLINDER

25

LEASE EXTENSION AGREEMENT

July 13, 1999

THAT CERTAIN LEASE DATED March 3, 1999 BY AND BETWEEN: PACIFIC GULF PROPERTIES, INC., a Maryland corporation as LESSOR, and NATURAL ALTERNATIVES, INC., a Delaware corporation as LESSEE, for the premises located at 1211 Park Center Drive, Suite C, Vista, CA 92083, a unit of 20,000 sq.ft., shall be extended for a period of three (3) years and five (5) months, commencing April 1, 2000 and terminating on August 31, 2003 on all terms and conditions with the following modifications:

PARAGRAPH 4 - BASE RENT: The monthly rental rate through the term of this Lease Extension shall be as follows:

4/1/00 - 8/31/01	\$10,400.00
9/1/01 - 8/31/02	\$10,800.00
9/1/02 - 8/31/03	\$11,200.00

ADDENDUM, #50 - NNN CHARGES: The NNN charges are estimated in 1999 at \$.0798PSF (\$1596.00) and shall be paid monthly as additional rent.

TENANT IMPROVEMENTS: Lessor shall approve Lessee to construct underground cabling at Lessee's sole cost and expense, between 1211 Park Center Drive, Suite C and 1215 Park Center Drive, Suites C/D/E, with the following conditions:

- a. Lessee shall submit plans of proposed improvement to Lessor for Lessor's prior approval.
- b. All work must be completed by a licensed, insured contractor and be constructed per requirements of the City of Vista.

OPTION TO EXTEND: Lessee shall have the option to extend the term of this Lease ("Option") on all of the terms, conditions, covenants and provisions, contained in this Lease, except for the Monthly Rent, for two (2) additional terms of five (5) years each following the Termination Date. The Option Term shall commence on the day immediately following the Termination Date.

Lessee may exercise the Option by giving written notice of exercise of the Option to Lessor at least one hundred twenty (120) days before the Termination Date. If Lessee is in default on the date of giving the Option Notice, the Option Notice shall be totally ineffective. If the Option Notice is not given, the Option shall automatically expire and be of no further force or effect.

The Option granted to Lessee in this Lease is personal to the original Lessee and may be exercised only by the original Lessee while physically occupying the Premises. The Option may not be exercised or assigned, voluntarily or involuntarily, by or to any person or entity other than Lessee. Any consent by Lessor to an assignment of the Lease or a sublet of the Premises, or any portion thereof, shall not be construed as a waiver of this prohibition.

Monthly Rent during each Option period shall be at Fair Market Value, as determined by Lessor, at the time Lessor receives the Option Notice. In the event the Lessor and Lessee cannot agree on the new base rent, the matter shall

be submitted for decision to a panel of three arbitrators. Lessor and Lessee shall each appoint one arbitrator who shall by profession be a licensed commercial real estate broker or an MAI real estate appraiser, and who shall be familiar with the premises Building and have been active in the brokering or appraisal of properties in an area within a three (3) mile radius of the Premises. Each such arbitrator shall be appointed within fifteen (15) days after Lessee's notice to Lessor of its election to have New Base Rent determined by this arbitration procedure. The two arbitrators so appointed shall within fifteen (15) days of the date of the appointment of the last appointed arbitrator agree upon and appoint a third arbitrator who shall be qualified under the same criteria set forth hereinabove for qualification of the initial two arbitrators. Failing such agreement, either Lessor or Lessee shall have the right to petition for the appointment of the third arbitrator by the Presiding Judge of the Superior Court of the County of San Diego. The three arbitrators shall within thirty (30) days of the appointment of the third arbitrator reach a decision as to whether the parties shall use Lessor's or Lessee's proposed New Base Rent, and shall notify Lessor and Lessee therefore. The decision of the majority of the three arbitrators shall be binding upon Lessor and Lessee. The cost of the arbitration shall be paid by Lessor and Lessee equally. In no event, shall the monthly rent for the Option term be less than a four percent (4%) increase over the previous year's monthly rent. Upon agreement to the terms of the Option, Lessor shall immediately execute an Extension of Lease Agreement. All rights of Lessee with respect to the Option shall terminate and be of no further force or effect if Lessor and Lessee do not come to agreement on the Option. Neither Lessor nor Lessee shall have the right to have a court or third party set the Monthly Rent.

ALL OTHER TERMS AND CONDITIONS OF THE ABOVE REFERENCED LEASE SHALL REMAIN IN FULL FORCE AND EFFECT.

"LESSOR"

PACIFIC GULF PROPERTIES, INC.
a Maryland corporation

BY: /s/ MARK BRECHEEN

Name Printed: MARK BRECHEEN

Title: DIRECTOR OF REAL ESTATE

BY: /s/ JOHN ITZEL

Name Printed: JOHN ITZEL

Title: REGIONAL MANAGER

Address: 4220 Von Karman 2nd floor
Newport Beach, CA 92660

"LESSEE"

NATURAL ALTERNATIVES, INC.
a Delaware corporation

BY: /s/ DAVID LOUGH

Name Printed: DAVID LOUGH

Title: Executive V.P.

Address:

[CB COMMERCIAL LOGO] INDUSTRIAL REAL ESTATE LEASE
 (MULTI TENANT FACILITY)
 CB COMMERCIAL REAL ESTATE GROUP. INC.
 BROKERAGE AND MANAGEMENT
 LICENSED REAL ESTATE BROKER

ARTICLE ONE: BASIC TERMS

This Article One contains the Basic Terms of this Lease between the Landlord and Tenant named below. Other Articles, Sections and Paragraphs of the Lease referred to in this Article One explain and define the Basic Terms and are to be read in conjunction with the Basic Terms.

Section 1.01. DATE OF LEASE: July 17, 1998

Section 1.02. LANDLORD (INCLUDE LEGAL ENTITY): PACIFIC GULF PROPERTIES, INC., a Maryland corporation.

Address of Landlord: 4220 Von Karman, 2nd Floor, Newport Beach, CA 92660

Section 1.03. TENANT (INCLUDE LEGAL ENTITY):
 NATURAL ALTERNATIVES INTERNATIONAL, INC., a Delaware corporation.

Address of Tenant: 1185 Linda Vista Drive, San Marcos, CA 92069.

Section 1.04. PROPERTY: The Property is part of Landlord's multi-tenant real property development known as VISTA DISTRIBUTION CENTER and described or depicted in Exhibit "A" (the "Project"). The Project includes the land, the buildings and all other improvements located on the land, and the common areas described in Paragraph 4.05(a). The Property is (include street address, approximate square footage and description) an office/warehouse unit of approximately 53,920 sq. ft. located in Suites C/D/E of Bldg. 1215 Park Center Drive, Vista, CA at VISTA DISTRIBUTION CENTER.

Section 1.05. LEASE TERM: Five (5) years twenty-four (24) days BEGINNING ON August 8, 1998 or such other date as is specified in this Lease, and ENDING ON August 31, 2003

Section 1.06. PERMITTED USES: (See Article Five) shall be used as general office, warehousing, manufacturing and distribution of nutritional supplements, related products, an other legal business use for NATURAL ALTERNATIVES INTERNATIONAL, INC. and for no other purpose.

Section 1.07. TENANT'S GUARANTOR: (It none, so state) NA.

Section 1.08. BROKERS: (See Article Fourteen) (If none, so state)

Landlord's Broker: CB Richard Ellis - Onosko.

Tenant's Broker: Colliers - Strange.

Section 1.09. COMMISSION PAYABLE TO LANDLORD'S BROKER: (See Article Fourteen) \$ =.=.

Section 1.10. INITIAL SECURITY DEPOSIT: (See Section 3.03) \$24,803.00
 See Addendum, #61

Section 1.11. VEHICLE PARKING SPACES ALLOCATED TO TENANT: (See Section 4.05) Fifty-three spaces in common.

Section 1.12. RENT AND OTHER CHARGES PAYABLE BY TENANT:

(a) BASE RENT: twenty-four thousand, eight hundred three--00/100 Dollars (\$24,803.00) per month for the first twelve (12) months, as provided in Section 3.01, and shall be increased on the first day of the thirteenth (13th) month(s) after the Commencement Date, either (i) as provided in Section 3.02, or (ii) See Addendum, #59. (If (ii) is completed, then (i) and Section 3.02 are inapplicable.)

(b) OTHER PERIODIC PAYMENTS: (i) Real Property Taxes (See Section 4.02); (ii) Utilities (See Section 4.03); (iii) Insurance Premiums (See Section 4.04); (iv) Tenant's Initial Pro Rata Share of Common Area Expenses 15.11% (See Section 4.05); (v) Impounds for Insurance Premiums and Property Taxes (See Section 4.08); (vi) Maintenance, Repairs and Alterations (See Article Six).

Section 1.13. LANDLORD'S SHARE OF PROFIT ON ASSIGNMENT OR SUBLEASE: (See Section 9.05) fifty percent (50%) of the Profit (the "Landlord's Share").

Section 1.14. RIDERS: The following Riders are attached to and made a part of this Lease: (If none, so state) Addendum 49-66, Exhibits A-C.

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ARTICLE TWO: LEASE TERM

Section 2.01. LEASE OF PROPERTY FOR LEASE TERM. Landlord leases the Property to Tenant and Tenant leases the Property from Landlord for the Lease Term. The Lease Term is for the period stated in Section 1.05 above and shall begin and end on the dates specified in Section 1.05 above, unless the beginning or end of the Lease Term is changed under any provision of this Lease. The "Commencement Date" shall be the date specified in Section 1.05 above for the beginning of the Lease Term, unless advanced or delayed under any provision of this Lease.

Section 2.04. HOLDING OVER. Tenant shall vacate the Property upon the expiration or earlier termination of this Lease. Tenant shall reimburse Landlord for and indemnify Landlord against all damages which Landlord incurs from Tenant's delay in vacating the Property. If Tenant does not vacate the Property upon the expiration or earlier termination of the Lease and Landlord thereafter accepts rent from Tenant, Tenant's occupancy of the Property shall be a "month-to-month" tenancy, subject to all of the terms of this Lease applicable to a month-to-month tenancy, except that the Base Rent then in effect shall be increased by twenty-five percent (25%).

ARTICLE THREE: BASE RENT

Section 3.01. TIME AND MANNER OF PAYMENT. Upon execution of this Lease, Tenant shall pay Landlord the Base Rent in the amount stated in Paragraph 1.12(a) above for the first month of the Lease Term. On the first day of the second month of the Lease Term and each month thereafter, Tenant shall pay Landlord the Base Rent, in advance, without offset, deduction or prior demand. The Base Rent shall be payable at Landlord's address or at such other place as Landlord may designate in writing.

Section 3.03. SECURITY DEPOSIT; INCREASES.

(a) Upon the execution of this Lease, Tenant shall deposit with Landlord a cash Security Deposit in the amount set forth in Section 1.10 above. Landlord may apply all or part of the Security Deposit to any unpaid rent or other charges due from Tenant or to cure any other defaults of Tenant. If Landlord

uses any part of the Security Deposit, Tenant shall restore the Security Deposit to its full amount within ten (10) days after Landlord's written request. Tenant's failure to do so shall be a material default under this Lease. No interest shall be paid on the Security Deposit. Landlord shall not be required to keep the Security Deposit separate from its other accounts and no trust relationship is created with respect to the Security Deposit.

2

3

Section 3.04. TERMINATION; ADVANCE PAYMENTS. Upon termination of this Lease under Article Seven (Damage or Destruction), Article Eight (Condemnation) or any other termination not resulting from Tenant's default, and after Tenant has vacated the Property in the manner required by this Lease, Landlord shall refund or credit to Tenant (or Tenant's successor) the unused portion of the Security Deposit, any advance rent or other advance payments made by Tenant to Landlord, and any amounts paid for real property taxes and other reserves which apply to any time periods after termination of the Lease.

ARTICLE FOUR: OTHER CHARGES PAYABLE BY TENANT

Section 4.01. ADDITIONAL RENT. All charges payable by Tenant other than Base Rent are called "Additional Rent." Unless this Lease provides otherwise, Tenant shall pay all Additional Rent then due with the next monthly installment of Base Rent. The term "rent" shall mean Base Rent and Additional Rent.

Section 4.02. PROPERTY TAXES.

(a) REAL PROPERTY TAXES. Tenant shall pay all real property taxes on the Property (including any fees, taxes or assessments against, or as a result of, any tenant improvements installed on the Property by or for the benefit of Tenant) during the Lease Term. Subject to Paragraph 4.02(c) and Section 4.08 below, such payment shall be made at least ten (10) days prior to the delinquency date of the taxes. Within such ten (10)-day period, Tenant shall furnish Landlord with satisfactory evidence that the real property taxes have been paid. Landlord shall reimburse Tenant for any real property taxes paid by Tenant covering any period of time prior to or after the Lease Term. If Tenant fails to pay the real property taxes when due, Landlord may pay the taxes and Tenant shall reimburse Landlord for the amount of such tax payment as Additional Rent.

(b) DEFINITION OF "REAL PROPERTY TAX." "Real property tax" means: (i) any fee, license fee, license tax, business license fee, commercial rental tax, levy, charge, assessment, penalty or tax imposed by any taxing authority against the Property; (ii) any tax on the Landlord's right to receive, or the receipt of, rent or income from the Property or against Landlord's business of leasing the Property; (iii) any tax or charge for fire protection, streets, sidewalks, road maintenance, refuse or other services provided to the Property by any governmental agency; (iv) any tax imposed upon this transaction or based upon a re-assessment of the Property due to a change of ownership, as defined by applicable law, or other transfer of all or part of Landlord's interest in the Property; and (v) any charge or fee replacing any tax previously included within the definition of real property tax. "Real property tax" does not, however, include Landlord's federal or state income, franchise, inheritance or estate taxes.

(c) JOINT ASSESSMENT. If the Property is not separately assessed, Landlord shall reasonably determine Tenant's share of the real property tax payable by Tenant under Paragraph 4.02(a) from the assessor's worksheets or other reasonably available information. Tenant shall pay such share to Landlord within fifteen (15) days after receipt of Landlord's written statement.

(d) PERSONAL PROPERTY TAXES.

(i) Tenant shall pay all taxes charged against trade fixtures,

furnishings, equipment or any other personal property belonging to Tenant. Tenant shall try to have personal property taxed separately from the Property.

(ii) If any of Tenant's personal property is taxed with the Property, Tenant shall pay Landlord the taxes for the personal property within fifteen (15) days after Tenant receives a written statement from Landlord for such personal property taxes.

Section 4.03. UTILITIES. Tenant shall pay, directly to the appropriate supplier, the cost of all natural gas, heat, light, power, sewer service, telephone, water, refuse disposal and other utilities and services supplied to the Property. However, if any services or utilities are jointly metered with other property, Landlord shall make a reasonable determination of Tenant's proportionate share of the cost of such utilities and services and Tenant shall pay such share to Landlord within fifteen (15) days after receipt of Landlord's written statement.

Section 4.04. INSURANCE POLICIES.

(a) LIABILITY INSURANCE. During the Lease Term, Tenant shall maintain a policy of commercial general liability insurance (sometimes known as broad form comprehensive general liability insurance) insuring Tenant against liability for bodily injury, property damage (including loss of use of property) and personal injury arising out of the operation, use or occupancy of the Property. Tenant shall name Landlord as an additional insured under such policy. The initial amount of such insurance shall be One Million Dollars (\$1,000,000) per occurrence and shall be subject to periodic increase based upon inflation, increased liability awards, recommendation of Landlord's professional insurance advisers and other relevant factors. The liability insurance obtained by Tenant under this Paragraph 4.04(a) shall (i) be primary and non-contributing; (ii) contain cross-liability endorsements; and (iii) insure Landlord against Tenant's performance under Section 5.05, if the matters giving rise to the indemnity under Section 5.05 result from the negligence of Tenant. The amount and coverage of such insurance shall not limit Tenant's liability nor relieve Tenant of any other obligation under this Lease. Landlord may also obtain comprehensive public liability insurance in an amount and with coverage determined by Landlord insuring Landlord against liability arising out of ownership, operation, use or occupancy of the Property. The policy obtained by Landlord shall not be contributory and shall not provide primary insurance.

(b) PROPERTY AND RENTAL INCOME INSURANCE. During the Lease Term, Landlord shall maintain policies of insurance covering loss of or damage to the Property in the full amount of its replacement value. Such policy shall contain an Inflation Guard Endorsement and shall provide protection against all perils included within the classification of fire, extended coverage, vandalism, malicious mischief, special extended perils (all risk), sprinkler leakage and any other perils which Landlord deems reasonably necessary. Landlord shall have the right to obtain flood and earthquake insurance if required by any lender holding a security interest in the Property. Landlord shall not obtain insurance for Tenant's fixtures or equipment or building improvements installed by Tenant on the Property. During the Lease Term, Landlord shall also maintain a rental income insurance policy, with loss payable to Landlord, in an amount equal to one year's Base Rent, plus estimated real property taxes and insurance premiums. Tenant shall be liable for the payment of any deductible amount under Landlord's or Tenant's insurance policies maintained pursuant to this Section 4.04, in an amount not to exceed Ten Thousand Dollars (\$10,000). Tenant shall not do or permit anything to be done which invalidates any such insurance policies.

(c) PAYMENT OF PREMIUMS. Subject to Section 4.08, Tenant shall pay all premiums for the insurance policies described in Paragraphs 4.04(a) and (b) (whether obtained by Landlord or Tenant) within fifteen (15) days after Tenant's receipt of a copy of the premium statement or other evidence of the amount due, except Landlord shall pay all premiums for non-primary comprehensive public liability insurance which Landlord elects to obtain as provided in Paragraph 4.04(a). For insurance policies

4

maintained by Landlord which cover improvements on the entire Project, Tenant shall pay Tenant's prorated share of the premiums, in accordance with the formula in Paragraph 4.05(e) for determining Tenant's share of Common Area costs. If insurance policies maintained by Landlord cover improvements on real property other than the Project, Landlord shall deliver to Tenant a statement of the premium applicable to the Property showing in reasonable detail how Tenant's share of the premium was computed. If the Lease Term expires before the expiration of an insurance policy maintained by Landlord, Tenant shall be liable for Tenant's prorated share of the insurance premiums. Before the Commencement Date, Tenant shall deliver to Landlord a copy of any policy of insurance which Tenant is required to maintain under this Section 4.04. At least thirty (30) days prior to the expiration of any such policy, Tenant shall deliver to Landlord a renewal of such policy. As an alternative to providing a policy of insurance, Tenant shall have the right to provide Landlord a certificate of insurance, executed by an authorized officer of the insurance company, showing that the insurance which Tenant is required to maintain under this Section 4.04 is in full force and effect and containing such other information which Landlord reasonably requires.

(d) GENERAL INSURANCE PROVISIONS.

(i) Any insurance which Tenant is required to maintain under this Lease shall include a provision which requires the insurance carrier to give Landlord not less than thirty (30) days' written notice prior to any cancellation or modification of such coverage.

(ii) If Tenant fails to deliver any policy, certificate or renewal to Landlord required under this Lease within the prescribed time period or if any such policy is cancelled or modified during the Lease Term without Landlord's consent, Landlord may obtain such insurance, in which case Tenant shall reimburse Landlord for the cost of such insurance within fifteen (15) days after receipt of a statement that indicates the cost of such insurance.

(iii) Tenant shall maintain all insurance required under this Lease with companies holding a "General Policy Rating" of A-12 or better, as set forth in the most current issue of "Best Key Rating Guide". Landlord and Tenant acknowledge the insurance markets are rapidly changing and that insurance in the form and amounts described in this Section 4.04 may not be available in the future. Tenant acknowledges that the insurance described in this Section 4.04 is for the primary benefit of Landlord. If at any time during the Lease Term, Tenant is unable to maintain the insurance required under the Lease, Tenant shall nevertheless maintain insurance coverage which is customary and commercially reasonable in the insurance industry for Tenant's type of business, as that coverage may change from time to time. Landlord makes no representation as to the adequacy of such insurance to protect Landlord's or Tenant's interests. Therefore, Tenant shall obtain any such additional property or liability insurance which Tenant deems necessary to protect Landlord and Tenant.

(iv) Unless prohibited under any applicable insurance policies maintained, Landlord and Tenant each hereby waive any and all rights of recovery against the other, or against the officers, employees, agents or representatives of the other, for loss of or damage to its property or the property of others under its control, if such loss or damage is covered by any insurance policy in force (whether or not described in this Lease) at the time of such loss or damage. Upon obtaining the required policies of insurance, Landlord and Tenant shall give notice to the insurance carriers of this mutual waiver of subrogation.

Section 4.05. COMMON AREAS; USE, MAINTENANCE AND COSTS.

(a) COMMON AREAS. As used in this Lease, "Common Areas" shall mean all areas within the Project which are available for the common use of tenants of the Project and which are not leased or held for the exclusive use of Tenant or other tenants, including, but not limited to, parking areas, driveways, sidewalks, loading areas, access roads, corridors, landscaping and planted areas. Landlord, from time to time, may change the size, location, nature and use of any of the Common Areas, convert Common Areas into leaseable areas, construct additional parking facilities (including parking structures) in the Common Areas, and increase or decrease Common Area land and/or facilities. Tenant acknowledges that such activities may result in inconvenience to Tenant. Such activities and changes are permitted if they do not materially affect Tenant's use of the Property.

(b) USE OF COMMON AREAS. Tenant shall have the nonexclusive right (in common with other tenants and all others to whom Landlord has granted or may grant such rights) to use the Common Areas for the purposes intended, subject to such reasonable rules and regulations as Landlord may establish from time to time. Tenant shall abide by such rules and regulations and shall use its best effort to cause others who use the Common Areas with Tenant's express or implied permission to abide by Landlord's rules and regulations. At any time, Landlord may close any Common Areas to perform any acts in the Common Areas as, in Landlord's judgment, are desirable to improve the Project. Tenant shall not interfere with the rights of Landlord, other tenants or any other person entitled to use the Common Areas.

(c) SPECIFIC PROVISION RE: VEHICLE PARKING. Tenant shall be entitled to use the number of vehicle parking spaces in the Project allocated to Tenant in Section 1.11 of the Lease without paying any additional rent. Tenant's parking shall not be reserved and shall be limited to vehicles no larger than standard size automobiles or pickup utility vehicles. Tenant shall not cause large trucks or other large vehicles to be parked within the Project or on the adjacent public streets. Temporary parking of large delivery vehicles in the Project may be permitted by the rules and regulations established by Landlord. Vehicles shall be parked only in striped parking spaces and not in driveways, loading areas or other locations not specifically designated for parking. Handicapped spaces shall only be used by those legally permitted to use them. If Tenant parks more vehicles in the parking area than the number set forth in Section 1.11 of this Lease, such conduct shall be a material breach of this Lease. In addition to Landlord's other remedies under the Lease, Tenant shall pay a daily charge determined by Landlord for each such additional vehicle.

(d) MAINTENANCE OF COMMON AREAS. Landlord shall maintain the Common Areas in good order, condition and repair and shall operate the Project, in Landlord's sole discretion, as a first-class industrial commercial real property development. Tenant shall pay Tenant's pro rata share (as determined below) of all costs incurred by Landlord for the operation and maintenance of the Common Areas. Common Area costs include, but are not limited to, costs and expenses for the following: gardening and landscaping; utilities, water and sewage charges; maintenance of signs (other than tenants' signs); premiums for liability, property damage, fire and other types of casualty insurance on the Common Areas and worker's compensation insurance; all property taxes and assessments levied on or attributable to the Common Areas and all Common Area improvements; all personal property taxes levied on or attributable to personal property used in connection with the Common Areas; straight-line depreciation on personal property owned by Landlord which is consumed in the operation or maintenance of the Common Areas; rental or lease payments paid by Landlord for rented or leased personal property used in the operation or maintenance

5
of the Common Areas; fees for required licenses and permits; repairing, resurfacing, repaving, maintaining, painting, lighting, cleaning, refuse removal, security and similar items; reserves for root replacement and exterior painting and other appropriate reserves; and a reasonable allowance to Landlord for Landlord's supervision of the Common Areas (not to exceed five percent (5%))

of the gross rents of the Project for the calendar year). Landlord may cause any or all of such services to be provided by third parties and the cost of such services shall be included in Common Area costs. Common Area costs shall not include depreciation of real property which forms part of the Common Areas.

(e) TENANT'S SHARE AND PAYMENT. Tenant shall pay Tenant's annual pro rata share of all Common Area costs (prorated for any fractional month) upon written notice from Landlord that such costs are due and payable, and in any event prior to delinquency. Tenant's pro rata share shall be calculated by dividing the square foot area of the Property, as set forth in Section 1.04 of the Lease, by the aggregate square foot area of the Project which is leased or held for lease by tenants, as of the date on which the computation is made. Tenant's initial pro rata share is set out in Paragraph 1.12(b). Any changes in the Common Area costs and/or the aggregate area of the Project leased or held for lease during the Lease Term shall be effective on the first day of the month after such change occurs. Landlord may, at Landlord's election, estimate in advance and charge to Tenant as Common Area costs, all real property taxes for which Tenant is liable under Section 4.02 of the Lease, all insurance premiums for which Tenant is liable under Section 4.04 of the Lease. all maintenance and repair costs for which Tenant is liable under Section 6.04 of the Lease, and all other Common Area costs payable by Tenant hereunder. At Landlord's election, such statements of estimated Common Area costs shall be delivered monthly, quarterly or at any other periodic intervals to be designated by Landlord. Landlord may adjust such estimates at any time based upon Landlord's experience and reasonable anticipation of costs. Such adjustments shall be effective as of the next rent payment date after notice to Tenant. Within sixty (60) days after the end of each calendar year of the Lease Term, Landlord shall deliver to Tenant a statement prepared in accordance with generally accepted accounting principles setting forth, in reasonable detail, the Common Area costs paid or incurred by Landlord during the preceding calendar year and Tenant's pro rata share. Upon receipt of such statement, there shall be an adjustment between Landlord and Tenant, with payment to or credit given by Landlord (as the case may be) so that Landlord shall receive the entire amount of Tenant's share of such costs and expenses for such period.

Section 4.06. LATE CHARGES. Tenant's failure to pay rent promptly may cause Landlord to incur unanticipated costs. The exact amount of such costs are impractical or extremely difficult to ascertain. Such costs may include, but are not limited to, processing and accounting charges and late charges which may be imposed on Landlord by any ground lease, mortgage or trust deed encumbering the Property. Therefore, if Landlord does not receive any rent payment within ten (10) days after it becomes due, Tenant shall pay Landlord a late charge equal to ten percent (10%) of the overdue amount. The parties agree that such late charge represents a fair and reasonable estimate of the costs Landlord will incur by reason of such late payment.

Section 4.07. INTEREST ON PAST DUE OBLIGATIONS. Any amount owed by Tenant to Landlord which is not paid when due shall bear interest at the rate of fifteen percent (15%) per annum from the due date of such amount. However, interest shall not be payable on late charges to be paid by Tenant under this Lease. The payment of interest on such amounts shall not excuse or cure any default by Tenant under this Lease. If the interest rate specified in this Lease is higher than the rate permitted by law, the interest rate is hereby decreased to the maximum legal interest rate permitted by law.

Section 4.08. IMPOUNDS FOR INSURANCE PREMIUMS AND REAL PROPERTY TAXES. If requested by any ground lessor or lender to whom Landlord has granted a security interest in the Property, or if Tenant is more than ten (10) days late in the payment of rent more than once in any consecutive twelve (12)-month period, Tenant shall pay Landlord a sum equal to one-twelfth (1/12) of the annual real property taxes and insurance premiums payable by Tenant under this Lease, together with each payment of Base Rent. Landlord shall hold such payments in a non-interest bearing impound account. If unknown, Landlord shall reasonably estimate the amount of real property taxes and insurance premiums when due. Tenant shall pay any deficiency of funds in the impound account to Landlord upon written request. If Tenant defaults under this Lease, Landlord may apply any funds in the impound account to any obligation then due under this Lease.

ARTICLE FIVE: USE OF PROPERTY

Section 5.01. PERMITTED USES. Tenant may use the Property only for the Permitted Uses set forth in Section 1.06 above.

Section 5.02. MANNER OF USE. Tenant shall not cause or permit the Property to be used in any way which constitutes a violation of any law, ordinance, or governmental regulation or order, which annoys or interferes with the rights of tenants of the Project, or which constitutes a nuisance or waste. Tenant shall obtain and pay for all permits, including a Certificate of Occupancy, required for Tenant's occupancy of the Property and shall promptly take all actions necessary to comply with all applicable statutes, ordinances, rules, regulations, orders and requirements regulating the use by Tenant of the Property, including the Occupational Safety and Health Act.

Section 5.0.3 HAZARDOUS MATERIALS. As use in this Lease, the term "Hazardous Material" means any flammable items, explosives, radioactive materials, hazardous or toxic substances, material or waste or related materials, including any substances defined as or included in the definition of "hazardous substances", "hazardous wastes", "hazardous materials," or "toxic substances" now or subsequently regulated under any applicable federal, state or local laws or regulations, including without limitation petroleum-based products, paints, solvents, lead, cyanide, DDT, printing inks, acids, pesticides, ammonia compounds and other chemical products, asbestos, PCBs and similar compounds, and including any different products and materials which are subsequently found to have verse effects on the environment or the health and safety of persons. Tenant shall not cause or permit any Hazardous Material other than those normally used in the course of its business which are disclosed or Exhibit "C" to be generated, produced, brought upon, used, stored, treated or disposed of in or about the Property by Tenant, its agents, employees, contractors, sublessees or invitees without the prior written consent of Landlord. Landlord shall be entitled to take into account such other factors or facts as Landlord may reasonably determine to be relevant in determining whether to grant or withhold consent to Tenant's proposed activity with respect to Hazardous Material. In no event, however, shall Landlord be required to consent to the installation or use of any storage tanks on the Property.

Section 5.04. SIGNS AND AUCTIONS. Tenant shall be allowed signs on the Property with Landlord's prior written consent, and within City of Vista signage ordinances. Tenant shall not conduct or permit any auctions or sheriff's sales at the Property.

Section 5.05. INDEMNITY. Tenant shall indemnify Landlord against and hold Landlord harmless from any and all costs, claims or liability arising from: (a) Tenant's use of the Property; (b) the conduct of Tenant's business or anything else done or

permitted by Tenant to be done in or about the Property, including any contamination of the Property or any other property resulting from the presence or use of Hazardous Material caused or permitted by Tenant; (c) any breach or default in the performance of Tenant's obligations under this Lease; (d) any misrepresentation or breach of warranty by Tenant under this Lease; or (e) other acts or omissions of Tenant. Tenant shall defend Landlord against any such cost, claim or liability at Tenant's expense with counsel reasonably acceptable to Landlord or, at Landlord's election, Tenant shall reimburse Landlord for any legal fees or costs incurred by Landlord in connection with any such claim. As a material part of the consideration to Landlord, Tenant assumes all risk of damage to property or injury to persons in or about the Property arising from any cause, and Tenant hereby waives all claims in respect thereof against Landlord, except for any claim arising out of Landlord's gross negligence or willful misconduct. As used in this Section, the term "Tenant" shall include

Tenant's employees, agents, contractors and invitees, if applicable.

Section 5.06. LANDLORD'S ACCESS. Landlord or its agents may enter the Property at all reasonable times to show the Property to potential buyers, investors or tenants or other parties; to do any other act or to inspect and conduct tests in order to monitor Tenant's compliance with all applicable environmental laws and all laws governing the presence and use of Hazardous Material; or for any other purpose Landlord deems necessary. Landlord shall give Tenant prior notice of such entry, except in the case of an emergency. Landlord may place customary "For Sale" or "For Lease" signs on the Property.

Section 5.07. QUIET POSSESSION. If Tenant pays the rent and complies with all other terms of this Lease, Tenant may occupy and enjoy the Property for the full Lease Term, subject to the provisions of this Lease.

ARTICLE SIX: CONDITION OF PROPERTY; MAINTENANCE, REPAIRS AND ALTERATIONS

Section 6.01. EXISTING CONDITIONS. Tenant accepts the Property in its condition as of the execution of the Lease, subject to all recorded matters, laws, ordinances, and governmental regulations and orders. Except as provided herein, Tenant acknowledges that neither Landlord nor any agent of Landlord has made any representation as to the condition of the Property or the suitability of the Property for Tenant's intended use. Tenant represents and warrants that Tenant has made its own inspection of and inquiry regarding the condition of the Property and is not relying on any representations of Landlord or any Broker with respect thereto. If Landlord or Landlord's Broker has provided a Property Information Sheet or other Disclosure Statement regarding the Property, a copy is attached as an exhibit to the Lease.

Section 6.02. EXEMPTION OF LANDLORD FROM LIABILITY. Landlord shall not be liable for any damage or injury to the person, business (or any loss of income therefrom), goods, wares, merchandise or other property of Tenant, Tenant's employees, invitees, customers or any other person in or about the Property, whether such damage or injury is caused by or results from: (a) fire, steam, electricity, water, gas or rain; (b) the breakage, leakage, obstruction or other defects of pipes, sprinklers, wires, appliances, plumbing, air conditioning or lighting fixtures or any other cause; (c) conditions arising in or about the Property or upon other portions of the Project, or from other sources or places; or (d) any act or omission of any other tenant of the Project. Landlord shall not be liable for any such damage or injury even though the cause of or the means of repairing such damage or injury are not accessible to Tenant. The provisions of this Section 6.02 shall not, however, exempt Landlord from liability for Landlord's gross negligence or willful misconduct.

Section 6.03. LANDLORD'S OBLIGATIONS.

(a) Except as provided in Article Seven (Damage or Destruction) and Article Eight (Condemnation), Landlord shall keep the following in good order, condition and repair: the foundations, exterior walls and roof of the Property (including painting the exterior surface of the exterior walls of the Property not more often than once every five (5) years, if necessary) and all components of electrical, mechanical, plumbing, heating and air conditioning systems and facilities located in the Property which are concealed or used in common by tenants of the Project. However, Landlord shall not be obligated to maintain or repair windows, doors, plate glass or the interior surfaces of exterior walls. Landlord shall make repairs under this Section 6.03 within a reasonable time after receipt of written notice from Tenant of the need for such repairs.

(b) Tenant shall pay or reimburse Landlord for those costs Landlord incurs under Paragraph 6.03(a) above that pertain to non-structure as common area costs as provided for in Section 4.05 of the Lease. Tenant waives the benefit of any statute in effect now or in the future which might give Tenant the right to make repairs at Landlord's expense or to terminate this Lease due to Landlord's failure to keep the Property in good order, condition and repair.

Section 6.04. TENANT'S OBLIGATIONS.

(a) Except as provided in Section 6.03, Article Seven (Damage or

Destruction) and Article Eight (Condemnation), Tenant shall keep all portions of the Property (including structural, nonstructural, interior, systems and equipment) in good order, condition and repair (including interior repainting and refinishing, as needed). If any portion of the Property or any system or equipment in the Property which Tenant is obligated to repair cannot be fully repaired or restored, Tenant shall promptly replace such portion of the Property or system or equipment in the Property, regardless of whether the benefit of such replacement extends beyond the Lease Term; but if the benefit or useful life of such replacement extends beyond the Lease Term (as such term may be extended by exercise of any options), the useful life of such replacement shall be prorated over the remaining portion of the Lease Term (as extended), and Tenant shall be liable only for that portion of the cost which is applicable to the Lease Term (as extended). Tenant shall maintain a preventive maintenance contract providing for the regular inspection and maintenance of the heating and air conditioning system by a licensed heating and air conditioning contractor, unless Landlord maintains such equipment under Section 6.03 above. If any part of the Property or the Project is damaged by any act or omission of Tenant, Tenant shall pay Landlord the cost of repairing or replacing such damaged property, whether or not Landlord would otherwise be obligated to pay the cost of maintaining or repairing such property. It is the intention of Landlord and Tenant that at all times Tenant shall maintain the portions of the Property which Tenant is obligated to maintain in an attractive, first-class and fully operative condition.

(b) Tenant shall fulfill all of Tenant's obligations under this Section 6.04 at Tenant's sole expense. If Tenant fails to maintain, repair or replace the Property as required by this Section 6.04, Landlord may, upon ten (10) days' prior notice to Tenant (except that no notice shall be required in the case of an emergency), enter the Property and perform such maintenance or repair (including replacement, as needed) on behalf of Tenant. In such case, Tenant shall reimburse Landlord for all costs incurred in performing such maintenance or repair immediately upon demand.

6

7

Section 6.05. ALTERATIONS, ADDITIONS, AND IMPROVEMENTS.

(a) Tenant shall not make any alterations, additions, or improvements to the Property without Landlord's prior written consent, except for non-structural alterations which do not exceed Ten Thousand Dollars (\$10,000) in cost cumulatively over the Lease Term and which are not visible from the outside of any building of which the Property is part. Landlord may require Tenant to provide demolition and/or lien and completion bonds in form and amount satisfactory to Landlord. Tenant shall promptly remove any alterations, additions, or improvements constructed in violation of this Paragraph 6.05(a) upon Landlord's written request. All alterations, additions, and improvements shall be done in a good and workmanlike manner, in conformity with all applicable laws and regulations, and by a contractor approved by Landlord. Upon completion of any such work, Tenant shall provide Landlord with "as built" plans, copies of all construction contracts, and proof of payment for all labor and materials.

(b) Tenant shall pay when due all claims for labor and material furnished to the Property. Tenant shall give Landlord at least twenty (20) days' prior written notice of the commencement of any work on the Property, regardless of whether Landlord's consent to such work is required. Landlord may elect to record and post notices of non-responsibility on the Property.

Section 6.06. CONDITION UPON TERMINATION. Upon the termination of the Lease, Tenant shall surrender the Property to Landlord, broom clean and in the same condition as received except for ordinary wear and tear which Tenant was not otherwise obligated to remedy under any provision of this Lease. However,

Tenant shall not be obligated to repair any damage which Landlord is required to repair under Article Seven (Damage or Destruction). In addition, Landlord may require Tenant to remove any alterations, additions or improvements (whether or not made with Landlord's consent) prior to the expiration of the Lease and to restore the Property to its prior condition, all at Tenant's expense. All alterations, additions and improvements which Landlord has not required Tenant to remove shall become Landlord's property and shall be surrendered to Landlord upon the expiration or earlier termination of the Lease, except that Tenant may remove any of Tenant's machinery or equipment which can be removed without material damage to the Property. Tenant shall repair, at Tenant's expense, any damage to the Property caused by the removal of any such machinery or equipment. In no event, however, shall Tenant remove any of the following materials or equipment (which shall be deemed Landlord's property) without Landlord's prior written consent: any power wiring or power panels; lighting or lighting fixtures; wall coverings; drapes, blinds or other window coverings; carpets or other floor coverings; heaters, air conditioners or any other heating or air conditioning equipment; fencing or security gates; or other similar building operating equipment and decorations.

ARTICLE SEVEN: DAMAGE OR DESTRUCTION

Section 7.01. PARTIAL DAMAGE TO PROPERTY.

(a) Tenant shall notify Landlord in writing immediately upon the occurrence of any damage to the Property. If the Property is only partially damaged (i.e., less than fifty percent (50%) of the Property is untenable as a result of such damage or less than fifty percent (50%) of Tenant's operations are materially impaired) and if the proceeds received by Landlord from the insurance policies described in Paragraph 4.04(b) are sufficient to pay for the necessary repairs, this Lease shall remain in effect and Landlord shall repair the damage as soon as reasonably possible. Landlord may elect (but is not required) to repair any damage to Tenant's fixtures, equipment, or improvements.

(b) If the insurance proceeds received by Landlord are not sufficient to pay the entire cost of repair, or if the cause of the damage is not covered by the insurance policies which Landlord maintains under Paragraph 4.04(b), Landlord may elect either to (i) repair the damage as soon as reasonably possible, in which case this Lease shall remain in full force and effect, or (ii) terminate this Lease as of the date the damage occurred. Landlord shall notify Tenant within thirty (30) days after receipt of notice of the occurrence of the damage whether Landlord elects to repair the damage or terminate the Lease. If Landlord elects to repair the damage, Tenant shall pay Landlord the "deductible amount" (if any) under Landlord's insurance policies and, if the damage was due to an act or omission of Tenant, or Tenant's employees, agents, contractors or invitees, the difference between the actual cost of repair and any insurance proceeds received by Landlord. If Landlord elects to terminate the Lease, Tenant may elect to continue this Lease in full force and effect, in which case Tenant shall repair any damage to the Property and any building in which the Property is located. Tenant shall pay the cost of such repairs, except that upon satisfactory completion of such repairs, Landlord shall deliver to Tenant any insurance proceeds received by Landlord for the damage repaired by Tenant. Tenant shall give Landlord written notice of such election within ten (10) days after receiving Landlord's termination notice.

(c) If the damage to the Property occurs during the last six (6) months of the Lease Term and such damage will require more than thirty (30) days to repair, either Landlord or Tenant may elect to terminate this Lease as of the date the damage occurred, regardless of the sufficiency of any insurance proceeds. The party electing to terminate this Lease shall give written notification to the other party of such election within thirty (30) days after Tenant's notice to Landlord of the occurrence of the damage.

Section 7.02. SUBSTANTIAL OR TOTAL DESTRUCTION. If the Property is substantially or totally destroyed by any cause whatsoever (i.e., the damage to the Property is greater than partial damage as described in Section 7.01), and regardless of whether Landlord receives any insurance proceeds, this Lease shall terminate as of the date the destruction occurred. Notwithstanding the preceding sentence, if the Property can be rebuilt within six (6) months after the date of

destruction, Landlord may elect to rebuild the Property at Landlord's own expense, in which case this Lease shall remain in full force and effect. Landlord shall notify Tenant of such election within thirty (30) days after Tenant's notice of the occurrence of total or substantial destruction. If Landlord so elects, Landlord shall rebuild the Property at Landlord's sole expense, except that if the destruction was caused by an act or omission of Tenant, Tenant shall pay Landlord the difference between the actual cost of rebuilding and any insurance proceeds received by Landlord.

Section 7.03. TEMPORARY REDUCTION OF RENT. If the Property is destroyed or damaged and Landlord or Tenant repairs or restores the Property pursuant to the provisions of this Article Seven, any rent payable during the period of such damage, repair and/or restoration shall be reduced according to the degree, if any, to which Tenant's use of the Property is impaired. However, the reduction shall not exceed the sum of one year's payment of Base Rent, insurance premiums and real property taxes. Except for such possible reduction in Base Rent, insurance premiums and real property taxes, Tenant shall not be entitled to any compensation, reduction, or reimbursement from Landlord as a result of any damage, destruction, repair, or restoration of or to the Property.

7

8

Section 7.04. WAIVER. Tenant waives the protection of any statute, code or judicial decision which grants a tenant the right to terminate a lease in the event of the substantial or total destruction of the leased property. Tenant agrees that the provisions of Section 7.02 above shall govern the rights and obligations of Landlord and Tenant in the event of any substantial or total destruction to the Property.

ARTICLE EIGHT: CONDEMNATION

If all or any portion of the Property is taken under the power of eminent domain or sold under the threat of that power (all of which are called "Condemnation"), this Lease shall terminate as to the part taken or sold on the date the condemning authority takes title or possession, whichever occurs first. If more than twenty percent (20%) of the floor area of the building in which the Property is located, or which is located on the Property, is taken, either Landlord or Tenant may terminate this Lease as of the date the condemning authority takes title or possession, by delivering written notice to the other within ten (10) days after receipt of written notice of such taking (or in the absence of such notice, within ten (10) days after the condemning authority takes title or possession). If neither Landlord nor Tenant terminates this Lease, this Lease shall remain in effect as to the portion of the Property not taken, except that the Base Rent and Additional Rent shall be reduced in proportion to the reduction in the floor area of the Property. Any Condemnation award or payment shall be distributed in the following order: (a) first, to any ground lessor, mortgagee or beneficiary under a deed of trust encumbering the Property, the amount of its interest in the Property; (b) second, to Tenant, only the amount of any award specifically designated for loss of or damage to Tenant's trade fixtures or removable personal property; and (c) third, to Landlord, the remainder of such award, whether as compensation for reduction in the value of the leasehold, the taking of the fee, or otherwise. If this Lease is not terminated, Landlord shall repair any damage to the Property caused by the Condemnation, except that Landlord shall not be obligated to repair any damage for which Tenant has been reimbursed by the condemning authority. If the severance damages received by Landlord are not sufficient to pay for such repair, Landlord shall have the right to either terminate this Lease or make such repair at Landlord's expense.

ARTICLE NINE: ASSIGNMENT AND SUBLETTING

Section 9.01. LANDLORD'S CONSENT REQUIRED. No portion of the Property or of Tenant's interest in this Lease may be acquired by any other person or entity, whether by sale, assignment, mortgage, sublease, transfer, operation of

law, or act of Tenant, without Landlord's prior written consent, except as provided in Section 9.02 below. Landlord has the right to grant or withhold its consent as provided in Section 9.05 below. Any attempted transfer without consent shall be void and shall constitute a non-curable breach of this Lease.

Section 9.02. TENANT AFFILIATE. Tenant may assign this Lease or sublease the Property, without Landlord's consent, to any corporation which controls, is controlled by or is under common control with Tenant, or to any corporation resulting from the merger of or consolidation with Tenant ("Tenant's Affiliate"). In such case, any Tenant's Affiliate shall assume in writing all of Tenant's obligations under this Lease.

Section 9.03. NO RELEASE OF TENANT. No transfer permitted by this Article Nine, whether with or without Landlord's consent, shall release Tenant or change Tenant's primary liability to pay the rent and to perform all other obligations of Tenant under this Lease. Landlord's acceptance of rent from any other person is not a waiver of any provision of this Article Nine. Consent to one transfer is not a consent to any subsequent transfer. If Tenant's transferee defaults under this Lease, Landlord may proceed directly against Tenant without pursuing remedies against the transferee. Landlord may consent to subsequent assignments or modifications of this Lease by Tenant's transferee, without notifying Tenant or obtaining its consent. Such action shall not relieve Tenant's liability under this Lease.

Section 9.04. OFFER TO TERMINATE. If Tenant desires to assign the Lease or sublease the Property, Tenant shall have the right to offer, in writing, to terminate the Lease as of a date specified in the offer. If Landlord elects in writing to accept the offer to terminate within twenty (20) days after notice of the offer, the Lease shall terminate as of the date specified and all the terms and provisions of the Lease governing termination shall apply. If Landlord does not so elect, the Lease shall continue in effect until otherwise terminated and the provisions of Section 9.05 with respect to any proposed transfer shall continue to apply.

Section 9.05. LANDLORD'S CONSENT.

(a) Tenant's request for consent to any transfer described in Section 9.01 shall set forth in writing the details of the proposed transfer, including the name, business and financial condition of the prospective transferee. financial details of the proposed transfer (e.g., the term of and the rent and security deposit payable under any proposed assignment or sublease), and any other information Landlord deems relevant. Landlord shall have the right to withhold consent, if reasonable, or to grant consent, based on the following factors: (i) the business of the proposed assignee or subtenant and the proposed use of the Property; (ii) the net worth and financial reputation of the proposed assignee or subtenant; (iii) Tenant's compliance with all of its obligations under the Lease; and (iv) such other factors as Landlord may reasonably deem relevant. If Landlord objects to a proposed assignment solely because of the net worth and/or financial reputation of the proposed assignee, Tenant may nonetheless sublease (but not assign), all or a portion of the Property to the proposed transferee, but only on the other terms of the proposed transfer.

(b) If Tenant assigns or subleases, the following shall apply:

(i) Tenant shall pay to Landlord as Additional Rent under the Lease the Landlord's Share (stated in Section 1.13) of the Profit (defined below) on such transaction as and when received by Tenant, unless Landlord gives written notice to Tenant and the assignee or subtenant that Landlord's Share shall be paid by the assignee or subtenant to Landlord directly. The "Profit" means (A) all amounts paid to Tenant for such assignment or sublease, including "key" money, monthly rent in excess of the monthly rent payable under the Lease, and all fees and other consideration paid for the assignment or sublease, including fees under any collateral agreements, less (B) costs and expenses directly incurred by Tenant in connection with the execution and performance of such assignment or sublease for real estate broker's commissions and costs of renovation or construction of tenant improvements required under such assignment or sublease. Tenant is

entitled to recover such costs and expenses before Tenant is obligated to pay the Landlord's Share to Landlord. The Profit in the

8

9

case of a sublease of less than all the Property is the rent allocable to the subleased space as a percentage on a square footage basis.

(ii) Tenant shall provide Landlord a written statement certifying all amounts to be paid from any assignment or sublease of the Property within thirty (30) days after the transaction documentation is signed, and Landlord may inspect Tenant's books and records to verify the accuracy of such statement. On written request, Tenant shall promptly furnish to Landlord copies of all the transaction documentation, all of which shall be certified by Tenant to be complete, true and correct. Landlord's receipt of Landlord's Share shall not be a consent to any further assignment or subletting. The breach of Tenant's obligation under this Paragraph 9.05(b) shall be a material default of the Lease.

Section 9.06. NO MERGER. No merger shall result from Tenant's sublease of the Property under this Article Nine, Tenant's surrender of this Lease or the termination of this Lease in any other manner. In any such event, Landlord may terminate any or all subtenancies or succeed to the interest of Tenant as sublandlord under any or all subtenancies.

ARTICLE TEN: DEFAULTS; REMEDIES

Section 10.01. COVENANTS AND CONDITIONS. Tenant's performance of each of Tenant's obligations under this Lease is a condition as well as a covenant. Tenant's right to continue in possession of the Property is conditioned upon such performance. Time is of the essence in the performance of all covenants and conditions.

Section 10.02. DEFAULTS. Tenant shall be in material default under this Lease:

(a) If Tenant abandons the Property or if Tenant's vacation of the Property results in the cancellation of any insurance described in Section 4.04;

(b) If Tenant fails to pay rent or any other charge when due;

(c) If Tenant fails to perform any of Tenant's non-monetary obligations under this Lease for a period of thirty (30) days after written notice from Landlord; provided that if more than thirty (30) days are required to complete such performance, Tenant shall not be in default if Tenant commences such performance within the thirty (30)-day period and thereafter diligently pursues its completion. However, Landlord shall not be required to give such notice if Tenant's failure to perform constitutes a non-curable breach of this Lease. The notice required by this Paragraph is intended to satisfy any and all notice requirements imposed by law on Landlord and is not in addition to any such requirement.

(d) (i) If Tenant makes a general assignment or general arrangement for the benefit of creditors; (ii) if a petition for adjudication of bankruptcy or for reorganization or rearrangement is filed by or against Tenant and is not dismissed within thirty (30) days; (iii) if a trustee or receiver is appointed to take possession of substantially all of Tenant's assets located at the Property or of Tenant's interest in this Lease and possession is not restored to Tenant within thirty (30) days; or (iv) if substantially all of Tenant's assets located at the Property or of Tenant's interest in this Lease is subjected to attachment, execution or other judicial seizure which is not discharged within thirty (30) days. If a court of competent jurisdiction determines that any of

the acts described in this subparagraph (d) is not a default under this Lease, and a trustee is appointed to take possession (or if Tenant remains a debtor in possession) and such trustee or Tenant transfers Tenant's interest hereunder, then Landlord shall receive, as Additional Rent, the excess, if any, of the rent (or any other consideration) paid in connection with such assignment or sublease over the rent payable by Tenant under this Lease.

(e) If any guarantor of the Lease revokes or otherwise terminates, or purports to revoke or otherwise terminate, any guaranty of all or any portion of Tenant's obligations under the Lease. Unless otherwise expressly provided, no guaranty of the Lease is revocable.

Section 10.03. REMEDIES. On the occurrence of any material default by Tenant, Landlord may, at any time thereafter, with or without notice or demand and without limiting Landlord in the exercise of any right or remedy which Landlord may have:

(a) Terminate Tenant's right to possession of the Property by any lawful means, in which case this Lease shall terminate and Tenant shall immediately surrender possession of the Property to Landlord. In such event, Landlord shall be entitled to recover from Tenant all damages incurred by Landlord by reason of Tenant's default, including (i) the worth at the time of the award of the unpaid Base Rent, Additional Rent and other charges which Landlord had earned at the time of the termination; (ii) the worth at the time of the award of the amount by which the unpaid Base Rent, Additional Rent and other charges which Landlord would have earned after termination until the time of the award exceeds the amount of such rental loss that Tenant proves Landlord could have reasonably avoided; (iii) the worth at the time of the award of the amount by which the unpaid Base Rent, Additional Rent and other charges which Tenant would have paid for the balance of the Lease Term after the time of award exceeds the amount of such rental loss that Tenant proves Landlord could have reasonably avoided; and (iv) any other amount necessary to compensate Landlord for all the detriment proximately caused by Tenant's failure to perform its obligations under the Lease or which in the ordinary course of things would be likely to result therefrom, including, but not limited to, any costs or expenses Landlord incurs in maintaining or preserving the Property after such default, the cost of recovering possession of the Property, expenses of reletting, including necessary renovation or alteration of the Property, Landlord's reasonable attorneys' fees incurred in connection therewith, and any real estate commission paid or payable. As used in subparts (i) and (ii) above, the "worth at the time of the award" is computed by allowing interest on unpaid amounts at the rate of fifteen percent (15%) per annum, or such lesser amount as may then be the maximum lawful rate. As used in subpart (iii) above, the "worth at the time of the award" is computed by discounting such amount at the discount rate of the Federal Reserve Bank of San Francisco at the time of the award, plus one percent (1%). If Tenant has abandoned the Property, Landlord shall have the option of (i) retaking possession of the Property and recovering from Tenant the amount specified in this Paragraph 10.03(a), or (ii) proceeding under Paragraph 10.03(b);

(b) Maintain Tenant's right to possession, in which case this Lease shall continue in effect whether or not Tenant has abandoned the Property. In such event, Landlord shall be entitled to enforce all of Landlord's rights and remedies under this Lease, including the right to recover the rent as it becomes due;

(c) Pursue any other remedy now or hereafter available to Landlord under the laws or judicial decisions of the state to which the Property is located.

Section 10.04. REPAYMENT OF "FREE" RENT. If this Lease provides for a postponement of any monthly rental payments, a period of "free" rent or other rent concession, such postponed rent or "free" rent is called the "Abated Rent". Tenant shall

be credited with having paid all of the Abated Rent on the expiration of the Lease Term only if Tenant has fully, faithfully, and punctually performed all of Tenant's obligations hereunder, including the payment of all rent (other than the Abated Rent) and all other monetary obligations and the surrender of the Property in the physical condition required by this Lease. Tenant acknowledges that its right to receive credit for the Abated Rent is absolutely conditioned upon Tenant's full, faithful and punctual performance of its obligations under this Lease. If Tenant defaults and does not cure within any applicable grace period, the Abated Rent shall immediately become due and payable in full and this Lease shall be enforced as if there were no such rent abatement or other rent concession. In such case Abated Rent shall be calculated based on the full initial rent payable under this Lease.

Section 10.05. AUTOMATIC TERMINATION. Notwithstanding any other term or provision hereof to the contrary, the Lease shall terminate on the occurrence of any act which affirms the Landlord's intention to terminate the Lease as provided in Section 10.03 hereof, including the filing of an unlawful detainer action against Tenant. On such termination, Landlord's damages for default shall include all costs and fees, including reasonable attorneys' fees that Landlord incurs in connection with the filing commencement, pursuing and/or defending of any action in any bankruptcy court or other court with respect to the Lease, the obtaining of relief from any stay in bankruptcy restraining any action to evict Tenant; or the pursuing of any action with respect to Landlord's right to possession of the Property. All such damages suffered (apart from Base Rent and other rent payable hereunder) shall constitute pecuniary damages which must be reimbursed to Landlord prior to assumption of the Lease by Tenant or any successor to Tenant in any bankruptcy or other proceeding.

Section 10.06. CUMULATIVE REMEDIES. Landlord's exercise of any right or remedy shall not prevent it from exercising any other right or remedy.

ARTICLE ELEVEN: PROTECTION OF LENDERS

Section 11.01. SUBORDINATION. Landlord shall have the right to subordinate this Lease to any ground lease, deed of trust or mortgage encumbering the Property, any advances made on the security thereof and any renewals, modifications, consolidations, replacements or extensions thereof, whenever made or recorded. Tenant shall cooperate with Landlord and any lender which is acquiring a security interest in the Property or the Lease. Tenant shall execute such further documents and assurances as such lender may require, provided that Tenant's obligations under this Lease shall not be increased in any material way (the performance of ministerial acts shall not be deemed material), and Tenant shall not be deprived of its rights under this Lease. Tenant's right to quiet possession of the Property during the Lease Term shall not be disturbed if Tenant pays the rent and performs all of Tenant's obligations under this Lease and is not otherwise in default. If any ground lessor, beneficiary or mortgagee elects to have this Lease prior to the lien of its ground lease, deed of trust or mortgage and gives written notice thereof to Tenant, this Lease shall be deemed prior to such ground lease, deed of trust or mortgage whether this Lease is dated prior or subsequent to the date of said ground lease, deed of trust or mortgage or the date of recording thereof.

Section 11.02. ATTORNMEN. If Landlord's interest in the Property is acquired by any ground lessor, beneficiary under a deed of trust, mortgagee, or purchaser at a foreclosure sale, Tenant shall attorn to the transferee of or successor to Landlord's interest in the Property and recognize such transferee or successor as Landlord under this Lease. Tenant waives the protection of any statute or rule of law which gives or purports to give Tenant any right to terminate this Lease or surrender possession of the Property upon the transfer of Landlord's interest.

Section 11.03. SIGNING OF DOCUMENTS. Tenant shall sign and deliver any instrument or documents necessary or appropriate to evidence any such attornment or subordination or agreement to do so. If Tenant fails to do so within ten (10) days after written request, Tenant hereby makes, constitutes and irrevocably

appoints Landlord, or any transferee or successor of Landlord, the attorney-in-fact of Tenant to execute and deliver any such instrument or document.

Section 11.04. ESTOPPEL CERTIFICATES.

(a) Upon Landlord's written request, Tenant shall execute, acknowledge and deliver to Landlord a written statement certifying: (i) that none of the terms or provisions of this Lease have been changed (or if they have been changed, stating how they have been changed); (ii) that this Lease has not been cancelled or terminated; (iii) the last date of payment of the Base Rent and other charges and the time period covered by such payment; (iv) that Landlord is not in default under this Lease (or, if Landlord is claimed to be in default, stating why); and (v) such other representations or information with respect to Tenant or the Lease as Landlord may reasonably request or which any prospective purchaser or encumbrancer of the Property may require. Tenant shall deliver such statement to Landlord within ten (10) days after Landlord's request. Landlord may give any such statement by Tenant to any prospective purchaser or encumbrancer of the Property. Such purchaser or encumbrancer may rely conclusively upon such statement as true and correct.

(b) If Tenant does not deliver such statement to Landlord within such ten (10)-day period, Landlord, and any prospective purchaser or encumbrancer, may conclusively presume and rely upon the following facts: (i) that the terms and provisions of this Lease have not been changed except as otherwise represented by Landlord; (ii) that this Lease has not been cancelled or terminated except as otherwise represented by Landlord; (iii) that not more than one month's Base Rent or other charges have been paid in advance; and (iv) that Landlord is not in default under the Lease. In such event, Tenant shall be estopped from denying the truth of such facts.

Section 11.05. TENANT'S FINANCIAL CONDITION. Within thirty (30) days after written request from Landlord, Tenant shall deliver to Landlord such Publicly available financial statements as Landlord reasonably requires to verify the net worth of Tenant or any assignee, subtenant, or guarantor of Tenant. In addition, Tenant shall deliver to any lender designated by Landlord any publicly available financial statements required by such lender to facilitate the financing or refinancing of the Property. Tenant represents and warrants to Landlord that each such financial statement is a true and accurate statement as of the date of such statement. All financial statements shall be confidential and shall be used only for the purposes set forth in this Lease.

ARTICLE TWELVE: LEGAL COSTS

Section 12.01. LEGAL PROCEEDINGS. If Tenant or Landlord shall be in breach or default under this Lease, such party (the "Defaulting Party") shall reimburse the other party (the "Nondefaulting Party") upon demand for any costs or expenses that the Nondefaulting Party incurs in connection with any breach or default of the Defaulting Party under this Lease, whether or not suit is commenced or judgment entered. Such costs shall include legal fees and costs incurred for the negotiation of a

settlement, enforcement of rights or otherwise. Furthermore, if any action for breach of or to enforce the provisions of this Lease is commenced, the court in such action shall award to the party in whose favor a judgment is entered, a reasonable sum as attorneys' fees and costs. The losing party in such action shall pay such attorneys' fees and costs. Tenant shall also indemnify Landlord against and hold Landlord harmless from all costs, expenses, demands and liability Landlord may incur if Landlord becomes or is made a party to any claim or action (a) instituted by Tenant against any third party, or by any third party against Tenant, or by or against any person holding any interest under or using the Property by license of or agreement with Tenant; (b) for foreclosure

of any lien for labor or material furnished to or for Tenant or such other person; (c) otherwise arising out of or resulting from any act or transaction of Tenant or such other person; or (d) necessary to protect Landlord's interest under this Lease in a bankruptcy proceeding, or other proceeding under Title 11 of the United States Code, as amended. Tenant shall defend Landlord against any such claim or action at Tenant's expense with counsel reasonably acceptable to Landlord or, at Landlord's election, Tenant shall reimburse Landlord for any legal fees or costs Landlord incurs in any such claim or action.

Section 12.02. LANDLORD'S CONSENT. Tenant shall pay Landlord's reasonable attorneys' fees incurred in connection with Tenant's request for Landlord's consent under Article Nine (Assignment and Subletting), or in connection with any other act which Tenant proposes to do and which requires Landlord's consent.

ARTICLE THIRTEEN: MISCELLANEOUS PROVISIONS

Section 13.01. NON-DISCRIMINATION. Tenant promises, and it is a condition to the continuance of this Lease, that there will be no discrimination against, or segregation of, any person or group of persons on the basis of race, color, sex, creed, national origin or ancestry in the leasing, subleasing, transferring, occupancy, tenure or use of the Property or any portion thereof.

Section 13.02. LANDLORD'S LIABILITY; CERTAIN DUTIES.

(a) As used in this Lease, the term "Landlord" means only the current owner or owners of the fee title to the Property or Project or the leasehold estate under a ground lease of the Property or Project at the time in question. Each Landlord is obligated to perform the obligations of Landlord under this Lease only during the time such Landlord owns such interest or title. Any Landlord who transfers its title or interest is relieved of all liability with respect to the obligations of Landlord under this Lease to be performed on or after the date of transfer. However, each Landlord shall deliver to its transferee all funds that Tenant previously paid if such funds have not yet been applied under the terms of this Lease.

(b) Tenant shall give written notice of any failure by Landlord to perform any of its obligations under this Lease to Landlord and to any ground lessor, mortgagee or beneficiary under any deed of trust encumbering the Property whose name and address have been furnished to Tenant in writing. Landlord shall not be in default under this Lease unless Landlord (or such ground lessor, mortgagee or beneficiary) fails to cure such non-performance within thirty (30) days after receipt of Tenant's notice. However, if such non-performance reasonably requires more than thirty (30) days to cure, Landlord shall not be in default if such cure is commenced within such thirty (30)-day period and thereafter diligently pursued to completion.

(c) Notwithstanding any term or provision herein to the contrary, the liability of Landlord for the performance of its duties and obligations under this Lease is limited to Landlord's interest in the Property and the Project, and neither the Landlord nor its partners, shareholders, officers or other principals shall have any personal liability under this Lease.

Section 13.03. SEVERABILITY. A determination by a court of competent jurisdiction that any provision of this Lease or any part thereof is illegal or unenforceable shall not cancel or invalidate the remainder of such provision or this Lease, which shall remain in full force and effect.

Section 13.04. INTERPRETATION. The captions of the Articles or Sections of this Lease are to assist the parties in reading this Lease and are not a part of the terms or provisions of this Lease. Whenever required by the context of this Lease, the singular shall include the plural and the plural shall include the singular. The masculine, feminine and neuter genders shall each include the other. In any provision relating to the conduct, acts or omissions of Tenant, the term "Tenant" shall include Tenant's agents, employees, contractors, invitees, successors or others using the Property with Tenant's expressed or implied permission.

Section 13.05. INCORPORATION OF PRIOR AGREEMENTS; MODIFICATIONS. This Lease is the only agreement between the parties pertaining to the lease of the Property and no other agreements are effective. All amendments to this Lease shall be in writing and signed by all parties. Any other attempted amendment shall be void.

Section 13.06. NOTICES. All notices required or permitted under this Lease shall be in writing and shall be personally delivered or sent by certified mail, return receipt requested, postage prepaid. Notices to Tenant shall be delivered to the address specified in Section 1.03 above, except that upon Tenant's taking possession of the Property, the Property shall be Tenant's address for notice purposes. Notices to Landlord shall be delivered to the address specified in Section 1.02 above. All notices shall be effective upon delivery. Either party may change its notice address upon written notice to the other party.

Section 13.07. WAIVERS. All waivers must be in writing and signed by the waiving party. Landlord's failure to enforce any provision of this Lease or its acceptance of rent shall not be a waiver and shall not prevent Landlord from enforcing that provision or any other provision of this Lease in the future. No statement on a payment check from Tenant or in a letter accompanying a payment check shall be binding on Landlord. Landlord may, with or without notice to Tenant, negotiate such check without being bound to the conditions of such statement.

Section 13.08. NO RECORDATION. Tenant shall not record this Lease without prior written consent from Landlord. However, either Landlord or Tenant may require that a "Short Form" memorandum of this Lease executed by both parties be recorded. The party requiring such recording shall pay all transfer taxes and recording fees.

Section 13.09. BINDING EFFECT; CHOICE OF LAW. This Lease binds any party who legally acquires any rights or interest in this Lease from Landlord or Tenant. However, Landlord shall have no obligation to Tenant's successor unless the rights or interests of Tenant's successor are acquired in accordance with the terms of this Lease. The laws of the state in which the Property is located shall govern this Lease.

Section 13.10. CORPORATE AUTHORITY; PARTNERSHIP AUTHORITY. If Tenant is a corporation, each person signing this Lease on behalf of Tenant represents and warrants that he has full authority to do so and that this Lease binds the corporation. Within thirty (30) days after this Lease is signed, Tenant shall deliver to Landlord a certified copy of a resolution of Tenant's Board of Directors authorizing the execution of this Lease or other evidence of such authority reasonably acceptable to Landlord. If Tenant is a partnership, each person or entity signing this Lease for Tenant represents and warrants that he or it is a general

11

12
partner of the partnership, that he or it has full authority to sign for the partnership and that this Lease binds the partnership and all general partners of the partnership. Tenant shall give written notice to Landlord of any general partner's withdrawal or addition. Within thirty (30) days after this Lease is signed, Tenant shall deliver to Landlord a copy of Tenant's recorded statement of partnership or certificate of limited partnership.

Section 13.11. JOINT AND SEVERAL LIABILITY. All parties signing this Lease as Tenant shall be jointly and severally liable for all obligations of Tenant.

Section 13.12. FORCE MAJEURE. If Landlord cannot perform any of its obligations due to events beyond Landlord's control, the time provided for performing such obligations shall be extended by a period of time equal to the duration of such events. Events beyond Landlord's control include, but are not limited to, acts of God, war, civil commotion, labor disputes, strikes, fire,

flood or other casualty, shortages of labor or material, government regulation or restriction and weather conditions.

Section 13.13. EXECUTION OF LEASE. This Lease may be executed in counterparts and, when all counterpart documents are executed, the counterparts shall constitute a single binding instrument. Landlord's delivery of this Lease to Tenant shall not be deemed to be an offer to lease and shall not be binding upon either party until executed and delivered by both parties.

Section 13.14. SURVIVAL. All representations and warranties of Landlord and Tenant shall survive the termination of this Lease.

ARTICLE FOURTEEN: BROKERS

Section 14.01. BROKER'S FEE. When this Lease is signed by and delivered to both Landlord and Tenant, Landlord shall pay a real estate commission to Landlord's Broker named in Section 1.08 above, if any, as provided in the written agreement between Landlord and Landlord's Broker, or the sum stated in Section 1.09 above for services rendered to Landlord by Landlord's Broker in this transaction. Landlord shall pay Landlord's Broker a commission if Tenant exercises any option to extend the Lease Term or to buy the Property, or any similar option or right which Landlord may grant to Tenant, or if Landlord's Broker is the procuring cause of any other lease or sale entered into between Landlord and Tenant covering the Property. Such commission shall be the amount set forth in Landlord's Broker's commission schedule in effect as of the execution of this Lease. If a Tenant's Broker is named in Section 1.08 above, Landlord's Broker shall pay an appropriate portion of its commission to Tenant's Broker if so provided in any agreement between Landlord's Broker and Tenant's Broker. Nothing contained in this Lease shall impose any obligation on Landlord to pay a commission or fee to any party other than Landlord's Broker.

Section 14.02. PROTECTION OF BROKERS. If Landlord sells the Property, or assigns Landlord's interest in this Lease, the buyer or assignee shall, by accepting such conveyance of the Property or assignment of the Lease, be conclusively deemed to have agreed to make all payments to Landlord's Broker thereafter required of Landlord under this Article Fourteen. Landlord's Broker shall have the right to bring a legal action to enforce or declare rights under this provision. The prevailing party in such action shall be entitled to reasonable attorneys' fees to be paid by the losing party. Such attorneys' fees shall be fixed by the court in such action. This Paragraph is included in this Lease for the benefit of Landlord's Broker.

Section 14.03. AGENCY DISCLOSURE; NO OTHER BROKERS. Landlord and Tenant each warrant that they have dealt with no other real estate broker(s) in connection with this transaction except: CB COMMERCIAL, who represents Lessor Richard Ellis and Colliers, who represents Lessee.

In the event that CB COMMERCIAL REAL ESTATE GROUP, INC. represents both Landlord and Tenant, Landlord and Tenant hereby confirm that they were timely advised of the dual representation and that they consent to the same, and that they do not expect said broker to disclose to either of them the confidential information of the other party.

ARTICLE FIFTEEN: COMPLIANCE

The parties hereto agree to comply with all applicable federal, state and local laws, regulations, codes, ordinances and administrative orders having jurisdiction over the parties, property or the subject matter of this Agreement, including, but not limited to, the 1964 Civil Rights Act and all amendments thereto, the Foreign Investment In Real Property Tax Act, the Comprehensive Environmental Response Compensation and Liability Act, and The Americans With Disabilities Act.

ADDITIONAL PROVISIONS MAY BE SET FORTH IN A RIDER OR RIDERS ATTACHED HERETO OR IN THE BLANK SPACE BELOW. IF NO ADDITIONAL PROVISIONS ARE INSERTED, PLEASE DRAW A LINE THROUGH THE SPACE BELOW.

Landlord and Tenant have signed this Lease at the place and on the dates specified adjacent to their signatures below and have initialled all Riders which are attached to or incorporated by reference in this Lease.

"LANDLORD"

Signed on _____, 19 _____ PACIFIC GULF PROPERTIES, INC.

at _____ a Maryland corporation

By: _____
ROBERT A. DEWEY

Its: Senior Vice President

By: _____
J.R. WETZEL

Its: Executive Vice President

"TENANT"

Signed on _____, 19 _____ NATURAL ALTERNATIVES INTERNATIONAL, INC.

at _____ a Delaware corporation

By: /s/ MARK A. LeDOUX

MARK A. LeDOUX

Its: C.E.O.

By: _____

Its: _____

IN ANY REAL ESTATE TRANSACTION, IT IS RECOMMENDED THAT YOU CONSULT WITH A PROFESSIONAL, SUCH AS A CIVIL ENGINEER, INDUSTRIAL HYGIENIST OR OTHER PERSON WITH EXPERIENCE IN EVALUATING THE CONDITION OF THE PROPERTY, INCLUDING THE POSSIBLE PRESENCE OF ASBESTOS, HAZARDOUS MATERIALS AND UNDERGROUND STORAGE TANKS.

THIS PRINTED FORM LEASE HAS BEEN DRAFTED BY LEGAL COUNSEL AT THE DIRECTION OF THE SOUTHERN CALIFORNIA CHAPTER OF THE SOCIETY OF INDUSTRIAL AND OFFICE REALTORS(R), INC. NO REPRESENTATION OR RECOMMENDATION IS MADE BY THE SOUTHERN CALIFORNIA CHAPTER OF THE SOCIETY OF INDUSTRIAL AND OFFICE REALTORS(R), INC., ITS LEGAL COUNSEL, THE REAL ESTATE BROKERS NAMED HEREIN, OR THEIR EMPLOYEES OR AGENTS, AS TO THE LEGAL SUFFICIENCY, LEGAL EFFECT OR TAX CONSEQUENCES OF THIS LEASE OR OF THIS TRANSACTION. LANDLORD AND TENANT SHOULD

RETAIN LEGAL COUNSEL TO ADVISE THEM ON SUCH MATTERS AND SHOULD RELY UPON THE ADVICE OF SUCH LEGAL COUNSEL.

13

14

ADDENDUM

THIS ADDENDUM IS ATTACHED TO AND MADE PART OF THE LEASE DATED July 17, 1998 BY AND BETWEEN: PACIFIC GULF PROPERTIES, INC., a Maryland corporation as LESSOR, and NATURAL ALTERNATIVES INTERNATIONAL, INC., a Delaware corporation as LESSEE, for the premises located at 1215 Park Center Dr., Suites C/D/E, Vista, CA 92083. Should there be a conflict between the preceding 15 articles and the provisions of this Addendum, the provisions of the Addendum shall prevail.

49. TRASH DISPOSAL: Lessee agrees that all trash and debris is to be deposited in trash bins provided within the complex and all trash bins shall remain inside enclosures as provided by Lessor. If it is determined that Lessee is regularly disposing of an unusually large amount of refuse, Lessee shall, within ten (10) days receipt of written notice from Lessor and at Lessee's sole expense, provide for an additional trash bin and pickup service at his or her leased premises. Lessor reserves the right to stipulate location of storage for Lessee's additional bin. Lessee agrees not to store any items or leave any debris outside premises in any of the common area, including the parking lot and in the event Lessor must remove items or debris, Lessor shall charge the cost of removing said items or debris to Lessee, and Lessee shall pay same upon removal or be in default of this Lease as defined in Paragraph 13 of this Lease.

50. GOVERNMENTAL AUTHORITY COMPLIANCE: Lessee shall, Lessee's expense, comply promptly with all governmental authorities and all applicable statutes, ordinances, rules, regulations, orders, covenants, and restrictions of record, and requirements in effect during the term or any part of the term hereof, regulating the use by Lessee of the Premises, including compliance with the Uniform Fire Code.

51. WAIVER OF JURY TRIAL: The parties hereto shall and they hereby do waive trial by jury in any action, proceeding or counterclaim brought by either of the parties hereto against the other on any matters whatsoever arising out of or in any way related to this Lease, the relationship of Lessor and Lessee, Lessee's use or occupancy of the Premises, the building or the Park, and/or any claim of injury, loss or damage.

52. COUNTERCLAIMS: In the event Lessor commences any proceedings for nonpayment of Rent, or any other sums or amounts due hereunder, Lessee shall not interpose any counterclaim of whatever nature or description in any such proceedings, provided, however, nothing contained herein shall be deemed or construed as a waiver of the Lessee's right to assert such claims in any separate action brought by Lessee or the right to offset the amount of any final judgment owed by Lessor to Lessee.

53. WARRANTY OF AUTHORITY: Each person executing this agreement on behalf of a party represents and warrants that (1) such person is duly and validly authorized to do so on behalf of the entity it purports to so bind, and (2) if such party is a partnership, corporation or trustee, that such partnership, corporation or trustee has full right and authority to enter into this Lease and perform all of its obligations hereunder.

54. LESSOR'S PERSONAL LIABILITY: The liability of Lessor (which, for purposes of this Lease, shall include Lessor and the owner of the Building if other than Lessor) to Lessee for any default by Lessor under the terms of this Lease shall be limited to the actual interest of Lessor and its present or future partners in the Premises or the Building and Lessee agrees to look solely to the Premises for satisfaction of any liability and shall not look to other assets of Lessor nor seek any recourse against the assets of the individual partners,

directors, officers, shareholders, agents or employees of Lessor; it being intended that Lessor and the individual partners, directors, officers, shareholders, agents or employees of Lessor shall not be personally liable in any manner whatsoever for any judgement or deficiency. The liability of Lessor under this Lease is limited to its actual period of ownership of title to the Building, and Lessor shall be automatically released from further performance under this Lease and from all further liabilities and expenses hereunder upon transfer of Lessor's interest in the Premises or the Building. Lessee agrees to attorn to any entity purchasing or otherwise acquiring the Premises.

55. RECORDATION: Lessee shall not record this Lease or a short form memorandum hereof without the prior written consent of the Lessor.

56. WARRANTIES OF LESSEE: Lessee hereby warrants and represents to Lessor, for the express benefit of Lessor, that Lessee has undertaken a complete and independent evaluation of the risks inherent in the execution of this Lease and the operation of the Premises for the use permitted hereby, and that, based upon said independent evaluation, Lessee has elected to enter into this Lease and hereby assumes all risks with respect thereto. Lessee hereby further warrants and represents to Lessor, for the express benefit of Lessor, that in entering into this Lease, Lessee has not relied upon any statement, fact, promise or representation (whether express or implied, written or oral) not specifically set forth herein in writing and that any statement, fact, promise or representation (whether express or implied, written or oral) made at anytime to Lessee, which is not expressly incorporated herein in writing is hereby waived by Lessee.

15

ADDENDUM
Page two

57. MODIFICATIONS FOR LENDER: If, in connection with obtaining financing for the Premises or any portion thereof, Lessor's lender shall request reasonable modifications(s) to this Lease as a condition to such financing, Lessee shall not unreasonably withhold, delay or defer its consent thereto, provided such modifications do not materially adversely affect Lessee's rights hereunder or the use, occupancy or quiet enjoyment of Lessee hereunder.

58. LESSOR AS REAL ESTATE INVESTMENT TRUST: Pacific Gulf Properties, Inc. ("PGP"), is a real estate investment trust, and all rental income received by Lessor must therefore qualify as "rents from real property" within the meaning of section 856(d) of the Internal Revenue Code of 1954, as amended. In order to insure such qualifications, Lessee agrees that in the event Lessee shall assign its interest in this Lease or sublet the Premises, no amount received or accrued, directly or indirectly, with respect to such assignment or sublease shall depend in whole or part on the income or profits of the assignee or sublessee, or any other person deriving income from the Premises. If PGP notifies Lessee that PGP has in good faith determined that its status as a real estate investment trust under the provisions of the Internal Revenue Code of 1954, as heretofore or hereafter amended, will be jeopardized because of any provision of this Lease, Lessor may request reasonable amendments to this Lease and Lessee will not unreasonably withhold, delay or defer its consent thereto, provided that such notifications do not (i) increase the monetary obligations of Lessee pursuant to this Lease, or (ii) in any other manner adversely affect its interest in the premises.

59. MONTHLY RENT: The monthly rental rate shall be as follows:

8/8/98 - 8/31/99	\$24,803.00
9/1/99 - 8/31/00	\$25,795.00
9/1/00 - 8/31/01	\$26,827.00
9/1/02 - 8/31/02	\$27,900.00
9/1/02 - 8/31/03	\$29,016.00

60. COMMON AREA OPERATING EXPENSES (CAO): CAO charges are estimated at \$.09PSF and shall be paid monthly as additional rent. For the first twelve (12) months,

CAO charges are estimated at \$4853.00/MO. These charges are defined in Article 4.

61. SECURITY DEPOSIT: The security deposit owing on this Lease Agreement is \$24,803.00. If, at the end of the twenty-fourth (24") month, Lessee has never been in default of this Lease Agreement, Lessor shall apply the security deposit to the rent owing for the twenty-fifth (25") month.

LESSOR IMPROVEMENTS: In consideration of the execution of this Lease Agreement, Lessor shall at Lessor's sole cost and expense, provide the following:

- a. Remove all existing rooms within the warehouse area.
- b. Remove the vents in the warehouse.
- c. Repair the roof from any roof penetrations caused by the vents.
- d. All electrical, plumbing and HVAC shall be in reasonable working order.

Additionally, Lessor shall provide Lessee with a tenant improvement allowance of \$53,920.00. This amount will be processed after execution of this Lease Agreement.

All additional modifications, refurbishments and/or improvements shall be at Lessee's sole cost and expense.

63. LESSEE IMPROVEMENTS: Lessor acknowledges that Lessee shall be improving the existing office area and adding additional HVAC. Lessor shall approve all improvements to the premises. All work must be done by a licensed contractor and per all City of Vista codes and regulations.

64. OPTION FOR ADDITIONAL SPACE: Per the terms of their Lease, Hunter Industries has First Right of Refusal for additional space in Bldg. 1215 Park Center Drive. If Hunter Industries refuses the space, or additional space is available, Lessee then has the Right of Refusal for space in Bldg. 1215. Upon notification of Right of Refusal by Lessor, Lessee has five (5) business days to negotiate and accept or refuse the space. If Lessee refuses the space, Lessor has the right to market and lease the space to any prospective tenant, For a period of thirty (30) days from the date Lessee refuses the space, if Lessor offers the space to a prospective tenant at a rate lower than the offer to Lessee, Lessor must present same offer to Lessee. Lessee has three (3) business days to accept or refuse said offer.

65. ROOF REPLACEMENT: Lessor shall be responsible for the re-roofing of Bldg. 1215 with warranty for no less than 7 years. The exact date has not been determined, but is estimated to occur during the fiscal year 1999. Work is to be completed by a licensed roofing contractor and there shall be no unreasonable disruption of Lessee's work during the replacement time. Lessor and roofing contractor shall be responsible for any damage to NAI installed air handling equipment. Lessee shall not be responsible for roof maintenance until after roof is replaced.

66. OPTION TO EXTEND: Lessee shall have the option to extend the term of this Lease ("Option") on ALL OF the terms, conditions, covenants and provisions, contained in this Lease, except for the Monthly Rent, for two (2) additional terms of five (5) years following the Termination Date. Each Option Term shall commence on the day immediately following the Termination Date.

Lessee may exercise each Option by giving written notice of exercise of the Option to Lessor at least one hundred twenty (120) days before the Termination Date. If Lessee is in default on the date of giving the Option Notice, the Option Notice shall be totally ineffective. If the Option Notice is not given, the Option shall automatically expire and be of no further force or effect.

The Option granted to Lessee in this Lease is personal to the original Lessee and may be exercised only by the original Lessee while physically occupying the Premises. The Option may not be exercised or assigned, voluntarily or involuntarily, by or to any person or entity other than Lessee. Any consent by Lessor to an assignment of the Lease or a sublet of the Premises, or any portion thereof, shall not be construed as a waiver of this prohibition.

Monthly Rent during each Option period shall be at Fair Market Value, as determined by Lessor, at the time Lessor receives the Option Notice. In the event the Lessor and Lessee cannot agree on the new base rent, the matter shall be submitted for decision to a panel of three arbitrators. Lessor and Lessee shall each appoint one arbitrator who shall by profession be a licensed commercial real estate broker or an NAI real estate appraiser, and who shall be familiar with the premises Building and have been active in the brokering or appraisal of properties in an area within a three (3) mile radius of the Premises. Each such arbitrator shall be appointed within fifteen (15) days after Lessee's notice to Lessor of its election to have New Base Rent determined by this arbitration procedure. The two arbitrators so appointed shall within fifteen (15) days of the date of the appointment of the last appointed arbitrator agree upon and appoint a third arbitrator who shall be qualified under the same criteria set forth hereinabove for qualification of the initial two arbitrators. Failing such agreement, either Lessor or Lessee shall have the right to petition for the appointment of the third arbitrator by the Presiding Judge of the Superior Court of the County of San Diego. The three arbitrators shall within thirty (30) days of the appointment of the third arbitrator reach a decision as to whether the parties shall use Lessor's or Lessee's proposed New Base Rent, and shall notify Lessor and Lessee therefore. The decision of the majority of the three arbitrators shall be binding upon Lessor and Lessee. The cost of the arbitration shall be paid by Lessor and Lessee equally. In no event, shall the monthly rent for the Option term be less than a four percent (4%) increase over the previous year's monthly rent. Upon agreement to the terms of the Option, Lessor shall immediately execute an Extension of Lease Agreement. All rights of Lessee with respect to the Option shall terminate and be of no further force or effect if Lessor and Lessee do not come to agreement on the Option. Neither Lessor nor Lessee shall have the right to have a court or third party set the Monthly Rent.

17

EXHIBIT "A"
SITE PLAN

THIS EXHIBIT IS ATTACHED TO AND MADE PART OF THE LEASE DATED JULY 17, 1998 BY AND BETWEEN: PACIFIC GULF PROPERTIES, INC., a Maryland corporation as LESSOR and NATURAL ALTERNATIVES INTERNATIONAL, INC., a Delaware corporation as LESSEE, for the premises located at 1215 Park Center Drive, Suites C/D/E, Vista, CA 92083.

VISTA DISTRIBUTION CENTER

[SITE PLAN]

18

EXHIBIT "B"
RULES & REGULATIONS

THIS EXHIBIT IS ATTACHED TO AND MADE PART OF THE LEASE dated July 17, 1998, BY AND BETWEEN: PACIFIC GULF PROPERTIES, INC., a Maryland corporation as Lessor and NATURAL ALTERNATIVES INTERNATIONAL, INC., a Delaware corporation as LESSEE, for the premises located at 1215 Park Center Dr., Suites C/D/E, Vista, CA 92083.

1. Lessee shall be entitled to park in the vehicle parking spaces provided in Section 1.11 in common with other tenants of Lessor. Lessee agrees not to overburden the parking facilities and agrees to cooperate with Lessor and other tenants in the use of parking facilities. Lessor reserves the right in its absolute discretion to determine whether parking facilities are becoming crowded and, in such event, to allocate parking spaces among Tenants or to designate specific areas within which Lessee must park.
2. No automobile, recreational vehicle or equipment, other than Lessee's trucks, shall remain upon the common area longer than twenty-four (24) hours. No automobile, recreational vehicle, commercial vehicle and/or equipment may be dismantled, repaired, serviced, washed, waxed and/or cleaned within the common area.
3. Lessee shall not permit the obstruction of any Common Areas, including driveways, walkways and stairways.
4. Signs shall conform to Sign Criteria established from time-to-time by Lessor. No other signs, placards, A-Frames, pictures, advertisements, merchandise, balloons, names or notices shall be inscribed, displayed, printed or affixed on or to any part of the outside of the building and/or common areas, without the prior written consent of Lessor. Lessor shall have the right to remove any such non-conforming signs, placards, A-Frames, pictures, advertisements, merchandise, balloons, names and/or notices, at any time, without notice to Lessee and at the expense of Lessee.

No rooftop and/or ground level cold air balloons shall be displayed without prior written consent of Lessor. No parking lot sales shall be permitted, except at times and dates previously determined by Lessor and with prior written consent by Lessor.
5. No Lessee, employee and/or invitee shall go upon the roof of the building without Lessor's prior written consent.
6. Lessee is responsible for placing all garbage and refuse in the trash bins provided throughout the common area by Lessor. Trash bins are to remain in the trash enclosures provided by Lessor.

Lessee may contract for Lessee's own trash bin to be kept inside the leased premises. If Lessee is regularly disposing of an unusually large amount of trash, Lessee shall receive written notice from Lessor, and Lessee shall be required to contract for trash bin to be kept inside the leased premises.
7. Recycle bins are provided throughout the common area for all cardboard. All empty cardboard boxes are to be placed inside the recycle bins, not the regular trash bins.
8. No furniture, mattresses, large appliances, pallets, concrete, large

construction materials and/or oversized items of any kind are to be placed in the trash bins, in the trash enclosures, or on the ground anywhere in the common area. No trash, regardless of size, is to be left anywhere in the common area, except in the trash bins provided.

If Lessee is found to be in violation of this regulation, Lessor shall have the items picked up and placed in the bins, and/or hauled away, and Lessee shall be fined fifty dollars (\$50.00) for each occurrence and in addition, shall be charged the hauling fees.

9. No open storage shall be permitted anywhere within the common areas.
10. Lessee shall not install any radio or television antenna, satellite dish, loudspeaker, or other device on the roof or exterior walls of the building. No loudspeakers, televisions, phonographs, radios or other devices shall be used in such a way as to be heard or seen outside of the premises without the prior written consent of the Lessor.
11. No vending machine(s) of any description shall be installed, maintained or operated upon the common areas.

19

Rules & Regulations
Page two

12. No noxious or offensive trade or activity shall be carried on upon any units or any part of the common area, nor shall anything be done thereon which may be or which shall in any way interfere with the quiet enjoyment of each of the other tenants of the Center or which shall in any way increase the rate of insurance or overburden utility facilities from time-to-time existing in the Center.
13. The leased premises shall not be used for lodging or for any improper, immoral or objectionable purpose.

No cooking shall be done or permitted by Lessee on the Premises, except that use by Lessee of Underwriters Laboratory approved equipment for brewing coffee, tea, hot chocolate and/or similar beverages, which shall be permitted, provided that such equipment and use is in accordance with all applicable federal, state, county and city laws, codes, ordinances, rules and regulations. Lessee shall have the right to use microwave ovens and refrigerators to serve its employees and customers.
14. Shutters and/or blinds may be installed as window covers. No windows shall be covered with aluminum foil, newspapers or other material, not designed for use as a window cover.
15. There shall be no domestic animals allowed in or on the premises and/or common areas at any time, unless with Lessor's prior written consent. Lessor reserves the right to revoke said consent at any time.

* Lessor may waive any one or more of these Rules & Regulations for the benefit of Lessee, but no such waiver by Lessor shall be construed as a waiver of such Rules & Regulations in favor of Lessee, nor prevent Lessor from thereafter enforcing any such rules & Regulations against any or all of the Tenants in the Project.

* These Rules & Regulations are in addition to, and shall not be construed

to, in any way, modify or amend, in whole or in part, the terms, covenants, agreements and conditions of this Lease Agreement.

* Lessor reserves the right to change, rescind or to make such other and reasonable rules and regulations as in its judgement may from time to time be needed for safety and security, for care and cleanliness of the Project and/or for the preservation of good order therein.

* Lessee shall be deemed to have read these Rules & Regulations and to have agreed to abide by them, and any additional rules and regulations which are adopted, as a condition of Lessee's occupancy of the premises herein leased.

* Lessee shall also be responsible for the observance of all of the foregoing rules and regulations by Lessee's employees, agents, clients, customers, invitees and/or guests.

HAZARDOUS MATERIALS DISCLOSURE
EXHIBIT "C"

THIS EXHIBIT IS ATTACHED TO AND MADE PART OF THE LEASE DATED July 17, 1998 BY AND BETWEEN: PACIFIC GULF PROPERTIES, INC., a Maryland corporation as LESSOR, and NATURAL ALTERNATIVES INTERNATIONAL, INC., a Delaware corporation as LESSEE, for the premises located at 1215 Park Center Dr., Suites C/D/E, Vista, CA 92083.

I, MARK LEDOUX represent that the following disclosure accurately reflects the usage or nonusage of hazardous materials on the above referenced premises:

Description of Lessee's usage and business operations (if not applicable, please state "none"):

Petroleum products, chemicals, container sizes, and amounts to be utilized by Lessee at any time during tenancy:

Method and storage locations of hazardous materials:

List any operations discharges in or on Premises:

I, MARK LEDOUX, certify that I will comply fully with all applicable environmental laws governing hazardous materials and their usage in our operations.

"LESSEE"

NATURAL ALTERNATIVES INTERNATIONAL, INC.
a Delaware corporation

BY: /s/ MARK LEDOUX

Mark LeDoux

Its:

21

LABORATORY CHEMICALS
(WITH VOLUMES KEPT ON SITE LISTED BELOW)

1. ACETONE - 10 LITERS
2. PYRIDINE - 2 LITERS
3. ACETONITRILE - 15 LITERS
4. ETHYL ACETATE - 3 LITERS
5. BUTYL ALCOHOL - 3 LITERS
6. 2-PROPANOL - 20 GALLONS
7. TETRAHYDROFURAN - 8 LITERS
8. HEPTANE - 3 LITERS
9. ETHER - 3 LITERS
10. TRIETHYLAMINE - 3 LITER
11. PHENOLPHTHALEIN - 1/2 LITER
12. DIMETHOXYPROPANE - 3 LITERS
13. ETHYL ALCOHOL - 3 LITERS
14. ISOPROPINOL - 20 GALLONS
15. METHANOL - 15 LITERS
16. HEXANES - 15 LITERS

22

22. PHOSPHORIC ACID - 1/4 LITER
23. FORMIC ACID - 1/4 LITER
24. ACETIC ACID, GLACIAL - 3 LITERS
25. NITRIC ACID - 3 LITERS

26. HYDROCHLORIC ACID - 3 LITERS

27. SULFURIC ACID, ION - 3 LITERS

PRODUCTION CHEMICALS

1. ISOPROPYL ALCOHOL - 5 GALLONS

2. BLEACH - 1-3 GALLONS

ADDITIONAL CHEMICALS ON SITE

1. ARGON - 1-160 LITER DEWER

2. NITROGEN - D SIZE CYLINDER

STANDARD BUSINESS PARK LEASE

THIS LEASE (hereinafter called the "Lease"), executed in duplicate is entered into this 9th day of January, 1995, by and between Brigitte Zemmrich hereinafter called "Lessor", and Natural Alternatives International, hereinafter called "Lessee". Lessor and Lessee hereby agree as follows:

1. LEASED PREMISES. Lessor hereby lets and demises to Lessee, and Lessee hereby hires from Lessor, on the terms, covenants, and conditions set forth herein, those premises designated in Exhibit "A" attached hereto and incorporated herein, hereinafter called the "Leased Premises", known as and located at 425 Ryan Drive, Suite A, San Marcos, CA 92069 (approximately 5,612 square feet), being a portion of a building, hereinafter called the "Building", located individually or as a group of contiguous buildings including the land and all improvements thereon, hereinafter called the "Business Park," other portions of which building and which business park shall from time to time be leased by Lessor to other Lessees.
2. TERM. The term of the Lease (the "Lease Term") shall be for Fifteen (15) months, commencing on February 1, 1995, and ending April 30, 1996.
3. LATE OR EARLY DELIVERY OF POSSESSION. In the event that Lessor is unable to deliver possession of the Leased Premises to Lessee on the above stated commencement date for any reason whatsoever, Lessor shall not be subject to any liability for loss or damages resulting therefrom, nor shall the validity of this Lease be affected nor the term thereof extended, but under such circumstances there shall be a proportionate reduction in rent to cover the period of time from the above stated commencement date to the date that possession of the Leased Premises is tendered to Lessee; provided, however, that if possession of the Leased Premises is not tendered by Lessor to Lessee within ninety (90) days following the above stated commencement date, then at any time after the ninety (90) day period and prior to tender by Lessor of possession, Lessee may terminate this Lease by delivery of written notice of such termination to Lessor, and thereupon all rights and obligations hereunder of both parties shall cease. If Lessor is able to deliver possession of the Leased Premises to Lessee prior to the above stated commencement date and Lessee accepts such early possession, the ending date of the Lease Term shall not be affected but the Lease Term shall be extended so as to advance the commencement date to the date of early acceptance of possession, and Lessee shall pay Lessor, at the time Lessee takes possession, a proportionate increase in rent to cover such additional period of time. The Leased Premises shall be deemed to have been delivered to Lessee upon Lessor's tender of the Leased Premises in a substantially complete condition, subject to minor punch list items.
4. RENT.
 - (a) Lessee agrees to pay to Lessor, at such place as Lessor may designate, without deduction, offset, prior notice or demand, the minimum rent for the Leased Premises during the Lease Term of Thirty Eight Thousand Seven Hundred Ninety and no/100 DOLLARS (\$38,790.00) in lawful money of the United States, payable in monthly installments of Two Thousand Five Hundred Eighty Six and no/100 (\$2526 Base Rent + \$60 Water) Dollars (\$2,586.00). All payments of rent shall be due and payable in advance on the first day of each calendar month during the Lease Term. The amount of Five Thousand One Hundred Seventy Two and no/100 DOLLARS (\$5,172.00) is paid herewith to Lessor upon the execution of this Lease, receipt of which is hereby acknowledged, which sum shall represent payment of First Month's Rent plus Security Deposit DOLLARS (\$-0-) for rent during the remaining portion of the calendar month in which the Lease Term commences, plus the payment of DOLLARS (\$-0-) which sum shall represent payment of the month's rent. Lessee acknowledges and agrees that Lessor will not be required to send monthly statements or invoices as a condition to Lessee's obligation of timely payment of rent under this Lease, and that Lessee shall not have any right of offset against any rent coming due under this Lease.

(b) Lessee acknowledges that late payment by Lessee to Lessor of rent or other sums due hereunder will cause Lessor to incur costs in excess of those contemplated by this Lease, the exact amount of which would be extremely difficult and impractical to ascertain. Such costs include, but are not limited to, processing and accounting charges, and late charges which may be imposed on Lessor by the terms of any mortgage or deed of trust covering the Lease Premises. Therefore, in the event that Lessee should fail to pay any installment of rent or any other sum due under this lease after such amount is due, Lessee shall pay to Lessor as additional rent a late charge equal to five percent (5%) of each such installment or other sum, or Twenty Five Dollars (\$25.00) per month, whichever is greater.

(c) Should any payment be made by a check, and following its deposit by Lessor such check is returned for any reason, Lessee hereby agrees to pay to Lessor, as additional rent, a service charge of FIFTEEN DOLLARS (\$15.00).

(d) In the event that Lessee requests Lessor to construct or to permit the construction of additional tenant improvements and Lessor agrees to permit such additional tenant improvements, all as provided by paragraph 8 below, Lessee agrees that the rent shall be increased by a sum to be determined by the parties prior to construction of the additional tenant improvements.

(e) The minimum annual rent set forth in section (a) of this paragraph 4 shall be subject to an upward only adjustment at the end of each one-year period of the Lease Term hereof, including option periods, if any. The first such adjustment shall take effect beginning with the first day of the first full calendar month following one year from the date of commencement of the Lease Term hereof, but if the date of commencement is the first day of a month, then the adjustment shall take effect one year thereafter, at which time the monthly rental payment for the ensuing twelve (12) months shall be adjusted upward only to a new amount, which new amount shall be the product of the minimum annual rent set forth in section (a) of paragraph 4 of this Lease multiplied by a fraction, the denominator of which is the Consumer Price Index as of the date of the commencement of the Lease Term, and the numerator of which is the Consumer Price Index for the month of the

1

2

appropriate adjustment date. The Consumer Price index referred to herein shall be the 1967 = 100; Consumer Price Index published by the Bureau of Labor Statistics of the United States Department of Labor. If such index is not published for the period for which a rental adjustment determination is to be based upon, another index generally recognized as being comparable and authoritative shall be substituted by Lessor. Inasmuch as the appropriate index numbers may not be available on the date when any such adjustment is to be effective, the latest available index numbers shall be used until such time as the appropriate index numbers become available, at which time the calculation shall then be made as soon as reasonably possible, and the rent payment next falling due shall be appropriately adjusted so as to include both the correctly adjusted monthly rent and any additional amount required to bring such adjusted monthly rent current from the intended adjustment date.

5. DEPOSITS. Lessee has deposited with Lessor a security deposit in the sum of Two Thousand Five Hundred Eighty Six and no/100 dollars (2,2586.00), receipt of which is hereby acknowledged, as security for the full performance by Lessee of all of the provisions of this Lease. Should Lessee comply with all of the terms, covenants and conditions of this Lease by said Lessee to be performed, and promptly pay all rent provided for herein and all other sums payable by Lessee to Lessor hereunder, then the said security deposit, except for FIFTY DOLLARS (\$50.00) thereof which is a nonrefundable lease origination fee, shall be returned in full to Lessee upon expiration of this Lease, after surrender to Lessor of the Lease Premises and after prompt inspection by Lessor whereby Lessor has determined that the Leased Premises are in as good condition as on the date of the commencement of the Lease Term set forth above, excepting only ordinary wear and tear. Lessee's interest in said security deposit is not

assignable by Lessee. Lessor may at its option apply said security deposit, or so much thereof as may reasonably be necessary, to remedy defaults by Lessee in payment of rent, to repair damages to the Leased Premises or the Building caused by Lessee, to claim the Leased Premises upon termination of the Lease, or to compensate Lessor for any loss or damage sustained or suffered by Lessor due to any breach of this Lease by Lessee. In the event that said sum or any portion thereof is so applied by Lessor, Lessee shall, upon written demand of Lessor, immediately remit to Lessor an amount sufficient to restore said deposit to the original sum. The exercise of the options given Lessor under this section shall in no way affect any other remedy available to Lessor. Following the termination of this Lease, any remaining portion of said security deposit shall be returned to Lessee. Lessor shall not be required to keep this security deposit separate from its general funds. Lessor's obligation with respect to the security deposit is that of a debtor, not a trustee, and the security deposit may be commingled or dissipated or both, and in any event no interest shall accrue thereon. Should the interest of Lessor in the Leased Premises be sold, Lessor may deliver funds deposited by Lessee to the purchaser of such interest and thereupon Lessor shall be discharged from any further liability concerning such deposits.

6. UTILITIES. Lessee shall pay for all water, gas, heat, light, electricity, telephone service and all other service metered or chargeable to the Leased Premises, and furnish such deposits as each public utility providing any such service may require. Lessor reserves the right to install separate meters for any public utility service the Leased Premises for which a meter is not presently installed, in which event Lessee shall make payments when due directly to the appropriate public utility. As additional rent, Lessee shall pay to Lessor the sum of \$-0- (Trash Removal is Lessee's Responsibility) per month for trash removal, and when water service is not separately metered, Lessee shall pay to Lessor for restroom water service the sum of \$60.00 (Sixty and no/100) per month payable monthly, in advance, concurrently with the payment of rent as specified in paragraph 4 above. Lessee agrees not to over-burden the trash facilities. Lessee shall not overload any of the mechanical, electrical, plumbing, sewer or other utility equipment. If there is an increase in Lessee's use of trash removal service or facilities over the normal needs initially anticipated by Lessor, or if Lessee uses the water service for other than normal restroom purposes, Lessee agrees to pay such additional monthly charges as may reasonably be determined by Lessor.

7. USE OF PREMISES. The Leased Premises may be used and occupied only for Light Manufacturing and all other lawful uses, and for no other purpose or purposes with Lessor's express written consent. Lessee shall at all times comply with all laws, ordinances, orders, and regulations affecting the Leased Premises or the cleanliness, safety, occupation or use

thereof, Lessee shall not do or permit anything to be done in or about the Lease Premises, or bring or keep anything in the Leased Premises, that will in any way increase the premiums for, or the existing rate of, insurance on the Building or the Business Park without the express written consent of Lessor, nor shall any part of the Leased Premises be used for residential purposes or for the storage of any animal. Should any activity of Lessee result in an increase in any insurance premium covering the Building or the Business Park, Lessee shall pay the entire amount of such increase. Lessee shall not perform or permit any act or carry on any practice which may injure or impair the Building or any portion of the Business Park, or be a nuisance or menace to, or materially or unreasonably interfere with the permitted activities of, other lessees within the Business Park. Lessee shall not cause, maintain or permit any outside storage on or about the Leased Premises. Lessee agrees not to use or suffer or permit the Leased Premises or any part thereof to be used for any purpose other than as hereinabove specifically permitted. Lessee shall not conduct, or permit to be conducted, any sale by auction upon the Leased Premises. Lessee shall not cause or permit any loud noise, music, or loudspeaker sound system upon the Leased Premises.

8. ALTERATIONS; TRADE FIXTURES. Lessee agrees not to make or permit or suffer to be made any alterations, improvements, or additions to the Leased Premises or any part thereof without the prior written consent of Lessor, except such repairs as Lessee is required to make by the provisions of this Lease. Should Lessee desire to alter the Leased Premises and should Lessor give written consent to such alterations, Lessee shall, at Lessor's option contract with a contractor approved by Lessor for the construction of such alterations. All such work, regardless of by whom performed, shall be done at such time and in such manner as Lessor may from time to time designate.

Any alterations of or additions to the Leased Premises, excepting movable furniture and trade fixtures, shall, at Lessor's option, become part of the realty and belong to Lessor; however, Lessee may, upon written consent of Lessor, install trade fixtures (exclusive of trade fixtures or other trade equipment which would effectively convert warehouse area to additional office area), machinery of other trade equipment in conformance with the ordinances of the applicable city and county, any covenants, conditions or restrictions of record, and such rules as Lessor shall from time to time establish, and the same may be removed upon the termination of this Lease provided that Lessee is not then in default under any of the terms or conditions of this Lease and further provided that the Leased Premises would not be damaged by such removal.

Upon the termination of this Lease, Lessee shall return the Leased Premises in the same condition as when rented to Lessee, reasonable wear and tear excepted. Throughout the term hereof, Lessee shall take good care of the Leased Premises, its appurtenances, fixtures, and equipment, and shall not drill into, disfigure, or deface any part of the Building or the buildings, grounds, or any part or portion of the Business Park, or suffer the same to be done. Lessee shall immediately notify Lessor and repair the Leased Premises, its appurtenances, fixtures, and equipment, whenever needed as a result of the misuse or neglect of Lessee. In lieu of such repairs by Lessee, Lessor may, at its option, perform such repairs for Lessee and in that event the cost thereof shall be determined on statements rendered by Lessor to Lessee and the sum so determined shall be payable to Lessor upon delivery of such statement.

9. MECHANICS' AND OTHER LIENS. Lessee shall neither permit nor suffer any mechanics' lien or other lien to be filed against the Leased Premises or the Building or any other part of the Business Park, by reason of any work or labor performed for, materials supplied to, or obligations incurred by, Lessee or at Lessee's request or consent, or at the request or consent of any of Lessee's agents, employees, sublessees, or invitees.

Should any such lien be filed, Lessee shall cause it to be removed forthwith. Should Lessee fail to discharge any such lien or fail to furnish an insurance bond in twice the amount of such lien against the foreclosure thereof, Lessor may, but shall not be obligated to, discharge the same or take such other action as Lessor deems necessary to prevent a judgment or foreclosure on said lien from being executed against any portion of the Business Park, and all costs and expenses thereof, including reasonable attorney's fees incurred by Lessor, shall be repaid by Lessee to Lessor on written demand therefor.

Nothing in this Lease shall be construed as in any way constituting a consent or request by Lessor, expressed or implied, by inference or otherwise, to any contractor, subcontractor, laborer, or materialman for the performance of any labor or the furnishing of any materials for any specific or general improvement, alteration, or repair of or to the Leased Premises or any portion of the Business Park. Lessor shall have the right in the event of any construction, alteration, repair, or work in, on, or to the Leased Premises or to any part thereof, to post and file such notices of nonresponsibility as are now or shall hereafter be provided by law, and Lessee shall give Lessor written notice five (5) days prior to employing any laborer or contractor to perform any such service.

10. ACCEPTANCE OF PREMISES. Lessee acknowledges that Lessee has thoroughly examined the Leased Premises and that no statement or representation not herein expressed as to the past, present or future condition or repair thereof, or of the Building or the Business Park, has been made by or on behalf of Lessor. By taking possession hereunder, Lessee acknowledges that the Leased Premises are

in good and sanitary order, condition and repair and Lessee hereby waives any claim or right on account of the condition thereof.

11. SURRENDER OF THE LEASED PREMISES. At the expiration of the tenancy hereby created, Lessee shall surrender the Leased Premises in the same condition as the Leased Premises were in upon delivery of possession thereto under this Lease, reasonable wear and tear excepted, and damage by unavoidable casualty excepted to the extent that the same is covered by Lessor's fire insurance policy, and Lessee shall surrender all keys for the Leased Premises to Lessor at the place then fixed for the payment of rent and shall inform Lessor of all combinations on locks, safes and vaults, if any, in the Leased Premises. Lessee shall, at the option of Lessor, remove all of Lessee's trade fixtures before surrendering the Leased Premises and repair any damage to the Leased Premises caused thereby. If the Leased Premises are not surrendered immediately upon termination of this Lease, Lessee shall be responsible to Lessor for all damages which Lessor may suffer by reason thereof, and Lessee shall indemnify Lessor against, and hold Lessor harmless from, any and all claims made by any succeeding lessees against Lessor, resulting from delay in delivering possession of the Leased Premises to such succeeding lessee, so far as such delay is occasioned by the failure of Lessee to so surrender the Leased Premises. Lessee's obligation to observe and perform this covenant shall survive the expiration or other termination of the term of this Lease.

12. WASTE. Lessee shall not commit or suffer any waste upon the Leased Premises or any portion of the Business Park.

13. INSURANCE. No use shall be made or permitted to be made of the Leased Premises, nor acts done, which will increase the premiums for, or the existing rate of insurance on, the Building or the Business Park, or cause the cancellation of any insurance policy covering the Building or the Business Park, nor shall Lessee sell, or permit to be kept, used or sold, in or about the Leased Premises, any article which may be prohibited by standard form fire insurance policies. Lessee shall, at its sole cost and expense, comply with any and all requirements pertaining to the Leased Premises established by any insurance organization or company, which requirements are necessary for the maintenance of reasonable fire and public

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liability insurance covering the Leased Premises, the Building, or the Business Park.

Lessee shall maintain in full force and effect on all of its fixtures and equipment in the Leased Premises a policy or policies of fire and extended coverage insurance with standard coverage endorsement to the extent of at least eighty percent (80%) of their insurable value. During the Lease Term the proceeds from any such policy or policies of insurance shall be used for the repair or replacement of the fixtures and equipment so insured. Lessor shall have no other interest in Lessee's insurance upon Lessee's equipment and fixtures. Lessee shall furnish Lessor with a certificate of such policy within thirty (30) days of the commencement of the Lease Term, and whenever requested by Lessor, Lessee shall satisfy Lessor that such policy is in full force and effect. Lessor shall not be required to carry any insurance on Lessee's possessions.

During the entire Lease Term, Lessee shall, at Lessee's sole cost and expense, provide and keep in force, policies of insurance written by companies acceptable to Lessor, insuring Lessor and Lessee jointly against liability for bodily injury with limits of not less than FIVE HUNDRED THOUSAND DOLLARS (\$500,000) for injuries to or death of one person and ONE MILLION DOLLARS (\$1,000,000) for injuries to or death of more than one person in any one occurrence, and with limits of not less than FIVE HUNDRED THOUSAND DOLLARS (\$500,000) per occurrence for damage to property, such limits to be for any greater amounts as may be reasonably indicated by circumstances from time to time existing. Lessee shall furnish Lessor with a certificate of such policy and whenever requested shall satisfy Lessor that such policy is in full force and effect. Such policy shall

name Lessor as an additional insured and shall be primary and noncontributing with any insurance carried by Lessor. The policy shall further provide that it shall not be cancelled or altered without twenty (20) days' prior written notice to Lessor.

14. MUTUAL WAIVER OF SUBROGATION. Lessor and Lessee each hereby waive any and all rights of recovery, causes of action, claims and demands against the other, or against the officers, employees, agents, or representatives of the other that may hereafter exist, by reason of the loss, destruction or damage occasioned to such waiving party of its property or the property of others under its control, caused by any peril included within the classification of fire and extended coverage insurance, to the extent that such loss or damage is insured against under any insurance policy of the waiving party in force at the time of such loss or damage.

15. INDEMNIFICATION BY LESSEE. This Lease is made on the express condition that Lessor shall not be liable, or suffer loss by reason of injury to person or property, from whatever cause, all or in any way connected with the condition or use of the Leased Premises or the improvements or personal property therein or thereon, including without limitation any liability for injury to the person or property of Lessee, its agents, officers, employees or invitees. Except as provided in paragraph 14 hereof with respect to waiver of subrogation, Lessee agrees to indemnify Lessor and Lessor's agents, and hold Lessor and Lessor's agents harmless from any and all liability, loss, cost, claim, or obligation on account of, or arising out of, any such injury or loss however occurring, including without limitation Lessee's use of the Leased Premises, the Building, or the Business Park, or from the conduct of Lessee's business, or from any activity, work, or thing done, permitted or suffered by Lessee in or about the Leased Premises, the Building, the Business Park, or elsewhere. Lessee shall further indemnify and hold Lessor and Lessor's agents harmless from and against any and all claims arising from any breach or default in the performance of any obligation on Lessee's part to be performed under this Lease, or arising from any negligence of Lessee or Lessee's agents, contractors, or employees, and from and against all costs, attorneys' fees, expenses, and liabilities incurred in the defense of any such claim or any action or proceeding brought thereon.

In the event that any action, suit, or proceeding is brought against Lessor, or any of Lessor's agents by reason of any such occurrence, then upon Lessor's request, Lessee shall, at Lessee's expense, resist and defend such action, suit or proceeding, or cause the same to be resisted and defended by counsel designated by the insurer whose policy covers the occurrence or by counsel designated by Lessee and approved by Lessor. The obligations of Lessee under this section arising by reason of any occurrence taking place during the Lease Term or any other time of possession or use of the Leased Premises by Lessee, shall survive any termination of this Lease.

16. WAIVER OF CLAIMS. Lessee hereby waives all claims against Lessor for damages to goods, wares and merchandise in, upon or about the Leased Premises and for injury to Lessee, its agents, employees, invitees, or third persons in or about the Leased Premises from any cause arising at any time.

Lessor shall not be liable for injury to Lessee's business or loss of income therefrom or for damage which may be sustained by the person, goods, wares, merchandise, or property of Lessee, its employees, invitees, customers, agents, or contractors, or any other person in or about the Leased Premises, the Building, or the Business Park caused by or resulting from fire, steam, electricity, gas, water, or rain, which may leak, or flow from or into any part of the Leased Premises, or from the breakage, leakage, obstruction, or other defects of pipes, sprinklers, wires, appliances, plumbing, heating, air conditioning, or lighting, or fixtures of the same, whether such damage or injury results from conditions arising upon the Leased Premises, the Building, or the Business Park, or from other sources or places, and regardless of whether the cause of such damage or injury or the means of repairing the same is inaccessible to Lessee. Lessor shall not be liable for any damages arising from any act or neglect of any other lessees of the Business Park.

17. MAINTENANCE AND REPAIRS. Lessee shall, at all times and at its sole cost and expense, keep and maintain the Leased Premises and appurtenances and

every part thereof (excepting heating and air conditioning equipment, exterior walls, and roofs which shall be maintained by Lessor, the costs of which shall be part of common area maintenance), including plumbing, windows and skylights, any store front, glass, carpet, draperies, and the interior of the Leased Premises, in good and sanitary order, condition and repair. Lessee shall, at its sole cost and expense, keep and maintain all utilities, fixtures and mechanical equipment used by Lessee in good order, condition, and repair. In the case of equipment installed by Lessor for Lessee where Lessee is responsible for maintenance of the equipment, such maintenance will be provided by a reputable maintenance service company acceptable to Lessor at Lessee's expense. Evidence of such a service contract shall be provided to Lessor by Lessee upon Lessor's request.

If Lessee refuses or neglects to undertake and properly complete, to the reasonable satisfaction of Lessor, any matter of repair required of Lessee hereunder, then Lessor may make such repairs and Lessor shall not have any liability to Lessee for any loss or damage that may accrue to Lessee's merchandise, fixtures, or other property or to Lessee's business by reason thereof, and upon completion thereof, lessee shall pay all of Lessor's costs for making such repairs plus an additional twenty percent (20%) of such costs for overhead and supervision, upon presentation of a statement therefor, as additional rent. Said statement may include interest at the rate of ten percent (10%) per annum on said total cost from the date of substantial completion of repairs by Lessor.

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18. SIGNS, LANDSCAPING. Lessee shall not place, or permit to be placed or maintained, on any exterior door, wall or window of the Leased Premises any sign, awning or canopy, or advertising matter or other thing of any kind, and will not place or permit to be placed or maintained, any decoration, sign, lettering or advertising matter of the glass of any window or door, or other place that can be seen through the glass of the Leased Premises without first obtaining Lessor's written approval and consent. Lessee further agrees to maintain such sign, awning, canopy, decoration, lettering, advertising matter, or thing as may be approved by Lessor, in good condition and repair at all times. Lessee shall not place any sign on a vehicle in the parking areas.

Lessee agrees to pay for the cost and maintenance of a sign identifying Lessee's business, said sign to be in conformity to existing signs within the building (white lettering only). Any signs not in conformity may be immediately removed and destroyed by Lessor without notice. Notwithstanding the foregoing, Lessor reserves the right, at any time and from time to time, to waive or otherwise grant exceptions for any other lessee, without in any way waiving or granting an exception to Lessee's obligation to conform strictly, and Lessee hereby consents to Lessor's allowing non-conforming signs of other lessees.

Lessor shall have the right to control all landscaping and Lessee shall not in any way damage or alter the landscaping.

19. ENTRY BY LESSOR. Lessee shall permit Lessor and Lessor's agents to enter the Leased Premises at all reasonable times for the purpose of inspecting the same or for the purpose of maintaining the Building, or for the purpose of making repairs, alterations, or additions to any portion of the Building, including the erection and maintenance of such scaffolding, canopies, fences and props as may be required, or for the purpose of posting notices of non-responsibility for alterations, additions, or repairs, or for the purpose of placing upon the Building any usual or ordinary "for sale" signs, without any rebate of rent and without any liability to Lessee for any loss of occupancy or quiet enjoyment of the Leased Premises thereby occasioned; and Lessee shall permit Lessor, at any time within sixty (60) days prior to the expiration of this Lease, to place upon the Leased Premises any usual or ordinary "to let", "for lease", "available", or comparable signs.

20. TAXES. Lessee shall pay before delinquency any and all taxes, assessments, license fees, and public charges levied, assessed or imposed and which become payable during the Lease Term upon Lessee's fixtures, furniture, appliances or personal property installed or located in the Leased Premises.

Lessee shall pay to Lessor upon demand as additional rent Lessee's percentage portion (as set forth in paragraph 4(f) above) of all real property taxes which shall, during the Lease Term, be assessed against the land and improvements within the Business Park, in excess of the real property taxes assessed against such real property for the fiscal year in which the Lease Term commences. As used herein the term "real property taxes" shall include any form of assessment, license fee, commercial rental charge or tax, levy, penalty, or tax, or charge in lieu of, or like, or measured by any such charge or tax, imposed by any authority having the direct or indirect power to tax, assess, or charge a fee, including any city, county, state or federal government, or any school, agricultural, utility, drainage, or other improvement district thereof, as against any legal or equitable interest of Lessor in the Leased Premises or in the Building or in the Business Park, and shall include all taxes and charges levied upon or measured by the rent payable hereunder, whether as a so called sales tax, transaction privilege tax, excise tax, or otherwise (but no income taxes shall be payable by Lessee).

21. ENVIRONMENTAL FACTOR ADJUSTMENT. In the event that any tax, assessment, levy, or surcharge is made upon Lessor or the Building or the grounds of which the Leased Premises are a part, which is based upon the National Environmental Policy Act, the California Environmental Quality Act, or any other legislation or rule, regulation, or ordinance relating to environmental quality or energy conservation, and which charge is measured by any physical element, configuration, status, or use of such Building or grounds, or energy use therein or thereon, Lessee shall pay to Lessor upon demand, as additional rent, Lessee's percentage portion (as numerically set forth in paragraph 4(f) above) of all such charges.

22. DESTRUCTION. In the event that the Leased Premises or the Building are damaged by fire or other perils covered by Lessor's extended coverage insurance, or in the event that the Leased Premises or the Building are declared unsafe or unfit for occupancy by any authorized public authority for any reason (other than Lessee's act, neglect, use or occupation) which declaration requires repairs to either the Leased Premises or the Building, Lessor shall promptly make such repairs, provided such repairs can reasonably be undertaken and completed within sixty (60) days under the laws and regulations of authorized public authorities, and this Lease shall remain in full force and effect, except that Lessee shall be entitled to a proportionate reduction of the rent while such repairs are being made, such proportionate reduction to be based upon the extent to which the making of such repairs shall materially interfere with the business carried on by the Lessee in the Leased Premises. If the damage or declaration is due to the fault or neglect of Lessee or its agents or employees, there shall be no abatement of rent. If repairs cannot reasonably be undertaken and completed within sixty (60) days, or repairs cannot be made under the then current laws and regulations, this Lease may be terminated at the option of either party, by notice to the other party within sixty (60) days of the damage or declaration, as of the date specified in such notice, which date shall be no less than thirty (30) and no more than sixty (60) days after the giving of such notice. As to any partial destruction (including any destruction necessary in order to make repairs required by any declaration) for which Lessor is obligated to repair or may elect to repair under the terms of this paragraph, the provisions of Section 1932, Subdivision (2), and Section 1933, Subdivision (4), of the Civil Code of the State of California are waived by Lessee. In the event that the Leased Premises or the Building of which the Leased Premises are a part are damaged as a result of any cause other than the perils covered by Lessor's fire and extended coverage insurance, then Lessor shall have the option: (1) to repair such damage, this Lease continuing in full force and effect, in which case the rent shall be proportionately reduced as hereinabove in this paragraph provided, or (2) give notice to Lessee at any time within sixty (60) days after such damage terminating this Lease as of the date specified in such notice, which date shall be no less than thirty (30) and no more than sixty (60) days after the giving of such notice. In the event of giving notice of termination of the Lease as provided in this paragraph 22, this Lease shall expire and all

interest of Lessee in the Leased Premises shall terminate on the date so specified in such notice and the rent, reduced by a proportionate amount, based upon the extent, if any, to which such damage materially interfered with the business carried on by Lessee in the Leased Premises, shall be paid up the date of such termination.

Notwithstanding anything to the contrary contained in this paragraph 22, Lessor shall not have any obligation whatsoever to repair, reconstruct, or restore the Leased Premises when the damage resulting from any casualty covered under this paragraph 22 occurs during the last twelve (12) months of the term of this Lease or any extension thereof.

In no event shall Lessor be required to repair any injury or damage from fire or other cause, or to make any repairs or replacements of any panels, decoration, office fixtures, railings, floor covering, partitions, fixtures or any other property installed in the Leased Premises by Lessee.

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Lessee shall not be entitled to any compensation or damages from Lessor for loss of the use of the whole or any part of the Leased Premises, or Lessee's personal property, or any inconvenience or annoyance occasioned by such damage, repair, reconstruction or restoration.

23. ASSIGNMENT AND SUBLEASING. Lessee shall not sublease the Leased Premises nor any portion thereof, nor shall Lessee assign any interest under this Lease or permit the use of the Leased Premises by any person or persons other than Lessee, whether voluntarily or involuntarily, except upon the written consent of Lessor. Lessor shall not unreasonably withhold its consent to any assignment of this Lease by Lessee. Any attempted assignment or subletting without Lessor's written consent shall be void and shall, at the option of Lessor, terminate this Lease. Consent by Lessor to any assignment or subletting shall not release Lessee from its primary liability under the Lease, and Lessor's consent to one assignment, subletting or occupation or use by a party other than Lessee shall not be deemed a consent to any other assignment, subletting or occupation or use by any other party, nor a waiver of Lessor's right to approve or disapprove thereof.

24. INSOLVENCY. If Lessee or any guarantor of this Lease shall become bankrupt or insolvent, or unable to pay its debts as such become due, or file any debtor proceedings, or take or have taken against Lessee or any guarantor in any court pursuant to any statute either of the United States or of any State a petition in bankruptcy or insolvency or for reorganization or for the appointment of a receiver or trustee of all or a portion of Lessee's or any such guarantor's property, or if Lessee or any such guarantor makes an assignment for the benefit of creditors, or petitions for or enters into such arrangement, and any such condition, proceedings, petition, appointment, assignment or action continues unremoved for a period of thirty (30) days, then Lessee shall, for purposes of this Lease, be deemed to be insolvent and in default under this Lease, and this Lease shall thereupon terminate, and Lessor, in addition to any other rights or remedies it may have, shall have the immediate right of reentry and may remove all persons and property from the Leased Premises and such property may be removed and stored in a public warehouse or elsewhere at the cost of, and for the account of Lessee, all without service of notice or resort to legal process and without being deemed guilty of trespass, or becoming liable for any loss or damage which may be occasioned thereby.

25. ABANDONMENT. Lessee shall not vacate nor abandon the Leased Premises at any time during the Lease Term, nor permit the Leased Premises to remain unoccupied for a period longer than five (5) consecutive days during the Lease Term; and if Lessee shall so abandon, or vacate or surrender the Leased Premises, or suffer this Lease or the Leased Premises to be taken under any writ of execution or in

any other way be dispossessed by process of law, or otherwise, any of which shall, for purposes of this Lease, be deemed an abandonment, then Lessee shall be in default under this Lease and any personal property belonging to Lessee and left on the Leased Premises shall, at the option of the Lessor, be deemed abandoned.

26. DEFAULT AND RIGHT TO RE-ENTER. In the event that Lessee: (a) fails to make any payment of rent or any other payment required to be made by lessee hereunder within ten (10) days after the same shall be due, or within three (3) days after written notice and demand, or (b) fails to perform any other of the terms, conditions or covenants of this Lease to be observed or performed by Lessee and such failure continues for more than fourteen (14) days after written notice of such default, or (c) becomes insolvent as described in paragraph 24 hereof, or (d) abandons the Leased Premises as described in paragraph 25 hereof, or (e) assigns or sublets all or any portion of the Leased Premises or the Leased Premises are occupied or used by any other party without first obtaining Lessor's written consent; then Lessee shall be in default under this Lease, and Lessor shall have, in addition to any other rights or remedies which Lessor may have, the immediate right of re-entry and Lessor may remove all persons and property from the Leased Premises and such property may be removed and stored in a public warehouse or elsewhere at the cost of, and for the account of Lessee, all without service of notice or resort to legal process and without Lessor's or Lessor's agent's being deemed guilty of trespass or becoming liable for any loss or damage which may be occasioned thereby.

Should Lessor elect to re-enter, as herein provided, or should Lessor take possession pursuant to legal proceedings or pursuant to any notice provided for by law, Lessor may either terminate this Lease or Lessor may from time to time without terminating this Lease, make such alterations and repairs as may be necessary in order to relet the Leased Premises, and relet said premises or any part thereof for such term or terms and upon such conditions as Lessor in its sole discretion may deem advisable; and upon each such reletting all rentals received by Lessor from such reletting shall be applied, first, to the payment of any indebtedness other than rent due hereunder from Lessee to Lessor; second, to the payment of any costs and expenses of such reletting, including brokerage fees and attorney's fees and all costs of such alterations and repairs; third, to the payment of rent due and unpaid hereunder, and the residue, if any, shall be held by Lessor and applied in payment of future rent as the same may become due and payable hereunder. If such rentals received by Lessor from such reletting during any month are less than the amount to be paid during that month by Lessee hereunder, Lessee shall pay any such deficiency to Lessor. Such deficiency shall be calculated and paid monthly.

No such re-entry or taking possession of the Leased Premises by Lessor shall be construed as an election by Lessor to terminate this Lease unless a notice of such intention is sent to Lessee or unless the termination of this Lease is decreed by a court of competent jurisdiction. Notwithstanding any such reletting without termination, Lessor may at any time thereafter elect to terminate this Lease for such previous breach provided such breach has not been cured. Should Lessor at any time terminate this Lease for any breach, in addition to any other remedy Lessor may have, Lessor may recover from Lessee all damages which Lessor may incur by reason of such breach, including the cost of recovering the Leased Premises, and including (1) all amounts that would have fallen due as rent between the time of termination of this Lease and the time of the claim, judgment, or other award, less the avails of all relettings and attornments, plus interest on the balance at the rate of ten percent (10%) per year; and (2) the worth at the time of the claim, judgment or other award, of the amount by which the unpaid rent for the balance of the Lease Term exceeds the amount of such rental loss that Lessee proves could be reasonably avoided. "Worth", as used in this provision, is computed by discounting the total at the discount rate of the Federal Reserve Bank of San Francisco at the time of the claim, judgment, or award, plus one percent (1%).

27. SURRENDER OF LEASE NOT MERGER. The voluntary or other surrender of this Lease by Lessee, or a mutual cancellation thereof, shall not work a merger, and shall, at the option of Lessor, terminate all or any existing subleases and subtenancies, or may, at the option of Lessor, operate as an assignment to Lessor of any or all of such subleases or subtenancies.

28. ATTORNEYS' FEES AND COLLECTION CHARGES. In the event of any legal action or proceeding between the parties hereto, reasonable attorneys' fees and expenses of the prevailing party in any such action or proceeding may be added to the judgment therein. Should Lessor be named as a defendant in any suit brought against Lessee in connection with or arising out of Lessee's occupancy hereunder, Lessee shall pay to Lessor all costs and expenses incurred by Lessor in such suit, including reasonable attorneys' fees. In addition to the charges provided for in paragraph 4(b) hereof in the event of a late

6

7

Payment by Lessee to Lessor of rent or other sums due hereunder, Lessee shall pay a charge of \$75.00 to Lessor for preparation of a demand for delinquent rent.

29. CONDEMNATION. If any part of the Leased Premises or the Building shall be taken or condemned for a public or quasi-public use, and a part thereof remains which is susceptible of occupation hereunder, this Lease shall, as to the part so taken, terminate as of the date title shall vest in the condemnor, and the rent payable hereunder shall be adjusted so that the Lessee shall be required to pay, during the remainder of the Lease Term, only such portion of such rent as the number of square feet in the part remaining after the condemnation bears to the number of square feet in the entire Leased Premises at the date of condemnation; but in such event Lessor shall have the option to terminate this Lease as of the date when title to the part so condemned vests in the condemnor. If all of the Leased Premises be taken or condemned, or such part thereof so that there does not remain a portion susceptible for use and occupancy hereunder, this Lease shall thereupon terminate. If a part or all of the Leased Premises be taken or condemned, all compensation awarded upon such condemnation or taking shall go to the Lessor, and Lessee hereby irrevocably assigns and transfers to Lessor any right to compensation or damages to which the Lessee may be entitled during the term hereof by reason of the condemnation of all or a part of the Leased Premises.

30. NOTICES. All notices, statements, demands, request, consents, approvals, authorizations, offers, agreements, appointments and designations under this Lease by either party to the other shall be in writing and shall be sufficiently given and served upon the other party when served personally, or forty-eight (48) hours after being deposited in the United States Mail, sent by registered or certified mail, return receipt requested, postage prepaid, and addressed to Lessor or Lessee respectively at the address set forth after their signatures at the end of this Lease, or to such other address as either of the respective parties may designate in such a notice.

31. WAIVER. The waiver by Lessor of any breach of any term, covenant, or condition herein contained shall not be deemed to be a waiver of such term, covenant, or condition of any subsequent breach of the same or any other term, covenant, or condition herein contained. The subsequent acceptance of rent hereunder by Lessor shall not be deemed to be a waiver of any preceding breach by Lessee of any term, covenant, or condition of this Lease, other than the failure of Lessee to pay the particular rent so accepted, regardless of Lessor's knowledge of such preceding breach at the time of acceptance of such rent.

32. EFFECT OF HOLDING OVER. If Lessee should remain in possession of the Leased Premises after the expiration of the Lease Term and without executing a new lease, then such holding over shall be construed as a tenancy from month to month, subject to all the conditions, provisions, and obligations of this Lease insofar as the same are applicable to a month-to-month tenancy, except that the monthly rent shall be one and one-half (1-1/2) times the monthly amount of the minimum annual rent for the last month of the Lease Term.

33. PARKING. Lessee shall be entitled to park in common with other lessees of

Lessor. Lessee agrees not to overburden the parking facilities and agrees to cooperate with Lessor and other lessees in the use of parking facilities. Lessor reserves the right in its absolute discretion to determine whether parking facilities are becoming crowded and, in such event, to allocate parking spaces among Lessee and other lessees, and, at Lessor's election, to locate and from time to time to relocate such spaces.

34. WAIVER OF TRIAL BY JURY, COUNTERCLAIMS, AND RIGHTS OF REDEMPTION. The parties hereto shall and they hereby do waive trial by jury in any action, proceeding or counterclaim brought by either of the parties hereto against the other on any matters whatsoever arising out of or in any way connected with this Lease, the relationship of Lessor and Lessee, Lessee's use or occupancy of the Leased Premises, or any claim of injury or damage. In the event Lessor commences any proceedings for nonpayment of rent, minimum rent, or additional rent, Lessee will not interpose any counterclaim of whatever nature or description in any such proceedings. This shall not, however, be construed as a waiver of Lessee's right to assert such claims in any separate action or actions brought by the Lessee.

Lessee hereby expressly waives any and all rights of redemption granted by or under any present or future laws in the event of Lessee's being evicted or dispossessed for any cause, or in the event of Lessor's obtaining possession of the Leased Premises, by reason of the violation by Lessee of any of the terms, covenants, or conditions of this Lease, or otherwise.

35. SUBORDINATION. Lessor hereby reserves the right to place liens on, encumber, mortgage, convey by deed of trust, or hypothecate for security the Leased Premises, the Building, the Business Park, or any part thereof, and in such event this Lease and the leasehold interest hereby created shall, at Lessor's option, be subject and subordinate thereto, and to all advances made on the security thereof and to all renewals, extensions, or replacements thereof. Lessee agrees to and shall, within ten (10) days following the written request of Lessor to do so, execute, acknowledge, and deliver to Lessor or to the recipient designated by Lessor, any and all documents required or reasonably requested to subordinate Lessee's rights under and interest in this Lease to any such lien, encumbrance, mortgage, deed of trust, or hypothecation. Should Lessee fail or refuse to so execute, acknowledge, and deliver such documents, Lessee's interest in this Lease nevertheless shall be, at the option of Lessor, subordinate to any such lien. Lessee also hereby agrees to deliver to any lender designated by Lessor, within ten (10) days following the written request of Lessor, such financial statements of Lessee as may be reasonably required by such lender. Such statements shall include the past three years' financial statements of Lessee. All such financial statements shall be received in confidence.

36. ESTOPPEL CERTIFICATE. Lessee shall, within not more than ten (10) days after written notice from Lessor, execute, acknowledge and deliver to Lessor a statement in writing (1) certifying that this Lease is unmodified and in full force and effect (or, if modified, stating the nature of such modification and certifying that this Lease, as so modified, is in full force and effect), and stating the date to which the rent and other charges are paid in advance, if any, and stating the amount and nature of any and all sums deposited with Lessor, if any, and (2) acknowledging that there are not, to Lessee's knowledge, any uncured defaults on the part of Lessor hereunder, or specifying such defaults if any are claimed. Any such statement may be conclusively relied upon by any prospective purchaser or encumbrancer of any property of which the Leased Premises are a part. Lessee's failure to deliver such statement within such time shall be conclusive upon Lessee (1) that this Lease is in full force and effect, without modification except as may be represented by Lessor, (2) that there are no uncured defaults in Lessor's performance, and (3) that not more than one month's rent has been paid in advance.

37. LESSOR'S LIABILITY. The term "Lessor" as used herein shall mean only the owner or owners at the time in question of the fee title of the Leased Premises, and except as expressly herein provided, in the event of any transfer of such title or interest, Lessor herein named (and in case of any subsequent transfers, the then grantor) shall be relieved from and after the

8

date of such transfer of all liability with respect to Lessor's obligations thereafter to be performed, provided that any funds in the hands of Lessor (or the then grantor) at the time of such transfer, in which Lessee has an interest, shall be delivered to the grantee. The obligations contained in this Lease to be performed by Lessor shall, subject as aforesaid, be binding on Lessor's successors and assigns, only during their respective periods of ownership.

38. CONDITION TO LEASE. In the event that the combined period of the Lease Term, together with all options granted herein, if any, exceed five (5) years, then as a condition subsequent to the obligation of the parties hereunder, the holder of the first mortgage or first deed of trust secured by the real property of which the Leased Premises are a part, may reject and terminate this Lease provided that written notice thereof shall be given to Lessee within thirty (30) days of the date hereof. In the event of such rejection or termination, Lessee shall immediately vacate and surrender the Leased Premises as provided in this Lease, and Lessor shall have no liability to Lessee as a result of such rejection or termination.

39. LIMITATION OF LIABILITY. (Strike if Lessor is not a partnership). In consideration of the benefits accruing hereunder, Lessee and all successors and assigns covenant and agree that, in the event of any actual or alleged failure, breach or default hereunder by Lessor:

(a) the sole and exclusive remedy against Lessor shall be against the partnership entity and its partnership assets;

(b) no partner of Lessor shall be sued or named as a party in any suit or action (except as may be necessary to secure jurisdiction of the partnership);

(c) no service of process shall be made against any partner of Lessor (except as may be necessary to secure jurisdiction of the partnership);

(d) no partner of Lessor shall be required to answer or otherwise plead to any service of process;

(e) no judgment will be taken against any partner of Lessor;

(f) any judgment taken against any partner of Lessor may be vacated and set aside at any time without hearing;

(g) no writ of execution will ever be levied against the assets of any partner of Lessor;

(h) these covenants and agreements are enforceable by Lessor and also by any partner of Lessor.

Lessee agrees that each of the foregoing covenants and agreements shall be applicable to any covenant or agreement either expressly contained in this Lease or imposed by statute or at common law.

40. RULES AND REGULATIONS. Lessee hereby agrees to the following:

(a) All garbage and refuse shall be placed by Lessee in the containers at the location prepared by Lessor for refuse collection, in the manner and at the times and places specified by Lessor

(b) No aerial or antenna shall be erected on the roof or exterior walls of the Leased Premises, or on the grounds, without in each instance, the written consent of Lessor first being obtained. Any aerial or antenna so installed without such written consent shall be subject to removal by Lessor at any time without notice.

(c) No loud speakers, televisions, phonographs, radios or other devices shall be used in a manner so as to be heard or seen outside of the Leased Premises without the prior written consent of Lessor.

(d) The outside areas immediately adjoining the Leased Premises shall be kept clean and free from dirt and rubbish by Lessee, to the satisfaction of the Lessor, and Lessee shall not place or permit any obstruction or materials in such areas. No exterior storage shall be allowed without permission in writing from Lessor.

(e) The plumbing facilities shall not be used for any purposes other than that for which they are constructed, and no foreign substance of any kind shall

be thrown therein, and the expense of any breakage, stoppage, or damage resulting from a violation of this provisions shall be borne by Lessee.

(f) Lessee shall use at Lessee's cost such pest extermination contractor as Lessor may direct and at such intervals as Lessor may require.

(g) Lessee shall not burn any trash or garbage of any kind in or about the Leased Premises or the Business Park.

Lessor reserves the right from time to time to amend or supplement the foregoing rules and regulations, and to adopt and promulgate additional rules and regulations applicable to the Leased Premises. Notice of such rules and regulations and amendments and supplements thereto, if any, shall be given to the Lessee.

Lessee agrees to comply with all such rules and regulations upon notice from Lessor, provided that such rules and regulations shall apply to a majority of all lessees of the Building of which the Leased Premises are a part.

41. DRAPERIES. Lessor shall select a standard drapery and color for use throughout the Building and Lessee shall use such standard drapery for all windows to be covered by Lessee. Lessee shall be required to provide, at Lessee's expense, prescribed draperies in front of windows in which the space is utilized for other than office use, such as storage and manufacturing.

42. MISCELLANEOUS PROVISIONS.

(a) Whenever the singular number is used in this Lease and when required by the context, the same shall include the plural, and the masculine, feminine, and neuter genders shall each include either of the others as may be appropriate, and the word "person" shall include corporation, firm, or association. If there be more than one Lessee, the obligations imposed under this Lease upon Lessee shall be joint and several.

(b) The headings or titles to the paragraphs of this Lease are not a part of this Lease and shall have no effect upon the construction or interpretation of any part of this Lease.

(c) This instrument contains all of the agreements and conditions made between the parties to this Lease and may not be modified orally or in any manner other than by an agreement in writing signed by all of the parties to this Lease. No oral or written statement by any party or by the agent of any party, made or delivered prior to or concurrently with the execution of this Lease, and which is not a part of this written Lease, shall be binding upon any party to this Lease.

(d) Time is of the essence of each term and provision of this Lease.

(e) Except as otherwise expressly stated, each payment required to be made by Lessee shall be in addition to and not in substitution for other payments to be made by Lessee.

(f) Except as expressly provided for herein, the terms and provisions of this Lease shall be binding upon and inure to the benefit of the heirs, executors, administrators, successors, and assigns of Lessor and Lessee.

(g) If any of the terms, conditions, or provisions of this Lease should be held invalid or in violation of law, this Lease and all other terms, conditions, and provisions thereof shall nevertheless remain in full force and effect.

43. COVENANTS, CONDITIONS, AND RESTRICTIONS. Lessee acknowledges that as of the date of this Lease, the Leased Premises are encumbered by certain covenants, conditions, and restrictions and grants of easement of record, and Lessee agrees to be bound by all of the terms, conditions, and provisions thereof.

44. MORTGAGEE PROTECTION. In the event of any default on the part of Lessor, Lessee will give notice by registered or certified mail to any beneficiary of a deed or trust or mortgagee of a mortgage covering the Leased Premises whose address shall have been furnished to Lessee, and shall offer such beneficiary or mortgagee a reasonable opportunity to cure the default, including time to obtain possession of the Leased Premises by power of sale or by a judicial foreclosure, if such should prove necessary to effect a cure.

In the event of a judicial foreclosure or trustee's sale pursuant to a mortgage or deed of trust covering the Leased Premises, the purchaser may elect not to terminate this Lease, in which event Lessee shall attorn to such new purchaser and, if requested, Lessee shall execute a new lease on the same terms as this Lease for the balance of the Lease Term.

45. DEPOSIT AGREEMENT. Lessee hereby agrees that Lessor shall be entitled to immediately endorse and cash Lessee's good faith rent and security deposit check(s) accompanying this Lease. It is further agreed and understood that such action shall not guarantee acceptance of this Lease by Lessor but in the event Lessor does not accept this Lease the deposit shall be refunded in full to Lessee. This Lease shall be effective only after Lessee has received a copy fully executed by Lessor.

46. SPECIAL PROVISIONS. Special provisions of this Lease numbered 47 through 61 are attached hereto and are made a part hereof. If none, so state in the following space _____. See Special Provisions made part of this Lease as pages 10 and 11.

IN WITNESS WHEREOF, Lessor and Lessee have executed this Lease as of the day and year first above written.

"LESSOR" BRIGITTE ZEMMRICH

"LESSEE" NATURAL ALTERNATIVES INTERNATIONAL

By /s/ BRIGITTE ZEMMRICH

By /s/ WILLIAM P. SPENCER

Brigitte Zemmrich

William P. Spencer
Executive Vice President

C/O Sherry Bailey

Address P.O. Box 28115

Address 1185 Linda Vista Drive, Suite D

San Diego, CA 92198-0115

San Marcos, CA 92069

Phone (619) 485-0376

Phone (619) 744-7340

GUARANTY

The undersigned guarantor(s) hereby irrevocably guarantee to Lessor the full performance of each and every obligation of Lessee required to be performed under the terms of the above Lease, including the payment of all rent and other sums due from Lessee to Lessor. This Guaranty is entered into in order to induce Lessor to execute the above Lease with Lessee and will continue in full force and effect throughout the term of the above Lease or any extension thereof. The undersigned guarantor(s) hereby consent to and waive notice of any and all modifications of, amendments to, or changes in the terms and conditions of the above Lease, which may be agreed to between Lessor and Lessee, and agree that this Guaranty shall nevertheless continue in full force and effect.

Executed on 1/24, 1995, at _____.

GUARANTORS

/s/ WILLIAM P. SPENCER

(Signature)

(Signature)

William P. Spencer,
Executive Vice President

(Name-printed or typed)
Address -----

Phone -----

(Name-printed or typed)
Address -----

Phone -----

ADDENDUM TO STANDARD BUSINESS PARK LEASE DATED JANUARY 9, 1995
BY AND BETWEEN BRIGITTE ZEMMRICH, LESSOR, AND
NATURAL ALTERNATIVES INTERNATIONAL, LESSEE.

- 47. EARLY POSSESSION. Lessee shall have access to the suite upon signing of the lease by both parties, and upon the vacating of the space by the present tenant and following necessary cleaning and painting on or about January 23, 1995. All terms and conditions of the lease shall be in full force and effect as of that date except that rent shall not start until February 1, 1995.
- 48. BUSINESS LICENSE. Lessee understands that he is responsible for obtaining a business license from the City of San Marcos to legally operate his business from the premises. Upon signing of this lease, Lessee warrants that he has satisfied this requirement.
- 49. CERTIFICATE OF INSURANCE. Lessor will receive a Certificate of Insurance from Lessee naming Lessor as additionally insured and referencing all suites leased by March 1, 1995 to be sent c/o Sherry Bailey, P.O. Box 28115, San Diego, CA 92198-0115 as set forth in item #13 of this lease.
- 50. RENTAL PAYMENTS. Monthly rental payments are due on the 1st of each month and past due after the 10th. Checks should be mailed and made payable to:

Brigitte Zemmrich
c/o Sherry Bailey
P.O. Box 28115
San Diego, CA 92198-0115
- NOTE: Rental payments are to be postmarked no later than the 10th of each month. If rent is not received by the 15th of the month, you will be subject to a 5% late charge and service of a 3 Day Notice to Pay or Quit along with its associated \$75.00 charge.
- 51. SIGNAGE. Lessor gives Lessee permission to place one (1) company sign above each suite conforming with the existing signs of the business center. See item #18 of this lease.
- 52. ALTERATIONS/ADDITIONS. Any alterations, additions or improvements to the premises will require PRIOR WRITTEN APPROVAL FROM THE LESSOR. Said alterations, additions and/or improvements (at Lessee's sole expense) shall be permitted, done by a licensed contractor and conform to all current building codes and regulations to include payment of all applicable fees. Plans showing the improvements must be submitted to Lessor for review and approval prior to any construction. Lessor reserves the right to require that the Lessee restore the premises (to include walls removed or doorways created) to the original condition/ configuration at the termination of the lease as set forth on page 3, item #8 of this lease. LESSEE FURTHER AGREES THAT ALL CITY ORDINANCES REGARDING FIRE WALLS WILL BE ADHERED TO, AND IF THERE IS ANY ALTERATION TO A FIRE WALL, THE INTEGRITY OF THE FIRE WALL WILL BE MAINTAINED. Lessee and Lessor understand and agree that the existing improvements done by

previous tenants are accepted in "as is" condition to include the air conditioning system and window coverings.

53. HAZARDOUS AND TOXIC MATERIALS. Lessee agrees to maintain the premises in compliance with all city, county, state and federal hazard and toxic waste regulations. No use shall be made or permitted to be made of said premises, nor acts done or continued, which will violate said regulations, nor shall Lessee sell, or permit to be kept, used, or sold, in or about said premises, any article, liquid, or material of whatever kind of nature which may be prohibited by city, county, state or federal regulations pertaining to hazard and toxic waste materials. Notwithstanding any other remedies provided to Lessor, either within this agreement or by law, upon receipt of notice from any appropriate agency that Lessee is in violation of such regulations, Lessor shall be entitled to enter onto the premises and correct said violation and/or remove any such materials or items deemed to be in violation of such regulations. The costs of such correction and/or removal shall be the sole expense of Lessee and may be charged to Lessee as additional rent.

11

PAGE 11

ADDENDUM TO STANDARD BUSINESS PARK LEASE DATED JANUARY 9, 1995
BY AND BETWEEN BRIGITTE ZEMMRICH, LESSOR, AND
NATURAL ALTERNATIVES INTERNATIONAL, LESSEE.

54. LEASE RATE INCREASES. Lease rate increases shall be based on the Consumer Price Index, All Urban Consumers, Los Angeles - Riverside to be applied annually on the anniversary date each year of the lease term and any option term or extension period as set forth in 4(e).
55. HEATING AND AIR CONDITIONING EQUIPMENT. Lessor agrees to maintain and repair existing heating and air conditioning equipment. Any additional equipment installed by Lessee's at sole expense will be maintained by Lessor, but repairs to said additional equipment shall be the responsibility of Lessee. Lessee agrees that any roof leaks caused by penetrations made in the roof by Lessee shall be the responsibility of the Lessee, and that at the termination of the Lease, the roof shall be left in a water-tight condition.
56. BOUNCED RENT CHECKS. Should a rent check be returned by the bank for insufficient funds, all future rental payments must be made by cashier/certified check or money order.
57. COMPLETION OF LEASE TERM/EXTENSION/OPTION PERIOD. Should Lessee fail to complete lease term or any extension/option period for any reason, Security Deposit shall be used for any unpaid rent as well as for restoring the premises to leasable condition (i.e. cleaning carpet, painting, etc.) to include any necessary repairs.
58. KEYS. Lessee will be supplied with three (3) front/back door keys and three (3) mail box keys. There will be a \$25.00 charge if all keys are not returned when premises are vacated and will be deducted from the Security Deposit.
59. CONTINGENCIES.
1. A lease fully executed by both Lessee and Lessor.
 2. Lessee assures Lessor that there shall be no odor associated with the products manufactured in this unit. Lessor shall not be held liable for any product or chemical that the City, County, State or Federal Government might determine to be a pollutant to the air or water which results in fines or increased water billing.
60. TENANT IMPROVEMENTS. Lessor agrees to install a gate on the existing

trash enclosure.

61. LESSEE ALTERATION. Permission is hereby given by Lessor for Lessee, at Lessee's sole expense, to create a doorway in the demising wall which separates Suites A and B to accommodate a forklift. Should this wall be a fire wall, Lessee hereby guarantees that all city codes will be adhered to relating to fire walls and that the integrity of the fire wall will be maintained at all times (to include but not limited to auto-close fire doors). Lessor reserves the right to require Lessee to restore demising wall to original configuration at the termination of this lease as set forth on page 3, item #8 of this lease.

LESSOR: BRIGITTE ZEMMRICH

LESSEE: NATURAL ALTERNATIVES INTERNATIONAL

BY: /s/ BRIGITTE ZEMMRICH

BY: /s/ WILLIAM P. SPENCER

William P. Spencer, Executive Vice President

DATE: 2/1/95

DATE: 1/24/95

12

STANDARD INDUSTRIAL/COMMERCIAL MULTI-TENANT LEASE -- GROSS AMERICAN INDUSTRIAL REAL ESTATE ASSOCIATION [LOGO]

1. BASIC PROVISIONS ("BASIC PROVISIONS").

1.1 PARTIES: This Lease ("LEASE"), dated for reference purposes only, April 11, 1994, is made by and between Brigitte Zemmrich ("LESSOR") and Natural Alternatives International ("LESSEE"), (collectively the "PARTIES," or individually a "PARTY").

1.2(a) PREMISES: That certain portion of the Building, including all improvements therein or to be provided by Lessor under the terms of this Lease, commonly known by the street address of 425 Ryan, #B, located in the City of San Marcos, County of San Diego, State of California, with zip code 92069, as outlined on Exhibit N/A attached hereto ("PREMISES"). The "BUILDING" is that certain building containing the Premises and generally described as (describe briefly the nature of the Building): That certain space containing approximately 2,900 square feet. In addition to Lessee's rights to use and occupy the Premises as hereinafter specified, Lessee shall have non-exclusive rights to the Common Areas (as defined in Paragraph 2.7 below) as hereinafter specified, but shall not have any rights to the roof, exterior walls or utility raceways of the Building or to any other buildings in the Industrial Center. The Premises, the Building, the Common Areas, the land upon which they are located, along with all other buildings and improvements thereon, are herein collectively referred to as the "INDUSTRIAL CENTER." (Also see Paragraph 2.)

1.2(b) PARKING: 5 unreserved vehicle parking spaces ("UNRESERVED PARKING SPACES"); and N/A reserved vehicle parking spaces ("RESERVED PARKING SPACES"). (Also see Paragraph 2.6.)

1.3 TERM: 1 years and - months ("ORIGINAL TERM") commencing April 15, 1994 ("COMMENCEMENT DATE") and ending April 14, 1995 ("EXPIRATION DATE"). (Also see Paragraph 3.)

1.4 EARLY POSSESSION: Upon Full Execution ("EARLY POSSESSION DATE"). (Also see Paragraphs 3.2 and 3.3.)

1.5 BASE RENT: \$1,305.00 per month ("BASE RENT"), payable on the 15th day of each month commencing April 15, 1994 (Also see Paragraph 4.)

[] If this box is checked, this Lease provides for the Base Rent to be

adjusted per Addendum _____, attached hereto.

1.6(a) BASE RENT PAID UPON EXECUTION: \$1,335.00 as Base Rent for the period April 15 - May 14, 1994 (\$1,305 Base Rent + \$30/Water).

1.6(b) LESSEE'S SHARE OF COMMON AREA OPERATING EXPENSES: N/A percent (____%) ("LESSEE'S SHARE") as determined by [] prorata square footage of the Premises as compared to the total square footage of the Building or [] other criteria as described in Addendum _____.

1.7 SECURITY DEPOSIT: \$1,335.00 ("SECURITY DEPOSIT"). (Also see Paragraph 5.)

1.8 PERMITTED USE: Light manufacturing and all other allied uses.

_____ ("PERMITTED USE") (Also see Paragraph 6.)

1.9 INSURING PARTY. Lessor is the "INSURING PARTY." (Also see Paragraph 8.)

1.10(a) REAL ESTATE BROKERS. The following real estate broker(s) (collectively, the "BROKERS") and brokerage relationships exist in this transaction and are consented to by the Parties (check applicable boxes):

[] _____ represents Lessor exclusively ("LESSOR'S BROKER");

[] _____ represents Lessee exclusively ("LESSEE'S BROKER"); or

[X] Iliff, Thorn & Company represents both Lessor and Lessee ("DUAL AGENCY"). (Also see Paragraph 15.)

1.10(b) PAYMENT TO BROKERS. Upon the execution of this Lease by both Parties, Lessor shall pay to said Broker(s) jointly, or in such separate shares as they may mutually designate in writing, a fee as set forth in a separate written agreement between Lessor and said Broker(s) (or in the event there is no separate written agreement between Lessor and said Broker(s), the sum of \$ per schedule) for brokerage services rendered by said Broker(s) in connection with this transaction.

1.11 GUARANTOR. The obligations of the Lessee under this Lease are to be guaranteed by Natural Alternatives International ("GUARANTOR"). (Also see Paragraph 37.)

1.12 ADDENDA AND EXHIBITS. Attached hereto is an Addendum or Addenda consisting of Paragraphs 49 through 57, and Exhibits - through -, all of which constitute a part of this Lease.

2. PREMISES, PARKING AND COMMON AREAS.

2.1 LETTING. Lessor hereby leases to Lessee, and Lessee hereby leases from Lessor, the Premises, for the term, at the rental, and upon all of the terms, covenants and conditions set forth in this Lease. Unless otherwise provided herein, any statement of square footage set forth in this Lease, or that may have been used in calculating rental and/or Common Area Operating Expenses, is an approximation which Lessor and Lessee agree is reasonable and the rental and Lessee's Share (as defined in Paragraph 1.6(b)) based thereon is not subject to revision whether or not the actual square footage is more or less.

2.2 CONDITION. Lessor shall deliver the Premises to Lessee clean and free of debris on the Commencement Date and warrants to Lessee that the existing plumbing, electrical systems, fire sprinkler system, lighting, air conditioning and heating systems, and loading doors, if any, in the Premises, other than those constructed by Lessee, shall be in good operating condition on the Commencement Date. If a non-compliance with said warranty exists as of the Commencement Date, Lessor shall, except as otherwise provided in this Lease, promptly after receipt of written notice from Lessee setting forth with specificity the nature and extent of such non-compliance, rectify same at Lessor's expense. If Lessee does not give Lessor written notice of a non-compliance with this warranty within thirty (30) days after the Commencement

Date, correction of that non-compliance shall be the obligation of Lessee at Lessee's sole cost and expense.

2.3 COMPLIANCE WITH COVENANTS, RESTRICTIONS AND BUILDING CODE. Lessor warrants that any improvements (other than those constructed by Lessee or at Lessee's direction) on or in the Premises which have been constructed or installed by Lessor or with Lessor's consent or at Lessor's direction shall comply with all applicable covenants or restrictions of record and applicable building codes, regulations and ordinances in effect on the Commencement Date. Lessor further warrants to Lessee that Lessor has no knowledge of any claim having been made by any governmental agency that a violation or violations of applicable building codes, regulations, or ordinances exist with regard to the Premises as of the Commencement Date. Said warranties shall not apply to any Alterations or Utility Installations (defined in Paragraph 7.3(a)) made or to be made by Lessee. If the Premises do not comply with said warranties, Lessor shall, except as otherwise provided in this Lease, promptly after receipt of written notice from Lessee given within six (6) months following the Commencement Date and setting forth with specificity the nature and extent of such non-compliance, take such action, at Lessor's expense, as may be reasonable or appropriate to rectify the non-compliance. Lessor makes no warranty that the Permitted Use in Paragraph 1.8 is permitted for the Premises under Applicable Laws (as defined in Paragraph 2.4).

2.4 ACCEPTANCE OF PREMISES. Lessee hereby acknowledges: (a) that it has been advised by the Broker(s) to satisfy itself with respect to the condition of the Premises (including, but not limited to, the electrical and fire sprinkler systems, security, environmental aspects, seismic and earthquake requirements, and compliance with the Americans with Disabilities Act and applicable zoning, municipal, county, state and federal laws, ordinances and regulations, and any covenants or restrictions of record (collectively, "APPLICABLE LAWS") and the present and future suitability of the Premises for Lessee's intended use; (b) that Lessee has made such investigation as it deems necessary with reference to such matters, is satisfied with reference thereto, and assumes all responsibility therefore as the same relate to Lessee's occupancy of the Premises and/or the terms of this Lease; and (c) that neither Lessor, nor any of Lessor's agents, has made any oral or written representations or warranties with respect to said matters other than as set forth in this Lease.

2.5 LESSEE AS PRIOR OWNER/OCCUPANT. The warranties made by Lessor in this Paragraph 2 shall be of no force or effect if immediately prior to the date set forth in Paragraph 1.1 Lessee was the owner or occupant of the Premises. In such event, Lessee shall, at Lessee's sole cost and expense, correct any non-compliance of the Premises with said warranties.

13

2.6 VEHICLE PARKING. Lessee shall be entitled to use the number of Unreserved Parking Spaces and Reserved Parking Spaces specified in Paragraph 1.2(b) on those portions of the Common Areas designated from time to time by Lessor for parking. Lessee shall not use more parking spaces than said number. Said parking spaces shall be used for parking by vehicles no larger than full-size passenger automobiles or pick-up trucks, herein called "PERMITTED SIZE VEHICLES." Vehicles other than Permitted Size Vehicles shall be parked and loaded or unloaded as directed by Lessor in the Rules and Regulations (as defined in Paragraph 40) issued by Lessor. (Also see Paragraph 2.9.)

(a) Lessee shall not permit or allow any vehicles that belong to or are controlled by Lessee or Lessee's employees, suppliers, shippers, customers, contractors or invitees to be loaded, unloaded, or parked in areas other than those designated by Lessor for such activities.

(b) If Lessee permits or allows any of the prohibited activities described in this Paragraph 2.6, then Lessor shall have the right, without notice, in addition to such other rights and remedies that it may have, to remove or tow away the vehicle involved and charge the cost to Lessee, which cost shall be immediately payable upon demand by Lessor.

(c) Lessor shall at the Commencement Date of this Lease provide

the parking facilities required by Applicable Law.

2.7 COMMON AREAS - DEFINITION. The term "COMMON AREAS" is defined as all areas and facilities outside the Premises and within the exterior boundary line of the Industrial Center and interior utility raceways within the Premises that are provided and designated by the Lessor from time to time for the general nonexclusive use of Lessor, Lessee and other lessees of the Industrial Center and their respective employees, suppliers, shippers, customers, contractors and invitees, including parking areas, loading and unloading areas, trash areas, roadways, sidewalks, walkways, parkways, driveways and landscaped areas.

2.8 COMMON AREAS - LESSEE'S RIGHTS. Lessor hereby grants to Lessee, for the benefit of Lessee and its employees, suppliers, shippers, contractors, customers and invitees, during the term of this Lease, the non-exclusive right to use, in common with others entitled to such use, the Common Areas as they exist from time to time, subject to any rights, powers, and privileges reserved by Lessor under the terms hereof or under the terms of any rules and regulations or restrictions governing the use of the Industrial Center. Under no circumstances shall the right herein granted to use the Common Areas be deemed to include the right to store any property, temporarily or permanently, in the Common Areas. Any such storage shall be permitted only by the prior written consent of Lessor or Lessor's designated agent, which consent may be revoked at any time. In the event that any unauthorized storage shall occur then Lessor shall have the right, without notice, in addition to such other rights and remedies that it may have, to remove the property and charge the cost to Lessee, which cost shall be immediately payable upon demand by Lessor.

2.9 COMMON AREAS - RULES AND REGULATIONS. Lessor or such other person(s) as Lessor may appoint shall have the exclusive control and management of the Common Areas and shall have the right, from time to time, to establish, modify, amend and enforce reasonable Rules and Regulations with respect thereto in accordance with Paragraph 40. Lessee agrees to abide by and conform to all such Rules and Regulations, and to cause its employees, suppliers, shippers, customers, contractors and invitees to so abide and conform. Lessor shall not be responsible to Lessee for the non-compliance with said rules and regulations by other lessees of the Industrial Center.

2.10 COMMON AREAS - CHANGES. Lessor shall have the right, in Lessor's sole discretion, from time to time:

(a) To make changes to the Common Areas, including, without limitation, changes in the location, size, shape and number of driveways, entrances, parking spaces, parking areas, loading and unloading areas, ingress, egress, direction of traffic, landscaped areas, walkways and utility raceways;

(b) To close temporarily any of the Common Areas for maintenance purposes so long as reasonable access to the Premises remains available;

(c) To designate other land outside the boundaries of the Industrial Center to be a part of the Common Areas;

(d) To add additional buildings and improvements to the Common Areas;

(e) To use the Common Areas while engaged in making additional improvements, repairs or alterations to the Industrial Center, or any portion thereof; and

(f) To do and perform such other acts and make such other changes in, to or with respect to the Common Areas and Industrial Center as Lessor may, in the exercise of sound business judgment, deem to be appropriate.

3. TERM.

3.1 TERM. The Commencement Date, Expiration Date and Original Term of this Lease are as specified in Paragraph 1.3.

3.2 EARLY POSSESSION. If an Early Possession Date is specified in Paragraph

1.4 and if Lessee totally or partially occupies the Premises after the Early Possession Date but prior to the Commencement Date, the obligation to pay Base Rent shall be abated for the period of such early occupancy. All other terms of this Lease, however, (including, but not limited to, the obligations to pay Lessee's Share of Common Area Operating Expenses and to carry the insurance required by Paragraph 8) shall be in effect during such period. Any such early possession shall not affect nor advance the Expiration Date of the Original Term.

3.3 DELAY IN POSSESSION. If for any reason Lessor cannot deliver possession of the Premises to Lessee by the Early Possession Date, if one is specified in Paragraph 1.4, or if no Early Possession Date is specified, by the Commencement Date, Lessor shall not be subject to any liability therefor, nor shall such failure affect the validity of this Lease, or the obligations of Lessee hereunder, or extend the term hereof, but in such case, Lessee shall not, except as otherwise provided herein, be obligated to pay rent or perform any other obligation of Lessee under the terms of this Lease until Lessor delivers possession of the Premises to Lessee. If possession of the Premises is not delivered to Lessee within sixty (60) days after the Commencement Date, Lessee may, at its option, by notice in writing to Lessor within ten (10) days after the end of said sixty (60) day period, cancel this Lease, in which event the parties shall be discharged from all obligations hereunder; provided further, however, that if such written notice of Lessee is not received by Lessor within said ten (10) day period, Lessee's right to cancel this Lease hereunder shall terminate and be of no further force or effect. Except as may be otherwise provided, and regardless of when the Original Term actually commences, if possession is not tendered to Lessee when required by this Lease and Lessee does not terminate this Lease, as aforesaid, the period free of the obligation to pay Base Rent, if any, that Lessee would otherwise have enjoyed shall run from the date of delivery of possession and continue for a period equal to the period during which the Lessee would have otherwise enjoyed under the terms hereof, but minus any days of delay caused by the acts, changes or omissions of Lessee.

4. RENT.

4.1 BASE RENT. Lessee shall pay Base Rent and other rent or charges, as the same may be adjusted from time to time, to Lessor in lawful money of the United States, without offset or deduction, on or before the day on which it is due under the terms of this Lease. Base Rent and all other rent and charges for any period during the term hereof which is for less than one full month shall be prorated based upon the actual number of days of the month involved. Payment of Base Rent and other charges shall be made to Lessor at its address stated herein or to such other persons or at such other addresses as Lessor may from time to time designate in writing to Lessee.

4.2 COMMON AREA OPERATING EXPENSES. Lessee shall pay to Lessor during the term hereof, in addition to the Base Rent, Lessee's Share (as specified in Paragraph 1.6(b)) of all Common Area Operating Expenses, as hereinafter defined, during each calendar year of the term of this Lease, in accordance with the following provisions:

(a) "COMMON AREA OPERATING EXPENSES" are defined, for purposes of this Lease, as all costs incurred by Lessor relating to the ownership and operation of the Industrial Center, including, but not limited to, the following:

(i) The operation, repair and maintenance, in neat, clean, good order and condition, of the following:

(aa) The Common Areas, including parking areas, loading and unloading areas, trash areas, roadways, sidewalks, walkways, parkways, driveways, landscaped areas, striping, bumpers, irrigation systems, Common Area lighting facilities, fences and gates, elevators and roof.

(bb) Exterior signs and any tenant directories.

(cc) Fire detection and sprinkler systems.

(iii) Trash disposal, property management and security services and the costs of any environmental inspections.

(v) Any increase above the Base Real Property Taxes (as defined in Paragraph 10.2(b)) for the Building and the Common Areas.

(vi) Any "insurance Cost Increase" (as defined in Paragraph 8.1)

(ix) Any other services to be provided by Lessor that are stated elsewhere in this Lease to be a Common Area Operating Expense.

(b) Any Common Area Operating Expenses and Real Property Taxes that are specifically attributable to the Building or to any other building in the Industrial Center or to the operation, repair and maintenance thereof, shall be allocated entirely to the Building or to such other building. However, any Common Area Operating Expenses and Real Property Taxes that are not specifically attributable to the Building or to any other building or to the operation, repair and maintenance thereof, shall be equitably allocated by Lessor to all buildings in the Industrial Center.

(c) The inclusion of the improvements, facilities and services set forth in Subparagraph 4.2(a) shall not be deemed to impose an obligation upon Lessor to either have said improvements or facilities or to provide those services unless the Industrial Center already has the same, Lessor already provides the services, or Lessor has agreed elsewhere in this Lease to provide the same or some of them.

(d) Lessee's Share of Common Area Operating Expenses shall be payable by Lessee within ten (10) days after a reasonably detailed statement of actual expenses is presented to Lessee by Lessor. At Lessor's option, however, an amount may be estimated by Lessor from time to time of Lessee's Share of annual Common Area Operating Expenses and the same shall be payable monthly or quarterly, as Lessor shall designate, during each 12-month period of the Lease term, on the same day as the Base Rent is due hereunder. Lessor shall deliver to Lessee within sixty (60) days after the expiration of each calendar year a reasonably detailed statement showing Lessee's Share of the actual Common Area Operating Expenses incurred during the preceding year. If Lessee's payments under this Paragraph 4.2(d) during said preceding year exceed Lessee's Share as indicated on said statement, Lessee shall be credited the amount of such over-

-2-

14

payment against Lessee's Share of Common Area Operating Expenses next becoming due. If Lessee's payments under this Paragraph 4.2(d) during said preceding year were less than Lessee's Share as indicated on said statement, Lessee shall pay to Lessor the amount of the deficiency within ten (10) days after delivery by Lessor to Lessee of said statement.

5. SECURITY DEPOSIT. Lessee shall deposit with Lessor upon Lessee's execution hereof the Security Deposit set forth in Paragraph 1.7 as security for Lessee's faithful performance of Lessee's obligations under this Lease. If Lessee fails to pay Base Rent or other rent or charges due hereunder, or otherwise Defaults under this Lease (as defined in Paragraph 13.1), Lessor may use, apply or retain all or any portion of said Security Deposit for the payment of any amount due Lessor or to reimburse or compensate Lessor for any liability, cost, expense, loss or damage (including attorneys' fees) which Lessor may suffer or incur by reason thereof. If Lessor uses or applies all or any portion of said Security Deposit, Lessee shall within ten (10) days after written request therefore deposit monies with Lessor sufficient to restore said Security Deposit to the full amount required by this Lease. Any time the Base Rent increases during the term of this Lease, Lessee shall, upon written request from Lessor, deposit additional monies with Lessor as an addition to the Security Deposit so that the total amount of the Security Deposit shall at all times bear the same proportion to the then current Base Rent as the initial Security Deposit bears to the initial Base Rent set forth in Paragraph 1.5. Lessor shall not be required to keep all or any part of the Security Deposit separate from its general accounts. Lessor shall, at the expiration or earlier termination of the term hereof and

after Lessee has vacated the Premises, return to Lessee (or, at Lessor's option, to the last assignee, if any, of Lessee's interest herein), that portion of the Security Deposit not used or applied by Lessor. Unless otherwise expressly agreed in writing by Lessor, no part of the Security Deposit shall be considered to be held in trust, to bear interest or other increment for its use, or to be prepayment for any monies to be paid by Lessee under this Lease.

6. USE.

6.1 PERMITTED USE.

(a) Lessee shall use and occupy the Premises only for the Permitted Use set forth in Paragraph 1.8, or any other legal use which is reasonably comparable thereto, and for no other purpose. Lessee shall not use or permit the use of the Premises in a manner that is unlawful, creates waste or a nuisance, or that disturbs owners and/or occupants of, or causes damage to the Premises or neighboring premises or properties.

(b) Lessor hereby agrees to not unreasonably withhold or delay its consent to any written request by Lessee, Lessee's assignees or subtenants, and by prospective assignees and subtenants of Lessee, its assignees and subtenants, for a modification of said Permitted Use, so long as the same will not impair the structural integrity of the improvements on the Premises or in the Building or the mechanical or electrical systems therein, does not conflict with uses by other lessees, is not significantly more burdensome to the Premises or the Building and the improvements thereon, and is otherwise permissible pursuant to this Paragraph 6. If Lessor elects to withhold such consent, Lessor shall within five (5) business days after such request give a written notification of same, which notice shall include an explanation of Lessor's reasonable objections to the change in use.

6.2 HAZARDOUS SUBSTANCES.

(a) REPORTABLE USES REQUIRE CONSENT. The term "HAZARDOUS SUBSTANCE" as used in this Lease shall mean any product, substance, chemical, material or waste whose presence, nature, quantity and/or intensity of existence, use, manufacture, disposal, transportation, spill, release or effect, either by itself or in combination with other materials expected to be on the Premises, is either: (i) potentially injurious to the public health, safety or welfare, the environment, or the Premises; (ii) regulated or monitored by any governmental authority; or (iii) a basis for potential liability of Lessor to any governmental agency or third party under any applicable statute or common law theory. Hazardous Substance shall include, but not be limited to, hydrocarbons, petroleum, gasoline, crude oil or any products or by-products thereof. Lessee shall not engage in any activity in or about the Premises which constitutes a Reportable Use (as hereinafter defined) of Hazardous Substances without the express prior written consent of Lessor and compliance in a timely manner (at Lessee's sole cost and expense) with all Applicable Requirements (as defined in Paragraph 6.3). "REPORTABLE USE" shall mean (i) the installation or use of any above or below ground storage tank; (ii) the generation, possession, storage, use, transportation, or disposal of a Hazardous Substance that requires a permit from, or with respect to which a report, notice, registration or business plan is required to be filed with, any governmental authority; and (iii) the presence in, on or about the Premises of a Hazardous Substance with respect to which any Applicable Laws require that a notice be given to persons entering or occupying the Premises or neighboring properties. Notwithstanding the foregoing, Lessee may, without Lessor's prior consent, but upon notice to Lessor and in compliance with all Applicable Requirements, use any ordinary and customary materials reasonably required to be used by Lessee in the normal course of the Permitted Use, so long as such use is not a Reportable Use and does not expose the Premises or neighboring properties to any meaningful risk of contamination or damage or expose Lessor to any liability therefor. In addition, Lessor may (but without any obligation to do so) condition its consent to any Reportable Use of any Hazardous Substance by Lessee upon Lessee's giving Lessor such additional assurances as Lessor, in its reasonable discretion, deems necessary to protect itself, the public, the Premises and the environment against damage, contamination or injury and/or liability therefor, including, but not limited to, the installation (and, at Lessor's option, removal on or

before Lease expiration or earlier termination) of reasonably necessary protective modifications to the Premises (such as concrete encasements) and/or the deposit of an additional Security Deposit under Paragraph 5 hereof.

(b) DUTY TO INFORM LESSOR. If Lessee knows, or has reasonable cause to believe, that a Hazardous Substance has come to be located in, on, under or about the Premises or the Building, other than as previously consented to by Lessor, Lessee shall immediately give Lessor written notice thereof, together with a copy of any statement, report, notice, registration, application, permit, business plan, license, claim, action, or proceeding given to, or received from, any governmental authority or private party concerning the presence, spill, release, discharge of, or exposure to, such Hazardous Substance including, but not limited to, all such documents as may be involved in any Reportable Use involving the Premises. Lessee shall not cause or permit any Hazardous Substance to be spilled or released in, on, under or about the Premises (including, without limitation, through the plumbing or sanitary sewer system).

(c) INDEMNIFICATION. Lessee shall indemnify, protect, defend and hold Lessor, its agents, employees, lenders and ground lessor, if any, and the Premises, harmless from and against any and all damages, liabilities, judgments, costs, claims, liens, expenses, penalties, loss of permits and attorneys' and consultants' fees arising out of or involving any Hazardous Substance brought onto the Premises by or for Lessee or by anyone under Lessee's control. Lessee's obligations under this Paragraph 6.2(c) shall include, but not be limited to, the effects of any contamination or injury to person, property or the environment created or suffered by Lessee, and the cost of investigation (including consultants' and attorneys' fees and testing), removal, remediation, restoration and/or abatement thereof, or of any contamination therein involved, and shall survive the expiration or earlier termination of this Lease. No termination, cancellation or release agreement entered into by Lessor and Lessee shall release Lessee from its obligations under this Lease with respect to Hazardous Substances, unless specifically so agreed by Lessor in writing at the time of such agreement.

6.3 LESSEE'S COMPLIANCE WITH REQUIREMENTS. Lessee shall, at Lessee's sole cost and expense, fully, diligently and in a timely manner, comply with all "APPLICABLE REQUIREMENTS," which term is used in this Lease to mean all laws, rules, regulations, ordinances, directives, covenants, easements and restrictions of record, permits, the requirements of any applicable fire insurance underwriter or rating bureau, and the recommendations of Lessor's engineers and/or consultants, relating in any manner to the Premises (including, but not limited to, matters pertaining to (i) industrial hygiene; (ii) environmental conditions on, in, under or about the Premises, including soil and groundwater conditions; and (iii) the use, generation, manufacture, production, installation, maintenance, removal, transportation, storage, spill, or release of any Hazardous Substance), now in effect or which may hereafter come into effect. Lessee shall, within five (5) days after receipt of Lessor's written request, provide Lessor with copies of all documents and information, including, but not limited to, permits, registrations, manifests, applications, reports and certificates, evidencing Lessee's compliance with any Applicable Requirements specified by Lessor, and shall immediately upon receipt, notify Lessor in writing (with copies of any documents involved) of any threatened or actual claim, notice, citation, warning, complaint or report pertaining to or involving failure by Lessee or the Premises to comply with any Applicable Requirements.

6.4 INSPECTION; COMPLIANCE WITH LAW. Lessor, Lessor's agents, employees, contractors and designated representatives, and the holders of any mortgages, deeds of trust or ground leases on the Premises ("LENDERS") shall have the right to enter the Premises at any time in the case of an emergency, and otherwise at reasonable times, for the purpose of inspecting the condition of the Premises and for verifying compliance by Lessee with this Lease and all Applicable Requirements (as defined in Paragraph 6.3), and Lessor shall be entitled to employ experts and/or consultants in connection therewith to advise Lessor with respect to Lessee's activities, including but not limited to Lessee's installation, operation, use, monitoring, maintenance, or removal of any Hazardous Substance on or from the Premises. The costs and expenses of any such inspections shall be paid by the party requesting same, unless a Default or

Breach of this Lease by Lessee or a violation of Applicable Requirements or a contamination, caused or materially contributed to by Lessee, is found to exist or to be imminent, or unless the inspection is requested or ordered by a governmental authority as the result of any such existing or imminent violation or contamination. In such case, Lessee shall upon request reimburse Lessor or Lessor's Lender, as the case may be, for the costs and expenses of such inspections.

7. MAINTENANCE, REPAIRS, UTILITY INSTALLATIONS, TRADE FIXTURES AND ALTERATIONS.

7.1 LESSEE'S OBLIGATIONS.

(a) Subject to the provisions of Paragraphs 2.2 (Condition), 2.3 (Compliance with Covenants, Restrictions and Building Code), 7.2 (Lessor's Obligations), 9 (Damage or Destruction), and 14 (Condemnation), Lessee shall, at Lessee's sole cost and expense and at all times, keep the Premises and every part thereof in good order, condition and repair (whether or not such portion of the Premises requiring repair, or the means of repairing the same, are reasonably or readily accessible to Lessee, and whether or not the need for such repairs occurs as a result of Lessee's use, any prior use, the elements or the age of such portion of the Premises), including, without limiting the generality of the foregoing, all equipment or facilities specifically serving the Premises, such as plumbing, heating, air conditioning, ventilating, electrical, lighting facilities, boilers, fired or unfired pressure vessels, fire hose connections if within the Premises, fixtures, interior walls, interior surfaces of exterior walls, ceilings, floors, windows, doors, plate glass, and skylights, but excluding any items which are the responsibility of Lessor pursuant to Paragraph 7.2 below. Lessee, in keeping the Premises in good order, condition and repair, shall exercise and perform good maintenance practices. Lessee's obligations shall include restorations, replacements or renewals when necessary to keep the Premises and all improvements thereon or a part thereof in good order, condition and state of repair.

(b) Lessee shall, at Lessee's sole cost and expense, procure and maintain a contract, with copies to Lessor, in customary form and substance for and with a contractor specializing and experienced in the inspection, maintenance and service of the heating, air conditioning and ventilation system for the Premises. However, Lessor reserves the right, upon notice to Lessee, to procure and maintain the contract for the heating, air conditioning and ventilating systems, and if Lessor so elects, Lessee shall reimburse Lessor, upon demand, for the cost thereof.

(c) If Lessee fails to perform Lessee's obligations under this Paragraph 7.1, Lessor may enter upon the Premises after ten (10) days' prior written notice to Lessee (except in the case of an emergency, in which case no notice shall be required), perform such obligations on Lessee's behalf, and put the Premises in good order, condition and repair, in accordance with Paragraph 13.2 below.

7.2 LESSOR'S OBLIGATIONS. Subject to the provisions of Paragraphs 2.2 (Condition), 2.3 (Compliance with Covenants, Restrictions and Building Code), 4.2 (Common Area Operating Expenses), 6 (Use), 7.1 (Lessee's Obligations), 9 (Damage or Destruction) and 14 (Condemnation), Lessor, subject to reimbursement pursuant to Paragraph 4.2, shall keep in good order, condition and repair the foundations, exterior walls, structural condition of interior bearing walls, exterior roof, fire sprinkler and/or standpipe and hose (if located in the Common Areas) or other automatic fire extinguishing system including fire alarm and/or smoke detection

systems and equipment, fire hydrants, parking lots, walkways, parkways, driveways, landscaping, fences, signs and utility systems serving the Common Areas and all parts thereof, as well as providing the services for which there is a Common Area Operating Expense pursuant to Paragraph 4.2. Lessor shall not

be obligated to paint the exterior or interior surfaces of exterior walls nor shall Lessor be obligated to maintain, repair or replace windows, doors or plate glass of the Premises. Lessee expressly waives the benefit of any statute now or hereafter in effect which would otherwise afford Lessee the right to make repairs at Lessor's expense or to terminate this Lease because of Lessor's failure to keep the Building, Industrial Center or Common Areas in good order, condition and repair.

7.3 UTILITY INSTALLATIONS, TRADE FIXTURES, ALTERATIONS.

(a) DEFINITIONS; CONSENT REQUIRED. The term "UTILITY INSTALLATIONS" is used in this Lease to refer to all air lines, power panels, electrical distribution, security, fire protection systems, communications systems, lighting fixtures, heating, ventilating and air conditioning equipment, plumbing, and fencing in, on or about the Premises. The term "TRADE FIXTURES" shall mean Lessee's machinery and equipment which can be removed without doing material damage to the Premises. The term "ALTERATIONS" shall mean any modification of the improvements on the Premises which are provided by Lessor under the terms of this Lease, other than Utility Installations or Trade Fixtures. "LESSEE-OWNED ALTERATIONS AND/OR UTILITY INSTALLATIONS" are defined as Alterations and/or Utility Installations made by Lessee that are not yet owned by Lessor pursuant to Paragraph 7.4(a). Lessee shall not make nor cause to be made any Alterations or Utility Installations in, on, under or about the Premises without Lessor's prior written consent. Lessee may, however, make non-structural Utility Installations to the interior of the Premises (excluding the roof) without Lessor's consent but upon notice to Lessor, so long as they are not visible from the outside of the Premises, do not involve puncturing, relocating or removing the roof or any existing walls, or changing or interfering with the fire sprinkler or fire detection systems and the cumulative cost thereof during the term of this Lease as extended does not exceed \$2,500.00.

(b) CONSENT. Any Alterations or Utility Installations that Lessee shall desire to make and which require the consent of the Lessor shall be presented to Lessor in written form with detailed plans. All consents given by Lessor, whether by virtue of Paragraph 7.3(a) or by subsequent specific consent, shall be deemed conditioned upon: (i) Lessee's acquiring all applicable permits required by governmental authorities; (ii) the furnishing of copies of such permits together with a copy of the plans and specifications for the Alteration or Utility Installation to Lessor prior to commencement of the work thereon; and (iii) the compliance by Lessee with all conditions of said permits in a prompt and expeditious manner. Any Alterations or Utility Installations by Lessee during the term of this Lease shall be done in a good and workmanlike manner, with good and sufficient materials, and be in compliance with all Applicable Requirements. Lessee shall promptly upon completion thereof furnish Lessor with as-built plans and specifications therefor. Lessor may, (but without obligation to do so) condition its consent to any requested Alteration or Utility Installation that costs \$2,500.00 or more upon Lessee's providing Lessor with a lien and completion bond in an amount equal to one and one-half times the estimated cost of such Alteration or Utility Installation.

(c) LIEN PROTECTION. Lessee shall pay when due all claims for labor or materials furnished or alleged to have been furnished to or for Lessee at or for use on the Premises, which claims are or may be secured by any mechanic's or materialmen's lien against the Premises or any interest therein. Lessee shall give Lessor not less than ten (10) days' notice prior to the commencement of any work in, on, or about the Premises, and Lessor shall have the right to post notices of non-responsibility in or on the Premises as provided by law. If Lessee shall, in good faith, contest the validity of any such lien, claim or demand, then Lessee shall, at its sole expense, defend and protect itself, Lessor and the Premises against the same and shall pay and satisfy any such adverse judgment that may be rendered thereon before the enforcement thereof against the Lessor or the Premises. If Lessor shall require, Lessee shall furnish to Lessor a surety bond satisfactory to Lessor, in an amount equal to one and one-half times the amount of such contested lien claim or demand, indemnifying Lessor against liability for the same, as required by law for the holding of the Premises free from the effect of such lien or claim. In addition, Lessor may require Lessee to pay Lessor's attorneys' fees and costs

in participating in such action if Lessor shall decide it is to its best interest to do so.

7.4 OWNERSHIP, REMOVAL, SURRENDER, AND RESTORATION.

(a) OWNERSHIP. Subject to Lessor's right to require their removal and to cause Lessee to become the owner thereof as hereinafter provided in this Paragraph 7.4, all Alterations and Utility Installations made to the Premises by Lessee shall be the property of and owned by Lessee, but considered a part of the Premises. Lessor may, at any time and at its option, elect in writing to Lessee to be the owner of all or any specified part of the Lessee-Owned Alterations and Utility Installations. Unless otherwise instructed per Subparagraph 7.4(b) hereof, all Lessee-Owned Alterations and Utility Installations shall, at the expiration or earlier termination of this Lease, become the property of Lessor and remain upon the Premises and be surrendered with the Premises by Lessee.

(b) REMOVAL. Unless otherwise agreed in writing, Lessor may require that any or all Lessee-Owned Alterations or Utility Installations be removed by the expiration or earlier termination of this Lease, notwithstanding that their installation may have been consented to by Lessor. Lessor may require the removal at any time of all or any part of any Alterations or Utility Installations made without the required consent of Lessor.

(c) SURRENDER/RESTORATION. Lessee shall surrender the Premises by the end of the last day of the Lease term or any earlier termination date, clean and free of debris and in good operating order, condition and state of repair, ordinary wear and tear excepted. Ordinary wear and tear shall not include any damage or deterioration that would have been prevented by good maintenance practice or by Lessee performing all of its obligations under this Lease. Except as otherwise agreed or specified herein, the Premises, as surrendered, shall include the Alterations and Utility Installations. The obligation of Lessee shall include the repair of any damage occasioned by the installation, maintenance or removal of Lessee's Trade Fixtures, furnishings, equipment, and Lessee-Owned Alterations and Utility Installations, as well as the removal of any storage tank installed by or for Lessee, and the removal, replacement, or remediation of any soil, material or ground water contaminated by Lessee, all as may then be required by Applicable Requirements and/or good practice. Lessee's Trade Fixtures shall remain the property of Lessee and shall be removed by Lessee subject to its obligation to repair and restore the Premises per this Lease.

8. INSURANCE; INDEMNITY.

8.1 PAYMENT OF PREMIUM INCREASES.

(a) As used herein, the term "INSURANCE COST INCREASE" is defined as any increase in the actual cost of the insurance applicable to the Building and required to be carried by Lessor pursuant to Paragraphs 8.2(b), 8.3(a) and 8.3(b), ("REQUIRED INSURANCE"), over and above the Base Premium, as hereinafter defined, calculated on an annual basis. "Insurance Cost Increase" shall include, but not be limited to, requirements of the holder of a mortgage or deed of trust covering the Premises, increased valuation of the Premises, and/or a general premium rate increase. The term "Insurance Cost Increase" shall not, however, include any premium increases resulting from the nature of the occupancy of any other lessee of the Building. If the parties insert a dollar amount in Paragraph 1.9, such amount shall be considered the "BASE PREMIUM." If a dollar amount has not been inserted in Paragraph 1.9 and if the Building has been previously occupied during the twelve (12) month period immediately preceding the Commencement Date, the "Base Premium" shall be the annual premium applicable to such twelve (12) month period. If the Building was not fully occupied during such twelve (12) month period, the "Base Premium" shall be the lowest annual premium reasonably obtainable for the Required Insurance as of the Commencement Date, assuming the most nominal use possible of the Building. In no event, however, shall Lessee be responsible for any portion of the premium cost attributable to liability insurance coverage in excess of \$1,000,000 procured under Paragraph 8.2(b).

(b) Lessee shall pay any Insurance Cost increase to Lessor pursuant to Paragraph 4.2. Premiums for policy periods commencing prior to, or extending beyond, the term of this Lease shall be prorated to coincide with the corresponding Commencement Date or Expiration Date.

8.2 LIABILITY INSURANCE.

(a) CARRIED BY LESSEE. Lessee shall obtain and keep in force during the term of this Lease a Commercial General Liability policy of insurance protecting Lessee, Lessor and any Lender(s) whose names have been provided to Lessee in writing (as additional insureds) against claims for bodily injury, personal injury and property damage based upon, involving or arising out of the ownership, use, occupancy or maintenance of the Premises and all areas appurtenant thereto. Such insurance shall be on an occurrence basis providing single limit coverage in an amount not less than \$1,000,000 per occurrence with an "Additional Insured-Managers or Lessors of Premises" endorsement and contain the "Amendment of the Pollution Exclusion" endorsement for damage caused by heat, smoke or fumes from a hostile fire. The policy shall not contain any intra-insured exclusions as between insured persons or organizations, but shall include coverage for liability assumed under this Lease as an "INSURED CONTRACT" for the performance of Lessee's indemnity obligations under this Lease. The limits of said insurance required by this Lease or as carried by Lessee shall not, however, limit the liability of Lessee nor relieve Lessee of any obligation hereunder. All insurance to be carried by Lessee shall be primary to and not contributory with any similar insurance carried by Lessor, whose insurance shall be considered excess insurance only.

(b) CARRIED BY LESSOR. Lessor shall also maintain liability insurance described in Paragraph 8.2(a) above, in addition to and not in lieu of, the insurance required to be maintained by Lessee. Lessee shall not be named as an additional insured therein.

8.3 PROPERTY INSURANCE - BUILDING, IMPROVEMENTS AND RENTAL VALUE.

(a) BUILDING AND IMPROVEMENTS. Lessor shall obtain and keep in force during the term of this Lease a policy or policies in the name of Lessor, with loss payable to Lessor and to any Lender(s), insuring against loss or damage to the Premises. Such insurance shall be for full replacement cost, as the same shall exist from time to time, or the amount required by any Lender(s), but in no event more than the commercially reasonable and available insurable value thereof if, by reason of the unique nature or age of the improvements involved, such latter amount is less than full replacement cost. Lessee-Owned Alterations and Utility Installations, Trade Fixtures and Lessee's personal property shall be insured by Lessee pursuant to Paragraph 8.4. If the coverage is available and commercially appropriate, Lessor's policy or policies shall insure against all risks of direct physical loss or damage (except the perils of flood and/or earthquake unless required by a Lender or included in the Base Premium), including coverage for any additional costs resulting from debris removal and reasonable amounts of coverage for the enforcement of any ordinance or law regulating the reconstruction or replacement of any undamaged sections of the Building required to be demolished or removed by reason of the enforcement of any building, zoning, safety or land use laws as the result of a covered loss, but not including plate glass insurance. Said policy or policies shall also contain an agreed valuation provision in lieu of any co-insurance clause, waiver of subrogation, and inflation guard protection causing an increase in the annual property insurance coverage amount by a factor of not less than the adjusted U.S. Department of Labor Consumer Price Index for All Urban Consumers for the city nearest to where the Premises are located.

(b) RENTAL VALUE. Lessor shall also obtain and keep in force during the term of this Lease a policy or policies in the name of Lessor, with loss payable to Lessor and any Lender(s), insuring the loss of the full rental and other charges payable by all lessees of the Building to Lessor for one year (including all Real Property Taxes, insurance costs, all Common Area Operating Expenses and any scheduled rental increases). Said insurance may provide that in the event the Lease is terminated by reason of an insured loss, the period of indemnity for such coverage shall be extended beyond the date of the completion of repairs or replacement of the Premises, to provide for one full year's loss

of rental revenues from the date of any such loss. Said insurance shall contain an agreed valuation provision in lieu of any co-insurance clause, and the amount of coverage shall be adjusted annually to reflect the projected rental income, Real Property Taxes, insurance premium costs and other expenses, if any, otherwise payable, for the next 12-month period. Common Area Operating Expenses shall include any deductible amount in the event of such loss.

(c) ADJACENT PREMISES. Lessee shall pay for any increase in the premiums for the property insurance of the Building and for the Common Areas or other buildings in the Industrial Center if said increase is caused by Lessee's acts, omissions, use or occupancy of the Premises.

-4-

16

(d) LESSEE'S IMPROVEMENTS. Since Lessor is the Insuring Party, Lessor shall not be required to insure Lessee-Owned Alterations and Utility Installations unless the item in question has become the property of Lessor under the terms of this Lease.

8.4 LESSEE'S PROPERTY INSURANCE. Subject to the requirements of Paragraph 8.5, Lessee at its cost shall either by separate policy or, at Lessor's option, by endorsement to a policy already carried, maintain insurance coverage on all of Lessee's personal property, Trade Fixtures and Lessee-Owned Alterations and Utility Installations in, on, or about the Premises similar in coverage to that carried by Lessor as the Insuring Party under Paragraph 8.3(a). Such insurance shall be full replacement cost coverage with a deductible not to exceed \$1,000 per occurrence. The proceeds from any such insurance shall be used by Lessee for the replacement of personal property and the restoration of Trade Fixtures and Lessee-Owned Alterations and Utility Installations. Upon request from Lessor, Lessee shall provide Lessor with written evidence that such insurance is in force.

8.5 INSURANCE POLICIES. Insurance required hereunder shall be in companies duly licensed to transact business in the state where the Premises are located, and maintaining during the policy term a "General Policyholders Rating" of at least B+, V, or such other rating as may be required by a Lender, as set forth in the most current issue of "Best's Insurance Guide." Lessee shall not do or permit to be done anything which shall invalidate the insurance policies referred to in this Paragraph 8. Lessee shall cause to be delivered to Lessor, within seven (7) days after the earlier of the Early Possession Date or the Commencement Date, certified copies of, or certificates evidencing the existence and amounts of, the insurance required under Paragraph 8.2(a) and 8.4. No such policy shall be cancelable or subject to modification except after thirty (30) days' prior written notice to Lessor. Lessee shall at least thirty (30) days prior to the expiration of such policies, furnish Lessor with evidence of renewals or "insurance binders" evidencing renewal thereof, or Lessor may order such insurance and charge the cost thereof to Lessee, which amount shall be payable by Lessee to Lessor upon demand.

8.6 WAIVER OF SUBROGATION. Without affecting any other rights or remedies, Lessee and Lessor each hereby release and relieve the other, and waive their entire right to recover damages (whether in contract or in tort) against the other, for loss or damage to their property arising out of or incident to the perils required to be insured against under Paragraph 8. The effect of such releases and waivers of the right to recover damages shall not be limited by the amount of insurance carried or required, or by any deductibles applicable thereto. Lessor and Lessee agree to have their respective insurance companies issuing property damage insurance waive any right to subrogation that such companies may have against Lessor or Lessee, as the case may be, so long as the insurance is not invalidated thereby.

8.7 INDEMNITY. Except for Lessor's negligence and/or breach of express warranties, Lessee shall indemnify, protect, defend and hold harmless the Premises, Lessor and its agents, Lessor's master or ground lessor, partners and Lenders, from and against any and all claims, loss of rents and/or damages, costs, liens, judgments, penalties, loss of permits, attorneys' and consultants'

fees, expenses and/or liabilities arising out of, involving, or in connection with, the occupancy of the Premises by Lessee, the conduct of Lessee's business, any act, omission or neglect of Lessee, its agents, contractors, employees or invitees, and out of any Default or Breach by Lessee in the performance in a timely manner of any obligation on Lessee's part to be performed under this Lease. The foregoing shall include, but not be limited to, the defense or pursuit of any claim or any action or proceeding involved therein, and whether or not (in the case of claims made against Lessor) litigated and/or reduced to judgment. In case any action or proceeding be brought against Lessor by reason of any of the foregoing matters, Lessee upon notice from Lessor shall defend the same at Lessee's expense by counsel reasonably satisfactory to Lessor and Lessor shall cooperate with Lessee in such defense. Lessor need not have first paid any such claim in order to be so indemnified.

8.8 EXEMPTION OF LESSOR FROM LIABILITY. Lessor shall not be liable for injury or damage to the person or goods, wares, merchandise or other property of Lessee, Lessee's employees, contractors, invitees, customers, or any other person in or about the Premises, whether such damage or injury is caused by or results from fire, steam, electricity, gas, water or rain, or from the breakage, leakage, obstruction or other defects of pipes, fire sprinklers, wires, appliances, plumbing, air conditioning or lighting fixtures, or from any other cause, whether said injury or damage results from conditions arising upon the Premises or upon other portions of the Building of which the Premises are a part, from other sources or places, and regardless of whether the cause of such damage or injury or the means of repairing the same is accessible or not. Lessor shall not be liable for any damages arising from any act or neglect of any other lessee of Lessor nor from the failure by Lessor to enforce the provisions of any other lease in the Industrial Center. Notwithstanding Lessor's negligence or breach of this Lease, Lessor shall under no circumstances be liable for injury to Lessee's business or for any loss of income or profit therefrom.

9. DAMAGE OR DESTRUCTION.

9.1 DEFINITIONS.

(a) "PREMISES PARTIAL DAMAGE" shall mean damage or destruction to the Premises, other than Lessee-Owned Alterations and Utility Installations, the repair cost of which damage or destruction is less than fifty percent (50%) of the then Replacement Cost (as defined in Paragraph 9.1(d)) of the Premises (excluding Lessee-Owned Alterations and Utility Installations and Trade Fixtures) immediately prior to such damage or destruction.

(b) "PREMISES TOTAL DESTRUCTION" shall mean damage or destruction to the Premises, other than Lessee-Owned Alterations and Utility Installations, the repair cost of which damage or destruction is fifty percent (50%) or more of the then Replacement Cost of the Premises (excluding Lessee-Owned Alterations and Utility Installations and Trade Fixtures) immediately prior to such damage or destruction. In addition, damage or destruction to the Building, other than Lessee-Owned Alterations and Utility Installations and Trade Fixtures of any lessees of the Building, the cost of which damage or destruction is fifty percent (50%) or more of the then Replacement Cost (excluding Lessee-Owned Alterations and Utility Installations and Trade Fixtures of any lessees of the Building) of the Building shall, at the option of Lessor, be deemed to be Premises Total Destruction.

(c) "INSURED LOSS" shall mean damage or destruction to the Premises, other than Lessee-Owned Alterations and Utility Installations and Trade Fixtures, which was caused by an event required to be covered by the insurance described in Paragraph 8.3(a) irrespective of any deductible amounts or coverage limits involved.

(d) "REPLACEMENT COST" shall mean the cost to repair or rebuild the improvements owned by Lessor at the time of the occurrence to their condition existing immediately prior thereto, including demolition, debris removal and upgrading required by the operation of applicable building codes, ordinances or laws, and without deduction for depreciation.

(e) "HAZARDOUS SUBSTANCE CONDITION" shall mean the occurrence or

discovery of a condition involving the presence of, or a contamination by, a Hazardous Substance as defined in Paragraph 6.2(a), in, on, or under the Premises.

9.2 PREMISES PARTIAL DAMAGE -- INSURED LOSS. If Premises Partial Damage that is an Insured Loss occurs, then Lessor shall, at Lessor's expense, repair such damage (but not Lessee's Trade Fixtures or Lessee-Owned Alterations and Utility Installations) as soon as reasonably possible and this Lease shall continue in full force and effect. In the event, however, that there is a shortage of insurance proceeds and such shortage is due to the fact that, by reason of the unique nature of the improvements in the Premises, full replacement cost insurance coverage was not commercially reasonable and available, Lessor shall have no obligation to pay for the shortage in insurance proceeds or to fully restore the unique aspects of the Premises unless Lessee provides Lessor with the funds to cover same, or adequate assurance thereof, within ten (10) days following receipt of written notice of such shortage and request therefor. If Lessor receives said funds or adequate assurance thereof within said ten (10) day period, Lessor shall complete them as soon as reasonably possible and this Lease shall remain in full force and effect. If Lessor does not receive such funds or assurance within said period, Lessor may nevertheless elect by written notice to Lessee within ten (10) days thereafter to make such restoration and repair as is commercially reasonable with Lessor paying any shortage in proceeds, in which case this Lease shall remain in full force and effect. If Lessor does not receive such funds or assurance within such ten (10) day period, and if Lessor does not so elect to restore and repair, then this Lease shall terminate sixty (60) days following the occurrence of the damage or destruction. Unless otherwise agreed, Lessee shall in no event have any right to reimbursement from Lessor for any funds contributed by Lessee to repair any such damage or destruction. Premises Partial Damage due to flood or earthquake shall be subject to Paragraph 9.3 rather than Paragraph 9.2, notwithstanding that there may be some insurance coverage, but the net proceeds of any such insurance shall be made available for the repairs if made by either Party.

9.3 PARTIAL DAMAGE -- UNINSURED LOSS. If Premises Partial Damage that is not an Insured Loss occurs, unless caused by a negligent or willful act of Lessee (in which event Lessee shall make the repairs at Lessee's expense and this Lease shall continue in full force and effect), Lessor may at Lessor's option, either (i) repair such damage as soon as reasonably possible at Lessor's expense, in which event this Lease shall continue in full force and effect, or (ii) give written notice to Lessee within thirty (30) days after receipt by Lessor of knowledge of the occurrence of such damage of Lessor's desire to terminate this Lease as of the date sixty (60) days following the date of such notice. In the event Lessor elects to give such notice of Lessor's intention to terminate this Lease, Lessee shall have the right within ten (10) days after the receipt of such notice to give written notice to Lessor of Lessee's commitment to pay for the repair of such damage totally at Lessee's expense and without reimbursement from Lessor. Lessee shall provide Lessor with the required funds or satisfactory assurance thereof within thirty (30) days following such commitment from Lessee. In such event this Lease shall continue in full force and effect, and Lessor shall proceed to make such repairs as soon as reasonably possible after the required funds are available. If Lessee does not give such notice and provide the funds or assurance thereof within the times specified above, this Lease shall terminate as of the date specified in Lessor's notice of termination.

9.4 TOTAL DESTRUCTION. Notwithstanding any other provision hereof, if Premises Total Destruction occurs (including any destruction required by any authorized public authority), this Lease shall terminate sixty (60) days following the date of such Premises Total Destruction, whether or not the damage or destruction is an Insured Loss or was caused by a negligent or willful act of Lessee. In the event, however, that the damage or destruction was caused by Lessee, Lessor shall have the right to recover Lessor's damages from Lessee except as released and waived in Paragraph 9.7.

9.5 DAMAGE NEAR END OF TERM. If at any time during the last six (6) months of the term of this Lease there is damage for which the cost to repair exceeds one month's Base Rent, whether or not an Insured Loss, Lessor may, at Lessor's

option, terminate this Lease effective sixty (60) days following the date of occurrence of such damage by giving written notice to Lessee of Lessor's election to do so within thirty (30) days after the date of occurrence of such damage. Provided, however, if Lessee at that time has an exercisable option to extend this Lease or to purchase the Premises, then Lessee may preserve this Lease by (a) exercising such option, and (b) providing Lessor with any shortage in insurance proceeds (or adequate assurance thereof) needed to make the repairs on or before the earlier of (i) the date which is ten (10) days after Lessee's receipt of Lessor's written notice purporting to terminate this Lease, or (ii) the day prior to the date upon which such option expires. If Lessee duly exercises such option during such period and provides Lessor with funds (or adequate assurance thereof) to cover any shortage in insurance proceeds, Lessor shall, at Lessor's expense repair such damage as soon as reasonably possible and this Lease shall continue in full force and effect. If Lessee fails to exercise such option and provide such funds or assurance during such period, then this Lease shall terminate as of the date set forth in the first sentence of this Paragraph 9.5.

9.6 ABATEMENT OF RENT; LESSEE'S REMEDIES.

(a) In the event of (i) Premises Partial Damage or (ii) Hazardous Substance Condition for which Lessee is not legally responsible, the Base Rent, Common Area Operating Expenses and other charges, if any, payable by Lessee hereunder for the period during which such damage or condition, its repair, remediation or restoration continues, shall be abated in proportion to the degree to which Lessee's use of the Premises is impaired, but not in excess of proceeds from insurance required to be carried under Paragraph 8.3(b). Except for abatement of Base Rent, Common Area Operating Expenses and other charges, if any, as aforesaid, all other obligations of Lessee hereunder shall be performed by Lessee, and Lessee shall have no claim against Lessor for any damage suffered by reason of any such damage, destruction, repair, remediation or restoration.

-5-

17

(b) If Lessor shall be obligated to repair or restore the Premises under the provisions of this Paragraph 9 and shall not commence, in a substantial and meaningful way, the repair or restoration of the Premises within ninety (90) days after such obligation shall accrue, Lessee may, at any time prior to the commencement of such repair or restoration, give written notice to Lessor and to any Lenders of which Lessee has actual notice of Lessee's election to terminate this Lease on a date not less than sixty (60) days following the giving of such notice. If Lessee gives such notice to Lessor and such Lenders and such repair or restoration is not commenced within thirty (30) days after receipt of such notice, this Lease shall terminate as of the date specified in said notice. If Lessor or a Lender commences the repair or restoration of the Premises within thirty (30) days after the receipt of such notice, this Lease shall continue in full force and effect. "COMMENCE" as used in this Paragraph 9.6 shall mean either the unconditional authorization of the preparation of the required plans, or the beginning of the actual work on the Premises, whichever occurs first.

9.7 HAZARDOUS SUBSTANCE CONDITIONS. If a Hazardous Substance Condition occurs, unless Lessee is legally responsible therefor (in which case Lessee shall make the investigation and remediation thereof required by Applicable Requirements and this Lease shall continue in full force and effect, but subject to Lessor's rights under Paragraph 6.2(c) and Paragraph 13), Lessor may, at Lessor's option, either (i) investigate and remediate such Hazardous Substance Condition, if required, as soon as reasonably possible at Lessor's expense, in which event this Lease shall continue in full force and effect, or (ii) if the estimated cost to investigate and remediate such condition exceeds twelve (12) times the then monthly Base Rent or \$100,000, whichever is greater, give written

notice to Lessee within thirty (30) days after receipt by Lessor of knowledge of the occurrence of such Hazardous Substance Condition of Lessor's desire to terminate this Lease as of the date sixty (60) days following the date of such notice. In the event Lessor elects to give such notice of Lessor's intention to terminate this Lease, Lessee shall have the right within ten (10) days after the receipt of such notice to give written notice to Lessor of Lessee's commitment to pay for the excess costs of (a) investigation and remediation of such Hazardous Substance Condition to the extent required by Applicable Requirements, over (b) an amount equal to twelve (12) times the then monthly Base Rent or \$100,000, whichever is greater. Lessee shall provide Lessor with the funds required of Lessee or satisfactory assurance thereof within thirty (30) days following said commitment by Lessee. In such event this Lease shall continue in full force and effect, and Lessor shall proceed to make such investigation and remediation as soon as reasonably possible after the required funds are available. If Lessee does not give such notice and provide the required funds or assurance thereof within the time period specified above, this Lease shall terminate as of the date specified in Lessor's notice of termination.

9.8 TERMINATION - ADVANCE PAYMENTS. Upon termination of this Lease pursuant to this Paragraph 9, Lessor shall return to Lessee any advance payment made by Lessee to Lessor and so much of Lessee's Security Deposit as has not been, or is not then required to be, used by Lessor under the terms of this Lease.

9.9 WAIVER OF STATUTES. Lessor and Lessee agree that the terms of this Lease shall govern the effect of any damage to or destruction of the Premises and the Building with respect to the termination of this Lease and hereby waive the provisions of any present or future statute to the extent it is inconsistent herewith.

10. REAL PROPERTY TAXES.

10.1 PAYMENT OF TAXES. Lessor shall pay the Real Property Taxes, as defined in Paragraph 10.2(a), applicable to the Industrial Center, and except as otherwise provided in Paragraph 10.3, any increases in such amounts over the Base Real Property Taxes shall be included in the calculation of Common Area Operating Expenses in accordance with the provisions of Paragraph 4.2.

10.2 REAL PROPERTY TAX DEFINITION.

(a) As used herein, the term "REAL PROPERTY TAXES" shall include any form of real estate tax or assessment, general, special, ordinary or extraordinary, and any license fee, commercial rental tax, improvement bond or bonds, levy or tax (other than inheritance, personal income or estate taxes) imposed upon the Industrial Center by any authority having the direct or indirect power to tax, including any city, state or federal government, or any school, agricultural, sanitary, fire, street, drainage, or other improvement district thereof, levied against any legal or equitable interest of Lessor in the Industrial Center or any portion thereof, Lessor's right to rent or other income therefrom, and/or Lessor's business of leasing the Premises. The term "REAL PROPERTY TAXES" shall also include any tax, fee, levy, assessment or charge, or any increase therein, imposed by reason of events occurring, or changes in Applicable Law taking effect, during the term of this Lease, including, but not limited to, a change in the ownership of the Industrial Center or in the improvements thereon, the execution of this Lease, or any modification, amendment or transfer thereof, and whether or not contemplated by the Parties.

(b) As used herein, the term "BASE REAL PROPERTY TAXES" shall be the amount of Real Property Taxes, which are assessed against the Premises, Building or Common Areas in the calendar year during which the Lease is executed. In calculating Real Property Taxes for any calendar year, the Real Property Taxes for any real estate tax year shall be included in the calculation of Real Property Taxes for such calendar year based upon the number of days which such calendar year and tax year have in common.

10.3 ADDITIONAL IMPROVEMENTS. Common Area Operating Expenses shall not include Real Property Taxes specified in the tax assessor's records and work sheets as being caused by additional improvements placed upon the Industrial Center by other lessees or by Lessor for the exclusive enjoyment of such other

lessees. Notwithstanding Paragraph 10.1 hereof, Lessee shall, however, pay to Lessor at the time Common Area Operating Expenses are payable under Paragraph 4.2, the entirety of any increase in Real Property Taxes if assessed solely by reason of Alterations, Trade Fixtures or Utility Installations placed upon the Premises by Lessee or at Lessee's request.

10.4 JOINT ASSESSMENT. If the Building is not separately assessed, Real Property Taxes allocated to the Building shall be an equitable proportion of the Real Property Taxes for all of the land and improvements included within the tax parcel assessed, such proportion to be determined by Lessor from the respective valuations assigned in the assessor's work sheets or such other information as may be reasonably available. Lessor's reasonable determination thereof, in good faith, shall be conclusive.

10.5 LESSEE'S PROPERTY TAXES. Lessee shall pay prior to delinquency all taxes assessed against and levied upon Lessee-Owned Alterations and Utility Installations, Trade Fixtures, furnishings, equipment and all personal property of Lessee contained in the Premises or stored within the Industrial Center. When possible, Lessee shall cause its Lessee-Owned Alterations and Utility Installations, Trade Fixtures, furnishings, equipment and all other personal property to be assessed and billed separately from the real property of Lessor. If any of Lessee's said property shall be assessed with Lessor's real property, Lessee shall pay Lessor the taxes attributable to Lessee's property within ten (10) days after receipt of a written statement setting forth the taxes applicable to Lessee's property.

11. UTILITIES. Lessee shall pay directly for all utilities and services supplied to the Premises, including, but not limited to, electricity, telephone, security, gas and cleaning of the Premises, together with any taxes thereon. If any such utilities or services are not separately metered to the Premises or separately billed to the Premises, Lessee shall pay to Lessor a reasonable proportion to be determined by Lessor of all such charges jointly metered or billed with other premises in the Building, in the manner and within the time periods set forth in Paragraph 4.2(d).

12. ASSIGNMENT AND SUBLETTING.

12.1 LESSOR'S CONSENT REQUIRED.

(a) Lessee shall not voluntarily or by operation of law assign, transfer, mortgage or otherwise transfer or encumber (collectively, "assign") or sublet all or any part of Lessee's interest in this Lease or in the Premises without Lessor's prior written consent given under and subject to the terms of Paragraph 36.

(b) A change in the control of Lessee shall constitute an assignment requiring Lessor's consent. The transfer, on a cumulative basis, of twenty-five percent (25%) or more of the voting control of Lessee shall constitute a change in control for this purpose.

(c) The involvement of Lessee or its assets in any transaction, or series of transactions (by way of merger, sale, acquisition, financing, refinancing, transfer, leveraged buy-out or otherwise), whether or not a formal assignment or hypothecation of this Lease or Lessee's assets occurs, which results or will result in a reduction of the Net Worth of Lessee, as hereinafter defined, by an amount equal to or greater than twenty-five percent (25%) of such Net Worth of Lessee as it was represented to Lessor at the time of full execution and delivery of this Lease or at the time of the most recent assignment to which Lessor has consented, or as it exists immediately prior to said transaction or transactions constituting such reduction, at whichever time said Net Worth of Lessee was or is greater, shall be considered an assignment of this Lease by Lessee to which Lessor may reasonably withhold its consent. "NET WORTH OF LESSEE" for purposes of this Lease shall be the net worth of Lessee (excluding any Guarantors) established under generally accepted accounting principles consistently applied.

(d) An assignment or subletting of Lessee's interest in this Lease without Lessor's specific prior written consent shall, at Lessor's option, be a

Default curable after notice per Paragraph 13.1, or a non-curable Breach without the necessity of any notice and grace period. If Lessor elects to treat such unconsented to assignment or subletting as a non-curable Breach, Lessor shall have the right to either: (i) terminate this Lease, or (ii) upon thirty (30) days' written notice ("LESSOR'S NOTICE"), increase the monthly Base Rent for the Premises to the greater of the then fair market rental value of the Premises, as reasonably determined by Lessor, or one hundred ten percent (110%) of the Base Rent then in effect. Pending determination of the new fair market rental value, if disputed by Lessee, Lessee shall pay the amount set forth in Lessor's Notice, with any overpayment credited against the next installment(s) of Base Rent coming due, and any underpayment for the period retroactively to the effective date of the adjustment being due and payable immediately upon the determination thereof. Further, in the event of such Breach and rental adjustment, (i) the purchase price of any option to purchase the Premises held by Lessee shall be subject to similar adjustment to the then fair market value as reasonably determined by Lessor (without the Lease being considered an encumbrance or any deduction for depreciation or obsolescence, and considering the Premises at its highest and best use and in good condition) or one hundred ten percent (110%) of the price previously in effect, (ii) any index-oriented rental or price adjustment formulas contained in this Lease shall be adjusted to require that the base index be determined with reference to the index applicable to the time of such adjustment, and (iii) any fixed rental adjustments scheduled during the remainder of the Lease term shall be increased in the same ratio as the new rental bears to the Base Rent in effect immediately prior the adjustment specified in Lessor's Notice.

(e) Lessee's remedy for any breach of this Paragraph 12.1 by Lessor shall be limited to compensatory damages and/or injunctive relief.

12.2 TERMS AND CONDITIONS APPLICABLE TO ASSIGNMENT AND SUBLETTING.

(a) Regardless of Lessor's consent, any assignment or subletting shall not (i) be effective without the express written assumption by such assignee or sublessee of the obligations of Lessee under this Lease, (ii) release Lessee of any obligations hereunder, nor (iii) alter the primary liability of Lessee for the payment of Base Rent and other sums due Lessor hereunder or for the performance of any other obligations to be performed by Lessee under this Lease.

(b) Lessor may accept any rent or performance of Lessee's obligations from any person other than Lessee pending approval or disapproval of an assignment. Neither a delay in the approval or disapproval of such assignment nor the acceptance of any rent for performance shall constitute a waiver or estoppel of Lessor's right to exercise its remedies for the Default or Breach by Lessee of any of the terms, covenants or conditions of this Lease.

(c) The consent of Lessor to any assignment or subletting shall not constitute a consent to any subsequent assignment or subletting by Lessee or to any subsequent or successive assignment or subletting by the assignee or sublessee. However, Lessor may consent to subsequent sublettings and assignments of the sublease or any amendments or modifications thereto without notifying Lessee or anyone else liable under this Lease or the sublease and without obtaining their consent, and such action shall not relieve such persons from liability under this Lease or the sublease.

-6-

18

(d) In the event of any Default or Breach of Lessee's obligation under this Lease, Lessor may proceed directly against Lessee, any Guarantors or anyone else responsible for the performance of the Lessee's obligations under this Lease, including any sublessee, without first exhausting Lessor's remedies against any other person or entity responsible therefor to Lessor, or any security held by Lessor.

(e) Each request for consent to an assignment or subletting shall be in writing, accompanied by information relevant to Lessor's determination as to the financial and operational responsibility and appropriateness of the

proposed assignee or sublessee, including, but not limited to, the intended use and/or required modification of the Premises, if any, together with a non-refundable deposit of \$1,000 or ten percent (10%) of the monthly Base Rent applicable to the portion of the Premises which is the subject of the proposed assignment or sublease, whichever is greater, as reasonable consideration for Lessor's considering and processing the request for consent. Lessee agrees to provide Lessor with such other or additional information and/or documentation as may be reasonably requested by Lessor.

(f) Any assignee of, or sublessee under, this Lease shall, by reason of accepting such assignment or entering into such sublease, be deemed, for the benefit of Lessor, to have assumed and agreed to conform and comply with each and every term, covenant, condition and obligation herein to be observed or performed by Lessee during the term of said assignment or sublease, other than such obligations as are contrary to or inconsistent with provisions of an assignment or sublease to which Lessor has specifically consented in writing.

(g) The occurrence of a transaction described in Paragraph 12.2(c) shall give Lessor the right (but not the obligation) to require that the Security Deposit be increased by an amount equal to six (6) times the then monthly Base Rent, and Lessor may make the actual receipt by Lessor of the Security Deposit increase a condition to Lessor's consent to such transaction.

(h) Lessor, as a condition to giving its consent to any assignment or subletting, may require that the amount and adjustment schedule of the rent payable under this Lease be adjusted to what is then the market value and/or adjustment schedule for property similar to the Premises as then constituted, as determined by Lessor.

12.3 ADDITIONAL TERMS AND CONDITIONS APPLICABLE TO SUBLETTING. The following terms and conditions shall apply to any subletting by Lessee of all or any part of the Premises and shall be deemed included in all subleases under this Lease whether or not expressly incorporated therein:

(a) Lessee hereby assigns and transfers to Lessor all of Lessee's interest in all rentals and income arising from any sublease of all or a portion of the Premises heretofore or hereafter made by Lessee, and Lessor may collect such rent and income and apply same toward Lessee's obligations under this Lease; provided, however, that until a Breach (as defined in Paragraph 13.1) shall occur in the performance of Lessee's obligations under this Lease, Lessee may, except as otherwise provided in this Lease, receive, collect and enjoy the rents accruing under such sublease. Lessor shall not, by reason of the foregoing provision or any other assignment of such sublease to Lessor, nor by reason of the collection of the rents from a sublessee, be deemed liable to the sublessee for any failure of Lessee to perform and comply with any of Lessee's obligations to such sublessee under such Sublease. Lessee hereby irrevocably authorizes and directs any such sublessee, upon receipt of a written notice from Lessor stating that a Breach exists in the performance of Lessee's obligations under this Lease, to pay to Lessor the rents and other charges due and to become due under the sublease. Sublessee shall rely upon any such statement and request from Lessor and shall pay such rents and other charges to Lessor without any obligation or right to inquire as to whether such Breach exists and notwithstanding any notice from or claim from Lessee to the contrary. Lessee shall have no right or claim against such sublessee, or, until the Breach has been cured, against Lessor, for any such rents and other charges so paid by said sublessee to Lessor.

(b) In the event of a Breach by Lessee in the performance of its obligations under this Lease, Lessor, at its option and without any obligation to do so, may require any sublessee to attorn to Lessor, in which event Lessor shall undertake the obligations of the sublessor under such sublease from the time of the exercise of said option to the expiration of such sublease; provided, however, Lessor shall not be liable for any prepaid rents or security deposit paid by such sublessee to such sublessor or for any other prior defaults or breaches of such sublessor under such sublease.

(c) Any matter or thing requiring the consent of the sublessor under a sublease shall also require the consent of Lessor herein.

(d) No sublessee under a sublease approved by Lessor shall further assign or sublet all or any part of the Premises without Lessor's prior written consent.

(e) Lessor shall deliver a copy of any notice of Default or Breach by Lessee to the sublessee, who shall have the right to cure the Default of Lessee within the grace period, if any, specified in such notice. The sublessee shall have a right of reimbursement and offset from and against Lessee for any such Defaults cured by the sublessee.

13. DEFAULT; BREACH; REMEDIES.

13.1 DEFAULT; BREACH. Lessor and Lessee agree that if an attorney is consulted by Lessor in connection with a Lessee Default or Breach (as hereinafter defined), \$350.00 is a reasonable minimum sum per such occurrence for legal services and costs in the preparation and service of a notice of Default, and that Lessor may include the cost of such services and costs in said notice as rent due and payable to cure said default. A "DEFAULT" by Lessee is defined as a failure by Lessee to observe, comply with or perform any of the terms, covenants, conditions or rules applicable to Lessee under this Lease. A "BREACH" by Lessee is defined as the occurrence of any one or more of the following Defaults, and, where a grace period for cure after notice is specified herein, the failure by Lessee to cure such Default prior to the expiration of the applicable grace period, and shall entitle Lessor to pursue the remedies set forth in Paragraphs 13.2 and/or 13.3:

(a) The vacating of the Premises without the intention to reoccupy same, or the abandonment of the Premises.

(b) Except as expressly otherwise provided in this Lease, the failure by Lessee to make any payment of Base Rent, Lessee's Share of Common Area Operating Expenses, or any other monetary payment required to be made by Lessee hereunder as and when due, the failure by Lessee to provide Lessor with reasonable evidence of insurance or surety bond required under this Lease, or the failure of Lessee to fulfill any obligation under this Lease which endangers or threatens life or property, where such failure continues for a period of three (3) days following written notice thereof by or on behalf of Lessor to Lessee.

(c) Except as expressly otherwise provided in this Lease, the failure by Lessee to provide Lessor with reasonable written evidence (in duly executed original form, if applicable) of (i) compliance with Applicable Requirements per Paragraph 6.3, (ii) the inspection, maintenance and service contracts required under Paragraph 7.1(b), (iii) the rescission of an unauthorized assignment or subletting per Paragraph 12.1, (iv) a Tenancy Statement per Paragraphs 16 or 37, (v) the subordination or non-subordination of this Lease per Paragraph 30, (vi) the guaranty of the performance of Lessee's obligations under this Lease if required under Paragraphs 1.11 and 37, (vii) the execution of any document requested under Paragraph 42 (easements), or (viii) any other documentation or information which Lessor may reasonably require of Lessee under the terms of this Lease, where any such failure continues for a period of ten (10) days following written notice by or on behalf of Lessor to Lessee.

(d) A Default by Lessee as to the terms, covenants, conditions or provisions of this Lease, or of the rules adopted under Paragraph 40 hereof that are to be observed, complied with or performed by Lessee, other than those described in Subparagraphs 13.1(a), (b) or (c), above, where such Default continues for a period of thirty (30) days after written notice thereof by or on behalf of Lessor to Lessee; provided, however, that if the nature of Lessee's Default is such that more than thirty (30) days are reasonably required for its cure, then it shall not be deemed to be a Breach of this Lease by Lessee if Lessee commences such cure within said thirty (30) day period and thereafter diligently prosecutes such cure to completion.

(e) The occurrence of any of the following events: (i) the making by Lessee of any general arrangement or assignment for the benefit of creditors;

(ii) Lessee's becoming a "debtor" as defined in 11 U.S. Code Section 101 or any successor statute thereto (unless, in the case of a petition filed against Lessee, the same is dismissed within sixty (60) days); (iii) the appointment of a trustee or receiver to take possession of substantially all of Lessee's assets located at the Premises or of Lessee's interest in this Lease, where possession is not restored to Lessee within thirty (30) days; or (iv) the attachment, execution or other judicial seizure of substantially all of Lessee's assets located at the Premises or of Lessee's interest in this Lease, where such seizure is not discharged within thirty (30) days; provided, however, in the event that any provision of this Subparagraph 13.1(e) is contrary to any applicable law, such provision shall be of no force or effect, and shall not affect the validity of the remaining provisions.

(f) The discovery by Lessor that any financial statement of Lessee or of any Guarantor, given to Lessor by Lessee or any Guarantor, was materially false.

(g) If the performance of Lessee's obligations under this Lease is guaranteed: (i) the death of a Guarantor, (ii) the termination of a Guarantor's liability with respect to this Lease other than in accordance with the terms of such guaranty, (iii) a Guarantor's becoming insolvent or the subject of a bankruptcy filing, (iv) a Guarantor's refusal to honor the guaranty, or (v) a Guarantor's breach of its guaranty obligation on an anticipatory breach basis, and Lessee's failure, within sixty (60) days following written notice by or on behalf of Lessor to Lessee of any such event, to provide Lessor with written alternative assurances of security, which, when coupled with the then existing resources of Lessee, equals or exceeds the combined financial resources of Lessee and the Guarantors that existed at the time of execution of this Lease.

13.2 REMEDIES. If Lessee fails to perform any affirmative duty or obligation of Lessee under this Lease, within ten (10) days after written notice to Lessee (or in case of an emergency, without notice), Lessor may at its option (but without obligation to do so), perform such duty or obligation on Lessee's behalf, including, but not limited to, the obtaining of reasonably required bonds, insurance policies, or governmental licenses, permits or approvals. The costs and expenses of any such performance by Lessor shall be due and payable by Lessee to Lessor upon invoice therefor. If any check given to Lessor by Lessee shall not be honored by the bank upon which it is drawn, Lessor, at its own option, may require all future payments to be made under this Lease by Lessee to be made only by cashier's check. In the event of a Breach of this Lease by Lessee (as defined in Paragraph 13.1), with or without further notice or demand, and without limiting Lessor in the exercise of any right or remedy which Lessor may have by reason of such Breach, Lessor may:

(a) Terminate Lessee's right to possession of the Premises by any lawful means, in which case this Lease and the term hereof shall terminate and Lessee shall immediately surrender possession of the Premises to Lessor. In such event Lessor shall be entitled to recover from Lessee: (i) the worth at the time of the award of the unpaid rent which had been earned at the time of termination; (ii) the worth at the time of award of the amount by which the unpaid rent which would have been earned after termination until the time of award exceeds the amount of such rental loss that the Lessee proves could have been reasonably avoided; (iii) the worth at the time of award of the amount by which the unpaid rent for the balance of the term after the time of award exceeds the amount of such rental loss that the Lessee proves could be reasonably avoided; and (iv) any other amount necessary to compensate Lessor for all the detriment proximately caused by the Lessee's failure to perform its obligations under this Lease or which in the ordinary course of things would be likely to result therefrom, including, but not limited to, the cost of recovering possession of the Premises, expenses of reletting, including necessary renovation and alteration of the Premises, reasonable attorneys' fees, and that portion of any leasing commission paid by Lessor in connection with this Lease applicable to the unexpired term of this Lease. The worth at the time of award of the amount referred to in provision (iii) of the immediately preceding sentence shall be computed by discounting such amount at the discount rate of the Federal Reserve Bank of San Francisco or the Federal Reserve Bank District in which the Premises are located at the time of award plus one percent (1%). Efforts by Lessor to mitigate damages caused by Lessee's Default or Breach

of this Lease shall not waive Lessor's right to recover damages under this Paragraph 13.2. If termination of this Lease is obtained through the provisional remedy of unlawful detainer, Lessor shall have the right to recover in such pro-

-7-

19

ceeding the unpaid rent and damages as are recoverable therein, or Lessor may reserve the right to recover all or any part thereof in a separate suit for such rent and/or damages. If a notice and grace period required under Subparagraph 13.1(b), (c) or (d) was not previously given, a notice to pay rent or quit, or to perform or quit, as the case may be, given to Lessee under any statute authorizing the forfeiture of leases for unlawful detainer shall also constitute the applicable notice for grace period purposes required by Subparagraph 13.1(b), (c) or (d). In such case, the applicable grace period under the unlawful detainer statute shall run concurrently after the one such statutory notice, and the failure of Lessee to cure the Default within the greater of the two (2) such grace periods shall constitute both an unlawful detainer and a Breach of this Lease entitling Lessor to the remedies provided for in this Lease and/or by said statute.

(b) Continue the Lease and Lessee's right to possession in effect (in California under California Civil Code Section 1951.4) after Lessee's Breach and recover the rent as it becomes due, provided Lessee has the right to sublet or assign, subject only to reasonable limitations. Lessor and Lessee agree that the limitations on assignment and subletting in this Lease are reasonable. Acts of maintenance or preservation, efforts to relet the Premises, or the appointment of a receiver to protect the Lessor's interest under this Lease, shall not constitute a termination of the Lessee's right to possession.

(c) Pursue any other remedy now or hereafter available to Lessor under the laws or judicial decisions of the state wherein the Premises are located.

(d) The expiration or termination of this Lease and/or the termination of Lessee's right to possession shall not relieve Lessee from liability under any indemnity provisions of this Lease as to matters occurring or accruing during the term hereof or by reason of Lessee's occupancy of the Premises.

13.3 INDUCEMENT RECAPTURE IN EVENT OF BREACH. Any agreement by Lessor for free or abated rent or other charges applicable to the Premises, or for the giving or paying by Lessor to or for Lessee of any cash or other bonus, inducement or consideration for Lessee's entering into this Lease, all of which concessions are hereinafter referred to as "INDUCEMENT PROVISIONS" shall be deemed conditioned upon Lessee's full and faithful performance of all of the terms, covenants and conditions of this Lease to be performed or observed by Lessee during the term hereof as the same may be extended. Upon the occurrence of a Breach (as defined in Paragraph 13.1) of this Lease by Lessee, any such Inducement Provision shall automatically be deemed deleted from this Lease and of no further force or effect, and any rent, other charge, bonus, inducement or consideration theretofore abated, given or paid by Lessor under such an Inducement Provision shall be immediately due and payable by Lessee to Lessor, and recoverable by Lessor, as additional rent due under this Lease, notwithstanding any subsequent cure of said Breach by Lessee. The acceptance by Lessor of rent or the cure of the Breach which initiated the operation of this Paragraph 13.3 shall not be deemed a waiver by Lessor of the provisions of this Paragraph 13.3 unless specifically so stated in writing by Lessor at the time of such acceptance.

13.4 LATE CHARGES. Lessee hereby acknowledges that late payment by Lessee to Lessor of rent and other sums due hereunder will cause Lessor to incur costs not contemplated by this Lease, the exact amount of which will be extremely difficult to ascertain. Such costs include, but are not limited to, processing and accounting charges, and late charges which may be imposed upon Lessor by the terms of any ground lease, mortgage or deed of trust covering the Premises.

Accordingly, if any installment of rent or other sum due from Lessee shall not be received by Lessor or Lessor's designee within ten (10) days after such amount shall be due, then, without any requirement for notice to Lessee, Lessee shall pay to Lessor a late charge equal to six percent (6%) of such overdue amount. The Parties hereby agree that such late charge represents a fair and reasonable estimate of the costs Lessor will incur by reason of late payment by Lessee. Acceptance of such late charge by Lessor shall in no event constitute a waiver of Lessee's Default or Breach with respect to such overdue amount, nor prevent Lessor from exercising any of the other rights and remedies granted hereunder. In the event that a late charge is payable hereunder, whether or not collected, for three (3) consecutive installments of Base Rent, then notwithstanding Paragraph 4.1 or any other provision of this Lease to the contrary, Base Rent shall, at Lessor's option, become due and payable quarterly in advance.

13.5 BREACH BY LESSOR. Lessor shall not be deemed in breach of this Lease unless Lessor fails within a reasonable time to perform an obligation required to be performed by Lessor. For purposes of this Paragraph 13.5, a reasonable time shall in no event be less than thirty (30) days after receipt by Lessor, and by any Lender(s) whose name and address shall have been furnished to Lessee in writing for such purpose, of written notice specifying wherein such obligation of Lessor has not been performed; provided, however, that if the nature of Lessor's obligation is such that more than thirty (30) days after such notice are reasonably required for its performance, then Lessor shall not be in breach of this Lease if performance is commenced within such thirty (30) day period and thereafter diligently pursued to completion.

14. CONDEMNATION. If the Premises or any portion thereof are taken under the power of eminent domain or sold under the threat of the exercise of said power (all of which are herein called "condemnation"), this Lease shall terminate as to the part so taken as of the date the condemning authority takes title or possession, whichever first occurs. If more than ten percent (10%) of the floor area of the Premises, or more than twenty-five percent (25%) of the portion of the Common Areas designated for Lessee's parking, is taken by condemnation, Lessee may, at Lessee's option, to be exercised in writing within ten (10) days after Lessor shall have given Lessee written notice of such taking (or in the absence of such notice, within ten (10) days after the condemning authority shall have taken possession) terminate this Lease as of the date the condemning authority takes such possession. If Lessee does not terminate this Lease in accordance with the foregoing, this Lease shall remain in full force and effect as to the portion of the Premises remaining, except that the Base Rent shall be reduced in the same proportion as the rentable floor area of the Premises taken bears to the total rentable floor area of the Premises. No reduction of Base Rent shall occur if the condemnation does not apply to any portion of the Premises. Any award for the taking of all or any part of the Premises under the power of eminent domain or any payment made under threat of the exercise of such power shall be the property of Lessor, whether such award shall be made as compensation for diminution of value of the leasehold or for the taking of the fee, or as severance damages; provided, however, that Lessee shall be entitled to any compensation, separately awarded to Lessee for Lessee's relocation expenses and/or loss of Lessee's Trade Fixtures. In the event that this Lease is not terminated by reason of such condemnation, Lessor shall to the extent of its net severance damages received, over and above Lessee's share of the legal and other expenses incurred by Lessor in the condemnation matter, repair any damage to the Premises caused by such condemnation authority. Lessee shall be responsible for the payment of any amount in excess of such net severance damages required to complete such repair.

15. BROKERS' FEES

15.1 PROCURING CAUSE. The Broker(s) named in Paragraph 1.10 is/are the procuring cause of this Lease.

15.2 ADDITIONAL TERMS. Unless Lessor and Broker(s) have otherwise agreed in writing, Lessor agrees that: (a) if Lessee exercises any Option (as defined in Paragraph 39.1) granted under this Lease or any Option subsequently granted, or (b) if Lessee acquires any rights to the Premises or other premises in which Lessor has an interest, or (c) if Lessee remains in possession of the Premises

with the consent of Lessor after the expiration of the term of this Lease after having failed to exercise an Option, or (d) if said Brokers are the procuring cause of any other lease or sale entered into between the Parties pertaining to the Premises and/or any adjacent property in which Lessor has an interest, or (e) if Base Rent is increased, whether by agreement or operation of an escalation clause herein, then as to any of said transactions, Lessor shall pay said Broker(s) a fee in accordance with the schedule of said Broker(s) in effect at the time of the execution of this Lease.

15.3 ASSUMPTION OF OBLIGATIONS. Any buyer or transferee of Lessor's interest in this Lease, whether such transfer is by agreement or by operation of law, shall be deemed to have assumed Lessor's obligation under this Paragraph 15. Each Broker shall be an intended third party beneficiary of the provisions of Paragraph 1.10 and of this Paragraph 15 to the extent of its interest in any commission arising from this Lease and may enforce that right directly against Lessor and its successors.

15.4 REPRESENTATIONS AND WARRANTIES. Lessee and Lessor each represent and warrant to the other that it has had no dealings with any person, firm, broker or finder other than as named in Paragraph 1.10(a) in connection with the negotiation of this Lease and/or the consummation of the transaction contemplated hereby, and that no broker or other person, firm or entity other than said named Broker(s) is entitled to any commission or finder's fee in connection with said transaction. Lessee and Lessor do each hereby agree to indemnify, protect, defend and hold the other harmless from and against liability for compensation or charges which may be claimed by any such unnamed broker, finder or other similar party by reason of any dealings or actions of the indemnifying Party, including any costs, expenses, and/or attorneys' fees reasonably incurred with respect thereto.

16. TENANCY AND FINANCIAL STATEMENTS.

16.1 TENANCY STATEMENT. Each Party (as "RESPONDING PARTY") shall within ten (10) days after written notice from the other Party (the "REQUESTING PARTY") execute, acknowledge and deliver to the Requesting Party a statement in writing in a form similar to the then most current "TENANCY STATEMENT" form published by the American Industrial Real Estate Association, plus such additional information, confirmation and/or statements as may be reasonably requested by the Requesting Party.

16.2 FINANCIAL STATEMENT. If Lessor desires to finance, refinance, or sell the Premises or the Building, or any part thereof, Lessee and all Guarantors shall deliver to any potential lender or purchaser designated by Lessor such financial statements of Lessee and such Guarantors as may be reasonably required by such lender or purchaser, including, but not limited to, Lessee's financial statements for the past three (3) years. All such financial statements shall be received by Lessor and such lender or purchaser in confidence and shall be used only for the purposes herein set forth.

17. LESSOR'S LIABILITY. The term "LESSOR" as used herein shall mean the owner or owners at the time in question of the fee title to the Premises. In the event of a transfer of Lessor's title or interest in the Premises or in this Lease, Lessor shall deliver to the transferee or assignee (in cash or by credit) any unused Security Deposit held by Lessor at the time of such transfer or assignment. Except as provided in Paragraph 15.3, upon such transfer or assignment and delivery of the Security Deposit, as aforesaid, the prior Lessor shall be relieved of all liability with respect to the obligations and/or covenants under this Lease thereafter to be performed by the Lessor. Subject to the foregoing, the obligations and/or covenants in this Lease to be performed by the Lessor shall be binding only upon the Lessor as hereinabove defined.

18. SEVERABILITY. The invalidity of any provision of this Lease, as determined by a court of competent jurisdiction, shall in no way affect the validity of any other provision hereof.

19. INTEREST ON PAST-DUE OBLIGATIONS. Any monetary payment due Lessor hereunder, other than late charges, not received by Lessor within ten (10) days following the date on which it was due, shall bear interest from the date due at the prime

rate charged by the largest state chartered bank in the state in which the Premises are located plus four percent (4%) per annum, but not exceeding the maximum rate allowed by law, in addition to the potential late charge provided for in Paragraph 13.4.

20. TIME OF ESSENCE. Time is of the essence with respect to the performance of all obligations to be performed or observed by the Parties under this Lease.

21. RENT DEFINED. All monetary obligations of Lessee to Lessor under the terms of this Lease are deemed to be rent.

22. NO PRIOR OR OTHER AGREEMENTS; BROKER DISCLAIMER. This Lease contains all agreements between the Parties with respect to any matter mentioned herein, and no other prior or contemporaneous agreement or understanding shall be effective. Lessor and Lessee each represents and warrants to the Brokers that it has made, and is relying solely upon, its own investigation as to the nature, quality, character and financial responsibility of the other Party to this Lease and as to the nature, quality and character of the Premises. Brokers have no responsibility with respect thereto or with respect to any default or breach hereof by either Party. Each Broker shall be an intended third party beneficiary of the provisions of this Paragraph 22.

-8-

20

23. NOTICES.

23.1 NOTICE REQUIREMENTS. All notices required or permitted by this Lease shall be in writing and may be delivered in person (by hand or by messenger or courier service) or may be sent by regular, certified or registered mail or U.S. Postal Service Express Mail, with postage prepaid, or by facsimile transmission during normal business hours, and shall be deemed sufficiently given if served in a manner specified in this Paragraph 23. The addresses noted adjacent to a Party's signature on this Lease shall be that Party's address for delivery or mailing of notice purposes. Either Party may by written notice to the other specify a different address for notice purposes, except that upon Lessee's taking possession of the Premises, the Premises shall constitute Lessee's address for the purpose of mailing or delivering notices to Lessee. A copy of all notices required or permitted to be given to Lessor hereunder shall be concurrently transmitted to such party or parties at such addresses as Lessor may from time to time hereafter designate by written notice to Lessee.

23.2 DATE OF NOTICE. Any notice sent by registered or certified mail, return receipt requested, shall be deemed given on the date of delivery shown on the receipt card, or if no delivery date is shown, the postmark thereon. If sent by regular mail, the notice shall be deemed given forty-eight (48) hours after the same is addressed as required herein and mailed with postage prepaid. Notices delivered by United States Express Mail or overnight courier that guarantees next day delivery shall be deemed given twenty-four (24) hours after delivery of the same to the United States Postal Service or courier. If any notice is transmitted by facsimile transmission or similar means, the same shall be deemed served or delivered upon telephone or facsimile confirmation of receipt of the transmission thereof, provided a copy is also delivered via delivery or mail. If notice is received on a Saturday or a Sunday or a legal holiday, it shall be deemed received on the next business day.

24. WAIVERS. No waiver by Lessor of the Default or Breach of any term, covenant or condition hereof by Lessee, shall be deemed a waiver of any other term, covenant or condition hereof, or of any subsequent Default or Breach by Lessee of the same or any other term, covenant or condition hereof. Lessor's consent to, or approval of, any such act shall not be deemed to render unnecessary the obtaining of Lessor's consent to, or approval of, any subsequent or similar act by Lessee, or be construed as the basis of an estoppel to enforce the provision or provisions of this Lease requiring such consent. Regardless of Lessor's knowledge of a Default or Breach at the time of accepting rent, the acceptance of rent by Lessor shall not be a waiver of any Default or Breach by Lessee of any provision hereof. Any payment given Lessor by Lessee may be accepted by

Lessor on account of monies or damages due Lessor, notwithstanding any qualifying statements or conditions made by Lessee in connection therewith, which such statements and/or conditions shall be of no force or effect whatsoever unless specifically agreed to in writing by Lessor at or before the time of deposit of such payment.

25. RECORDING. Either Lessor or Lessee shall, upon request of the other, execute, acknowledge and deliver to the other a short form memorandum of this Lease for recording purposes. The Party requesting recordation shall be responsible for payment of any fees or taxes applicable thereto.

26. NO RIGHT TO HOLDOVER. Lessee has no right to retain possession of the Premises or any part thereof beyond the expiration or earlier termination of this Lease. In the event that Lessee holds over in violation of this Paragraph 26 then the Base Rent payable from and after the time of the expiration or earlier termination of this Lease shall be increased to two hundred percent (200%) of the Base Rent applicable during the month immediately preceding such expiration or earlier termination. Nothing contained herein shall be construed as a consent by Lessor to any holding over by Lessee.

27. CUMULATIVE REMEDIES. No remedy or election hereunder shall be deemed exclusive but shall, wherever possible, be cumulative with all other remedies at law or in equity.

28. COVENANTS AND CONDITIONS. All provisions of this Lease to be observed or performed by Lessee are both covenants and conditions.

29. BINDING EFFECT; CHOICE OF LAW. This Lease shall be binding upon the Parties, their personal representatives, successors and assigns and be governed by the laws of the state in which the Premises are located. Any litigation between the Parties hereto concerning this Lease shall be initiated in the county in which the Premises are located.

30. SUBORDINATION; ATTORMENT; NON-DISTURBANCE.

30.1 SUBORDINATION. This Lease and any Option granted hereby shall be subject and subordinate to any ground lease, mortgage, deed of trust, or other hypothecation or security device (collectively, "SECURITY DEVICE"), now or hereafter placed by Lessor upon the real property of which the Premises are a part, to any and all advances made on the security thereof, and to all renewals, modifications, consolidations, replacements and extensions thereof. Lessee agrees that the Lenders holding any such Security Device shall have no duty, liability or obligation to perform any of the obligations of Lessor under this Lease, but that in the event of Lessor's default with respect to any such obligation, Lessee will give any Lender whose name and address have been furnished Lessee in writing for such purpose notice of Lessor's default pursuant to Paragraph 13.5. If any Lender shall elect to have this Lease and/or any Option granted hereby superior to the lien of its Security Device and shall give written notice thereof to Lessee, this Lease and such Options shall be deemed prior to such Security Device, notwithstanding the relative dates of the documentation or recordation thereof.

30.2 ATTORMENT. Subject to the non-disturbance provisions of Paragraph 30.3, Lessee agrees to attorn to a Lender or any other party who acquires ownership of the Premises by reason of a foreclosure of a Security Device, and that in the event of such foreclosure, such new owner shall not: (i) be liable for any act or omission of any prior lessor or with respect to events occurring prior to acquisition of ownership, (ii) be subject to any offsets or defenses which Lessee might have against any prior lessor, or (iii) be bound by prepayment of more than one (1) month's rent.

30.3 NON-DISTURBANCE. With respect to Security Devices entered into by Lessor after the execution of this Lease, Lessee's subordination of this Lease shall be subject to receiving assurance (a "non-disturbance agreement") from the Lender that Lessee's possession and this Lease, including any options to extend the term hereof, will not be disturbed so long as Lessee is not in Breach hereof and attorns to the record owner of the Premises.

30.4 SELF-EXECUTING. The agreements contained in this Paragraph 30 shall be effective without the execution of any further documents; provided, however, that upon written request from Lessor or a Lender in connection with a sale, financing or refinancing of Premises, Lessee and Lessor shall execute such further writings as may be reasonably required to separately document any such subordination or non-subordination, attornment and/or non-disturbance agreement as is provided for herein.

31. ATTORNEYS' FEES. If any Party or Broker brings an action or proceeding to enforce the terms hereof or declare rights hereunder, the Prevailing Party (as hereafter defined) in any such proceeding, action, or appeal thereon, shall be entitled to reasonable attorneys' fees. Such fees may be awarded in the same suit or recovered in a separate suit, whether or not such action or proceeding is pursued to decision or judgment. The term "PREVAILING PARTY" shall include, without limitation, a Party or Broker who substantially obtains or defeats the relief sought, as the case may be, whether by compromise, settlement, judgment, or the abandonment by the other Party or Broker of its claim or defense. The attorneys' fee award shall not be computed in accordance with any court fee schedule, but shall be such as to fully reimburse all attorneys' fees reasonably incurred. Lessor shall be entitled to attorneys' fees, costs and expenses incurred in preparation and service of notices of Default and consultations in connection therewith, whether or not a legal action is subsequently commenced in connection with such Default or resulting Breach. Broker(s) shall be intended third party beneficiaries of this Paragraph 31.

32. LESSOR'S ACCESS; SHOWING PREMISES; REPAIRS. Lessor and Lessor's agents shall have the right to enter the Premises at any time, in the case of an emergency, and otherwise at reasonable times for the purpose of showing the same to prospective purchasers, lenders, or lessees, and making such alterations, repairs, improvements or additions to the Premises or to the Building, as Lessor may reasonably deem necessary. Lessor may at any time place on or about the Premises or Building any ordinary "For Sale" signs and Lessor may at any time during the last one hundred eighty (180) days of the term hereof place on or about the Premises any ordinary "For Lease" signs. All such activities of Lessor shall be without abatement of Rent or liability to Lessee.

33. AUCTIONS. Lessee shall not conduct, nor permit to be conducted, either voluntarily or involuntarily, any auction upon the Premises without first having obtained Lessor's prior written consent. Notwithstanding anything to the contrary in this Lease, Lessor shall not be obligated to exercise any standard of reasonableness in determining whether to grant such consent.

34. SIGNS. Lessee shall not place any sign upon the exterior of the Premises or the Building, except that Lessee may, with Lessor's prior written consent, install (but not on the roof) such signs as are reasonably required to advertise Lessee's own business so long as such signs are in a location designated by Lessor and comply with Applicable Requirements and the signage criteria established for the Industrial Center by Lessor. The installation of any sign on the Premises by or for Lessee shall be subject to the provisions of Paragraph 7 (Maintenance, Repairs, Utility Installations, Trade Fixtures and Alterations). Unless otherwise expressly agreed herein, Lessor reserves all rights to the use of the roof of the Building, and the right to install advertising signs on the Building, including the roof, which do not unreasonably interfere with the conduct of Lessee's business; Lessor shall be entitled to all revenues from such advertising signs.

35. TERMINATION; MERGER. Unless specifically stated otherwise in writing by Lessor, the voluntary or other surrender of this Lease by Lessee, the mutual termination or cancellation hereof, or a termination hereof by Lessor for Breach by Lessee, shall automatically terminate any sublease or lesser estate in the Premises; provided, however, Lessor shall, in the event of any such surrender, termination or cancellation, have the option to continue any one or all of any existing subtenancies. Lessor's failure within ten (10) days following any such event to make a written election to the contrary by written notice to the holder of any such lesser interest, shall constitute Lessor's election to have such event constitute the termination of such interest.

36. CONSENTS.

(a) Except for Paragraph 33 hereof (Auctions) or as otherwise provided herein, wherever in this Lease the consent of a Party is required to an act by or for the other Party, such consent shall not be unreasonably withheld or delayed. Lessor's actual reasonable costs and expenses (including, but not limited to, architects', attorneys', engineers' and other consultants' fees) incurred in the consideration of, or response to, a request by Lessee for any Lessor consent pertaining to this Lease or the Premises, including, but not limited to, consents to an assignment, a subletting or the presence or use of a Hazardous Substance, shall be paid by Lessee to Lessor upon receipt of an invoice and supporting documentation therefor. In addition to the deposit described in Paragraph 12.2(e), Lessor may, as a condition to considering any such request by Lessee, require that Lessee deposit with Lessor an amount of money (in addition to the Security Deposit held under Paragraph 5) reasonably calculated by Lessor to represent the cost Lessor will incur in considering and responding to Lessee's request. Any unused portion of said deposit shall be refunded to Lessee without interest. Lessor's consent to any act, assignment of this Lease or subletting of the Premises by Lessee shall not constitute an acknowledgment that no Default or Breach by Lessee of this Lease exists, nor shall such consent be deemed a waiver of any then existing Default or Breach, except as may be otherwise specifically stated in writing by Lessor at the time of such consent.

(b) All conditions to Lessor's consent authorized by this Lease are acknowledged by Lessee as being reasonable. The failure to specify herein any particular condition to Lessor's consent shall not preclude the impositions by Lessor at the time of consent of such further or other conditions as are then reasonable with reference to the particular matter for which consent is being given.

37. GUARANTOR.

37.1 FORM OF GUARANTY. If there are to be any Guarantors of this Lease per Paragraph 1.11, the form of the guaranty to be executed by each such Guarantor shall be in the form most recently published by the American Industrial Real Estate Association, and each such Guarantor shall have the same obligations as Lessee under this Lease, including, but not limited to, the obligation to provide the Tenancy Statement and information required in Paragraph 16.

-9-

21

37.2 ADDITIONAL OBLIGATIONS OF GUARANTOR. It shall constitute a Default of the Lessee under this Lease if any such Guarantor fails or refuses, upon reasonable request by Lessor to give: (a) evidence of the due execution of the guaranty called for by this Lease, including the authority of the Guarantor (and of the party signing on Guarantor's behalf) to obligate such Guarantor on said guaranty, and resolution of its board of directors authorizing the making of such guaranty, together with a certificate of incumbency showing the signatures of the persons authorized to sign on its behalf, (b) current financial statements of Guarantor as may from time to time be requested by Lessor, (c) a Tenancy Statement, or (d) written confirmation that the guaranty is still in effect.

38. QUIET POSSESSION. Upon payment by Lessee of the Rent for the Premises and the performance of all of the covenants, conditions and provisions on Lessee's part to be observed and performed under this Lease, Lessee shall have quiet possession of the Premises for the entire term hereof subject to all of the provisions of this Lease.

39. OPTIONS.

39.1 DEFINITION. As used in this Lease, the word "OPTION" has the following meaning: (a) the right to extend the term of this Lease or to renew this Lease or to extend or renew any lease that Lessee has on other property of Lessor; (b) the right of first refusal to lease the Premises or the right of first offer to

lease the Premises or the right of first refusal to lease other property of Lessor or the right of first offer to lease other property of Lessor; (c) the right to purchase the Premises, or the right of first refusal to purchase the Premises, or the right of first offer to purchase the Premises, or the right to purchase other property of Lessor, or the right of first refusal to purchase other property of Lessor, or the right of first offer to purchase other property of Lessor.

39.2 OPTIONS PERSONAL TO ORIGINAL LESSEE. Each Option granted to Lessee in this Lease is personal to the original Lessee named in Paragraph 1.1 hereof, and cannot be voluntarily or involuntarily assigned or exercised by any person or entity other than said original Lessee while the original Lessee is in full and actual possession of the Premises and without the intention of thereafter assigning or subletting. The Options, if any, herein granted to Lessee are not assignable, either as a part of an assignment of this Lease or separately or apart therefrom, and no Option may be separated from this Lease in any manner, by reservation or otherwise.

39.3 MULTIPLE OPTIONS. In the event that Lessee has any multiple Options to extend or renew this Lease, a later option cannot be exercised unless the prior Options to extend or renew this Lease have been validly exercised.

39.4 EFFECT OF DEFAULT ON OPTIONS.

(a) Lessee shall have no right to exercise an Option, notwithstanding any provision in the grant of Option to the contrary: (i) during the period commencing with the giving of any notice of Default under Paragraph 13.1 and continuing until the noticed Default is cured, or (ii) during the period of time any monetary obligation due Lessor from Lessee is unpaid (without regard to whether notice thereof is given Lessee), or (iii) during the time Lessee is in Breach of this Lease, or (iv) in the event that Lessor has given to Lessee three (3) or more notices of separate Default under Paragraph 13.1 during the twelve (12) month period immediately preceding the exercise of the Option, whether or not the Defaults are cured.

(b) The period of time within which an Option may be exercised shall not be extended or enlarged by reason of Lessee's inability to exercise an Option because of the provisions of Paragraph 39.4(a).

(c) All rights of Lessee under the provisions of an Option shall terminate and be of no further force or effect, notwithstanding Lessee's due and timely exercise of the Option, if, after such exercise and during the term of this Lease, (i) Lessee fails to pay to Lessor a monetary obligation of Lessee for a period of thirty (30) days after such obligation becomes due (without any necessity of Lessor to give notice thereof to Lessee), or (ii) Lessor gives to Lessee three (3) or more notices of separate Defaults under Paragraph 13.1 during any twelve (12) month period, whether or not the Defaults are cured, or (iii) if Lessee commits a Breach of this Lease.

40. RULES AND REGULATIONS. Lessee agrees that it will abide by, and keep and observe all reasonable rules and regulations ("RULES AND REGULATIONS") which Lessor may make from time to time for the management, safety, care, and cleanliness of the grounds, the parking and unloading of vehicles and the preservation of good order, as well as for the convenience of other occupants or tenants of the Building and the Industrial Center and their invitees.

41. SECURITY MEASURES. Lessee hereby acknowledges that the rental payable to Lessor hereunder does not include the cost of guard service or other security measures, and that Lessor shall have no obligation whatsoever to provide same. Lessee assumes all responsibility for the protection of the Premises, Lessee, its agents and invitees and their property from the acts of third parties.

42. RESERVATIONS. Lessor reserves the right, from time to time, to grant, without the consent or joinder of Lessee, such easements, rights of way, utility raceways, and dedications that Lessor deems necessary, and to cause the recordation of parcel maps and restrictions, so long as such easements, rights of way, utility raceways, dedications, maps and restrictions do not reasonably interfere with the use of the Premises by Lessee. Lessee agrees to sign any

documents reasonably requested by Lessor to effectuate any such easement rights, dedication, map or restrictions.

43. PERFORMANCE UNDER PROTEST. If at any time a dispute shall arise as to any amount or sum of money to be paid by one Party to the other under the provisions hereof, the Party against whom the obligation to pay the money is asserted shall have the right to make payment "under protest" and such payment shall not be regarded as a voluntary payment and there shall survive the right on the part of said Party to institute suit for recovery of such sum. If it shall be adjudged that there was no legal obligation on the part of said Party to pay such sum or any part thereof, said Party shall be entitled to recover such sum or so much thereof as it was not legally required to pay under the provisions of this Lease.

44. AUTHORITY. If either Party hereto is a corporation, trust, or general or limited partnership, each individual executing this Lease on behalf of such entity represents and warrants that he or she is duly authorized to execute and deliver this Lease on its behalf. If Lessee is a corporation, trust or partnership, Lessee shall, within thirty (30) days after request by Lessor, deliver to Lessor evidence satisfactory to Lessor of such authority.

45. CONFLICT. Any conflict between the printed provisions of this Lease and the typewritten or handwritten provisions shall be controlled by the typewritten or handwritten provisions.

46. OFFER. Preparation of this Lease by either Lessor or Lessee or Lessor's agent or Lessee's agent and submission of same to Lessee or Lessor shall not be deemed an offer to lease. This Lease is not intended to be binding until executed and delivered by all Parties hereto.

47. AMENDMENTS. This Lease may be modified only in writing, signed by the Parties in interest at the time of the modification. The Parties shall amend this Lease from time to time to reflect any adjustments that are made to the Base Rent or other rent payable under this Lease. As long as they do not materially change Lessee's obligations hereunder, Lessee agrees to make such reasonable non-monetary modifications to this Lease as may be reasonably required by an institutional insurance company or pension plan Lender in connection with the obtaining of normal financing or refinancing of the property of which the Premises are a part.

48. MULTIPLE PARTIES. Except as otherwise expressly provided herein, if more than one person or entity is named herein as either Lessor or Lessee, the obligations of such multiple parties shall be the joint and several responsibility of all persons or entities named herein as such Lessor or Lessee.

-10-

22

LESSOR AND LESSEE HAVE CAREFULLY READ AND REVIEWED THIS LEASE AND EACH TERM AND PROVISION CONTAINED HEREIN, AND BY THE EXECUTION OF THIS LEASE SHOW THEIR INFORMED AND VOLUNTARY CONSENT THERETO. THE PARTIES HEREBY AGREE THAT, AT THE TIME THIS LEASE IS EXECUTED, THE TERMS OF THIS LEASE ARE COMMERCIALY REASONABLE AND EFFECTUATE THE INTENT AND PURPOSE OF LESSOR AND LESSEE WITH RESPECT TO THE PREMISES.

IF THIS LEASE HAS BEEN FILLED IN, IT HAS BEEN PREPARED FOR YOUR ATTORNEY'S REVIEW AND APPROVAL. FURTHER, EXPERTS SHOULD BE CONSULTED TO EVALUATE THE CONDITION OF THE PROPERTY FOR THE POSSIBLE PRESENCE OF ASBESTOS, UNDERGROUND STORAGE TANKS OR HAZARDOUS SUBSTANCES. NO REPRESENTATION OR RECOMMENDATION IS MADE BY THE AMERICAN INDUSTRIAL REAL ESTATE ASSOCIATION OR BY THE REAL ESTATE BROKERS OR THEIR CONTRACTORS, AGENTS OR EMPLOYEES AS TO THE LEGAL SUFFICIENCY, LEGAL EFFECT, OR TAX CONSEQUENCES OF THIS LEASE OR THE TRANSACTION TO WHICH IT RELATES; THE PARTIES SHALL RELY SOLELY UPON THE ADVICE OF THEIR OWN COUNSEL AS TO THE LEGAL AND TAX CONSEQUENCES OF THIS LEASE. IF THE SUBJECT PROPERTY IS IN A STATE OTHER THAN CALIFORNIA, AN ATTORNEY FROM THE STATE WHERE THE PROPERTY IS LOCATED SHOULD BE CONSULTED.

The Parties hereto have executed this Lease at the place and on the dates specified above their respective signatures.

Executed at: _____

Executed at: SAN MARCOS, CA

on: 4/30/94

on: APRIL 21, 1994

BY LESSOR: Brigitte Zemmrich

BY LESSEE: Natural Alternatives
International

By: /s/ BRIGITTE ZEMMRICH

By: /s/ WILLIAM P. SPENCER

Name Printed: BRIGITTE ZEMMRICH

Name Printed: WILLIAM P. SPENCER

Title: OWNER

Title: EXECUTIVE VICE PRESIDENT

By: _____

By: _____

Name Printed: _____

Name Printed: _____

Title: c/o Sherry Bailey

Title: _____

Address: P.O. Box 28115

San Diego, CA 92198-0115

Address: 1185 Linda Vista, Suite D

San Marcos, CA 92069

Telephone: (619) 485-0376

Telephone: (619) 744-7340

Facsimile: ()

Facsimile: (619) 744-9589

BROKER:
Executed at: _____

BROKER:
Executed at: _____

on: _____

on: _____

By: _____

By: _____

Name Printed: _____

Name Printed: _____

Title: _____

Title: _____

Address: 2386 Faraday Avenue, Suite 100

Carlsbad, CA 92008

Address: _____

Telephone: (619) 438-8950

Telephone: ()

Facsimile: ()

Facsimile: ()

NOTE: These forms are often modified to meet changing requirements of law and needs of the industry. Always write or call to make sure you are utilizing the most current form: AMERICAN INDUSTRIAL REAL ESTATE ASSOCIATION, 700 South Flower Street, Suite 600, Los Angeles, California 90017. (213) 687-8777.

(c)1993 by American Industrial Real Estate Association. All rights reserved. No part of these words may be reproduced in any form without permission in writing.

-11-

23

ADDENDUM TO STANDARD INDUSTRIAL /COMMERCIAL MULTI-TENANT LEASE - GROSS DATED APRIL 11,1994, BY AND BETWEEN BRIGITTE ZEMMRICH AS LESSOR, AND NATURAL ALTERNATIVES INTERNATIONAL, AS LESSEE.

-
49. Lessee shall have access to the Suite upon the full execution of the lease by both parties. All terms and conditions of the Lease shall be in full force and effect as of that date except that rent shall not start until April 15, 1994.
50. Lessee understands that he is responsible for obtaining a business license from the City of San Marcos to legally operate his business from the premises. Upon signing of this Lease, Lessee warrants that he has satisfied this requirement.
51. Lessor will receive a Certificate of Insurance from Lessee naming Lessor as additionally insured and referencing all suites leased by May 15, 1994 to be sent c/o Sherry Bailey, P. O. Box 28115, San Diego, CA, 92198-0115 as set forth in item #8.5 of this lease.
52. Monthly rental payments are due on the 15th of each month and past due after the 25th. Checks should be mailed and made payable to:
- Brigitte Zemmrich
c/o Sherry Bailey
P. O. BOX 28115
San Diego, CA 92198-0115
53. Lessor gives Lessee permission to place one (1) company sign above the suite conforming with the existing signs of the business center. SEE ITEM #34 of the Lease.
54. Lessee understands that he has the right to make certain improvements to the space. All improvements must be submitted to the Lessor first for her approval, must be permitted and done by a licensed contractor. Lessor reserves the right to have the Lessee remove any improvements at the termination of the lease and bring the space back to its existing condition. Lessee agrees that any roof leaks caused by penetrations made in the roof by the Lessee shall be the responsibility of the Lessee, and that at the termination of the lease, the roof shall be left in a water-tight condition.
55. Hazardous and Toxic Materials. Lessee agrees to maintain the premises in compliance with all city, county, state and federal hazard and toxic

waste regulations. No use shall be made or permitted to be made of said premises, nor acts done or continued, which will violate said regulations, nor shall Lessee sell, or permit to be kept, used, or sold, in or about said premises, any article, liquid, or material of whatever kind or nature which may be prohibited by city, county, state or federal regulations pertaining to hazard and toxic waste materials. Notwithstanding any other remedies provided to Lessor, either within this agreement or by law, upon receipt of notice from any appropriate agency that Lessee is in violation of such regulations, Lessor shall be entitled to enter onto the premises and correct said violation of such regulations. The costs of such correction and/or removal shall be the sole expense of Lessee and may be charged to Lessee as additional rent.

56. Contingencies:

1. A lease fully executed by both Lessor and Lessee.
2. Lessee assures Lessor that there shall be no odor associated with the products manufactured in this unit. Lessor shall not be held liable for any product or chemical that the City, County, State or Federal Government might determine to be a pollutant to the air or water which results in fines or increased water billing.

57. Lessee shall have a forty-eight (48) hour Right of First Refusal to lease the adjacent Suite A. When Suite A becomes available and the Lessor receives an offer which she would accept, written notice shall be given to the Lessee, and the Lessee shall have forty-eight (48) hours in which to exercise their option by matching the offer to lease. The Lessee shall also have a forty-eight (48) hour right of first refusal to match any offer to purchase the entire building upon written notification from the owner that there has been an offer recorded which the owner would accept. This Right of First Refusal to lease or purchase shall run only as long as Natural Alternatives International is a Tenant in the building.

LESSOR: BRIGITTE ZEMMRICH

LESSEES: NATURAL ALTERNATIVES
INTERNATIONAL

BY: /s/ BRIGITTE ZEMMRICH

BY: /s/ [SIGNATURE ILLEGIBLE]

DATE: 4/30/94

DATE: APRIL 21, 1994

EXTENSION OF LEASE

I. PARTIES:

THIS AMENDMENT is executed at San Marcos, California this 21st day of January, 2000, by and between Brigitte Zemmrich the ("Lessor") and Natural Alternatives International the ("Lessee").

II. RECITALS:

Lessor and Lessee, being parties to that certain Lease dated April 11/January 9, 1994/95, hereby express their mutual desire and intent to extend the terms of the Lease and amend by this writing those terms, covenants and conditions contained in "TERM" and "RENT" as hereinafter provided for the premises located at 425 Ryan Drive, Suites A & B, San Marcos, California 92069.

III. AMENDMENTS:

"TERMS" shall hereafter additionally provide for Twelve (12) months commencing on May 1, 2000 and ending April 30, 2001.

"RENT" shall hereafter additionally provide as follows: Lessee shall pay to Lessor as rent for the Premises without deduction, offset, prior notice or demand, equal monthly payments of \$4,202.00* including trash and water, in advance on the first day of each month of the term hereof. Rent shall be payable in lawful money of the United States.

The Security Deposit is increased by the sum of N/A Dollars (\$-0-) which shall be submitted to Lessor with signing of this Renewal. Tenant has therefore deposited with Lessor Security Deposit totalling Seven thousand eight hundred eighty six and no/100 Dollars (\$7,886.00). Such Amendment to Lease shall not be accepted by Lessor without submitted above Security Deposit Balance at the same time.

*New rental amount reflects 2.3% annual CPI increase.

IV. INCORPORATION:

Except as modified herein, all other terms and conditions of the Lease between the Parties described above, shall continue. If there is a conflict in terms between the Lease and the Extension of Lease, the Extension of Lease shall control.

V. DEADLINE POLICY:

If Amendment to Lease is not returned to Lessor, fully signed by Lessee and accompanied by Security Deposit Balance, by 5:00 p.m. on 4th (day) of February, 2000, THIS AMENDMENT TO LEASE SHALL BECOME NULL AND VOID. *****

VI. ADDITIONAL PROVISIONS:

Provided Lessee is not in default under any terms and conditions of the original Lease, Lessee shall give Lessor at least ninety (90) days written notice prior to expiration if Lessee desires to extend Lease. Should Lease be extended, Lease rate shall be increased based upon the Consumer Price Index increase (All Urban Consumers, Los Angeles-Riverside-Orange County) for the most recently published twelve (12) month period.

IN WITNESS WHEREOF Lessor and Lessee have executed this Amendment as of the day and year above written.

NATURAL ALTERNATIVES INTERNATIONAL

By: /s/ BRIGITTE ZEMMRICH

Brigitte Zemmrich

By: /s/ PETER WULFF

Peter Wulff,
Chief Financial Officer

Date: 2/08/00

Date: 2/1/00

("LESSOR")

("LESSEE")

STANDARD INDUSTRIAL/COMMERCIAL MULTI-TENANT LEASE--GROSS
 AMERICAN INDUSTRIAL REAL ESTATE ASSOCIATION

[LOGO]

1. BASIC PROVISIONS ("BASIC PROVISIONS").

1.1 PARTIES: THIS LEASE ("LEASE"), dated for reference purposes only, April 11, 1994, is made by and between Brigitte Zemmrich ("LESSOR") and Natural Alternatives International ("LESSEE"), (collectively the "PARTIES", or individually a "PARTY").

1.2(a) PREMISES: That certain portion of the Building, including all improvements therein or to be provided by Lessor under the terms of this Lease, commonly known by the street address of 425 Ryan, #B, located in the City of San Marcos, County of San Diego, State of California, with zip code 92069, as outlined on Exhibit N/A attached hereto ("PREMISES"). The "BUILDING" is that certain building containing the Premises and generally described as (describe briefly the nature of the Building): That certain space containing approximately 2,900 square feet. In addition to Lessee's rights to use and occupy the Premises as hereinafter specified, Lessee shall have non-exclusive rights to the Common Areas (as defined in Paragraph 2.7 below) as hereinafter specified, but shall not have any rights to the roof, exterior walls or utility raceways of the Building or to any other buildings in the Industrial Center. The Premises, the Building, the Common Areas, the land upon which they are located, along with all other buildings and improvements thereon, are herein collectively referred to as the "INDUSTRIAL CENTER." (Also see Paragraph 2.)

1.2(b) PARKING: 5 unreserved vehicle parking spaces ("UNRESERVED PARKING SPACES"); and N/A reserved vehicle parking spaces ("RESERVED PARKING SPACES"). (Also see Paragraph 2.6.)

1.3 TERM: 1 years and - months ("ORIGINAL TERM") commencing April 15, 1994 ("COMMENCEMENT DATE") and ending April 14, 1995 ("EXPIRATION DATE"). (Also see Paragraph 3.)

1.4 EARLY POSSESSION: Upon Full Execution ("EARLY POSSESSION DATE"). (Also see Paragraphs 3.2 and 3.3.)

1.5 BASE RENT: \$1,305.00 per month ("BASE RENT"), payable on the 15th day of each month commencing April 15, 1994 (Also see Paragraph 4.)

[] If this box is checked, this Lease provides for the Base Rent to be adjusted per Addendum _____, attached hereto.

1.6(a) BASE RENT PAID UPON EXECUTION: \$1,335.00 as Base Rent for the period April 15 -- May 14, 1994 (\$1,305 Base Rent + \$30/Water)

1.6(b) LESSEE'S SHARE OF COMMON AREA OPERATING EXPENSES: N/A percent (%) ("LESSEE'S SHARE") as determined by [] prorata square footage of the Premises as compared to the total square footage of the Building or [] other criteria as described in Addendum _____.

1.7 SECURITY DEPOSIT: \$1,335.00 ("SECURITY DEPOSIT"). (Also see Paragraph 5.)

1.8 PERMITTED USE: Light manufacturing and all other allied uses. ("PERMITTED USE") (Also see Paragraph 6.)

1.9 INSURING PARTY. Lessor is the "INSURING PARTY." (Also see Paragraph 8.)

1.10(a) REAL ESTATE BROKERS. The following real estate broker(s)

(collectively, the "BROKERS") and brokerage relationships exist in this transaction and are consented to by the Parties (check applicable boxes):

_____ represents Lessor exclusively ("LESSOR'S BROKER");

_____ represents Lessee exclusively ("LESSEE'S BROKER");

Iliff, Thorn & Company represents both Lessor and Lessee ("DUAL AGENCY"). (Also see Paragraph 15.)

1.10(b) PAYMENT TO BROKERS. Upon the execution of this Lease by both Parties, Lessor shall pay to said Broker(s) jointly, or in such separate shares as they may mutually designate in writing, a fee as set forth in a separate written agreement between Lessor and said Broker(s) (or in the event there is no separate written agreement between Lessor and said Broker(s), the sum of \$ _____ per schedule) for brokerage services rendered by said Broker(s) in connection with this transaction.

1.11 GUARANTOR. The obligations of the Lessee under this Lease are to be guaranteed by Natural Alternatives International ("GUARANTOR"). (Also see Paragraph 37.)

1.12 ADDENDA AND EXHIBITS. Attached hereto is an Addendum or Addenda consisting of Paragraphs 49 through 57, and Exhibits -- through --, all of which constitute a part of this Lease.

2. PREMISES, PARKING AND COMMON AREAS.

2.1 LETTING. Lessor hereby leases to Lessee, and Lessee hereby leases from Lessor, the Premises, for the term, at the rental, and upon all of the terms, covenants and conditions set forth in this Lease. Unless otherwise provided herein, any statement of square footage set forth in this Lease, or that may have been used in calculating rental and/or Common Area Operating Expenses, is an approximation which Lessor and Lessee agree is reasonable and the rental and Lessee's Share (as defined in Paragraph 1.6(b)) based thereon is not subject to revision whether or not the actual square footage is more or less.

2.2 CONDITION. Lessor shall deliver the Premises to Lessee clean and free of debris on the Commencement Date and warrants to Lessee that the existing plumbing, electrical systems, fire sprinkler system, lighting, air conditioning and heating systems and loading doors, if any, in the Premises, other than those constructed by Lessee, shall be in good operating condition on the Commencement Date. If a non-compliance with said warranty exists as of the Commencement Date, Lessor shall, except as otherwise provided in this Lease, promptly after receipt of written notice from Lessee setting forth with specificity the nature and extent of such non-compliance, rectify same at Lessor's expense. If Lessee does not give Lessor written notice of a non-compliance with this warranty within thirty (30) days after the Commencement Date, correction of that non-compliance shall be the obligation of Lessee at Lessee's sole cost and expense.

2.3 COMPLIANCE WITH COVENANTS, RESTRICTIONS AND BUILDING CODE. Lessor warrants that any improvements (other than those constructed by Lessee or at Lessee's direction) on or in the Premises which have been constructed or installed by Lessor or with Lessor's consent or at Lessor's direction shall comply with all applicable covenants or restrictions of record and applicable building codes, regulations and ordinances in effect on the Commencement Date. Lessor further warrants to Lessee that Lessor has no knowledge of any claim having been made by any governmental agency that a violation or violations of applicable building codes, regulations, or ordinances exist with regard to the Premises as of the Commencement Date. Said warranties shall not apply to any Alterations or Utility Installations (defined in Paragraph 7.3(a)) made or to be made by Lessee. If the Premises do not comply with said warranties, Lessor shall, except as otherwise provided in this Lease, promptly after receipt of written notice from Lessee given within six (6) months following the Commencement Date and setting forth with specificity the nature and extent of such non-compliance, take such action, at Lessor's expense, as may be reasonable

or appropriate to rectify the non-compliance. Lessor makes no warranty that the Permitted Use in Paragraph 1.8 is permitted for the Premises under Applicable Laws (as defined in Paragraph 2.4).

2.4 ACCEPTANCE OF PREMISES. Lessee hereby acknowledges: (a) that it has been advised by the Broker(s) to satisfy itself with respect to the condition of the Premises (including but not limited to the electrical and fire sprinkler systems, security, environmental aspects, seismic and earthquake requirements, and compliance with the Americans with Disabilities Act and applicable zoning, municipal, county, state and federal laws, ordinances and regulations and any covenants or restrictions of record (collectively, "APPLICABLE LAWS") and the present and future suitability of the premises for Lessee's intended use; (b) that Lessee has made such investigation as it deems necessary with reference to such matters, is satisfied with reference thereto, and assumes all responsibility therefore as the same relate to Lessee's occupancy of the Premises and/or the terms of this Lease; and (c) that neither Lessor, nor any of Lessor's agents, has made any oral or written representations or warranties with respect to said matters other than as set forth in this Lease.

2.5 LESSEE AS PRIOR OWNER/OCCUPANT. The warranties made by Lessor in this Paragraph 2 shall be of no force or effect if immediately prior to the date set forth in Paragraph 1.1 Lessee was the owner or occupant of the Premises. In such event, Lessee shall, at Lessee's sole cost and expense, correct any non-compliance of the Premises with said warranties.

2

2.6 VEHICLE PARKING. Lessee shall be entitled to use the number of Unreserved Parking Spaces and Reserved Parking Spaces specified in Paragraph 1.2(b) on those portions of the Common Areas designated from time to time by Lessor for parking. Lessee shall not use more parking spaces than said number. Said parking spaces shall be used for parking by vehicles no larger than full-size passenger automobiles or pick-up trucks, herein called "PERMITTED SIZE VEHICLES." Vehicles other than Permitted Size Vehicles shall be parked and loaded or unloaded as directed by Lessor in the Rules and Regulations (as defined in Paragraph 40) issued by Lessor. (Also see Paragraph 2.9.)

(a) Lessee shall not permit or allow any vehicles that belong to or are controlled by Lessee or Lessee's employees, suppliers, shippers, customers, contractors or invitees to be loaded, unloaded, or parked in areas other than those designated by Lessor for such activities.

(b) If Lessee permits or allows any of the prohibited activities described in this Paragraph 2.6, then Lessor shall have the right, without notice, in addition to such other rights and remedies that it may have, to remove or tow away the vehicle involved and charge the cost to Lessee, which cost shall be immediately payable upon demand by Lessor.

(c) Lessor shall at the Commencement Date of this Lease, provide the parking facilities required by Applicable Law.

2.7 COMMON AREAS -- DEFINITION. The term "COMMON AREAS" is defined as all areas and facilities outside the Premises and within the exterior boundary line of the Industrial Center and interior utility raceways within the Premises that are provided and designated by the Lessor from time to time for the general non-exclusive use of Lessor, Lessee and other lessees of the Industrial Center and their respective employees, shippers, customers, contractors and invitees, including parking areas, loading and unloading areas, trash areas, roadways, sidewalks, walkways, parkways, driveways and landscaped areas.

2.8 COMMON AREAS -- LESSEE'S RIGHTS. Lessor hereby grants to Lessee, for the benefit of Lessee and its employees, suppliers, shippers, contractors, customers and invitees, during the term of this Lease, the non-exclusive right to use, in common with others entitled to such use, the Common Areas as they exist from time to time, subject to any rights, powers, and privileges reserved by Lessor under the terms hereof or under the terms of any rules and regulations or restrictions governing the use of the Industrial Center. Under no circumstances shall the right herein granted to use the Common Areas be

deemed to include the right to store any property, temporarily or permanently, in the Common Areas. Any such storage shall be permitted only by the prior written consent of Lessor or Lessor's designated agent, which consent may be revoked at any time. In the event that any unauthorized storage shall occur then Lessor shall have the right, without notice, in addition to such other rights and remedies that it may have, to remove the property and charge the cost to Lessee, which cost shall be immediately payable upon demand by Lessor.

2.9 COMMON AREAS -- RULES AND REGULATIONS. Lessor or such other person(s) as Lessor may appoint shall have the exclusive control and management of the Common Areas and shall have the right, from time to time, to establish, modify, amend and enforce reasonable Rules and Regulations with respect thereto in accordance with Paragraph 40. Lessee agrees to abide by and conform to all such Rules and Regulations, and to cause its employees, suppliers, shippers, customers, contractors and invitees to so abide and conform. Lessor shall not be responsible to Lessee for the non-compliance with said rules and regulations by other lessees of the Industrial Center.

2.10 COMMON AREAS -- CHANGES. Lessor shall have the right, in Lessor's sole discretion from time to time:

(a) To make changes to the Common Areas, including, without limitation, changes in the location, size, shape and number of driveways, entrances, parking spaces, parking areas, loading and unloading areas, ingress, egress, direction of traffic, landscaped areas, walkways and utility raceways;

(b) To close temporarily any of the Common Areas for maintenance purposes so long as reasonable access to the Premises remains available;

(c) To designate other land outside the boundaries of the Industrial Center to be a part of the Common Areas;

(d) To add additional buildings and improvements to the Common Areas;

(e) To use the Common Areas while engaged in making additional improvements, repairs or alterations to the Industrial Center, or any portion thereof; and

(f) To do and perform such other acts and make such other changes in, to or with respect to the Common Areas and Industrial Center as Lessor may, in the exercise of sound business judgment, deem to be appropriate.

3. TERM

3.1 TERM. The Commencement Date, Expiration Date and Original Term of this Lease are as specified in Paragraph 1.3.

3.2 EARLY POSSESSION. If an Early Possession Date is specified in Paragraph 1.4 and if Lessee totally or partially occupies the Premises after the Early Possession Date but prior to the Commencement Date, the obligation to pay Base Rent shall be abated for the period of such early occupancy. All other terms of this Lease, however, (including but not limited to the obligations to pay Lessee's Share of Common Area Operating Expenses and to carry the insurance required by Paragraph 8) shall be in effect during such period. Any such early possession shall not affect nor advance the Expiration Date of the Original Term.

3.3 DELAY IN POSSESSION. If for any reason Lessor cannot deliver possession of the Premises to Lessee by the Early Possession Date, if one is specified in Paragraph 1.4 or if no Early Possession Date is specified, by the Commencement Date, Lessor shall not be subject to any liability therefor, nor shall such failure affect the validity of this Lease, or the obligations of Lessee hereunder, or extend the term hereof, but in such case, Lessee shall not, except as otherwise provided herein, be obligated to pay rent or perform any other obligation of Lessee under the terms of this Lease until Lessor delivers possession of the Premises to Lessee. If possession of the Premises is not delivered to Lessee within sixty (60) days after the Commencement Date, Lessee may, at its option, by notice in writing to Lessor within ten (10) days

after the end of said sixty (60) day period, cancel this Lease, in which event the parties shall be discharged from all obligations hereunder; provided further, however, that if such written notice of Lessee is not received by Lessor within said ten (10) day period, Lessee's right to cancel this Lease hereunder shall terminate and be of no further force or effect. Except as may be otherwise provided, and regardless of when the Original Term actually commences, if possession is not tendered to Lessee when required by this Lease and Lessee does not terminate this Lease, as aforesaid, the period free of the obligation to pay Base Rent, if any, that Lessee would otherwise have enjoyed shall run from the date of delivery of possession and continue for a period equal to the period during which the Lessee would have otherwise enjoyed under the terms hereof, but minus any days of delay caused by the acts, changes or omissions of Lessee.

4. RENT

4.1 BASE RENT. Lessee shall pay Base Rent and other rent or charges, as the same may be adjusted from time to time, to Lessor in lawful money of the United States, without offset or deduction, on or before the day on which it is due under the terms of this Lease. Base Rent and all other rent and charges for any period during the term hereof which is for less than one full month shall be prorated based upon the actual number of days of the month involved. Payment of Base Rent and other charges shall be made to Lessor at its address stated herein or to such other persons or at such other addresses as Lessor may from time to time designate in writing to Lessee.

4.2 COMMON AREA OPERATING EXPENSES. Lessee shall pay to Lessor during the term hereof, in addition to the Base Rent, Lessee's Share (as specified in Paragraph 1.6(b)) of all Common Area Operating Expenses, as hereinafter defined, during each calendar year of the term of this Lease, in accordance with the following provisions:

(a) "COMMON AREA OPERATING EXPENSES" are defined, for purposes of this Lease, as all costs incurred by Lessor relating to the ownership and operation of the Industrial Center, including, but not limited to the following:

(i) The operation, repair and maintenance, in neat, clean, good order and condition, of the following:

(aa) The Common Areas, including parking areas, loading and unloading areas, trash areas, roadways, sidewalks, walkways, parkways, driveways, landscaped areas, striping, bumpers, irrigation systems, Common Area lighting facilities, fences and gates, elevators and roof.

(bb) Exterior signs and any tenant directories.

(cc) Fire detection and sprinkler systems.

(iii) Trash disposal, property management and security services and the costs of any environmental inspections.

(v) Any increase above the Base Real Property Taxes (as defined in Paragraph 10.2(b)) for the Building and the Common Areas.

(vi) Any "Insurance Cost Increase" (as defined in Paragraph 8.1).

(ix) Any other services to be provided by Lessor that are stated elsewhere in this Lease to be a Common Area Operating Expense.

(b) Any Common Area Operating Expenses and Real Property Taxes that are specifically attributable to the Building or to any other building in the Industrial Center or to the operation, repair and maintenance thereof, shall be allocated entirely to the Building or to such other building. However, any Common Area Operating Expenses and Real Property Taxes that are not specifically attributable to the Building or to any other building or to the operation, repair and maintenance thereof, shall be equitably allocated by Lessor to all buildings in the Industrial Center.

(c) The inclusion of the improvements, facilities and services set forth in Subparagraph 4.2(a) shall not be deemed to impose an obligation upon Lessor to either have said improvements or facilities or to provide those services unless the Industrial Center already has the same, Lessor already provides the services, or Lessor has agreed elsewhere in this Lease to provide the same or some of them.

(d) Lessee's Share of Common Area Operating Expenses shall be payable by Lessee within ten (10) days after a reasonably detailed statement of actual expenses is presented to Lessee by Lessor. At Lessor's option, however, an amount may be estimated by Lessor from time to time of Lessee's Share of annual Common Area Operating Expenses and the same shall be payable monthly or quarterly, as Lessor shall designate, during each 12-month period of the Lease term, on the same day as the Base Rent is due hereunder. Lessor shall deliver to Lessee within sixty (60) days after the expiration of each calendar year a reasonably detailed statement showing Lessee's Share of the actual Common Area Operating Expenses incurred during the preceding year. If Lessee's payments under this Paragraph 4.2(d) during said preceding year exceed Lessee's Share as indicated on said statement, Lessor shall be credited the amount of such over-

-2-

3

payment against Lessee's Share of Common Area Operating Expenses next becoming due. If Lessee's payments under this Paragraph 4.2(d) during said preceding year were less than Lessee's Share as indicated on said statement, Lessee shall pay to Lessor the amount of the deficiency within ten (10) days after delivery by Lessor to Lessee of said statement.

5. SECURITY DEPOSIT. Lessee shall deposit with Lessor upon Lessee's execution hereof the Security Deposit set forth in Paragraph 1.7 as security for Lessee's faithful performance of Lessee's obligations under this Lease. If Lessee fails to pay Base Rent or other rent or charges due hereunder, or otherwise Defaults under this Lease (as defined in Paragraph 13.1), Lessor may use, apply or retain all or any portion of said Security Deposit for the payment of any amount due Lessor or to reimburse or compensate Lessor for any liability, cost, expense, loss or damage (including attorneys' fees) which Lessor may suffer or incur by reason thereof. If Lessor uses or applies all or any portion of said Security Deposit, Lessee shall within ten (10) days after written request therefore deposit monies with Lessor sufficient to restore said Security Deposit to the full amount required by this Lease. Any time the Base Rent increases during the term of this Lease, Lessee shall, upon written request from Lessor, deposit additional monies with Lessor as an addition to the Security Deposit so that the total amount of the Security Deposit shall at all times bear the same proportion to the then current Base Rent as the initial Security Deposit bears to the initial Base Rent set forth in Paragraph 1.5. Lessor shall not be required to keep all or any part of the Security Deposit separate from its general accounts. Lessor shall, at the expiration or earlier termination of the term hereof and after Lessee has vacated the Premises, return to Lessee (or, at Lessor's option, to the last assignee, if any, of Lessee's interest herein), that portion of the Security Deposit not used or applied by Lessor. Unless otherwise expressly agreed in writing by Lessor, no part of the Security Deposit shall be considered to be held in trust, to bear interest or other increment for its use, or to be prepayment for any monies to be paid by Lessee under this Lease.

6. USE.

6.1 PERMITTED USE.

(a) Lessee shall use and occupy the Premises only for the Permitted Use set forth in Paragraph 1.8, or any other legal use which is reasonably comparable thereto, and for no other purpose. Lessee shall not use or permit the use of the Premises in a manner that is unlawful, creates waste or a nuisance, or that disturbs owners and/or occupants of, or causes damage to the Premises or neighboring premises or properties.

(b) Lessor hereby agrees to not unreasonably withhold or delay its consent to any written request by Lessee, Lessee's assignees or subtenants, and by prospective assignees and subtenants of Lessee, its assignees and subtenants, for a modification of said Permitted Use, so long as the same will not impair the structural integrity of the improvements on the Premises or in the Building or the mechanical or electrical systems therein, does not conflict with uses by

other lessees, is not significantly more burdensome to the Premises or the Building and the improvements thereon, and is otherwise permissible pursuant to this Paragraph 6. If Lessor elects to withhold such consent, Lessor shall within five (5) business days after such request give a written notification of same, which notice shall include an explanation of Lessor's reasonable objections to the change in use.

6.2 HAZARDOUS SUBSTANCES.

(a) REPORTABLE USES REQUIRE CONSENT. The term "HAZARDOUS SUBSTANCE" as used in this Lease shall mean any product, substance, chemical, material or waste whose presence, nature, quantity and/or intensity of existence, use, manufacture, disposal, transportation, spill, release or effect, either by itself or in combination with other materials expected to be on the Premises, is either: (i) potentially injurious to the public health, safety or welfare, the environment, or the Premises; (ii) regulated or monitored by any governmental authority; or (iii) a basis for potential liability of Lessor to any governmental agency or third party under any applicable statute or common law theory. Hazardous Substance shall include, but not be limited to, hydrocarbons, petroleum, gasoline, crude oil or any products or by-products thereof. Lessee shall not engage in any activity in or about the Premises which constitutes a Reportable Use (as hereinafter defined) of Hazardous Substances without the express prior written consent of Lessor and compliance in a timely manner (at Lessee's sole cost and expense) with all Applicable Requirements (as defined in Paragraph 6.3). "REPORTABLE USE" shall mean (i) the installation or use of any above or below ground storage tank, (ii) the generation, possession, storage, use, transportation, or disposal of a Hazardous Substance that requires a permit from, or with respect to which a report, notice, registration or business plan is required to be filed with, any governmental authority, and (iii) the presence in, on or about the Premises of a Hazardous Substance with respect to which any Applicable Laws require that a notice be given to persons entering or occupying the Premises or neighboring properties. Notwithstanding the foregoing, Lessee may, without Lessor's prior consent, but upon notice to Lessor and in compliance with all Applicable Requirements, use any ordinary and customary materials reasonably required to be used by Lessee in the normal course of the Permitted Use, so long as such use is not a Reportable Use and does not expose the Premises or neighboring properties to any meaningful risk of contamination or damage or expose Lessor to any liability therefor. In addition, Lessor may (but without any obligation to do so) condition its consent to any Reportable Use of any Hazardous Substance by Lessee upon Lessee's giving Lessor such additional assurances as Lessor, in its reasonable discretion, deems necessary to protect itself, the public, the Premises and the environment against damage, contamination or injury and/or liability therefor, including but not limited to the installation (and, at Lessor's option, removal on or before Lease expiration or earlier termination) of reasonably necessary protective modifications to the Premises (such as concrete encasements) and/or the deposit of an additional Security Deposit under Paragraph 5 hereof.

(b) DUTY TO INFORM LESSOR. If Lessee knows, or has reasonable cause to believe, that a Hazardous Substance has come to be located in, on, under or about the Premises or the Building, other than as previously consented to by Lessor, Lessee shall immediately give Lessor written notice thereof, together with a copy of any statement, report, notice, registration, application, permit, business plan, license, claim, action, or proceeding given to, or received from, any governmental authority or private party concerning the presence, spill, release, discharge of, or exposure to, such Hazardous Substance including but not limited to all such documents as may be involved in any Reportable Use involving the Premises. Lessee shall not cause or permit any Hazardous Substance to be spilled or released in, on, under or about the Premises (including, without limitation, through the plumbing or sanitary sewer system).

(c) INDEMNIFICATION. Lessee shall indemnify, protect, defend and hold Lessor, its agents, employees, lenders and ground lessor, if any, and the Premises, harmless from and against any and all damages, liabilities, judgments, costs, claims, liens, expenses, penalties, loss of permits and attorneys' and consultants' fees arising out of or involving any Hazardous Substance brought onto the Premises by or for Lessee or by anyone under

Lessee's control. Lessee's obligations under this Paragraph 6.2(c) shall include, but not be limited to, the effects of any contamination or injury to person, property or the environment created or suffered by Lessee, and the cost of investigation (including consultants' and attorneys' fees and testing), removal, remediation, restoration and/or abatement thereof, or of any contamination therein involved, and shall survive the expiration or earlier termination of this Lease. No termination, cancellation or release agreement entered into by Lessor and Lessee shall release Lessee from its obligations under this Lease with respect to Hazardous Substances, unless specifically so agreed by Lessor in writing at the time of such agreement.

6.3 LESSEE'S COMPLIANCE WITH REQUIREMENTS. Lessee shall, at Lessee's sole cost and expense, fully, diligently and in a timely manner, comply with all "APPLICABLE REQUIREMENTS," which term is used in this Lease to mean all laws, rules, regulations, ordinances, directives, covenants, easements and restrictions of record, permits, the requirements of any applicable fire insurance underwriter or rating bureau, and the recommendations of Lessor's engineers and/or consultants, relating in any manner to the Premises (including but not limited to matters pertaining to (i) industrial hygiene, (ii) environmental conditions on, in, under or about the Premises, including soil and groundwater conditions, and (iii) the use, generation, manufacture, production, installation, maintenance, removal, transportation, storage, spill, or release of any Hazardous Substance), now in effect or which may hereafter come into effect. Lessee shall, within five (5) days after receipt of Lessor's written request, provide Lessor with copies of all documents and information, including but not limited to permits, registrations, manifests, applications, reports and certificates, evidencing Lessee's compliance with any Applicable Requirements specified by Lessor, and shall immediately upon receipt, notify Lessor in writing (with copies of any documents involved) of any threatened or actual claim, notice, citation, warning, complaint or report pertaining to or involving failure by Lessee or the Premises to comply with any Applicable Requirements.

6.4 INSPECTION; COMPLIANCE WITH LAW. Lessor, Lessor's agents, employees, contractors and designated representatives, and the holders of any mortgages, deeds of trust or ground leases on the Premises ("LENDERS") shall have the right to enter the Premises at any time in the case of an emergency, and otherwise at reasonable times, for the purpose of inspecting the condition of the Premises and for verifying compliance by Lessee with this Lease and all Applicable Requirements (as defined in Paragraph 6.3), and Lessor shall be entitled to employ experts and/or consultants in connection therewith to advise Lessor with respect to Lessee's activities, including but not limited to Lessee's installation, operation, use, monitoring, maintenance, or removal of any Hazardous Substance on or from the Premises. The costs and expenses of any such inspections shall be paid by the party requesting same, unless a Default or Breach of this Lease by Lessee or a violation of Applicable Requirements or a contamination, caused or materially contributed to by Lessee, is found to exist or be imminent, or unless the inspection is requested or ordered by a governmental authority as the result of any such existing or imminent violation or contamination. In such case, Lessee shall upon request reimburse Lessor or Lessor's Lender, as the case may be, for the costs and expenses of such inspections.

7. MAINTENANCE, REPAIRS, UTILITY INSTALLATIONS, TRADE FIXTURES AND ALTERATIONS.

7.1 LESSEE'S OBLIGATIONS.

(a) Subject to the provisions of Paragraphs 2.2 (Condition), 2.3 (Compliance with Covenants, Restrictions and Building Code), 7.2 (Lessor's Obligations), 9 (Damage or Destruction), and 14 (Condemnation), Lessee shall, at Lessee's sole cost and expense and at all times, keep the Premises and every part thereof in good order, condition and repair (whether or not such portion of the Premises requiring repair, or the means of repairing the same, are reasonably or readily accessible to Lessee, and whether or not the need for such repairs occurs as a result of Lessee's use, any prior use, the elements or the age of such portion of the Premises), including, without limiting the generality of the foregoing, all equipment or facilities specifically serving the Premises, such as plumbing, heating, air conditioning, ventilating,

electrical, lighting facilities, boilers, fired or unfired pressure vessels, fire hose connections if within the Premises, fixtures, interior walls, interior surfaces of exterior walls, ceilings, floors, windows, doors, plate glass, and skylights, but excluding any items which are the responsibility of Lessor pursuant to Paragraph 7.2 below. Lessee, in keeping the Premises in good order, condition and repair, shall exercise and perform good maintenance practices. Lessee's obligations shall include restorations, replacements or renewals when necessary to keep the Premises and all improvements thereon or a part thereof in good order, condition and state of repair.

(b) Lessee shall, at Lessee's sole cost and expense, procure and maintain a contract, with copies to Lessor, in customary form and substance for and with a contractor specializing and experienced in the inspection, maintenance and service of the heating, air conditioning and ventilation system for the Premises. However, Lessor reserves the right, upon notice to Lessee, to procure and maintain the contract for the heating, air conditioning and ventilating systems, and if Lessor so elects, Lessee shall reimburse Lessor, upon demand, for the cost thereof.

(c) If Lessee fails to perform Lessee's obligations under this Paragraph 7.1, Lessor may enter upon the Premises after ten (10) days' prior written notice to Lessee (except in the case of an emergency, in which case no notice shall be required), perform such obligations on Lessee's behalf, and put the Premises in good order, condition and repair, in accordance with Paragraph 13.2 below.

7.2 LESSOR'S OBLIGATIONS. Subject to the provisions of Paragraphs 2.2 (Condition), 2.3 (Compliance with Covenants, Restrictions and Building Code), 4.2 (Common Area Operating Expenses), 6 (Use), 7.1 (Lessee's Obligations), 9 (Damage or Destruction) and 14 (Condemnation), Lessor, subject to reimbursement pursuant to Paragraph 4.2, shall keep in good order, condition and repair the foundations, exterior walls, structural condition of interior bearing walls, exterior roof, fire sprinkler and/or standpipe and hose (if located in the Common Areas) or other automatic fire extinguishing system including the alarm and/or smoke detection

-3-

4

systems and equipment, fire hydrants, parking lots, walkways, parkways, driveways, landscaping, fences, signs and utility systems serving the Common Areas and all parts thereof, as well as providing the services for which there is a Common Area Operating Expense pursuant to Paragraph 4.2. Lessor shall not be obligated to paint the exterior or interior surfaces of exterior walls nor shall Lessor be obligated to maintain, repair or replace windows, doors or plate glass of the Premises. Lessee expressly waives the benefit of any statute now or hereafter in effect which would otherwise afford Lessee the right to make repairs at Lessor's expense or to terminate this Lease because of Lessor's failure to keep the Building, Industrial Center or Common Areas in good order, condition and repair.

7.3 UTILITY INSTALLATIONS, TRADE FIXTURES, ALTERATIONS.

(a) DEFINITIONS; CONSENT REQUIRED. The term "UTILITY INSTALLATIONS" is used in this Lease to refer to all air lines, power panels, electrical distribution, security, fire protection systems, communications systems, lighting fixtures, heating, ventilating and air conditioning equipment, plumbing, and fencing in, on or about the Premises. The term "TRADE FIXTURES" shall mean Lessee's machinery and equipment which can be removed without doing material damage to the Premises. The term "ALTERATIONS" shall mean any modification of the improvements on the Premises which are provided by Lessor under the terms of this Lease, other than Utility Installations or Trade Fixtures. "LESSEE-OWNED ALTERATIONS AND/OR UTILITY INSTALLATIONS" are defined as Alterations and/or Utility Installations made by Lessee that are not yet owned by Lessor pursuant to Paragraph 7.4(a). Lessee shall not make nor cause to be made any Alterations or Utility installations in, on, under or about the Premises without Lessor's prior written consent. Lessee may, however, make

non-structural Utility Installations to the interior of the Premises (excluding the roof) without Lessor's consent but upon notice to Lessor, so long as they are not visible from the outside of the Premises, do not involve puncturing, relocating or removing the roof or any existing walls, or changing or interfering with the fire sprinkler or fire detection systems and the cumulative cost thereof during the term of this Lease as extended does not exceed \$2,500.00.

(b) CONSENT. Any Alterations or Utility Installations that Lessee shall desire to make and which require the consent of the Lessor shall be presented to Lessor in written form with detailed plans. All consents given by Lessor, whether by virtue of Paragraph 7.3(a) or by subsequent specific consent, shall be deemed conditioned upon: (i) Lessee's acquiring all applicable permits required by governmental authorities; (ii) the furnishing of copies of such permits together with a copy of the plans and specifications for the Alteration or Utility Installation to Lessor prior to commencement of the work thereon; and (iii) the compliance by Lessee with all conditions of said permits in a prompt and expeditious manner. Any Alterations or Utility Installations by Lessee during the term of this Lease shall be done in a good and workmanlike manner, with good and sufficient materials, and be in compliance with all Applicable Requirements. Lessee shall promptly upon completion thereof furnish Lessor with as-built plans and specifications therefor. Lessor may, (but without obligation to do so) condition its consent to any requested Alteration or Utility Installation that costs \$2,500.00 or more upon Lessee's providing Lessor with a lien and completion bond in an amount equal to one and one-half times the estimated cost of such Alteration or Utility Installation.

(c) LIEN PROTECTION. Lessee shall pay when due all claims for labor or materials furnished or alleged to have been furnished to or for Lessee at or for use on the Premises, which claims are or may be secured by any mechanic's or materialmen's lien against the Premises or any interest therein. Lessee shall give Lessor not less than ten (10) days' notice prior to the commencement of any work in, on, or about the Premises, and Lessor shall have the right to post notices of non-responsibility in or on the Premises as provided by law. If Lessee shall, in good faith, contest the validity of any such lien, claim or demand, then Lessee shall, at its sole expense, defend and protect itself, Lessor and the Premises against the same and shall pay and satisfy any such adverse judgment that may be rendered thereon before the enforcement thereof against the Lessor or the Premises. If Lessor shall require, Lessee shall furnish to Lessor a surety bond satisfactory to Lessor in an amount equal to one and one-half times the amount of such contested lien claim or demand, indemnifying Lessor against liability for the same, as required by law for the holding of the Premises free from the effect of such lien or claim. In addition, Lessor may require Lessee to pay Lessor's attorneys' fees and costs in participating in such action if Lessor shall decide it is to its best interest to do so.

7.4 OWNERSHIP, REMOVAL, SURRENDER, AND RESTORATION

(a) OWNERSHIP. Subject to Lessor's right to require their removal and to cause Lessee to become the owner thereof as hereinafter provided in this Paragraph 7.4, all Alterations and Utility Installations made to the Premises by Lessee shall be the property of and owned by Lessee, but considered a part of the Premises. Lessor may, at any time and at its option, elect in writing to Lessee to be the owner of all or any specified part of the Lessee-Owned Alterations and Utility Installations. Unless otherwise instructed per Subparagraph 7.4(b) hereof, all Lessee-Owned Alterations and Utility Installations shall, at the expiration or earlier termination of this Lease, become the property of Lessor and remain upon the Premises and be surrendered with the Premises by Lessee.

(b) REMOVAL. Unless otherwise agreed in writing, Lessor may require that any or all Lessee-Owned Alterations or Utility Installations be removed by the expiration or earlier termination of this Lease, notwithstanding that their installation may have been consented to by Lessor. Lessor may require the removal at any time of all or any part of any Alterations or Utility Installations made without the required consent of Lessor.

(c) SURRENDER/RESTORATION. Lessee shall surrender the Premises by the end of the last day of the Lease term or any earlier termination date, clean and free of debris and in good operating order, condition and state of repair, ordinary wear and tear excepted. Ordinary wear and tear shall not include any damage or deterioration that would have been prevented by good maintenance practice or by Lessee performing all of its obligations under this Lease. Except as otherwise agreed or specified herein, the Premises, as surrendered, shall include the Alterations and Utility Installations. The obligation of Lessee shall include the repair of any damage occasioned by the installation, maintenance or removal of Lessee's Trade Fixtures, furnishings, equipment, and Lessee-Owned Alterations and Utility Installations, as well as the removal of any storage tank installed by or for Lessee, and the removal, replacement, or remediation of any soil, material or ground water contaminated by Lessee, all as may then be required by Applicable Requirements and/or good practice. Lessee's Trade Fixtures shall remain the property of Lessee and shall be removed by Lessee subject to its obligation to repair and restore the Premises per this Lease.

8. INSURANCE; INDEMNITY.

8.1 PAYMENT OF PREMIUM INCREASES.

(a) As used herein, the term "INSURANCE COST INCREASE" is defined as any increase in the actual cost of the insurance applicable to the Building and required to be carried by Lessor pursuant to Paragraphs 8.2(b), 8.3(a) and 8.3(b), ("REQUIRED INSURANCE"), over and above the Base Premium, as hereinafter defined, calculated on an annual basis. "Insurance Cost Increase" shall include, but not be limited to, requirements of the holder of a mortgage or deed of trust covering the Premises, increased valuation of the Premises, and/or a general premium rate increase. The term "Insurance Cost Increase" shall not, however, include any premium increases resulting from the nature of the occupancy of any other lessee of the Building. If the parties insert a dollar amount in Paragraph 1.9, such amount shall be considered the "BASE PREMIUM." If a dollar amount has not been inserted in Paragraph 1.9 and if the Building has been previously occupied during the twelve (12) month period immediately preceding the Commencement Date, the "Base Premium" shall be the annual premium applicable to such twelve (12) month period. If the Building was not fully occupied during such twelve (12) month period, the "Base Premium" shall be the lowest annual premium reasonably obtainable for the Required Insurance as of the Commencement Date, assuming the most nominal use possible of the Building. In no event, however, shall Lessee be responsible for any portion of the premium cost attributable to liability insurance coverage in excess of \$1,000,000 procured under Paragraph 8.2(b).

(b) Lessee shall pay any Insurance Cost increase to Lessor pursuant to Paragraph 4.2. Premiums for policy periods commencing prior to, or extending beyond, the term of this Lease shall be prorated to coincide with the corresponding Commencement Date or Expiration Date.

8.2 LIABILITY INSURANCE.

(a) CARRIED BY LESSEE. Lessee shall obtain and keep in force during the term of this Lease a Commercial General Liability policy of insurance protecting Lessee, Lessor and any Lender(s) whose names have been provided to Lessee in writing (as additional insureds) against claims for bodily injury, personal injury and property damage based upon, involving or arising out of the ownership, use, occupancy or maintenance of the Premises and all areas appurtenant thereto. Such insurance shall be on an occurrence basis providing single limit coverage in an amount not less than \$1,000,000 per occurrence with an "Additional Insured-Managers or Lessors of Premises" endorsement and contain the "Amendment of the Pollution Exclusion" endorsement for damage caused by heat, smoke or fumes from a hostile fire. The policy shall not contain any intra-insured exclusions as between insured persons or organizations, but shall include coverage for liability assumed under this Lease as an "INSURED CONTRACT" for the performance of Lessee's indemnity obligations under this Lease. The limits of said insurance required by this Lease or as carried by Lessee shall not, however, limit the liability of Lessee nor relieve Lessee of any obligation hereunder. All insurance to be carried by Lessee shall be primary to

and not contributory with any similar insurance carried by Lessor, whose insurance shall be considered excess insurance only.

(b) CARRIED BY LESSOR. Lessor shall also maintain liability insurance described in Paragraph 8.2(a) above, in addition to and not in lieu of, the insurance required to be maintained by Lessee. Lessee shall not be named as an additional insured therein.

8.3 PROPERTY INSURANCE-BUILDING, IMPROVEMENTS AND RENTAL VALUE.

(a) BUILDING AND IMPROVEMENTS. Lessor shall obtain and keep in force during the term of this Lease a policy or policies in the name of Lessor, with loss payable to Lessor and to any Lender(s), insuring against loss or damage to the Premises. Such insurance shall be for full replacement cost, as the same shall exist from time to time, or the amount required by any Lender(s), but in no event more than the commercially reasonable and available insurable value thereof if, by reason of the unique nature or age of the improvements involved, such latter amount is less than full replacement cost. Lessee-Owned Alterations and Utility Installations, Trade Fixtures and Lessee's personal property shall be insured by Lessee pursuant to Paragraph 8.4. If the coverage is available and commercially appropriate, Lessor's policy or policies shall insure against all risks of direct physical loss or damage (except the perils of flood and/or earthquake unless required by a Lender or included in the Base Premium), including coverage for any additional costs resulting from debris removal and reasonable amounts of coverage for the enforcement of any ordinance or law regulating the reconstruction or replacement of any undamaged sections of the Building required to be demolished or removed by reason of the enforcement of any building, zoning, safety or land use laws as the result of a covered loss, but not including plate glass insurance. Said policy or policies shall also contain an agreed valuation provision in lieu of any co-insurance clause, waiver of subrogation, and inflation guard protection causing an increase in the annual property insurance coverage amount by a factor of not less than the adjusted U.S. Department of Labor Consumer Price Index for All Urban Consumers for the city nearest to where the Premises are located.

(b) RENTAL VALUE. Lessor shall also obtain and keep in force during the term of this Lease a policy or policies in the name of Lessor, with loss payable to Lessor and any Lender(s), insuring the loss of the full rental and other charges payable by all lessees of the Building to Lessor for one year (including all Real Property Taxes, insurance costs, all Common Area Operating Expenses and any scheduled rental increases). Said insurance may provide that in the event the Lease is terminated by reason of an insured loss, the period of indemnity for such coverage shall be extended beyond the date of the completion of repairs or replacement of the Premises, to provide for one full year's loss of rental revenues from the date of any such loss. Said insurance shall contain an agreed valuation provision in lieu of any co-insurance clause, and the amount of coverage shall be adjusted annually to reflect the projected rental income. Real Property Taxes, insurance premium costs and other expenses, if any, otherwise payable, for the next 12-month period. Common Area Operating Expenses shall include any deductible amount in the event of such loss.

(c) ADJACENT PREMISES. Lessee shall pay for any increase in the premiums for the property insurance of the Building and for the Common Areas or other buildings in the Industrial Center is said increase is caused by Lessee's acts, omissions, use or occupancy of the Premises.

-4-

5

(d) LESSEE'S IMPROVEMENTS. Since Lessor is the Insuring Party, Lessor shall not be required to insure Lessee-Owned Alterations and Utility installations unless the item in question has become the property of Lessor under the terms of this Lease.

8.4 LESSEE'S PROPERTY INSURANCE. Subject to the requirements of Paragraph 8.5, Lessee at its cost shall either by separate policy or, at Lessor's option, by endorsement to a policy already carried, maintain insurance coverage on all of Lessee's personal property, Trade Fixtures and Lessee-Owned Alterations and

Utility Installations in, on, or about the Premises similar in coverage to that carried by Lessor as the Insuring Party under Paragraph 8.3(a). Such insurance shall be full replacement, cost coverage with a deductible not to exceed \$1,000 per occurrence. The proceeds from any such insurance shall be used by Lessee for the replacement of personal property and the restoration of Trade Fixtures and Lessee-Owned Alterations and Utility Installations. Upon request from Lessor, Lessee shall provide Lessor with written evidence that such insurance is in force.

8.5 INSURANCE POLICIES. Insurance required hereunder shall be in companies duly licensed to transact business in the state where the Premises are located, and maintaining during the policy term a "General Policyholders Rating" of at least B+, V, or such other rating as may be required by a Lender, as set forth in the most current issue of "Best's Insurance Guide." Lessee shall not do or permit to be done anything which shall invalidate the insurance policies referred to in this Paragraph 8. Lessee shall cause to be delivered to Lessor, within seven (7) days after the earlier of the Early Possession Date or the Commencement Date, certified copies of, or certificates evidencing the existence and amounts of, the insurance required under Paragraph 8.2(a) and 8.4. No such policy shall be cancelable or subject to modification except after thirty (30) days' prior notice to Lessor. Lessee shall at least thirty (30) days prior to the expiration of such policies, furnish Lessor with evidence of renewals or "insurance binders" evidencing renewal thereof, or Lessor may order such insurance and charge the cost thereof to Lessee, which amount shall be payable by Lessee to Lessor upon demand.

8.6 WAIVER OF SUBROGATION. Without affecting any other rights or remedies, Lessee and Lessor each hereby release and relieve the other, and waive their entire right to recover damages (whether in contract or in tort) against the other, for loss or damage to their property arising out of or incident to the perils required to be insured against under Paragraph 8. The effect of such releases and waivers of the right to recover damages shall not be limited by the amount of insurance carried or required, or by any deductibles applicable thereto. Lessor and Lessee agree to have their respective insurance companies issuing property damage insurance waive any right to subrogation that such companies may have against Lessor or Lessee, as the case may be, so long as the insurance is not invalidated thereby.

8.7 INDEMNITY. Except for Lessor's negligence and/or breach of express warranties, Lessee shall indemnify, protect, defend and hold harmless the Premises, Lessor and its agents, Lessor's master or ground lessor, partners and Lenders, from and against any and all claims, loss of rents and/or damages, costs, liens, judgments, penalties, loss of permits, attorneys' and consultants' fees, expenses and/or liabilities arising out of, involving, or in connection with, the occupancy of the Premises by Lessee, the conduct of Lessee's business, any act, omission or neglect of Lessee, its agents, contractors, employees or invitees, and out of any Default or Breach by Lessee in the performance in a timely manner of any obligation on Lessee's part to be performed under this Lease. The foregoing shall include, but not be limited to, the defense or pursuit of any claim or any action or proceeding involved therein, and whether or not (in the case of claims made against Lessor) litigated and/or reduced to judgment. In case any action or proceeding be brought against Lessor by reason of any of the foregoing matters. Lessee upon notice from Lessor shall defend the same at Lessee's expense by counsel reasonably satisfactory to Lessor and Lessor shall cooperate with Lessee in such defense. Lessor need not have first paid any such claim in order to be so indemnified.

8.8 EXEMPTION OF LESSOR FROM LIABILITY. Lessor shall not be liable for injury or damage to the person or goods, wares, merchandise or other property of Lessee, Lessee's employees, contractors, invitees, customers, or any other person in or about the Premises, whether such damage or injury is caused by or results from fire, steam, electricity, gas, water or rain, or from the breakage, leakage, obstruction or other defects of pipes, fire sprinklers, wires, appliances, plumbing, air conditioning or lighting fixtures, or from any other cause, whether said injury or damage results from conditions arising upon the Premises or upon other portions of the Building of which the Premises are a part, from other sources or places, and regardless of whether the cause of such

damage or injury or the means of repairing the same is accessible or not. Lessor shall not be liable for any damages arising from any act or neglect of any other lessee of Lessor nor from the failure by Lessor to enforce the provisions of any other lease in the Industrial Center. Notwithstanding Lessor's negligence or breach of this Lease, Lessor shall under no circumstances be liable for injury to Lessee's business or for any loss of income or profit therefrom.

9. DAMAGE OR DESTRUCTION.

9.1 DEFINITIONS.

(a) "PREMISES PARTIAL DAMAGE" shall mean damage or destruction to the Premises, other than Lessee-Owned Alterations and Utility Installations, the repair cost of which damage or destruction is less than fifty percent (50%) of the then Replacement Cost (as defined in Paragraph 9.1(d)) of the Premises (excluding Lessee-Owned Alterations and Utility Installations and Trade Fixtures) immediately prior to such damage or destruction.

(b) "PREMISES TOTAL DESTRUCTION" shall mean damage or destruction to the Premises, other than Lessee-Owned Alterations and Utility Installations, the repair cost of which damage or destruction is fifty percent (50%) or more of the then Replacement Cost of the Premises (excluding Lessee-Owned Alterations and Utility Installations and Trade Fixtures) immediately prior to such damage or destruction. In addition, damage or destruction to the Building, other than Lessee-Owned Alterations and Utility Installations and Trade Fixtures of any lessees of the Building, the cost of which damage or destruction is fifty percent (50%) or more of the then Replacement Cost (excluding Lessee-Owned Alterations and Utility Installations and Trade Fixtures of any lessees of the Building) of the Building shall, at the option of Lessor, be deemed to be Premises Total Destruction.

(c) "INSURED LOSS" shall mean damage or destruction to the Premises, other than Lessee-Owned Alterations and Utility Installations and Trade Fixtures, which was caused by an event required to be covered by the insurance described in Paragraph 8.3(a) irrespective of any deductible amounts or coverage limits involved.

(d) "REPLACEMENT COST" shall mean the cost to repair or rebuild the improvements owned by Lessor at the time of the occurrence to their condition existing immediately prior thereto, including demolition, debris removal and upgrading required by the operation of applicable building codes, ordinances or laws, and without deduction for depreciation.

(e) "HAZARDOUS SUBSTANCE CONDITION" shall mean the occurrence or discovery of a condition involving the presence of, or a contamination by, a Hazardous Substance as defined in Paragraph 6.2(a), in, on, or under the Premises.

9.2 PREMISES PARTIAL DAMAGE -- INSURED LOSS. If Premises Partial Damage that is an Insured Loss occurs, then Lessor shall, at Lessor's expense, repair such damage (but not Lessee's Trade Fixtures or Lessee-Owned Alterations and Utility Installations) as soon as reasonably possible and this Lease shall continue in full force and effect. In the event, however, that there is a shortage of insurance proceeds and such shortage is due to the fact that, by reason of the unique nature of the improvements in the Premises, full replacement cost insurance coverage was not commercially reasonable and available, Lessor shall have no obligation to pay for the shortage in insurance proceeds or to fully restore the unique aspects of the Premises unless Lessee provides Lessor with the funds to cover same, or adequate assurance thereof, within ten (10) days following receipt of written notice of such shortage and request therefor. If Lessor receives said funds or adequate assurance thereof within said ten (10) day period, Lessor shall complete them as soon as reasonably possible and this Lease shall remain in full force and effect. If Lessor does not receive such funds or assurance within said period, Lessor may nevertheless elect by written notice to Lessee within ten (10) days thereafter to make such restoration and repair as is commercially reasonable with Lessor paying any shortage in proceeds, in which case this Lease shall remain in full

force and effect. If Lessor does not receive such funds or assurance within such ten (10) day period, and if Lessor does not so elect to restore and repair, then this Lease shall terminate sixty (60) days following the occurrence of the damage or destruction. Unless otherwise agreed, Lessee shall in no event have any right to reimbursement from Lessor for any funds contributed by Lessee to repair any such damage or destruction. Premises Partial Damage due to flood or earthquake shall be subject to Paragraph 9.3 rather than Paragraph 9.2, notwithstanding that there may be some insurance coverage, but the net proceeds of any such insurance shall be made available for the repairs if made by either Party.

9.3 PARTIAL DAMAGE -- UNINSURED LOSS. If Premises Partial Damage that is not an Insured Loss occurs, unless caused by a negligent or willful act of Lessee (in which event Lessee shall make the repairs at Lessee's expense and this Lease shall continue in full force and effect), Lessor may at Lessor's option either (i) repair such damage as soon as reasonably possible at Lessor's expense, in which event this Lease shall continue in full force and effect, or (ii) give written notice to Lessee within thirty (30) days after receipt by Lessor of knowledge of the occurrence of such damage of Lessor's desire to terminate this Lease as of the date sixty (60) days following the date of such notice. In the event Lessor elects to give such notice of Lessor's intention to terminate this Lease, Lessee shall have the right within ten (10) days after the receipt of such notice to give written notice to Lessor of Lessee's commitment to pay for the repair of such damage totally at Lessee's expense and without reimbursement from Lessor. Lessee shall provide Lessor with the required funds or satisfactory assurance thereof within thirty (30) days following such commitment from Lessee. In such event this Lease shall continue in full force and effect, and Lessor shall proceed to make such repairs as soon as reasonably possible after the required funds are available. If Lessee does not give such notice and provide the funds or assurance thereof within the times specified above, this Lease shall terminate as of the date specified in Lessor's notice of termination.

9.4 TOTAL DESTRUCTION. Notwithstanding any other provision hereof, if Premises Total Destruction occurs (including any destruction required by any authorized public authority), this Lease shall terminate sixty (60) days following the date of such Premises Total Destruction, whether or not the damage or destruction is an Insured Loss or was caused by a negligent or willful act of Lessee. In the event, however, that the damage or destruction was caused by Lessee, Lessor shall have the right to recover Lessor's damages from Lessee except as released and waived in Paragraph 9.7.

9.5 DAMAGE NEAR END OF TERM. If at any time during the last six (6) months of the term of this Lease there is damage for which the cost to repair exceeds one month's Base Rent, whether or not an insured Loss, Lessor may, at Lessor's option, terminate this Lease effective sixty (60) days following the date of occurrence of such damage by giving written notice to Lessee of Lessor's election to do so within thirty (30) days after the date of occurrence of such damage. Provided, however, if Lessee at that time has an exercisable option to extend this Lease or to purchase the Premises, then Lessee may preserve this Lease by (a) exercising such option, and (b) providing Lessor with any shortage in insurance proceeds (or adequate assurance thereof) needed to make the repairs on or before the earlier of (i) the date which is ten (10) days after Lessee's receipt of Lessor's written notice purporting to terminate this Lease, or (ii) the day prior to the date upon which such option expires. If Lessee duly exercises such option during such period and provides Lessor with funds (or adequate assurance thereof) to cover any shortage in insurance proceeds, Lessor shall, at Lessor's expense repair such damage as soon as reasonably possible and this Lease shall continue in full force and effect. If Lessee fails to exercise such option and provide such funds or assurance during such period, then this Lease shall terminate as of the date set forth in the first sentence of this Paragraph 9.5.

9.6 ABATEMENT OF RENT; LESSEE'S REMEDIES.

(a) In the event of (i) Premises Partial Damage or (ii) Hazardous Substance Condition for which Lessee is not legally responsible, the Base Rent, Common Area Operating Expenses and other charges, if any, payable by Lessee

hereunder for the period during which such damage or condition, its repair, remediation or restoration continues, shall be abated in proportion to the degree to which Lessee's use of the Premises is impaired, but not in excess of proceeds from insurance required to be carried under Paragraph 8.3(b). Except for abatement of Base Rent, Common Area Operating Expenses and other charges, if any, as aforesaid, all other obligations of Lessee hereunder shall be performed by Lessee, and Lessee shall have no claim against Lessor for any damage suffered by reason of any such damage, destruction, repair, remediation or restoration.

-5-

6

(b) If Lessor shall be obligated to repair or restore the Premises under the provisions of this Paragraph 9 and shall not commence, in a substantial and meaningful way, the repair or restoration of the Premises within ninety (90) days after such obligation shall accrue, Lessee may, at any time prior to the commencement of such repair or restoration, give written notice to Lessor and to any Lenders of which Lessee has actual notice of Lessee's election to terminate this Lease on a date not less than (60) days following the giving of such notice. If Lessee gives such notice to Lessor and such Lenders and such repair or restoration is not commenced within thirty (30) days after receipt of such notice, this Lease shall terminate as of the date specified in said notice. If Lessor or a Lender commences the repair or restoration of the Premises within thirty (30) days after the receipt of such notice, this Lease shall continue in full force and effect "Commence" as used in this Paragraph 9.6 shall mean either the unconditional authorization of the preparation of the required plans, or the beginning of the actual work on the Premises, whichever occurs first.

9.7 HAZARDOUS SUBSTANCE CONDITIONS. If a Hazardous Substance Condition occurs, unless Lessee is legally responsible therefor (in which case Lessee shall make the investigation and remediation thereof required by Applicable Requirements and this Lease shall continue in full force and effect, but subject to Lessor's rights under Paragraph 6.2(c) and Paragraph 13), Lessor may at Lessor's option either (i) investigate and remediate such Hazardous Substance Condition, if required, as soon as reasonably possible at Lessor's expense, in which event this Lease shall continue in full force and effect, or (ii) if the estimated cost to investigate and remediate such condition exceeds twelve (12) times the then monthly Base Rent or \$100,000 whichever is greater, give written notice to Lessee within thirty (30) days after receipt by Lessor of knowledge of the occurrence of such Hazardous Substance Condition of Lessor's desire to terminate this Lease as of the date sixty (60) days following the date of such notice. In the event Lessor elects to give such notice of Lessor's intention to terminate this Lease, Lessee shall have the right within ten (10) days after the receipt of such notice to give written notice to Lessor of Lessee's commitment to pay for the excess costs of (a) investigation and remediation of such Hazardous Substance Condition to the extent required by Applicable Requirements, over (b) an amount equal to twelve (12) times the then monthly Base Rent or \$100,000, whichever is greater. Lessee shall provide Lessor with the funds required of Lessee or satisfactory assurance thereof within thirty (30) days following said commitment by Lessee. In such event this Lease shall continue in full force and effect, and Lessor shall proceed to make such investigation and remediation as soon as reasonably possible after the required funds are available. If Lessee does not give such notice and provide the required funds or assurance thereof within the time period specified above, this Lease shall terminate as of the date specified in Lessor's notice of termination.

9.8 TERMINATION -- ADVANCE PAYMENTS. Upon termination of this Lease pursuant to this Paragraph 9, Lessor shall return to Lessee any advance payment made by Lessee to Lessor and so much of Lessee's Security Deposit as has not been, or is not then required to be, used by Lessor under the terms of this Lease.

9.9 WAIVER OF STATUTES. Lessor and Lessee agree that the terms of this

Lease shall govern the effect of any damage to or destruction of the Premises and the Building with respect to the termination of this Lease and hereby waive the provisions of any present or future statute to the extent it is inconsistent herewith.

10. REAL PROPERTY TAXES.

10.1 PAYMENT OF TAXES. Lessor shall pay the Real Property Taxes, as defined in Paragraph 10.2(a), applicable to the Industrial Center, and except as otherwise provided in Paragraph 10.3, any increases in such amounts over the Base Real Property Taxes shall be included in the calculation of Common Area Operating Expenses in accordance with the provisions of Paragraph 4.2.

10.2 REAL PROPERTY TAX DEFINITIONS.

(a) As used herein, the term "REAL PROPERTY TAXES" shall include any form of real estate tax or assessment, general, special, ordinary or extraordinary, and any license fee, commercial rental tax, improvement bond or bonds, levy or tax (other than inheritance, personal income or estate taxes) imposed upon the Industrial Center by any authority having the direct or indirect power to tax including any city, state or deferral government, or any school, agricultural, sanitary, fire, street, drainage, or other improvement district thereof, levied against any legal or equitable interest of Lessor in the Industrial Center or any portion thereof, Lessor's right to rent or other income therefrom, and/or Lessor's business of leasing the Premises. The term "REAL PROPERTY TAXES" shall also include any tax, fee, levy, assessment or charge, or any increase therein, imposed by reason of events occurring, or changes in Applicable Law taking effect, during the term of this Lease, including but not limited to a change in the ownership of the Industrial Center or in the Improvements thereon, the execution of this Lease, or any modification, amendment or transfer thereof, and whether or not contemplated by the Parties.

(b) As used herein, the term "BASE REAL PROPERTY TAXES" shall be the amount of Real Property Taxes, which are assessed against the Premises, Building or Common Areas in the calendar year during which the Lease is executed. In calculating Real Property Taxes for any calendar year, the Real Property Taxes for any real estate tax year shall be included in the calculation of Real Property Taxes for such calendar year based upon the number of days which such calendar year and tax year have in common.

10.3 ADDITIONAL IMPROVEMENTS. Common Area Operating Expenses shall not include Real Property Taxes specified in the tax assessor's records and work sheets as being caused by additional improvements placed upon the Industrial Center by other lessees or by Lessor for the exclusive enjoyment of such other lessees. Notwithstanding Paragraph 10.1 hereof, Lessee shall, however, pay to Lessor at the time Common Area Operating Expenses are payable under Paragraph 4.2, the entirety of any increase in Real Property Taxes if assessed solely by reason of Alterations, Trade Fixtures or Utility Installations placed upon the Premises by Lessee or at Lessee's request.

10.4 JOINT ASSESSMENT. If the Building is not separately assessed, Real Property Taxes allocated to the Building shall be an equitable proportion of the Real Property Taxes for all of the land and improvements included within the tax parcel assessed, such proportion to be determined by Lessor from the respective valuations assigned in the assessor's work sheets or such other information as may be reasonably available. Lessor's reasonable determination thereof, in good faith, shall be conclusive.

10.5 LESSEE'S PROPERTY TAXES. Lessee shall pay prior to delinquency all taxes assessed against and levied upon Lessee-Owned Alterations and Utility Installations, Trade Fixtures, furnishings, equipment and all personal property of Lessee contained in the Premises or stored within the Industrial Center. When possible, Lessee shall cause its Lessee-Owned Alterations and Utility Installations, Trade Fixtures, furnishings, equipment and all other personal property to be assessed and billed separately from the real property of Lessor. If any of Lessee's said property shall be assessed with Lessor's real property, Lessee shall pay Lessor the taxes attributable to Lessee's property within ten

(10) days after receipt of a written statement setting forth the taxes applicable to Lessee's property.

11. UTILITIES. Lessee shall pay directly for all utilities and services supplied to the Premises, including but not limited to electricity, telephone, security, gas and cleaning of the Premises, together with any taxes thereon. If any such utilities or services are not separately metered to the Premises or separately billed to the Premises, Lessee shall pay to Lessor a reasonable proportion to be determined by Lessor of all such charges jointly metered or billed with other premises in the Building, in the manner and within the time periods set forth in Paragraph 4.2(d).

12. ASSIGNMENT AND SUBLETTING.

12.1 LESSOR'S CONSENT REQUIRED.

(a) Lessee shall not voluntarily or by operation of law assign, transfer, mortgage or otherwise transfer or encumber (collectively, "assign") or sublet all or any part of Lessee's interest in this Lease or in the Premises without Lessor's prior written consent given under and subject to the terms of Paragraph 36.

(b) A change in the control of Lessee shall constitute an assignment required Lessor's consent. The transfer, on a cumulative basis, of twenty-five percent (25%) or more of the voting control of Lessee shall constitute a change in control for this purpose.

(c) The involvement of Lessee or its assets in any transaction, or series of transactions (by way of merger, sale, acquisition, financing, refinancing, transfer, leveraged buy-out or otherwise), whether or not a formal assignment or hypothecation of this Lease or Lessee's assets occurs, which results or will result in a reduction of the Net Worth of Lessee, as hereinafter defined, by an amount equal to or greater than twenty-five percent (25%) of such Net Worth of Lessee as it was represented to Lessor at the time of full execution and delivery of the Lease or at the time of the most recent assignment to which Lessor has consented, or as it exists immediately prior to said transaction or transactions constituting such reduction, at whichever time said Net Worth of Lessee was or is greater, shall be considered an assignment of this Lease by Lessee to which Lessor may reasonably withhold its consent. "NET WORTH OF LESSEE" for purposes of this Lease shall be the net worth of Lessee (excluding any Guarantors) established under generally accepted accounting principles consistently applied.

(d) An assignment or subletting of Lessee's interest in this Lease without Lessor's specific prior written consent shall, at Lessor's option, be a Default curable after notice per Paragraph 13.1, or a non-curable Breach without the necessity of any notice and grace period. If Lessor elects to treat such unconsented to assignment or subletting as a non-curable Breach, Lessor shall have the right to either: (i) terminate this Lease, or (ii) upon thirty (30) days' written notice ("LESSOR'S NOTICE"), increase the monthly Base Rent for the Premises to the greater of the then fair market rental value of the premises, as reasonably determined by Lessor, or one hundred ten percent (110%) of the Base Rent then in effect. Pending determination of the new fair market rental value, if disputed by Lessee, Lessee shall pay the amount set forth in Lessor's Notice, with any overpayment credited against the next installment(s) of Base Rent coming due, and any underpayment for the period retroactively to the effective date of the adjustment being due and payable immediately upon the determination thereof. Further, in the event of such Breach and rental adjustment, (i) the purchase price of any option to purchase the Premises held by Lessee shall be subject to similar adjustment to the then fair market value as reasonably determined by Lessor (without the Lease being considered an encumbrance or any deduction for depreciation or obsolescence, and considering the Premises at its highest and best use and in good condition) or one hundred ten percent (110%) of the price previously in effect, (ii) any index-oriented rental or price adjustment formulas contained in this Lease shall be adjusted to require that the base index be determined with reference to the index applicable to the time of such adjustment, and (iii) any fixed rental adjustments scheduled during the remainder of the Lease term shall be increased in the same ratio as the new

rental bears to the Base Rent in effect immediately prior to the adjustment specified in Lessor's Notice.

(e) Lessee's remedy for any breach of this Paragraph 12.1 by Lessor shall be limited to compensatory damages and/or injunctive relief.

12.2 TERMS AND CONDITIONS APPLICABLE TO ASSIGNMENT AND SUBLETTING.

(a) Regardless of Lessor's consent, any assignment or subletting shall not (i) be effective without the express written assumption by such assignee or sublessee of the obligations of Lessee under this Lease, (ii) release Lessee of any obligations hereunder, nor (iii) alter the primary liability of Lessee for the payment of Base Rent and other sums due Lessor hereunder or for the performance of any other obligations to be performed by Lessee under this Lease.

(b) Lessor may accept any rent or performance of Lessee's obligations from any person other than Lessee pending approval or disapproval of an assignment. Neither a delay in the approval or disapproval of such assignment nor the acceptance of any rent for performance shall constitute a waiver of estoppel of Lessor's right to exercise its remedies for the Default or Breach by Lessee of any of the terms, covenants or conditions of this Lease.

(c) The consent of Lessor to any assignment or subletting shall not constitute a consent to any subsequent assignment or subletting by Lessee or to any subsequent or successive assignment or subletting by the assignee or sublessee. However, Lessor may consent to subsequent sublettings and assignments of the sublease or any amendments or modifications thereto without notifying Lessee or anyone else liable under this Lease or the sublease and without obtaining their consent, and such action shall not relieve such persons from liability under this Lease or the sublease.

-6-

7

(d) In the event of any Default or Breach of Lessee's obligation under this Lease, Lessor may proceed directly against Lessee, any Guarantors or anyone else responsible for the performance of the Lessee's obligations under this Lease, including any sublessee, without first exhausting Lessor's remedies against any other person or entity responsible therefor to Lessor, or any security held by Lessor.

(e) Each request for consent to an assignment or subletting shall be in writing, accompanied by information relevant to Lessor's determination as to the financial and operational responsibility and appropriateness of the proposed assignee or sublessee, including but not limited to the intended use and/or required modification of the Premises, if any, together with a non-refundable deposit of \$1,000 or ten percent (10%) of the monthly Base Rent applicable to the portion of the Premises which is the subject of the proposed assignment or sublease, whichever is greater, as reasonable consideration for Lessor's considering and processing the request for consent. Lessee agrees to provide Lessor with such other or additional information and/or documentation as may be reasonably requested by Lessor.

(f) Any assignee of, or sublessee under, this Lease shall, by reason of accepting such assignment or entering into such sublease, be deemed, for the benefit of Lessor, to have assumed and agreed to conform and comply with each and every term, covenant, condition and obligation herein to be observed or performed by Lessee during the term of said assignment or sublease, other than such obligations as are contrary to or inconsistent with provisions of an assignment or sublease to which Lessor has specifically consented in writing.

(g) The occurrence of a transaction described in Paragraph 12.2(c) shall give Lessor the right (but not the obligation) to require that the Security Deposit be increased by an amount equal to six (6) times the then monthly Base Rent, and Lessor may make the actual receipt by Lessor of the Security Deposit increase a condition to Lessor's consent to such transaction.

(h) Lessor, as a condition to giving its consent to any assignment or subletting, may require that the amount and adjustment schedule of the rent payable under this Lease be adjusted to what is then the market value and/or adjustment schedule for property similar to the Premises as then constituted, as determined by Lessor.

12.3 ADDITIONAL TERMS AND CONDITIONS APPLICABLE TO SUBLETTING. The following terms and conditions shall apply to any subletting by Lessee of all or any part of the Premises and shall be deemed included in all subleases under this Lease whether or not expressly incorporated therein:

(a) Lessee hereby assigns and transfers to Lessor all of Lessee's interest in all rentals and income arising from any sublease of all or a portion of the Premises heretofore or hereafter made by Lessee, and Lessor may collect such rent and income and apply same toward Lessee's obligations under this Lease; provided, however, that until a Breach (as defined in Paragraph 13.1) shall occur in the performance of Lessee's obligations under this Lease, Lessee may, except as otherwise provided in this Lease, receive, collect and enjoy the rents accruing under such sublease. Lessor shall not, by reason of the foregoing provision or any other assignment of such sublease to Lessor, nor by reason of the collection of the rents from a sublessee, be deemed liable to the sublessee for any failure of Lessee to perform and comply with any of Lessee's obligations to such sublessee under such Sublease. Lessee hereby irrevocably authorizes and directs any such sublessee, upon receipt of a written notice from Lessor stating that a Breach exists in the performance of Lessee's obligations under this Lease, to pay to Lessor the rents and other charges due and to become due under the sublease. Sublessee shall rely upon any such statement and request from Lessor and shall pay such rents and other charges to Lessor without any obligation or right to inquire as to whether such Breach exists and notwithstanding any notice from or claim from Lessee to the contrary. Lessee shall have no right or claim against such sublessee, or, until the Breach has been cured, against Lessor, for any such rents and other charges so paid by said sublessee to Lessor.

(b) In the event of a Breach by Lessee in the performance of its obligations under this Lease, Lessor, at its option and without any obligation to do so, may require any sublessee to attorn to Lessor, in which event Lessor shall undertake the obligations of the sublessor under such sublease from the time of the exercise of said option to the expiration of such sublease; provided, however, Lessor shall not be liable for any prepaid rents or security deposit paid by such sublessee to such sublessor or for any other prior defaults or breaches of such sublessor under such sublease.

(c) Any matter or thing requiring the consent of the sublessor under a sublease shall also require the consent of Lessor herein.

(d) No sublessee under a sublease approved by Lessor shall further assign or sublet all or any part of the Premises without Lessor's prior written consent.

(e) Lessor shall deliver a copy of any notice of Default or Breach by Lessee to the sublessee, who shall have the right to cure the Default of Lessee within the grace period, if any, specified in such notice. The sublessee shall have a right of reimbursement and offset from and against Lessee for any such Defaults cured by the sublessee.

13. DEFAULT; BREACH; REMEDIES.

13.1 DEFAULT; BREACH. Lessor and Lessee agree that if an attorney is consulted by Lessor in connection with a Lessee Default or Breach (as hereinafter defined), \$350.00 is a reasonable minimum sum per such occurrence for legal services and costs in the preparation and service of a notice of Default, and that Lessor may include the cost of such services and costs in said notice as rent due and payable to cure said default. A "DEFAULT" by Lessee is defined as a failure by Lessee to observe, comply with or perform any of the terms, covenants, conditions or rules applicable to Lessee under this Lease. A "BREACH" by Lessee is defined as the occurrence of any one or more of the following Defaults, and, where a grace period for cure after notice is specified

herein, the failure by Lessee to cure such Default prior to the expiration of the applicable grace period, and shall entitle Lessor to pursue the remedies set forth in Paragraphs 13.2 and/or 13.3:

(a) The vacating of the Premises without the intention to reoccupy same, or the abandonment of the Premises.

(b) Except as expressly otherwise provided in this Lease, the failure by Lessee to make any payment of Base Rent, Lessee's Share of Common Area Operating Expenses, or any other monetary payment required to be made by Lessee hereunder as and when due, the failure by Lessee to provide Lessor with reasonable evidence of insurance or surety bond required under this Lease, or the failure of Lessee to fulfill any obligation under this Lease which endangers or threatens life or property, where such failure continues for a period of three (3) days following written notice thereof by or on behalf of Lessor to Lessee.

(c) Except as expressly otherwise provided in this Lease, the failure by Lessee to provide Lessor with reasonable written evidence (in duly executed original form, if applicable) of (i) compliance with Applicable Requirements per Paragraph 6.3, (ii) the inspection, maintenance and service contracts required under Paragraph 7.1(b), (iii) the rescission of an unauthorized assignment or subletting per Paragraph 12.1, (iv) a Tenancy Statement per Paragraphs 16 or 37, (v) the subordination or non-subordination of this Lease per Paragraph 30, (vi) the guaranty of the performance of Lessee's obligations under this Lease if required under Paragraphs 1.11 and 37, (vii) the execution of any document requested under Paragraph 42 (easements), or (viii) any other documentation or information which Lessor may reasonably require of Lessee under the terms of this lease, where any such failure continues for a period of ten (10) days following written notice by or on behalf of Lessor to Lessee.

(d) A Default by Lessee as to the terms, covenants, conditions or provisions of this Lease, or of the rules adopted under Paragraph 40 hereof that are to be observed, complied with or performed by Lessee, other than those described in Subparagraphs 13.1(a), (b) or (c), above, where such Default continues for a period of thirty (30) days after written notice thereof by or on behalf of Lessor to Lessee; provided, however, that if the nature of Lessee's Default is such that more than thirty (30) days are reasonably required for its cure, then it shall not be deemed to be a Breach of this Lease by Lessee if Lessee commences such cure within said thirty (30) day period and thereafter diligently prosecutes such cure to completion.

(e) The occurrence of any of the following events: (i) the making by Lessee of any general arrangement or assignment for the benefit of creditors; (ii) Lessee's becoming a "debtor" as defined in 11 U.S. Code Section 101 or any successor statute thereto (unless, in the case of a petition filed against Lessee, the same is dismissed within sixty (60) days); (iii) the appointment of a trustee or receiver to take possession of substantially all of Lessee's assets located at the Premises or of Lessee's interest in this Lease, where possession is not restored to Lessee within thirty (30) days; or (iv) the attachment, execution or other judicial seizure of substantially all of Lessee's assets located at the Premises or of Lessee's interest in this Lease, where such seizure is not discharged within thirty (30) days; provided, however, in the event that any provision of this Subparagraph 13.1(e) is contrary to any applicable law, such provision shall be of no force or effect, and shall not affect the validity of the remaining provisions.

(f) The discovery by Lessor that any financial statement of Lessee or of any Guarantor, given to Lessor by Lessee or any Guarantor, was materially false.

(g) If the performance of Lessee's obligations under this Lease is guaranteed: (i) the death of a Guarantor, (ii) the termination of a Guarantor's liability with respect to this Lease other than in accordance with the terms of such guaranty, (iii) a Guarantor's becoming insolvent or the subject of a bankruptcy filing, (iv) a Guarantor's refusal to honor the guaranty, or (v) a Guarantor's breach of its guaranty obligation on an anticipatory breach basis, and Lessee's failure, within sixty (60) days following written notice by or on

behalf of Lessor to Lessee of any such event, to provide Lessor with written alternative assurances of security, which, when coupled with the then existing resources of Lessee, equals or exceeds the combined financial resources of Lessee and the Guarantors that existed at the time of execution of this Lease.

13.2 REMEDIES. If Lessee fails to perform any affirmative duty or obligation of Lessee under this Lease, within ten (10) days after written notice to Lessee (or in case of an emergency, without notice), Lessor may at its option (but without obligation to do so), perform such duty or obligation on Lessee's behalf, including but not limited to the obtaining of reasonably required bonds, insurance policies, or governmental licenses, permits or approvals. The costs and expenses of any such performance by Lessor shall be due and payable by Lessee to Lessor upon invoice therefor, if any check given to Lessor by Lessee shall not be honored by the bank upon which it is drawn, Lessor, at its own option, may require all future payments to be made under this Lease by Lessee to be made only by cashier's check. In the event of a Breach of this Lease by Lessee (as defined in Paragraph 13.1), with or without further notice or demand, and without limiting Lessor in the exercise of any right or remedy which Lessor may have by reason of such Breach, Lessor may:

(a) Terminate Lessee's right to possession of the Premises by any lawful means, in which case this Lease and the term hereof shall terminate and Lessee shall immediately surrender possession of the Premises to Lessor. In such event Lessor shall be entitled to recover from Lessee: (i) the worth at the time of the award of the unpaid rent which had been earned at the time of termination; (ii) the worth at the time of award of the amount by which the unpaid rent which would have been earned after termination until the time of award exceeds the amount of such rental loss that the Lessee proves could have been reasonably avoided; (iii) the worth at the time of award of the amount by which the unpaid rent for the balance of the term after the time of award exceeds the amount of such rental loss that the Lessee proves could be reasonably avoided; and (iv) any other amount necessary to compensate Lessor for all the detriment proximately caused by the Lessee's failure to perform its obligations under this Lease or which in the ordinary course of things would be likely to result therefrom, including but not limited to the cost of recovering possession of the Premises, expenses of reletting, including necessary renovation and alteration of the Premises, reasonable attorneys' fees, and that portion of any leasing commission paid by Lessor in connection with this Lease applicable to the unexpired term of this Lease. The worth at the time of award of the amount referred to in provision (iii) of the immediately preceding sentence shall be computed by discounting such amount at the discount rate of the Federal Reserve Bank of San Francisco or the Federal Reserve Bank District in which the Premises are located at the time of award plus one percent (1%). Efforts by Lessor to mitigate damages caused by Lessee's Default or Breach of this Lease shall not waive Lessor's right to recover damages under this Paragraph 13.2. If termination of this Lease is obtained through the provisional remedy of unlawful detainer, Lessor shall have the right to recover in such pro-

-7-

8

ceeding the unpaid rent and damages as are recoverable therein, or Lessor may reserve the right to recover all or any part thereof in a separate suit for such rent and/or damages. If a notice and grace period required under Subparagraph 13.1(b), (c) or (d) was not previously given, a notice to pay rent or quit, or to perform or quit, as the case may be, given to Lessee under any statute authorizing the forfeiture of leases for unlawful detainer shall also constitute the applicable notice for grace period purposes required by Subparagraph 13.1(b), (c) or (d). In such case, the applicable grace period under the unlawful detainer statute shall run concurrently after the one such statutory notice, and the failure of Lessee to cure the Default within the greater of the two (2) such grace periods shall constitute both an unlawful detainer and a Breach of this Lease entitling Lessor to the remedies provided for in this Lease and/or by said statute.

(b) Continue the Lease and Lessee's right to possession in effect (in California under California Civil Code Section 1951.4) after Lessee's Breach and

recover the rent as it becomes due, provided Lessee has the right to sublet or assign, subject only to reasonable limitations. Lessor and Lessee agree that the limitations on assignment and subletting in this Lease are reasonable. Acts of maintenance or preservation, efforts to relet the Premises, or the appointment of a receiver to protect the Lessor's interest under this Lease, shall not constitute a termination of the Lessee's right to possession.

(c) Pursue any other remedy now or hereafter available to Lessor under the laws or judicial decisions of the state wherein the Premises are located.

(d) The expiration or termination of this Lease and/or the termination of Lessee's right to possession shall not relieve Lessee from liability under any indemnity provisions of this Lease as to matters occurring or accruing during the term hereof or by reason of Lessee's occupancy of the Premises.

13.3 INDUCEMENT RECAPTURE IN EVENT OF BREACH. Any agreement by Lessor for free or abated rent or other charges applicable to the Premises, or for the giving or paying by Lessor to or for Lessee of any cash or other bonus, inducement or consideration for Lessee's entering into this Lease, all of which concessions are hereinafter referred to as "INDUCEMENT PROVISIONS" shall be deemed conditioned upon Lessee's full and faithful performance of all of the terms, covenants and conditions of this Lease to be performed or observed by Lessee during the term hereof as the same may be extended. Upon the occurrence of a Breach (as defined in Paragraph 13.1) of this Lease by Lessee, any such Inducement Provision shall automatically be deemed deleted from this Lease and of no further force or effect, and any rent, other charge, bonus, inducement or consideration theretofore abated, given or paid by Lessor under such an Inducement Provision shall be immediately due and payable by Lessee to Lessor, and recoverable by Lessor, as additional rent due under this Lease, notwithstanding any subsequent cure of said Breach by Lessee. The acceptance by Lessor of rent or the cure of the Breach which initiated the operation of this Paragraph 13.3 shall not be deemed a waiver by Lessor of the provisions of this Paragraph 13.3 unless specifically so stated in writing by Lessor at the time of such acceptance.

13.4 LATE CHARGES. Lessee hereby acknowledges that late payment by Lessee to Lessor of rent and other sums due hereunder will cause Lessor to incur costs not contemplated by this Lease, the exact amount of which will be extremely difficult to ascertain. Such costs include, but are not limited to, processing and accounting charges, and late charges which may be imposed upon Lessor by the terms of any ground lease, mortgage or deed of trust covering the Premises. Accordingly, if any installment of rent or other sum due from Lessee shall not be received by Lessor or Lessor's designee within ten (10) days after such amount shall be due, then, without any requirement for notice to Lessee, Lessee shall pay to Lessor a late charge equal to six percent (6%) of such overdue amount. The parties hereby agree that such late charge represents a fair and reasonable estimate of the costs Lessor will incur by reason of late payment by Lessee. Acceptance of such late charge by Lessor shall in no event constitute a waiver of Lessee's Default or Breach with respect to such overdue amount, nor prevent Lessor from exercising any of the other rights and remedies granted hereunder. In the event that a late charge is payable hereunder, whether or not collected, for three (3) consecutive installments of Base Rent, then notwithstanding Paragraph 4.1 or any other provision of this Lease to the contrary, Base Rent shall, at Lessor's option, become due and payable quarterly in advance.

13.5 BREACH BY LESSOR. Lessor shall not be deemed in breach of this Lease unless Lessor fails within a reasonable time to perform an obligation required to be performed by Lessor. For purposes of this Paragraph 13.5, a reasonable time shall in no event be less than thirty (30) days after receipt by Lessor, and by any Lender(s) whose name and address shall have been furnished to Lessee in writing for such purpose, of written notice specifying wherein such obligation of Lessor has not been performed; provided, however, that if the nature of Lessor's obligation is such that more than thirty (30) days after such notice are reasonably required for its performance, then Lessor shall not be in breach of this Lease if performance is commenced within such thirty (30) day period and thereafter diligently pursued to completion.

14. CONDEMNATION. If the Premises or any portion thereof are taken under the power of eminent domain or sold under the threat of the exercise of said power (all of which are herein called "condemnation"), this Lease shall terminate as to the part so taken as of the date the condemning authority takes title or possession, whichever first occurs. If more than ten percent (10%) of the floor area of the Premises, or more than twenty-five percent (25%) of the portion of the Common Areas designated for Lessee's parking, is taken by condemnation, Lessee may, at Lessee's option, to be exercised in writing within ten (10) days after Lessor shall have given Lessee written notice of such taking (or in the absence of such notice, within ten (10) days after the condemning authority shall have taken possession) terminate this Lease as of the date the condemning authority takes such possession. If Lessee does not terminate this Lease in accordance with the foregoing, this Lease shall remain in full force and effect as to the portion of the Premises remaining, except that the Base Rent shall be reduced in the same proportion as the rentable floor area of the Premises taken bears to the total rentable floor area of the Premises. No reduction of Base Rent shall occur if the condemnation does not apply to any portion of the Premises. Any award for the taking of all or any part of the Premises under the power of eminent domain or any payment made under threat of the exercise of such power shall be the property of Lessor, whether such award shall be made as compensation for diminution of value of the leasehold or for the taking of the fee, or as severance damages; provided, however, that Lessee shall be entitled to any compensation, separately awarded to Lessee for Lessee's relocation expenses and/or loss of Lessee's Trade Fixtures. In the event that this Lease is not terminated by reason of such condemnation, Lessor shall to the extent of its net severance damages received, over and above Lessee's Share of the legal and other expenses incurred by Lessor in the condemnation matter, repair any damage to the Premises caused by such condemnation authority. Lessee shall be responsible for the payment of any amount in excess of such net severance damages required to complete such repair.

15. BROKERS' FEES.

15.1 PROCURING CAUSE. The Broker(s) named in Paragraph 1.10 is/are the procuring cause of this Lease.

15.2 ADDITIONAL TERMS. Unless Lessor and Broker(s) have otherwise agreed in writing, Lessor agrees that: (a) if Lessee exercises any Option (as defined in Paragraph 39.1) granted under this Lease or any Option subsequently granted, or (b) if Lessee acquires any rights to the Premises or other premises in which Lessor has an interest, or (c) if Lessee remains in possession of the Premises with the consent of Lessor after the expiration of the term of this Lease after having failed to exercise an Option, or (d) if said Brokers are the procuring cause of any other lease or sale entered into between the Parties pertaining to the Premises and/or any adjacent property in which Lessor has an interest, or (e) if Base Rent is increased, whether by agreement or operation of an escalation clause herein, then as to any of said transactions, Lessor shall pay said Broker(s) a fee in accordance with the schedule of said Broker(s) in effect at the time of the execution of this Lease.

15.3 ASSUMPTION OF OBLIGATIONS. Any buyer or transferee of Lessor's interest in this Lease, whether such transfer is by agreement or by operation of law, shall be deemed to have assumed Lessor's obligation under this Paragraph 15. Each Broker shall be an intended third party beneficiary of the provisions of Paragraph 1.10 and of this Paragraph 15 to the extent of its interest in any commission arising from this Lease and may enforce that right directly against Lessor and its successors.

15.4 REPRESENTATIONS AND WARRANTIES. Lessee and Lessor each represent and warrant to the other that it has had no dealings with any person, firm, broker or finder other than as named in Paragraph 1.10(a) in connection with the negotiation of this Lease and/or the consummation of the transaction contemplated hereby, and that no broker or other person, firm or entity other than said named Broker(s) is entitled to any commission or finder's fee in connection with said transaction. Lessee and Lessor do each hereby agree to indemnify, protect, defend and hold the other harmless from and against liability for compensation or charges which may be claimed by any such unnamed broker, finder or other similar party by reason of any dealings or actions of

the indemnifying Party, including any costs, expenses, and/or attorneys' fees reasonably incurred with respect thereto.

16. TENANCY AND FINANCIAL STATEMENTS.

16.1 TENANCY STATEMENT. Each Party (as "RESPONDING PARTY") shall within ten (10) days after written notice from the other Party (the "REQUESTING PARTY") execute, acknowledge and deliver to the Requesting Party a statement in writing in a form similar to the then most current "TENANCY STATEMENT" form published by the American Industrial Real Estate Association, plus such additional information, confirmation and/or statements as may be reasonably requested by the Requesting Party.

16.2 FINANCIAL STATEMENT. If Lessor desires to finance, refinance, or sell the Premises or the Building, or any part thereof, Lessee and all Guarantors shall deliver to any potential lender or purchaser designated by Lessor such financial statements of Lessee and such Guarantors as may be reasonably required by such lender or purchaser, including but not limited to Lessee's financial statements for the past three (3) years. All such financial statements shall be received by Lessor and such lender or purchaser in confidence and shall be used only for the purposes herein set forth.

17. LESSOR'S LIABILITY. The term "LESSOR" as used herein shall mean the owner or owners at the time in question of the fee title to the Premises. In the event of a transfer of Lessor's title or interest in the Premises or in this Lease, Lessor shall deliver to the transferee or assignee (in cash or by credit) any unused Security Deposit held by Lessor at the time of such transfer or assignment. Except as provided in Paragraph 15.3, upon such transfer or assignment and delivery of the Security Deposit, as aforesaid, the prior Lessor shall be relieved of all liability with respect to the obligations and/or covenants under this Lease thereafter to be performed by the Lessor. Subject to the forgoing, the obligations and/or covenants in this Lease to be performed by the Lessor shall be binding only upon the Lessor as hereinabove defined.

18. SEVERABILITY. The invalidity of any provision of this Lease, as determined by a court of competent jurisdiction, shall in no way affect the validity of any other provision hereof.

19. INTEREST ON PAST-DUE OBLIGATIONS. Any monetary payment due Lessor hereunder, other than late charges, not received by Lessor with ten (10) days following the date on which it was due, shall bear interest from the date due at the prime rate charged by the largest state chartered bank in the state in which the Premises are located plus four percent (4%) per annum, but not exceeding the maximum rate allowed by law, in addition to the potential late charge provided for in Paragraph 13.4.

20. TIME OF ESSENCE. Time is of the essence with respect to the performance of all obligations to be performed or observed by the Parties under this Lease.

21. RENT DEFINED. All monetary obligations of Lessee to Lessor under the terms of this Lease are deemed to be rent.

22. NO PRIOR OR OTHER AGREEMENTS; BROKER DISCLAIMER. This Lease contains all agreements between the Parties with respect to any matter mentioned herein, and no other prior or contemporaneous agreement or understanding shall be effective. Lessor and Lessee each represents and warrants to the Brokers that it has made, and is relying solely upon, its own investigation as to the nature, quality, character and financial responsibility of the other Party to this Lease and as to the nature, quality and character of the Premises. Brokers have no responsibility with respect thereto or with respect to any default or breach hereof by either Party. Each Broker shall be an intended third party beneficiary of the provisions of this Paragraph 22.

23.1 NOTICE REQUIREMENTS. All notices required or permitted by this Lease shall be in writing and may be delivered in person (by hand or by messenger or courier service) or may be sent by regular, certified or registered mail or U.S. Postal Service Express Mail, with postage prepaid, or by facsimile transmission during normal business hours, and shall be deemed sufficiently given if served in a manner specified in this Paragraph 23. The addresses noted adjacent to a Party's signature on this Lease shall be that Party's address for delivery or mailing of notice purposes. Either Party may by written notice to the other specify a different address for notice purposes, except that upon Lessee's taking possession of the Premises, the Premises shall constitute Lessee's address for the purpose of mailing or delivering notices to Lessee. A copy of all notices required or permitted to be given to Lessor hereunder shall be concurrently transmitted to such party or parties at such addresses as Lessor may from time to time hereafter designate by written notice to Lessee.

23.2 DATE OF NOTICE. Any notice sent by registered or certified mail, return receipt requested, shall be deemed given on the date of delivery shown on the receipt card, or if no delivery date is shown, the postmark thereon. If sent by regular mail, the notice shall be deemed given forty-eight (48) hours after the same is addressed as required herein and mailed with postage prepaid. Notices delivered by United States Express Mail or overnight courier that guarantees next day delivery shall be deemed given twenty-four (24) hours after delivery of the same to the United States Postal Service or courier. If any notice is transmitted by facsimile transmission or similar means, the same shall be deemed served or delivered upon telephone or facsimile confirmation of receipt of the transmission thereof, provided a copy is also delivered via delivery or mail. If notice is received on a Saturday or a Sunday or a legal holiday, it shall be deemed received on the next business day.

24. WAIVERS. No waiver by Lessor of the Default or Breach of any term, covenant or condition hereof by Lessee shall be deemed a waiver of any other term, covenant or condition hereof, or of any subsequent Default or Breach by Lessee of the same or any other term, covenant or condition hereof. Lessor's consent to, or approval of, any such act shall not be deemed to render unnecessary the obtaining of Lessor's consent to, or approval of, any subsequent or similar act by Lessee, or be construed as the basis of an estoppel to enforce the provision or provisions of this Lease requiring such consent. Regardless of Lessor's knowledge of a Default or Breach at the time of accepting rent, the acceptance of rent by Lessor shall not be a waiver of any Default or Breach by Lessee of any provision hereof. Any payment given Lessor by Lessee may be accepted by Lessor on account of moneys or damages due Lessor, notwithstanding any qualifying statements or conditions made by Lessee in connection therewith, which such statements and/or conditions shall be of no force or effect whatsoever unless specifically agreed to in writing by Lessor at or before the time of deposit of such payment.

25. RECORDING. Either Lessor or Lessee shall, upon request of the other, execute, acknowledge and deliver to the other a short form memorandum of this Lease for recording purposes. The Party requesting recordation shall be responsible for payment of any fees or taxes applicable thereto.

26. NO RIGHT TO HOLDOVER. Lessee has no right to retain possession of the Premises or any part thereof beyond the expiration or earlier termination of this Lease. In the event that Lessee holds over in violation of this Paragraph 26 then the Base Rent payable from and after the time of expiration or earlier termination of this Lease shall be increased to two hundred percent (200%) of the Base Rent applicable during the month immediately preceding such expiration or earlier termination. Nothing contained herein shall be construed as a consent by Lessor to any holding over by Lessee.

27. CUMULATIVE REMEDIES. No remedy or election hereunder shall be deemed exclusive but shall, wherever possible, be cumulative with all other remedies at law or in equity.

28. COVENANTS AND CONDITIONS. All provisions of this Lease to be observed or performed by Lessee are both covenants and conditions.

29. BINDING EFFECT; CHOICE OF LAW. This Lease shall be binding upon the

Parties, their personal representatives, successors and assigns and be governed by the laws of the State in which the Premises are located. Any litigation between the Parties hereto concerning this Lease shall be initiated in the county in which the Premises are located.

30. SUBORDINATION; ATTORNMENT; NON-DISTURBANCE.

30.1 SUBORDINATION. This Lease and any Option granted hereby shall be subject and subordinate to any ground lease, mortgage, deed or trust, or other hypothecation or security device (collectively, "SECURITY DEVICE") now or hereafter placed by Lessor upon the real property of which the Premises are a part, to any and all advances made on the security thereof, and to all renewals, modifications, consolidations, replacements and extensions thereof. Lessee agrees that the Lenders holding any such Security Device shall have no duty, liability or obligation to perform any of the obligations of Lessor under this Lease, but that in the event of Lessor's default with respect to any such obligation, Lessee will give any Lender whose name and address have been furnished Lessee in writing for such purpose notice of Lessor's default pursuant to Paragraph 13.5. If any Lender shall elect to have this Lease and/or any Option granted hereby superior to the Lien of its Security Device and shall give written notice thereof to Lessee, this Lease and such Options shall be deemed prior to such Security Device, notwithstanding the relative dates of the documentation or recordation thereof.

30.2 ATTORNMENT. Subject to the non-disturbance provisions of Paragraph 30.3, Lessee agrees to attorn to a Lender or any other party who acquires ownership of the Premises by reason of a foreclosure of a Security Device, and that in the event of such foreclosure, such new owner shall not: (i) be liable for any act or omission of any prior lessor or with respect to events occurring prior to acquisition of ownership, (ii) be subject to any offsets or defenses which Lessee might have against any prior lessor, or (iii) be bound by prepayment of more than one month's rent.

30.3 NON-DISTURBANCE. With respect to Security Devices entered into by Lessor after the execution of this lease, Lessee's subordination of this Lease shall be subject to receiving assurance (a "non-disturbance agreement") from the Lender that Lessee's possession and this Lease, including any options to extend the term hereof, will not be disturbed so long as Lessee is not in Breach hereof and attorns to the record owner of the Premises.

30.4 SELF-EXECUTING. The agreements contained in this Paragraph 30 shall be effective without the execution of any further documents; provided, however, that upon written request from Lessor or a Lender in connection with a sale, financing or refinancing of Premises, Lessee and Lessor shall execute such further writings as may be reasonably required to separately document any such subordination or non-subordination, attornment and/or non-disturbance agreement as is provided for therein.

31. ATTORNEYS' FEES. If any Party or Broker brings an action or proceeding to enforce the terms hereof or declare rights hereunder, the Prevailing Party (as hereafter defined) in any such proceeding, action, or appeal thereon, shall be entitled to reasonable attorneys' fees. Such fees may be awarded in the same suit or recovered in a separate suit, whether or not such action or proceeding is pursued to decision or judgment. The term "PREVAILING PARTY" shall include, without limitation, a Party or Broker who substantially obtains or defeats the relief sought, as the case may be, whether by compromise, settlement, judgment, or the abandonment by the other Party or Broker of its claim or defense. The attorneys' fee award shall not be computed in accordance with any court fee schedule, but shall be such as to fully reimburse all attorneys' fees reasonably incurred. Lessor shall be entitled to attorneys' fees, costs and expenses incurred in preparation and service of notices of Default and consultations in connection therewith, whether or not a legal action is subsequently commenced in connection with such Default or resulting Breach. Broker(s) shall be intended third party beneficiaries of this Paragraph 31.

32. LESSOR'S ACCESS; SHOWING PREMISES; REPAIRS. Lessor and Lessor's agents shall have the right to enter the Premises at any time, in the case of an emergency, and otherwise at reasonable times for the purpose of showing the

same to prospective purchasers, lenders, or lessees, and making such alterations, repairs, improvements or additions to the Premises or to the Building, as Lessor may reasonably deem necessary. Lessor may at any time place on or about the Premises or Building any ordinary "For Sale" signs and Lessor may at any time during the last one hundred eighty (180) days of the term hereof place on or about the Premises any ordinary "For Lease" signs. All such activities of Lessor shall be without abatement of rent or liability to Lessee.

33. AUCTIONS. Lessee shall not conduct, nor permit to be conducted, either voluntarily or involuntarily, any auction upon the Premises without first having obtained Lessor's prior written consent. Notwithstanding anything to the contrary in this Lease, Lessor shall not be obligated to exercise any standard of reasonableness in determining whether to grant such consent.

34. SIGNS. Lessee shall not place any sign upon the exterior of the Premises or the Building, except that Lessee may, with Lessor's prior written consent, install (but not on the roof) such signs as are reasonably required to advertise Lessee's own business so long as such signs are in a location designated by Lessor and comply with Applicable Requirements and the signage criteria established for the Industrial Center by Lessor. The installation of any sign on the Premises by or for Lessee shall be subject to the provisions of Paragraph 7 (Maintenance, Repairs, Utility Installations, Trade Fixtures and Alterations). Unless otherwise expressly agreed herein, Lessor reserves all rights to the use of the roof of the Building, and the right to install advertising signs on the Building, including the roof, which do not unreasonably interfere with the conduct of Lessee's business; Lessor shall be entitled to all revenues from such advertising signs.

35. TERMINATION; MERGER. Unless specifically stated otherwise in writing by Lessor, the voluntary or other surrender of this Lease by Lessee, the mutual termination or cancellation hereof, or a termination hereof by Lessor for Breach by Lessee, shall automatically terminate any sublease or lesser estate in the Premises; provided, however, Lessor shall, in the event of any such surrender, termination or cancellation, have the option to continue any one or all of any existing subtenancies. Lessor's failure within ten (10) days following any such event to make a written election to the contrary by written notice to the holder of any such lesser interest, shall constitute Lessor's election to have such event constitute the termination of such interest.

36. CONSENTS.

(a) Except for Paragraph 33 hereof (Auctions) or as otherwise provided herein, wherever in this Lease the consent of a Party is required to an act by or for the other Party, such consent shall not be unreasonably withheld or delayed. Lessor's actual reasonable costs and expenses (including but not limited to architects', attorneys', engineers' and other consultants' fees) incurred in the consideration of, or response to, a request by Lessee for any Lessor consent pertaining to this Lease or the Premises, including but not limited to consents to an assignment a subletting or the presence or use of a Hazardous Substance, shall be paid by Lessee to Lessor upon receipt of an invoice and supporting documentation therefor. In addition to the deposit described in Paragraph 12.2(e), Lessor may, as a condition to considering any such request by Lessee, require that Lessee deposit with Lessor an amount of money (in addition to the Security Deposit held under Paragraph 5) reasonably calculated by Lessor to represent the cost Lessor will incur in considering and responding to Lessee's request. Any unused portion of said deposit shall be refunded to Lessee without interest. Lessor's consent to any act, assignment of this Lease or subletting of the Premises by Lessee shall not constitute an acknowledgment that no Default or Breach by Lessee of this Lease exists, nor shall such consent be deemed a waiver of any then existing Default or Breach, except as may be otherwise specifically stated in writing by Lessor at the time of such consent.

(b) All conditions to Lessor's consent authorized by this Lease are acknowledged by Lessee as being reasonable. The failure to specify herein any particular condition to Lessor's consent shall not preclude the impositions by Lessor at the time of consent of such further or other conditions as are then reasonable with reference to the particular matter for which consent is being given.

37. GUARANTOR.

37.1 FORM OF GUARANTY. If there are to be any Guarantors of this Lease per Paragraph 1.11, the form of the guaranty to be executed by each such Guarantor shall be in the form most recently published by the American Industrial Real Estate Association, and each such Guarantor shall have the same obligations as Lessee under this lease, including but not limited to the obligation to provide the Tenancy Statement and information required in Paragraph 16.

-9-

10

37.2 ADDITIONAL OBLIGATIONS OF GUARANTOR. It shall constitute a Default of the Lessee under this Lease if any such Guarantor fails or refuses, upon reasonable request by Lessor to give: (a) evidence of the due execution of the guaranty called for by this Lease, including the authority of the Guarantor (and of the party signing on Guarantor's behalf) to obligate such Guarantor on said guaranty, and resolution of its board of directors authorizing the making of such guaranty, together with a certificate of incumbency showing the signatures of the persons authorized to sign on its behalf, (b) current financial statements of Guarantor as may from time to time be requested by Lessor, (c) a Tenancy Statement, or (d) written confirmation that the guaranty is still in effect.

38. QUIET POSSESSION. Upon payment by Lessee of the rent for the Premises and the performance of all of the covenants, conditions and provisions on Lessee's part to be observed and performed under this Lease, Lessee shall have quiet possession of the Premises for the entire term hereof subject to all of the provisions of this Lease.

39. OPTIONS.

39.1 DEFINITION. As used in this Lease, the word "OPTION" has the following meaning: (a) the right to extend the term of this Lease or to renew this Lease or to extend or renew any lease that Lessee has on other property of Lessor; (b) the right of first refusal to lease the Premises or the right of first offer to lease the Premises or the right of first refusal to lease other property of Lessor or the right of first offer to lease other property of Lessor; (c) the right to purchase the Premises, or the right of first refusal to purchase the Premises, or the right of first offer to purchase the Premises, or the right to purchase other property of Lessor, or the right of first refusal to purchase other property of Lessor, or the right of first offer to purchase other property of Lessor.

39.2 OPTIONS PERSONAL TO ORIGINAL LESSEE. Each Option granted to Lessee in this Lease is personal to the original Lessee named in Paragraph 1.1 hereof, and cannot be voluntarily or involuntarily assigned or exercised by any person or entity other than said original Lessee while the original Lessee is in full and actual possession of the Premises and without the intention of thereafter assigning or subletting. The Options, if any, herein granted to Lessee are not assignable, either as a part of an assignment of this Lease or separately or apart therefrom, and no Option may be separated from this Lease in any manner, by reservation or otherwise.

39.3 MULTIPLE OPTIONS. In the event that Lessee has any multiple Options to extend or renew this Lease, a later option cannot be exercised unless the prior Options to extend or renew this Lease have been validly exercised.

39.4 EFFECT OF DEFAULT IN OPTIONS.

(a) Lessee shall have no right to exercise an Option, notwithstanding any provision in the grant of Option to the contrary: (i) during the period commencing with the giving of any notice of Default under Paragraph 13.1 and continuing until the noticed Default is cured, or (ii) during the period of time any monetary obligation due Lessor from Lessee is unpaid (without regard to whether notice thereof is given Lessee), or (iii) during the time Lessee is in Breach of this Lease, or (iv) in the event that Lessor has given to Lessee three

(3) or more notices of separate Defaults under Paragraph 13.1 during the twelve (12) month period immediately preceding the exercise of the Option, whether or not the Defaults are cured.

(b) The period of time within which an Option may be exercised shall not be extended or enlarged by reason of Lessee's inability to exercise an Option because of the provisions of Paragraph 39.4(a).

(c) All rights of Lessee under the provisions of an Option shall terminate and be of no further force or effect, notwithstanding Lessee's due and timely exercise of the Option, if, after such exercise and during the term of this Lease, (i) Lessee fails to pay to Lessor a monetary obligation of Lessee for a period of thirty (30) days after such obligation becomes due (without any necessity of Lessor to give notice thereof to Lessee), or (ii) Lessor gives to Lessee three (3) or more notices of separate Defaults under Paragraph 13.1 during any twelve (12) month period, whether or not the Defaults are cured, or (iii) if Lessee commits a Breach of this Lease.

40. RULES AND REGULATIONS. Lessee agrees that it will abide by, and keep and observe all reasonable rules and regulations ("Rules and Regulations") which Lessor may make from time to time for the management, safety, care, and cleanliness of the grounds, the parking and unloading of vehicles and the preservations of good order, as well as for the convenience of other occupants or tenants of the Building and the Industrial Center and their invitees.

41. SECURITY MEASURES. Lessee hereby acknowledges that the rental payable to Lessor hereunder does not include the cost of guard service or other security measures, and that Lessor shall have no obligation whatsoever to provide same. Lessee assumes all responsibility for the protection of the Premises, Lessee, its agents and invitees and their property from the acts of third parties.

42. RESERVATIONS. Lessor reserves the right, from time to time, to grant, without the consent or joinder of Lessee, such easements, rights of way, utility raceways, and dedications that Lessor deems necessary, and to cause the recordation of parcel maps and restrictions, so long as such easements, rights of way, utility raceways, dedications, maps and restrictions do not reasonably interfere with the use of the Premises by Lessee. Lessee agrees to sign any documents reasonably requested by Lessor to effectuate any such easement rights, dedication, map or restrictions.

43. PERFORMANCE UNDER PROTEST. If at any time a dispute shall arise as to any amount or sum of money to be paid by one Party to the other under the provisions hereof, the Party against whom the obligation to pay the money is asserted shall have the right to make payment "under protest" and such payment shall not be regarded as a voluntary payment and there shall survive the right on the part of said Party to institute suit for recovery of such sum. If it shall be adjudged that there was no legal obligation on the part of said Party to pay such sum or any part thereof, said Party shall be entitled to recover such sum or so much thereof as it was not legally required to pay under the provisions of this Lease.

44. AUTHORITY. If either Party hereto is a corporation, trust, or general or limited partnership, each individual executing this Lease on behalf of such entity represents and warrants that he or she is duly authorized to execute and deliver this Lease on its behalf. If Lessee is a corporation, trust or partnership, Lessee shall, within thirty (30) days after request by Lessor, deliver to Lessor evidence satisfactory to Lessor of such authority.

45. CONFLICT. Any conflict between the printed provisions of this Lease and the typewritten or handwritten provisions shall be controlled by the typewritten or handwritten provisions.

46. OFFER. Preparation of this Lease by either Lessor or Lessee or Lessor's agent or Lessee's agent and submission of same to Lessee or Lessor shall not be deemed an offer to lease. This Lease is not intended to be binding until executed and delivered by all Parties hereto.

47. AMENDMENTS. This Lease may be modified only in writing, signed by the

parties in interest at the time of the modification. The Parties shall amend this Lease from time to time to reflect any adjustments that are made to the Base Rent or other rent payable under this Lease. As long as they do not materially change Lessee's obligations hereunder, Lessee agrees to make such reasonable non-monetary modifications to this Lease as may be reasonably required by an institutional insurance company or pension plan Lender in connection with the obtaining of normal financing or refinancing of the property of which the Premises are a part.

48. MULTIPLE PARTIES. Except as otherwise expressly provided herein, if more than one person or entity is named herein as either Lessor or Lessee, the obligations of such multiple parties shall be the joint and several responsibility of all persons or entities named herein as such Lessor or Lessee.

LESSOR AND LESSEE HAVE CAREFULLY READ AND REVIEWED THIS LEASE AND EACH TERM AND PROVISION CONTAINED HEREIN, AND BY THE EXECUTION OF THIS LEASE SHOW THEIR INFORMED AND VOLUNTARY CONSENT THERETO. THE PARTIES HEREBY AGREE THAT, AT THE TIME THIS LEASE IS EXECUTED, THE TERMS OF THIS LEASE ARE COMMERCIALY REASONABLE AND EFFECTUATE THE INTENT AND PURPOSE OF LESSOR AND LESSEE WITH RESPECT TO THE PREMISES.

IF THIS LEASE HAS BEEN FILLED IN, IT HAS BEEN PREPARED FOR YOUR ATTORNEY'S REVIEW AND APPROVAL. FURTHER, EXPERTS SHOULD BE CONSULTED TO EVALUATE THE CONDITION OF THE PROPERTY FOR THE POSSIBLE PRESENCE OF ASBESTOS, UNDERGROUND STORAGE TANKS OR HAZARDOUS SUBSTANCES. NO REPRESENTATION OR RECOMMENDATION IS MADE BY THE AMERICAN INDUSTRIAL REAL ESTATE ASSOCIATION OR BY THE REAL ESTATE BROKERS OR THEIR CONTRACTORS, AGENTS OR EMPLOYEES AS TO THE LEGAL SUFFICIENCY, LEGAL EFFECT, OR TAX CONSEQUENCES OF THIS LEASE OR THE TRANSACTION TO WHICH IT RELATES; THE PARTIES SHALL RELY SOLELY UPON THE ADVICE OF THEIR OWN COUNSEL AS TO THE LEGAL AND TAX CONSEQUENCES OF THIS LEASE. IF THE SUBJECT PROPERTY IS IN A STATE OTHER THAN CALIFORNIA, AN ATTORNEY FROM THE STATE WHERE THE PROPERTY IS LOCATED SHOULD BE CONSULTED.

The parties hereto have executed this Lease at the place and on the dates specified above their respective signatures.

Executed at: _____
on: 4/30/94

Executed at: SAN MARCOS, CA
on: APRIL 21, 1994

By LESSOR: Brigitte Zemmrich

By LESSOR: Natural Alternatives
International

By: /s/ BRIGITTE ZEMMRICH

By: /s/ WILLIAM P. SPENCER

Name Printed: Brigitte Zemmrich

Name Printed: WILLIAM P. SPENCER

Title: Owner

Title: EXECUTIVE VICE PRESIDENT

By: _____
Name Printed: _____
Title: c/o Sherry Bailey

Address: P.O. Box 28115

San Diego, CA 92198-0115

Telephone: (619) 485-0376

Facsimile: ()

BROKER:
Executed at: _____
on: _____
By: _____
Name Printed: _____
Title: _____
Address: 2386 Faraday Avenue, Suite 100

Carlsbad, CA 92008

Telephone: (619) 438-8950

Facsimile: ()

By: _____
Name Printed: _____
Title: _____
Address: 1185 Linda Vista, Suite D

San Marcos, CA 92069

Telephone: (619) 744-7340

Facsimile: (619) 744-9589

BROKER:
Executed at: _____
on: _____
By: _____
Name Printed: _____
Title: _____
Address: _____

Telephone: ()

Facsimile: ()

NOTE: These forms are often modified to meet changing requirements of law and needs of the industry. Always write or call to make sure you are utilizing the most current form: AMERICAN INDUSTRIAL REAL ESTATE ASSOCIATION, 345 So. Figueroa St., M-1, Los Angeles, CA 90071. (213) 867-4777.

49. Lessee shall have access to the Suite upon the full execution of the lease by both parties. All terms and conditions of the Lease shall be in full force, and effect as of that date except that rent shall not start until April 15, 1994.
50. Lessee understands that he is responsible for obtaining a business license from the City of San Marcos to legally operate his business from the premises. Upon signing of this Lease, Lessee warrants that he has satisfied this requirement.
51. Lessor will receive a Certificate of Insurance from Lessee naming Lessor as additionally insured and referencing all suites leased by May 15, 1994 to be sent c/o Sherry Bailey, P. O. Box 28115, San Diego, CA, 92198-0115 as set forth in item #8.5 of this lease.
52. Monthly rental payments are due on the 15th of each month and past due after the 25th. Checks should be mailed and made payable to:
- Brigitte Zemmrich
c/o Sherry Bailey
P. O. BOX 28115
San Diego, CA 92198-0115
53. Lessor gives Lessee permission to place one (1) company sign above the suite conforming with the existing signs of the business center. See Item #34 of the Lease.
54. Lessee understands that he has the right to make certain improvements to the space. All improvements must be submitted to the Lessor first for her approval, must be permitted and done by a licensed contractor. Lessor reserves the right to have the Lessee remove any improvements at the termination of the lease and bring the space back to its existing condition. Lessee agrees that any roof leaks caused by penetrations made in the roof by the Lessee shall be the responsibility of the Lessee, and that at the termination of the lease, the roof shall be left in a water-tight condition.
55. Hazardous and Toxic Materials. Lessee agrees to maintain the premises in compliance with all city, county, state and federal hazard and toxic waste regulations. No use shall be made or permitted to be made of said premises, nor acts done or continued, which will violate said regulations, nor shall Lessee sell, or permit to be kept, used, or sold, in or about said premises, any article, liquid, or material of whatever kind of nature which may be prohibited by city, county, state or federal regulations pertaining to hazard and toxic waste materials. Notwithstanding any other remedies provided to Lessor, either within this agreement or by law, upon receipt of notice from any appropriate agency that Lessee is in violation of such regulations, Lessor shall be entitled to enter onto the premises and correct said violation of such regulations. The costs of such correction and/or removal shall be the sole expense of Lessee and may be charged to Lessee as additional rent.
56. Contingencies:
1. A lease fully executed by both Lessor and Lessee.
 2. Lessee assures Lessor that there shall be no odor associated with the products manufactured in this unit. Lessor shall not be held liable for any product or chemical that the City, County, State or Federal Government might determine to be a pollutant to the air or water which results in fines or increased water billing.
57. Lessee shall have a forty-eight (48) hour Right of First Refusal to

lease the adjacent Suite A. When Suite A becomes available and the Lessor receives an offer which she would accept, written notice shall be given to the Lessee, and the Lessee shall have forty-eight (48) hours in which to exercise their option by matching the offer to lease. The Lessee shall also have a forty-eight (48) hour right of first refusal to match any offer to purchase the entire building upon written notification from the owner that there has been an offer recorded which the owner would accept. This Right of First Refusal to lease or purchase shall run only as long as Natural Alternatives International is a Tenant in the building.

LESSOR: BRIGITTE ZEMMRICH

LESSEE: NATURAL ALTERNATIVES
INTERNATIONAL

By: /s/ BRIGITTE ZEMMRICH

By: /S/ WILLIAM P. SPENCER

DATE: 4/30/94

DATE: APRIL 21, 1994

13

EXTENSION OF LEASE

L PARTIES:

THIS AMENDMENT is executed at San Marcos, California this 21st day of January, 2000, by and between Brigitte Zemmrich the ("Lessor") and Natural Alternatives International the ("Lessee").

II. RECITALS:

Lessor and Lessee, being parties to that certain Lease dated April 11/January 9 1994/95 hereby express their mutual desire and intent to extend the terms of the Lease and amend by this writing those terms, covenants and conditions contained in "TERM" and "RENT" as hereinafter provided for the premises located at 425 Ryan Drive, Suites A & B, San Marcos, California 92069.

III. AMENDMENTS:

"TERMS" shall hereafter additionally provide for Twelve (12) months commencing on May 1, 2000 and ending April 30 2001.

"RENT" shall hereafter additionally provide as follows: Lessee shall pay to Lessor as rent for the Premises without deduction, offset, prior notice or demand, equal monthly payments of \$4202.00* including trash and water, in advance on the first day of each month of the term hereof. Rent shall be payable in lawful money of the United States.

* New rental amount reflects 2.3% annual CPI increase.

The Security Deposit is increased by the sum of N/A Dollars (\$-0-) which shall be submitted to Lessor with signing of this Renewal. Tenant has therefore deposited with Lessor Security Deposit totalling Seven thousand eight hundred eighty six and no/100 Dollars (\$7,886.00). Such Amendment to Lease shall not be accepted by Lessor without submitted above Security Deposit Balance at the same time.

IV. INCORPORATION:

Except as modified herein, all other terms and conditions of the Lease between the Parties described above, shall continue. If there is a conflict in terms between the Lease and the Extension of Lease, the Extension of Lease shall control.

V. DEADLINE POLICY:

If Amendment to Lease is not returned to Lessor, fully signed by Lessee and accompanied by Security Deposit Balance, by 5:00 p.m. on 4th (day) February, 2000, THIS AMENDMENT TO LEASE SHALL BECOME NULL AND VOID. *****

VI. ADDITIONAL PROVISIONS:

Provided Lessee is not in default under any terms and conditions of the original Lease, Lessee shall give Lessor at least ninety (90) days written notice prior to expiration if Lessee desires to extend Lease. Should Lease be extended, Lease rate shall be increased based upon the Consumer Price Index increase (All Urban Consumers, Los Angeles-Riverside-Orange County) for the most recently published twelve (12) month period.

IN WITNESS WHEREOF Lessor and Lessee have executed this Amendment as of the day and year above written.

NATURAL ALTERNATIVES INTERNATIONAL

By: /s/ BRIGITTE ZEMMRICH

BRIGITTE ZEMMRICH

By: /s/ PETER WULFF

Peter Wulff, Chief Financial Officer

DATE: 2/08/00

DATE: 2/1/00

("LESSOR")

("LESSEE")

BUY OUT OF LEASEHOLD INTEREST

This Agreement, dated as of June 30, 2000, is between NATURAL ALTERNATIVES INTERNATIONAL, INC., a Delaware corporation ("Seller"), and PACIFIC VIEW CORPORATE CENTER, L.L.C., a Delaware limited liability company ("Buyer").

ARTICLE I

PURCHASE AND SALE OF LEASEHOLD INTERESTS

SECTION 1.1 SALE.

Seller desires to buy out of its leasehold interest under that certain Standard Industrial Lease dated as of August 13, 1997, by and between KREG-OC, L.P., a California limited partnership ("KREG"), as landlord, and Seller, as tenant, as amended by that certain First Amendment dated as of December 17, 1998 (as amended, the "Lease"), for the leasing of that certain real property commonly known as Lot 6 of Carlsbad Ranch in Carlsbad, California, and more particularly described on EXHIBIT A attached hereto and made a part hereof (the "Land") and the two (2) story commercial building located thereon (the "Building"). Seller agrees to convey to Buyer, and Buyer agrees to accept such conveyance from Seller, subject to the terms, covenants and conditions set forth herein, (i) Seller's leasehold interest under the Lease, (ii) Seller's interest as sublessor under that certain Sublease dated as of April 27, 2000, by and between Seller, as sublessor, and MPower Communications Corporation, a Nevada corporation ("MPower"), as sublessee (the "MPower Sublease"), for the leasing of approximately 24,000 square feet in the Building (the "MPower Premises"), (iii) Seller's interest as sublessor under that certain Sublease dated as of June 12, 2000, by and between Seller, as sublessor, and iXL, Incorporated, a Delaware corporation ("iXL"), as sublessee (the "iXL Sublease"), for the leasing of approximately 58,000 square feet in the Building (the "iXL Premises"), together with any and all rights and privileges appurtenant thereto owned by Seller; and (iv) Seller's interest as the tenant/owner under those construction related contracts listed on Schedule 1 attached hereto and made a part hereof (collectively, the "Construction Contracts"). Seller's leasehold interest under the Lease and Seller's interest as sublessor under the MPower Sublease and iXL Sublease are collectively referred to herein as the "Leasehold Interest".

SECTION 1.2 BUY OUT PRICE.

(a) The purchase price for the Seller's buying out of the Leasehold Interest is Three Million Dollars (\$3,000,000) (the "Buy Out Price"). The Buy Out Price is payment to Buyer in consideration of Buyer's assuming all future rental obligations due to landlord under the Lease.

(b) The Buy Out Price shall be paid by Seller to Buyer all in cash at the consummation of the purchase and sale contemplated hereunder (the "Closing") by depositing said cash in a separate escrow account for the transaction contemplated by this Agreement with First American Title Insurance Company, 2 First American Way, Santa Ana, California 92707, Attention: Maricel Borrás (the "Title Company") under Escrow No. 2052742M.

ARTICLE II

CONDITIONS

SECTION 2.1 CONDITION PRECEDENT.

Buyer's obligation to purchase the Leasehold Interest is conditioned upon the following:

(a) Prior to Closing, Buyer's review and approval of an updated preliminary title report, together with copies of the underlying documents

(b) Prior to Closing, Buyer's review and approval of the MPower Sublease and iXL Sublease.

(c) Prior to Closing, Buyer's review and approval of any other matters Buyer deems relevant to the

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(d) As of the Closing Date, the Lease, MPower Sublease and iXL Sublease shall be in full force and effect and (i) neither Seller nor Kilroy Realty, L.P., a Delaware limited partnership ("Kilroy") (successor-in-interest to KREG-OC, L.P.), is in default under the Lease, (ii) neither Seller nor MPower is in default under the MPower Sublease, and (iii) neither Seller nor iXL, Incorporation, is in default under the iXL Sublease.

(e) As of the Closing Date, each of the conditions precedent of the "Buyer" to consummate the transaction contemplated under that certain Purchase and Sale Agreement and Escrow Instructions dated March 6, 2000, as amended from time to time (as amended, the "Purchase Agreement"), by and between Kilroy, as seller, and RREEF America L.L.C., a Delaware limited liability company, or its successors and assigns, as buyer (the "Fee Interest Purchaser"), shall have been satisfied.

If any of the aforesaid conditions precedent to Buyer's obligation to the purchase of the Leasehold Interest are not satisfied in the time frame specified, then Buyer shall have the right upon written notice to Seller to elect to terminate this Agreement and neither party shall have any further rights or obligations hereunder except as provided in Sections 5.1 and 7.8 below. Without limiting the other provisions hereof, including, without limitation, Section 3.1 below, upon Closing, the Buyer shall be deemed to have waived each of the conditions precedent set forth in this Section 2.1.

ARTICLE III

BUYER'S EXAMINATION

SECTION 3.1 REPRESENTATIONS AND WARRANTIES OF SELLER.

Seller hereby makes the following representations and warranties with respect to the Leasehold Interest:

(a) Seller has (i) been duly organized, is validly existing under the laws of the State of Delaware, and is qualified to do business in California, and (ii) the power and authority to enter into this Agreement and to perform its obligations hereunder. This Agreement (i) has been duly authorized, executed and delivered by Seller, and (ii) does not violate any provision of any agreement or judicial order to which Seller is a party or to which Seller or the Leasehold Interest is subject.

(b) Seller has not (i) made a general assignment for the benefit of creditors, (ii) filed any voluntary petition in bankruptcy or suffered the filing of any involuntary petition by Seller's creditors, (iii) suffered the appointment of a receiver to take possession of all, or substantially all, of Seller's assets, (iv) suffered the attachment or other judicial seizure of all, or substantially all, of Seller's assets, (v) admitted in writing its inability to pay its debts as they come due, or (vi) made an offer of settlement, extension or composition to its creditors generally.

(c) The MPower Sublease is the only agreement between Seller and MPower relating to the MPower Premises, the Land, the Building, or any other matter.

(d) The iXL Sublease and that certain iXL Work Letter Agreement dated as of June 12, 2000 (which work letter has previously been provided to

Buyer) are the only agreements between Seller and iXL relating to the iXL Premises, the Land, the Building or any other matter.

(e) The Lease, MPower Sublease and iXL Sublease are in full force and effect in accordance with their terms and have not, in any way, been amended or modified in any manner and to the best of Seller's knowledge (i) neither Seller nor Kilroy (successor-in-interest to KREG-OC, L.P.) is in default under the Lease, (ii) neither Seller nor MPower is in default under the MPower Sublease, and (iii) neither Seller nor iXL, Incorporation, is in default under the iXL Sublease. Neither MPower nor iXL has asserted any claims against Seller, except that MPower has asserted a right to rescind its execution of the MPower Sublease. Seller has informed MPower that MPower has no such right to rescind and to the best of Seller's knowledge, MPower no longer asserts such right.

(f) The Construction Contracts are in full force and effect in accordance with their terms and have not, in any way, been amended or modified in any manner and Seller is not in default under the terms of the Construction Contracts. To the best of Seller's knowledge, the parties to the Construction Contracts (other than Seller) are not in default under the terms of the Construction Contracts. The Construction Contracts are assignable to Buyer. Neither the contractors, subcontractors nor materialmen under the Construction Contracts have asserted any claims against Seller.

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(g) As of the Closing, there has been no payment of any base rent, additional rent or any other sums to Seller from either MPower or iXL (except for a security deposit delivered to Seller by MPower pursuant to the MPower Sublease). As of the Closing, no security deposit has been received by Seller from iXL pursuant to the iXL Sublease.

(h) Seller is not a "foreign person" as defined in Section 1445 of the Internal Revenue Code of 1986, as amended (the "Code") and any related regulations.

(i) There is no litigation pending or threatened with respect to the Leasehold Interest.

(j) Seller has received no written notice from any governmental authority that there are any violations of any applicable laws (including, without limitation, (i) the Americans with Disabilities Act ("ADA"), Title 24 of the California Administrative Code, and other similar federal, state and local laws, (ii) building codes and any other laws relating to the construction or design of the Building or other structures on the Land, including, without limitation, fire, safety, handicapped access, or seismic design (collectively, "Building Codes"), and (iii) any laws relating to environmental matters (the "Environmental Laws") or that there are any material physical, structural or mechanical defects applicable to the Land, Building or Leasehold Interest.

Each of the representations and warranties of Seller contained in this Section 3.1: (1) is true as of the date of this Agreement; (2) shall be deemed remade by Seller, and shall be true in all material respects as of the date of Closing, subject other matters, if any, expressly permitted in this Agreement or otherwise specifically approved in writing by Buyer; and (3) shall survive the close of escrow as provided in Section 3.3 below.

SECTION 3.2 REPRESENTATIONS AND WARRANTIES OF BUYER.

Buyer hereby represents and warrants that Buyer has (i) been duly organized and is validly existing under the laws of the State of Delaware, and (ii) the power and authority to enter into this Agreement and to perform its obligations hereunder. This Agreement (i) has been duly authorized, executed and delivered by Buyer, and (ii) does not violate any provision of any agreement or judicial order to which Buyer is a party or to which Buyer or the Leasehold Interest is subject.

Each of the representations and warranties of Buyer contained in this Section 3.2: (1) is true as of the date of this Agreement; (2) shall be deemed remade by Buyer, and shall be true in all material respects as of the date of Closing, subject other matters, if any, expressly permitted in this Agreement or otherwise specifically approved in writing by Seller; and (3) shall survive the close of escrow as provided in Section 3.3 below.

SECTION 3.3 SURVIVAL OF REPRESENTATIONS AND WARRANTIES.

The representations and warranties of Seller and Buyer contained herein shall survive the Closing.

ARTICLE IV

TITLE

SECTION 4.1 CONDITIONS OF TITLE.

At the Closing, Seller shall convey title to the Leasehold Interest to Buyer pursuant to an Assignment of Leasehold Interest, in the form of EXHIBIT B attached hereto and made a part hereof.

SECTION 4.2 EVIDENCE OF TITLE.

Delivery of title in accordance with the foregoing shall be evidenced by the willingness of the Company to issue, at Closing, its ALTA Leasehold Policy of Title Insurance in the amount of the Buy Out Price showing title to the Leasehold Interest vested in Buyer, subject to only those exception approved by Buyer prior to Closing(the "Title Policy").

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ARTICLE V

BROKERS AND EXPENSES

SECTION 5.1 BROKERS.

The parties represent and warrant to each other that no broker or finder was instrumental in arranging or bringing about this transaction except for Business Real Estate Brokerage Company ("Buyer's Broker"). At Closing, Buyer shall pay the commission due, if any, to Buyer's Broker, which shall be paid pursuant to a separate agreement between Buyer and Buyer's Broker. If any other person brings a claim for a commission or finder's fee based upon any contact, dealings or communication with Buyer or Seller, then the party through whom such person makes his claim shall defend the other party (the "Indemnified Party") from such claim, and shall indemnify the Indemnified Party and hold the Indemnified Party harmless from any and all costs, damages, claims, liabilities or expenses (including without limitation, reasonable attorneys' fees and disbursements) incurred by the Indemnified Party in defending against the claim. The provisions of this Section 5.1 shall survive the Closing or, if the purchase and sale is not consummated, any termination of this Agreement.

SECTION 5.2 EXPENSES.

Except as provided in Section 6.5(b) below, each party hereto shall pay its own expenses incurred in connection with this Agreement and the transactions contemplated hereby.

ARTICLE VI

CLOSING AND ESCROW

SECTION 6.1 ESCROW INSTRUCTIONS.

Upon execution of this Agreement, the parties hereto shall deposit an executed counterpart of this Agreement with the Title Company, and this instrument shall serve as the instructions to the Title Company as the escrow holder for consummation of the purchase and sale contemplated hereby. Seller and Buyer agree to execute such reasonable additional and supplementary escrow instructions as may be appropriate to enable the Title Company to comply with the terms of this Agreement; provided, however, that in the event of any conflict between the provisions of this Agreement and any supplementary escrow instructions, the terms of this Agreement shall control.

SECTION 6.2 CLOSING.

The Closing hereunder shall be held and delivery of all items to be made at the Closing under the terms of this Agreement shall be made at the offices of the Title Company on the same date and at the same time as the "Closing" of the transaction contemplated by the Purchase Agreement, or such other earlier date and time as Buyer and Seller may mutually agree upon in writing (the "Closing Date"). Such date and time may not be extended without the prior written approval of both Seller and Buyer.

SECTION 6.3 DEPOSIT OF DOCUMENTS.

(a) At or before the Closing, Seller shall deposit into escrow the following items:

(1) four (4) duly executed counterparts of the Assignment of Leasehold Interest and Contracts in the form attached hereto as EXHIBIT B (the "Assignment of Leasehold Interest and Contracts");

(2) four (4) duly executed counterparts of the Assignment of Subleases in the form attached hereto as EXHIBIT C (the "Assignment of Subleases");

(3) an estoppel executed by Seller in a form approved by Buyer;

(4) funds necessary to close this transaction;

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(5) an affidavit pursuant to Section 1445(b)(2) of the Federal Code, and on which Buyer is entitled to rely, that Seller is not a "foreign person" within the meaning of Section 1445(f)(3) of the Federal Code; and

(6) California 597-W Certificate.

(b) At or before Closing, Buyer shall deposit into escrow four (4) duly executed counterparts of the Assignment of Leasehold Interest and four (4) duly executed counterparts of the Assignment of Subleases.

(c) Seller and Buyer shall each deposit such other instruments as are reasonably required by the Title Company or otherwise required to close the escrow and consummate the acquisition of the Leasehold Interest in accordance with the terms hereof.

(d) Seller shall deliver to Buyer originals of the Lease, MPower Sublease and iXL Sublease, and copies of the tenant correspondence files for the same, within five (5) business days after the Closing Date.

SECTION 6.4 PRORATIONS.

(a) Rents and any additional operating expenses payable under the Lease shall be prorated as of 12:01 a.m. on April 1, 2000 (the "Proration Date"), with Seller being responsible for such amounts accruing prior to the

Proration Date and Buyer being responsible for the amounts accruing on or after the Proration Date. Notwithstanding the foregoing, Seller shall receive a credit at the Closing in the amount of the Monthly Base Rent (as defined in the Lease), Real Property Taxes (as defined in the Lease), and operating expenses due under the Lease for each day on and after April 1, 2000 and up to the Closing Date (to the extent such amounts have previously been paid by Seller to KREG or Kilroy) and Buyer shall be responsible for paying the Monthly Base Rent, Real Property Taxes, and operating expenses due under the Lease for each day on and after April 1, 2000 and up to the Closing Date directly to KREG or Kilroy (to the extent such amounts have not previously been paid by Seller to KREG or Kilroy, including, without limitation, Monthly Base Rent for the month of April). The amount of the security deposit under the MPower Sublease shall be credited to Buyer at the Closing, in addition to the Purchase Price. Seller shall receive credits at Closing for the amount of any utility or other deposits with respect to the Property. Buyer shall cause all utilities to be transferred into Buyer's name and account at the time of Closing. Buyer is responsible for the payment of all leasing commissions in connection with the MPower Sublease and iXL Sublease. Buyer shall reimburse Seller at Closing for certain tenant improvement costs and building system costs in connection with the tenant improvement work for MPower and iXL in the amount and as more fully set forth on SCHEDULE 2 attached hereto and made a part hereof. Buyer and Seller hereby agree that if any of the aforesaid prorations and credits cannot be calculated accurately on the Closing Date, then the same shall be calculated as soon as reasonably practicable after the Closing Date and either party owing the other party a sum of money based on such subsequent proration(s) or credits shall promptly pay said sum to the other party. Without limiting the foregoing, Seller shall remain liable for all monetary obligations under the Lease, MPower Sublease and iXL Sublease which accrued prior to the Proration Date.

(b) Seller shall pay one-half (1/2) of the escrow fee and the costs of obtaining the CLTA portion of the Title Policy. Buyer shall pay the costs of obtaining the ALTA portion of the Title Policy, the cost of any endorsements and one-half (1/2) of the escrow fee. Any other expenses of the escrow for the sale shall be paid by Buyer and Seller in accordance with customary practice as determined by the Title Company.

(c) The provisions of this Section 6.4 shall survive the Closing.

ARTICLE VII

MISCELLANEOUS

SECTION 7.1 NOTICES.

Any notices required or permitted to be given hereunder shall be given in writing and shall be delivered (a) in person, (b) by certified mail, postage prepaid, return receipt requested, (c) by facsimile with confirmation of receipt, or (d) by a commercial overnight courier that guarantees next day delivery and provides a receipt, and such notices shall be addressed as follows:

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To Buyer: c/o RREEF America, L.L.C.
101 California Street, 26th Floor
San Francisco, CA 94111
Attention: Craig Davey
Fax No.: (415) 781-2229

with a copy to: Orrick, Herrington & Sutcliffe LLP
400 Sansome Street
San Francisco, CA 94111
Attention: Michael H. Liever, Esq.
Fax No.: (415) 773-4285

To Seller: Natural Alternatives International, Inc.

1185 Linda Vista Drive
San Marcos, California 92069
Attention: Peter Wulff
Fax No.: (760) 591-9637

with a copy to: Fisher Thurber LLP
4225 Executive Square, Suite 1600
La Jolla, California 92037
Attention: David A. Fisher, Esq.
Fax No.: (858) 535-1616

or to such other address as either party may from time to time specify in writing to the other party. Any notice shall be effective only upon delivery.

SECTION 7.2 ENTIRE AGREEMENT.

This Agreement, together with the Exhibits hereto, contains all representations, warranties and covenants made by Buyer and Seller and constitutes the entire understanding between the parties hereto with respect to the subject matter hereof. Any prior correspondence, memoranda or agreements are replaced in total by this Agreement together with the Exhibits hereto.

SECTION 7.3 ASSIGNMENT.

Buyer's rights and obligations hereunder shall be assignable without the prior written consent of Seller. Upon execution of a written assignment of Buyer's rights and obligations hereunder, Buyer shall be released from any of its obligations or liabilities hereunder. Subject to the provisions of this Section, this Agreement shall inure to the benefit of and be binding upon the parties hereto and their respective successors and assigns.

SECTION 7.4 COUNTERPARTS.

This Agreement may be executed via facsimile transmission, with the party executing via facsimile to send the original document with original signature(s) to the other party within one (1) business day by overnight delivery, and in any number of counterparts, each of which shall be considered an original and all of which, taken together, shall constitute one and the same instrument.

SECTION 7.5 GOVERNING LAW.

This Agreement shall be governed by and construed in accordance with the laws of the State of California.

SECTION 7.6 INTERPRETATION OF AGREEMENT.

The article, section and other headings of this Agreement are for convenience of reference only and shall not be construed to affect the meaning of any provision contained herein. Where the context so requires, the use of the singular

shall include the plural and vice versa and the use of the masculine shall include the feminine and the neuter. The term "person" shall include any individual, partnership, joint venture, corporation, trust, unincorporated association, any other entity and any government or any department or agency thereof, whether acting in an individual, fiduciary or other capacity.

SECTION 7.7 AMENDMENTS.

This Agreement may be amended or modified only by a written instrument signed by Buyer and Seller.

EXHIBIT A

LEGAL DESCRIPTION OF LAND

THE LAND REFERRED TO HEREIN IS SITUATED IN THE STATE OF CALIFORNIA, COUNTY OF SAN DIEGO, AND IS DESCRIBED AS FOLLOWS:

PARCEL A:

LOT 6 OF CARLSBAD TRACT NO. 94-09, CARLSBAD RANCH, UNIT NO. 1, IN THE CITY OF CARLSBAD, COUNTY OF SAN DIEGO, STATE OF CALIFORNIA, ACCORDING TO MAP THEREOF NO. 13357, FILED IN THE OFFICE OF THE COUNTY RECORDER OF SAN DIEGO COUNTY, SEPTEMBER 11, 1996 AS FILE NO. 1996-0463214 OF OFFICIAL RECORDS.

TOGETHER WITH ALL THAT PORTION OF LOT 7 OF CARLSBAD TRACT NO. 94-09, CARLSBAD RANCH, UNIT NO. 1, IN THE CITY OF CARLSBAD, COUNTY OF SAN DIEGO, STATE OF CALIFORNIA, ACCORDING TO MAP NO. 13357, FILED IN THE OFFICE OF THE COUNTY RECORDER OF SAN DIEGO COUNTY, SEPTEMBER 11, 1996 AS FILE NO 1996-0463214 OF OFFICIAL RECORDS, MORE PARTICULARLY DESCRIBED AS FOLLOWS:

BEGINNING AT THE NORTHWESTERLY CORNER OF SAID LOT 7; THENCE ALONG THE NORTHERLY LINE OF SAID LOT 7, NORTH 67 DEGREES 30' 48" EAST, 434.00 FEET TO THE NORTHEASTERLY CORNER OF SAID LOT 7; THENCE ALONG THE EASTERLY LINE OF SAID LOT 7, SOUTH 22 DEGREES, 29' 12" EAST, 25.13 FEET THENCE LEAVING SAID EASTERLY LINE, SOUTH 67 DEGREES 30' 48" WEST, 434.00 FEET TO A POINT ON THE WESTERLY LINE OF SAID LOT 7; THENCE ALONG SAID WESTERLY LINE, NORTH 22 DEGREES 29' 12" WEST, 25.13 FEET TO THE POINT OF BEGINNING

(SAID PROPERTY BEING DESCRIBED AS PARCEL A (ADJUSTED LOT 6), IN CERTIFICATE OF COMPLIANCE RECORDED ON JULY 1, 1997 AS FILE NO. 1997-0311133 OF OFFICIAL RECORDS.)

PARCEL B:

AN EASEMENT FOR DRIVEWAY ACCESS OVER, ALONG AND ACROSS A PORTION OF LOT 7 OF CARLSBAD TRACT NO. 94-09, CARLSBAD RANCH, UNIT NO 1, IN THE CITY OF CARLSBAD, COUNTY OF SAN DIEGO, STATE OF CALIFORNIA, ACCORDING TO MAP THEREOF NO. 13357, FILED IN THE OFFICE OF THE COUNTY RECORDER OF SAN DIEGO COUNTY, SEPTEMBER 11, 1996 AS FILE NO. 1996-0463214, MORE PARTICULARLY DESCRIBED AS FOLLOWS:

BEGINNING AT THE NORTHWESTERLY CORNER OF SAID LOT 7; THENCE ALONG THE WESTERLY LINE OF SAID LOT 7, SOUTH 22 DEGREES 29' 12" EAST, 25.13 FEET TO THE TRUE POINT OF BEGINNING; THENCE LEAVING SAID WESTERLY LINE, NORTH 67 DEGREES 30' 48" EAST, 40.00 FEET; THENCE SOUTH 22 DEGREES 29' 12" EAST, 18.00 FEET; THENCE SOUTH 67 DEGREES 30' 48" WEST, 40.00 FEET TO A POINT OF THE WESTERLY LINE OF SAID LOT 7; THENCE ALONG SAID WESTERLY LINE, NORTH 22 DEGREES 29' 12" WEST, 18.00 FEET TO THE TRUE POINT OF BEGINNING.

EXHIBIT B

FORM OF ASSIGNMENT OF LEASEHOLD INTEREST AND CONTRACTS

THIS ASSIGNMENT ("Assignment") is made and entered into as of this 30th day of June, 2000, by and between NATURAL ALTERNATIVES INTERNATIONAL, INC., a Delaware corporation ("Assignor"), PACIFIC VIEW CORPORATE CENTER, L.L.C., a Delaware limited liability company ("Assignee"), and AC PACIFIC VIEW CORPORATE

CENTER, INC., a Delaware corporation ("Fee Purchaser") (Fee Purchaser is a party only for the purposes of paragraphs 2, 4 and 14 below).

Witnesseth:

WHEREAS, Assignor is the lessee under that certain lease executed with respect to that certain real property commonly known as Pacific View Corporate Center in Carlsbad, California (the "Property") as more fully described in EXHIBIT A attached hereto, which lease is described in SCHEDULE 1 attached hereto (the "Lease");

WHEREAS, Assignor desires to transfer, convey and assign its interest as lessee in the Lease and the leasehold interest created by the Lease to Assignee, and Assignee desires to accept the transfer, conveyance and assignment thereof and to assume Assignor's obligations thereunder;

WHEREAS, Assignor desires to transfer, convey and assign its interest in the constructions contracts listed on SCHEDULE 2 attached hereto (the "Construction Contracts")

NOW, THEREFORE, in consideration of the promises and conditions contained herein, the parties hereby agree as follows

1 . Effective as of the Closing Date (as defined below), Assignor hereby transfers, conveys and assigns to Assignee all of its right, title and interest in and to the Lease and the leasehold interest created by the Lease and the Construction Contracts.

2. Assignor hereby agrees to indemnify Assignee and Fee Purchaser against and hold Assignee and Fee Purchaser harmless from any and all claims, liabilities, losses, damages, costs or expenses, including, without limitation, reasonable attorneys' fees, to the extent resulting from third party claims relating to the lessee's obligations under the Lease that relate to the period prior to the Closing Date; provided that, the foregoing indemnity shall not apply to claims by the contractors, subcontractors or materialmen for payment under the Construction Contracts based on the Construction Contracts.

3. Effective as of the Closing Date, Assignee accepts the assignment of Assignor's right, title and interest in and to the Lease and hereby assumes and agrees to perform all of the lessee's obligations under the Lease to the extent resulting from the lessee's obligations under the Lease that relate to the period on or after the Closing Date. Assignee hereby agrees to indemnify Assignor against and hold Assignor harmless from any and all claims, liabilities, losses, damages, costs or expenses, including, without limitation, reasonable attorneys' fees, to the extent relating to the lessee's obligations under the Lease that relate to the period on or after the Closing Date

4. Effective as of the Closing Date and subject to Paragraphs 2 and 14 herein, Fee Purchaser hereby agrees for itself but no other party, including, without limitation, Kilroy Realty, L.P., that Assignor shall have no obligations to Fee Purchaser as the lessor under the Lease that relate to the period prior to the Closing Date. Effective as of the Closing Date, Assignor hereby agrees for itself but no other party that Fee Purchaser shall have no obligations to Assignor as the lessee under the Lease that relate to the period prior to the Closing Date

5. Effective as of the Closing Date, Assignee hereby assumes all of the owner's obligations under the Construction Contracts that relate to the period on or after the Closing Date and agrees to indemnify Assignor against and hold Assignor harmless from any and all cost, liability, loss, damage or expense, including, without limitation, reasonable attorneys' fees, to the extent resulting from the owner's obligations under the Construction Contracts that relate to the period on or after the Closing Date.

6. Assignor hereby agrees to indemnify Assignee against and hold Assignee harmless from any and all claims, liabilities, losses, damages, costs or expenses, including, without limitation, reasonable attorneys' fees, to the extent resulting from the owner's obligations under the Construction Contracts that relate to the period prior to the Closing Date.

7. Assignor hereby represents and warrants that Assignor has not assigned or otherwise conveyed or transferred all or any part of or interest in the Subleases or Construction Contracts to any other party.

8. Any rental and other payments under the Lease and Construction Contracts shall be prorated between the parties as provided in the Buy Out of Leasehold Interest between Assignor, as Seller, and Assignee, as Buyer, dated as of June 30, 2000 (the "Buy Out Agreement").

9. If either party hereto fails to perform any of its obligations under this Assignment or if a dispute arises between the parties hereto concerning the meaning or interpretation of any provision of this Assignment, and an action is filed, the prevailing party in any such action shall be entitled to recover from the other party, in addition to any other relief that may be granted, its court costs and reasonable attorneys' fees and disbursements, including such incurred in connection with any appeal.

10. This Assignment may be executed via facsimile transmission, with the party executing via facsimile to send the original document with original signature(s) to the other party within one (1) business day by overnight delivery, and in any number of counterparts, each of which shall be considered an original and all of which, taken together, shall constitute one and the same instrument.

11. This Assignment shall be binding on and inure to the benefit of the parties hereto, their heirs, executors, administrators, successors in interest and assigns.

12. This Assignment shall be governed by and construed in accordance with the laws of the State of California.

13. For the purposes of this Assignment, the "Closing Date" shall be the date of the Closing (as defined in the Buy Out Agreement).

14. The obligations of Assignee and Fee Purchaser are intended to be binding only on Assignee and Fee Purchaser, respectively, and the property of Assignee and Fee Purchaser, respectively, and shall not be personally binding upon, nor shall any resort be had to, the private properties of any of their trustees, officers, beneficiaries, directors, members, or shareholders, or of their investment manager, the general partners, officers, directors, members, or shareholders thereof, or any employees or agents of Assignee, Fee Purchaser or their investment manager.

15. The obligations of Assignor are intended to be binding only on Assignor and the property of Assignor and shall not be personally binding upon, nor shall any resort be had to, the private properties of any of its trustees, officers, beneficiaries, directors, members, or shareholders, or of its investment manager, the general partners, officers, directors, members, or shareholders thereof, or any employees or agents of Assignor or its investment manager.

16. Notwithstanding anything to the contrary contained herein, nothing contained herein shall limit the Assignor's obligations under the Buy Out Agreement, including, without limitation, obligations or liability for breaches of representations and warranties.

[Remainder of Page Intentionally Left Blank.]

IN WITNESS WHEREOF, Assignor and Assignee have executed this Assignment the day and year first written above.

ASSIGNOR: NATURAL ALTERNATIVES INTERNATIONAL, INC., a Delaware corporation

By: /s/ MARK A. LeDOUX

Name: Mark A. LeDoux

Title: President & CEO

By: /s/ PETER C. WULFF

Name: Peter C. Wulff

Title: CFO & Treasurer

ASSIGNEE: PACIFIC VIEW CORPORATE CENTER, L.L.C., a Delaware limited liability company

By: AC Pacific View Corporate Center, Inc., a Delaware corporation, its Manager

By:

Name:

Title:

FEE PURCHASER IS EXECUTING SOLELY FOR THE PURPOSES OF PARAGRAPHS 2, 4 AND 14 ABOVE AND FOR NO OTHER PURPOSES AND IS NOT BOUND BY ANY OF THE OTHER PROVISIONS HEREOF.

FEE PURCHASER: AC PACIFIC VIEW CORPORATE CENTER, INC., a Delaware corporation,

By:

Name:

Title:

EXHIBIT C

FORM OF ASSIGNMENT OF SUBLEASES

THIS ASSIGNMENT ("Assignment") is made and entered into as of this 30th day of June, 2000, by and between NATURAL ALTERNATIVES INTERNATIONAL, INC., a Delaware corporation ("Assignor"), and PACIFIC VIEW CORPORATE CENTER, L.L.C., a Delaware limited liability company ("Assignee").

Witnesseth:

WHEREAS, Assignor is the sublessor under certain subleases executed with

respect to that certain real property commonly known as Pacific View Corporate Center in Carlsbad, California (the "Property") as more fully described in EXHIBIT A attached hereto, which subleases are described in SCHEDULE 1 attached hereto (the "Subleases"); and

WHEREAS, Assignor desires to assign its interest as sublessor in the Subleases to Assignee, and Assignee desires to accept the assignment thereof and to assume Assignor's obligations thereunder;

NOW, THEREFORE, in consideration of the promises and conditions contained herein, the parties hereby agree as follows:

1. Effective as of the Closing Date (as defined below), Assignor hereby assigns to Assignee all of its right, title and interest in and to the Subleases.

2. Effective as of the Closing Date, Assignee hereby assumes and agrees to perform all of the sublessor's obligations under the Subleases relating to the period prior to and after Closing and agrees to indemnify Assignor against and hold Assignor harmless from any and all cost, liability, loss, damage or expense, including, without limitation, reasonable attorneys' fees, to the extent resulting from Assignee's failure to perform such obligations

3. Assignor hereby represents and warrants that Assignor has not assigned or otherwise conveyed or transferred all or any part of or interest in the Subleases to any other party.

4. Any rental and other payments under the Subleases shall be prorated between the parties as provided in the Buy Out of Leasehold Interest between Assignor, as Seller, and Assignee, as Buyer, dated as of June 30, 2000 (the "Buy Out Agreement").

5. If either party hereto fails to perform any of its obligations under this Assignment or if a dispute arises between the parties hereto concerning the meaning or interpretation of any provision of this Assignment, and an action is filed, the prevailing party in any such action shall be entitled to recover from the other party, in addition to any other relief that may be granted, its court costs and reasonable attorneys' fees and disbursements, including such incurred in connection with any appeal.

6. This Assignment may be executed via facsimile transmission, with the party executing via facsimile to send the original document with original signature(s) to the other party within one (1) business day by overnight delivery, and in any number of counterparts, each of which shall be considered an original and all of which, taken together, shall constitute one and the same instrument.

7. This Assignment shall be binding on and inure to the benefit of the parties hereto, their heirs, executors, administrators, successors in interest and assigns.

8. This Assignment shall be governed by and construed in accordance with the laws of the State of California

9. For the purposes of this Assignment, the "Closing Date" shall be the date of the Closing (as defined in the Buy Out Agreement).

10. The obligations of Assignee are intended to be binding only on Assignee and the property of Assignee and shall not be personally binding upon, nor shall any resort be had to, the private properties of any of its trustees, officers, beneficiaries, directors, members, or shareholders, or of its investment manager, the general partners, officers, directors, members, or shareholders thereof, or any employees or agents of Assignee or its investment

manager.

11. The obligations of Assignor are intended to be binding only on Assignor and the property of Assignor and shall not be personally binding upon, nor shall any resort be had to, the private properties of any of its trustees, officers, beneficiaries, directors, members, or shareholders, or of its investment manager, the general partners, officers, directors, members, or shareholders thereof, or any employees or agents of Assignor or its investment manager.

12. Notwithstanding anything to the contrary contained herein, nothing contained herein shall limit the Assignor's obligations under the Buy Out Agreement, including, without limitation, obligations or liability for breaches of representations and warranties.

IN WITNESS WHEREOF, Assignor and Assignee have executed this Assignment the day and year first written above.

ASSIGNOR: NATURAL ALTERNATIVES INTERNATIONAL, INC.,
a Delaware corporation

By: /s/ MARK A. LEDOUX

Name: MARK A. LEDOUX

Title: PRESIDENT & CEO

By: /s/ PETER C. WULFF

Name: PETER C. WULFF

Title: CFO & TREASURER

ASSIGNEE: PACIFIC VIEW CORPORATE CENTER,
L.L.C., a Delaware limited liability company

By: AC Pacific View Corporate Center, Inc.,
a Delaware corporation, its Manager

By: -----

Name: -----

Title: -----

SCHEDULE 1

LIST OF CONSTRUCTION CONTRACTS

1. Construction contract between Bearing Construction, Inc. and Assignor dated June 6, 2000.
2. Profect Management Services contract between JDC Holdings, Inc., dba The Harrison Company, and Assignor dated February 1, 2000.

SCHEDULE 2

SHELL AND CORE TENANT IMPROVEMENT COSTS

A total of \$37,500 paid as of the date hereof to The Harrison Group/JDC Holdings for project management purposes.

EXECUTIVE EMPLOYMENT AGREEMENT

Douglas E. Flaker ("Employee") hereby accepts the offer of Natural Alternatives International, Inc. ("NAI") for employment as Vice President-Marketing beginning October 1, 1999. Collectively, NAI and Employee will be referred to herein as the "Parties."

1. The Parties anticipate that Employee will be employed through September 30, 2000 (the "Term"). During the Term, Employee's employment will be at-will and may be terminated by either Employee or NAI at any time for any reason or no reason, with or without cause upon written notice to the other. The at-will status of the employment relationship may not be modified except in writing authorized in advance by the Board of Directors of NAI and signed by the Chief Executive Officer of NAI and Employee.

2. Employee and NAI further understand and agree that nothing in the NAI Employee Handbook is intended to be, and nothing in it should be construed to be, a limitation of NAI's right to terminate, transfer, demote, suspend and administer discipline at any time for any reason. Employee and NAI understand and agree nothing in the Handbook is intended to, and nothing in the Handbook should be construed to, create an implied or express contract of employment contrary to this agreement.

3. A. While Employee is employed by NAI, Employee's rate of compensation will be at least \$115,000 per year, payable no less frequently than monthly, which will be reviewed at least annually to determine, based upon Employee's performance and the performance of NAI, the amount of increase, (if any), in the rate of compensation. The compensation set forth in this Section 3 will be Employee's only compensation except standard employee benefits available to other level one executives of NAI or any other written compensation arrangement approved by the Board of Directors of NAI. NAI is currently evaluating a system of bonus compensation for certain of its employees. Employee will be entitled to participate in any such bonus compensation in a manner and at a level consistent with other level one executives of NAI. Currently all the level one executives of NAI include all of the Corporate Officers of NAI, except for the Chief Executive Officer.

B. Employee shall receive during the Term a monthly amount equal to \$1,500.00 to reimburse Employee for actual expenses incurred in ownership and operation of one (1) automobile that Employee shall make and maintain available for Employee's use on any matter required by or for the benefit of the Company.

4. If Employee continues working for NAI past the end of the Term, and if NAI still desires Employee's services, then the following terms and conditions will apply:

(a) Employee shall be an at-will employee and either Employee or NAI will be entitled to terminate the employment relationship for any reason or for no reason, with or without cause and with or without notice.

- 1 -

(b) Employee will be compensated at the rate set forth in section 3 herein above unless another rate is mutually agreed upon; and

(c) As to benefits and other terms of employment, Employee shall be subject to the same policies and procedures as other employees of NAI

in similar positions.

5. During the Term, and any extension thereof, Employee shall have such responsibilities, duties and authority as NAI through its Chief Executive Officer may from time to time assign to Employee, and that are normal and customary duties of a Vice President-Marketing of a publicly held corporation. Employee's initial title shall be Vice President-Marketing.

6. In the event this Agreement is terminated by NAI without cause, whether during or at the end of the Term (and any renewals thereof), Employee shall be entitled to severance pay, including standard employee benefits available to other level one executives of NAI, in an amount equivalent to his then current compensation rate for the period set forth below opposite the number of complete calendar months which have elapsed from the beginning date of Employee's employment by NAI at the time of termination. One half of such amount shall be paid upon termination and the balance shall be paid on a bi-weekly basis during said severance period:

MONTHS OF EMPLOYMENT -----	SEVERANCE PERIOD -----
1 through 6 months	2 months
7 through 12 months	6 months
13 through 24 months	9 months
more than 24 months	12 months

NAI may terminate this Agreement with cause, which shall be limited to the occurrence of one or more of the following events: (i) the Employee's commission of any fraud against NAI; (ii) Employee's intentional appropriation for his personal use or benefit the funds of the Company not authorized by the Chief Executive Officer or the Board of Directors, (iii) Employee's conviction of any crime involving moral turpitude, (iv) Employee's conviction of a violation of any state or federal law which could result in a material adverse impact upon the business of NAI; or (v) Employee's material violation of this Agreement, provided that Employee shall be given written notice by NAI of any alleged material violation of the Agreement and an opportunity within 60 days, to cure the alleged breach, which Employee must diligently pursue to completion. No severance pay shall be due to Employee if Employee is terminated for cause.

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

Any of the following shall constitute a "Change in Control" for the purposes of this Section 7:

- 2 -

3

A. A "person" (meaning an individual, a partnership, or other group or association as defined in sections 13(d) and 14(d) of the Securities Exchange Act of 1934) acquires fifty percent (50%) or more of the combined voting power of the outstanding securities of NAI having a right to vote in elections of directors; or

B. The members of the Board of Directors of the Company who were members of the Board of Directors on the commencement date hereof, shall for any reason cease to constitute a majority of the Board of Directors of the Company; or

C. All, or substantially all of the business of NAI is disposed of by NAI to a party or parties other than a subsidiary or other affiliate of

NAI, in which NAI owns less than a majority of the equity, pursuant to a partial or complete liquidation of NAI, sale of assets (including stock of a subsidiary of NAI) or otherwise.

In the event of any such Change in Control, this Agreement shall continue in effect unless the Employee at his sole option, and at any time elects voluntarily to terminate this Agreement. In such case, NAI shall pay Employee as severance pay or liquidated damages, or both, a lump sum payment ("Change in Control Severance Payment") equal to one hundred fifty percent (150%) of the Employee's annual salary and bonus specified in Section 3 above or such greater amount as the Board of Directors determines from time to time pursuant to terms which may not be revoked or reduced thereafter.

In the event this Agreement is terminated following a Change in Control by NAI, and/or the surviving or resulting corporation, without cause, Employee shall be entitled to a Change in Control Severance Payment equal to one hundred fifty percent (150%) of the Employee's annual salary specified in Section 3 above or such greater amount as the Board of Directors determines from time to time pursuant to terms which may not be revoked or reduced thereafter.

Any Severance Payment shall be made not later than the fifteenth (15th) day following the effective date of the voluntary or involuntary termination of this Agreement in connection with a Change in Control; provided, however, that if the amount of such payments cannot be finally determined on or before such date, NAI shall pay to Employee on such date a good faith estimate of the minimum amount of such payments, and shall pay the remainder of such payments (together with interest at the rate provided in Internal Revenue Code Section 1274(b)(2)(B) of the Code), as soon as the amount thereof can be determined, but in no event later than the thirtieth (30th) day after the applicable termination date. In the event the amount of the estimated payments exceeds the amount subsequently determined to have been due, such excess shall constitute a loan by NAI payable on the fifteenth (15th) day after receipt by Employee of a written demand for payment from NAI (together with interest calculated as above). The total of any payment pursuant to this Section 7 shall be limited to the extent necessary, in the opinion of legal counsel acceptable to Employee and NAI, to avoid the payment of an "excess parachute" payment within the meaning of Internal Revenue Code Section 280 G or any similar successor provision.

- 3 -

4

In the event of termination of this Agreement either by the Employee under paragraph 7(B) or by NAI under paragraph 7(C), NAI shall cause each stock option heretofore granted by NAI to the Employee to become fully exercisable and to remain exercisable for the term of the option.

8. Employee and NAI hereby agree to the Mutual Agreement to Arbitrate attached hereto and made a part hereof as Attachment #1.

9. Employee and NAI hereby agree to the Assignment of Inventions, Patents and Copyrights Agreement Regarding Confidential Information Covenant of Exclusivity and Not to Compete attached hereto and made a part hereof as Attachment #2.

10. This Agreement contains the entire agreement between the parties. It supersedes any and all other agreements, either oral or in writing, between the parties hereto with respect to Employee's employment by NAI. Each party to this Agreement acknowledges that no representations, inducements, promises or agreements, oral or otherwise, have been made by any party, or anyone acting on behalf of any party, which are not embodied herein and acknowledges that no other agreement, statement of promise not contained in this Agreement shall be valid or binding. This Agreement may not be modified or amended by oral agreement or course of conduct, but only by an agreement in writing signed by the Chief Executive Officer of NAI and Employee.

11. This Executive Employment Agreement shall be construed and enforced

in accordance with the laws of the State of California.

12. Should any part or provision of this Executive Employment Agreement be held unenforceable or in conflict with the law of any jurisdiction, the validity of the remaining parts shall not be affected by such holding.

"EMPLOYEE"

/s/ Douglas E. Flaker

Douglas E. Flaker

NATURAL ALTERNATIVES INTERNATIONAL, INC.
a Delaware corporation

By: /s/ Mark A. LeDoux

Mark A. LeDoux, Chief Executive Officer

- 4 -

5

ATTACHMENT #1

MUTUAL AGREEMENT TO ARBITRATE CLAIMS

This Mutual Agreement to Arbitrate Claims is entered into between Douglas E. Flaker ("Employee") and Natural Alternatives International, Inc. ("NAI").

1. Binding Arbitration of Disagreement and Claims

We each voluntarily promise and agree to arbitrate any claims covered by this Agreement. We further agree that such binding arbitration pursuant to this Agreement shall be the sole and exclusive remedy for resolving any such claims or disputes.

2. Claims Covered by this Agreement

A. Claims and disputes covered by this Agreement include all claims against NAI (as defined below) and all claims that NAI may have against the Employee, including, without limitation, those arising under:

(1) Any federal, state or local laws, regulations or statutes prohibiting employment discrimination (such as, without limitation: race, sex, national origin, age, disability, religion, sexual orientation) and harassment.

(2) Any alleged or actual agreement or covenant (oral, written or implied) between Employee and NAI.

(3) Any company policy or compensation or benefit plan, unless the decision in question was made by an entity other than NAI.

(4) Any public policy.

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

B. The only disputes between Employee and NAI which are not included within this Mutual Agreement to Arbitrate Claims are:

(1) Any claim by Employee for workers' compensation or unemployment compensation benefits.

(2) Any claim by Employee for benefits under a company plan

which provides for its own arbitration procedure.

3. Arbitration Procedure

A. The arbitration will be conducted in accordance with the rules of the current Judicial Arbitration and Mediation Services ("JAMS"), except that the arbitrator shall be mutually acceptable to both parties. The arbitration will be held in the state and county of the Employee's primary

- 1 -

6

employment at the time of the act giving rise to the dispute. The fees and expenses of the Arbitrator, and the arbitration, will be borne by the Company. Each party will pay for the fees and expenses of its own attorneys, experts, witnesses, transcripts and preparation and presentation of proofs and post-hearing briefs, unless the party prevails on a claim for which attorneys' fees and costs are recoverable by statute or contract, in which case the prevailing party shall be awarded attorneys fees and costs in accordance with that statute or contract.

B. Before such arbitration, each party shall have the right to conduct discovery on the same basis and to the same extent as a civil action brought in the Federal District Court for the Southern District of California.

C. Any action to enforce or vacate the arbitrator's award shall be governed by the Federal Arbitration Act if applicable, and otherwise by applicable state law.

4. Miscellaneous Provisions

A. The term "company" means NAI, and all related entities, all officers, employees, directors, agents, shareholders, partners, benefit plan sponsors, fiduciaries, administrators or affiliates of any of the above, and all successors and assignees of any of the above.

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

C. The parties of this arbitration agreement acknowledge and agree that they are waiving their right to a jury trial on the issues covered by this Agreement.

D. This is the complete Agreement of the parties on the subject of arbitration of disputes and claims. This Agreement supersedes any prior or contemporaneous oral, written or implied understanding on the subject, shall survive the termination of Employee's employment and can only be revoked or modified by a written agreement signed by the parties which specifically states an intent to revoke or modify this agreement. If any provision of this Agreement is adjusted to be void or otherwise unenforceable in whole or in part, such adjudication shall not affect the validity of the remainder of the Agreement.

E. If any provision of this Agreement is held to be unenforceable by a final court decision, the remainder of the Agreement shall continue in full force and effect.

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

"EMPLOYEE"

/s/ Douglas E. Flaker

Douglas E. Flaker

NATURAL ALTERNATIVES INTERNATIONAL, INC.
a Delaware corporation

By: /s/ Mark A. LeDoux

Mark A. LeDoux, Chief Executive Officer

- 2 -

7

ATTACHMENT #2

ASSIGNMENT OF INVENTIONS, PATENTS AND COPYRIGHTS AGREEMENT REGARDING
CONFIDENTIAL INFORMATION COVENANT OF EXCLUSIVITY AND NOT TO COMPETE

In consideration of and as a condition of my prospective and continued employment and the compensation afforded to me under the terms and conditions thereof by Natural Alternatives International, Inc. (the "Company"), I agree to the following, and I agree the following shall be in addition to the terms and conditions of any Confidential Information and Invention Assignment Agreement executed by employees of the Company generally, and which I may execute in addition hereto:

1. INVENTIONS

a. Disclosure. I will disclose promptly in writing to the appropriate officer or other representative of the Company, any idea, invention, work of authorship, design, formula, pattern, compilation, program, device, method, technique, process, improvement, development or discovery, whether or not patentable or copyrightable or entitled to legal protection as a trade secret, trademark service mark, trade name or otherwise ("Invention"), that I may conceive, make, develop, reduce to practice or work on, in whole or in part, solely or jointly with others ("Invent"), during the term of my employment with the Company. The disclosure required by this Section 1(a) applies to each and every Invention that I Invent (i) whether during my regular hours of employment or during my time away from work (ii) whether or not the Invention was made at the suggestion of the Company, and (iii) whether or not the Invention was reduced to or embodied in writing, electronic media or tangible form. The disclosure required by this Section 1(a) also applies to any Invention which may relate at the time of conception or reduction to practice of the Invention to the Company's business or actual or demonstrably anticipated research or development of the Company, and to any Invention which results from any work performed by me for the Company. The disclosure required by this Section 1(a) shall be received in confidence by the Company within the meaning of and to the extent required by California Labor Code Section 2871, the provisions of which are set forth on Exhibit "A" hereto.

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

8

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

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

2. CONFIDENTIAL INFORMATION

a. Company Confidential Information. I will not use or disclose Confidential Information, whether before, during or after the term of my employment except to perform my duties as an employee of the Company based on my reasonable judgment as an Officer of the Company, or in

9

accordance with instruction or authorization of the Company, without prior written consent of the Company or pursuant to process or requirements of law

after I have disclosed such process or requirements to the Company so as to afford it the opportunity to seek appropriate relief therefrom. "Confidential Information" means any Invention of any person in which the Company has an interest and in addition means any financial, client, customer, supplier, marketing, distribution and other information of a confidential or private nature connected with the business of the Company or any person with whom it deals, provided by the Company to me or to which I have access during or in the course of any employment.

b. Third Party Information. I acknowledge that during my employment with the Company I may have access to patent, copyright, confidential, trade secret or other proprietary information of third parties subject to restrictions on the use or disclosure thereof by the Company. During the term of my employment and thereafter I will not use or disclose any such information other than consistent with the restrictions and my duties as an employee of the Company.

3. PROPERTY OF THE COMPANY. All documents, instruments, notes, memoranda, reports, drawings, blueprints, manuals, materials, data and other papers and records of every kind which come into my possession during or in the course of my employment, relating to any Inventions or Confidential Information, are and shall remain the property of the Company and shall be surrendered by me to the Company upon termination of my employment with the Company, or upon the request of the Company, at any time during or after termination of my employment with the Company.

4. NO SOLICITATION OF COMPANY EMPLOYEES. While employed by the Company and for a period of one year after termination of my employment with the Company, I agree not to induce or attempt to influence directly or indirectly any employee of the Company to terminate employment with the Company or to work for me or any other person or entity.

5. COVENANT OF EXCLUSIVITY AND NOT TO COMPETE. During the term of my employment with the Company, I will not engage in any other professional employment or consulting or directly or indirectly participate in or assist any business which is a current or potential supplier, customer or competitor of the Company without prior written approval from the Chief Executive Officer of the Company.

6. GENERAL.

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

b. Number and Gender Headings. Each number and gender shall be deemed to include each other number and gender as the context may require. The headings and captions contained

in this agreement shall not constitute a part thereof and shall not be used in its construction or interpretation.

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

d. Amendment and Modification. This agreement may be amended or modified only by a writing executed by each party.

e. Government Law. The construction, interpretation and performance of this agreement and all transactions under it shall be governed by the internal laws of California.

f. Remedies. I acknowledge that breach by me of any of the provisions of this agreement will cause irreparable injury that cannot adequately be compensated by money damages. The Company shall be entitled to specific performance, temporary restraining orders, preliminary injunctions and permanent injunctive relief to enforce my obligations under this agreement. No remedy conferred by any of the specific provisions of this agreement is intended to be exclusive of any other remedy. I agree to arbitrate on a final and binding basis all disputes under this Agreement in accordance with and before the Judicial Arbitration and Mediation Service ("JAMS").

g. Attorneys' Fees. In the event of any litigation or other action in connection with this agreement, the prevailing party shall be entitled to recover its reasonable attorneys' fees and disbursements from the other party as costs of suit and not as damages.

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

IN WITNESS WHEREOF, I have executed this agreement as of the date set forth next to my signature below.

/s/ Douglas E. Flaker

Signature of Employee

Douglas E. Flaker

Printed Name of Employee

ACCEPTED:
NATURAL ALTERNATIVES INTERNATIONAL, INC.
a Delaware corporation

By: /s/ Mark A. LeDoux

Mark A. LeDoux, Chief Executive Officer

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

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

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

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

SECTION 2871. RESTRICTIONS ON EMPLOYER FOR CONDITION OF EMPLOYMENT.

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

- 5 -

12

EXHIBIT "B"

Except as set forth below, Employee represents to the Company that there are no other contracts to assign Inventions now in existence between Employee and any other person or entity (see Section 1(d) of the Agreement):

- 6 -

13

EXHIBIT "C"

Set forth below is a brief description of all Inventions made or conceived by Employee prior to Employee's employment with the Company which Employee desires to be excluded from this agreement (see Section 1(d) of the Agreement):

- 7 -

EXECUTIVE EMPLOYMENT AGREEMENT

Mark A. Le Doux ("Employee") hereby accepts the offer of Natural Alternatives International, Inc. ("NAI") for employment as Chief Executive Officer and President beginning October 1, 1999. Collectively, NAI and Employee will be referred to herein as the "Parties."

1. The Parties anticipate that Employee will be employed through September 30, 2000 (the "Term"). During the Term, Employee's employment will be at-will and may be terminated by either Employee or NAI at any time for any reason or no reason, with or without cause upon written notice to the other. The at-will status of the employment relationship may not be modified except in writing authorized in advance by the Board of Directors of NAI and signed by the Executive Vice President of NAI and Employee.

2. Employee and NAI further understand and agree that nothing in the NAI Employee Handbook is intended to be, and nothing in it should be construed to be, a limitation of NAI's right to terminate, transfer, demote, suspend and administer discipline at any time for any reason. Employee and NAI understand and agree nothing in the Handbook is intended to, and nothing in the Handbook should be construed to, create an implied or express contract of employment contrary to this agreement.

3. A. While Employee is employed by NAI, Employee's rate of compensation will be at least \$260,000 per year, payable no less frequently than monthly, which will be reviewed at least annually to determine, based upon Employee's performance and the performance of NAI, the amount of increase, (if any), in the rate of compensation. The compensation set forth in this Section 3 will be Employee's only compensation except standard employee benefits available to the level one executives of NAI or any other written compensation arrangement approved by the Board of Directors of NAI. NAI is currently evaluating a system of bonus compensation for certain of its employees. Employee will be entitled to participate in any such bonus compensation in a manner and at a level consistent with the level one executives of NAI. Currently, the level one executives of NAI include all of the Corporate Officers of NAI, except for the Chief Executive Officer.

B. Employee shall receive during the Term a monthly amount equal to \$1,500.00 to reimburse Employee for actual expenses incurred in ownership and operation of one (1) automobile that Employee shall make and maintain available for Employee's use on any matter required by or for the benefit of the Company.

4. If Employee continues working for NAI past the end of the Term, and if NAI still desires Employee's services, then the following terms and conditions will apply:

(a) Employee shall be an at-will employee and either Employee or NAI will be entitled to terminate the employment relationship for any reason or for no reason, with or without cause and with or without notice.

-1-

(b) Employee will be compensated at the rate set forth in section 3 herein above unless another rate is mutually agreed upon; and

(c) As to benefits and other terms of employment, Employee shall be subject to the same policies and procedures as other employees of NAI in similar positions.

5. During the Term, and any extension thereof, Employee shall have such responsibilities, duties and authority as NAI through its Board of Directors may from time to time assign to Employee, and that are normal and customary duties of a Chief Executive Officer and President of a publicly held corporation. Employee's initial title shall be Chief Executive Officer and President.

6. In the event this Agreement is terminated by NAI without cause, whether during or at the end of the Term (and any renewals thereof), Employee shall be entitled to severance pay, including standard employee benefits available to the level one executives of NAI, in an amount equivalent to his then current compensation rate for the period set forth below opposite the number of complete calendar months which have elapsed from the beginning date of Employee's employment by NAI at the time of termination. One half of such amount shall be paid upon termination and the balance shall be paid on a bi-weekly basis during said severance period:

MONTHS OF EMPLOYMENT -----	SEVERANCE PERIOD -----
1 through 6 months	2 months
7 through 12 months	6 months
13 through 24 months	9 months
more than 24 months	12 months

NAI may terminate this Agreement with cause, which shall be limited to the occurrence of one or more of the following events: (i) the Employee's commission of any fraud against NAI; (ii) Employee's intentional appropriation for his personal use or benefit the funds of the Company not authorized by the Executive Vice President or the Board of Directors, (iii) Employee's conviction of any crime involving moral turpitude, (iv) Employee's conviction of a violation of any state or federal law which could result in a material adverse impact upon the business of NAI; or (v) Employee's material violation of this Agreement, provided that Employee shall be given written notice by NAI of any alleged material violation of the Agreement and an opportunity within 60 days, to cure the alleged breach, which Employee must diligently pursue to completion. No severance pay shall be due to Employee if Employee is terminated for cause.

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

Any of the following shall constitute a "Change in Control" for the purposes of this Section 7:

-2-

3

A. A "person" (meaning an individual, a partnership, or other group or association as defined in sections 13(d) and 14(d) of the Securities Exchange Act of 1934) acquires fifty percent (50%) or more of the combined voting power of the outstanding securities of NAI having a right to vote in elections of directors; or

B. The members of the Board of Directors of the Company who were members of the Board of Directors on the commencement date hereof, shall for any reason cease to constitute a majority of the Board of Directors of the Company; or

C. All, or substantially all of the business of NAI is disposed of by NAI to a party or parties other than a subsidiary or other affiliate of

NAI, in which NAI owns less than a majority of the equity, pursuant to a partial or complete liquidation of NAI, sale of assets (including stock of a subsidiary of NAI) or otherwise.

In the event of any such Change in Control, this Agreement shall continue in effect unless the Employee at his sole option, and at any time elects voluntarily to terminate this Agreement. In such case, NAI shall pay Employee as severance pay or liquidated damages, or both, a lump sum payment ("Change in Control Severance Payment") equal to one hundred fifty percent (150%) of the Employee's annual salary and bonus specified in Section 3 above or such greater amount as the Board of Directors determines from time to time pursuant to terms which may not be revoked or reduced thereafter.

In the event this Agreement is terminated following a Change in Control by NAI, and/or the surviving or resulting corporation, without cause, Employee shall be entitled to a Change in Control Severance Payment equal to one hundred fifty percent (150%) of the Employee's annual salary specified in Section 3 above or such greater amount as the Board of Directors determines from time to time pursuant to terms which may not be revoked or reduced thereafter.

Any Severance Payment shall be made not later than the fifteenth (15th) day following the effective date of the voluntary or involuntary termination of this Agreement in connection with a Change in Control; provided, however, that if the amount of such payments cannot be finally determined on or before such date, NAI shall pay to Employee on such date a good faith estimate of the minimum amount of such payments, and shall pay the remainder of such payments (together with interest at the rate provided in Internal Revenue Code Section 1274(b)(2)(B) of the Code), as soon as the amount thereof can be determined, but in no event later than the thirtieth (30th) day after the applicable termination date. In the event the amount of the estimated payments exceeds the amount subsequently determined to have been due, such excess shall constitute a loan by NAI payable on the fifteenth (15th) day after receipt by Employee of a written demand for payment from NAI (together with interest calculated as above). The total of any payment pursuant to this Section 7 shall be limited to the extent necessary, in the opinion of legal counsel acceptable to Employee and NAI, to avoid the payment of an "excess parachute" payment within the meaning of Internal Revenue Code Section 280 G or any similar successor provision.

-3-

4

In the event of termination of this Agreement either by the Employee under paragraph 7(B) or by NAI under paragraph 7(C), NAI shall cause each stock option heretofore granted by NAI to the Employee to become fully exercisable and to remain exercisable for the term of the option.

8. Employee and NAI hereby agree to the Mutual Agreement to Arbitrate attached hereto and made a part hereof as Attachment #1.

9. Employee and NAI hereby agree to the Assignment of Inventions, Patents and Copyrights Agreement Regarding Confidential Information Covenant of Exclusivity and Not to Compete attached hereto and made a part hereof as Attachment #2.

10. This Agreement contains the entire agreement between the parties. It supersedes any and all other agreements, either oral or in writing, between the parties hereto with respect to Employee's employment by NAI. Each party to this Agreement acknowledges that no representations, inducements, promises or agreements, oral or otherwise, have been made by any party, or anyone acting on behalf of any party, which are not embodied herein and acknowledges that no other agreement, statement or promise not contained in this Agreement shall be valid or binding. This Agreement may not be modified or amended by oral agreement or course of conduct, but only by an agreement in writing signed by the Executive Vice President of NAI and Employee.

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

12. Should any part or provision of this Executive Employment Agreement be held unenforceable or in conflict with the law of any jurisdiction, the validity of the remaining parts shall not be affected by such holding.

"EMPLOYEE"

/s/ Mark A. LeDoux

Mark A. LeDoux

NATURAL ALTERNATIVES INTERNATIONAL, INC.
a Delaware corporation

By: /s/ David Lough

David Lough, Executive Vice President

-4-

5

ATTACHMENT #1

MUTUAL AGREEMENT TO ARBITRATE CLAIMS

This Mutual Agreement to Arbitrate Claims is entered into between Mark A. LeDoux ("Employee") and Natural Alternatives International, Inc. ("NAI").

1. Binding Arbitration of Disagreement and Claims

We each voluntarily promise and agree to arbitrate any claims covered by this Agreement. We further agree that such binding arbitration pursuant to this Agreement shall be the sole and exclusive remedy for resolving any such claims or disputes.

2. Claims Covered by this Agreement

A. Claims and disputes covered by this Agreement include all claims against NAI (as defined below) and all claims that NAI may have against the Employee, including, without limitation, those arising under:

(1) Any federal, state or local laws, regulations or statutes prohibiting employment discrimination (such as, without limitation: race, sex, national origin, age, disability, religion, sexual orientation) and harassment.

(2) Any alleged or actual agreement or covenant (oral, written or implied) between Employee and NAI.

(3) Any company policy or compensation or benefit plan, unless the decision in question was made by an entity other than NAI.

(4) Any public policy.

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

B. The only disputes between Employee and NAI which are not included within this Mutual Agreement to Arbitrate Claims are:

(1) Any claim by Employee for workers' compensation or unemployment compensation benefits.

(2) Any claim by Employee for benefits under a company plan which provides for its own arbitration procedure.

3. Arbitration Procedure

A. The arbitration will be conducted in accordance with the rules of the current Judicial Arbitration and Mediation Services ("JAMS"), except that the arbitrator shall be mutually acceptable to both parties. The arbitration will be held in the state and county of the Employee's primary

- 1 -

6

employment at the time of the act giving rise to the dispute. The fees and expenses of the Arbitrator, and the arbitration, will be borne by the Company. Each party will pay for the fees and expenses of its own attorneys, experts, witnesses, transcripts and preparation and presentation of proofs and post-hearing briefs, unless the party prevails on a claim for which attorneys' fees and costs are recoverable by statute or contract, in which case the prevailing party shall be awarded attorneys fees and costs in accordance with that statute or contract.

B. Before such arbitration, each party shall have the right to conduct discovery on the same basis and to the same extent as a civil action brought in the Federal District Court for the Southern District of California.

C. Any action to enforce or vacate the arbitrator's award shall be governed by the Federal Arbitration Act if applicable, and otherwise by applicable state law.

4. Miscellaneous Provisions

A. The term "company" means NAI, and all related entities, all officers, employees, directors, agents, shareholders, partners, benefit plan sponsors, fiduciaries, administrators or affiliates of any of the above, and all successors and assignees of any of the above.

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

C. The parties of this arbitration agreement acknowledge and agree that they are waiving their right to a jury trial on the issues covered by this Agreement.

D. This is the complete Agreement of the parties on the subject of arbitration of disputes and claims. This Agreement supersedes any prior or contemporaneous oral, written or implied understanding on the subject, shall survive the termination of Employee's employment and can only be revoked or modified by a written agreement signed by the parties which specifically states an intent to revoke or modify this agreement. If any provision of this Agreement is adjudicated to be void or otherwise unenforceable in whole or in part, such adjudication shall not affect the validity of the remainder of the Agreement.

E. If any provision of this Agreement is held to be unenforceable by a final court decision, the remainder of the Agreement shall continue in full force and effect.

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

"EMPLOYEE"

/s/ Mark A. LeDoux

Mark A. LeDoux

NATURAL ALTERNATIVES INTERNATIONAL, INC.
a Delaware corporation

By: /s/ David Lough

David Lough, Executive Vice President

- 2 -

7

ATTACHMENT #2

ASSIGNMENT OF INVENTIONS, PATENTS AND COPYRIGHTS AGREEMENT REGARDING
CONFIDENTIAL INFORMATION COVENANT OF EXCLUSIVITY AND NOT TO COMPETE

In consideration of and as a condition of my prospective and continued employment and the compensation afforded to me under the terms and conditions thereof by Natural Alternatives International, Inc. (the "Company"), I agree to the following, and I agree the following shall be in addition to the terms and conditions of any Confidential Information and Invention Assignment Agreement executed by employees of the Company generally, and which I may execute in addition hereto:

1. INVENTIONS

a. Disclosure. I will disclose promptly in writing to the appropriate officer or other representative of the Company, any idea, invention, work of authorship, design, formula, pattern, compilation, program, device, method, technique, process, improvement, development or discovery, whether or not patentable or copyrightable or entitled to legal protection as a trade secret, trademark service mark, trade name or otherwise ("Invention"), that I may conceive, make, develop, reduce to practice or work on, in whole or in part, solely or jointly with others ("Invent"), during the term of my employment with the Company. The disclosure required by this Section 1 (a) applies to each and every Invention that I Invent (i) whether during my regular hours of employment or during my time away from work (ii) whether or not the Invention was made at the suggestion of the Company, and (iii) whether or not the Invention was reduced to or embodied in writing, electronic media or tangible form. The disclosure required by this Section 1 (a) also applies to any Invention which may relate at the time of conception or reduction to practice of the Invention to the Company's business or actual or demonstrably anticipated research or development of the Company, and to any Invention which results from any work performed by me for the Company. The disclosure required by this Section 1 (a) shall be received in confidence by the Company within the meaning of and to the extent required by California Labor Code Section 2871, the provisions of which are set forth on Exhibit "A" hereto.

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

c. Additional Assistance and Documents. I will assist the Company in obtaining, maintaining and enforcing patents, copyrights, trade secrets, trademarks, service marks, trade names and

- 1 -

8

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

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

2. CONFIDENTIAL INFORMATION

a. Company Confidential Information. I will not use or disclose Confidential Information, whether before, during or after the term of my employment except to perform my duties as an employee of the Company based on my reasonable judgment as an Officer of the Company, or in accordance with instruction or authorization of the Company, without prior written consent of the Company or pursuant to process or requirements of law after I have disclosed

such process or requirements to the Company so as to afford it the opportunity to seek appropriate relief therefrom.

- 2 -

9

"Confidential Information" means any Invention of any person in which the Company has an interest and in addition means any financial, client, customer, supplier, marketing, distribution and other information of a confidential or private nature connected with the business of the Company or any person with whom it deals, provided by the Company to me or to which I have access during or in the course of any employment.

b. Third Party Information. I acknowledge that during my employment with the Company I may have access to patent, copyright, confidential, trade secret or other proprietary information of third parties subject to restrictions on the use or disclosure thereof by the Company. During the term of my employment and thereafter I will not use or disclose any such information other than consistent with the restrictions and my duties as an employee of the Company.

3. PROPERTY OF THE COMPANY. All documents, instruments, notes, memoranda, reports, drawings, blueprints, manuals, materials, data and other papers and records of every kind which come into my possession during or in the course of my employment, relating to any Inventions or Confidential Information, are and shall remain the property of the Company and shall be surrendered by me to the Company upon termination of my employment with the Company, or upon the request of the Company, at any time during or after termination of my employment with the Company.

4. NO SOLICITATION OF COMPANY EMPLOYEES. While employed by the Company and for a period of one year after termination of my employment with the Company, I agree not to induce or attempt to influence directly or indirectly any employee of the Company to terminate employment with the Company or to work for me or any other person or entity.

5. COVENANT OF EXCLUSIVITY AND NOT TO COMPETE. During the term of my employment with the Company, I will not engage in any other professional employment or consulting or directly or indirectly participate in or assist any business which is a current or potential supplier, customer or competitor of the Company without prior written approval from the Executive Vice President of the Company.

6. GENERAL.

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

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

-3-

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

d. Amendment and Modification. This agreement may be amended or modified only by a writing executed by each party.

e. Government Law. The construction, interpretation and performance of this agreement and all transactions under it shall be governed by the internal laws of California.

f. Remedies. I acknowledge that breach by me of any of the provisions of this agreement will cause irreparable injury that cannot adequately be compensated by money damages. The Company shall be entitled to specific performance, temporary restraining orders, preliminary injunctions and permanent injunctive relief to enforce my obligations under this agreement. No remedy conferred by any of the specific provisions of this agreement is intended to be exclusive of any other remedy. I agree to arbitrate on a final and binding basis all disputes under this Agreement in accordance with and before the Judicial Arbitration and Mediation Service ("JAMS").

g. Attorneys' Fees. In the event of any litigation or other action in connection with this agreement, the prevailing party shall be entitled to recover its reasonable attorneys' fees and disbursements from the other party as costs of suit and not as damages.

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

IN WITNESS WHEREOF, I have executed this agreement as of the date set forth next to my signature below.

/s/ Mark A. LeDoux

Signature of Employee
Mark A. LeDoux

Printed Name of Employee

ACCEPTED:
NATURAL ALTERNATIVES INTERNATIONAL, INC.
a Delaware corporation

By: /s/ David Lough

David Lough, Executive Vice President

EXHIBIT "A"

CALIFORNIA LABOR CODE

SECTION 2870. INVENTION ON OWN TIME-EXEMPTION FROM AGREEMENT.

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

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

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

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

SECTION 2871. RESTRICTIONS ON EMPLOYER FOR CONDITION OF EMPLOYMENT.

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

- 5 -

12

EXHIBIT "B"

Except as set forth below, Employee represents to the Company that there are no other contracts to assign Inventions now in existence between Employee and any other person or entity (see Section 1(d) of the Agreement):

- 6 -

13

EXHIBIT "C"

Set forth below is a brief description of all Inventions made or conceived by Employee prior to Employee's employment with the Company which Employee desires to be excluded from this agreement (see Section 1(d) of the Agreement):

- 7 -

EXECUTIVE EMPLOYMENT AGREEMENT

David Lough ("Employee") hereby accepts the offer of Natural Alternatives International, Inc. ("NAI") for employment as Executive Vice President beginning October 1, 1999. Collectively, NAI and Employee will be referred to herein as the "Parties."

1. The Parties anticipate that Employee will be employed through September 30, 2000 (the "Term"). During the Term, Employee's employment will be at-will and may be terminated by either Employee or NAI at any time for any reason or no reason, with or without cause upon written notice to the other. The at-will status of the employment relationship may not be modified except in writing authorized in advance by the Board of Directors of NAI and signed by the Chief Executive Officer of NAI and Employee.

2. Employee and NAI further understand and agree that nothing in the NAI Employee Handbook is intended to be, and nothing in it should be construed to be, a limitation of NAI's right to terminate, transfer, demote, suspend and administer discipline at any time for any reason. Employee and NAI understand and agree nothing in the Handbook is intended to, and nothing in the Handbook should be construed to, create an implied or express contract of employment contrary to this agreement.

3. A. While Employee is employed by NAI, Employee's rate of compensation will be at least \$150,000 per year, payable no less frequently than monthly, which will be reviewed at least annually to determine, based upon Employee's performance and the performance of NAI, the amount of increase, (if any), in the rate of compensation. The compensation set forth in this Section 3 will be Employee's only compensation except standard employee benefits available to other level one executives of NAI or any other written compensation arrangement approved by the Board of Directors of NAI. NAI is currently evaluating a system of bonus compensation for certain of its employees. Employee will be entitled to participate in any such bonus compensation in a manner and at a level consistent with other level one executives of NAI. Currently all the level one executives of NAI include all of the Corporate Officers of NAI, except for the Chief Executive Officer.

B. Employee shall receive during the Term a monthly amount equal to \$1,500.00 to reimburse Employee for actual expenses incurred in ownership and operation of one (1) automobile that Employee shall make and maintain available for Employee's use on any matter required by or for the benefit of the Company.

4. If Employee continues working for NAI past the end of the Term, and if NAI still desires Employee's services, then the following terms and conditions will apply:

(a) Employee shall be an at-will employee and either Employee or NAI will be entitled to terminate the employment relationship for any reason or for no reason, with or without cause and with or without notice.

- 1 -

(b) Employee will be compensated at the rate set forth in section 3 herein above unless another rate is mutually agreed upon; and

(c) As to benefits and other terms of employment, Employee shall be subject to the same policies and procedures as other employees of NAI in similar positions.

5. During the Term, and any extension thereof, Employee shall have such responsibilities, duties and authority as NAI through its Chief Executive Officer may from time to time assign to Employee, and that are normal and customary duties of an Executive Vice President of a publicly held corporation. Employee's initial title shall be Executive Vice President.

6. In the event this Agreement is terminated by NAI without cause, whether during or at the end of the Term (and any renewals thereof), Employee shall be entitled to severance pay, including standard employee benefits available to other level one executives of NAI, in an amount equivalent to his then current compensation rate for the period set forth below opposite the number of complete calendar months which have elapsed from the beginning date of Employee's employment by NAI at the time of termination. One half of such amount shall be paid upon termination and the balance shall be paid on a bi-weekly basis during said severance period:

MONTHS OF EMPLOYMENT -----	SEVERANCE PERIOD -----
1 through 6 months	2 months
7 through 12 months	6 months
13 through 24 months	9 months
more than 24 months	12 months

NAI may terminate this Agreement with cause, which shall be limited to the occurrence of one or more of the following events: (i) the Employee's commission of any fraud against NAI; (ii) Employee's intentional appropriation for his personal use or benefit the funds of the Company not authorized by the Chief Executive Officer or the Board of Directors, (iii) Employee's conviction of any crime involving moral turpitude, (iv) Employee's conviction of a violation of any state or federal law which could result in a material adverse impact upon the business of NAI; or (v) Employee's material violation of this Agreement, provided that Employee shall be given written notice by NAI of any alleged material violation of the Agreement and an opportunity within 60 days, to cure the alleged breach, which Employee must diligently pursue to completion. No severance pay shall be due to Employee if Employee is terminated for cause.

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

Any of the following shall constitute a "Change in Control" for the purposes of this Section 7:

A. A "person" (meaning an individual, a partnership, or other group or association as defined in sections 13(d) and 14(d) of the Securities Exchange Act of 1934) acquires fifty percent (50%) or more of the combined voting power of the outstanding securities of NAI having a right to vote in elections of directors; or

B. The members of the Board of Directors of the Company who were members of the Board of Directors on the commencement date hereof, shall for any reason cease to constitute a majority of the Board of Directors of the Company; or

C. All, or substantially all of the business of NAI is disposed of by NAI to a party or parties other than a subsidiary or other affiliate of NAI, in which NAI owns less than a majority of the equity, pursuant to a partial or complete liquidation of NAI, sale of assets (including stock of a subsidiary of NAI) or otherwise.

In the event of any such Change in Control, this Agreement shall continue in effect unless the Employee at his sole option, and at any time elects voluntarily to terminate this Agreement. In such case, NAI shall pay Employee as severance pay or liquidated damages, or both, a lump sum payment ("Change in Control Severance Payment") equal to one hundred fifty percent (150%) of the Employee's annual salary and bonus specified in Section 3 above or such greater amount as the Board of Directors determines from time to time pursuant to terms which may not be revoked or reduced thereafter.

In the event this Agreement is terminated following a Change in Control by NAI, and/or the surviving or resulting corporation, without cause, Employee shall be entitled to a Change in Control Severance Payment equal to one hundred fifty percent (150%) of the Employee's annual salary specified in Section 3 above or such greater amount as the Board of Directors determines from time to time pursuant to terms which may not be revoked or reduced thereafter.

Any Severance Payment shall be made not later than the fifteenth (15th) day following the effective date of the voluntary or involuntary termination of this Agreement in connection with a Change in Control; provided, however, that if the amount of such payments cannot be finally determined on or before such date, NAI shall pay to Employee on such date a good faith estimate of the minimum amount of such payments, and shall pay the remainder of such payments (together with interest at the rate provided in Internal Revenue Code Section 1274(b)(2)(B) of the Code), as soon as the amount thereof can be determined, but in no event later than the thirtieth (30th) day after the applicable termination date. In the event the amount of the estimated payments exceeds the amount subsequently determined to have been due, such excess shall constitute a loan by NAI payable on the fifteenth (15th) day after receipt by Employee of a written demand for payment from NAI (together with interest calculated as above). The total of any payment pursuant to this Section 7 shall be limited to the extent necessary, in the opinion of legal counsel acceptable to Employee and NAI, to avoid the payment of an "excess parachute" payment within the meaning of Internal Revenue Code Section 280 G or any similar successor provision.

- 3 -

4

In the event of termination of this Agreement either by the Employee under paragraph 7(B) or by NAI under paragraph 7(C), NAI shall cause each stock option heretofore granted by NAI to the Employee to become fully exercisable and to remain exercisable for the term of the option.

8. Employee and NAI hereby agree to the Mutual Agreement to Arbitrate attached hereto and made a part hereof as Attachment #1.

9. Employee and NAI hereby agree to the Assignment of Inventions, Patents and Copyrights Agreement Regarding Confidential Information Covenant of Exclusivity and Not to Compete attached hereto and made a part hereof as Attachment #2.

10. This Agreement contains the entire agreement between the parties. It

supersedes any and all other agreements, either oral or in writing, between the parties hereto with respect to Employee's employment by NAI. Each party to this Agreement acknowledges that no representations, inducements, promises or agreements, oral or otherwise, have been made by any party, or anyone acting on behalf of any party, which are not embodied herein and acknowledges that no other agreement, statement of promise not contained in this Agreement shall be valid or binding. This Agreement may not be modified or amended by oral agreement or course of conduct, but only by an agreement in writing signed by the Chief Executive Officer of NAI and Employee.

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

12. Should any part or provision of this Executive Employment Agreement be held unenforceable or in conflict with the law of any jurisdiction, the validity of the remaining parts shall not be affected by such holding.

"EMPLOYEE"

/s/ David Lough

David Lough

NATURAL ALTERNATIVES INTERNATIONAL, INC.
a Delaware corporation

By: /s/ Mark A. LeDoux

Mark A. LeDoux, Chief Executive Officer

- 4 -

5

ATTACHMENT #1

MUTUAL AGREEMENT TO ARBITRATE CLAIMS

This Mutual Agreement to Arbitrate Claims is entered into between David Lough ("Employee") and Natural Alternatives International, Inc. ("NAI").

1. Binding Arbitration of Disagreement and Claims

We each voluntarily promise and agree to arbitrate any claims covered by this Agreement. We further agree that such binding arbitration pursuant to this Agreement shall be the sole and exclusive remedy for resolving any such claims or disputes.

2. Claims Covered by this Agreement

A. Claims and disputes covered by this Agreement include all claims against NAI (as defined below) and all claims that NAI may have against the Employee, including, without limitation, those arising under:

(1) Any federal, state or local laws, regulations or statutes prohibiting employment discrimination (such as, without limitation: race, sex, national origin, age, disability, religion, sexual orientation) and harassment.

(2) Any alleged or actual agreement or covenant (oral, written or implied) between Employee and NAI.

(3) Any company policy or compensation or benefit plan, unless the decision in question was made by an entity other than NAI.

(4) Any public policy.

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

B. The only disputes between Employee and NAI which are not included within this Mutual Agreement to Arbitrate Claims are:

(1) Any claim by Employee for workers' compensation or unemployment compensation benefits.

(2) Any claim by Employee for benefits under a company plan which provides for its own arbitration procedure.

3. Arbitration Procedure

A. The arbitration will be conducted in accordance with the rules of the current Judicial Arbitration and Mediation Services ("JAMS"), except that the arbitrator shall be mutually acceptable to both parties. The arbitration will be held in the state and county of the Employee's primary

- 1 -

6

employment at the time of the act giving rise to the dispute. The fees and expenses of the Arbitrator, and the arbitration, will be borne by the Company. Each party will pay for the fees and expenses of its own attorneys, experts, witnesses, transcripts and preparation and presentation of proofs and post-hearing briefs, unless the party prevails on a claim for which attorneys' fees and costs are recoverable by statute or contract, in which case the prevailing party shall be awarded attorneys fees and costs in accordance with that statute or contract.

B. Before such arbitration, each party shall have the right to conduct discovery on the same basis and to the same extent as a civil action brought in the Federal District Court for the Southern District of California.

C. Any action to enforce or vacate the arbitrator's award shall be governed by the Federal Arbitration Act if applicable, and otherwise by applicable state law.

4. Miscellaneous Provisions

A. The term "company" means NAI, and all related entities, all officers, employees, directors, agents, shareholders, partners, benefit plan sponsors, fiduciaries, administrators or affiliates of any of the above, and all successors and assignees of any of the above.

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

C. The parties of this arbitration agreement acknowledge and agree that they are waiving their right to a jury trial on the issues covered by this Agreement.

D. This is the complete Agreement of the parties on the subject of arbitration of disputes and claims. This Agreement supersedes any prior or contemporaneous oral, written or implied understanding on the subject, shall survive the termination of Employee's employment and can only be revoked or modified by a written agreement signed by the parties which specifically states

an intent to revoke or modify this agreement. If any provision of this Agreement is adjusted to be void or otherwise unenforceable in whole or in part, such adjudication shall not affect the validity of the remainder of the Agreement.

E. If any provision of this Agreement is held to be unenforceable by a final court decision, the remainder of the Agreement shall continue in full force and effect.

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

"EMPLOYEE"

/s/ David Lough

David Lough

NATURAL ALTERNATIVES INTERNATIONAL, INC.
a Delaware corporation

By: /s/ Mark A. LeDoux

Mark A. LeDoux, Chief Executive Officer

- 2 -

7

ATTACHMENT #2

ASSIGNMENT OF INVENTIONS, PATENTS AND COPYRIGHTS AGREEMENT REGARDING CONFIDENTIAL INFORMATION COVENANT OF EXCLUSIVITY AND NOT TO COMPETE

In consideration of and as a condition of my prospective and continued employment and the compensation afforded to me under the terms and conditions thereof by Natural Alternatives International, Inc. (the "Company"), I agree to the following, and I agree the following shall be in addition to the terms and conditions of any Confidential Information and Invention Assignment Agreement executed by employees of the Company generally, and which I may execute in addition hereto:

1. INVENTIONS

a. Disclosure. I will disclose promptly in writing to the appropriate officer or other representative of the Company, any idea, invention, work of authorship, design, formula, pattern, compilation, program, device, method, technique, process, improvement, development or discovery, whether or not patentable or copyrightable or entitled to legal protection as a trade secret, trademark service mark, trade name or otherwise ("Invention"), that I may conceive, make, develop, reduce to practice or work on, in whole or in part, solely or jointly with others ("Invent"), during the term of my employment with the Company. The disclosure required by this Section 1 (a) applies to each and every Invention that I Invent (i) whether during my regular hours of employment or during my time away from work (ii) whether or not the Invention was made at the suggestion of the Company, and (iii) whether or not the Invention was reduced to or embodied in writing, electronic media or tangible form. The disclosure required by this Section 1 (a) also applies to any Invention which may relate at the time of conception or reduction to practice of the Invention to the Company's business or actual or demonstrably anticipated research or development of the Company, and to any Invention which results from any work performed by me for the Company. The disclosure required by this Section 1 (a) shall be received in confidence by the Company within the meaning of and to the extent required by California Labor Code Section 2871, the provisions of which are set forth on Exhibit "A" hereto.

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

c. Additional Assistance and Documents. I will assist the Company in obtaining, maintaining and enforcing patents, copyrights, trade secrets, trademarks, service marks, trade names and

- 1 -

8

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

d. Prior Contracts and Inventions; Rights of Third Parties. I represent to the Company that, except as set forth on Exhibit "B" hereto, there are no other contracts to assign Inventions now in existence between me and any other person or entity (and if no Exhibit "B" is attached hereto or there is no such contract described thereon, then it means that by signing this Agreement, I represent to the Company that there is no such other contracts). In addition, I represent to the Company that I have no other employments or undertaking which do or would restrict or impair my performance of this Agreement. I further represent to the Company that Exhibit "C" hereto sets forth a brief description of all Inventions made or conceived by me prior to my employment with the Company which I desire to be excluded from this Agreement (and if no Exhibit "C" is attached hereto or there is no such description set forth thereon, then it means that by signing this Agreement I represent to the Company that there is no such Invention made or conceived by me prior to my employment with the Company). In connection with my employment with the Company, I promise not to use or disclose to the Company any patent, copyright, confidential trade secret or other proprietary information of any previous employer or other person that I am

not lawfully entitled so to use or disclose. If in the course of my employment with the Company I incorporate into an Invention or any product process or service of the Company any Invention made or conceived by me prior to my employment with the Company, I hereby grant to the Company a royalty-free, irrevocable, worldwide nonexclusive license to make, have made, use and sell that Invention without restriction as to the extent of my ownership or interest.

2. CONFIDENTIAL INFORMATION

a. Company Confidential Information. I will not use or disclose Confidential Information, whether before, during or after the term of my employment except to perform my duties as an employee of the Company based on my reasonable judgment as an Officer of the Company, or in accordance with instruction or authorization of the Company, without prior written consent of the Company or pursuant to process or requirements of law after I have disclosed such process or requirements to the Company so as to afford it the opportunity to seek appropriate relief therefrom.

- 2 -

9

"Confidential Information" means any Invention of any person in which the Company has an interest and in addition means any financial, client, customer, supplier, marketing, distribution and other information of a confidential or private nature connected with the business of the Company or any person with whom it deals, provided by the Company to me or to which I have access during or in the course of any employment.

b. Third Party Information. I acknowledge that during my employment with the Company I may have access to patent, copyright, confidential, trade secret or other proprietary information of third parties subject to restrictions on the use or disclosure thereof by the Company. During the term of my employment and thereafter I will not use or disclose any such information other than consistent with the restrictions and my duties as an employee of the Company.

3. PROPERTY OF THE COMPANY. All documents, instruments, notes, memoranda, reports, drawings, blueprints, manuals, materials, data and other papers and records of every kind which come into my possession during or in the course of my employment, relating to any Inventions or Confidential Information, are and shall remain the property of the Company and shall be surrendered by me to the Company upon termination of my employment with the Company, or upon the request of the Company, at any time during or after termination of my employment with the Company.

4. NO SOLICITATION OF COMPANY EMPLOYEES. While employed by the Company and for a period of one year after termination of my employment with the Company, I agree not to induce or attempt to influence directly or indirectly any employee of the Company to terminate employment with the Company or to work for me or any other person or entity.

5. COVENANT OF EXCLUSIVITY AND NOT TO COMPETE. During the term of my employment with the Company, I will not engage in any other professional employment or consulting or directly or indirectly participate in or assist any business which is a current or potential supplier, customer or competitor of the Company without prior written approval from the Chief Executive Officer of the Company.

6. GENERAL.

a. Assignments, Successors and Assignees. All representations, warranties, covenants and agreements of the parties shall bind their respective heirs, executors, personal representatives, successors and assignees

("transferees") and shall inure to the benefit of their respective permitted transferees. The Company shall have the right to assign any or all of its rights and to delegate any or all of its obligations hereunder. The undersigned employee shall not have the right to assign any rights or delegate any obligations hereunder without the prior written consent of the Company or its transferee.

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

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

d. Amendment and Modification. This agreement may be amended or modified only by a writing executed by each party.

e. Government Law. The construction, interpretation and performance of this agreement and all transactions under it shall be governed by the internal laws of California.

f. Remedies. I acknowledge that breach by me of any of the provisions of this agreement will cause irreparable injury that cannot adequately be compensated by money damages. The Company shall be entitled to specific performance, temporary restraining orders, preliminary injunctions and permanent injunctive relief to enforce my obligations under this agreement. No remedy conferred by any of the specific provisions of this agreement is intended to be exclusive of any other remedy. I agree to arbitrate on a final and binding basis all disputes under this Agreement in accordance with and before the Judicial Arbitration and Mediation Service ("JAMS").

g. Attorneys' Fees. In the event of any litigation or other action in connection with this agreement, the prevailing party shall be entitled to recover its reasonable attorneys' fees and disbursements from the other party as costs of suit and not as damages.

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

IN WITNESS WHEREOF, I have executed this agreement as of the date set forth next to my signature below.

/s/ David Lough

Signature of Employee
David Lough

Printed Name of Employee

ACCEPTED:

NATURAL ALTERNATIVES INTERNATIONAL, INC.
a Delaware corporation

By: /s/ Mark A. LeDoux

Mark A. LeDoux, Chief Executive Officer

- 4 -

11

EXHIBIT "A"

CALIFORNIA LABOR CODE

SECTION 2870. INVENTION ON OWN TIME-EXEMPTION FROM AGREEMENT.

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

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

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

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

SECTION 2871. RESTRICTIONS ON EMPLOYER FOR CONDITION OF EMPLOYMENT.

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

- 5 -

12

EXHIBIT "B"

Except as set forth below, Employee represents to the Company that there are no other contracts to assign Inventions now in existence between Employee and any other person or entity (see Section 1(d) of the Agreement):

EXHIBIT "C"

Set forth below is a brief description of all Inventions made or conceived by Employee prior to Employee's employment with the Company which Employee desires to be excluded from this agreement (see Section 1(d) of the Agreement):

EXECUTIVE EMPLOYMENT AGREEMENT

John A. Wise ("Employee") hereby accepts the offer of Natural Alternatives International, Inc. ("NAI") for employment as Vice President-Science and Technology beginning October 1, 1999. Collectively, NAI and Employee will be referred to herein as the "Parties."

1. The Parties anticipate that Employee will be employed through September 30, 2000 (the "Term"). During the Term, Employee's employment will be at-will and may be terminated by either Employee or NAI at any time for any reason or no reason, with or without cause upon written notice to the other. The at-will status of the employment relationship may not be modified except in writing authorized in advance by the Board of Directors of NAI and signed by the Chief Executive Officer of NAI and Employee.

2. Employee and NAI further understand and agree that nothing in the NAI Employee Handbook is intended to be, and nothing in it should be construed to be, a limitation of NAI's right to terminate, transfer, demote, suspend and administer discipline at any time for any reason. Employee and NAI understand and agree nothing in the Handbook is intended to, and nothing in the Handbook should be construed to, create an implied or express contract of employment contrary to this agreement.

3. A. While Employee is employed by NAI, Employee's rate of compensation will be at least \$140,000 per year, payable no less frequently than monthly, which will be reviewed at least annually to determine, based upon Employee's performance and the performance of NAI, the amount of increase, (if any), in the rate of compensation. The compensation set forth in this Section 3 will be Employee's only compensation except standard employee benefits available to other level one executives of NAI or any other written compensation arrangement approved by the Board of Directors of NAI. NAI is currently evaluating a system of bonus compensation for certain of its employees. Employee will be entitled to participate in any such bonus compensation in a manner and at a level consistent with other level one executives of NAI. Currently all the level one executives of NAI include all of the Corporate Officers of NAI, except for the Chief Executive Officer.

B. Employee shall receive during the Term a monthly amount equal to \$1,500.00 to reimburse Employee for actual expenses incurred in ownership and operation of one (1) automobile that Employee shall make and maintain available for Employee's use on any matter required by or for the benefit of the Company.

4. If Employee continues working for NAI past the end of the Term, and if NAI still desires Employee's services, then the following terms and conditions will apply:

(a) Employee shall be an at-will employee and either Employee or NAI will be entitled to terminate the employment relationship for any reason or for no reason, with or without cause and with or without notice;

- 1 -

(b) Employee will be compensated at the rate set forth in section 3 herein above unless another rate is mutually agreed upon; and

(c) As to benefits and other terms of employment, Employee shall be subject to the same policies and procedures as other employees of NAI in similar positions.

5. During the Term, and any extension thereof, Employee shall have such responsibilities, duties and authority as NAI through its Chief Executive Officer may from time to time assign to Employee, and that are normal and customary duties of a Vice President-Science and Technology of a publicly held corporation. Employee's initial title shall be Vice President-Science and Technology.

6. In the event this Agreement is terminated by NAI without cause, whether during or at the end of the Term (and any renewals thereof), Employee shall be entitled to severance pay, including standard employee benefits available to other level one executives of NAI, in an amount equivalent to his then current compensation rate for the period set forth below opposite the number of complete calendar months which have elapsed from the beginning date of Employee's employment by NAI at the time of termination. One half of such amount shall be paid upon termination and the balance shall be paid on a bi-weekly basis during said severance period:

MONTHS OF EMPLOYMENT -----	SEVERANCE PERIOD -----
1 through 6 months	2 months
7 through 12 months	6 months
13 through 24 months	9 months
more than 24 months	12 months

NAI may terminate this Agreement with cause, which shall be limited to the occurrence of one or more of the following events: (i) the Employee's commission of any fraud against NAI; (ii) Employee's intentional appropriation for his personal use or benefit the funds of the Company not authorized by the Chief Executive Officer or the Board of Directors, (iii) Employee's conviction of any crime involving moral turpitude, (iv) Employee's conviction of a violation of any state or federal law which could result in a material adverse impact upon the business of NAI; or (v) Employee's material violation of this Agreement, provided that Employee shall be given written notice by NAI of any alleged material violation of the Agreement and an opportunity within 60 days, to cure the alleged breach, which Employee must diligently pursue to completion. No severance pay shall be due to Employee if Employee is terminated for cause.

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

Any of the following shall constitute a "Change in Control" for the purposes of this Section 7:

A. A "person" (meaning an individual, a partnership, or other group or association as defined in sections 13(d) and 14(d) of the Securities Exchange Act of 1934) acquires fifty percent (50%) or more of the combined voting power of the outstanding securities of NAI having a right to vote in elections of directors; or

B. The members of the Board of Directors of the Company who were members of the Board of Directors on the commencement date hereof, shall for any reason cease to constitute a majority of the Board of Directors of the Company; or

C. All, or substantially all of the business of NAI is disposed of by NAI to a party or parties other than a subsidiary or other affiliate of NAI, in which NAI owns less than a majority of the equity, pursuant to a partial or complete liquidation of NAI, sale of assets (including stock of a subsidiary of NAI) or otherwise.

In the event of any such Change in Control, this Agreement shall continue in effect unless the Employee at his sole option, and at any time elects voluntarily to terminate this Agreement. In such case, NAI shall pay Employee as severance pay or liquidated damages, or both, a lump sum payment ("Change in Control Severance Payment") equal to one hundred fifty percent (150%) of the Employee's annual salary and bonus specified in Section 3 above or such greater amount as the Board of Directors determines from time to time pursuant to terms which may not be revoked or reduced thereafter.

In the event this Agreement is terminated following a Change in Control by NAI, and/or the surviving or resulting corporation, without cause, Employee shall be entitled to a Change in Control Severance Payment equal to one hundred fifty percent (150%) of the Employee's annual salary specified in Section 3 above or such greater amount as the Board of Directors determines from time to time pursuant to terms which may not be revoked or reduced thereafter.

Any Severance Payment shall be made not later than the fifteenth (15th) day following the effective date of the voluntary or involuntary termination of this Agreement in connection with a Change in Control; provided, however, that if the amount of such payments cannot be finally determined on or before such date, NAI shall pay to Employee on such date a good faith estimate of the minimum amount of such payments, and shall pay the remainder of such payments (together with interest at the rate provided in Internal Revenue Code Section 1274(b)(2)(B) of the Code), as soon as the amount thereof can be determined, but in no event later than the thirtieth (30th) day after the applicable termination date. In the event the amount of the estimated payments exceeds the amount subsequently determined to have been due, such excess shall constitute a loan by NAI payable on the fifteenth (15th) day after receipt by Employee of a written demand for payment from NAI (together with interest calculated as above). The total of any payment pursuant to this Section 7 shall be limited to the extent necessary, in the opinion of legal counsel acceptable to Employee and NAI, to avoid the payment of an "excess parachute" payment within the meaning of Internal Revenue Code Section 280 G or any similar successor provision.

- 3 -

4

In the event of termination of this Agreement either by the Employee under paragraph 7(B) or by NAI under paragraph 7(C), NAI shall cause each stock option heretofore granted by NAI to the Employee to become fully exercisable and to remain exercisable for the term of the option.

8. Employee and NAI hereby agree to the Mutual Agreement to Arbitrate attached hereto and made a part hereof as Attachment #1.

9. Employee and NAI hereby agree to the Assignment of Inventions, Patents and Copyrights Agreement Regarding Confidential Information Covenant of Exclusivity and Not to Compete attached hereto and made a part hereof as Attachment #2.

10. This Agreement contains the entire agreement between the parties. It supersedes any and all other agreements, either oral or in writing, between the parties hereto with respect to Employee's employment by NAI. Each party to this Agreement acknowledges that no representations, inducements, promises or agreements, oral or otherwise, have been made by any party, or anyone acting on behalf of any party, which are not embodied herein and acknowledges that no other agreement, statement of promise not contained in this Agreement shall be valid or binding. This Agreement may not be modified or amended by oral agreement or course of conduct, but only by an agreement in writing signed by the Chief Executive Officer of NAI and Employee.

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

12. Should any part or provision of this Executive Employment Agreement be held unenforceable or in conflict with the law of any jurisdiction, the validity of the remaining parts shall not be affected by such holding.

"EMPLOYEE"

/s/ John A. Wise

John A. Wise

NATURAL ALTERNATIVES INTERNATIONAL, INC.
a Delaware corporation

By: /s/ Mark A. LeDoux

Mark A. LeDoux, Chief Executive Officer

- 4 -

5

ATTACHMENT #1

MUTUAL AGREEMENT TO ARBITRATE CLAIMS

This Mutual Agreement to Arbitrate Claims is entered into between John A. Wise ("Employee") and Natural Alternatives International, Inc. ("NAI").

1. Binding Arbitration of Disagreement and Claims

We each voluntarily promise and agree to arbitrate any claims covered by this Agreement. We further agree that such binding arbitration pursuant to this Agreement shall be the sole and exclusive remedy for resolving any such claims or disputes.

2. Claims Covered by this Agreement

A. Claims and disputes covered by this Agreement include all claims against NAI (as defined below) and all claims that NAI may have against the Employee, including, without limitation, those arising under:

(1) Any federal, state or local laws, regulations or statutes prohibiting employment discrimination (such as, without limitation: race, sex, national origin, age, disability, religion, sexual orientation) and harassment.

(2) Any alleged or actual agreement or covenant (oral, written or implied) between Employee and NAI.

(3) Any company policy or compensation or benefit plan, unless the decision in question was made by an entity other than NAI.

(4) Any public policy.

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

B. The only disputes between Employee and NAI which are not included within this Mutual Agreement to Arbitrate Claims are:

(1) Any claim by Employee for workers' compensation or unemployment compensation benefits.

(2) Any claim by Employee for benefits under a company plan which provides for its own arbitration procedure.

3. Arbitration Procedure

A. The arbitration will be conducted in accordance with the rules of the current Judicial Arbitration and Mediation Services ("JAMS"), except that the arbitrator shall be mutually acceptable to both parties. The arbitration will be held in the state and county of the Employee's primary

- 1 -

6

employment at the time of the act giving rise to the dispute. The fees and expenses of the Arbitrator, and the arbitration, will be borne by the Company. Each party will pay for the fees and expenses of its own attorneys, experts, witnesses, transcripts and preparation and presentation of proofs and post-hearing briefs, unless the party prevails on a claim for which attorneys' fees and costs are recoverable by statute or contract, in which case the prevailing party shall be awarded attorneys fees and costs in accordance with that statute or contract.

B. Before such arbitration, each party shall have the right to conduct discovery on the same basis and to the same extent as a civil action brought in the Federal District Court for the Southern District of California.

C. Any action to enforce or vacate the arbitrator's award shall be governed by the Federal Arbitration Act if applicable, and otherwise by applicable state law.

4. Miscellaneous Provisions

A. The term "company" means NAI, and all related entities, all officers, employees, directors, agents, shareholders, partners, benefit plan sponsors, fiduciaries, administrators or affiliates of any of the above, and all successors and assignees of any of the above.

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

C. The parties of this arbitration agreement acknowledge and agree that they are waiving their right to a jury trial on the issues covered by this Agreement.

D. This is the complete Agreement of the parties on the subject of arbitration of disputes and claims. This Agreement supersedes any prior or contemporaneous oral, written or implied understanding on the subject, shall survive the termination of Employee's employment and can only be revoked or

modified by a written agreement signed by the parties which specifically states an intent to revoke or modify this agreement. If any provision of this Agreement is adjusted to be void or otherwise unenforceable in whole or in part, such adjudication shall not affect the validity of the remainder of the Agreement.

E. If any provision of this Agreement is held to be unenforceable by a final court decision, the remainder of the Agreement shall continue in full force and effect.

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

"EMPLOYEE"

/s/ John A. Wise

John A. Wise

NATURAL ALTERNATIVES INTERNATIONAL, INC.
a Delaware corporation

By: /s/ Mark A. LeDoux

Mark A. LeDoux, Chief Executive Officer

- 2 -

7

ATTACHMENT #2

ASSIGNMENT OF INVENTIONS, PATENTS AND COPYRIGHTS AGREEMENT REGARDING
CONFIDENTIAL INFORMATION COVENANT OF EXCLUSIVITY AND NOT TO COMPETE

In consideration of and as a condition of my prospective and continued employment and the compensation afforded to me under the terms and conditions thereof by Natural Alternatives International, Inc. (the "Company"), I agree to the following, and I agree the following shall be in addition to the terms and conditions of any Confidential Information and Invention Assignment Agreement executed by employees of the Company generally, and which I may execute in addition hereto:

1. INVENTIONS

a. Disclosure. I will disclose promptly in writing to the appropriate officer or other representative of the Company, any idea, invention, work of authorship, design, formula, pattern, compilation, program, device, method, technique, process, improvement, development or discovery, whether or not patentable or copyrightable or entitled to legal protection as a trade secret, trademark service mark, trade name or otherwise ("Invention"), that I may conceive, make, develop, reduce to practice or work on, in whole or in part, solely or jointly with others ("Invent"), during the term of my employment with the Company. The disclosure required by this Section 1 (a) applies to each and every Invention that I Invent (i) whether during my regular hours of employment or during my time away from work (ii) whether or not the Invention was made at the suggestion of the Company, and (iii) whether or not the Invention was reduced to or embodied in writing, electronic media or tangible form. The disclosure required by this Section 1 (a) also applies to any Invention which may relate at the time of conception or reduction to practice of the Invention to the Company's business or actual or demonstrably anticipated research or development of the Company, and to any Invention which results from any work performed by me for the Company. The disclosure required by this Section 1 (a) shall be received in confidence by the Company within the meaning of and to the extent required by California Labor Code Section 2871, the provisions of which

are set forth on Exhibit "A" hereto.

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

c. Additional Assistance and Documents. I will assist the Company in obtaining, maintaining and enforcing patents, copyrights, trade secrets, trademarks, service marks, trade names and

- 1 -

8

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

d. Prior Contracts and Inventions; Rights of Third Parties. I represent to the Company that, except as set forth on Exhibit "B" hereto, there are no other contracts to assign Inventions now in existence between me and any other person or entity (and if no Exhibit "B" is attached hereto or there is no such contract described thereon, then it means that by signing this Agreement, I represent to the Company that there is no such other contracts). In addition, I represent to the Company that I have no other employments or undertaking which do or would restrict or impair my performance of this Agreement. I further represent to the Company that Exhibit "C" hereto sets forth a brief description of all Inventions made or conceived by me prior to my employment with the Company which I desire to be excluded from this Agreement (and if no Exhibit "C" is attached hereto or there is no such description set forth thereon, then it means that by signing this Agreement I represent to the Company that there is no such Invention made or conceived by me prior to my employment with the Company). In connection with my employment with the Company, I promise not to use or disclose to the Company any patent, copyright, confidential trade secret or

other proprietary information of any previous employer or other person that I am not lawfully entitled so to use or disclose. If in the course of my employment with the Company I incorporate into an Invention or any product process or service of the Company any Invention made or conceived by me prior to my employment with the Company, I hereby grant to the Company a royalty-free, irrevocable, worldwide nonexclusive license to make, have made, use and sell that Invention without restriction as to the extent of my ownership or interest.

2. CONFIDENTIAL INFORMATION

a. Company Confidential Information. I will not use or disclose Confidential Information, whether before, during or after the term of my employment except to perform my duties as an employee of the Company based on my reasonable judgment as an Officer of the Company, or in accordance with instruction or authorization of the Company, without prior written consent of the Company or pursuant to process or requirements of law after I have disclosed such process or requirements to the Company so as to afford it the opportunity to seek appropriate relief therefrom.

- 2 -

9

"Confidential Information" means any Invention of any person in which the Company has an interest and in addition means any financial, client, customer, supplier, marketing, distribution and other information of a confidential or private nature connected with the business of the Company or any person with whom it deals, provided by the Company to me or to which I have access during or in the course of any employment.

b. Third Party Information. I acknowledge that during my employment with the Company I may have access to patent, copyright, confidential, trade secret or other proprietary information of third parties subject to restrictions on the use or disclosure thereof by the Company. During the term of my employment and thereafter I will not use or disclose any such information other than consistent with the restrictions and my duties as an employee of the Company.

3. PROPERTY OF THE COMPANY. All documents, instruments, notes, memoranda, reports, drawings, blueprints, manuals, materials, data and other papers and records of every kind which come into my possession during or in the course of my employment, relating to any Inventions or Confidential Information, are and shall remain the property of the Company and shall be surrendered by me to the Company upon termination of my employment with the Company, or upon the request of the Company, at any time during or after termination of my employment with the Company.

4. NO SOLICITATION OF COMPANY EMPLOYEES. While employed by the Company and for a period of one year after termination of my employment with the Company, I agree not to induce or attempt to influence directly or indirectly any employee of the Company to terminate employment with the Company or to work for me or any other person or entity.

5. COVENANT OF EXCLUSIVITY AND NOT TO COMPETE. During the term of my employment with the Company, I will not engage in any other professional employment or consulting or directly or indirectly participate in or assist any business which is a current or potential supplier, customer or competitor of the Company without prior written approval from the Chief Executive Officer of the Company.

6. GENERAL.

a. Assignments, Successors and Assignees. All representations, warranties, covenants and agreements of the parties shall bind their respective

heirs, executors, personal representatives, successors and assignees ("transferees") and shall inure to the benefit of their respective permitted transferees. The Company shall have the right to assign any or all of its rights and to delegate any or all of its obligations hereunder. The undersigned employee shall not have the right to assign any rights or delegate any obligations hereunder without the prior written consent of the Company or its transferee.

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

- 3 -

10

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

d. Amendment and Modification. This agreement may be amended or modified only by a writing executed by each party.

e. Government Law. The construction, interpretation and performance of this agreement and all transactions under it shall be governed by the internal laws of California.

f. Remedies. I acknowledge that breach by me of any of the provisions of this agreement will cause irreparable injury that cannot adequately be compensated by money damages. The Company shall be entitled to specific performance, temporary restraining orders, preliminary injunctions and permanent injunctive relief to enforce my obligations under this agreement. No remedy conferred by any of the specific provisions of this agreement is intended to be exclusive of any other remedy. I agree to arbitrate on a final and binding basis all disputes under this Agreement in accordance with and before the Judicial Arbitration and Mediation Service ("JAMS").

g. Attorneys' Fees. In the event of any litigation or other action in connection with this agreement, the prevailing party shall be entitled to recover its reasonable attorneys' fees and disbursements from the other party as costs of suit and not as damages.

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

IN WITNESS WHEREOF, I have executed this agreement as of the date set forth next to my signature below.

/s/ John A. Wise

Signature of Employee
John A. Wise

Printed Name of Employee

ACCEPTED:

NATURAL ALTERNATIVES INTERNATIONAL, INC.
a Delaware corporation

By: /s/ Mark A. LeDoux

Mark A. LeDoux, Chief Executive Officer

- 4 -

11

EXHIBIT "A"

CALIFORNIA LABOR CODE

SECTION 2870. INVENTION ON OWN TIME-EXEMPTION FROM AGREEMENT.

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

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

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

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

SECTION 2871. RESTRICTIONS ON EMPLOYER FOR CONDITION OF EMPLOYMENT.

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

- 5 -

12

EXHIBIT "B"

Except as set forth below, Employee represents to the Company that there are no other contracts to assign Inventions now in existence between Employee and any other person or entity (see Section 1(d) of the Agreement):

EXHIBIT "C"

Set forth below is a brief description of all Inventions made or conceived by Employee prior to Employee's employment with the Company which Employee desires to be excluded from this agreement (see Section 1(d) of the Agreement):

EXECUTIVE EMPLOYMENT AGREEMENT

Peter C. Wulff ("Employee") hereby accepts the offer of Natural Alternatives International, Inc. ("NAI") for employment as Chief Financial Officer and Treasurer beginning October 25, 1999. Collectively, NAI and Employee will be referred to herein as the "Parties."

1. The Parties anticipate that Employee will be employed from the date hereof through September 30, 2000 (the "Term"). During the Term, Employee's employment will be at-will and may be terminated by either Employee or NAI at any time for any reason or no reason, with or without cause upon written notice to the other. The at-will status of the employment relationship may not be modified except in writing authorized in advance by the Board of Directors of NAI and signed by the Chief Executive Officer of NAI and Employee.

2. Employee and NAI further understand and agree that nothing in the NAI Employee Handbook is intended to be, and nothing in it should be construed to be, a limitation of NAI's right to terminate, transfer, demote, suspend and administer discipline at any time for any reason. Employee and NAI understand and agree nothing in the Handbook is intended to, and nothing in the Handbook should be construed to, create an implied or express contract of employment contrary to this agreement.

3. While Employee is employed by NAI, Employee's rate of compensation will be at least \$12,500 per month, which will be reviewed at least annually to determine, based upon Employee's performance and the performance of NAI, the amount of increase, (if any), in the rate of compensation. The compensation set forth in this Section 3 will be Employee's only compensation except standard employee benefits available to other level one executives of NAI or any other written compensation arrangement approved by the Board of Directors of NAI. NAI is currently evaluating a system of bonus compensation for certain of its employees. Employee will be entitled to participate in any such bonus compensation in a manner and at a level consistent with other level one executives of NAI. Currently all the level one executives of NAI include all of the Corporate Officers of NAI, except for the Chief Executive Officer.

4. If Employee continues working for NAI past the end of the Term, and if NAI still desires Employee's services, then the following terms and conditions will apply:

(a) Employee shall be an at-will employee and either Employee or NAI will be entitled to terminate the employment relationship for any reason or for no reason, with or without cause and with or without notice.

(b) Employee will be compensated at the rate set forth in section 3 herein above unless another rate is mutually agreed upon; and

(c) As to benefits and other terms of employment, Employee shall be subject to the same policies and procedures as other employees of NAI in similar positions.

- 1 -

5. During the Term, and any extension thereof, Employee shall have such responsibilities, duties and authority as NAI through its Chief Executive

Officer may from time to time assign to Employee, and that are normal and customary duties of a Chief Financial Officer and Treasurer of a publicly held corporation. Employee's initial title shall be Chief Financial Officer and Treasurer.

6. In the event this Agreement is terminated by NAI without cause, whether during or at the end of the Term (and any renewals thereof), Employee shall be entitled to severance pay, including standard employee benefits available to other level one executives of NAI, in an amount equivalent to his then current compensation rate for the period set forth below opposite the number of complete calendar months which have elapsed from the beginning date set forth in the first paragraph hereof at the time of termination. One half of such amount shall be paid upon termination and the balance shall be paid on a bi-weekly basis during said severance period:

MONTHS OF EMPLOYMENT -----	SEVERANCE PERIOD -----
1 through 6 months	2 months
7 through 12 months	6 months
13 through 24 months	9 months
more than 24 months	12 months

NAI may terminate this Agreement with cause, which shall be limited to the occurrence of one or more of the following events: (i) the Employee's commission of any fraud against NAI; (ii) Employee's intentional appropriation for his personal use or benefit the funds of the Company not authorized by the Chief Executive Officer of the Board of Directors, (iii) Employee's conviction of any crime involving moral turpitude, (iv) Employee's conviction of a violation of any state or federal law which could result in a material adverse impact upon the business of NAI; or (v) Employee's material violation of this Agreement, provided that Employee shall be given written notice by NAI of any alleged material violation of the Agreement and an opportunity within 60 days, to cure the alleged breach, which Employee must diligently pursue to completion. No severance pay shall be due to Employee if Employee is terminated for cause.

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

Any of the following shall constitute a "Change in Control" for the purposes of this Section 7:

A. A "person" (meaning an individual, a partnership, or other group or association as defined in sections 13(d) and 14(d) of the Securities Exchange Act of 1934) acquires fifty percent (50%) or more of the combined voting power of the outstanding securities of NAI having a right to vote in elections of directors; or

- 2 -

3

B. The members of the Board of Directors of the Company who were members of the Board of Directors on the commencement date hereof, shall for any reason cease to constitute a majority of the Board of Directors of the Company; or

C. All, or substantially all of the business of NAI is disposed of by NAI to a party or parties other than a subsidiary or other affiliate of NAI, in which NAI owns less than a majority of the equity, pursuant to a partial

or complete liquidation of NAI, sale of assets (including stock of a subsidiary of NAI) or otherwise.

In the event of any such Change in Control, this Agreement shall continue in effect unless the Employee at his sole option, and at any time elects voluntarily to terminate this Agreement. In such case, NAI shall pay Employee as severance pay or liquidated damages, or both, a lump sum payment ("Change in Control Severance Payment") equal to one hundred fifty percent (150%) of the Employee's annual salary and bonus specified in Section 3 above or such greater amount as the Board of Directors determines from time to time pursuant to terms which may not be revoked or reduced thereafter.

In the event this Agreement is terminated following a Change in Control by NAI, and/or the surviving or resulting corporation, without cause, Employee shall be entitled to a Change in Control Severance Payment equal to one hundred fifty percent (150%) of the Employee's annual salary specified in Section 3 above or such greater amount as the Board of Directors determines from time to time pursuant to terms which may not be revoked or reduced thereafter.

Any Severance Payment shall be made not later than the fifteenth (15th) day following the effective date of the voluntary or involuntary termination of this Agreement in connection with a Change in Control; provided, however, that if the amount of such payments cannot be finally determined on or before such date, NAI shall pay to Employee on such date a good faith estimate of the minimum amount of such payments, and shall pay the remainder of such payments (together with interest at the rate provided in Internal Revenue Code Section 1274(b)(2)(B) of the Code), as soon as the amount thereof can be determined, but in no event later than the thirtieth (30th) day after the applicable termination date. In the event the amount of the estimated payments exceeds the amount subsequently determined to have been due, such excess shall constitute a loan by NAI payable on the fifteenth (15th) day after receipt by Employee of a written demand for payment from NAI (together with interest calculated as above). The total of any payment pursuant to this Section 7 shall be limited to the extent necessary, in the opinion of legal counsel acceptable to Employee and NAI, to avoid the payment of an "excess parachute" payment within the meaning of Internal Revenue Code Section 280 G or any similar successor provision.

In the event of termination of this Agreement either by the Employee under paragraph 7(B) or by NAI under paragraph 7(C), NAI shall cause each stock option heretofore granted by NAI to the Employee to become fully exercisable and to remain exercisable for the term of the option.

- 3 -

4

8. Employee and NAI hereby agree to the Mutual Agreement to Arbitrate attached hereto and made a part hereof as Attachment #1.

9. Employee and NAI hereby agree to the Assignment of Inventions, Patents and Copyrights Agreement Regarding Confidential Information Covenant of Exclusivity and Not to Compete attached hereto and made a part hereof as Attachment #2.

10. This Agreement contains the entire agreement between the parties. It supersedes any and all other agreements, either oral or in writing, between the parties hereto with respect to Employee's employment by NAI. Each party to this Agreement acknowledges that no representations, inducements, promises or agreements, oral or otherwise, have been made by any party, or anyone acting on behalf of any party, which are not embodied herein and acknowledges that no other agreement, statement of promise not contained in this Agreement shall be valid or binding. This Agreement may not be modified or amended by oral agreement or course of conduct, but only by an agreement in writing signed by the Chief Executive Officer of NAI and Employee.

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

12. Should any part or provision of this Executive Employment Agreement be held unenforceable or in conflict with the law of any jurisdiction, the validity of the remaining parts shall not be affected by such holding.

"EMPLOYEE"

/s/ Peter C. Wulff

Peter C. Wulff

NATURAL ALTERNATIVES INTERNATIONAL, INC.
a Delaware corporation

By: /s/ Mark A. LeDoux

Mark A. LeDoux, Chief Executive Officer

- 4 -

5

ATTACHMENT #1

MUTUAL AGREEMENT TO ARBITRATE CLAIMS

This Mutual Agreement to Arbitrate Claims is entered into between Peter C. Wulff ("Employee") and Natural Alternatives International, Inc. ("NAI").

1. Binding Arbitration of Disagreement and Claims

We each voluntarily promise and agree to arbitrate any claims covered by this Agreement. We further agree that such binding arbitration pursuant tot his Agreement shall be the sole and exclusive remedy for resolving any such claims or disputes.

2. Claims Covered by this Agreement

A. Claims and disputes covered by this Agreement include all claims against NAI (as defined below) and all claims that NAI may have against the Employee, including, without limitation, those arising under:

(1) Any federal, state or local laws, regulations or statutes prohibiting employment discrimination (such as, without limitation: race, sex, national origin, age, disability, religion, sexual orientation) and harassment.

(2) Any alleged or actual agreement or covenant (oral, written or implied) between Employee and NAI.

(3) Any company policy or compensation or benefit plan, unless the decision in question was made by an entity other than NAI.

(4) Any public policy.

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

B. The only disputes between Employee and NAI which are not included within this Mutual Agreement to Arbitrate Claims are:

(1) Any claim by Employee for workers' compensation or unemployment compensation benefits.

(2) Any claim by Employee for benefits under a company plan which provides for its own arbitration procedure.

3. Arbitration Procedure

A. The arbitration will be conducted in accordance with the rules of the current Judicial Arbitration and Mediation Services ("JAMS"), except that the arbitrator shall be mutually acceptable to both parties. The arbitration will be held in the state and county of the Employee's primary

- 1 -

6

employment at the time of the act giving rise to the dispute. The fees and expenses of the Arbitrator, and the arbitration, will be borne by the Company. Each party will pay for the fees and expenses of its own attorneys, experts, witnesses, transcripts and preparation and presentation of proofs and post-hearing briefs, unless the party prevails on a claim for which attorneys' fees and costs are recoverable by statute or contract, in which case the prevailing party shall be awarded attorneys fees and costs in accordance with that statute or contract.

B. Before such arbitration, each party shall have the right to conduct discovery on the same basis and to the same extent as a civil action brought in the Federal District Court for the Southern District of California.

C. Any action to enforce or vacate the arbitrator's award shall be governed by the Federal Arbitration Act if applicable, and otherwise by applicable state law.

4. Miscellaneous Provisions

A. The term "company" means NAI, and all related entities, all officers, employees, directors, agents, shareholders, partners, benefit plan sponsors, fiduciaries, administrators or affiliates of any of the above, and all successors and assignees of any of the above.

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

C. The parties of this arbitration agreement acknowledge and agree that they are waiving their right to a jury trial on the issues covered by this Agreement.

D. This is the complete Agreement of the parties on the subject of arbitration of disputes and claims. This Agreement supersedes any prior or contemporaneous oral, written or implied understanding on the subject, shall survive the termination of Employee's employment and can only be revoked or modified by a written agreement signed by the parties which specifically states an intent to revoke or modify this agreement. If any provision of this Agreement is adjusted to be void or otherwise unenforceable in whole or in part, such adjudication shall not affect the validity of the remainder of the Agreement.

E. If any provision of this Agreement is held to be unenforceable by a final court decision, the remainder of the Agreement shall continue in full force and effect.

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

"EMPLOYEE"

/s/ Peter C. Wulff

Peter C. Wulff

NATURAL ALTERNATIVES INTERNATIONAL, INC.
a Delaware corporation

By: /s/ Mark A. LeDoux

Mark A. LeDoux, Chief Executive Officer

- 2 -

7

ATTACHMENT #2

ASSIGNMENT OF INVENTIONS, PATENTS AND COPYRIGHTS AGREEMENT REGARDING
CONFIDENTIAL INFORMATION COVENANT OF EXCLUSIVITY AND NOT TO COMPETE

In consideration of and as a condition of my prospective and continued employment and the compensation afforded to me under the terms and conditions thereof by Natural Alternatives International, Inc. (the "Company"), I agree to the following, and I agree the following shall be in addition to the terms and conditions of any Confidential Information and Invention Assignment Agreement executed by employees of the Company generally, and which I may execute in addition hereto:

1 . INVENTIONS

a. Disclosure. I will disclose promptly in writing to the appropriate officer or other representative of the Company, any idea, invention, work of authorship, design, formula, pattern, compilation, program, device, method, technique, process, improvement, development or discovery, whether or not patentable or copyrightable or entitled to legal protection as a trade secret, trademark service mark, trade name or otherwise ("Invention"), that I may conceive, make, develop, reduce to practice or work on, in whole or in part, solely or jointly with others ("Invent"), during the term of my employment with the Company. The disclosure required by this Section 1 (a) applies to each and every Invention that I Invent (i) whether during my regular hours of employment or during my time away from work (ii) whether or not the Invention was made at the suggestion of the Company, and (iii) whether or not the Invention was reduced to or embodied in writing, electronic media or tangible form. The disclosure required by this Section 1 (a) also applies to any Invention which may relate at the time of conception or reduction to practice of the Invention to the Company's business or actual or demonstrably anticipated research or development of the Company, and to any Invention which results from any work performed by me for the Company. The disclosure required by this Section 1 (a) shall be received in confidence by the Company within the meaning of and to the extent required by California Labor Code Section 2871, the provisions of which are set forth on Exhibit "A" hereto.

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

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

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

2. CONFIDENTIAL INFORMATION

a. Company Confidential Information. I will not use or disclose Confidential Information, whether before, during or after the term of my employment except to perform my duties as an employee of the Company based on my reasonable judgment as an Officer of the Company, or in

accordance with instruction or authorization of the Company, without prior

written consent of the Company or pursuant to process or requirements of law after I have disclosed such process or requirements to the Company so as to afford it the opportunity to seek appropriate relief therefrom. "Confidential Information" means any Invention of any person in which the Company has an interest and in addition means any financial, client, customer, supplier, marketing, distribution and other information of a confidential or private nature connected with the business of the Company or any person with whom it deals, provided by the Company to me or to which I have access during or in the course of any employment.

b. Third Party Information. I acknowledge that during my employment with the Company I may have access to patent, copyright, confidential, trade secret or other proprietary information of third parties subject to restrictions on the use or disclosure thereof by the Company. During the term of my employment and thereafter I will not use or disclose any such information other than consistent with the restrictions and my duties as an employee of the Company.

3. PROPERTY OF THE COMPANY. All documents, instruments, notes, memoranda, reports, drawings, blueprints, manuals, materials, data and other papers and records of every kind which come into my possession during or in the course of my employment, relating to any Inventions or Confidential Information, are and shall remain the property of the Company and shall be surrendered by me to the Company upon termination of my employment with the Company, or upon the request of the Company, at any time during or after termination of my employment with the Company.

4. NO SOLICITATION OF COMPANY EMPLOYEES. While employed by the Company and for a period of one year after termination of my employment with the Company, I agree not to induce or attempt to influence directly or indirectly any employee of the Company to terminate employment with the Company or to work for me or any other person or entity.

5. COVENANT OF EXCLUSIVITY AND NOT TO COMPETE. During the term of my employment with the Company, I will not engage in any other professional employment or consulting or directly or indirectly participate in or assist any business which is a current or potential supplier, customer or competitor of the Company without prior written approval from the Chief Executive Officer of the Company.

6. GENERAL.

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

b. Number and Gender Headings. Each number and gender shall be deemed to include each other number and gender as the context may require. The headings and captions contained

in this agreement shall not constitute a part thereof and shall not be used in its construction or interpretation.

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

shall remain in full force and effect.

d. Amendment and Modification. This agreement may be amended or modified only by a writing executed by each party.

e. Government Law. The construction, interpretation and performance of this agreement and all transactions under it shall be governed by the internal laws of California.

f. Remedies. I acknowledge that breach by me of any of the provisions of this agreement will cause irreparable injury that cannot adequately be compensated by money damages. The Company shall be entitled to specific performance, temporary restraining orders, preliminary injunctions and permanent injunctive relief to enforce my obligations under this agreement. No remedy conferred by any of the specific provisions of this agreement is intended to be exclusive of any other remedy. I agree to arbitrate on a final and binding basis all disputes under this Agreement in accordance with and before the Judicial Arbitration and Mediation Service ("JAMS").

g. Attorneys' Fees. In the event of any litigation or other action in connection with this agreement, the prevailing party shall be entitled to recover its reasonable attorneys' fees and disbursements from the other party as costs of suit and not as damages.

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

IN WITNESS WHEREOF, I have executed this agreement as of the date set forth next to my signature below.

/s/ Peter C. Wulff

Signature of Employee
Peter C. Wulff

Printed Name of Employee

ACCEPTED:
NATURAL ALTERNATIVES INTERNATIONAL, INC.
a Delaware corporation

By: /s/ Mark A. LeDoux

Mark A. LeDoux, Chief Executive Officer

EXHIBIT "A"

CALIFORNIA LABOR CODE

SECTION 2870. INVENTION ON OWN TIME-EXEMPTION FROM AGREEMENT.

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

inventions that either:

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

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

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

SECTION 2871. RESTRICTIONS ON EMPLOYER FOR CONDITION OF EMPLOYMENT.

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

- 5 -

12

EXHIBIT "B"

Except as set forth below, Employee represents to the Company that there are no other contracts to assign Inventions now in existence between Employee and any other person or entity (see Section 1(d) of the Agreement):

- 6 -

13

EXHIBIT "C"

Set forth below is a brief description of all Inventions made or conceived by Employee prior to Employee's employment with the Company which Employee desires to be excluded from this agreement (see Section 1(d) of the Agreement):

- 7 -

Independent Accountants' Consent

The Board of Directors
Natural Alternatives International, Inc.:

We consent to incorporation by reference in the registration statements (Nos. 33-00947 and 333-32828) on Form S-8 of Natural Alternatives International, Inc. of our report dated October 9, 2000, relating to the consolidated balance sheets of Natural Alternatives International, Inc. and subsidiaries as of June 30, 2000 and 1999, and the related consolidated statements of operations and comprehensive income (loss), stockholders' equity, and cash flows for each of the years in the three-year period ended June 30, 2000, and the related financial statement schedule, which report appears in the June 30, 2000, annual report on Form 10-K of Natural Alternatives International, Inc.

KPMG LLP

San Diego, California
October 11, 2000

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