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, 2004

000-15701
(Commission file number)

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

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

Securities registered pursuant to Section 12(b) of the Act:
None

Securities registered pursuant to Section 12(g) of the Act:
Common Stock, $0.01 par value per share

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

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

Indicate by check mark whether NAI is an accelerated filer (as defined in Rule 12b-2 of the Act). ☐ Yes ☒ No

The aggregate market value of NAI's common stock held by non-affiliates of NAI as of the last business day of NAI's most recently completed second fiscal quarter (December 31, 2003) was approximately $28,201,843 (based on the closing sale price of $6.40 reported by Nasdaq on December 31, 2003). For this purpose, all of NAI's officers and directors and their affiliates were assumed to be affiliates of NAI.

As of September 13, 2004, 5,928,766 shares of NAI's common stock were outstanding, net of 61,000 treasury shares.

DOCUMENTS INCORPORATED BY REFERENCE

Part III (Items 10, 11, 12, 13 and 14) of this Form 10-K incorporates by reference portions of NAI's definitive proxy statement for its Annual Meeting of Stockholders to be held December 3, 2004, to be filed on or before October 28, 2004.

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SPECIAL NOTE ABOUT FORWARD-LOOKING STATEMENTS

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

- future financial and operating results, including projections of net sales, revenues, income, net income per share, profit margins, expenditures, liquidity and other financial items;
- inventories and the adequacy and intended use of our facilities;
- sources and availability of raw materials;
- personnel;
- operations outside the United States;
- overall industry and market performance;
- competition;
- current and future economic and political conditions;
- development of new products, brands and marketing strategies;
- distribution channels and product sales and performance;
- growth, expansion and acquisition strategies;
- the outcome of regulatory and litigation matters;
- our ability to develop relationships with new customers and maintain or improve existing customer relationships;
- the impact of accounting pronouncements;
- management's goals and plans for future operations; and
- other assumptions described in this report underlying or relating to any forward-looking statements.

The forward-looking statements in this report speak only as of the date of this report. Forward-looking statements are subject to certain events, risks, and uncertainties that may be outside of our control. When considering forward-looking statements, you should carefully review the risks, uncertainties and other cautionary statements in this report as they identify certain important factors that could cause actual results to differ materially from those expressed in or implied by the forward-looking statements. These factors include, among others, the risks described under Item 7 and elsewhere in this report, as well as in other reports and documents we file with the SEC.

PART I

ITEM 1. BUSINESS

Overview

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

As our primary business activity, we provide private label contract manufacturing services to companies that market and distribute vitamins, minerals, herbs, and other nutritional supplements, as well as other health care products, to consumers both within and outside the United States. Additionally, under our direct-to-consumer marketing program, we develop, manufacture and market our own products. Under the direct-to-consumer marketing program, we work with nationally recognized physicians and other personalities to develop brand name products that reflect their individual approaches to restoring, maintaining or improving health.

Our U.S.-based manufacturing facilities are located in San Marcos and Vista, California. These facilities have been certified by the Therapeutic Goods Administration (TGA) of Australia since October 1999 (March 2000 for our packaging facility). TGA evaluates new therapeutic products, prepares standards, develops testing methods and conducts testing programs to ensure that products are high in quality, safe and effective. TGA certification enables us to manufacture products for export into countries that have signed the Pharmaceutical Inspection Convention, which include most European countries as well as several Pacific Rim countries. TGA certifications are generally reviewed every three years. Our facilities are scheduled for review in fiscal 2005.

Our California facilities also have been awarded Good Manufacturing Practices (GMP) registration by NSF International (NSF) through the NSF Dietary Supplements Certification Program since October 2002. GMP requirements are regulatory requirements that provide guidelines for necessary processes, procedures and documentation to assure the product produced has the identity, strength, composition, quality and purity it is represented to possess. GMP registrations are reviewed annually. Our last review was in May 2004.

Natural Alternatives International Europe S.A. (NAIE), our wholly owned subsidiary existing under the laws of Switzerland, also operates a manufacturing, warehousing, packaging and distribution facility in Manno, Switzerland. In January 2004, NAIE obtained a pharmaceutical license to process pharmaceuticals for packaging, importation, export and sale within Switzerland and other countries from the Swissmedic Authority of Bern, Switzerland. We believe the license can help improve our ability to develop relationships with new customers. The license is valid until January 2009.

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

Originally founded in 1980, Natural Alternatives International, Inc. reorganized as a Delaware corporation in 1989. Unless the context requires otherwise, all references in this report to the “Company,” “NAI,” “we,” “our,” and “us” refer to Natural Alternatives International, Inc. and, as applicable, NAIE and our other wholly owned subsidiaries. Our principal executive offices are located at 1185 Linda Vista Drive, San Marcos, California, 92078.

Business Strategy

Our goals are to increase and diversify our net sales while improving our overall financial results. To achieve these goals, we intend to:

- capitalize on the strength of our existing customer relationships through new product introductions;
- develop new customer relationships both within and outside the United States;
- continue to develop new products, marketing strategies and brands within our direct-to-consumer marketing program, which we believe could improve our operating margins over the long term due to generally higher gross margins than those derived from products sold to private label contract manufacturing customers;
- improve brand awareness;
- further diversify by entering new markets outside the United States and/or expanding our presence in existing markets;
- strengthen our offering of customized services including product formulation, clinical studies, regulatory assistance and product registration;
- evaluate acquisition opportunities; and
- improve efficiencies and manage costs.

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

We believe the lack of relevant and reliable consumer education about nutrition and nutritional supplementation combined with the duplication of brands and products in the retail sales channel creates a significant opportunity for the direct sales marketing channel. The direct sales marketing channel has proved, and we believe will continue to prove, to be a highly effective method for marketing high quality nutritional supplements as associates personally educate consumers on the benefits of science based nutritional supplements. We believe this education process can lead to premium product pricing and avoid competing with brands of inferior quality and lower pricing in the retail distribution channel. Our two largest customers operate in the direct sales marketing channel. Thus, our growth has been fueled by the effectiveness of this marketing channel.

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

Products, Principal Markets and Methods of Distribution

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

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

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

Additionally, under our direct-to-consumer marketing program, we develop, manufacture and market our own products. Under the direct-to-consumer marketing program, we work with nationally recognized physicians and other personalities to develop brand name products that reflect their individual approaches to restoring, maintaining or improving health. Direct-to-consumer marketing program products are sold through a variety of distribution channels including television programs, print media and the internet.

We believe the direct-to-consumer marketing program can be an effective method for marketing our high quality nutritional supplements. In March 2000, we launched Dr. Cherry's Pathway to Healing™ product line. As of June 30, 2004, the product line had grown to include nineteen condition specific, custom formulated products. The products are primarily marketed through a weekly television program.

In March 2004, we introduced our Chopra Center Essentials™ product line. As of June 30, 2004, the product line included nine condition specific, custom formulated products. The product line was initially marketed through print media and the transformativehealth.com website. We plan to implement a direct mail marketing strategy in the second quarter of fiscal 2005.

For the last three fiscal years, net sales from our private label contract manufacturing and direct-to-consumer marketing program were as follows:

	Fiscal 2004	Fiscal 2003	Fiscal 2002
	(Dollars in thousands)		
Private Label Contract Manufacturing	$ 68,493	$45,768	$41,667
Direct-to-Consumer Marketing Program	10,041	10,194	8,370
Total Net Sales	$ 78,534	$55,962	$50,037

Research and Development

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

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

Our research and development expenses for the last three fiscal years ended June 30 were $2.8 million for 2004, $1.7 million for 2003 and $821,000 for 2002.

Sources and Availability of Raw Materials

We use raw materials in our operations including powders, excipients, empty gelatin capsules, and components for packaging and distributing our finished products. We typically buy raw materials in bulk from a limited number of qualified vendors located both within and outside the United States. During fiscal 2004, Carrington Laboratories Incorporated was our largest supplier, accounting for 33% of our total raw material purchases.

We test the raw materials we buy to ensure their quality, purity and potency before we use them in our products. During the fiscal year ended June 30, 2004, we did not experience any shortages or difficulties obtaining adequate supplies of raw materials and we do not anticipate any significant shortages or difficulties in the near term.

Major Customers

NSA International, Inc. has been our largest customer over the past several years. During the fiscal year ended June 30, 2004, NSA International, Inc. accounted for approximately 40% of our net sales. Our second largest customer was Mannatech, Incorporated, which accounted for approximately 30% of our net sales during fiscal 2004. Both NSA International, Inc. and Mannatech, Incorporated are private label contract manufacturing customers. No other customer accounted for 10% or more of our net sales during fiscal 2004. Our sales and marketing team is focused on obtaining new private label contract manufacturing customers to reduce the risks associated with deriving a significant portion of our net sales from a limited number of customers, while at the same time increasing our net sales.

Competition

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

We believe competition in our industry is based on, among other things, customized services offered, product quality and safety, innovation, price and customer service. We believe we compete favorably with other companies because of our ability to provide comprehensive turn key solutions for customers, our certified manufacturing operations and our commitment to quality and safety through our research and development activities. Our future position in the industry will likely depend on, but not be limited to, the following:

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

- our ability to react to changes within the industry and consumer demand, financially and otherwise.

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

Government Regulation

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

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

The FDA, in particular, regulates the formulation, manufacturing, packaging, storage, labeling, promotion, distribution and sale of vitamin and other nutritional supplements in the United States, while the FTC regulates marketing and advertising claims. The FDA issued a final rule called "Statements Made for Dietary Supplements Concerning the Effect of the Product on the Structure or Function of the Body," which includes regulations requiring companies, their suppliers and manufacturers to meet Good Manufacturing Practices in the preparation, packaging, storage and shipment of their products. The FDA also published a Notice of Advance Rule Making for Good Manufacturing Practices that would require manufacturing of dietary supplements to follow Good Manufacturing Practices. While the final regulations are subject to revision, we are committed to meeting or exceeding the standards set by the FDA.

The FDA has also issued regulations governing the labeling and marketing of dietary supplements and nutritional products. They include:

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

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

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

Our operations outside the United States are similarly regulated by various agencies and entities in the countries in which we operate and in which our products are sold. The regulations of these countries may conflict with those in

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

Intellectual Property

Trademarks. We have developed and use registered trademarks in our business, particularly relating to corporate and product names. We own 16 trademark registrations in the United States and have 30 trademark applications pending with the United States Patent and Trademark Office. Federal registration of a trademark enables the registered owner of the mark to bar the unauthorized use of the registered mark in connection with a similar product in the same channels of trade by any third party anywhere in the United States, regardless of whether the registered owner has ever used the trademark in the area where the unauthorized use occurs.

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

We also claim ownership and protection of certain product names, unregistered trademarks and service marks under common law. Common law trademark rights do not provide the same level of protection afforded by registration of a trademark. In addition, common law trademark rights are limited to the geographic area in which the trademark is actually used. We believe these trademarks, whether registered or claimed under common law, constitute valuable assets, adding to our recognition and the marketing of our products and that these proprietary rights have been and will continue to be important in enabling us to compete.

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

Patent Licenses. We have licensed exclusive worldwide rights to four certain United States patents, and each patent's corresponding foreign patent application, and are currently involved in research and development of products employing the licensed inventions. These patents relate to the ingredient formerly known as "Oxford Factor". We are currently selling this ingredient to a customer for use in a limited market under the name of CarnoSyn™.

Backlogs

Our backlog was approximately $15.8 million at September 2, 2004 and $10.1 million at September 2, 2003. Our sales are made primarily pursuant to standard purchase orders for the delivery of products. Quantities of our products to be delivered and delivery schedules are frequently revised to reflect changes in our customers' needs. Customer orders generally can be cancelled or rescheduled without significant penalty to the customer. For these reasons, our backlog as of any particular date is not representative of actual sales for any succeeding period, and therefore, we believe that backlog is not necessarily a good indicator of future revenue.

Working Capital Practices

We manufacture products following receipt of customer specific purchase orders and as a result our inventory primarily consists of raw materials and work in process. Our raw material purchases are made primarily pursuant to standard purchase orders for the delivery of raw materials based upon anticipated demand. Customer specific delivery requirements combined with raw material lead times impact the amount of inventory on hand at any given time. We typically purchase raw materials on 30-day payment terms. Discounts are taken periodically for early payment.

Sales are typically made based upon 30-day terms. A 2% discount is provided to customers that pay within 10 days of invoice date.

Employees

As of June 30, 2004, we employed 217 full-time employees in the United States, seven of whom held executive management positions. Of the remaining full-time employees, 41 were employed in research, laboratory and quality control, nine in sales and marketing, and 160 in manufacturing and administration. From time to time we use temporary personnel to help us meet short-term operating requirements. These positions typically are in manufacturing and manufacturing support. As of June 30, 2004, we had 26 temporary personnel.

In March 2004, we hired Robert A. Kay, Ph.D., R.D. as Vice President of Science and Technology. Dr. Kay has nearly 15 years of experience in the pharmaceutical and nutrition industries.

As of June 30, 2004, NAIE employed 24 full-time employees. Most of these positions are in the areas of manufacturing and manufacturing support.

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

Seasonality

We believe there is no material impact on our business or results of operations from seasonal factors.

Financial Information about Our Business Segment and Geographic Areas

Our business consists of one industry segment, the development, manufacturing, marketing and distribution of nutritional supplements and other health care products. Our products are sold both within the United States and in markets outside the United States, including Europe, Australia and Japan. Our primary market outside the United States is Europe.

For the last three fiscal years, net sales by geographic region were as follows:

	Fiscal 2004	Fiscal 2003	Fiscal 2002
		(Dollars in thousands)	
Net Sales			
United States	$ 56,350	$41,838	$35,320
Markets Outside the United States	22,184	14,124	14,717
Total Net Sales	$ 78,534	$55,962	$50,037

The allocation of net sales between the United States and markets outside the United States is based on the location of the customers. Products manufactured by NAIE accounted for 42% of net sales in markets outside the United States in fiscal 2004, 51% in fiscal 2003 and 56% in fiscal 2002. No products manufactured by NAIE were sold in the United States during the last three fiscal years.

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

As we continue to expand into markets outside the United States, we will become increasingly subject to political, economic and other risks in the countries in which the products are sold and in which we operate. For more information about these and other risks, please see Items 7 and 7A in this report.

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ITEM 2. PROPERTIES

This table summarizes our facilities as of June 30, 2004. We believe our facilities are adequate to meet our operating requirements for the foreseeable future.

Location	Nature of Use	Square Feet	How Held	Lease Expiration Date[2]
San Marcos, CA USA	Corporate headquarters and manufacturing[3]	49,000	Owned/leased[4]	Various[4]
Vista, CA USA	Manufacturing, warehousing, packaging and distribution[3]	162,000	Leased	March 2014
Manno, Switzerland[1]	Manufacturing, warehousing, packaging and distribution	26,000	Leased	December 2010

(1) This facility is used by NAIE, our Swiss subsidiary.
(2) We expect to renew our leases in the normal course of business.
(3) We use approximately 68,000 square feet for production; 35,000 square feet for warehousing; 5,000 square feet for research and product development; and 15,000 square feet for administrative functions. The remaining space is currently being built out or subleased.
(4) We own approximately 29,500 square feet and lease the remaining space with various expiration dates through 2007.

We are currently building out approximately 46,000 square feet at our Vista facility, which we plan to use for production beginning in the third quarter of fiscal 2005. The build out has an approved budget of $4.2 million, of which $590,000 was incurred in fiscal 2004. Under the lease terms, the landlord is required to fund $960,000 of the tenant improvements. We expect to disburse the remaining budgeted amount of $2.7 million in the first six months of fiscal 2005.

We sublease approximately 42,000 square feet at our Vista facility to an unaffiliated third party. This sublease provides for monthly rental income equal to our monthly expense for the space through October 31, 2004. Thereafter, we plan to use the space for warehousing in fiscal 2005 and expansion of our packaging operations in fiscal 2006.

ITEM 3. LEGAL PROCEEDINGS

From time to time, we become involved in various investigations, claims and legal proceedings that arise in the ordinary course of our business. These matters may relate to product liability, employment, intellectual property, tax, regulation, contract or other matters. The resolution of these matters as they arise will be subject to various uncertainties. While unfavorable outcomes are possible, we believe the resolution of these matters, individually or in the aggregate, will not result in a material adverse effect on our business, financial condition or results of operations.

As of September 13, 2004, neither NAI nor its subsidiaries were a party to any material pending legal proceedings nor was any of their property the subject of any material pending legal proceedings.

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

We did not submit any matters to our stockholders for a vote during the fourth quarter ended June 30, 2004.

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PART II

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

Market Information

Our common stock trades on the Nasdaq National Market under the symbol "NAII." Below are the high and low closing prices of our common stock as reported on the Nasdaq National Market for each quarter of the fiscal years ended June 30, 2004 and 2003:

	Fiscal 2004		Fiscal 2003	
	High	Low	High	Low
First Quarter	$ 5.47	$4.68	$3.90	$2.50
Second Quarter	$ 6.41	$4.70	$4.08	$2.51
Third Quarter	$ 9.60	$6.20	$4.85	$3.17
Fourth Quarter	$13.80	$7.27	$5.25	$3.47

In addition to the Nasdaq National Market, our shares are also listed for trading on the Berlin-Bremen Stock Exchange, the Frankfurt Stock Exchange, and the XETRA Stock Exchange, each of which is a foreign exchange located in Germany. We are not aware of any other exchanges on which our shares are traded.

Holders

As of September 2, 2004, there were approximately 386 stockholders of record of our common stock.

Dividends

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

Recent Sales of Unregistered Securities

During the fiscal year ended June 30, 2004, we did not sell any unregistered securities.

Repurchases

During fiscal 2004, we did not repurchase any shares of our common stock, nor were any repurchases made on our behalf.

ITEM 6. SELECTED FINANCIAL DATA

The following tables contain certain financial information about NAI, including its subsidiaries. When you review this information, you should keep in mind that it is historical. Our future financial condition and results of operations will vary based on a variety of factors. You should carefully review the following information together with the information on risks under Item 7 and elsewhere in this report, and our consolidated financial statements included in this report under Item 8.

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Annual Financial Data

	Year Ended June 30 (Amounts in thousands, except per share amounts)				
	2004	2003	2002	2001	2000
Net sales	$78,534	$55,962	$50,037	$42,158	$47,827
Cost of goods sold	59,964	42,781	39,068	33,970	44,152
Gross profit	18,570	13,181	10,969	8,188	3,675
Selling, general & administrative expenses	15,188	12,012	10,684	8,848	8,670
Loss on abandonment of leased facility	—	—	—	—	1,729
Loss on impairment of intangible assets acquired	—	—	—	1,544	—
Income (loss) from operations	3,382	1,169	285	(2,204)	(6,724)
Other income (expense):					
Interest income	24	57	16	92	139
Interest expense	(274)	(252)	(665)	(755)	(399)
Equity in loss of unconsolidated joint venture	—	—	—	(38)	(62)
Foreign exchange gain (loss)	57	12	(68)	15	74
Proceeds from vitamin antitrust litigation	—	225	3,410	298	116
Other, net	(165)	(59)	259	73	(45)
Total other income (expense)	(358)	(17)	2,952	(315)	(177)
Income (loss) before income taxes	3,024	1,152	3,237	(2,519)	(6,901)
Provision for (benefit from) income taxes	24	47	(642)	2,370	(2,429)
Net income (loss)	$ 3,000	$ 1,105	$ 3,879	$ (4,889)	$ (4,472)
Net income (loss) per common share:					
Basic	$ 0.51	$ 0.19	$ 0.67	$ (0.85)	$ (0.78)
Diluted	$ 0.48	$ 0.18	$ 0.67	$ (0.85)	$ (0.78)
Weighted average common shares:					
Basic	5,843	5,809	5,788	5,770	5,757
Diluted	6,304	6,021	5,798	5,770	5,757
Balance sheet data at end of period:					
Total assets	$42,468	$30,724	$27,510	$25,068	$34,109
Working capital	$17,468	$12,321	$ 8,725	$ 5,045	$ 7,639
Long-term debt and capital lease obligations, net of current portion	$ 3,841	$ 2,386	$ 1,576	$ 3,567	$ 3,345
Total stockholders' equity	$24,128	$20,777	$19,608	$15,604	$20,486

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Quarterly Financial Data

Quarterly Financial Information for Fiscal 2004 and Fiscal 2003
(Amounts in thousands, except per share amounts)

	Fiscal 2004				Fiscal 2003			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Net sales	$16,721	$17,195	$21,268	$23,350	$13,136	$13,010	$13,755	$16,061
Cost of goods sold	12,575	13,300	16,215	17,874	9,941	9,958	10,468	12,414
Gross profit	4,146	3,895	5,053	5,476	3,195	3,052	3,287	3,647
Selling, general & administrative expenses	3,516	3,346	4,047	4,279	2,792	2,797	3,076	3,347
Income from operations	630	549	1,006	1,197	403	255	211	300
Other income (expense):								
Interest income	9	9	3	3	7	21	25	4
Interest expense	(43)	(51)	(69)	(111)	(82)	(70)	(56)	(44)
Foreign exchange gain (loss)	15	130	(50)	(38)	(6)	(11)	13	16
Proceeds from vitamin antitrust litigation	—	—	—	—	225	—	—	—
Other, net	(22)	(25)	(22)	(96)	(2)	(39)	(15)	(3)
Total other income (expense)	(41)	63	(138)	(242)	142	(99)	(33)	(27)
Income before income taxes	589	612	868	955	545	156	178	273
Provision for (benefit from) income taxes	22	36	13	(47)	8	7	6	26
Net income	$ 567	$ 576	$ 855	$ 1,002	$ 537	$ 149	$ 172	$ 247
Net income per common share:								
Basic	$ 0.10	$ 0.10	$ 0.15	$ 0.17	$ 0.09	$ 0.03	$ 0.03	$ 0.04
Diluted	$ 0.09	$ 0.09	$ 0.13	$ 0.15	$ 0.09	$ 0.02	$ 0.03	$ 0.04
Weighted average common shares:								
Basic	5,821	5,822	5,849	5,881	5,804	5,804	5,814	5,815
Diluted	6,107	6,162	6,335	6,606	5,929	6,022	6,061	6,072

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

The following discussion and analysis is intended to help you understand our financial condition and results of operations for the last three fiscal years ended June 30, 2004. You should read the following discussion and analysis together with our audited consolidated financial statements and the notes to the consolidated financial statements included under Item 8 in this report. Our future financial condition and results of operations will vary from our historical financial condition and results of operations described below. You should carefully review the risks described under this Item 7 and elsewhere in this report, which identify certain important factors that could cause our future financial condition and results of operations to vary.

Executive Overview

The following overview does not address all of the matters covered in the other sections of this Item 7 or other items in this report or contain all of the information that may be important to our stockholders or the investing public. This overview should be read in conjunction with the other sections of this Item 7 and this report.

Major business developments of fiscal 2004 included the following:

- Completed our third year of net sales and operating income growth.
- Achieved record-breaking net sales in fiscal 2004. Our two largest customers contributed $14.1 million of our fiscal 2004 net sales growth.
- Diversified our private label contract manufacturing customer base with the addition of three new customers that contributed $4.9 million of our fiscal 2004 net sales growth.
- Maintained net sales for Dr. Cherry's Pathway to Healing™ product line in spite of the reduced effectiveness of the television programming to attract new customers in our primary television market and reduced media spending in new television markets. We are investing in upgrading the content and style of the television programs and anticipate introducing the upgraded television programs in the third quarter of fiscal 2005.
- Introduced our Chopra Center Essentials™ product line on a limited basis through print media and the transformativehealth.com website. We plan to implement a direct mail marketing strategy in the second quarter of fiscal 2005.
- Terminated our Jennifer O'Neill Signature Line™ of nutritional supplements and skin care products as the marketing program did not produce favorable results.
- Maintained gross profit margin by offsetting increases in material costs with improvements in fixed cost leverage and labor efficiency.
- Strengthened product development, regulatory affairs and quality assurance capabilities with the hiring of Dr. Robert Kay as Vice President of Science and Technology. Dr. Kay brings to NAI nearly fifteen years of experience in the nutrition industry.
- Obtained a new $12.0 million credit facility.
- Funded $3.3 million of capital expenditures from cash flow from operations.
- Initiated the build out of our newly leased 46,000 square feet of space in Vista, California.
- NAIE obtained a pharmaceutical license to process pharmaceuticals for packaging, importation, export and sale within Switzerland and other countries.

Our focus for fiscal 2005 includes the following:

- Grow and diversify net sales and customer base;
- Improve operational efficiency, and manage costs and business risks to improve profitability;
- Invest heavily in our facility expansion and manufacturing equipment to support our growth and profit improvement initiatives;
- Strengthen our customized services including product formulation, regulatory assistance, product registration, product testing and evaluation, label design and clinical study design and management; and
- Identify and evaluate acquisition opportunities that could increase product lines, enhance manufacturing capabilities or reduce risks associated with a variety of factors.

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Critical Accounting Policies and Estimates

Our consolidated financial statements included under Item 8 in this report have been prepared in accordance with United States generally accepted accounting principles (GAAP). Our significant accounting policies are described in the notes to our consolidated financial statements. The preparation of financial statements in accordance with GAAP requires that we make estimates and assumptions that affect the amounts reported in our financial statements and their accompanying notes. We have identified certain policies that we believe are important to the portrayal of our financial condition and results of operations. These policies require the application of significant judgment by our management. We base our estimates on our historical experience, industry standards, and various other assumptions that we believe are reasonable under the circumstances. Actual results could differ from these estimates under different assumptions or conditions. An adverse effect on our financial condition, changes in financial condition, and results of operations could occur if circumstances change that alter the various assumptions or conditions used in such estimates or assumptions. Our critical accounting policies include those listed below.

Revenue Recognition

We recognize revenue in accordance with SEC Staff Accounting Bulletin No. 101, “Revenue Recognition in Financial Statements” (SAB 101). SAB 101 requires that four basic criteria be met before revenue can be recognized: 1) there is evidence that an arrangement exists; 2) delivery has occurred; 3) the fee is fixed or determinable; and 4) collectibility is reasonably assured. We recognize revenue upon determination that all criteria for revenue recognition have been met. The criteria are usually met at the time title passes to the customer, which usually occurs upon shipment. Revenue from shipments where title passes upon delivery is deferred until the shipment has been delivered.

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

Additionally, we record reductions to gross revenue for estimated returns of private label contract manufacturing products and direct-to-consumer products. The estimated returns are based upon the trailing six months of private label contract manufacturing gross sales and our historical experience for both private label contract manufacturing and direct-to-consumer product returns. However, the estimate for product returns does not reflect the impact of a large product recall resulting from changes in regulatory requirements, product nonconformance or other factors as such events are not predictable nor is the related economic impact estimable.

Inventory Reserve

We operate primarily as a private label contract manufacturer that builds products following receipt of customer specific purchase orders. As a result, we have limited realization risk in finished goods and work-in-process inventories. Our inventory reserve primarily relates to, but is not necessarily limited to, realization risk for raw materials. Our estimate to reduce inventory to net realizable value is based upon expiration of the raw materials’ efficacy, foreseeable demand of raw materials, market conditions and specific factors that arise from time to time related to regulatory and other factors. The reserve level reflects our historical experience. If demand and/or market conditions are less favorable than we estimate, additional inventory reserves may be required.

Accounting for Income Taxes

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

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

At June 30, 2003, based on the limited historical taxable income and the uncertainty about sufficient near term taxable income at that time, we believed that this evidence created sufficient uncertainty about the realizability of our net deferred tax assets. Therefore, a full valuation allowance was recorded at June 30, 2003.

At June 30, 2004, based on historical taxable income in the previous three years and the projection of taxable income for fiscal 2005, we determined a valuation allowance on our net deferred tax assets was not required. The reversal of the valuation allowance was reflected as an income tax benefit in our consolidated statements of income for the year ended June 30, 2004.

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

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

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

Allowance for Doubtful Accounts

We maintain an allowance for doubtful accounts to reflect our estimate of current and past due receivable balances that may not be collected. The allowance for doubtful accounts is based upon the current month private label contract manufacturing gross sales and a review of specific accounts. We believe that the allowance for doubtful accounts is adequate to cover anticipated losses in the receivable balance under current conditions; however, significant deterioration in the financial condition of our customers, resulting in an impairment of their ability to make payments, could materially change these expectations and additional allowance may be required.

Defined benefit pension plan

The plan obligation and related assets of the defined benefit retirement plan are presented in the notes to the consolidated financial statements. Plan assets, which consist primarily of marketable equity and debt instruments, are valued based upon third party market quotations. Independent actuaries through the use of a number of assumptions determine plan obligation and annual pension expense. Key assumptions in measuring the plan obligation include the discount rate and estimated future return on plan assets. In determining the discount rate, we use an average long-term bond yield. Asset returns are based upon the historical returns of multiple asset

classes to develop a risk free rate of return and risk premiums for each asset class. The overall rate for each asset class was developed by combining a long-term inflation component, the risk free rate of return and the associated risk premium. A weighted average rate is developed based on the overall rates and the plan's asset allocation.

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

Results of Operations

(Dollars in thousands, except per share amounts)

	Fiscal 2004	Fiscal 2003	Percent Change (2004-2003)	Fiscal 2002	Percent Change (2003-2002)
Private label contract manufacturing	$68,493	$45,768	50%	$41,667	10%
Direct-to-consumer marketing program	10,041	10,194	(2)%	8,370	22%
Total net sales	78,534	55,962	40%	50,037	12%
Cost of goods sold	59,964	42,781	40%	39,068	10%
Gross profit	18,570	13,181	41%	10,969	20%
Gross profit %	24%	24%		22%	
Selling, general & administrative expenses	15,188	12,012	26%	10,684	12%
% of net sales	19%	21%		21%	
Other income (expense)	(358)	(17)	2006%	2,952	(101)%
Net income	$ 3,000	$ 1,105	171%	$ 3,879	(72)%
% of net sales	4%	2%		8%	
Diluted net income per share	$ 0.48	$ 0.18	167%	$ 0.67	(73)%

Fiscal 2004 Compared to Fiscal 2003

Consolidated private label contract manufacturing net sales for the fiscal year ended June 30, 2004, increased $22.7 million, or 50%, over the prior year. Changes in currency exchange rates, namely the strengthening of the Euro, contributed $1.1 million dollars, or 2%, of this growth. Excluding the impact of changes in currency exchange rates, the remaining increase was due primarily to additional net sales of $14.1 million, or 31%, to our two largest customers. Net sales to our largest customer increased $6.0 million due to higher volumes of established products in existing markets. Net sales to our second largest customer increased $3.7 million from new products in existing markets and $4.4 million from established products in existing markets. Additionally, net sales increased $4.9 million from net sales to new customers and $3.4 million due to incremental volumes sold to customers obtained in the fourth quarter of fiscal 2003.

The Dr. Cherry Pathway to Healing™ product line comprised 100% of our direct-to-consumer net sales for the fiscal years ended June 30, 2004 and 2003. Direct-to-consumer net sales remained consistent due to a reduction in our media spending investment in new television markets for the Dr. Cherry Pathway to Healing™ product line, as the investment did not produce what we considered to be adequate results. Additionally, we experienced a reduction in new customer acquisitions from our primary television market, while the average order value remained consistent. We have identified opportunities to improve the content and style of the television programs and anticipate introducing the upgraded television programs in the third quarter of fiscal 2005.

Gross profit margin remained consistent despite a 1.4 percentage point increase in material cost as a percentage of net sales, due to a 1.5 percentage point decrease in labor and overhead as a percentage of net sales.

Our material cost as a percentage of net sales was 54.4% ($42.7 million) for fiscal 2004 and 53.0% ($29.6 million) in the prior year. The increase in material cost as a percentage of net sales was primarily due to an increase in inventory reserves of $854,000 for specific inventory realization risks and $111,000 for products as a result of terminating the Jennifer O'Neill Signature Line™ brand. The inventory allowance as a percentage of gross inventory at June 30, 2004 remained consistent with June 30, 2003. Additionally, 0.5 percentage points of the

increase related to a shift in our sales mix to higher volume, lower margin products in fiscal 2004. Our labor and overhead expenses as a percentage of net sales were 22.0% ($17.2 million) for fiscal 2004 compared to 23.5% ($13.1 million) in the prior year. The decrease in labor and overhead as a percentage of net sales was primarily due to improved leverage of fixed costs on higher net sales.

In June 2004, we began the build out of tenant improvements for approximately 46,000 square feet at our Vista facility. We anticipate the build out will be completed by the end of our second quarter in fiscal 2005. We anticipate being able to initiate production activities in the third quarter of fiscal 2005. If we are unable to complete the build out and transition our operating activities as planned, we could experience a disruption in our manufacturing capabilities and incur additional costs to fulfill customer orders.

Selling, general and administrative expenses as a percentage of net sales decreased 2.2 percentage points in fiscal 2004 compared to fiscal 2003. In absolute dollars, however, selling, general and administrative expenses increased $3.2 million in fiscal 2004. The increase was primarily attributable to compensation payments under our fiscal 2004 Management Incentive Plan of $1.2 million, higher property, product liability and general liability insurance costs of $457,000 and research and development initiatives of $948,000.

During fiscal 2004, we made significant investments in our research and development initiatives primarily in the areas of clinical studies, regulatory assistance and personnel. Clinical studies increased $168,000 over the prior year primarily for efficacy validation of products in production and development stages. Regulatory related costs increased $381,000 over the prior year for services provided to current and prospective customers for international product registration, international and domestic product compliance and other services. Personnel costs increased $369,000 over the prior year to strengthen our team in the areas of regulatory and product formulation along with the hiring of our new Vice President of Science and Technology.

Other expense increased over the prior year primarily due to a $61,000 charge in conjunction with refinancing our credit facility in May 2004. The charge related to a prepayment penalty and the write off of capitalized issuance costs and is included in interest expense in our consolidated statements of income. Additionally, we received proceeds from the settlement of claims associated with the vitamin antitrust litigation of $225,000 in fiscal 2003.

At June 30, 2004, we reduced our valuation allowance on our deferred tax assets based on historical operating profits. The effective tax rate for fiscal 2004 was 1% compared to 4% in fiscal 2003. NAIE operates under a five-year Swiss federal and cantonal income tax holiday that ends June 30, 2005. Following the expiration of our tax holiday, we anticipate NAIE's effective tax rate for Swiss federal, cantonal and communal taxes will be approximately 23% compared to our current effective rate of approximately 5%.

Our net income was $3.0 million ($0.48 per diluted share) in fiscal 2004 and $1.1 million ($0.18 per diluted share) in fiscal 2003. Excluding the effect of the litigation settlement proceeds of $225,000 in the prior year, net income increased $2.1 million compared to $880,000 ($0.15 per diluted share).

Fiscal 2003 Compared to Fiscal 2002

Consolidated private label contract manufacturing net sales for the fiscal year ended June 30, 2003, increased $4.1 million, or 10%, over the prior year primarily due to additional net sales to our second largest customer, partially offset by reduced volumes to four other customers. Net sales to our second largest customer increased $4.9 million from established products in existing markets. Net sales to our largest customer were consistent with the prior year. Additionally, net sales increased $895,000 from net sales to new customers.

Direct-to-consumer net sales for the fiscal year ended June 30, 2003, increased $1.8 million, or 22%, over the prior year. The introduction of five new products generated $968,000 of the increase in net sales. The remaining increase was due to higher volumes of existing products.

Gross profit margin improved to 24% from 22% in the prior year due to a 0.7 percentage point decrease in material cost as a percentage of net sales and a 0.9 percentage point decrease in labor and overhead as a percentage of net sales. Our material cost as a percentage of net sales was 53% ($29.6 million) for fiscal 2003 and 53.7% ($26.9 million) in the prior year. Our labor and overhead expenses as a percentage of net sales were 23.5% ($13.1 million) for fiscal 2003 compared to 24.4% ($12.2 million) in the prior year. The decrease in labor and overhead as a percentage of net sales was primarily due to improved leverage of fixed costs on higher net sales.

Selling, general and administrative expenses were $12.0 million (21.5% of net sales) in fiscal 2003 and $10.7 million (21.4% of net sales) in fiscal 2002. The increase in absolute dollars in fiscal 2003 was primarily due to increases in direct-to-consumer fulfillment and recurring media costs of $573,000 associated with incremental sales, new direct-to-consumer media and production costs of $603,000 for introducing Dr. Cherry's Pathway to Healing™ product line in several new television markets, sales and executive personnel costs of $325,000, research and development personnel costs of $459,000, insurance premiums of $352,000, information system costs of $204,000 and clinical study costs of $197,000. These increases were partially offset by a $350,000 reduction in legal costs, $300,000 reduction in employee separation expenses, and $767,000 reduction of direct-to-consumer costs incurred in the prior year for improving customer service, processing and reporting.

We received proceeds from the settlement of claims associated with the vitamin antitrust litigation of $225,000 in fiscal 2003 and $3.4 million in fiscal 2002.

In fiscal 2002, federal tax legislation was passed allowing companies to carryback net operating losses for five years. This resulted in recognition of a $701,000 income tax refund receivable, which was included as an income tax benefit in our consolidated statements of income for the year ended June 30, 2002. At June 30, 2003, we assessed the need for a valuation allowance on our deferred tax assets. Based on the historical operating losses and the uncertainty about sufficient near term taxable income, we believe that this evidence created sufficient uncertainty about the realizability of the net deferred tax assets. Therefore, a full valuation allowance of $1.6 million was recorded at June 30, 2003.

Our net income was $1.1 million ($0.18 per diluted share) in fiscal 2003 and $3.9 million ($0.67 per diluted share) in fiscal 2002. Excluding the effect of the litigation settlement proceeds and income tax refund receivable of $701,000 in the prior year, net income increased $1.1 million to $880,000 ($0.15 per diluted share) compared to a net loss of $232,000 ($0.04 per diluted share.)

Liquidity and Capital Resources

Our primary sources of liquidity and capital resources are cash flows provided by operating activities and availability of borrowings under our new credit facility. In each of fiscal 2004 and 2003, our operations provided $3.3 million in cash flows compared to $4.8 million in fiscal 2002. Fiscal 2004 cash flows from operations included a $1.9 million improvement in net income over the prior year, offset by changes in our working capital components. Cash flows from operations in fiscal 2002 included proceeds from the vitamin antitrust litigation of $3.4 million. Excluding these proceeds, fiscal 2002 operations provided $1.4 million in cash flows. Approximately $1.4 million of our operating cash flow was generated by NAIE in fiscal 2004. As of June 30, 2004, NAIE's retained earnings are considered indefinitely reinvested.

Accounts receivable as of June 30, 2004 increased $3.3 million over the prior year. The increase was primarily due to higher net sales and an increase in days sales outstanding to 33 days at June 30, 2004 from 30 days at June 30, 2003. The increase in days sales outstanding was primarily due to the timing of shipments at the end of fiscal 2004. Inventory as of June 30, 2004 increased $5.0 million over the prior year primarily due to higher anticipated demand for fiscal 2005. Additionally, accounts payable as of June 30, 2004 increased $2.6 million over the prior year primarily due to the timing of inventory receipts and disbursements to vendors. Accounts payable as a percentage of inventory was 59% at June 30, 2004 versus 64% at June 30, 2003.

Cash used in investing activities in fiscal 2004 was $3.3 million compared to $779,000 in fiscal 2003 and $681,000 in fiscal 2002. Capital expenditures were $3.3 million in fiscal 2004 compared to $977,000 in fiscal 2003 and $1.1 million in fiscal 2002. Fiscal 2004 capital expenditures were primarily for the continuing investment in domestic manufacturing equipment to improve efficiency and capacity. Additionally, fiscal 2004 capital expenditures included $590,000 for the tenant improvements in the newly leased 46,000 square feet at our Vista facility. We anticipate capital expenditures for fiscal 2005 will be no less than $6.5 million, net of a $960,000 tenant improvement allowance that will be funded by our landlord at the Vista facility. The capital expenditures will be primarily used to complete our tenant improvements and acquire additional equipment to expand our manufacturing capacity. Under our credit facility, capital expenditures for fiscal 2005 may not exceed $6.5 million without approval from our lender.

Our consolidated debt increased to $4.7 million at June 30, 2004 from $3.0 million at June 30, 2003. On May 11, 2004, we entered into a new $12.0 million credit facility with a bank to refinance our then-existing credit facility. The new facility is comprised of an $8.0 million working capital line of credit and $4.0 million in term loans. The working capital line of credit has a 2.5-year term, is secured by our accounts receivable and other rights to payment, general intangibles, inventory and equipment, has an interest rate of LIBOR plus 1.75% and borrowings are subject to eligibility requirements for current accounts receivable and inventory balances. The term loans consist of a $700,000 ten year term loan with a twenty year amortization, secured by our San Marcos building at an interest rate of LIBOR plus 2.25%; a $1.8 million four year term loan to refinance our outstanding term loan under the previous credit facility, secured by our accounts receivable and other rights to payment, general intangibles, inventory and equipment, at an interest rate of LIBOR plus 2.10%; and a $1.5 million five year term loan, secured by equipment, at an interest rate of LIBOR plus 2.10%. Monthly payments on the term loans are approximately $62,000 plus interest. As of June 30, 2004, we had $7.3 million available under the working capital line of credit, net of a $440,000 outstanding letter of credit issued to our landlord. Under our credit facility, we may not create, incur or assume additional indebtedness without the approval of our lender.

On January 6, 2004, we purchased option contracts designated as cash flow hedges to protect against the foreign currency exchange risk inherent in our forecasted transactions denominated in Euros. The option contracts had a notional amount of $8.3 million and a purchase price of $55,000. The premium associated with each option contract is marked-to-market and realized gains or losses are recognized on the settlement date in cost of good sold. The risk of loss associated with purchased options is limited to premium amounts paid for the option contracts. For the fiscal year ended June 30, 2004, approximately $53,000 had been charged to cost of goods sold for option contracts outstanding during the year. There are no other derivative financial instruments at June 30, 2004.

As of June 30, 2004, we had $7.5 million in cash and cash equivalents. We plan on funding our current working capital needs, capital expenditures and debt payments using available cash, cash flow from operations and our new credit facility.

Off-Balance Sheet Arrangements

We do not have any off-balance sheet debt nor do we have any transactions, arrangements, obligations (including contingent obligations) or other relationships with any unconsolidated entities or other persons that may have a material current or future effect on financial condition, changes in financial condition, results of operations, liquidity, capital expenditures, capital resources, or significant components of revenue or expenses.

Contractual Obligations

This table summarizes our known contractual obligations and commercial commitments at June 30, 2004 (dollars in thousands).

Contractual Obligations	Total	Less Than 1 Year	1 – 3 Years	3 – 5 Years	More Than 5 Years
Long-Term Debt	$ 4,672	$ 831	$ 1,758	$ 1,333	$ 750
Operating Leases (1)	14,911	1,513	3,144	3,209	7,045
Construction Agreement (2)	2,670	2,670	—	—	—
Purchase Obligation (3)	1,532	1,532	—	—	—
Total Obligations	$23,785	$ 6,546	$ 4,902	$ 4,542	$ 7,795

(1) Operating lease obligations are shown net of $91,000 in sublease rental income that should be received through October 2004.

(2) Construction agreement obligation is shown net of $960,000 tenant improvement allowance funded by our landlord under the terms of our lease agreement.

(3) In June 2004 we entered into a commitment to purchase certain proprietary raw materials from a supplier ratably over the first six months of fiscal 2005. The monthly purchases will be recorded in our consolidated financial statements as they occur. This purchase commitment was made in anticipation of future demand. There can be no guarantee, however, that such future demand will occur.

Inflation

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

Recent Accounting Pronouncements

In January 2003, the Financial Accounting Standards Board (FASB) issued Interpretation No. 46, "Consolidation of Variable Interest Entities, an interpretation of ARB No. 51" (FIN 46). FIN 46 was revised in December 2003 and clarifies the application of ARB 51 to certain entities in which equity investors do not have the characteristics of a controlling financial interest or do not have sufficient equity at risk for the entity to finance its activities without additional subordinated financial support. The application of FIN 46 may require that an entity be subject to consolidation even though the investor does not have a controlling financial interest that, under ARB 51, was usually deemed to exist through ownership of a majority voting interest. FIN 46, as revised, is generally effective for all entities subject to the interpretation no later than the end of the first reporting period that ends after March 15, 2004. We have no investments in entities within the scope of FIN 46 and as a result the application of FIN 46 had no material effect on our financial statements.

In December 2003, FASB revised Statement of Financial Accounting Standards No. 132, "Employers' Disclosures about Pension and Other Postretirement Benefits" (Revised Statement 132). Revised Statement 132 revises employers' required disclosures about pension plans and other postretirement benefit plans. It does not change the measurement or recognition of those plans required by FASB Statements No. 87, "Employers' Accounting for Pensions," No. 88, "Employers' Accounting for Settlements and Curtailments of Defined Benefit Pension Plans and for Termination Benefits," and No. 106, "Employers' Accounting for Postretirement Benefits Other Than Pensions." Revised Statement 132 requires disclosures in addition to those in the original Statement No. 132. Revised Statement 132 is effective for financial statements with fiscal years ending after December 15, 2003. The interim period disclosures required by Revised Statement 132 are effective for interim periods beginning after December 15, 2003. We adopted Revised Statement 132 beginning in the third quarter of fiscal 2004 and it did not have a material impact on our financial statements or related footnotes.

Risks

You should carefully consider the risks described below, as well as the other information in this report, when evaluating our business and future prospects. If any of the following risks actually occur, our business, financial condition and results of operations could be seriously harmed. In that event, the market price of our common stock could decline and you could lose all or a portion of the value of your investment in our common stock.

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

We have in the past, and expect to continue, to derive a significant portion of our revenues from a relatively limited number of customers. During the fiscal year ended June 30, 2004, sales to one customer, NSA International, Inc., were approximately 40% of our total net sales. Our second largest customer was Mannatech, Incorporated, which accounted for approximately 30% of our net sales. The loss of either of these customers or other major customers, a significant decrease in sales to these customers, or a significant change in their business or personnel, would materially affect our financial condition and results of operations.

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

Our business strategy depends in large part on our ability to develop new products, marketing strategies, brands and customer relationships. These activities often require a significant up-front investment including, among others, customized formulations, regulatory compliance, product registrations, package design, product testing, pilot production runs, marketing and the build up of initial inventory. We may experience significant delays from the time

we increase our operating expenses and make investments in inventory until the time we generate net sales from new products or customers, and it is possible that we may never generate any revenue from new products or customers after incurring such expenditures. If we incur significant expenses and investments in inventory that we are not able to recover, and we are not able to compensate for those expenses, our operating results could be adversely affected.

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

While our net sales and income from operations have both improved during the past three fiscal years, there can be no assurance that they will continue to improve, or that we will earn a profit in any given year. We have experienced losses in the past and may incur losses in the future. Our operating results may fluctuate from year to year due to various factors including differences related to the timing of revenues and expenses for financial reporting purposes and other factors described in this report. At times, these fluctuations may be significant. Fluctuations in our operating results may adversely affect the share price of our common stock.

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

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

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

For the fiscal year ended June 30, 2004, our direct-to-consumer products accounted for approximately 13% of our net sales. These products are marketed with a key personality through a variety of distribution channels. The inability or failure of a key personality to fulfill his or her role, or the ineffectiveness of a key personality as a spokesperson for a product, a reduction in the exposure of a key personality or negative publicity about a key personality may adversely affect the sales of our product associated with that personality and could affect the sale of other products. A decline in sales would negatively affect our results of operations and financial condition.

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

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

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

Our cash from operations may not be sufficient to meet our working capital needs and/or to implement our business strategies. Although we obtained a new $8.0 million line of credit in May 2004, there can be no assurance that this line of credit will be sufficient to meet our needs. Furthermore, if we fail to maintain certain loan covenants we will no longer have access to the credit line. As a result, we may need to raise additional capital or obtain additional financing.

In recent years, it has been difficult for companies to raise capital due to a variety of factors including the overall

poor performance of the stock markets and the economic slowdown in the United States and other countries. Thus, there is no assurance we would be able to raise additional capital if needed. To the extent we do raise additional capital, the ownership position of existing stockholders could be diluted. Similarly, there can be no assurance that additional financing will be available if needed or that it will be available on favorable terms. Under the terms of our credit facility, we may not create, incur or assume additional indebtedness without the approval of our lender. Our inability to raise additional capital or to obtain additional financing if needed would negatively affect our ability to implement our business strategies and meet our goals. This, in turn, would adversely affect our financial condition and results of operations.

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

We buy our raw materials from a limited number of suppliers. During fiscal 2004, Carrington Laboratories Incorporated was our largest supplier, accounting for 33% of our total raw material purchases. The loss of Carrington Laboratories Incorporated or other major supplier could adversely affect our business operations. Although we believe that we could establish alternate sources for most of our raw materials, any delay in locating and establishing relationships with other sources could result in product shortages, with a resulting loss of sales and customers. In certain situations we may be required to alter our products or to substitute different materials from alternative sources.

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

A shortage of raw materials or an unexpected interruption of supply could also result in higher prices for those materials. Although we may be able to raise our prices in response to significant increases in the cost of raw materials, we may not be able to raise prices sufficiently or quickly enough to offset the negative effects of the cost increases on our results of operations.

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

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

Our business can be affected by adverse publicity or negative public perception about our industry, our competitors, or our business generally. This adverse publicity may include publicity about the nutritional supplements industry generally, the efficacy, safety and quality of nutritional supplements and other health care products or ingredients in general or our products or ingredients specifically, and regulatory investigations, regardless of whether these investigations involve us or the business practices or products of our competitors. There can be no assurance that we will be able to avoid any adverse publicity or negative public perception in the future. Any adverse publicity or negative public perception will likely have a material adverse effect on our business, financial condition and results of operations. Our business, financial condition and results of operations also could be adversely affected if any of our products or any similar products distributed by other companies are alleged to be or are proved to be harmful to consumers or to have unanticipated health consequences.

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

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

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

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

As we continue to expand into markets outside the United States our business becomes increasingly subject to political and economic risks in those markets, which could adversely affect our business.

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

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

Any changes related to these and other factors could adversely affect our business, profitability and growth prospects. As we continue to expand into markets outside the United States, these and other risks associated with operations outside the United States are likely to increase.

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

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

In markets outside the United States, before commencing operations or marketing our products, we may be required to obtain approvals, licenses, or certifications from a country's ministry of health or comparable agency. Approvals

or licensing may be conditioned on reformulation of products or may be unavailable with respect to certain products or product ingredients. We must also comply with product labeling and packaging regulations that vary from country to country. Furthermore, the regulations of these countries may conflict with those in the United States and with each other. The sale of our products in Europe is subject to the rules and regulations of the European Union, which may be interpreted differently among the countries within the union. The cost of complying with these various and potentially conflicting regulations can be substantial and can adversely affect our results of operations.

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

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

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

Our manufacturing activity is subject to certain risks.

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

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

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

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

Our officers and directors, together with their families and affiliates, beneficially owned approximately 24.7% of our outstanding shares of common stock as of June 30, 2004. As a result, our officers and directors could influence such business matters as the election of directors and approval of significant corporate transactions.

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

- transactions resulting in a change in control;
- mergers and acquisitions;
- tender offers;
- election of directors; and
- proxy contests.

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

Changes in the accounting treatment of stock options and other equity based compensation could adversely affect our results of operations.

We currently follow APB 25 and its related interpretations for stock options granted to employees and board members. Under the recognition and measurement principles of APB 25, we are not required to recognize any compensation expense unless the market price of the stock exceeds the exercise price on the date of grant or the terms of the grant are subsequently modified. FASB has issued a proposal to change the recognition and measurement principles for equity-based compensation granted to employees and board members. Under the proposed rules, we could be required to recognize compensation expense related to stock options granted to employees and board members. If approved, the proposed rule could result in significant compensation expense charges to our future results of operations.

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

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

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

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

Our stock price could fluctuate significantly.

Our stock price has been volatile in recent years. The trading price of our stock could fluctuate in response to:

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

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

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

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We are exposed to market risk, which is the potential loss arising from adverse changes in market rates and prices, such as interest and foreign currency exchange rates. We generally do not enter into derivatives or other financial instruments for trading or speculative purposes. We may, however, enter into financial instruments to try to manage and reduce the impact of changes in foreign currency exchange rates. We cannot predict with any certainty our future exposure to fluctuations in interest and foreign currency exchange rates or other market risks or the impact, if any, such fluctuations may have on our future business, product pricing, consolidated financial condition, results of operations or cash flows. The actual impact of any fluctuations in interest or foreign currency exchange rates may differ significantly from those discussed below.

Interest Rates

At June 30, 2004, we had fixed rate debt of $678,000 and variable rate debt of approximately $4.0 million. The interest rates on our variable rate debt range from LIBOR plus 1.75% to LIBOR plus 2.25%. As of June 30, 2004, the weighted average effective interest rate on our variable rate debt was 2.7%. An immediate one hundred basis point (1.0%) increase in the interest rates on our variable rate debt, holding other variables constant, would have increased our interest expense by $31,000 for the fiscal year ended June 30, 2004. Interest rates have been at or near historic lows in recent years. There can be no guarantee that interest rates will not rise. Any increase in interest rates may adversely affect our results of operations and financial condition.

Foreign Currencies

To the extent our business continues to expand outside the United States, an increasing share of our net sales and cost of sales will be transacted in currencies other than the United States dollar. Accounting practices require that our non-United States dollar-denominated transactions be converted to United States dollars for reporting purposes. Consequently, our reported net income may be significantly affected by fluctuations in currency exchange rates. When the United States dollar strengthens against currencies in which products are sold or weakens against currencies in which we incur costs, net sales and costs could be adversely affected.

Our main exchange rate exposures are with the Swiss Franc and the Euro against the United States dollar. This is due to NAIE’s operations in Switzerland and the payment in Euros by our largest customer for finished goods. Additionally, we pay our NAIE employees and certain operating expenses in Swiss Francs. We may enter into forward exchange contracts, foreign currency borrowings and option contracts to hedge our foreign currency risk. Our goal in seeking to manage foreign currency risk is to provide reasonable certainty to the functional currency value of foreign currency cash flows and to help stabilize the value of non-United States dollar-denominated earnings.

On January 6, 2004, we bought 12 option contracts designated as cash flow hedges to protect against the foreign currency exchange risk inherent in a portion of our forecasted transactions denominated in Euros. The option contracts had a notional amount of $8.3 million, a weighted average strike price of $1.15, and a purchase price of $55,000. The risk of loss associated with the options is limited to premium amounts paid for the option contracts. As of June 30, 2004, we had not exercised any of the options and six of the options had expired.

On June 30, 2004, the Swiss Franc closed at 1.27 to 1.00 United States dollar and the Euro closed at 0.83 to 1.00 United States dollar. A 10% adverse change to the exchange rates between the Swiss Franc and the Euro against the United States dollar, holding other variables constant, would have decreased our net income for the fiscal year ended June 30, 2004 by $509,000.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Report of Independent Registered Public Accounting Firm

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

We have audited the accompanying consolidated balance sheets of Natural Alternatives International, Inc. as of June 30, 2004 and 2003, and the related consolidated statements of income and comprehensive income, stockholders' equity, and cash flows for each of the three years in the period ended June 30, 2004. Our audits also included the financial statement schedule listed under Item 15(a). These financial statements and schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedule based on our audits.

We conducted our audits in accordance with standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. 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 financial statements referred to above present fairly, in all material respects, the consolidated financial position of Natural Alternatives International, Inc. at June 30, 2004 and 2003, and the consolidated results of its operations and its cash flows for each of the three years in the period ended June 30, 2004, in conformity with U.S. generally accepted accounting principles. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

/s/ Ernst & Young LLP

San Diego, California
August 6, 2004

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

	2004	2003
Assets		
Current assets:		
Cash and cash equivalents	$ 7,495	$ 5,482
Accounts receivable - less allowance for doubtful accounts of $132 at June 30, 2004 and $27 at June 30, 2003	8,889	5,668
Inventories, net	12,863	7,845
Deferred income taxes	1,010	—
Other current assets	633	766
Total current assets	30,890	19,761
Property and equipment, net	11,380	10,820
Other assets:		
Related party notes receivable	13	25
Other noncurrent assets, net	185	118
Total other assets	198	143
Total assets	$42,468	$30,724
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	$ 7,567	$ 5,001
Accrued liabilities	2,078	1,106
Accrued compensation and employee benefits	2,626	717
Income taxes payable	320	46
Current portion of long-term debt	831	570
Total current liabilities	13,422	7,440
Long-term debt, less current portion	3,841	2,386
Deferred income taxes	717	—
Deferred rent	220	—
Long-term pension liability	140	121
Total liabilities	18,340	9,947
Commitments and contingencies		
Stockholders' equity:		
Preferred stock; $.01 par value; 500,000 shares authorized; none issued or outstanding	—	—
Common stock; $.01 par value; 8,000,000 shares authorized, issued and outstanding 5,970,992 at June 30, 2004 and 6,087,532 at June 30, 2003	60	61
Additional paid-in capital	10,864	11,426
Accumulated other comprehensive loss	(96)	—
Retained earnings	13,593	10,593
Treasury stock, at cost, 61,000 shares at June 30, 2004 and 272,400 shares at June 30, 2003	(293)	(1,303)
Total stockholders' equity	24,128	20,777
Total liabilities and stockholders' equity	$42,468	$30,724

See accompanying notes to consolidated financial statements.

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

	2004	2003	2002
Net sales	$ 78,534	$ 55,962	$ 50,037
Cost of goods sold	59,964	42,781	39,068
Gross profit	18,570	13,181	10,969
Selling, general & administrative expenses	15,188	12,012	10,684
Income from operations	3,382	1,169	285
Other income (expense):			
Interest income	24	57	16
Interest expense	(274)	(252)	(665)
Foreign exchange gain (loss)	57	12	(68)
Proceeds from vitamin antitrust litigation	—	225	3,410
Other, net	(165)	(59)	259
	(358)	(17)	2,952
Income before income taxes	3,024	1,152	3,237
Provision for (benefit from) income taxes	24	47	(642)
Net income	$ 3,000	$ 1,105	$ 3,879
Additional minimum pension liability, net of tax	(96)	—	—
Comprehensive income	$ 2,904	$ 1,105	$ 3,879
Net income per common share:			
Basic	$ 0.51	$ 0.19	$ 0.67
Diluted	$ 0.48	$ 0.18	$ 0.67
Weighted average common shares outstanding:			
Basic shares	5,843,241	5,809,140	5,787,712
Diluted shares	6,304,167	6,021,155	5,798,453

See accompanying notes to consolidated financial statements.

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

	Common Stock						
	Shares	Amount	Additional Paid-in Capital	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive (Loss)	Total
Balance, June 30, 2001	6,048,106	$ 60	$ 11,307	$ 5,609	$(1,283)	$ (89)	$15,604
Issuance of common stock for employee stock purchase plan and stock option exercises	25,073	1	53	—	—	—	54
Treasury stock purchased	—	—	—	—	(20)	—	(20)
Compensation expense related to stock options	—	—	2	—	—	—	2
Net realized loss on disposal of investments	—	—	—	—	—	89	89
Net income	—	—	—	3,879	—	—	3,879
Balance, June 30, 2002	6,073,179	61	11,362	9,488	(1,303)	—	19,608
Issuance of common stock for employee stock purchase plan and stock option exercises	14,353	—	33	—	—	—	33
Compensation expense related to stock options	—	—	31	—	—	—	31
Net income	—	—	—	1,105	—	—	1,105
Balance, June 30, 2003	6,087,532	61	11,426	10,593	(1,303)	—	20,777
Issuance of common stock for employee stock purchase plan and stock option exercises	94,860	1	327	—	—	—	328
Cancellation of treasury stock	(211,400)	(2)	(1,008)	—	1,010	—	—
Compensation expense related to stock options	—	—	119	—	—	—	119
Additional minimum pension liability, net of tax	—	—	—	—	—	(96)	(96)
Net income	—	—	—	3,000	—	—	3,000
Balance, June 30, 2004	5,970,992	$ 60	$ 10,864	$13,593	$ (293)	$ (96)	$24,128

See accompanying notes to consolidated financial statements.

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

	2004	2003	2002
Cash flows from operating activities			
Net income	$ 3,000	$ 1,105	$ 3,879
Adjustments to reconcile net income to net cash provided by operating activities:			
Provision for uncollectible accounts receivable	105	(46)	(58)
Depreciation and amortization	2,676	2,477	2,407
Deferred income taxes	(293)	—	—
Non-cash compensation	119	31	2
Pension expense, net of contributions	(77)	(78)	(26)
(Gain) loss on disposal of assets	86	10	(54)
Loss on investments	—	—	89
Changes in operating assets and liabilities:			
Accounts receivable	(3,326)	(2,086)	(147)
Inventories	(5,018)	26	(1,670)
Tax refund receivable	—	701	(701)
Other assets	71	(175)	83
Accounts payable and accrued liabilities	3,758	1,180	778
Income taxes payable	274	(85)	59
Accrued compensation and employee benefits	1,909	235	162
Net cash provided by operating activities	3,284	3,295	4,803
Cash flows from investing activities			
Proceeds from sale of property and equipment	—	109	82
Capital expenditures	(3,322)	(977)	(1,076)
Repayment of notes receivable	7	89	313
Net cash used in investing activities	(3,315)	(779)	(681)
Cash flows from financing activities			
Net payments on lines of credit	—	—	(242)
Borrowings on long-term debt	4,055	2,500	—
Payments on long-term debt	(2,339)	(1,707)	(2,293)
Increase (decrease) in restricted cash	—	1,500	(1,500)
Issuance of common stock	328	33	54
Net cash provided by (used in) financing activities	2,044	2,326	(3,981)
Net increase in cash and cash equivalents	2,013	4,842	141
Cash and cash equivalents at beginning of year	5,482	640	499
Cash and cash equivalents at end of year	$ 7,495	$ 5,482	$ 640
Supplemental disclosures of cash flow information			
Cash paid during the year for:			
Taxes	$ 44	$ —	$ —
Interest	$ 243	$ 252	$ 394
Disclosure of non-cash activities:			
Treasury stock cancelled	$ 1,010	$ —	$ —
Net unrealized losses on additional minimum pension liability	$ 96	$ —	$ —

See accompanying notes to consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

A. Organization and Summary of Significant Accounting Policies

Organization

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

International Subsidiary

On January 22, 1999, NAIE was formed as our wholly-owned subsidiary, based in Manno, Switzerland, which is adjacent to the city of Lugano. In September 1999, NAIE opened its manufacturing facility to provide manufacturing capability in encapsulation and tablets, finished goods packaging, quality control laboratory testing, warehousing, distribution and administration. Upon formation, NAIE obtained from the Swiss tax authorities a five-year Swiss federal and cantonal income tax holiday that ends June 30, 2005.

Principles of Consolidation

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

Cash and Cash Equivalents

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

Inventories

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

Property and Equipment

We state property and equipment at cost. Depreciation of property and equipment is provided using the straight-line method over their estimated useful lives, generally ranging from 1 to 39 years. We amortize leasehold improvements using the straight-line method over the shorter of the life of the improvement or the expected 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 exceeds the fair value of the assets. We report assets to be disposed of at the lower of the carrying amount or fair value less costs to sell.

Revenue Recognition

We recognize revenue in accordance with SEC Staff Accounting Bulletin No. 101, "Revenue Recognition in Financial Statements" (SAB 101). SAB 101 requires that four basic criteria be met before revenue can be recognized: 1) there is evidence that an arrangement exists; 2) delivery has occurred; 3) the fee is fixed or determinable; and 4) collectibility is reasonably assured. We recognize revenue upon determination that all criteria for revenue recognition have been met. The criteria are usually met at the time title passes to the customer, which usually occurs upon shipment. Revenue from shipments where title passes upon delivery is deferred until the shipment has been delivered.

Additionally, we record reductions to gross revenue for estimated returns of private label contract manufacturing products and direct-to-consumer products. The estimated returns are based upon the trailing six months of private label contract manufacturing gross sales and our historical experience for both private label contract manufacturing and direct-to-consumer product returns.

Cost of Goods Sold

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

Research and Development Costs

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

Research and development costs are expensed when incurred. Our research and development expenses for the last three fiscal years ended June 30 were $2.8 million for 2004, $1.7 million for 2003 and $821,000 for 2002.

Advertising Costs

We expense advertising costs as incurred. We incurred and expensed advertising costs in the amount of $1.3 million during the fiscal year ended June 30, 2004, $1.5 million during fiscal 2003 and $679,000 during fiscal 2002. These costs are included in selling, general and administrative expenses in the accompanying statements of income.

Income Taxes

We account for income taxes using the asset and liability method. Under this method, deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates, for each of the jurisdictions in which we operate, expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in operations in the period that includes the enactment date.

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

Stock-Based Compensation

We have stock option plans under which we have granted nonqualified and incentive stock options to employees, non-employee directors and consultants. We also have an employee stock purchase plan. We account for stock-based awards to employees in accordance with Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" (APB 25), and related interpretations. We have adopted the disclosure-only alternative of SFAS 123, "Accounting for Stock-Based Compensation" (SFAS 123), as amended by SFAS 148, "Accounting for Stock-Based Compensation – Transition and Disclosure" (SFAS 148).

Pro forma information regarding net income and net income per share is required and has been determined as if we had accounted for our stock-based awards under the fair value method, instead of the guidelines provided by APB 25. We estimated the fair value of the awards at the date of grant using the Black-Scholes option valuation model. The Black-Scholes option valuation model was developed for use in estimating the fair value of traded options that have no vesting restrictions and are fully transferable. Option valuation models require the input of highly subjective assumptions, including expected life and stock price volatility. Because our options have characteristics significantly different from those of traded options, and because changes in the subjective input assumptions can materially affect fair value estimates, in the opinion of management, the existing models do not necessarily provide a reliable single measure of the fair value of our options.

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

	Employee Stock Options			Employee Stock Purchase Plans		
	Fiscal Years Ended June 30,			Fiscal Years Ended June 30,		
	2004	2003	2002	2004	2003	2002
Expected life (years)	4.0 – 8.0	4.0–6.0	4.0–9.0	0.5	0.5	0.5
Risk-free interest rate	2.4–3.7%	4.0%	4.4%	1.0%	1.5%	2.7%
Volatility	64%	71%	53%	64%	71%	53%
Dividend yield	0%	0%	0%	0%	0%	0%
Weighted average fair value	$ 3.21	$ 1.75	$ 1.45	$ 1.82	$ 1.10	$ 0.62

For purposes of pro forma disclosures, we have amortized the estimated fair value to expense over the vesting periods. Our pro forma information under SFAS 123 and SFAS 148 is as follows:

	Fiscal Years Ended June 30,		
	2004	2003	2002
	(Dollars in thousands, except per share data)		
Net income - as reported	$ 3,000	$ 1,105	$ 3,879
Plus: Reported stock-based compensation	119	31	2
Less: Fair value stock-based compensation	(718)	(299)	(153)
Net income - pro forma	$ 2,401	$ 837	$ 3,728
Reported basic net income per share	$ 0.51	$ 0.19	$ 0.67
Pro forma basic net income per share	$ 0.41	$ 0.14	$ 0.64
Reported diluted net income per share	$ 0.48	$ 0.18	$ 0.67
Pro forma diluted net income per share	$ 0.38	$ 0.14	$ 0.64

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Fair Value of Financial Instruments

The carrying amounts of certain of our financial instruments, including cash and cash equivalents, accounts receivable, notes receivable, accounts payable, line of credit and 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.

Use of Estimates

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

Net Income per Share

We compute net income per share in accordance with SFAS 128, “Earnings Per Share.” This statement requires the presentation of basic income per share, using the weighted average number of shares outstanding during the period, and diluted income per share, using the additional dilutive effect of all dilutive securities. The dilutive impact of stock options account for the additional weighted average shares of common stock outstanding for our diluted income per share computation. Basic and diluted income per share are calculated as follows:

	For the Years Ended June 30,		
	2004	2003	2002
	(Amounts in thousands, except per share data)		
Numerator			
Net income	$ 3,000	$ 1,105	$ 3,879
Denominator			
Basic weighted average common shares outstanding	5,843	5,809	5,788
Dilutive effect of stock options	461	212	10
Diluted weighted average common shares outstanding	6,304	6,021	5,798
Basic net income per share	$ 0.51	$ 0.19	$ 0.67
Diluted net income per share	$ 0.48	$ 0.18	$ 0.67

Shares related to stock options of 61,000 for the fiscal year ended June 30, 2004, 74,000 for fiscal 2003 and 137,000 for fiscal 2002, were excluded from the calculation of diluted net income per share, as the effect of their inclusion would be anti-dilutive.

Concentrations of Credit Risk

Financial instruments that subject us to concentrations of credit risk consist primarily of cash and cash equivalents and accounts receivable. We place our cash and cash equivalents with highly rated financial institutions. Credit risk with respect to receivables is concentrated with our largest customers, whose receivable balances collectively represented 73% of gross accounts receivable at June 30, 2004 and 74% at June 30, 2003. Concentrations of credit risk related to the remaining accounts receivable balances are limited due to the number of customers comprising our remaining customer base.

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B. Inventories

Inventories, net consisted of the following at June 30:

	2004	2003
	(Dollars in thousands)	
Raw materials	$ 7,915	$ 4,208
Work in progress	3,066	2,408
Finished goods	1,882	1,229
	$ 12,863	$ 7,845

C. Property and Equipment

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

	Depreciable Life In Years	2004	2003
		(Dollars in thousands)	
Land	NA	$ 393	$ 393
Building and building improvements	5 - 39 years	3,235	3,288
Machinery and equipment	3 - 15 years	17,345	15,623
Office equipment and furniture	5 - 7 years	4,038	3,995
Vehicles	3 years	204	207
Leasehold improvements	1 - 10 years	4,954	4,397
Total property and equipment		30,169	27,903
Less accumulated depreciation and amortization		(18,789)	(17,083)
Property and equipment, net		$ 11,380	$ 10,820

D. Debt

On October 25, 2002, we entered into a $6.5 million two-year credit facility. The facility was comprised of a $4.0 million working capital line of credit and a $2.5 million term loan and was secured by all of our assets. The working capital line of credit was subject to eligibility requirements for current accounts receivable and inventory balances. This facility replaced the $2.5 million line of credit that expired on October 31, 2002, and refinanced a $1.2 million outstanding term note.

On May 11, 2004, we entered into a new $12.0 million credit facility with a bank to refinance our then-existing $6.5 million credit facility. The new facility is comprised of an $8.0 million working capital line of credit and $4.0 million in term loans. The working capital line of credit has a 2.5-year term, is secured by our accounts receivable and other rights to payment, general intangibles, inventory and equipment, has an interest rate of LIBOR plus 1.75% and borrowings are subject to eligibility requirements for current accounts receivable and inventory balances. The term loans consist of a $700,000 ten year term loan with a twenty year amortization, secured by our San Marcos building, at an interest rate of LIBOR plus 2.25%; a $1.8 million four year term loan to refinance our outstanding term loan under the previous credit facility, secured by our accounts receivable and other rights to payment, general intangibles, inventory and equipment, at an interest rate of LIBOR plus 2.10%; and a $1.5 million five year term loan, secured by equipment, at an interest rate of LIBOR plus 2.10%. Monthly payments on the term loans are approximately $62,000 plus interest. As of June 30, 2004, the outstanding amount on the term loans was $4.0 million and we did not have an outstanding balance on the working capital line of credit. As of June 30, 2004, we had $7.3 million available under the line of credit, net of an outstanding letter of credit issued to our landlord that reduced the availability under the line of credit by $440,000.

On May 2, 1996, we entered into a term loan agreement for $1.1 million, secured by a building, at an annual interest rate of 8.25%. The loan is due in June 2011 and provides for principal and interest payable in monthly installments of $10,800. As of June 30, 2004, the outstanding amount on the loan was $678,000.

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The composite interest rate on all outstanding debt was 5.44% at June 30, 2004 and 7.31% at June 30, 2003.

Aggregate amounts of long-term debt maturities as of June 30, 2004 were as follows (dollars in thousands):

2005	$ 831
2006	863
2007	895
2008	888
2009	445
Thereafter	750
	$4,672

E. Income Taxes

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

	2004	2003	2002
		(Dollars in thousands)	
Current:			
Federal	$ 175	$ —	$ (701)
State	3	—	—
Foreign	139	47	59
	317	47	(642)
Deferred:			
Federal	1,045	(372)	2,357
State	293	(163)	20
Foreign	—	—	—
Change in valuation allowance	(1,631)	535	(2,377)
	(293)	—	—
Provision for (benefit from) income taxes	$ 24	$ 47	$ (642)

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

	2004	2003
	(Dollars in thousands)	
Deferred tax assets:		
Allowance for doubtful accounts	$ 48	$ 8
Accrued vacation expense	156	131
Tax credit carryforward	128	524
Allowance for inventories	414	253
Other, net	—	45
Net operating loss carryforward	264	1,482
Total gross deferred tax assets	$ 1,010	$ 2,443
Deferred tax liabilities:		
Accumulated depreciation and amortization	(717)	(812)
Deferred tax liabilities	(717)	(812)
Deferred tax asset	293	1,631
Valuation allowance	—	(1,631)
Net deferred tax assets	$ 293	$ —

At June 30, 2004, we had state tax net operating loss carry forwards of approximately $4.5 million. The state tax loss carryforwards will begin to expire in 2007, unless previously utilized.

At June 30, 2003, based on the limited historical taxable income and the uncertainty about sufficient near term taxable income at that time, we believed that this evidence created sufficient uncertainty about the realizability of our net deferred tax assets. Therefore, a full valuation allowance of $1.6 million was recorded at June 30, 2003.

At June 30, 2004, based on historical taxable income in the previous three years and the projection of taxable income for fiscal 2005, we determined a valuation allowance on our net deferred tax assets was not required. The reversal of the valuation allowance was reflected as an income tax benefit in our consolidated statements of income for the year ended June 30, 2004.

NAIE obtained from the Swiss tax authorities a five-year Swiss federal and cantonal income tax holiday that ends June 30, 2005. Following the expiration of our tax holiday, we anticipate NAIE's effective tax rate for Swiss federal, cantonal and communal taxes will be approximately 23%. NAIE had net income of $623,000 for the fiscal year ended June 30, 2004.

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

	2004	2003	2002
		(Dollars in thousands)	
Income taxes computed at statutory federal income tax rate	$ 1,029	$ 392	$1,101
State income taxes, net of federal income tax benefit (expense)	196	67	128
Net operating loss carryback refund	—	—	(701)
Increase (decrease) in valuation allowance	(1,631)	534	(863)
Expenses not deductible for tax purposes	69	12	3
Foreign tax holiday	(187)	(228)	(356)
Prior year adjustments	305	(668)	—
Transfer pricing adjustment	264	—	—
Other	(21)	(62)	46
Income taxes (benefit) as reported	$ 24	$ 47	$ (642)
Effective tax rate	0.8%	4.1%	(19.8)%

F. Employee Benefit Plans

We have a profit sharing plan pursuant to Section 401(k) of the Internal Revenue Code of 1986, as amended (the "Code"), whereby participants may contribute a percentage of compensation not in excess of the maximum allowed under the Code. All employees with six months of continuous employment are eligible to participate in the plan. We may make contributions to the plan at the discretion of our Board of Directors. Effective July 1, 2001, the plan was amended to require that we match one half of the first 6% of a participant's compensation contributed to the plan. Effective January 1, 2004, the plan was amended to require that we match 100% of the first 3% and 50% of the next 2% of a participant's compensation contributed to the plan. The total contributions under the plan charged to operations totaled $200,000 for the fiscal year ended June 30, 2004, $79,000 for fiscal 2003, and $73,000 for fiscal 2002.

We have a "Cafeteria Plan" pursuant to Section 125 of the Code, whereby health care benefits are provided for active employees through insurance companies. Substantially all active full-time employees are eligible for these benefits. We recognize the cost of providing these benefits by expensing the annual premiums, which are based on benefits paid during the year. The premiums expensed for these benefits totaled $697,000 for the fiscal year ended June 30, 2004, $492,000 for fiscal 2003, and $342,000 for fiscal 2002.

In December 1999, we adopted an employee stock purchase plan that provides for the issuance of up to 150,000 shares of our common stock. Beginning July 1, 2004, the number of shares available for purchase under the plan will increase by 25,000 each year on July 1 until determined otherwise by the Board of Directors. The plan is intended to qualify under Section 423 of the Code and is for the benefit of qualifying employees. Under the terms of the plan, participating employees may have up to 15% of their compensation withheld through payroll deductions to purchase shares of our common stock at 85% of the closing sale price for the stock as quoted on the Nasdaq National Market on either the first or last trading day in the offering period, whichever is lower. As of June 30, 2004, 86,014 shares of common stock were issued pursuant to this plan.

We sponsor a defined benefit pension plan, which provides retirement benefits to employees based generally on years of service and compensation during the last five years before retirement. Effective June 21, 1999, we adopted an amendment to freeze benefit accruals to the participants. At June 30, 2004, the amortized portion of the unfunded accrued liability for prior service cost, using a 30-year funding period, was approximately $44,000. This amount was accrued. Our policy is to fund the net pension cost accrued. However, we will 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.

Disclosure of Funded Status

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

	2004	2003
	(Dollars in thousands)	
Change in Benefit Obligation		
Benefit obligation at beginning of year	$ 1,102	$ 1,033
Interest cost	72	67
Actuarial loss	118	3
Benefits paid	(6)	(1)
Benefit obligation at end of year	$ 1,286	$ 1,102
Change in Plan Assets		
Fair value of plan assets at beginning of year	$ 937	$ 857
Actual return on plan assets	139	1
Employer contributions	76	80
Benefits paid	(6)	(1)
Fair value of plan assets at end of year	$ 1,146	$ 937
Reconciliation of Funded Status		
Benefit obligation in excess of fair value of plan assets	$ (140)	$ (165)
Unrecognized net actuarial loss	96	44
Accrued benefit cost	$ (44)	$ (121)
Additional Minimum Liability Disclosures		
Accrued benefit liability	$ (140)	$ (165)

The weighted-average rates used for the years ended June 30, 2004 and June 30, 2003 in determining the projected benefit obligations for the defined benefit pension plan were as follows:

	2004	2003
Discount rate	6.00%	6.50%
Compensation increase rate	N/A	N/A

Net Periodic Benefit Cost

The defined benefit pension plan's net periodic benefit cost for the fiscal years ending June 30 included the following components:

	2004	2003	2002
	(Dollars in thousands)		
Components of Net Periodic Benefit Cost			
Interest cost	$ 72	$ 67	$ 63
Expected return on plan assets	(73)	(64)	(68)
Net periodic benefit cost (income)	$ (1)	$ 3	$ (5)

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

	2004	2003	2002
Discount rate	6.00%	6.50%	6.50%
Expected long term rate of return	8.00%	7.50%	7.50%
Compensation increase rate	N/A	N/A	N/A

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

Our defined benefit pension plan's weighted average asset allocation at June 30, 2004 and June 30, 2003 and weighted average target allocation were as follows:

	2004	2003	Target Allocation
Equity securities	61%	67%	60%
Debt securities	31%	25%	32%
Real estate	8%	8%	8%
	100%	100%	100%

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

G. Stockholders' Equity

Treasury Stock

In February 1999, the Board of Directors approved a repurchase program of up to 500,000 shares of our common stock. As of June 30, 2004, 272,400 shares were repurchased under this program. During March 2004, 211,400 shares of such repurchased common stock were cancelled and returned to the status of authorized but unissued shares of our common stock.

Stock Option Plans

Effective May 14, 1992, we adopted the 1992 Incentive Stock Option Plan for which 500,000 shares of common stock were reserved for issuance to our officers, directors, and key employees. The plan terminated on May 14, 2002. There are no outstanding options under this plan.

Effective January 24, 1995, we adopted the 1994 Nonqualified Stock Option Plan for which 500,000 shares of common stock were reserved for issuance to our officers, employees, and consultants. The plan was terminated on April 24, 2003. There are no outstanding options under this plan.

On October 30, 1998, the Board of Directors adopted the 1998 Outside Director Plan. This plan provided non-employee directors an annual grant of nonqualified stock options. The plan was terminated on April 21, 2004. There are no outstanding options under this plan.

On December 6, 1999, our stockholders approved the adoption of the 1999 Omnibus Equity Incentive Plan (the "1999 Plan"). A total of 500,000 shares of common stock were initially reserved under the 1999 Plan for issuance to our officers, directors, employees, and consultants. Under the terms of the 1999 Plan, the aggregate number of shares of common stock that may be awarded is automatically increased on January 1st of each year, commencing January 1, 2000, by a number equal to the lesser of 2.5% of the total number of common shares then outstanding or 100,000 shares. The 1999 Plan increased by 100,000 common shares on each of January 1, 2000, 2001, 2002, 2003, and 2004. In addition, at our Annual Meeting of Stockholders held on January 30, 2004, our stockholders approved an amendment to the 1999 Plan to increase the number of shares of common stock available under the 1999 Plan by an additional 500,000 shares.

Grants under the 1999 Plan can be either incentive stock options or nonqualified stock options. Options granted under the 1999 Plan have either a five or a ten-year term and become fully vested within three years of their grant date.

Stock option activity for the three years ending June 30, 2004 was as follows:

	1992 Incentive Plan	1998 Outside Director Plan	1999 Plan	Total All Plans	Weighted Average Exercise Price
Outstanding at June 30, 2001	165,000	20,000	339,400	524,400	3.84
Exercised	—	—	(6,104)	(6,104)	2.02
Forfeited	(80,000)	—	(186,296)	(266,296)	2.51
Granted	—	—	274,800	274,800	2.01
Outstanding at June 30, 2002	85,000	20,000	421,800	526,800	3.58
Exercised	—	—	(6,199)	(6,199)	2.17
Forfeited	(85,000)	—	(135,401)	(220,401)	5.57
Granted	—	—	285,000	285,000	3.08
Outstanding at June 30, 2003	—	20,000	565,200	585,200	2.60
Exercised	—	(20,000)	(61,700)	(81,700)	3.40
Forfeited	—	—	(8,600)	(8,600)	5.61
Granted	—	—	774,800	774,800	6.26
Outstanding at June 30, 2004	—	—	1,269,700	1,269,700	4.76
Exercisable at June 30, 2004	—	—	331,621	331,621	2.57
Weighted-average remaining contractual life in years	—	—	4.54	4.54	
Available for grant at June 30, 2004	—	—	156,297	156,297	

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During fiscal 2002, we granted options to purchase 90,000 shares to employees at an exercise price below the fair market value of the stock on the grant date. During fiscal 2004, we granted options to purchase 150,000 shares to an employee at an exercise price below the fair market value of the stock on the grant date. We recorded approximately $63,000 of compensation expense related to these option grants in fiscal 2004, $31,000 in fiscal 2003 and $2,000 in fiscal 2002. As of June 30, 2004, we expect to record approximately $76,000 of compensation expense over the vesting period of the related stock options in fiscal 2005, $48,000 in fiscal 2006 and $16,000 in fiscal 2007.

Additionally, during fiscal 2004 we recorded $56,000 of compensation expense related to options granted to a non-employee to purchase 15,000 shares.

The following is a further breakdown of the options outstanding at June 30, 2004:

Range of Exercise Prices	Number Outstanding	Weighted Average Remaining Contractural Life	Weighted Average Exercise Price	Number Exercisable	Weighted Average Exercise Price
$1.80 - $2.03	180,200	5.66	$ 1.97	163,700	$ 1.98
$2.04 - $3.02	280,000	3.34	$ 2.61	128,200	$ 2.51
$3.03 - $5.21	340,000	4.47	$ 5.01	24,721	$ 4.34
$5.22 - $6.65	400,500	4.59	$ 6.64	15,000	$ 6.65
$6.66 - $10.47	69,000	6.52	$ 8.64	—	$ —
$ 1.80 - $10.47	1,269,700	4.54	$ 4.76	331,621	$ 2.57

H. Commitments

We lease a total of 181,500 square feet of our manufacturing facilities from unaffiliated third parties under non-cancelable operating leases, including 162,000 square feet at our manufacturing facility in Vista, California and 19,500 square feet at our San Marcos, California facility. The leases on the San Marcos facility have various expiration dates through 2007. The lease on the Vista facility expires in March 2014.

On February 25, 2004, we entered into an agreement to sublet 42,000 square feet at our Vista, California facility. The sublease is for a term of seven months that began on April 1, 2004, and provides for monthly rental income equal to our rental expense for the space. We plan to use the space for warehousing in fiscal 2005 and expansion of our packaging operations in fiscal 2006.

As required under the terms of our Vista lease, on May 11, 2004, we provided a letter of credit in the amount of $440,000 to the landlord. The amount of the letter of credit will be reduced by approximately 33% each year.

On April 5, 2004, we entered into an agreement with a general contractor to build out tenant improvements for 46,000 square feet of our leased space in Vista, California, which we plan to use for production beginning in the third quarter of fiscal 2005. The agreement includes an approved budget of $4.2 million, of which $590,000 was incurred during fiscal 2004. Under the terms of the lease for the space, the landlord is required to fund $960,000 as a tenant improvement allowance. We expect the remaining $2.7 million will be disbursed during the first six months of fiscal 2005.

NAIE leases facility space in Manno, Switzerland. The leased space totals approximately 26,000 square feet. We primarily use the facilities for manufacturing, packaging, warehousing and distributing nutritional supplement products for the European marketplace. The lease expires in December 2010.

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Minimum rental commitments (exclusive of property tax, insurance and maintenance) under all non-cancelable operating leases with initial or remaining lease terms in excess of one year, including the lease agreements referred to above, are set forth below as of June 30, 2004 (in thousands):

	2005	2006	2007	2008	2009	Thereafter
Gross minimum rental commitments	$1,604	$1,580	$1,564	$1,586	$1,623	$ 7,045
Sublease income commitments	(91)	—	—	—	—	—
	$1,513	$1,580	$1,564	$1,586	$1,623	$ 7,045

Rental expense totaled $1.2 million for the fiscal year ended June 30, 2004, $947,000 for fiscal 2003, and $818,000 for fiscal 2002. Rental expense for fiscal 2004 was offset by $68,000 in sublease rental income.

I. Foreign Currency Instruments

On January 6, 2004, we purchased option contracts designated as cash flow hedges to protect against the foreign currency exchange risk inherent in our forecasted transactions denominated in Euros. The option contracts had a notional amount of $8.3 million and a purchase price of $55,000. The premium associated with each option contract is marked-to-market and realized gains or losses are recognized on the settlement date in cost of good sold. The risk of loss associated with purchased options is limited to premium amounts paid for the option contracts. For the fiscal year ended June 30, 2004, approximately $53,000 had been charged to cost of goods sold for option contracts outstanding during the year.

J. Related Party Transactions

During fiscal 1999, we made a 6% interest bearing loan of $20,000 to our Chief Scientific Officer. The note and interest due are being paid in biweekly payments of $550 through May 2005. The balance of the note, including accrued interest, was $13,000 as of June 30, 2004, and $25,000 as of June 30, 2003.

Prior to June 30, 2001, we made non-interest loans to a former member of the Board of Directors in the amount of $350,000, secured by proceeds from life insurance policies. During fiscal 2002, the loans were repaid from the insurance proceeds.

We accrued interest from related party notes receivable of $1,000 for the fiscal year ended June 30, 2004, and $2,000 for the fiscal year ended June 30, 2003.

K. Economic Dependency

We had substantial sales to certain customers during the years shown in the following table. The loss of any of these customers could have a material adverse impact on our net sales and net income. Sales by customer, representing 10% or more of the respective year's total sales, were (dollars in thousands):

	2004		2003		2002	
	Net Sales by Customer	% of Total Net Sales	Net Sales by Customer	% of Total Net Sales	Net Sales by Customer	% of Total Net Sales
Customer 1	$ 31,182	40%	$ 24,119	43%	$ 23,975	48%
Customer 2	23,464	30%	15,337	27%	10,432	21%
	$ 54,646	70%	$ 39,456	70%	$ 34,407	69%

Accounts receivable from these customers totaled $6.6 million at June 30, 2004, and $4.2 million at June 30, 2003.

We buy certain products from a limited number of raw material suppliers. Carrington Laboratories Incorporated comprised 33% of our total raw material purchases for the year ended June 30, 2004. Accounts payable to Carrington Laboratories Incorporated was $440,000 at June 30, 2004. No other supplier comprised 10% or more of our raw material purchases for the year ended June 30, 2004.

L. Contingencies

We were a plaintiff in an anti-trust lawsuit against several manufacturers of vitamins and other raw materials that we purchased. Other similarly situated companies filed a number of similar lawsuits against some or all of the same manufacturers. Our lawsuit was consolidated with some of the others and captioned *In re: Vitamin Antitrust Litigation.* As of June 30, 2003, all of our claims under the vitamin antitrust litigation were settled. Settlement payments that we received of $225,000 in fiscal 2003 and $3.4 million in fiscal 2002 are included in proceeds from vitamin antitrust litigation in the accompanying statements of income for fiscal 2003 and 2002, as applicable.

From time to time, we become involved in various investigations, claims and legal proceedings that arise in the ordinary course of business. These matters may relate to product liability, employment, intellectual property, tax, regulation, contract or other matters. The resolution of these matters as they arise will be subject to various uncertainties. While unfavorable outcomes are possible, we believe the resolution of these matters, individually or in the aggregate, will not result in a material adverse effect on the business, financial condition or results of operations.

M. Segment Information

Before July 1, 1999, we operated solely within the United States. In September 1999, NAIE opened its manufacturing facility in Switzerland. Our segment information by geographic area as of and for the last three fiscal years ended June 30 is as follows (dollars in thousands):

2004	Net Sales	Long-Lived Assets	Total Assets	Capital Expenditures
United States	$69,110	$ 10,833	$38,625	$ 3,138
Europe	9,424	1,135	3,843	184
	$78,534	$ 11,968	$42,468	$ 3,322

2003	Net Sales	Long-Lived Assets	Total Assets	Capital Expenditures
United States	$48,790	$ 9,996	$26,724	$ 755
Europe	7,172	1,362	4,000	222
	$55,962	$ 11,358	$30,724	$ 977

2002	Net Sales	Long-Lived Assets	Total Assets	Capital Expenditures
United States	$41,807	$ 11,450	$24,290	$ 720
Europe	8,230	1,527	3,220	356
	$50,037	$ 12,977	$27,510	$ 1,076

Net sales are classified by geographic area based on shipping origin. Assets and capital expenditures are classified by geographic area based on the location of the company or subsidiary at which they are located or made.

SCHEDULE II

Natural Alternatives International, Inc.
Valuation And Qualifying Accounts
For The Years Ended June 30, 2004, 2003 and 2002

	Allowance for Doubtful Accounts (Dollars in thousands)			
	Balance at Beginning of Period	Provision	(Deductions)	Balance at End of Period
2004	$ 27	$ 106	$ (1)	$ 132
2003	$ 105	$ (46)	$ (32)	$ 27
2002	$ 470	$ (58)	$ (307)	$ 105

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

None.

ITEM 9A. CONTROLS AND PROCEDURES

We maintain certain disclosure controls and procedures. They are designed to help ensure that material information is: (1) gathered and communicated to our management, including our principal executive and financial officers, on a timely basis; and (2) recorded, processed, summarized, reported and filed with the SEC as required under the Securities Exchange Act of 1934.

Our Chief Executive Officer and Chief Financial Officer evaluated the effectiveness of our disclosure controls and procedures as of June 30, 2004. Based on their evaluation, they concluded that our disclosure controls and procedures were effective for their intended purpose described above. There were no changes to our internal controls during the fourth quarter ended June 30, 2004 that have materially affected, or that are reasonably likely to materially affect, our internal controls.

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS

The information for this item is incorporated by reference to the sections “Directors and Executive Officers,” “Board Committees,” “Section 16(a) Beneficial Ownership Reporting Compliance,” and “Code of Ethics” in our definitive proxy statement for our Annual Meeting of Stockholders to be held on December 3, 2004, to be filed on or before October 28, 2004.

ITEM 11. EXECUTIVE COMPENSATION

The information for this item is incorporated by reference to the section “Executive Officer and Director Compensation” in our definitive proxy statement for our Annual Meeting of Stockholders to be held on December 3, 2004, to be filed on or before October 28, 2004.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The information for this item is incorporated by reference to the sections “Stock Holdings of Certain Owners and Management” and “Securities Authorized for Issuance Under Equity Compensation Plans” in our definitive proxy statement for our Annual Meeting of Stockholders to be held on December 3, 2004, to be filed on or before October 28, 2004.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

The information for this item is incorporated by reference to the section “Certain Relationships and Related Transactions” in our definitive proxy statement for our Annual Meeting of Stockholders to be held on December 3, 2004, to be filed on or before October 28, 2004.

ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES

The information for this item is incorporated by reference to the sections “Audit Fees,” “Audit-Related Fees,” “Tax Fees,” “All Other Fees” and “Pre-Approval Polices and Procedures” in our definitive proxy statement for our Annual Meeting of Stockholders to be held on December 3, 2004, to be filed on or before October 28, 2004.

PART IV

ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES, AND REPORTS ON FORM 8-K

(a) The following documents are filed as part of this report:

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

- Consolidated Balance Sheets as of June 30, 2004 and 2003;
- Consolidated Statements of Income and Comprehensive Income for the years ended June 30, 2004, 2003 and 2002;
- Consolidated Statements of Stockholders’ Equity for the years ended June 30, 2004, 2003 and 2002;
- Consolidated Statements of Cash Flows for the years ended June 30, 2004, 2003 and 2002; and
- Notes to Consolidated Financial Statements.

(2) Financial Statement Schedule. The following financial statement schedule is included under Item 8 of this report:

- Schedule II - Valuation and Qualifying Accounts for the years ended June 30, 2004, 2003 and 2002.

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

EXHIBIT INDEX

Exhibit Number	Description	Incorporated By Reference To
3(i)	Restated Certificate of Incorporation of Natural Alternatives International, Inc. filed with the Delaware Secretary of State on July 31, 1996	Exhibit 3(i) of NAI's Annual Report on Form 10-K for the fiscal year ended June 30, 2003, filed with the commission on September 17, 2003
3(ii)	By-laws of Natural Alternatives International, Inc. dated as of December 21, 1990	NAI's Registration Statement on Form S-1 (File No. 33-44292) filed with the commission on December 21, 1992
10.1	1999 Omnibus Equity Incentive Plan as adopted effective May 10, 1999 and as amended January 30, 2004	Exhibit A of NAI's definitive Proxy Statement filed with the commission on December 2, 2003
10.2	1999 Employee Stock Purchase Plan as adopted effective October 18, 1999	Exhibit B of NAI's definitive Proxy Statement filed with the commission on October 21, 1999.
10.3	Management Incentive Plan	Exhibit 10.3 of NAI's Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2003, filed with the commission on November 5, 2003
10.4	Amended and Restated Employment Agreement dated as of January 30, 2004, by and between NAI and Mark Zimmerman	Filed herewith
10.5	Amended and Restated Employment Agreement dated as of January 30, 2004, by and between NAI and Randell Weaver	Filed herewith
10.6	Amended and Restated Employment Agreement dated as of January 30, 2004, by and between NAI and Mark A. LeDoux	Filed herewith
10.7	Amended and Restated Employment Agreement dated as of January 30, 2004, by and between NAI and John Wise	Filed herewith
10.8	Amended and Restated Employment Agreement dated as of January 30, 2004, by and between NAI and John Reaves	Filed herewith
10.9	Amended and Restated Employment Agreement dated as of January 30, 2004, by and between NAI and Timothy E. Belanger	Filed herewith
10.10	Employment Agreement dated as of March 29, 2004, by and between NAI and Robert A. Kay	Filed herewith
10.11	Amended and Restated Exclusive License Agreement effective as of September 1, 2004 by and among NAI and Dr. Reginald B. Cherry	Filed herewith
10.12	Exclusive License Agreement effective as of September 1, 2004 by and among NAI and Reginald B. Cherry Ministries, Inc.	Filed herewith

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10.13	Lease of Facilities in Vista, California between NAI and Calwest Industrial Properties, LLC, a California limited liability company dated October 27, 2003	Exhibit 10.10 of NAI's Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2003, filed with the commission on November 5, 2003
10.14	Credit Agreement dated as of May 1, 2004 by and between NAI and Wells Fargo Bank, National Association	Exhibit 10.11 of NAI's Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2004, filed with the commission on May 17, 2004
10.15	Form of Indemnification Agreement entered into between NAI and each of its directors	Filed herewith
10.16	Amended and Restated Exclusive License Agreement effective as of February 5, 2003, by and among NAI, Chopra Enterprises, LLC, Deepak Chopra, M.D., and David Simon, M.D.	Filed herewith
21	Subsidiaries of the Company	Filed herewith
23.1	Consent of Independent Registered Public Accounting Firm	Filed herewith
31.1	Rule 13a-14(a)/15d-14(a) Certification of Chief Executive Officer	Filed herewith
31.2	Rule 13a-14(a)/15d-14(a) Certification of Chief Financial Officer	Filed herewith
32	Section 1350 Certification	Filed herewith

(b) Reports on Form 8-K

On May 3, 2004, we filed a Current Report on Form 8-K that included a press release issued on May 3, 2004, announcing our financial results for the third quarter ended March 31, 2004. The report included (i) Unaudited Condensed Consolidated Balance Sheets as of March 31, 2004 and June 30, 2003; and (ii) Unaudited Condensed Consolidated Statements of Operations for the three months ended March 31, 2004 and 2003 and the nine months ended March 31, 2004 and 2003. This report was the only report on Form 8-K that we filed during the fourth quarter ended June 30, 2004.

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SIGNATURES

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

Date: September 13, 2004

NATURAL ALTERNATIVES INTERNATIONAL, INC.

By: /s/ Mark A. LeDoux

Mark A. LeDoux, Chief Executive Officer

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

Signature	Title	Date
/s/ Mark A. LeDoux (Mark A. LeDoux)	Chief Executive Officer and Chairman of the Board of Directors (principal executive officer)	September 13, 2004
/s/ John R. Reaves (John R. Reaves)	Chief Financial Officer (principal financial officer and principal accounting officer)	September 13, 2004
/s/ Joe E. Davis (Joe E. Davis)	Director	September 13, 2004
/s/ Alan J. Lane (Alan J. Lane)	Director	September 13, 2004
/s/ Lee G. Weldon (Lee G. Weldon)	Director	September 13, 2004

Exhibit 10.4

AMENDED AND RESTATED
EMPLOYMENT AGREEMENT

This Amended and Restated Employment Agreement ("Agreement") is made and entered into effective as of January 30, 2004 ("Effective Date"), by and between Mark E. Zimmerman ("Employee"), and Natural Alternatives International, Inc., a Delaware corporation ("Company"). The Company and Employee may be referred to herein collectively as the "Parties."

RECITALS

WHEREAS, the Company and Employee entered into that certain Executive Employment Agreement dated September 13, 2003; and

WHEREAS, the Company and Employee each desire to amend and restate that certain Executive Employment Agreement dated September 13, 2003, to reflect changes to Employee's severance benefits and certain other agreed upon changes approved by the Company's Board of Directors as hereinafter set forth.

NOW, THEREFORE, in consideration of the mutual promises and covenants set forth herein and intending to be legally bound thereby, the Parties agree as follows:

AGREEMENT

1. **Employment.** Employee hereby accepts the offer of the Company for employment as the Company's Vice President – Operations upon the terms and conditions set forth herein beginning on January 30, 2004. Employee's employment will be at-will and may be terminated by either Employee or the Company at any time for any reason or no reason, with or without Cause (as hereinafter defined), upon written notice to the other, or without any notice upon the death of Employee. The at-will status of the employment relationship may not be modified except by an agreement in writing signed by the President or Chief Executive Officer of the Company and Employee, the terms of which were approved in advance in writing by the Company's Board of Directors.

2. **Employee Handbook.** Employee and the Company understand and agree that nothing in the Company's Employee Handbook is intended to be, and nothing in it should be construed to be, a limitation of the Company's right to terminate, transfer, demote, suspend and administer discipline at any time for any reason. Employee and the Company understand and agree nothing in the Company's Employee Handbook is intended to, and nothing in such Handbook should be construed to, create an implied or express contract of employment contrary to this Agreement.

3. **Position and Responsibilities.**

a. During Employee's employment with the Company hereunder, Employee shall have such responsibilities, duties and authority as the Company, through its Board of Directors, may from time to time assign to Employee and that are normal and customary duties

of a Vice President - Operations of a publicly held corporation. Employee shall perform any other duties reasonably required by the Company and, if requested by the Company, shall serve as a director and/or as an additional officer of the Company or any subsidiary or affiliate of the Company without additional compensation.

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

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

4. **Compensation.**

a. Salary. During the term of Employee's employment hereunder, the Company agrees to pay Employee a base salary of One Hundred Seventy Five Thousand dollars ($175,000) per year, payable no less frequently than monthly in accordance with the Company's general payroll practices. The amount of Employee's base salary as set forth in this Section 4(a) may be adjusted from time to time by an agreement in writing signed by the President or Chief Executive Officer of the Company and Employee, the terms of which were approved in advance in writing by the Company's Board of Directors.

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

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

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

5. **Termination.**

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

b. Without Cause, Severance Benefit. In the event Employee is terminated by the Company without Cause and not as a result of death, upon Employee's delivery to the Company of an executed general release in a form substantially similar to that set forth in Attachment #3 attached hereto ("Release"), Employee shall be entitled to receive a severance benefit, including standard employee benefits available to the Company's other corporate officers, in an amount equal to one (1) year's compensation. If Employee does not execute and deliver the Release, Employee shall only be entitled to receive a severance benefit in an amount equal to one (1) month's compensation. One half of any severance benefit owing hereunder shall be paid within ten (10) days of termination and the balance shall be paid on a bi-weekly basis over the applicable severance period of one (1) month or one (1) year.

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

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

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

6. **Termination Obligations.**

a. Return of Company Property. Upon termination of this Agreement and cessation of Employee's employment, Employee agrees to return all Company Property (as such term is defined in Attachment #2 to this Agreement) to the Company promptly, but in no event later than two (2) business days following termination of employment.

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

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

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

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

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

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

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

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

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

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

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

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

c. If Employee is terminated without Cause following a Change in Control by the Company and/or the surviving or resulting corporation, upon Employee's delivery to the Company of an executed Release, Employee shall be entitled to receive as severance pay or liquidated damages, or both, a lump sum payment ("Change in Control Severance Payment") in an amount equal to two (2) years' compensation or such greater amount as the Board of Directors determines from time to time pursuant to terms which may not be revoked or reduced thereafter. If Employee does not execute and deliver the Release, Employee shall only be entitled to receive a Change in Control Severance Payment in an amount equal to one (1) month's compensation.

d. Any Change in Control Severance Payment shall be made not later than the fifteenth (15th) day following the effective date of Employee's termination without Cause in connection with a Change in Control; provided, however, that if the amount of such payment cannot be finally determined on or before such date, the Company shall pay to Employee on such date a good faith estimate of the minimum amount of such payment, and shall pay the remainder of such payment (together with interest at the rate provided in Section 1274(b)(2)(B) of the Internal Revenue Code of 1986, as amended ("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. If the amount of the estimated payment exceeds the amount subsequently determined to have been due, such excess shall constitute a loan by the Company to Employee payable on the fifteenth (15th) day after receipt by Employee of a written demand for payment from the Company (together with interest calculated as set forth 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 the Company, to avoid the payment of an "excess parachute" payment within the meaning of Section 280G of the Code or any similar successor provision.

e. In the event of termination of Employee's employment under Section 7(c), and provided Employee delivers to the Company an executed Release, the Company shall cause each then-outstanding stock option granted by the Company to the Employee as of the date of termination to become fully exercisable and to remain exercisable for the term of the option.

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

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

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

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

12. **Miscellaneous Provisions.**

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

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

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

d. Attorneys' Fees. Except as set forth in the Mutual Agreement to Mediate and Arbitrate Claims attached hereto as Attachment #1, should any party institute any action, arbitration or proceeding to enforce, interpret or apply any provision of this Agreement, the Parties agree that the prevailing party shall be entitled to reimbursement by the non-prevailing party of all recoverable costs and expenses, including, but not limited to, reasonable attorneys' fees.

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

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

g. Assignment. This Agreement is binding on and is for the benefit of the Parties and their respective successors, heirs, executors, administrators and other legal

representatives. Neither this Agreement nor any right or obligation hereunder may be assigned by the Company (except to an affiliate of the Company or to a person, as defined herein, in accordance with a Change in Control) or by the Employee.

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

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

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

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

EMPLOYEE

/s/ Mark Zimmerman

Mark E. Zimmerman

COMPANY

Natural Alternatives International, Inc.,
a Delaware corporation

By: /s/ Randy Weaver

Randell Weaver, President

ATTACHMENT #1

MUTUAL AGREEMENT TO MEDIATE AND ARBITRATE CLAIMS

This Mutual Agreement to Mediate and Arbitrate Claims ("Agreement") is made and entered into effective as of January 30, 2004 ("Effective Date"), by and between Mark E. Zimmerman ("Employee"), and Natural Alternatives International, Inc., a Delaware corporation ("Company").

In consideration of and as a condition of certain additional severance benefits given to Employee and changes in certain other terms of Employee's employment relationship with the Company, all as set forth in that certain Amended and Restated Employment Agreement by and between Employee and the Company effective as of January 30, 2004, as well as Employee's participation in the Company's benefit programs (when and if eligible), Employee's access to and receipt of confidential information of the Company, and other good and valuable consideration, all of which Employee considers to have been negotiated at arm's length, Employee and Company agree to the following:

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

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

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

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

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

(iv) Any public policy; and

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

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

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

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

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

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

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

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

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

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

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

b. The party demanding arbitration shall submit a written claim to the other party, setting out the basis of the claim and proposing the name of an arbitrator from JAMS, the mutually agreed to ADR organization. The responding party shall have ten (10) business days in which to respond to this demand in a written answer. If this response is not timely made, or if the responding party agrees with the person proposed as the arbitrator, then the person named by the demanding party shall serve as the arbitrator. If the responding party submits a written answer rejecting the proposed arbitrator then, on the request of either party, JAMS shall appoint an arbitrator other than the mediator. The Employee and the Company agree to apply American Arbitration Association ("AAA") rules for the resolution of employment disputes to the

arbitration even though the ADR is one other than AAA. No one who has ever had any business, financial, family, or social relationship with any party to this Agreement shall serve as an arbitrator unless the related party informs the other party of the relationship and the other party consents in writing to the use of that arbitrator.

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

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

e. The arbitrator shall have the following powers:

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

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

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

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

(v) to administer oaths to parties and witnesses.

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

g. The Company shall pay the arbitrator's expenses and fees, all meeting room charges, and any other expenses that would not have been incurred if the case were litigated in the judicial forum having jurisdiction over it. Unless otherwise ordered by the arbitrator, each party shall pay its own attorneys' fees and witness fees, and other expenses incurred by the party for such party's own benefit and not required to be paid by the Company pursuant to the terms hereof. Regardless of any statute, procedure, rule or law, the prevailing party in arbitration shall be entitled to recover from the non-prevailing party reasonable attorneys' fees incurred as a result of arbitration.

4. **Miscellaneous Provisions.**

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

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

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

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

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

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

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

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

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

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

EMPLOYEE

/s/ Mark Zimmerman

Mark E. Zimmerman

COMPANY

Natural Alternatives International, Inc.,
a Delaware corporation

By: /s/ Randy Weaver

Randell Weaver, President

ATTACHMENT #2

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

This Confidential Information and Invention Assignment Agreement, Covenant of Exclusivity and Covenant Not to Compete ("Agreement") is made by Mark E. Zimmerman ("Employee" or "I," "me" or "my"), and accepted and agreed to by Natural Alternatives International, Inc., a Delaware corporation ("Company"), as of January 30, 2004 ("Effective Date").

In consideration of and as a condition of certain additional severance benefits given to me and changes in certain other terms of my employment relationship with the Company (which for purposes of this Agreement shall be deemed to include any subsidiaries or affiliates of the Company, where "affiliate" shall mean any person or entity that directly or indirectly controls, is controlled by, or is under common control with the Company), all as set forth in that certain Amended and Restated Employment Agreement by and between Employee and the Company effective as of January 30, 2004, as well as my access to and receipt of confidential information of the Company, and other good and valuable consideration, I agree to the following, and I agree the following shall be in addition to the terms and conditions of any Confidential Information and Invention Assignment Agreement executed by employees of the Company generally, and which I may execute in addition hereto:

1. **Inventions.**

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

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

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

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

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

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

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

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

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

2. **Confidential Information.**

a. Company Confidential Information. I will not use or disclose, produce, publish, permit access to, or reveal Confidential Information, whether before, during or after the period of my employment with the Company 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 the Company 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 all information and material that is proprietary to the Company, whether or not marked as “confidential” or “proprietary,” and which is disclosed to or obtained by me, which relates to the Company’s past, present or future business activities. Confidential Information includes all information or materials prepared by or for the Company and includes, without limitation, all of the following: designs, drawings, specifications, techniques, models, data, source code, object code, documentation, diagrams, flow charts, research, development, processes, procedures, “know-how,” new product or new technology information, product copies, development or marketing techniques and materials, development or marketing timetables, strategies and development plans, including trade names, trademarks, customer, supplier or personnel names and other information related to customers, suppliers or personnel, pricing policies and financial information, and other information of a similar nature, whether or not reduced to writing or other tangible form, and any other trade secrets or nonpublic business information. Confidential Information is to be broadly defined, and includes all information that has or could have commercial value or other utility in the business in which the Company is engaged or contemplates engaging, and all information of which the unauthorized disclosure could be detrimental to the interests of the Company, whether or not such information is identified as Confidential Information by the Company.

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, some of which may be subject to restrictions on the use or disclosure thereof by the Company. During the period of my employment and thereafter, I agree not to use or disclose, produce, publish, permit access to, or reveal any such information other than consistent with the restrictions and my duties as an employee of the Company.

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

4. **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 period 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 Company's Board of Directors.

6. **Miscellaneous Provisions.**

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

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

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

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

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

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

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

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

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

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

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

/s/ Mark Zimmerman

Mark E. Zimmerman

ACCEPTED AND AGREED TO:

Natural Alternatives International, Inc.,
a Delaware corporation

By: /s/ Randy Weaver

Randell Weaver, President

EXHIBIT A

California Labor Code

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

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

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

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

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

§ 2871. Restrictions on Employer for Condition of Employment.

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

EXHIBIT B

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

EXHIBIT C

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

ATTACHMENT #3

FORM OF
SEPARATION AGREEMENT AND GENERAL RELEASE OF CLAIMS

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

RECITALS

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

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

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

AGREEMENT

1. Separation Payment by Company. In consideration of Former Employee's promises and covenants contained in this Agreement, the Company agrees to pay Former Employee the gross sum of _________ and __/100 dollars ($_________), which amount represents a severance benefit in the amount of _________ and _________, less all applicable withholdings and deductions.

2. Release.

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

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

3. Confidentiality.

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

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

4. Return of Documents and Equipment. Former Employee represents that Former Employee has returned to the Company all Company Property (as such term is defined in that certain Confidential Information and Invention Assignment Agreement, Covenant of Exclusivity and Covenant Not To Compete by and between Former Employee and Company). In the event Former Employee has not returned all Company Property, Former Employee agrees to reimburse the Company for any reasonable expenses it incurs in an effort to have such property returned. These reasonable expenses include attorneys' fees and costs.

5. Civil Code Section 1542 Waiver.

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

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

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

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

6. OWBPA Provisions. In the event Former Employee is forty (40) years old or older, in accordance with the Older Workers' Benefit Protection Act of 1990, Former Employee is aware of and acknowledges the following: (i) Former Employee has the right to consult with an attorney before signing this Agreement and has done so to the extent desired; (ii) Former Employee has twenty-one (21) days to review and consider this Agreement, and Former Employee may use as much of this twenty-one (21) day period as Former Employee wishes before signing; (iii) for a period of seven (7) days following the execution of this Agreement, Former Employee may revoke this Agreement, and this Agreement shall not become effective or enforceable until the revocation period has expired; (iv) this Agreement shall become effective eight (8) days after it is signed by Former Employee and the Company, and in the event the parties do not sign on the same date, this Agreement shall become effective eight (8) days after the date it is signed by Former Employee.

7. Entire Agreement. The parties declare and represent that no promise, inducement or agreement not herein expressed has been made to them and that this Agreement contains the entire agreement between and among the parties with respect to the subject matter hereof, and that the terms of this Agreement are contractual and not a mere recital. This Agreement supersedes any and all other agreements, either oral or in writing, between the parties with respect to the subject matter hereof.

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

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

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

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

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

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

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

15. Arbitration. Any dispute arising out of or relating to this Agreement shall be resolved pursuant to that certain Mutual Agreement to Mediate and Arbitrate Claims made and entered into effective as of January 30, 2004, by and between the Company and Former Employee.

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

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

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

FORMER EMPLOYEE

____

Mark E. Zimmerman

Dated: ______________________________

Executed in : ______________ , California
(City)

COMPANY

Natural Alternatives International, Inc.,
a Delaware corporation

By: ______________________________
(Signature)

Printed Name: ______________________________

Title: ______________________________

Dated: ______________________________

Executed in : ______________ , California
(City)

Exhibit 10.5

AMENDED AND RESTATED
EMPLOYMENT AGREEMENT

This Amended and Restated Employment Agreement ("Agreement") is made and entered into effective as of January 30, 2004 ("Effective Date"), by and between Randell Weaver ("Employee"), and Natural Alternatives International, Inc., a Delaware corporation ("Company"). The Company and Employee may be referred to herein collectively as the "Parties."

RECITALS

WHEREAS, the Company and Employee entered into that certain Executive Employment Agreement dated September 13, 2003; and

WHEREAS, the Company and Employee each desire to amend and restate that certain Executive Employment Agreement dated September 13, 2003, to reflect changes to Employee's severance benefits and certain other agreed upon changes approved by the Company's Board of Directors as hereinafter set forth.

NOW, THEREFORE, in consideration of the mutual promises and covenants set forth herein and intending to be legally bound thereby, the Parties agree as follows:

AGREEMENT

1. **Employment.** Employee hereby accepts the offer of the Company for employment as the Company's President and Secretary upon the terms and conditions set forth herein beginning on January 30, 2004. Employee's employment will be at-will and may be terminated by either Employee or the Company at any time for any reason or no reason, with or without Cause (as hereinafter defined), upon written notice to the other, or without any notice upon the death of Employee. The at-will status of the employment relationship may not be modified except by an agreement in writing signed by the Chief Executive Officer of the Company and Employee, the terms of which were approved in advance in writing by the Company's Board of Directors.

2. **Employee Handbook.** Employee and the Company understand and agree that nothing in the Company's Employee Handbook is intended to be, and nothing in it should be construed to be, a limitation of the Company's right to terminate, transfer, demote, suspend and administer discipline at any time for any reason. Employee and the Company understand and agree nothing in the Company's Employee Handbook is intended to, and nothing in such Handbook should be construed to, create an implied or express contract of employment contrary to this Agreement.

3. **Position and Responsibilities.**

a. During Employee's employment with the Company hereunder, Employee shall have such responsibilities, duties and authority as the Company, through its Board of Directors, may from time to time assign to Employee and that are normal and customary duties

of a President and Secretary of a publicly held corporation. Employee shall perform any other duties reasonably required by the Company and, if requested by the Company, shall serve as a director and/or as an additional officer of the Company or any subsidiary or affiliate of the Company without additional compensation.

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

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

4. **Compensation**.

a. Salary. During the term of Employee's employment hereunder, the Company agrees to pay Employee a base salary of Two Hundred Forty Two Thousand One Hundred Ninety dollars ($242,190) per year, payable no less frequently than monthly in accordance with the Company's general payroll practices. The amount of Employee's base salary as set forth in this Section 4(a) may be adjusted from time to time by an agreement in writing signed by the Chief Executive Officer of the Company and Employee, the terms of which were approved in advance in writing by the Company's Board of Directors.

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

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

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

5. **Termination.**

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

b. Without Cause, Severance Benefit. In the event Employee is terminated by the Company without Cause and not as a result of death, upon Employee's delivery to the Company of an executed general release in a form substantially similar to that set forth in Attachment #3 attached hereto ("Release"), Employee shall be entitled to receive a severance benefit, including standard employee benefits available to the Company's other corporate officers, in an amount equal to one (1) year's compensation. If Employee does not execute and deliver the Release, Employee shall only be entitled to receive a severance benefit in an amount equal to one (1) month's compensation. One half of any severance benefit owing hereunder shall be paid within ten (10) days of termination and the balance shall be paid on a bi-weekly basis over the applicable severance period of one (1) month or one (1) year.

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

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

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

6. **Termination Obligations**.

a. Return of Company Property. Upon termination of this Agreement and cessation of Employee's employment, Employee agrees to return all Company Property (as such term is defined in Attachment #2 to this Agreement) to the Company promptly, but in no event later than two (2) business days following termination of employment.

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

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

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

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

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

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

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

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

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

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

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

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

c. If Employee is terminated without Cause following a Change in Control by the Company and/or the surviving or resulting corporation, upon Employee's delivery to the Company of an executed Release, Employee shall be entitled to receive as severance pay or liquidated damages, or both, a lump sum payment ("Change in Control Severance Payment") in an amount equal to two (2) years' compensation or such greater amount as the Board of Directors determines from time to time pursuant to terms which may not be revoked or reduced thereafter. If Employee does not execute and deliver the Release, Employee shall only be entitled to receive a Change in Control Severance Payment in an amount equal to one (1) month's compensation.

d. Any Change in Control Severance Payment shall be made not later than the fifteenth (15th) day following the effective date of Employee's termination without Cause in connection with a Change in Control; provided, however, that if the amount of such payment cannot be finally determined on or before such date, the Company shall pay to Employee on such date a good faith estimate of the minimum amount of such payment, and shall pay the remainder of such payment (together with interest at the rate provided in Section 1274(b)(2)(B) of the Internal Revenue Code of 1986, as amended ("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. If the amount of the estimated payment exceeds the amount subsequently determined to have been due, such excess shall constitute a loan by the Company to Employee payable on the fifteenth (15th) day after receipt by Employee of a written demand for payment from the Company (together with interest calculated as set forth 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 the Company, to avoid the payment of an "excess parachute" payment within the meaning of Section 280G of the Code or any similar successor provision.

e. In the event of termination of Employee's employment under Section 7(c), and provided Employee delivers to the Company an executed Release, the Company shall cause each then-outstanding stock option granted by the Company to the Employee as of the date of termination to become fully exercisable and to remain exercisable for the term of the option.

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

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

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

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

12. **Miscellaneous Provisions**.

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

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

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

d. Attorneys' Fees. Except as set forth in the Mutual Agreement to Mediate and Arbitrate Claims attached hereto as Attachment #1, should any party institute any action, arbitration or proceeding to enforce, interpret or apply any provision of this Agreement, the Parties agree that the prevailing party shall be entitled to reimbursement by the non-prevailing party of all recoverable costs and expenses, including, but not limited to, reasonable attorneys' fees.

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

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

g. Assignment. This Agreement is binding on and is for the benefit of the Parties and their respective successors, heirs, executors, administrators and other legal

representatives. Neither this Agreement nor any right or obligation hereunder may be assigned by the Company (except to an affiliate of the Company or to a person, as defined herein, in accordance with a Change in Control) or by the Employee.

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

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

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

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

EMPLOYEE

/s/ Randy Weaver

Randell Weaver

COMPANY

Natural Alternatives International, Inc.,
a Delaware corporation

By: /s/ Mark A LeDoux, CEO

Mark A. LeDoux,
Chief Executive Officer

ATTACHMENT #1

MUTUAL AGREEMENT TO MEDIATE AND ARBITRATE CLAIMS

This Mutual Agreement to Mediate and Arbitrate Claims ("Agreement") is made and entered into effective as of January 30, 2004 ("Effective Date"), by and between Randell Weaver ("Employee"), and Natural Alternatives International, Inc., a Delaware corporation ("Company").

In consideration of and as a condition of certain additional severance benefits given to Employee and changes in certain other terms of Employee's employment relationship with the Company, all as set forth in that certain Amended and Restated Employment Agreement by and between Employee and the Company effective as of January 30, 2004, as well as Employee's participation in the Company's benefit programs (when and if eligible), Employee's access to and receipt of confidential information of the Company, and other good and valuable consideration, all of which Employee considers to have been negotiated at arm's length, Employee and Company agree to the following:

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

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

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

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

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

(iv) Any public policy; and

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

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

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

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

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

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

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

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

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

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

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

b. The party demanding arbitration shall submit a written claim to the other party, setting out the basis of the claim and proposing the name of an arbitrator from JAMS, the mutually agreed to ADR organization. The responding party shall have ten (10) business days in which to respond to this demand in a written answer. If this response is not timely made, or if the responding party agrees with the person proposed as the arbitrator, then the person named by the demanding party shall serve as the arbitrator. If the responding party submits a written answer rejecting the proposed arbitrator then, on the request of either party, JAMS shall appoint an arbitrator other than the mediator. The Employee and the Company agree to apply American Arbitration Association ("AAA") rules for the resolution of employment disputes to the

arbitration even though the ADR is one other than AAA. No one who has ever had any business, financial, family, or social relationship with any party to this Agreement shall serve as an arbitrator unless the related party informs the other party of the relationship and the other party consents in writing to the use of that arbitrator.

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

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

e. The arbitrator shall have the following powers:

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

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

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

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

(v) to administer oaths to parties and witnesses.

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

g. The Company shall pay the arbitrator's expenses and fees, all meeting room charges, and any other expenses that would not have been incurred if the case were litigated in the judicial forum having jurisdiction over it. Unless otherwise ordered by the arbitrator, each party shall pay its own attorneys' fees and witness fees, and other expenses incurred by the party for such party's own benefit and not required to be paid by the Company pursuant to the terms hereof. Regardless of any statute, procedure, rule or law, the prevailing party in arbitration shall be entitled to recover from the non-prevailing party reasonable attorneys' fees incurred as a result of arbitration.

4. **Miscellaneous Provisions**.

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

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

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

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

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

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

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

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

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

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

EMPLOYEE

/s/ Randy Weaver

Randell Weaver

COMPANY

Natural Alternatives International, Inc.,
a Delaware corporation

By: /s/ Mark A LeDoux, CEO

Mark A. LeDoux, Chief Executive Officer

ATTACHMENT #2

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

This Confidential Information and Invention Assignment Agreement, Covenant of Exclusivity and Covenant Not to Compete ("Agreement") is made by Randell Weaver ("Employee" or "I," "me" or "my"), and accepted and agreed to by Natural Alternatives International, Inc., a Delaware corporation ("Company"), as of January 30, 2004 ("Effective Date").

In consideration of and as a condition of certain additional severance benefits given to me and changes in certain other terms of my employment relationship with the Company (which for purposes of this Agreement shall be deemed to include any subsidiaries or affiliates of the Company, where "affiliate" shall mean any person or entity that directly or indirectly controls, is controlled by, or is under common control with the Company), all as set forth in that certain Amended and Restated Employment Agreement by and between Employee and the Company effective as of January 30, 2004, as well as my access to and receipt of confidential information of the Company, and other good and valuable consideration, I agree to the following, and I agree the following shall be in addition to the terms and conditions of any Confidential Information and Invention Assignment Agreement executed by employees of the Company generally, and which I may execute in addition hereto:

1. **Inventions**.

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

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

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

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

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

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

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

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

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

2. **Confidential Information**.

a. Company Confidential Information. I will not use or disclose, produce, publish, permit access to, or reveal Confidential Information, whether before, during or after the period of my employment with the Company 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 the Company 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 all information and material that is proprietary to the Company, whether or not marked as “confidential” or “proprietary,” and which is disclosed to or obtained by me, which relates to the Company’s past, present or future business activities. Confidential Information includes all information or materials prepared by or for the Company and includes, without limitation, all of the following: designs, drawings, specifications, techniques, models, data, source code, object code, documentation, diagrams, flow charts, research, development, processes, procedures, “know-how,” new product or new technology information, product copies, development or marketing techniques and materials, development or marketing timetables, strategies and development plans, including trade names, trademarks, customer, supplier or personnel names and other information related to customers, suppliers or personnel, pricing policies and financial information, and other information of a similar nature, whether or not reduced to writing or other tangible form, and any other trade secrets or nonpublic business information. Confidential Information is to be broadly defined, and includes all information that has or could have commercial value or other utility in the business in which the Company is engaged or contemplates engaging, and all information of which the unauthorized disclosure could be detrimental to the interests of the Company, whether or not such information is identified as Confidential Information by the Company.

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, some of which may be subject to restrictions on the use or disclosure thereof by the Company. During the period of my employment and thereafter, I agree not to use or disclose, produce, publish, permit access to, or reveal any such information other than consistent with the restrictions and my duties as an employee of the Company.

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

4. **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 period 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 Company's Board of Directors.

6. **Miscellaneous Provisions**.

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

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

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

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

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

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

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

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

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

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

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

/s/ Randy Weaver

Randell Weaver

ACCEPTED AND AGREED TO:

Natural Alternatives International, Inc.,
a Delaware corporation

By: /s/ Mark A LeDoux, CEO

Mark A. LeDoux, Chief Executive Officer

EXHIBIT A

California Labor Code

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

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

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

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

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

§ 2871. Restrictions on Employer for Condition of Employment.

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

EXHIBIT B

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

EXHIBIT C

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

ATTACHMENT #3

FORM OF
SEPARATION AGREEMENT AND GENERAL RELEASE OF CLAIMS

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

RECITALS

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

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

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

AGREEMENT

1. Separation Payment by Company. In consideration of Former Employee's promises and covenants contained in this Agreement, the Company agrees to pay Former Employee the gross sum of ____________ and __/100 dollars ($__________), which amount represents a severance benefit in the amount of ______________ and ____________________, less all applicable withholdings and deductions.

2. Release.

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

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

3. Confidentiality.

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

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

4. Return of Documents and Equipment. Former Employee represents that Former Employee has returned to the Company all Company Property (as such term is defined in that certain Confidential Information and Invention Assignment Agreement, Covenant of Exclusivity and Covenant Not To Compete by and between Former Employee and Company). In the event Former Employee has not returned all Company Property, Former Employee agrees to reimburse the Company for any reasonable expenses it incurs in an effort to have such property returned. These reasonable expenses include attorneys' fees and costs.

5. Civil Code Section 1542 Waiver.

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

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

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

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

6. OWBPA Provisions. In the event Former Employee is forty (40) years old or older, in accordance with the Older Workers' Benefit Protection Act of 1990, Former Employee is aware of and acknowledges the following: (i) Former Employee has the right to consult with an attorney before signing this Agreement and has done so to the extent desired; (ii) Former Employee has twenty-one (21) days to review and consider this Agreement, and Former Employee may use as much of this twenty-one (21) day period as Former Employee wishes before signing; (iii) for a period of seven (7) days following the execution of this Agreement, Former Employee may revoke this Agreement, and this Agreement shall not become effective or enforceable until the revocation period has expired; (iv) this Agreement shall become effective eight (8) days after it is signed by Former Employee and the Company, and in the event the parties do not sign on the same date, this Agreement shall become effective eight (8) days after the date it is signed by Former Employee.

7. Entire Agreement. The parties declare and represent that no promise, inducement or agreement not herein expressed has been made to them and that this Agreement contains the entire agreement between and among the parties with respect to the subject matter hereof, and that the terms of this Agreement are contractual and not a mere recital. This Agreement supersedes any and all other agreements, either oral or in writing, between the parties with respect to the subject matter hereof.

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

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

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

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

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

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

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

15. Arbitration. Any dispute arising out of or relating to this Agreement shall be resolved pursuant to that certain Mutual Agreement to Mediate and Arbitrate Claims made and entered into effective as of January 30, 2004, by and between the Company and Former Employee.

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

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

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

FORMER EMPLOYEE

____

Randell Weaver

Dated: __________________

Executed in : __________________ , California
(City)

COMPANY

Natural Alternatives International, Inc.,
a Delaware corporation

By: ____________________________________
(Signature)

Printed Name: ____________________________________

Title: ____________________________________

Dated: ____________________________________

Executed in : __________________ , California
(City)

Exhibit 10.6

AMENDED AND RESTATED
EMPLOYMENT AGREEMENT

This Amended and Restated Employment Agreement ("Agreement") is made and entered into effective as of January 30, 2004 ("Effective Date"), by and between Mark A. LeDoux ("Employee"), and Natural Alternatives International, Inc., a Delaware corporation ("Company"). The Company and Employee may be referred to herein collectively as the "Parties."

RECITALS

WHEREAS, the Company and Employee entered into that certain Executive Employment Agreement dated September 13, 2003; and

WHEREAS, the Company and Employee each desire to amend and restate that certain Executive Employment Agreement dated September 13, 2003, to reflect changes to Employee's severance benefits and certain other agreed upon changes approved by the Company's Board of Directors as hereinafter set forth.

NOW, THEREFORE, in consideration of the mutual promises and covenants set forth herein and intending to be legally bound thereby, the Parties agree as follows:

AGREEMENT

1. **Employment.** Employee hereby accepts the offer of the Company for employment as the Company's Chief Executive Officer and Assistant Treasurer upon the terms and conditions set forth herein beginning on January 30, 2004. Employee's employment will be at-will and may be terminated by either Employee or the Company at any time for any reason or no reason, with or without Cause (as hereinafter defined), upon written notice to the other, or without any notice upon the death of Employee. The at-will status of the employment relationship may not be modified except by an agreement in writing signed by the President or Chief Executive Officer of the Company and Employee, the terms of which were approved in advance in writing by the Company's Board of Directors.

2. **Employee Handbook.** Employee and the Company understand and agree that nothing in the Company's Employee Handbook is intended to be, and nothing in it should be construed to be, a limitation of the Company's right to terminate, transfer, demote, suspend and administer discipline at any time for any reason. Employee and the Company understand and agree nothing in the Company's Employee Handbook is intended to, and nothing in such Handbook should be construed to, create an implied or express contract of employment contrary to this Agreement.

3. **Position and Responsibilities.**

a. During Employee's employment with the Company hereunder, Employee shall have such responsibilities, duties and authority as the Company, through its Board of Directors, may from time to time assign to Employee and that are normal and customary duties

of a Chief Executive Officer and Assistant Treasurer of a publicly held corporation. Employee shall perform any other duties reasonably required by the Company and, if requested by the Company, shall serve as a director and/or as an additional officer of the Company or any subsidiary or affiliate of the Company without additional compensation.

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

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

4. **Compensation.**

a. Salary. During the term of Employee's employment hereunder, the Company agrees to pay Employee a base salary of Two Hundred Forty Two Thousand One Hundred Ninety dollars ($242,190) per year, payable no less frequently than monthly in accordance with the Company's general payroll practices. The amount of Employee's base salary as set forth in this Section 4(a) may be adjusted from time to time by an agreement in writing signed by the President or Chief Executive Officer of the Company and Employee, the terms of which were approved in advance in writing by the Company's Board of Directors.

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

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

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

5. **Termination.**

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

b. Without Cause, Severance Benefit. In the event Employee is terminated by the Company without Cause and not as a result of death, upon Employee’s delivery to the Company of an executed general release in a form substantially similar to that set forth in Attachment #3 attached hereto (“Release”), Employee shall be entitled to receive a severance benefit, including standard employee benefits available to the Company’s other corporate officers, in an amount equal to one (1) year’s compensation. If Employee does not execute and deliver the Release, Employee shall only be entitled to receive a severance benefit in an amount equal to one (1) month’s compensation. One half of any severance benefit owing hereunder shall be paid within ten (10) days of termination and the balance shall be paid on a bi-weekly basis over the applicable severance period of one (1) month or one (1) year.

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

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

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

6. **Termination Obligations.**

a. Return of Company Property. Upon termination of this Agreement and cessation of Employee's employment, Employee agrees to return all Company Property (as such term is defined in Attachment #2 to this Agreement) to the Company promptly, but in no event later than two (2) business days following termination of employment.

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

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

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

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

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

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

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

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

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

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

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

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

c. If Employee is terminated without Cause following a Change in Control by the Company and/or the surviving or resulting corporation, upon Employee's delivery to the Company of an executed Release, Employee shall be entitled to receive as severance pay or liquidated damages, or both, a lump sum payment ("Change in Control Severance Payment") in an amount equal to two (2) years' compensation or such greater amount as the Board of Directors determines from time to time pursuant to terms which may not be revoked or reduced thereafter. If Employee does not execute and deliver the Release, Employee shall only be entitled to receive a Change in Control Severance Payment in an amount equal to one (1) month's compensation.

d. Any Change in Control Severance Payment shall be made not later than the fifteenth (15th) day following the effective date of Employee's termination without Cause in connection with a Change in Control; provided, however, that if the amount of such payment cannot be finally determined on or before such date, the Company shall pay to Employee on such date a good faith estimate of the minimum amount of such payment, and shall pay the remainder of such payment (together with interest at the rate provided in Section 1274(b)(2)(B) of the Internal Revenue Code of 1986, as amended ("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. If the amount of the estimated payment exceeds the amount subsequently determined to have been due, such excess shall constitute a loan by the Company to Employee payable on the fifteenth (15th) day after receipt by Employee of a written demand for payment from the Company (together with interest calculated as set forth 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 the Company, to avoid the payment of an "excess parachute" payment within the meaning of Section 280G of the Code or any similar successor provision.

e. In the event of termination of Employee's employment under Section 7(c), and provided Employee delivers to the Company an executed Release, the Company shall cause each then-outstanding stock option granted by the Company to the Employee as of the date of termination to become fully exercisable and to remain exercisable for the term of the option.

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

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

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

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

12. **Miscellaneous Provisions.**

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

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

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

d. Attorneys' Fees. Except as set forth in the Mutual Agreement to Mediate and Arbitrate Claims attached hereto as Attachment #1, should any party institute any action, arbitration or proceeding to enforce, interpret or apply any provision of this Agreement, the Parties agree that the prevailing party shall be entitled to reimbursement by the non-prevailing party of all recoverable costs and expenses, including, but not limited to, reasonable attorneys' fees.

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

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

g. Assignment. This Agreement is binding on and is for the benefit of the Parties and their respective successors, heirs, executors, administrators and other legal

representatives. Neither this Agreement nor any right or obligation hereunder may be assigned by the Company (except to an affiliate of the Company or to a person, as defined herein, in accordance with a Change in Control) or by the Employee.

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

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

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

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

EMPLOYEE

/s/ Mark A. LeDoux

Mark A. LeDoux

COMPANY

Natural Alternatives International, Inc.,
a Delaware corporation

By: /s/ Randy Weaver

Randell Weaver, President

ATTACHMENT #1

MUTUAL AGREEMENT TO MEDIATE AND ARBITRATE CLAIMS

This Mutual Agreement to Mediate and Arbitrate Claims ("Agreement") is made and entered into effective as of January 30, 2004 ("Effective Date"), by and between Mark A. LeDoux ("Employee"), and Natural Alternatives International, Inc., a Delaware corporation ("Company").

In consideration of and as a condition of certain additional severance benefits given to Employee and changes in certain other terms of Employee's employment relationship with the Company, all as set forth in that certain Amended and Restated Employment Agreement by and between Employee and the Company effective as of January 30, 2004, as well as Employee's participation in the Company's benefit programs (when and if eligible), Employee's access to and receipt of confidential information of the Company, and other good and valuable consideration, all of which Employee considers to have been negotiated at arm's length, Employee and Company agree to the following:

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

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

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

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

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

(iv) Any public policy; and

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

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

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

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

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

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

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

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

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

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

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

b. The party demanding arbitration shall submit a written claim to the other party, setting out the basis of the claim and proposing the name of an arbitrator from JAMS, the mutually agreed to ADR organization. The responding party shall have ten (10) business days in which to respond to this demand in a written answer. If this response is not timely made, or if the responding party agrees with the person proposed as the arbitrator, then the person named by the demanding party shall serve as the arbitrator. If the responding party submits a written answer rejecting the proposed arbitrator then, on the request of either party, JAMS shall appoint an arbitrator other than the mediator. The Employee and the Company agree to apply American Arbitration Association ("AAA") rules for the resolution of employment disputes to the

arbitration even though the ADR is one other than AAA. No one who has ever had any business, financial, family, or social relationship with any party to this Agreement shall serve as an arbitrator unless the related party informs the other party of the relationship and the other party consents in writing to the use of that arbitrator.

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

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

e. The arbitrator shall have the following powers:

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

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

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

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

(v) to administer oaths to parties and witnesses.

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

g. The Company shall pay the arbitrator's expenses and fees, all meeting room charges, and any other expenses that would not have been incurred if the case were litigated in the judicial forum having jurisdiction over it. Unless otherwise ordered by the arbitrator, each party shall pay its own attorneys' fees and witness fees, and other expenses incurred by the party for such party's own benefit and not required to be paid by the Company pursuant to the terms hereof. Regardless of any statute, procedure, rule or law, the prevailing party in arbitration shall be entitled to recover from the non-prevailing party reasonable attorneys' fees incurred as a result of arbitration.

4. **Miscellaneous Provisions.**

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

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

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

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

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

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

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

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

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

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

EMPLOYEE

/s/ Mark A LeDoux

Mark A. LeDoux

COMPANY

Natural Alternatives International, Inc.,
a Delaware corporation

By: /s/ Randy Weaver

Randell Weaver, President

ATTACHMENT #2

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

This Confidential Information and Invention Assignment Agreement, Covenant of Exclusivity and Covenant Not to Compete ("Agreement") is made by Mark A. LeDoux ("Employee" or "I," "me" or "my"), and accepted and agreed to by Natural Alternatives International, Inc., a Delaware corporation ("Company"), as of January 30, 2004 ("Effective Date").

In consideration of and as a condition of certain additional severance benefits given to me and changes in certain other terms of my employment relationship with the Company (which for purposes of this Agreement shall be deemed to include any subsidiaries or affiliates of the Company, where "affiliate" shall mean any person or entity that directly or indirectly controls, is controlled by, or is under common control with the Company), all as set forth in that certain Amended and Restated Employment Agreement by and between Employee and the Company effective as of January 30, 2004, as well as my access to and receipt of confidential information of the Company, and other good and valuable consideration, I agree to the following, and I agree the following shall be in addition to the terms and conditions of any Confidential Information and Invention Assignment Agreement executed by employees of the Company generally, and which I may execute in addition hereto:

1. **Inventions.**

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

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

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

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

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

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

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

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

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

2. **Confidential Information.**

a. Company Confidential Information. I will not use or disclose, produce, publish, permit access to, or reveal Confidential Information, whether before, during or after the period of my employment with the Company 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 the Company 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 all information and material that is proprietary to the Company, whether or not marked as “confidential” or “proprietary,” and which is disclosed to or obtained by me, which relates to the Company’s past, present or future business activities. Confidential Information includes all information or materials prepared by or for the Company and includes, without limitation, all of the following: designs, drawings, specifications, techniques, models, data, source code, object code, documentation, diagrams, flow charts, research, development, processes, procedures, “know-how,” new product or new technology information, product copies, development or marketing techniques and materials, development or marketing timetables, strategies and development plans, including trade names, trademarks, customer, supplier or personnel names and other information related to customers, suppliers or personnel, pricing policies and financial information, and other information of a similar nature, whether or not reduced to writing or other tangible form, and any other trade secrets or nonpublic business information. Confidential Information is to be broadly defined, and includes all information that has or could have commercial value or other utility in the business in which the Company is engaged or contemplates engaging, and all information of which the unauthorized disclosure could be detrimental to the interests of the Company, whether or not such information is identified as Confidential Information by the Company.

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, some of which may be subject to restrictions on the use or disclosure thereof by the Company. During the period of my employment and thereafter, I agree not to use or disclose, produce, publish, permit access to, or reveal any such information other than consistent with the restrictions and my duties as an employee of the Company.

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

4. **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 period 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 Company's Board of Directors.

6. **Miscellaneous Provisions.**

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

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

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

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

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

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

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

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

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

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

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

/s/ Mark A LeDoux

Mark A. LeDoux

ACCEPTED AND AGREED TO:

Natural Alternatives International, Inc.,
a Delaware corporation

By: /s/ Randy Weaver

Randell Weaver, President

EXHIBIT A

California Labor Code

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

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

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

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

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

§ 2871. Restrictions on Employer for Condition of Employment.

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

EXHIBIT B

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

EXHIBIT C

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

ATTACHMENT #3

FORM OF
SEPARATION AGREEMENT AND GENERAL RELEASE OF CLAIMS

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

RECITALS

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

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

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

AGREEMENT

1. Separation Payment by Company. In consideration of Former Employee's promises and covenants contained in this Agreement, the Company agrees to pay Former Employee the gross sum of _________ and __/100 dollars ($_________), which amount represents a severance benefit in the amount of ____________ and __________________, less all applicable withholdings and deductions.

2. Release.

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

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

3. Confidentiality.

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

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

4. Return of Documents and Equipment. Former Employee represents that Former Employee has returned to the Company all Company Property (as such term is defined in that certain Confidential Information and Invention Assignment Agreement, Covenant of Exclusivity and Covenant Not To Compete by and between Former Employee and Company). In the event Former Employee has not returned all Company Property, Former Employee agrees to reimburse the Company for any reasonable expenses it incurs in an effort to have such property returned. These reasonable expenses include attorneys' fees and costs.

5. Civil Code Section 1542 Waiver.

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

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

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

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

6. OWBPA Provisions. In the event Former Employee is forty (40) years old or older, in accordance with the Older Workers' Benefit Protection Act of 1990, Former Employee is aware of and acknowledges the following: (i) Former Employee has the right to consult with an attorney before signing this Agreement and has done so to the extent desired; (ii) Former Employee has twenty-one (21) days to review and consider this Agreement, and Former Employee may use as much of this twenty-one (21) day period as Former Employee wishes before signing; (iii) for a period of seven (7) days following the execution of this Agreement, Former Employee may revoke this Agreement, and this Agreement shall not become effective or enforceable until the revocation period has expired; (iv) this Agreement shall become effective eight (8) days after it is signed by Former Employee and the Company, and in the event the parties do not sign on the same date, this Agreement shall become effective eight (8) days after the date it is signed by Former Employee.

7. Entire Agreement. The parties declare and represent that no promise, inducement or agreement not herein expressed has been made to them and that this Agreement contains the entire agreement between and among the parties with respect to the subject matter hereof, and that the terms of this Agreement are contractual and not a mere recital. This Agreement supersedes any and all other agreements, either oral or in writing, between the parties with respect to the subject matter hereof.

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

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

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

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

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

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

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

15. Arbitration. Any dispute arising out of or relating to this Agreement shall be resolved pursuant to that certain Mutual Agreement to Mediate and Arbitrate Claims made and entered into effective as of January 30, 2004, by and between the Company and Former Employee.

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

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

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

FORMER EMPLOYEE

____

Mark A. LeDoux

Dated: ____________________

Executed in : ____________________ , California
(City)

COMPANY

Natural Alternatives International, Inc.,
a Delaware corporation

By: ______________________________________
(Signature)

Printed Name: ______________________________________

Title: ______________________________________

Dated: ______________________________________

Executed in : ____________________ , California
(City)

Exhibit 10.7

AMENDED AND RESTATED
EMPLOYMENT AGREEMENT

This Amended and Restated Employment Agreement ("Agreement") is made and entered into effective as of January 30, 2004 ("Effective Date"), by and between Dr. John A. Wise ("Employee"), and Natural Alternatives International, Inc., a Delaware corporation ("Company"). The Company and Employee may be referred to herein collectively as the "Parties."

RECITALS

WHEREAS, the Company and Employee entered into that certain Executive Employment Agreement dated September 13, 2003; and

WHEREAS, the Company and Employee each desire to amend and restate that certain Executive Employment Agreement dated September 13, 2003, to reflect changes to Employee's severance benefits and certain other agreed upon changes approved by the Company's Board of Directors as hereinafter set forth.

NOW, THEREFORE, in consideration of the mutual promises and covenants set forth herein and intending to be legally bound thereby, the Parties agree as follows:

AGREEMENT

1. **Employment.** Employee hereby accepts the offer of the Company for employment as the Company's Chief Scientific Officer upon the terms and conditions set forth herein beginning on January 30, 2004. Employee's employment will be at-will and may be terminated by either Employee or the Company at any time for any reason or no reason, with or without Cause (as hereinafter defined), upon written notice to the other, or without any notice upon the death of Employee. The at-will status of the employment relationship may not be modified except by an agreement in writing signed by the President or Chief Executive Officer of the Company and Employee, the terms of which were approved in advance in writing by the Company's Board of Directors.

2. **Employee Handbook.** Employee and the Company understand and agree that nothing in the Company's Employee Handbook is intended to be, and nothing in it should be construed to be, a limitation of the Company's right to terminate, transfer, demote, suspend and administer discipline at any time for any reason. Employee and the Company understand and agree nothing in the Company's Employee Handbook is intended to, and nothing in such Handbook should be construed to, create an implied or express contract of employment contrary to this Agreement.

3. **Position and Responsibilities**.

a. During Employee's employment with the Company hereunder, Employee shall have such responsibilities, duties and authority as the Company, through its Board of Directors, may from time to time assign to Employee and that are normal and customary duties

of a Chief Scientific Officer of a publicly held corporation. Employee shall perform any other duties reasonably required by the Company and, if requested by the Company, shall serve as a director and/or as an additional officer of the Company or any subsidiary or affiliate of the Company without additional compensation.

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

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

4. **Compensation.**

a. Salary. During the term of Employee's employment hereunder, the Company agrees to pay Employee a base salary of One Hundred Ninety Three Thousand Seven Hundred Fifty Two dollars ($193,752) per year, payable no less frequently than monthly in accordance with the Company's general payroll practices. The amount of Employee's base salary as set forth in this Section 4(a) may be adjusted from time to time by an agreement in writing signed by the President or Chief Executive Officer of the Company and Employee, the terms of which were approved in advance in writing by the Company's Board of Directors.

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

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

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

5. **Termination**.

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

b. Without Cause, Severance Benefit. In the event Employee is terminated by the Company without Cause and not as a result of death, upon Employee's delivery to the Company of an executed general release in a form substantially similar to that set forth in Attachment #3 attached hereto ("Release"), Employee shall be entitled to receive a severance benefit, including standard employee benefits available to the Company's other corporate officers, in an amount equal to one (1) year's compensation. If Employee does not execute and deliver the Release, Employee shall only be entitled to receive a severance benefit in an amount equal to one (1) month's compensation. One half of any severance benefit owing hereunder shall be paid within ten (10) days of termination and the balance shall be paid on a bi-weekly basis over the applicable severance period of one (1) month or one (1) year.

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

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

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

6. **Termination Obligations**.

a. Return of Company Property. Upon termination of this Agreement and cessation of Employee's employment, Employee agrees to return all Company Property (as such term is defined in Attachment #2 to this Agreement) to the Company promptly, but in no event later than two (2) business days following termination of employment.

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

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

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

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

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

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

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

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

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

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

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

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

c. If Employee is terminated without Cause following a Change in Control by the Company and/or the surviving or resulting corporation, upon Employee's delivery to the Company of an executed Release, Employee shall be entitled to receive as severance pay or liquidated damages, or both, a lump sum payment ("Change in Control Severance Payment") in an amount equal to two (2) years' compensation or such greater amount as the Board of Directors determines from time to time pursuant to terms which may not be revoked or reduced thereafter. If Employee does not execute and deliver the Release, Employee shall only be entitled to receive a Change in Control Severance Payment in an amount equal to one (1) month's compensation.

d. Any Change in Control Severance Payment shall be made not later than the fifteenth (15th) day following the effective date of Employee's termination without Cause in connection with a Change in Control; provided, however, that if the amount of such payment cannot be finally determined on or before such date, the Company shall pay to Employee on such date a good faith estimate of the minimum amount of such payment, and shall pay the remainder of such payment (together with interest at the rate provided in Section 1274(b)(2)(B) of the Internal Revenue Code of 1986, as amended ("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. If the amount of the estimated payment exceeds the amount subsequently determined to have been due, such excess shall constitute a loan by the Company to Employee payable on the fifteenth (15th) day after receipt by Employee of a written demand for payment from the Company (together with interest calculated as set forth 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 the Company, to avoid the payment of an "excess parachute" payment within the meaning of Section 280G of the Code or any similar successor provision.

e. In the event of termination of Employee's employment under Section 7(c), and provided Employee delivers to the Company an executed Release, the Company shall cause each then-outstanding stock option granted by the Company to the Employee as of the date of termination to become fully exercisable and to remain exercisable for the term of the option.

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

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

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

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

12. **Miscellaneous Provisions**.

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

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

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

d. Attorneys' Fees. Except as set forth in the Mutual Agreement to Mediate and Arbitrate Claims attached hereto as Attachment #1, should any party institute any action, arbitration or proceeding to enforce, interpret or apply any provision of this Agreement, the Parties agree that the prevailing party shall be entitled to reimbursement by the non-prevailing party of all recoverable costs and expenses, including, but not limited to, reasonable attorneys' fees.

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

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

g. Assignment. This Agreement is binding on and is for the benefit of the Parties and their respective successors, heirs, executors, administrators and other legal

representatives. Neither this Agreement nor any right or obligation hereunder may be assigned by the Company (except to an affiliate of the Company or to a person, as defined herein, in accordance with a Change in Control) or by the Employee.

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

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

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

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

EMPLOYEE

/s/ John A. Wise

Dr. John A. Wise

COMPANY

Natural Alternatives International, Inc.,
a Delaware corporation

By: /s/ Randy Weaver

Randell Weaver, President

ATTACHMENT #1

MUTUAL AGREEMENT TO MEDIATE AND ARBITRATE CLAIMS

This Mutual Agreement to Mediate and Arbitrate Claims ("Agreement") is made and entered into effective as of January 30, 2004 ("Effective Date"), by and between Dr. John A. Wise ("Employee"), and Natural Alternatives International, Inc., a Delaware corporation ("Company").

In consideration of and as a condition of certain additional severance benefits given to Employee and changes in certain other terms of Employee's employment relationship with the Company, all as set forth in that certain Amended and Restated Employment Agreement by and between Employee and the Company effective as of January 30, 2004, as well as Employee's participation in the Company's benefit programs (when and if eligible), Employee's access to and receipt of confidential information of the Company, and other good and valuable consideration, all of which Employee considers to have been negotiated at arm's length, Employee and Company agree to the following:

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

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

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

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

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

(iv) Any public policy; and

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

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

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

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

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

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

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

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

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

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

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

b. The party demanding arbitration shall submit a written claim to the other party, setting out the basis of the claim and proposing the name of an arbitrator from JAMS, the mutually agreed to ADR organization. The responding party shall have ten (10) business days in which to respond to this demand in a written answer. If this response is not timely made, or if the responding party agrees with the person proposed as the arbitrator, then the person named by the demanding party shall serve as the arbitrator. If the responding party submits a written answer rejecting the proposed arbitrator then, on the request of either party, JAMS shall appoint an arbitrator other than the mediator. The Employee and the Company agree to apply American Arbitration Association ("AAA") rules for the resolution of employment disputes to the

arbitration even though the ADR is one other than AAA. No one who has ever had any business, financial, family, or social relationship with any party to this Agreement shall serve as an arbitrator unless the related party informs the other party of the relationship and the other party consents in writing to the use of that arbitrator.

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

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

e. The arbitrator shall have the following powers:

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

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

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

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

(v) to administer oaths to parties and witnesses.

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

g. The Company shall pay the arbitrator's expenses and fees, all meeting room charges, and any other expenses that would not have been incurred if the case were litigated in the judicial forum having jurisdiction over it. Unless otherwise ordered by the arbitrator, each party shall pay its own attorneys' fees and witness fees, and other expenses incurred by the party for such party's own benefit and not required to be paid by the Company pursuant to the terms hereof. Regardless of any statute, procedure, rule or law, the prevailing party in arbitration shall be entitled to recover from the non-prevailing party reasonable attorneys' fees incurred as a result of arbitration.

4. **Miscellaneous Provisions**.

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

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

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

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

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

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

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

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

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

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

EMPLOYEE

/s/ John A. Wise

Dr. John A. Wise

COMPANY

Natural Alternatives International, Inc.,
a Delaware corporation

By: /s/ Randy Weaver

Randell Weaver, President

ATTACHMENT #2

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

This Confidential Information and Invention Assignment Agreement, Covenant of Exclusivity and Covenant Not to Compete ("Agreement") is made by Dr. John A. Wise ("Employee" or "I," "me" or "my"), and accepted and agreed to by Natural Alternatives International, Inc., a Delaware corporation ("Company"), as of January 30, 2004 ("Effective Date").

In consideration of and as a condition of certain additional severance benefits given to me and changes in certain other terms of my employment relationship with the Company (which for purposes of this Agreement shall be deemed to include any subsidiaries or affiliates of the Company, where "affiliate" shall mean any person or entity that directly or indirectly controls, is controlled by, or is under common control with the Company), all as set forth in that certain Amended and Restated Employment Agreement by and between Employee and the Company effective as of January 30, 2004, as well as my access to and receipt of confidential information of the Company, and other good and valuable consideration, I agree to the following, and I agree the following shall be in addition to the terms and conditions of any Confidential Information and Invention Assignment Agreement executed by employees of the Company generally, and which I may execute in addition hereto:

1. **Inventions**.

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

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

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

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

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

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

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

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

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

2. **Confidential Information**.

a. Company Confidential Information. I will not use or disclose, produce, publish, permit access to, or reveal Confidential Information, whether before, during or after the period of my employment with the Company 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 the Company 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 all information and material that is proprietary to the Company, whether or not marked as “confidential” or “proprietary,” and which is disclosed to or obtained by me, which relates to the Company’s past, present or future business activities. Confidential Information includes all information or materials prepared by or for the Company and includes, without limitation, all of the following: designs, drawings, specifications, techniques, models, data, source code, object code, documentation, diagrams, flow charts, research, development, processes, procedures, “know-how,” new product or new technology information, product copies, development or marketing techniques and materials, development or marketing timetables, strategies and development plans, including trade names, trademarks, customer, supplier or personnel names and other information related to customers, suppliers or personnel, pricing policies and financial information, and other information of a similar nature, whether or not reduced to writing or other tangible form, and any other trade secrets or nonpublic business information. Confidential Information is to be broadly defined, and includes all information that has or could have commercial value or other utility in the business in which the Company is engaged or contemplates engaging, and all information of which the unauthorized disclosure could be detrimental to the interests of the Company, whether or not such information is identified as Confidential Information by the Company.

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, some of which may be subject to restrictions on the use or disclosure thereof by the Company. During the period of my employment and thereafter, I agree not to use or disclose, produce, publish, permit access to, or reveal any such information other than consistent with the restrictions and my duties as an employee of the Company.

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

4. **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 period 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 Company's Board of Directors.

6. **Miscellaneous Provisions**.

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

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

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

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

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

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

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

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

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

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

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

/s/ John A. Wise

Dr. John A. Wise

ACCEPTED AND AGREED TO:

Natural Alternatives International, Inc.,
a Delaware corporation

By: /s/ Randy Weaver

Randell Weaver, President

EXHIBIT A

California Labor Code

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

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

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

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

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

§ 2871. Restrictions on Employer for Condition of Employment.

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

EXHIBIT B

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

EXHIBIT C

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

ATTACHMENT #3

FORM OF
SEPARATION AGREEMENT AND GENERAL RELEASE OF CLAIMS

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

RECITALS

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

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

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

AGREEMENT

1. Separation Payment by Company. In consideration of Former Employee's promises and covenants contained in this Agreement, the Company agrees to pay Former Employee the gross sum of __________ and ______/100 dollars ($__________), which amount represents a severance benefit in the amount of __________ and __________, less all applicable withholdings and deductions.

2. Release.

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

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

3. Confidentiality.

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

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

4. Return of Documents and Equipment. Former Employee represents that Former Employee has returned to the Company all Company Property (as such term is defined in that certain Confidential Information and Invention Assignment Agreement, Covenant of Exclusivity and Covenant Not To Compete by and between Former Employee and Company). In the event Former Employee has not returned all Company Property, Former Employee agrees to reimburse the Company for any reasonable expenses it incurs in an effort to have such property returned. These reasonable expenses include attorneys' fees and costs.

5. Civil Code Section 1542 Waiver.

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

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

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

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

6. OWBPA Provisions. In the event Former Employee is forty (40) years old or older, in accordance with the Older Workers' Benefit Protection Act of 1990, Former Employee is aware of and acknowledges the following: (i) Former Employee has the right to consult with an attorney before signing this Agreement and has done so to the extent desired; (ii) Former Employee has twenty-one (21) days to review and consider this Agreement, and Former Employee may use as much of this twenty-one (21) day period as Former Employee wishes before signing; (iii) for a period of seven (7) days following the execution of this Agreement, Former Employee may revoke this Agreement, and this Agreement shall not become effective or enforceable until the revocation period has expired; (iv) this Agreement shall become effective eight (8) days after it is signed by Former Employee and the Company, and in the event the parties do not sign on the same date, this Agreement shall become effective eight (8) days after the date it is signed by Former Employee.

7. Entire Agreement. The parties declare and represent that no promise, inducement or agreement not herein expressed has been made to them and that this Agreement contains the entire agreement between and among the parties with respect to the subject matter hereof, and that the terms of this Agreement are contractual and not a mere recital. This Agreement supersedes any and all other agreements, either oral or in writing, between the parties with respect to the subject matter hereof.

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

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

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

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

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

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

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

15. Arbitration. Any dispute arising out of or relating to this Agreement shall be resolved pursuant to that certain Mutual Agreement to Mediate and Arbitrate Claims made and entered into effective as of January 30, 2004, by and between the Company and Former Employee.

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

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

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

FORMER EMPLOYEE

____

Dr. John A. Wise

Dated: ______________________

Executed in : ____________ , California

(City)

COMPANY

Natural Alternatives International,
Inc.,
a Delaware corporation

By: ______________________

(Signature)

Printed Name: ______________________

Title: ______________________

Dated: ______________________

Executed in : ____________ , California

(City)

Exhibit 10.8

**AMENDED AND RESTATED
EMPLOYMENT AGREEMENT**

This Amended and Restated Employment Agreement ("Agreement") is made and entered into effective as of January 30, 2004 ("Effective Date"), by and between John R. Reaves, Jr. ("Employee"), and Natural Alternatives International, Inc., a Delaware corporation ("Company"). The Company and Employee may be referred to herein collectively as the "Parties."

RECITALS

WHEREAS, the Company and Employee entered into that certain Executive Employment Agreement dated September 13, 2003; and

WHEREAS, the Company and Employee each desire to amend and restate that certain Executive Employment Agreement dated September 13, 2003, to reflect changes to Employee's severance benefits and certain other agreed upon changes approved by the Company's Board of Directors as hereinafter set forth.

NOW, THEREFORE, in consideration of the mutual promises and covenants set forth herein and intending to be legally bound thereby, the Parties agree as follows:

AGREEMENT

1. **Employment.** Employee hereby accepts the offer of the Company for employment as the Company's Chief Financial Officer upon the terms and conditions set forth herein beginning on January 30, 2004. Employee's employment will be at-will and may be terminated by either Employee or the Company at any time for any reason or no reason, with or without Cause (as hereinafter defined), upon written notice to the other, or without any notice upon the death of Employee. The at-will status of the employment relationship may not be modified except by an agreement in writing signed by the President or Chief Executive Officer of the Company and Employee, the terms of which were approved in advance in writing by the Company's Board of Directors.

2. **Employee Handbook.** Employee and the Company understand and agree that nothing in the Company's Employee Handbook is intended to be, and nothing in it should be construed to be, a limitation of the Company's right to terminate, transfer, demote, suspend and administer discipline at any time for any reason. Employee and the Company understand and agree nothing in the Company's Employee Handbook is intended to, and nothing in such Handbook should be construed to, create an implied or express contract of employment contrary to this Agreement.

3. **Position and Responsibilities**.

a. During Employee's employment with the Company hereunder, Employee shall have such responsibilities, duties and authority as the Company, through its Board of Directors, may from time to time assign to Employee and that are normal and customary duties

of a Chief Financial Officer of a publicly held corporation. Employee shall perform any other duties reasonably required by the Company and, if requested by the Company, shall serve as a director and/or as an additional officer of the Company or any subsidiary or affiliate of the Company without additional compensation.

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

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

4. Compensation.

a. Salary. During the term of Employee's employment hereunder, the Company agrees to pay Employee a base salary of One Hundred Seventy Six Thousand Eight Hundred dollars ($176,800) per year, payable no less frequently than monthly in accordance with the Company's general payroll practices. The amount of Employee's base salary as set forth in this Section 4(a) may be adjusted from time to time by an agreement in writing signed by the President or Chief Executive Officer of the Company and Employee, the terms of which were approved in advance in writing by the Company's Board of Directors.

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

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

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

5. Termination.

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

b. Without Cause, Severance Benefit. In the event Employee is terminated by the Company without Cause and not as a result of death, upon Employee's delivery to the Company of an executed general release in a form substantially similar to that set forth in Attachment #3 attached hereto ("Release"), Employee shall be entitled to receive a severance benefit, including standard employee benefits available to the Company's other corporate officers, in an amount equal to one (1) year's compensation. If Employee does not execute and deliver the Release, Employee shall only be entitled to receive a severance benefit in an amount equal to one (1) month's compensation. One half of any severance benefit owing hereunder shall be paid within ten (10) days of termination and the balance shall be paid on a bi-weekly basis over the applicable severance period of one (1) month or one (1) year.

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

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

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

6. Termination Obligations.

a. Return of Company Property. Upon termination of this Agreement and cessation of Employee's employment, Employee agrees to return all Company Property (as such term is defined in Attachment #2 to this Agreement) to the Company promptly, but in no event later than two (2) business days following termination of employment.

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

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

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

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

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

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

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

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

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

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

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

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

c. If Employee is terminated without Cause following a Change in Control by the Company and/or the surviving or resulting corporation, upon Employee's delivery to the Company of an executed Release, Employee shall be entitled to receive as severance pay or liquidated damages, or both, a lump sum payment ("Change in Control Severance Payment") in an amount equal to two (2) years' compensation or such greater amount as the Board of Directors determines from time to time pursuant to terms which may not be revoked or reduced thereafter. If Employee does not execute and deliver the Release, Employee shall only be entitled to receive a Change in Control Severance Payment in an amount equal to one (1) month's compensation.

d. Any Change in Control Severance Payment shall be made not later than the fifteenth (15th) day following the effective date of Employee's termination without Cause in connection with a Change in Control; provided, however, that if the amount of such payment cannot be finally determined on or before such date, the Company shall pay to Employee on such date a good faith estimate of the minimum amount of such payment, and shall pay the remainder of such payment (together with interest at the rate provided in Section 1274(b)(2)(B) of the Internal Revenue Code of 1986, as amended ("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. If the amount of the estimated payment exceeds the amount subsequently determined to have been due, such excess shall constitute a loan by the Company to Employee payable on the fifteenth (15th) day after receipt by Employee of a written demand for payment from the Company (together with interest calculated as set forth 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 the Company, to avoid the payment of an “excess parachute” payment within the meaning of Section 280G of the Code or any similar successor provision.

e. In the event of termination of Employee’s employment under Section 7(c), and provided Employee delivers to the Company an executed Release, the Company shall cause each then-outstanding stock option granted by the Company to the Employee as of the date of termination to become fully exercisable and to remain exercisable for the term of the option.

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

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

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

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

12. Miscellaneous Provisions.

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

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

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

d. Attorneys' Fees. Except as set forth in the Mutual Agreement to Mediate and Arbitrate Claims attached hereto as Attachment #1, should any party institute any action, arbitration or proceeding to enforce, interpret or apply any provision of this Agreement, the Parties agree that the prevailing party shall be entitled to reimbursement by the non-prevailing party of all recoverable costs and expenses, including, but not limited to, reasonable attorneys' fees.

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

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

g. Assignment. This Agreement is binding on and is for the benefit of the Parties and their respective successors, heirs, executors, administrators and other legal

representatives. Neither this Agreement nor any right or obligation hereunder may be assigned by the Company (except to an affiliate of the Company or to a person, as defined herein, in accordance with a Change in Control) or by the Employee.

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

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

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

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

EMPLOYEE

/s/ John R. Reaves, Jr.

John R. Reaves, Jr.

COMPANY

Natural Alternatives International, Inc.,
a Delaware corporation

By: /s/ Randy Weaver

Randell Weaver, President

ATTACHMENT #1

MUTUAL AGREEMENT TO MEDIATE AND ARBITRATE CLAIMS

This Mutual Agreement to Mediate and Arbitrate Claims ("Agreement") is made and entered into effective as of January 30, 2004 ("Effective Date"), by and between John R. Reaves, Jr. ("Employee"), and Natural Alternatives International, Inc., a Delaware corporation ("Company").

In consideration of and as a condition of certain additional severance benefits given to Employee and changes in certain other terms of Employee's employment relationship with the Company, all as set forth in that certain Amended and Restated Employment Agreement by and between Employee and the Company effective as of January 30, 2004, as well as Employee's participation in the Company's benefit programs (when and if eligible), Employee's access to and receipt of confidential information of the Company, and other good and valuable consideration, all of which Employee considers to have been negotiated at arm's length, Employee and Company agree to the following:

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

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

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

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

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

(iv) Any public policy; and

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

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

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

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

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

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

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

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

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

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

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

b. The party demanding arbitration shall submit a written claim to the other party, setting out the basis of the claim and proposing the name of an arbitrator from JAMS, the mutually agreed to ADR organization. The responding party shall have ten (10) business days in which to respond to this demand in a written answer. If this response is not timely made, or if the responding party agrees with the person proposed as the arbitrator, then the person named by the demanding party shall serve as the arbitrator. If the responding party submits a written answer rejecting the proposed arbitrator then, on the request of either party, JAMS shall appoint an arbitrator other than the mediator. The Employee and the Company agree to apply American Arbitration Association ("AAA") rules for the resolution of employment disputes to the

arbitration even though the ADR is one other than AAA. No one who has ever had any business, financial, family, or social relationship with any party to this Agreement shall serve as an arbitrator unless the related party informs the other party of the relationship and the other party consents in writing to the use of that arbitrator.

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

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

e. The arbitrator shall have the following powers:

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

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

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

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

(v) to administer oaths to parties and witnesses.

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

g. The Company shall pay the arbitrator's expenses and fees, all meeting room charges, and any other expenses that would not have been incurred if the case were litigated in the judicial forum having jurisdiction over it. Unless otherwise ordered by the arbitrator, each party shall pay its own attorneys' fees and witness fees, and other expenses incurred by the party for such party's own benefit and not required to be paid by the Company pursuant to the terms hereof. Regardless of any statute, procedure, rule or law, the prevailing party in arbitration shall be entitled to recover from the non-prevailing party reasonable attorneys' fees incurred as a result of arbitration.

4. **Miscellaneous Provisions**.

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

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

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

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

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

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

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

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

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

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

EMPLOYEE

/s/ John R. Reaves, Jr.

John R. Reaves, Jr.

COMPANY

Natural Alternatives International, Inc.,
a Delaware corporation

By: /s/ Randy Weaver

Randell Weaver, President

ATTACHMENT #2

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

This Confidential Information and Invention Assignment Agreement, Covenant of Exclusivity and Covenant Not to Compete ("Agreement") is made by John R. Reaves, Jr. ("Employee" or "I," "me" or "my"), and accepted and agreed to by Natural Alternatives International, Inc., a Delaware corporation ("Company"), as of January 30, 2004 ("Effective Date").

In consideration of and as a condition of certain additional severance benefits given to me and changes in certain other terms of my employment relationship with the Company (which for purposes of this Agreement shall be deemed to include any subsidiaries or affiliates of the Company, where "affiliate" shall mean any person or entity that directly or indirectly controls, is controlled by, or is under common control with the Company), all as set forth in that certain Amended and Restated Employment Agreement by and between Employee and the Company effective as of January 30, 2004, as well as my access to and receipt of confidential information of the Company, and other good and valuable consideration, I agree to the following, and I agree the following shall be in addition to the terms and conditions of any Confidential Information and Invention Assignment Agreement executed by employees of the Company generally, and which I may execute in addition hereto:

1. **Inventions**.

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

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

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

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

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

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

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

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

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

2. **Confidential Information**.

a. Company Confidential Information. I will not use or disclose, produce, publish, permit access to, or reveal Confidential Information, whether before, during or after the period of my employment with the Company 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 the Company 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 all information and material that is proprietary to the Company, whether or not marked as “confidential” or “proprietary,” and which is disclosed to or obtained by me, which relates to the Company’s past, present or future business activities. Confidential Information includes all information or materials prepared by or for the Company and includes, without limitation, all of the following: designs, drawings, specifications, techniques, models, data, source code, object code, documentation, diagrams, flow charts, research, development, processes, procedures, “know-how,” new product or new technology information, product copies, development or marketing techniques and materials, development or marketing timetables, strategies and development plans, including trade names, trademarks, customer, supplier or personnel names and other information related to customers, suppliers or personnel, pricing policies and financial information, and other information of a similar nature, whether or not reduced to writing or other tangible form, and any other trade secrets or nonpublic business information. Confidential Information is to be broadly defined, and includes all information that has or could have commercial value or other utility in the business in which the Company is engaged or contemplates engaging, and all information of which the unauthorized disclosure could be detrimental to the interests of the Company, whether or not such information is identified as Confidential Information by the Company.

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, some of which may be subject to restrictions on the use or disclosure thereof by the Company. During the period of my employment and thereafter, I agree not to use or disclose, produce, publish, permit access to, or reveal any such information other than consistent with the restrictions and my duties as an employee of the Company.

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

4. **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 period 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 Company's Board of Directors.

6. **Miscellaneous Provisions**.

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

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

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

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

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

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

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

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

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

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

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

/s/ John R. Reaves, Jr.

John R. Reaves, Jr.

ACCEPTED AND AGREED TO:

Natural Alternatives International, Inc.,
a Delaware corporation

By: /s/ Randy Weaver

Randell Weaver, President

EXHIBIT A

California Labor Code

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

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

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

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

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

§ 2871. Restrictions on Employer for Condition of Employment.

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

EXHIBIT B

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

EXHIBIT C

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

ATTACHMENT #3

FORM OF
SEPARATION AGREEMENT AND GENERAL RELEASE OF CLAIMS

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

RECITALS

A. Former Employee’s employment with the Company terminated effective on _________.

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

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

AGREEMENT

1. Separation Payment by Company. In consideration of Former Employee’s promises and covenants contained in this Agreement, the Company agrees to pay Former Employee the gross sum of _________ and __/100 dollars ($_________), which amount represents a severance benefit in the amount of _________ and _________, less all applicable withholdings and deductions.

2. Release.

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

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

3. Confidentiality.

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

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

4. Return of Documents and Equipment. Former Employee represents that Former Employee has returned to the Company all Company Property (as such term is defined in that certain Confidential Information and Invention Assignment Agreement, Covenant of Exclusivity and Covenant Not To Compete by and between Former Employee and Company). In the event Former Employee has not returned all Company Property, Former Employee agrees to reimburse the Company for any reasonable expenses it incurs in an effort to have such property returned. These reasonable expenses include attorneys' fees and costs.

5. Civil Code Section 1542 Waiver.

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

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

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

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

6. OWBPA Provisions. In the event Former Employee is forty (40) years old or older, in accordance with the Older Workers' Benefit Protection Act of 1990, Former Employee is aware of and acknowledges the following: (i) Former Employee has the right to consult with an attorney before signing this Agreement and has done so to the extent desired; (ii) Former Employee has twenty-one (21) days to review and consider this Agreement, and Former Employee may use as much of this twenty-one (21) day period as Former Employee wishes before signing; (iii) for a period of seven (7) days following the execution of this Agreement, Former Employee may revoke this Agreement, and this Agreement shall not become effective or enforceable until the revocation period has expired; (iv) this Agreement shall become effective eight (8) days after it is signed by Former Employee and the Company, and in the event the parties do not sign on the same date, this Agreement shall become effective eight (8) days after the date it is signed by Former Employee.

7. Entire Agreement. The parties declare and represent that no promise, inducement or agreement not herein expressed has been made to them and that this Agreement contains the entire agreement between and among the parties with respect to the subject matter hereof, and that the terms of this Agreement are contractual and not a mere recital. This Agreement supersedes any and all other agreements, either oral or in writing, between the parties with respect to the subject matter hereof.

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

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

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

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

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

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

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

15. Arbitration. Any dispute arising out of or relating to this Agreement shall be resolved pursuant to that certain Mutual Agreement to Mediate and Arbitrate Claims made and entered into effective as of January 30, 2004, by and between the Company and Former Employee.

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

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

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

FORMER EMPLOYEE

____

John R. Reaves, Jr

Dated: __________________

Executed in : __________________ ,California
(City)

COMPANY

Natural Alternatives International, Inc.,
a Delaware corporation

By: ____________________________________
(Signature)

Printed Name: ____________________________________

Title: ____________________________________

Dated: ____________________________________

Executed in : __________________ ,California
(City)

Exhibit 10.9

AMENDED AND RESTATED
EMPLOYMENT AGREEMENT

This Amended and Restated Employment Agreement ("Agreement") is made and entered into effective as of January 30, 2004 ("Effective Date"), by and between Timothy E. Belanger ("Employee"), and Natural Alternatives International, Inc., a Delaware corporation ("Company"). The Company and Employee may be referred to herein collectively as the "Parties."

RECITALS

WHEREAS, the Company and Employee entered into that certain Executive Employment Agreement dated September 13, 2003; and

WHEREAS, the Company and Employee each desire to amend and restate that certain Executive Employment Agreement dated September 13, 2003, to reflect changes to Employee's severance benefits and certain other agreed upon changes approved by the Company's Board of Directors as hereinafter set forth.

NOW, THEREFORE, in consideration of the mutual promises and covenants set forth herein and intending to be legally bound thereby, the Parties agree as follows:

AGREEMENT

1. **Employment.** Employee hereby accepts the offer of the Company for employment as the Company's Senior Vice President – Sales and Marketing upon the terms and conditions set forth herein beginning on January 30, 2004. Employee's employment will be at-will and may be terminated by either Employee or the Company at any time for any reason or no reason, with or without Cause (as hereinafter defined), upon written notice to the other, or without any notice upon the death of Employee. The at-will status of the employment relationship may not be modified except by an agreement in writing signed by the President or Chief Executive Officer of the Company and Employee, the terms of which were approved in advance in writing by the Company's Board of Directors.

2. **Employee Handbook.** Employee and the Company understand and agree that nothing in the Company's Employee Handbook is intended to be, and nothing in it should be construed to be, a limitation of the Company's right to terminate, transfer, demote, suspend and administer discipline at any time for any reason. Employee and the Company understand and agree nothing in the Company's Employee Handbook is intended to, and nothing in such Handbook should be construed to, create an implied or express contract of employment contrary to this Agreement.

3. **Position and Responsibilities.**

a. During Employee's employment with the Company hereunder, Employee shall have such responsibilities, duties and authority as the Company, through its Board of Directors, may from time to time assign to Employee and that are normal and customary duties

of a Senior Vice President – Sales and Marketing of a publicly held corporation. Employee shall perform any other duties reasonably required by the Company and, if requested by the Company, shall serve as a director and/or as an additional officer of the Company or any subsidiary or affiliate of the Company without additional compensation.

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

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

4. **Compensation.**

a. Salary. During the term of Employee's employment hereunder, the Company agrees to pay Employee a base salary of One Hundred Eighty Two Thousand dollars ($182,000) per year, payable no less frequently than monthly in accordance with the Company's general payroll practices. The amount of Employee's base salary as set forth in this Section 4(a) may be adjusted from time to time by an agreement in writing signed by the President or Chief Executive Officer of the Company and Employee, the terms of which were approved in advance in writing by the Company's Board of Directors.

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

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

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

5. **Termination.**

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

b. Without Cause, Severance Benefit. In the event Employee is terminated by the Company without Cause and not as a result of death, upon Employee's delivery to the Company of an executed general release in a form substantially similar to that set forth in Attachment #3 attached hereto ("Release"), Employee shall be entitled to receive a severance benefit, including standard employee benefits available to the Company's other corporate officers, in an amount equal to one (1) year's compensation. If Employee does not execute and deliver the Release, Employee shall only be entitled to receive a severance benefit in an amount equal to one (1) month's compensation. One half of any severance benefit owing hereunder shall be paid within ten (10) days of termination and the balance shall be paid on a bi-weekly basis over the applicable severance period of one (1) month or one (1) year.

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

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

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

6. **Termination Obligations.**

a. Return of Company Property. Upon termination of this Agreement and cessation of Employee's employment, Employee agrees to return all Company Property (as such term is defined in Attachment #2 to this Agreement) to the Company promptly, but in no event later than two (2) business days following termination of employment.

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

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

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

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

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

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

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

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

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

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

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

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

c. If Employee is terminated without Cause following a Change in Control by the Company and/or the surviving or resulting corporation, upon Employee's delivery to the Company of an executed Release, Employee shall be entitled to receive as severance pay or liquidated damages, or both, a lump sum payment ("Change in Control Severance Payment") in an amount equal to two (2) years' compensation or such greater amount as the Board of Directors determines from time to time pursuant to terms which may not be revoked or reduced thereafter. If Employee does not execute and deliver the Release, Employee shall only be entitled to receive a Change in Control Severance Payment in an amount equal to one (1) month's compensation.

d. Any Change in Control Severance Payment shall be made not later than the fifteenth (15th) day following the effective date of Employee's termination without Cause in connection with a Change in Control; provided, however, that if the amount of such payment cannot be finally determined on or before such date, the Company shall pay to Employee on such date a good faith estimate of the minimum amount of such payment, and shall pay the remainder of such payment (together with interest at the rate provided in Section 1274(b)(2)(B) of the Internal Revenue Code of 1986, as amended ("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. If the amount of the estimated payment exceeds the amount subsequently determined to have been due, such excess shall constitute a loan by the Company to Employee payable on the fifteenth (15th) day after receipt by Employee of a written demand for payment from the Company (together with interest calculated as set forth 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 the Company, to avoid the payment of an "excess parachute" payment within the meaning of Section 280G of the Code or any similar successor provision.

e. In the event of termination of Employee's employment under Section 7(c), and provided Employee delivers to the Company an executed Release, the Company shall cause each then-outstanding stock option granted by the Company to the Employee as of the date of termination to become fully exercisable and to remain exercisable for the term of the option.

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

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

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

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

12. **Miscellaneous Provisions.**

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

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

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

d. Attorneys' Fees. Except as set forth in the Mutual Agreement to Mediate and Arbitrate Claims attached hereto as Attachment #1, should any party institute any action, arbitration or proceeding to enforce, interpret or apply any provision of this Agreement, the Parties agree that the prevailing party shall be entitled to reimbursement by the non-prevailing party of all recoverable costs and expenses, including, but not limited to, reasonable attorneys' fees.

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

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

g. Assignment. This Agreement is binding on and is for the benefit of the Parties and their respective successors, heirs, executors, administrators and other legal

representatives. Neither this Agreement nor any right or obligation hereunder may be assigned by the Company (except to an affiliate of the Company or to a person, as defined herein, in accordance with a Change in Control) or by the Employee.

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

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

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

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

EMPLOYEE

/s/ Timothy E. Belanger

Timothy E. Belanger

COMPANY

Natural Alternatives International, Inc.,
a Delaware corporation

By: /s/ Randy Weaver

Randell Weaver, President

ATTACHMENT #1

MUTUAL AGREEMENT TO MEDIATE AND ARBITRATE CLAIMS

This Mutual Agreement to Mediate and Arbitrate Claims ("Agreement") is made and entered into effective as of January 30, 2004 ("Effective Date"), by and between Timothy E. Belanger ("Employee"), and Natural Alternatives International, Inc., a Delaware corporation ("Company").

In consideration of and as a condition of certain additional severance benefits given to Employee and changes in certain other terms of Employee's employment relationship with the Company, all as set forth in that certain Amended and Restated Employment Agreement by and between Employee and the Company effective as of January 30, 2004, as well as Employee's participation in the Company's benefit programs (when and if eligible), Employee's access to and receipt of confidential information of the Company, and other good and valuable consideration, all of which Employee considers to have been negotiated at arm's length, Employee and Company agree to the following:

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

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

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

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

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

(iv) Any public policy; and

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

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

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

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

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

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

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

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

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

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

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

b. The party demanding arbitration shall submit a written claim to the other party, setting out the basis of the claim and proposing the name of an arbitrator from JAMS, the mutually agreed to ADR organization. The responding party shall have ten (10) business days in which to respond to this demand in a written answer. If this response is not timely made, or if the responding party agrees with the person proposed as the arbitrator, then the person named by the demanding party shall serve as the arbitrator. If the responding party submits a written answer rejecting the proposed arbitrator then, on the request of either party, JAMS shall appoint an arbitrator other than the mediator. The Employee and the Company agree to apply American Arbitration Association ("AAA") rules for the resolution of employment disputes to the

arbitration even though the ADR is one other than AAA. No one who has ever had any business, financial, family, or social relationship with any party to this Agreement shall serve as an arbitrator unless the related party informs the other party of the relationship and the other party consents in writing to the use of that arbitrator.

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

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

e. The arbitrator shall have the following powers:

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

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

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

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

(v) to administer oaths to parties and witnesses.

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

g. The Company shall pay the arbitrator's expenses and fees, all meeting room charges, and any other expenses that would not have been incurred if the case were litigated in the judicial forum having jurisdiction over it. Unless otherwise ordered by the arbitrator, each party shall pay its own attorneys' fees and witness fees, and other expenses incurred by the party for such party's own benefit and not required to be paid by the Company pursuant to the terms hereof. Regardless of any statute, procedure, rule or law, the prevailing party in arbitration shall be entitled to recover from the non-prevailing party reasonable attorneys' fees incurred as a result of arbitration.

4. **Miscellaneous Provisions.**

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

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

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

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

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

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

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

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

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

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

EMPLOYEE

/s/ Timothy E. Belanger

Timothy E. Belanger

COMPANY

Natural Alternatives International, Inc.,
a Delaware corporation

By: /s/ Randy Weaver

Randell Weaver, President

ATTACHMENT #2

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

This Confidential Information and Invention Assignment Agreement, Covenant of Exclusivity and Covenant Not to Compete ("Agreement") is made by Timothy E. Belanger ("Employee" or "I," "me" or "my"), and accepted and agreed to by Natural Alternatives International, Inc., a Delaware corporation ("Company"), as of January 30, 2004 ("Effective Date").

In consideration of and as a condition of certain additional severance benefits given to me and changes in certain other terms of my employment relationship with the Company (which for purposes of this Agreement shall be deemed to include any subsidiaries or affiliates of the Company, where "affiliate" shall mean any person or entity that directly or indirectly controls, is controlled by, or is under common control with the Company), all as set forth in that certain Amended and Restated Employment Agreement by and between Employee and the Company effective as of January 30, 2004, as well as my access to and receipt of confidential information of the Company, and other good and valuable consideration, I agree to the following, and I agree the following shall be in addition to the terms and conditions of any Confidential Information and Invention Assignment Agreement executed by employees of the Company generally, and which I may execute in addition hereto:

1. **Inventions.**

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

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

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

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

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

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

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

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

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

2. **Confidential Information.**

a. Company Confidential Information. I will not use or disclose, produce, publish, permit access to, or reveal Confidential Information, whether before, during or after the period of my employment with the Company 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 the Company 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 all information and material that is proprietary to the Company, whether or not marked as “confidential” or “proprietary,” and which is disclosed to or obtained by me, which relates to the Company’s past, present or future business activities. Confidential Information includes all information or materials prepared by or for the Company and includes, without limitation, all of the following: designs, drawings, specifications, techniques, models, data, source code, object code, documentation, diagrams, flow charts, research, development, processes, procedures, “know-how,” new product or new technology information, product copies, development or marketing techniques and materials, development or marketing timetables, strategies and development plans, including trade names, trademarks, customer, supplier or personnel names and other information related to customers, suppliers or personnel, pricing policies and financial information, and other information of a similar nature, whether or not reduced to writing or other tangible form, and any other trade secrets or nonpublic business information. Confidential Information is to be broadly defined, and includes all information that has or could have commercial value or other utility in the business in which the Company is engaged or contemplates engaging, and all information of which the unauthorized disclosure could be detrimental to the interests of the Company, whether or not such information is identified as Confidential Information by the Company.

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, some of which may be subject to restrictions on the use or disclosure thereof by the Company. During the period of my employment and thereafter, I agree not to use or disclose, produce, publish, permit access to, or reveal any such information other than consistent with the restrictions and my duties as an employee of the Company.

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

4. **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 period 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 Company's Board of Directors.

6. **Miscellaneous Provisions.**

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

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

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

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

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

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

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

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

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

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

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

/s/ Timothy E. Belanger

Timothy E. Belanger

ACCEPTED AND AGREED TO:

Natural Alternatives International, Inc.,
a Delaware corporation

By: /s/ Randy Weaver

Randell Weaver, President

EXHIBIT A

California Labor Code

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

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

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

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

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

§ 2871. Restrictions on Employer for Condition of Employment.

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

EXHIBIT B

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

EXHIBIT C

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

ATTACHMENT #3

FORM OF
SEPARATION AGREEMENT AND GENERAL RELEASE OF CLAIMS

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

RECITALS

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

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

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

AGREEMENT

1. Separation Payment by Company. In consideration of Former Employee's promises and covenants contained in this Agreement, the Company agrees to pay Former Employee the gross sum of _________ and __/100 dollars ($_________), which amount represents a severance benefit in the amount of _________ and _________, less all applicable withholdings and deductions.

2. Release.

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

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

3. Confidentiality.

(a) Former Employee agrees that all matters relative to this Agreement shall remain confidential. Accordingly, Former Employee hereby agrees that Former Employee shall not discuss, disclose or reveal to any other persons, entities or organizations, whether within or outside of the Company, with the exception of Former Employee's legal counsel, financial, tax and business advisors, and such other persons as may be reasonably necessary for the management of the Former Employee's affairs, the terms, amounts and conditions of settlement and of this Agreement. Notwithstanding the above, Former Employee acknowledges that Company may be required to disclose certain terms, aspects or conditions of this Agreement and/or Former Employee's termination of employment in the Company's public filings made with the United States Securities and Exchange Commission and Former Employee hereby expressly consents to any such required disclosures.

(b) Former Employee shall not make, issue, disseminate, publish, print or announce any news release, public statement or announcement with respect to these matters, or any aspect thereof, the reasons therefore and the terms or amounts of this Agreement.

4. Return of Documents and Equipment. Former Employee represents that Former Employee has returned to the Company all Company Property (as such term is defined in that certain Confidential Information and Invention Assignment Agreement, Covenant of Exclusivity and Covenant Not To Compete by and between Former Employee and Company). In the event Former Employee has not returned all Company Property, Former Employee agrees to reimburse the Company for any reasonable expenses it incurs in an effort to have such property returned. These reasonable expenses include attorneys' fees and costs.

5. Civil Code Section 1542 Waiver.

(a) Former Employee expressly accepts and assumes the risk that if facts with respect to matters covered by this Agreement are found hereafter to be other than or different from the facts now believed or assumed to be true, this Agreement shall nevertheless remain effective. It is understood and agreed that this Agreement shall constitute a general release and shall be effective as a full and final accord and satisfaction and as a bar to all actions, causes of

action, costs, expenses, attorneys' fees, damages, claims and liabilities whatsoever, whether or not now known, suspected, claimed or concealed pertaining to the released claims. Former Employee acknowledges that Former Employee is familiar with California Civil Code §1542, which provides and reads as follows:

> **"A general release does not extend to claims which the creditor does not know of or suspect to exist in his favor at the time of executing the release, which if known by him must have materially affected his settlement with the debtor."**

(b) Former Employee expressly waives and relinquishes any and all rights or benefits which Former Employee may have under, or which may be conferred upon Former Employee by the provisions of California Civil Code §1542, as well as any other similar state or federal statute or common law principle, to the fullest extent that Former Employee may lawfully waive such rights or benefits pertaining to the released claims.

6. OWBPA Provisions. In the event Former Employee is forty (40) years old or older, in accordance with the Older Workers' Benefit Protection Act of 1990, Former Employee is aware of and acknowledges the following: (i) Former Employee has the right to consult with an attorney before signing this Agreement and has done so to the extent desired; (ii) Former Employee has twenty-one (21) days to review and consider this Agreement, and Former Employee may use as much of this twenty-one (21) day period as Former Employee wishes before signing; (iii) for a period of seven (7) days following the execution of this Agreement, Former Employee may revoke this Agreement, and this Agreement shall not become effective or enforceable until the revocation period has expired; (iv) this Agreement shall become effective eight (8) days after it is signed by Former Employee and the Company, and in the event the parties do not sign on the same date, this Agreement shall become effective eight (8) days after the date it is signed by Former Employee.

7. Entire Agreement. The parties declare and represent that no promise, inducement or agreement not herein expressed has been made to them and that this Agreement contains the entire agreement between and among the parties with respect to the subject matter hereof, and that the terms of this Agreement are contractual and not a mere recital. This Agreement supersedes any and all other agreements, either oral or in writing, between the parties with respect to the subject matter hereof.

8. Applicable Law. This Agreement is entered into in the State of California. The validity, interpretation, and performance of this Agreement shall be construed and interpreted according to the laws of the State of California.

9. Agreement as Defense. This Agreement may be pleaded as a full and complete defense and may be used as the basis for an injunction against any action, suit or proceeding which may be prosecuted, instituted or attempted by either party in breach thereof.

10. Severability. If any provision of this Agreement, or part thereof, is held invalid, void or voidable as against public policy or otherwise, the invalidity shall not affect other provisions, or parts thereof, which may be given effect without the invalid provision or part. To this extent, the provisions, and parts thereof, of this Agreement are declared to be severable.

11. No Admission of Liability. It is understood that this Agreement is not an admission of any liability by any person, firm, association or corporation.

12. Counterparts. This Agreement may be executed in counterparts, each of which will be deemed an original copy of this Agreement and all of which, when taken together, will be deemed to constitute one and the same agreement. The exchange of copies of this Agreement and of signature pages by facsimile transmission shall constitute effective execution and delivery of this Agreement as to the parties and may be used in lieu of the original Agreement for all purposes. Signatures of the parties transmitted by facsimile shall be deemed to be their original signatures for all purposes.

13. Representation of No Assignment. The parties represent and warrant that they have not heretofore assigned, transferred, subrogated or purported to assign, transfer or subrogate any claim released herein to any person or entity.

14. Cooperation. The parties hereto agree that, for their respective selves, heirs, executors and assigns, they will abide by this Agreement, the terms of which are meant to be contractual, and further agree that they will do such acts and prepare, execute and deliver such documents as may reasonably be required in order to carry out the objectives of this Agreement.

15. Arbitration. Any dispute arising out of or relating to this Agreement shall be resolved pursuant to that certain Mutual Agreement to Mediate and Arbitrate Claims made and entered into effective as of January 30, 2004, by and between the Company and Former Employee.

17. Legal Representation; Independent Counsel**.** The law firm of Fisher Thurber LLP has prepared this Agreement on behalf of the Company based on the Company's instructions. Fisher Thurber LLP does not represent any other party to this Agreement. In executing this Agreement, Former Employee represents that Former Employee has neither requested nor been given legal advice or counsel by Fisher Thurber LLP or any of its attorneys. Former Employee is aware of Former Employee's right to obtain separate legal counsel with respect to the negotiation and execution of this Agreement and acknowledges that Fisher Thurber LLP has recommended that Former Employee retain Former Employee's own counsel for such purpose. Former Employee further acknowledges that Former Employee (i) has read and understands this Agreement; (ii) has had the opportunity to retain separate counsel in connection with the negotiation and execution of this Agreement; and (iii) has relied on the advice of separate counsel with respect to this Agreement or made the conscious decision not to retain counsel in connection with the negotiation and execution of this Agreement.

18. Further Acknowledgements. Each party represents and acknowledges that it is not being influenced by any statement made by or on behalf of the other party to this Agreement. Former Employee and the Company have relied and are relying solely upon his, her or its own judgment, belief and knowledge of the nature, extent, effect and consequences relating to this Agreement and/or upon the advice of their own legal counsel concerning the consequences of this Agreement.

IN WITNESS WHEREOF, the undersigned have executed this Agreement on the date(s) shown below.

FORMER EMPLOYEE

____

Timothy E. Belanger

Dated: ____________________

Executed in : ____________________ ,California
(City)

COMPANY

Natural Alternatives International, Inc.,
a Delaware corporation

By: ____________________________________
(Signature)

Printed Name: ____________________________________

Title: ____________________________________

Dated: ____________________________________

Executed in : ____________________ ,California
(City)

Exhibit 10.10

EMPLOYMENT AGREEMENT

This Employment Agreement (“Agreement”) is made and entered into effective as of March 29, 2004 (“Effective Date”), by and between Robert A. Kay, Ph.D., R.D. (“Employee”), and Natural Alternatives International, Inc., a Delaware corporation (“Company”). The Company and Employee may be referred to herein collectively as the “Parties.”

RECITALS

WHEREAS, the Company wishes to retain the services of Employee as its Vice President of Science & Technology, but only on the terms and subject to the conditions hereinafter set forth; and

WHEREAS, Employee desires to enter into the employ of the Company and is willing to do so on the terms and conditions hereinafter set forth.

NOW, THEREFORE, in consideration of the mutual promises and covenants set forth herein and intending to be legally bound thereby, the Parties agree as follows:

AGREEMENT

1. **Employment.** Employee hereby accepts the offer of the Company for employment as the Company’s Vice President of Science & Technology beginning on March 29, 2004. Employee’s employment will be at-will and may be terminated by either Employee or the Company at any time for any reason or no reason, with or without Cause (as hereinafter defined), upon written notice to the other, or without any notice upon the death of Employee. The at-will status of the employment relationship may not be modified except by an agreement in writing signed by the President or Chief Executive Officer of the Company and Employee, the terms of which were approved in advance in writing by the Company’s Board of Directors.

2. **Employee Handbook.** Employee and the Company understand and agree that nothing in the Company’s Employee Handbook is intended to be, and nothing in it should be construed to be, a limitation of the Company’s right to terminate, transfer, demote, suspend and administer discipline at any time for any reason. Employee and the Company understand and agree nothing in the Company’s Employee Handbook is intended to, and nothing in such Handbook should be construed to, create an implied or express contract of employment contrary to this Agreement.

3. **Position and Responsibilities.**

a. During Employee’s employment with the Company hereunder, Employee shall have such responsibilities, duties and authority as the Company, through its Board of Directors, may from time to time assign to Employee and that are normal and customary duties of a Vice President of Science & Technology of a publicly held corporation. Employee shall perform any other duties reasonably required by the Company and, if requested by the Company, shall serve as a director and/or as an additional officer of the Company or any subsidiary or affiliate of the Company without additional compensation.

b. Employee, in Employee's capacity as Vice President of Science & Technology for the Company, shall diligently and to the best of Employee's ability perform all duties that such position entails. Employee shall devote such time, energy, skill and effort to the performance of Employee's duties hereunder as may be fairly and reasonably necessary to faithfully and diligently further the business and interests of the Company and its subsidiaries. Employee agrees not to engage in any other business activity that would materially interfere with the performance of Employee's duties under this Agreement. Employee represents to the Company that Employee has no other outstanding commitments inconsistent with any of the terms of this Agreement or the services to be rendered under it.

c. Employee shall render Employee's service at the Company's offices in the County of San Diego, California, or such other location as is mutually agreed upon by the Company and Employee. It is understood, however, and agreed that Employee's duties may from time to time require travel to other locations, including other offices of the Company and its subsidiaries both within and outside the United States.

4. **Compensation.**

a. Salary. During the term of Employee's employment hereunder, the Company agrees to pay Employee a base salary of One Hundred Ninety Three Thousand Five Hundred dollars ($193,500) per year, payable no less frequently than monthly in accordance with the Company's general payroll practices. For the first year of employment, the base salary will be prorated from the start date of employment. The amount of Employee's base salary as set forth in this Section 4(a) may be adjusted from time to time by an agreement in writing signed by the President or Chief Executive Officer of the Company and Employee, the terms of which were approved in advance in writing by the Company's Board of Directors.

b. Relocation Expenses. Employee shall be entitled to receive Fifty Thousand dollars ($50,000) for any and all costs associated with Employee's relocation, including but not limited to, moving of household goods, sale and/or purchase of Employee's home, and temporary living costs. Twenty Five Thousand dollars ($25,000) shall be payable to Employee on or about the Effective Date and the remaining Twenty Five Thousand dollars ($25,000) shall be payable after Employee has been employed with the Company for at least ninety (90) days.

c. Additional Benefits. During Employee's employment with the Company, in addition to the other compensation and benefits set forth herein, Employee shall be entitled to receive and/or participate in such other benefits of employment generally available to the Company's other corporate officers when and as Employee becomes eligible for them. The Company reserves the right to modify, suspend or discontinue any and all benefit plans, policies and practices at any time without notice to or recourse by the Employee, so long as such action is taken generally with respect to other similarly situated persons and does not single out Employee.

d. No Other Compensation. Employee acknowledges and agrees that, except as expressly provided herein, and as set forth in the Company's Employee Handbook or any other written compensation arrangement approved by the Company's Board of Directors, Employee is not entitled to any other compensation or benefits from the Company.

e. Withholdings. All compensation under this Agreement shall be paid less withholdings required by federal and state law and less deductions agreed to by the Company and Employee.

5. **Termination**.

a. Due to Death. Employee's employment with the Company shall terminate automatically in the event of Employee's death. The Company shall have no obligation to Employee or Employee's estate for base salary or any other form of compensation or benefit other than amounts accrued through the date of Employee's death, except as otherwise required by law or pursuant to a specific written policy, agreement or benefit plan of the Company.

b. Without Cause, Severance Benefit. In the event Employee is terminated by the Company without Cause and not as a result of death, upon Employee's delivery to the Company of an executed general release in a form substantially similar to that set forth in Attachment #3 attached hereto ("Release"), Employee shall be entitled to receive a severance benefit, including standard employee benefits available to the Company's other corporate officers, in an amount equal to three (3) months' compensation. If Employee does not execute and deliver the Release, Employee shall only be entitled to receive a severance benefit in an amount equal to one (1) month's compensation. One half of any severance benefit owing hereunder shall be paid within ten (10) days of termination and the balance shall be paid on a bi-weekly basis over the applicable severance period of one (1) month or three (3) months.

c. With Cause, No Severance Benefit. The Company may terminate Employee for Cause. For purposes of this Agreement, Cause shall mean the occurrence of one or more of the following events: (i) the Employee's commission of any fraud against the Company; (ii) Employee's intentional appropriation for Employee's personal use or benefit the funds of the Company not authorized in writing by the Board of Directors; (iii) Employee's conviction of any crime involving moral turpitude; (iv) Employee's conviction of a violation of any state or federal law that could result in a material adverse impact upon the business of the Company; (v) Employee engaging in any other professional employment or consulting or directly or indirectly participating in or assisting any business that is a current or potential supplier, customer or competitor of the Company without prior written approval from the Company's Board of Directors; (vi) Employee's failure to comply with the Company's written policy on acceptance of gifts and gratuities as in effect from time to time; or (vii) when Employee has been disabled and is unable to perform the essential functions of the position for any reason notwithstanding reasonable accommodation and has received from the Company compensation in an amount equivalent to Employee's severance benefit payment. No severance benefit shall be due to Employee if Employee is terminated for Cause, including if Employee is terminated for Cause upon or after a Change in Control (as hereinafter defined), except in the event of disability as set forth above.

d. Resignation or Retirement, No Severance Benefit. This Agreement shall be terminated upon Employee's voluntary retirement or resignation. No severance benefit shall be due to Employee if Employee resigns or retires from employment for any reason or at any time, including upon or after a Change in Control.

e. Payment Through Date of Termination. Except as otherwise set forth herein, upon the termination of this Agreement for any reason, Employee shall be entitled to

receive any unpaid compensation earned through the effective date of termination. If this Agreement is terminated for any reason before year-end bonus or other compensation becoming payable to Employee, then such bonus and other compensation shall be forfeited in full by Employee.

6. **Termination Obligations**.

a. Return of Company Property. Upon termination of this Agreement and cessation of Employee's employment, Employee agrees to return all Company Property (as such term is defined in Attachment #2 to this Agreement) to the Company promptly, but in no event later than two (2) business days following termination of employment.

b. Termination of Benefits. Any and all benefits to which Employee is otherwise entitled shall cease upon Employee's termination, unless explicitly continued either under this Agreement or under any specific written policy or benefit plan of the Company.

c. Termination of Other Positions. Upon termination of Employee's employment with the Company, Employee shall be deemed to have resigned from all other offices and directorships then held with the Company or its subsidiaries, unless otherwise expressly agreed in a writing signed by the Parties.

d. Employee Cooperation. Following termination of Employee's employment, Employee shall cooperate fully with the Company in all matters including, but not limited to, advising the Company of all pending work on behalf of the Company and the orderly transfer of work to other employees or representatives of the Company. Employee shall also cooperate in the defense of any action brought by any third party against the Company that relates in any way to Employee's acts or omissions while employed by the Company.

e. Survival of Obligations. Employee's obligations under this Section 6 shall survive the termination of employment and the termination of this Agreement.

7. **Change in Control.** In the event of any Change in Control, the following provisions will apply.

a. Any of the following shall constitute a "Change in Control" for the purposes of this Agreement:

(i) The consummation of a merger or consolidation of the Company with or into another entity or any other corporate reorganization, if more than 50% of the combined voting power of the continuing or surviving entity's securities outstanding immediately after such merger, consolidation or other reorganization is owned by persons who were not stockholders of the Company immediately prior to such merger, consolidation or other reorganization;

(ii) The sale, transfer or other disposition of all or substantially all of the Company's assets;

(iii) A change in the composition of the Company's Board of Directors, as a result of which fewer than 50% of the incumbent directors are directors who either (i) had

been directors of the Company on the date 24 months prior to the date of the event that may constitute a Change in Control (the "original directors") or (ii) were elected, or nominated for election, to the Board of Directors with the affirmative votes of at least a majority of the aggregate of the original directors who were still in office at the time of the election or nomination and the directors whose election or nomination was previously so approved; or

(iv) Any transaction as a result of which any person is the "beneficial owner" (as defined in Rule 13d-3 under the Securities Exchange Act of 1934, as amended ("Exchange Act")), directly or indirectly, of securities of the Company representing at least 20% of the total voting power represented by the Company's then outstanding voting securities. For this purpose, the term "person" shall have the same meaning as when used in Sections 13(d) and 14(d) of the Exchange Act but shall exclude (i) a trustee or other fiduciary holding securities under an employee benefit plan of the Company or of a parent or subsidiary of the Company and (ii) a corporation owned directly or indirectly by the stockholders of the Company in substantially the same proportions as their ownership of the common stock of the Company.

A transaction shall not constitute a Change in Control if its sole purpose is to change the state of the Company's incorporation or to create a holding company that will be owned in substantially the same proportions by the persons who held the Company's securities immediately before such transaction.

b. In the event of a Change in Control, this Agreement shall continue in effect unless terminated by Employee or the Company.

c. If Employee is terminated without Cause following a Change in Control by the Company and/or the surviving or resulting corporation, upon Employee's delivery to the Company of an executed Release, Employee shall be entitled to receive as severance pay or liquidated damages, or both, a lump sum payment ("Change in Control Severance Payment") in an amount equal to one (1) year's compensation or such greater amount as the Board of Directors determines from time to time pursuant to terms which may not be revoked or reduced thereafter. If Employee does not execute and deliver the Release, Employee shall only be entitled to receive a Change in Control Severance Payment in an amount equal to one (1) month's compensation.

d. Any Change in Control Severance Payment shall be made not later than the fifteenth (15th) day following the effective date of Employee's termination without Cause in connection with a Change in Control; provided, however, that if the amount of such payment cannot be finally determined on or before such date, the Company shall pay to Employee on such date a good faith estimate of the minimum amount of such payment, and shall pay the remainder of such payment (together with interest at the rate provided in Section 1274(b)(2)(B) of the Internal Revenue Code of 1986, as amended ("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. If the amount of the estimated payment exceeds the amount subsequently determined to have been due, such excess shall constitute a loan by the Company to Employee payable on the fifteenth (15th) day after receipt by Employee of a written demand for payment from the Company (together with interest calculated as set forth 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 the Company, to avoid the payment of an "excess parachute" payment within the meaning of Section 280G of the Code or any similar successor provision.

e. In the event of termination of Employee's employment under Section 7(c), and provided Employee delivers to the Company an executed Release, the Company shall cause each then-outstanding stock option granted by the Company to the Employee as of the date of termination to become fully exercisable and to remain exercisable for the term of the option.

8. **Arbitration.** Employee and the Company hereby agree to the Mutual Agreement to Mediate and Arbitrate Claims attached hereto as Attachment #1 and made a part hereof. Employee's obligations under this Section 8 and such agreement shall survive the termination of employment and the termination of this Agreement.

9. **Confidential Information and Inventions.** Employee and the Company hereby agree to the Confidential Information and Invention Assignment Agreement, Covenant of Exclusivity and Covenant Not to Compete attached hereto as Attachment #2 and made a part hereof. Employee's obligations under this Section 9 and such agreement shall survive the termination of employment and the termination of this Agreement.

10. **Competitive Activity.** Employee covenants, warrants and represents that during the period of Employee's employment with the Company, Employee shall not engage anywhere, directly or indirectly (as a principal, shareholder, partner, director, manager, member, officer, agent, employee, consultant or otherwise), or be financially interested in any business that is involved in business activities that are the same as, similar to, or in competition with the business activities carried on by the Company or any business that is a current or potential supplier, customer or competitor of the Company without prior written approval from the Company's Board of Directors. Notwithstanding the foregoing, Employee may invest in and hold up to one percent (1%) of the outstanding voting stock of a publicly held company that is involved in business activities that are the same as, similar to, or in competition with the business activities carried on by the Company or any business that is a current or potential supplier, customer or competitor of the Company without the prior written approval of the Company's Board of Directors; provided, however, that if such publicly held company is a current or potential supplier, customer or competitor of the Company, the Employee shall advise the President of the Company in writing of Employee's investment in such company as soon as reasonably practicable.

11. **Employee Conduct.** Employee covenants, warrants and represents that during the period of Employee's employment with the Company, Employee shall at all times comply with the Company's written policy as in effect from time to time on the acceptance of gifts and gratuities from customers, vendors, suppliers, or other persons doing business with the Company. Employee represents and understands that acceptance or encouragement of any gift or gratuity not in compliance with such policy may create a perceived financial obligation and/or conflict of interest for the Company and shall not be permitted as a means to influence business decisions, transactions or service. In this situation, as in all other areas of employment, Employee is expected to conduct himself or herself using the highest ethical standard.

12. **Miscellaneous Provisions**.

a. Entire Agreement. This Agreement and any attachments and/or exhibits contains the entire agreement between the Parties. It supersedes any and all other agreements, either oral or in writing, between the Parties with respect to Employee's employment by the Company. Each party to this Agreement acknowledges that no representations, inducements,

promises or agreements, oral or otherwise, have been made by any party, or anyone acting on behalf of any party, which are not embodied herein and acknowledges that no other agreement, statement or promise not contained in this Agreement shall be valid or binding. To the extent the practices, policies or procedures of the Company, now or in the future, are inconsistent with the terms of this Agreement, the provisions of this Agreement shall control.

b. Governing Law. This Agreement shall be construed and enforced in accordance with the laws of the State of California.

c. Severability. Should any part or provision of this Agreement be held by a court of competent jurisdiction to be illegal, unenforceable, invalid or void, the remaining provisions of this Agreement shall continue in full force and effect and the validity of the remaining provisions shall not be affected by such holding.

d. Attorneys' Fees. Except as set forth in the Mutual Agreement to Mediate and Arbitrate Claims attached hereto as Attachment #1, should any party institute any action, arbitration or proceeding to enforce, interpret or apply any provision of this Agreement, the Parties agree that the prevailing party shall be entitled to reimbursement by the non-prevailing party of all recoverable costs and expenses, including, but not limited to, reasonable attorneys' fees.

e. Interpretation. This Agreement shall be construed as a whole, according to its fair meaning, and not in favor of or against any party. By way of example and not in limitation, this Agreement shall not be construed in favor of the party receiving a benefit nor against the party responsible for any particular language in this Agreement. The headings and captions contained in this Agreement are for convenience of reference only and shall not constitute a part of this Agreement and shall not be used in the construction or interpretation of this Agreement.

f. Amendment; Waiver. This Agreement may not be modified or amended by oral agreement or course of conduct, but only by an agreement in writing signed by the President or Chief Executive Officer of the Company and Employee, the terms of which were approved in advance in writing by the Company's Board of Directors. The failure of either party hereto at any time to require the performance by the other party hereto of any provision hereof shall in no way affect the full right to require such performance at any time thereafter, nor shall the waiver by either party hereto of a breach of any provision hereof be taken or held to be a waiver of any succeeding breach of such provision or waiver of the provision itself or a waiver of any other provision of this Agreement.

g. Assignment. This Agreement is binding on and is for the benefit of the Parties and their respective successors, heirs, executors, administrators and other legal representatives. Neither this Agreement nor any right or obligation hereunder may be assigned by the Company (except to an affiliate of the Company or to a person, as defined herein, in accordance with a Change in Control) or by the Employee.

h. No Restrictions; No Violation. The Employee represents and warrants that: (i) Employee is not a party to any agreement that would restrict or prohibit Employee from entering into this Agreement or performing fully Employee's obligations hereunder; and (ii) the execution by Employee of this Agreement and the performance by Employee of Employee's obligations and duties pursuant to this Agreement will not result in any breach of any other agreement to which Employee is a party.

i. Counterparts. This Agreement may be executed in counterparts, each of which will be deemed an original copy of this Agreement and all of which, when taken together, will be deemed to constitute one and the same agreement. The exchange of copies of this Agreement and of signature pages by facsimile transmission shall constitute effective execution and delivery of this Agreement as to the Parties and may be used in lieu of the original Agreement for all purposes. Signatures of the parties transmitted by facsimile shall be deemed to be their original signatures for all purposes.

j. Legal Representation; Independent Counsel**.** The law firm of Fisher Thurber LLP has prepared this Agreement on behalf of the Company based on the Company's instructions. Fisher Thurber LLP does not represent any other party to this Agreement. In executing this Agreement, Employee represents that Employee has neither requested nor been given legal advice or counsel by Fisher Thurber LLP or any of its attorneys. Employee is aware of Employee's right to obtain separate legal counsel with respect to the negotiation and execution of this Agreement and acknowledges that Fisher Thurber LLP has recommended that Employee retain Employee's own counsel for such purpose. Employee further acknowledges that Employee (i) has read and understands this Agreement and its exhibits and attachments; (ii) has had the opportunity to retain separate counsel in connection with the negotiation and execution of this Agreement; and (iii) has relied on the advice of separate counsel with respect to this Agreement or made the conscious decision not to retain counsel in connection with the negotiation and execution of this Agreement.

IN WITNESS WHEREOF, the Parties have executed this Agreement effective as of the Effective Date.

EMPLOYEE

/s/ Robert A. Kay

Robert A. Kay

COMPANY

Natural Alternatives International, Inc.,
a Delaware corporation

By: /s/ Randy Weaver

Randell Weaver, President

ATTACHMENT #1

MUTUAL AGREEMENT TO MEDIATE AND ARBITRATE CLAIMS

This Mutual Agreement to Mediate and Arbitrate Claims (“Agreement”) is made and entered into effective as of March 29, 2004 (“Effective Date”), by and between Robert A. Kay, Ph.D., R.D. (“Employee”), and Natural Alternatives International, Inc., a Delaware corporation (“Company”).

In consideration of and as a condition of Employee’s prospective employment relationship with the Company, Employee’s employment rights under Employee’s Employment Agreement, Employee’s participation in the Company’s benefit programs (when and if eligible), Employee’s access to and receipt of confidential information of the Company, and other good and valuable consideration, all of which Employee considers to have been negotiated at arm’s length, Employee and Company agree to the following:

1. **Claims Covered by this Agreement**.

a. To the fullest extent permitted by law, all claims and disputes between Employee (and Employee’s successors and assigns) and the Company relating in any manner whatsoever to the employment or termination of Employee, including without limitation all claims and disputes arising under this Agreement or that certain Employment Agreement entered into by and between the Company and Employee on equal date hereof, as may be amended from time to time (“Employment Agreement”), shall be resolved by mediation and arbitration as set forth herein. All persons and entities specified in the preceding sentence (other than the Company and Employee) shall be considered third-party beneficiaries of the rights and obligations created by this Agreement. Claims and disputes covered by this Agreement include without limitation those arising under:

(i) Any federal, state or local laws, regulations or statutes prohibiting employment discrimination (including, without limitation, discrimination relating to race, sex, national origin, age, disability, religion, or sexual orientation) and harassment;

(ii) Any alleged or actual agreement or covenant (oral, written or implied) between Employee and the Company;

(iii) Any Company policy, compensation, wage or related claim or benefit plan, unless the decision in question was made by an entity other than the Company;

(iv) Any public policy; and

(v) Any other claim for personal, emotional, physical or economic injury.

b. The only disputes between Employee and the Company that are not included within this Agreement are:

(i) Any claim by Employee for workers’ compensation or unemployment compensation benefits; and

(ii) Any claim by Employee for benefits under a Company plan that provides for its own arbitration procedure.

2. **Mandatory Mediation of Claims and Disputes**.

a. If any claim or dispute covered under this Agreement cannot be resolved by negotiation between the parties, the following mediation and arbitration procedures shall be invoked. Before invoking the binding arbitration procedure set forth below, the Company and Employee shall first participate in mandatory mediation of any dispute or claim covered under this Agreement.

b. The claim or dispute shall be submitted to mediation before a mediator of the Judicial Arbitration and Mediation Service ("JAMS"), a mutually agreed to alternative dispute resolution ("ADR") organization. The mediation shall be conducted at a mutually agreeable location, or if a location cannot be agreed to by the parties, at a location chosen by the mediator. The administrator of the ADR organization shall select three (3) mediators. From the three (3) chosen, each party shall strike one and the remaining mediator shall preside over the mediation. The cost of the mediation shall be borne by the Company.

c. At least ten (10) business days before the date of the mediation, each side shall provide the mediator with a statement of its position and copies of all supporting documents. Each party shall send to the mediation a person who has authority to bind the party. If a subsequent dispute will involve third parties, such as insurers, they shall also be asked to participate in the mediation.

d. If a party has participated in the mediation and is dissatisfied with the outcome, that party may invoke the arbitration procedure set forth below.

3. **Binding Arbitration of Claims and Disputes**.

a. If the Company and Employee are unable to resolve a dispute or claim covered under this Agreement through mediation, they shall submit any such dispute or claim to binding arbitration, in accordance with California Code of Civil Procedure §§1280 through 1294.2. Either party may enforce the award of the arbitrator under Code of Civil Procedure §1285 by any competent court of law. Employee and the Company understand that they are waiving their rights to a jury trial.

b. The party demanding arbitration shall submit a written claim to the other party, setting out the basis of the claim and proposing the name of an arbitrator from JAMS, the mutually agreed to ADR organization. The responding party shall have ten (10) business days in which to respond to this demand in a written answer. If this response is not timely made, or if the responding party agrees with the person proposed as the arbitrator, then the person named by the demanding party shall serve as the arbitrator. If the responding party submits a written answer rejecting the proposed arbitrator then, on the request of either party, JAMS shall appoint an arbitrator other than the mediator. The Employee and the Company agree to apply American Arbitration Association ("AAA") rules for the resolution of employment disputes to the arbitration even though the ADR is one other than AAA. No one who has ever had any business, financial, family, or social relationship with any party to this Agreement shall serve as an arbitrator unless the related party informs the other party of the relationship and the other party consents in writing to the use of that arbitrator.

c. The arbitration shall take place in the greater San Diego, California area, at a time and place selected by the arbitrator. A pre-arbitration hearing shall be held within ten (10) business days after the arbitrator's selection. The arbitration shall be held within sixty (60) calendar days after the pre-arbitration hearing. The arbitrator shall establish all discovery and other deadlines necessary to accomplish this goal.

d. Each party shall be entitled to discovery of essential documents and witnesses, as determined by the arbitrator in accordance with the then-applicable rules of discovery for the resolution of employment disputes and the time frame set forth in this Agreement. The arbitrator may resolve any disputes over any discovery matters as they would be resolved in civil litigation.

e. The arbitrator shall have the following powers:

(i) to issue subpoenas for the attendance of witnesses and subpoenas duces tecum for the production of books, records, documents, and other evidence;

(ii) to order depositions to be used as evidence;

(iii) subject to the limitations on discovery enumerated above, to enforce the rights, remedies, procedures, duties, liabilities, and obligations of discovery as if the arbitration were a civil action before a California superior court;

(iv) to conduct a hearing on the arbitrable issues; and

(v) to administer oaths to parties and witnesses.

f. Within fifteen (15 days) after completion of the arbitration, the arbitrator shall submit a tentative decision in writing, specifying the reasoning for the decision and any calculations necessary to explain the award. Each party shall have fifteen (15) days in which to submit written comments to the tentative decision. Within ten (10) days after the deadline for written comments, the arbitrator shall announce the final award.

g. The Company shall pay the arbitrator's expenses and fees, all meeting room charges, and any other expenses that would not have been incurred if the case were litigated in the judicial forum having jurisdiction over it. Unless otherwise ordered by the arbitrator, each party shall pay its own attorneys' fees and witness fees, and other expenses incurred by the party for such party's own benefit and not required to be paid by the Company pursuant to the terms hereof. Regardless of any statute, procedure, rule or law, the prevailing party in arbitration shall be entitled to recover from the non-prevailing party reasonable attorneys' fees incurred as a result of arbitration.

4. **Miscellaneous Provisions.**

a. For purposes hereof, the term "Company" shall also include all related entities, affiliates and subsidiaries, all officers, employees, directors, agents, stockholders, partners, managers, members, benefit plan sponsors, fiduciaries, administrators or affiliates of any of the above, and all successors and assigns of any of the above.

b. If either party pursues a covered claim against the other by any action, method or legal proceeding other than mediation or arbitration as provided herein, the responding party shall be entitled to dismissal or injunctive relief regarding such action and recovery of all costs, losses and attorneys' fees related to such other action or proceeding.

c. This is the complete agreement of the parties on the subject of mediation and the arbitration of disputes and claims covered hereunder. This Agreement supersedes any prior or contemporaneous oral, written or implied understanding on the subject, shall survive the termination of Employee's employment and can only be revoked or modified by a written agreement signed by Employee and the President or Chief Executive Officer of the Company, the terms of which were approved in advance in writing by the Company's Board of Directors and which specifically state an intent to revoke or modify this Agreement. If any provision of this Agreement is adjudicated to be void or otherwise unenforceable in whole or in part, such adjudication shall not affect the validity of the remainder of the Agreement, which shall remain in full force and effect.

d. This Agreement shall be construed and enforced in accordance with the laws of the State of California.

e. This Agreement shall be construed as a whole, according to its fair meaning, and not in favor of or against any party. By way of example and not in limitation, this Agreement shall not be construed in favor of the party receiving a benefit nor against the party responsible for any particular language in this Agreement. The headings and captions contained in this Agreement are for convenience of reference only and shall not constitute a part of this Agreement and shall not be used in the construction or interpretation of this Agreement.

f. The failure of either party hereto at any time to require the performance by the other party hereto of any provision hereof shall in no way affect the full right to require such performance at any time thereafter, nor shall the waiver by either party hereto of a breach of any provision hereof be taken or held to be a waiver of any succeeding breach of such provision or waiver of the provision itself or a waiver of any other provision of this Agreement.

g. This Agreement may be executed in counterparts, each of which will be deemed an original copy of this Agreement and all of which, when taken together, will be deemed to constitute one and the same agreement. The exchange of copies of this Agreement and of signature pages by facsimile transmission shall constitute effective execution and delivery of this Agreement as to the parties and may be used in lieu of the original Agreement for all purposes. Signatures of the parties transmitted by facsimile shall be deemed to be their original signatures for all purposes.

h. Employee's and Company's obligations under this Agreement shall survive the termination of Employee's employment and the termination of the Employment Agreement.

i. The law firm of Fisher Thurber LLP has prepared this Agreement on behalf of the Company based on the Company's instructions. Fisher Thurber LLP does not represent any other party to this Agreement. In executing this Agreement, Employee represents that Employee has neither requested nor been given legal advice or counsel by Fisher Thurber LLP or any of its attorneys. Employee is aware of Employee's right to obtain separate legal counsel with respect to the negotiation and execution of this Agreement and acknowledges that Fisher Thurber LLP has recommended that Employee retain Employee's own counsel for such purpose. Employee further acknowledges that Employee (i) has read and understands this Agreement; (ii) has had the opportunity to retain separate counsel in connection with the negotiation and execution of this Agreement; and (iii) has relied on the advice of separate counsel with respect to this Agreement or made the conscious decision not to retain counsel in connection with the negotiation and execution of this Agreement.

IN WITNESS WHEREOF, the parties have executed this Agreement as of the Effective Date.

EMPLOYEE

/s/ Robert A. Kay

Robert A. Kay, Ph.D., R.D.

COMPANY

Natural Alternatives International, Inc.,
a Delaware corporation

By: /s/ Randy Weaver

Randell Weaver, President

ATTACHMENT #2

CONFIDENTIAL INFORMATION AND INVENTION ASSIGNMENT AGREEMENT, COVENANT OF EXCLUSIVITY AND COVENANT NOT TO COMPETE

This Confidential Information and Invention Assignment Agreement, Covenant of Exclusivity and Covenant Not to Compete ("Agreement") is made by Robert A. Kay, Ph.D., R.D. ("Employee" or "I," "me" or "my"), and accepted and agreed to by Natural Alternatives International, Inc., a Delaware corporation ("Company"), as of March 29, 2004 ("Effective Date").

In consideration of and as a condition of my prospective employment relationship with the Company (which for purposes of this Agreement shall be deemed to include any subsidiaries or affiliates of the Company, where "affiliate" shall mean any person or entity that directly or indirectly controls, is controlled by, or is under common control with the Company), my employment rights under my Employment Agreement with the Company, my access to and receipt of confidential information of the Company, and other good and valuable consideration, I agree to the following, and I agree the following shall be in addition to the terms and conditions of any Confidential Information and Invention Assignment Agreement executed by employees of the Company generally, and which I may execute in addition hereto:

1. **Inventions.**

a. Disclosure. I will disclose promptly in writing to the appropriate officer or other representative of the Company, any idea, invention, work of authorship, design, formula, pattern, compilation, program, device, method, technique, process, improvement, development or discovery, whether or not patentable or copyrightable or entitled to legal protection as a trade secret, trademark service mark, trade name or otherwise ("Invention"), that I may conceive, make, develop, reduce to practice or work on, in whole or in part, solely or jointly with others ("Invent"), during the period of my employment with the Company.

i. The disclosure required by this Section 1(a) applies to each and every Invention that I Invent (1) whether during my regular hours of employment or during my time away from work, (2) whether or not the Invention was made at the suggestion of the Company, and (3) whether or not the Invention was reduced to or embodied in writing, electronic media or tangible form.

ii. The disclosure required by this Section 1(a) also applies to any Invention which may relate at the time of conception or reduction to practice of the Invention to the Company's business or actual or demonstrably anticipated research or development of the Company, and to any Invention which results from any work performed by me for the Company.

iii. The disclosure required by this Section 1(a) shall be received in confidence by the Company within the meaning of and to the extent required by California Labor Code §2871, the provisions of which are set forth on Exhibit A attached hereto.

iv. To facilitate the complete and accurate disclosures described above, I shall maintain complete written records of all Inventions and all work, study and investigation done by me during my employment, which records shall be the Company's property.

v. I agree that during my employment I shall have a continuing obligation to supplement the disclosure required by this Section 1(a) on a monthly basis if I Invent an Invention during the period of employment. In order to facilitate the same, the Company and I shall periodically review every six months the written records of all Inventions as outlined in this Section 1(a) to determine whether any particular Invention is in fact related to Company business.

b. Assignment. I hereby assign to the Company without royalty or any other further consideration my entire right, title and interest in and to each and every Invention I am required to disclose under Section 1(a) other than an Invention that (i) I have or shall have developed entirely on my own time without using the Company's equipment, supplies, facilities or trade secret information, (ii) does not relate at the time of conception or reduction to practice of the Invention to the Company's business, or actual or demonstrably anticipated research or development of the Company, and (iii) does not result from any work performed by me for the Company. I acknowledge that the Company has notified me that the assignment provided for in this Section l(b) does not apply to any Invention to which the assignment may not lawfully apply under the provisions of Section §2870 of the California Labor Code, a copy of which is attached hereto as Exhibit A. I shall bear the full burden of proving to the Company that an Invention qualifies fully under Section §2870.

c. Additional Assistance and Documents. I will assist the Company in obtaining, maintaining and enforcing patents, copyrights, trade secrets, trademarks, service marks, trade names and other proprietary rights in connection with any Invention I have assigned to the Company under Section l(b), and I further agree that my obligations under this Section l(c) shall continue beyond the termination of my employment with the Company. Among other things, for the foregoing purposes I will (i) testify at the request of the Company in any interference, litigation or other legal proceeding that may arise during or after my employment, and (ii) execute, verify, acknowledge and deliver any proper document and, if, because of my mental or physical incapacity or for any other reason whatsoever, the Company is unable to obtain my signature to apply for or to pursue any application for any United States or foreign patent or copyright covering Inventions assigned to the Company by me, I hereby irrevocably designate and appoint each of the Company and its duly authorized officers and agents as my agent and attorney in fact to act for me and in my behalf and stead to execute and file any such applications and to do all other lawfully permitted acts to further the prosecution and issuance of any United States or foreign patent or copyright thereon with the same legal force and effect as if executed by me. I shall be entitled to reimbursement of any out-of-pocket expenses incurred by me in rendering such assistance and, if I am required to render such assistance after the termination of my employment, the Company shall pay me a reasonable rate of compensation for time spent by me in rendering such assistance to the extent permitted by law (provided, I understand that no compensation shall be paid for my time in connection with preparing for or rendering any testimony or statement under oath in any judicial proceeding, arbitration or similar proceeding).

d. Prior Contracts and Inventions; Rights of Third Parties. I represent to the Company that, except as set forth on Exhibit B attached hereto, there are no other contracts to assign Inventions now in existence between me and any other person or entity (and if no Exhibit

B is attached hereto or there is no such contract(s) described thereon, then it means that by signing this Agreement, I represent to the Company that there is no such other contract(s)). In addition, I represent to the Company that I have no other employments or undertaking which do or would restrict or impair my performance of this Agreement. I further represent to the Company that Exhibit C attached hereto sets forth a brief description of all Inventions made or conceived by me prior to my employment with the Company which I desire to be excluded from this Agreement (and if no Exhibit C is attached hereto or there is no such description set forth thereon, then it means that by signing this Agreement I represent to the Company that there is no such Invention made or conceived by me prior to my employment with the Company). In connection with my employment with the Company, I promise not to use or disclose to the Company any patent, copyright, confidential trade secret or other proprietary information of any previous employer or other person that I am not lawfully entitled so to use or disclose. If in the course of my employment with the Company I incorporate into an Invention or any product process or service of the Company any Invention made or conceived by me prior to my employment with the Company, I hereby grant to the Company a royalty-free, irrevocable, worldwide nonexclusive license to make, have made, use and sell that Invention without restriction as to the extent of my ownership or interest.

2. **Confidential Information.**

a. Company Confidential Information. I will not use or disclose, produce, publish, permit access to, or reveal Confidential Information, whether before, during or after the period of my employment with the Company 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 the Company 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 all information and material that is proprietary to the Company, whether or not marked as “confidential” or “proprietary,” and which is disclosed to or obtained by me, which relates to the Company’s past, present or future business activities. Confidential Information includes all information or materials prepared by or for the Company and includes, without limitation, all of the following: designs, drawings, specifications, techniques, models, data, source code, object code, documentation, diagrams, flow charts, research, development, processes, procedures, “know-how,” new product or new technology information, product copies, development or marketing techniques and materials, development or marketing timetables, strategies and development plans, including trade names, trademarks, customer, supplier or personnel names and other information related to customers, suppliers or personnel, pricing policies and financial information, and other information of a similar nature, whether or not reduced to writing or other tangible form, and any other trade secrets or nonpublic business information. Confidential Information is to be broadly defined, and includes all information that has or could have commercial value or other utility in the business in which the Company is engaged or contemplates engaging, and all information of which the unauthorized disclosure could be detrimental to the interests of the Company, whether or not such information is identified as Confidential Information by the Company.

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, some of which may be subject to restrictions on the use or disclosure thereof by the Company. During the period of my employment and thereafter, I agree not to use or disclose, produce, publish, permit access to, or reveal any such information other than consistent with the restrictions and my duties as an employee of the Company.

3. **Property of the Company.** All equipment and all tangible and intangible information relating to the Company, its employees, its customers and its vendors and business furnished to, obtained by, or prepared by me or any other person during the course of or incident to employment by the Company are and shall remain the sole property of the Company ("Company Property"). For purposes of this Agreement, Company Property shall include, but not be limited to, computer equipment, books, manuals, records, reports, notes, correspondence, contracts, customer lists, business cards, advertising, sales, financial, personnel, operations, and manufacturing materials and information, data processing reports, computer programs, software, customer information and records, business records, price lists or information, and samples, and in each case shall include all copies thereof in any medium, including paper, electronic and magnetic media and all other forms of information storage. Upon termination of my employment with the Company, I agree to return all tangible Company Property to the Company promptly, but in no event later than two (2) business days following termination of employment.

4. **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 period 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 Company's Board of Directors.

6. **Miscellaneous Provisions.**

a. Successors and Assignees; Assignment. All representations, warranties, covenants and agreements of the parties shall bind their respective heirs, executors, personal representatives, successors and assignees ("transferees") and shall inure to the benefit of their respective permitted transferees. The Company shall have the right to assign any or all of its rights and to delegate any or all of its obligations hereunder. Employee shall not have the right to assign any rights or delegate any obligations hereunder without the prior written consent of the Company or its transferee.

b. Number and Gender; Headings. Each number and gender shall be deemed to include each other number and gender as the context may require. The headings and captions contained in this Agreement shall not constitute a part thereof and shall not be used in its construction or interpretation.

c. Severability. If any provision of this Agreement is found by any court or arbitral tribunal of competent jurisdiction to be invalid or unenforceable, the invalidity of such provision shall not affect the other provisions of this Agreement and all provisions not affected by the invalidity shall remain in full force and effect.

d. Amendment and Modification. This Agreement may be amended or modified only by a writing executed by the President or Chief Executive Officer of the Company and Employee.

e. Government Law. The laws of California shall govern the construction, interpretation and performance of this Agreement and all transactions under it.

f. Remedies. I acknowledge that my failure to carry out any obligation under this Agreement, or a breach by me of any provision herein, will constitute immediate and irreparable damage to the Company, which cannot be fully and adequately compensated in money damages and which will warrant preliminary and other injunctive relief, an order for specific performance, and other equitable relief. I further agree that no bond or other security shall be required in obtaining such equitable relief and I hereby consent to the issuance of such injunction and to the ordering of specific performance. I also understand that other action may be taken and remedies enforced against me.

g. Mediation and Arbitration. This Agreement is subject to the Mutual Agreement to Mediate and Arbitrate Claims attached to the Employment Agreement between me and the Company, incorporated into this Agreement by this reference.

h. Attorneys' Fees. Unless otherwise set forth in the Mutual Agreement to Mediate and Arbitrate Claims between Employee and the Company, should either I or the Company, or any heir, personal representative, successor or permitted assign of either party, resort to arbitration or legal proceedings to enforce this Agreement, the prevailing party (as defined in California statutory law) in such proceeding shall be awarded, in addition to such other relief as may be granted, reasonable attorneys' fees and costs incurred in connection with such proceeding.

i. No Effect on Other Terms or Conditions of Employment. I acknowledge that this Agreement does not affect any term or condition of my employment except as expressly provided in this Agreement, and that this Agreement does not give rise to any right or entitlement on my part to employment or continued employment with the Company. I further acknowledge that this Agreement does not affect in any way the right of the Company to terminate my employment.

j. Legal Representation; Advice of Counsel. The law firm of Fisher Thurber LLP has prepared this Agreement on behalf of the Company based on its instructions. Fisher Thurber LLP does not represent any other party to this Agreement. In executing this Agreement, I represent that I have neither requested nor been given legal advice or counsel by Fisher Thurber LLP or any of its attorneys. I am aware of my right to obtain separate legal counsel with respect to the negotiation and execution of this Agreement and acknowledge that Fisher Thurber LLP has recommended that I retain my own counsel for such purpose. I further acknowledge that I (i) have read and understand this Agreement and its exhibits; (ii) have had the opportunity to retain separate counsel in connection with the negotiation and execution of this Agreement; and (iii) have relied on the advice of separate counsel with respect to this Agreement or made the conscious decision not to retain counsel in connection with the negotiation and execution of this Agreement.

[Signatures on following page.]

My signature below signifies that I have read, understand and agree to this Agreement.

/s/ Robert A. Kay

Robert A. Kay, Ph.D., R.D.

ACCEPTED AND AGREED TO:

Natural Alternatives International, Inc.,
a Delaware corporation

By: /s/ Randy Weaver

Randell Weaver, President

EXHIBIT A

California Labor Code

§ 2870. Invention on Own Time-Exemption from Agreement.

(a) Any provision in an employment agreement which provides that an employee shall assign, or offer to assign, any of his or her rights in an invention to his or her employer shall not apply to an invention that the employee developed entirely on his or her own time without using the employer's equipment, supplies, facilities, or trade secret information expect for those inventions that either:

(1) Relate at the time of conception or reduction to practice of the invention to the employer's business, or actual or demonstrably anticipated research or development of the employer; or

(2) Result from any work performed by the employee for the employer.

(b) To the extent a provision in an employment agreement purports to require an employee to assign an invention otherwise excluded from being required to be assigned under subdivision (a), the provision is against the public policy of this state and is unenforceable.

§ 2871. Restrictions on Employer for Condition of Employment.

No employer shall require a provision made void or unenforceable by Section 2870 as a condition of employment or continued employment. Nothing in this article shall be construed to forbid or restrict the right of an employer to provide in contracts of employment for disclosure, provided that any such disclosures be received in confidence, of all of the employee's inventions made solely or jointly with others during the period of his or her employment, a review process by the employer to determine such issues as may arise, and for full title to certain patents and inventions to be in the United States, as required by contracts between the employer and the United States or any of its agencies.

EXHIBIT B

Except as set forth below, Employee represents to the Company that there are no other contracts to assign Inventions now in existence between Employee and any other person or entity (see Section l(d) of the Agreement):

EXHIBIT C

Set forth below is a brief description of all Inventions made or conceived by Employee prior to Employee's employment with the Company, which Employee desires to be excluded from this Agreement (see Section l(d) of the Agreement):

ATTACHMENT #3

FORM OF
SEPARATION AGREEMENT AND GENERAL RELEASE OF CLAIMS

This Separation Agreement and General Release of Claims ("Agreement") is entered into by and between Robert A. Kay, Ph.D., R.D. ("Former Employee") and Natural Alternatives International, Inc., a Delaware corporation ("Company").

RECITALS

A. Former Employee's employment with the Company terminated effective on ______.

B. Former Employee and Company desire to settle and compromise any and all possible claims between them arising out of their relationship to date, including Former Employee's employment with the Company, and the termination of Former Employee's employment with the Company, and to provide for a general release of any and all claims relating to Former Employee's employment and its termination.

NOW, THEREFORE, incorporating the above recitals, and for good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, the parties hereto agree as follows:

AGREEMENT

1. Separation Payment by Company. In consideration of Former Employee's promises and covenants contained in this Agreement, the Company agrees to pay Former Employee the gross sum of _________ and __/100 dollars ($_________), which amount represents a severance benefit in the amount of _________ and _________, less all applicable withholdings and deductions.

2. Release.

(a) Former Employee does hereby unconditionally, irrevocably and absolutely release and discharge the Company, its directors, officers, employees, volunteers, agents, attorneys, stockholders, insurers, successors and/or assigns and any related, parent or subsidiary entity, from any and all losses, liabilities, claims, demands, causes of action, or suits of any type, whether in law and/or in equity, related directly or indirectly or in any way in connection with any transaction, affairs or occurrences between them to date, including, but not limited to, Former Employee's employment with the Company and the termination of said employment. Former Employee agrees and understands that this Agreement applies, without limitation, to all wage claims, tort and/or contract claims, claims for wrongful termination, and claims arising under Title VII of the Civil Rights Act of 1991, the Americans with Disabilities Act, the Age Discrimination in Employment Act, the Equal Pay Act, the California Fair Employment and Housing Act, the Fair Labor Standards Act, the Family and Medical Leave Act, the California Labor Code, any and all federal or state statutes or provisions governing discrimination in employment, and the California Business and Professions Code.

(b) Former Employee irrevocably and absolutely agrees that Former Employee will not prosecute nor allow to be prosecuted on Former Employee's behalf in any administrative agency, whether federal or state, or in any court, whether federal or state, any claim or demand of any type related to the matters released above, it being an intention of the parties that with the execution by Former Employee of this Agreement, the Company, its officers, directors, employees, volunteers, agents, attorneys, stockholders, successors and/or assigns and all related, parent or subsidiary entities will be absolutely, unconditionally and forever discharged of and from all obligations to or on behalf of Former Employee related in any way to the matters discharged herein.

3. Confidentiality.

(a) Former Employee agrees that all matters relative to this Agreement shall remain confidential. Accordingly, Former Employee hereby agrees that Former Employee shall not discuss, disclose or reveal to any other persons, entities or organizations, whether within or outside of the Company, with the exception of Former Employee's legal counsel, financial, tax and business advisors, and such other persons as may be reasonably necessary for the management of the Former Employee's affairs, the terms, amounts and conditions of settlement and of this Agreement. Notwithstanding the above, Former Employee acknowledges that Company may be required to disclose certain terms, aspects or conditions of this Agreement and/or Former Employee's termination of employment in the Company's public filings made with the United States Securities and Exchange Commission and Former Employee hereby expressly consents to any such required disclosures.

(b) Former Employee shall not make, issue, disseminate, publish, print or announce any news release, public statement or announcement with respect to these matters, or any aspect thereof, the reasons therefore and the terms or amounts of this Agreement.

4. Return of Documents and Equipment. Former Employee represents that Former Employee has returned to the Company all Company Property (as such term is defined in that certain Confidential Information and Invention Assignment Agreement, Covenant of Exclusivity and Covenant Not To Compete by and between Former Employee and Company). In the event Former Employee has not returned all Company Property, Former Employee agrees to reimburse the Company for any reasonable expenses it incurs in an effort to have such property returned. These reasonable expenses include attorneys' fees and costs.

5. Civil Code Section 1542 Waiver.

(a) Former Employee expressly accepts and assumes the risk that if facts with respect to matters covered by this Agreement are found hereafter to be other than or different from the facts now believed or assumed to be true, this Agreement shall nevertheless remain effective. It is understood and agreed that this Agreement shall constitute a general release and shall be effective as a full and final accord and satisfaction and as a bar to all actions, causes of

action, costs, expenses, attorneys' fees, damages, claims and liabilities whatsoever, whether or not now known, suspected, claimed or concealed pertaining to the released claims. Former Employee acknowledges that Former Employee is familiar with California Civil Code §1542, which provides and reads as follows:

> **"A general release does not extend to claims which the creditor does not know of or suspect to exist in his favor at the time of executing the release, which if known by him must have materially affected his settlement with the debtor."**

(b) Former Employee expressly waives and relinquishes any and all rights or benefits which Former Employee may have under, or which may be conferred upon Former Employee by the provisions of California Civil Code §1542, as well as any other similar state or federal statute or common law principle, to the fullest extent that Former Employee may lawfully waive such rights or benefits pertaining to the released claims.

6. OWBPA Provisions. In the event Former Employee is forty (40) years old or older, in accordance with the Older Workers' Benefit Protection Act of 1990, Former Employee is aware of and acknowledges the following: (i) Former Employee has the right to consult with an attorney before signing this Agreement and has done so to the extent desired; (ii) Former Employee has twenty-one (21) days to review and consider this Agreement, and Former Employee may use as much of this twenty-one (21) day period as Former Employee wishes before signing; (iii) for a period of seven (7) days following the execution of this Agreement, Former Employee may revoke this Agreement, and this Agreement shall not become effective or enforceable until the revocation period has expired; (iv) this Agreement shall become effective eight (8) days after it is signed by Former Employee and the Company, and in the event the parties do not sign on the same date, this Agreement shall become effective eight (8) days after the date it is signed by Former Employee.

7. Entire Agreement. The parties declare and represent that no promise, inducement or agreement not herein expressed has been made to them and that this Agreement contains the entire agreement between and among the parties with respect to the subject matter hereof, and that the terms of this Agreement are contractual and not a mere recital. This Agreement supersedes any and all other agreements, either oral or in writing, between the parties with respect to the subject matter hereof.

8. Applicable Law. This Agreement is entered into in the State of California. The validity, interpretation, and performance of this Agreement shall be construed and interpreted according to the laws of the State of California.

9. Agreement as Defense. This Agreement may be pleaded as a full and complete defense and may be used as the basis for an injunction against any action, suit or proceeding which may be prosecuted, instituted or attempted by either party in breach thereof.

10. Severability. If any provision of this Agreement, or part thereof, is held invalid, void or voidable as against public policy or otherwise, the invalidity shall not affect other provisions, or parts thereof, which may be given effect without the invalid provision or part. To this extent, the provisions, and parts thereof, of this Agreement are declared to be severable.

11. No Admission of Liability. It is understood that this Agreement is not an admission of any liability by any person, firm, association or corporation.

12. Counterparts. This Agreement may be executed in counterparts, each of which will be deemed an original copy of this Agreement and all of which, when taken together, will be deemed to constitute one and the same agreement. The exchange of copies of this Agreement and of signature pages by facsimile transmission shall constitute effective execution and delivery of this Agreement as to the parties and may be used in lieu of the original Agreement for all purposes. Signatures of the parties transmitted by facsimile shall be deemed to be their original signatures for all purposes.

13. Representation of No Assignment. The parties represent and warrant that they have not heretofore assigned, transferred, subrogated or purported to assign, transfer or subrogate any claim released herein to any person or entity.

14. Cooperation. The parties hereto agree that, for their respective selves, heirs, executors and assigns, they will abide by this Agreement, the terms of which are meant to be contractual, and further agree that they will do such acts and prepare, execute and deliver such documents as may reasonably be required in order to carry out the objectives of this Agreement.

15. Arbitration. Any dispute arising out of or relating to this Agreement shall be resolved pursuant to that certain Mutual Agreement to Mediate and Arbitrate Claims made and entered into effective as of March 29, 2004, by and between the Company and Former Employee.

17. Legal Representation; Independent Counsel**.** The law firm of Fisher Thurber LLP has prepared this Agreement on behalf of the Company based on the Company's instructions. Fisher Thurber LLP does not represent any other party to this Agreement. In executing this Agreement, Former Employee represents that Former Employee has neither requested nor been given legal advice or counsel by Fisher Thurber LLP or any of its attorneys. Former Employee is aware of Former Employee's right to obtain separate legal counsel with respect to the negotiation and execution of this Agreement and acknowledges that Fisher Thurber LLP has recommended that Former Employee retain Former Employee's own counsel for such purpose. Former Employee further acknowledges that Former Employee (i) has read and understands this Agreement; (ii) has had the opportunity to retain separate counsel in connection with the negotiation and execution of this Agreement; and (iii) has relied on the advice of separate counsel with respect to this Agreement or made the conscious decision not to retain counsel in connection with the negotiation and execution of this Agreement.

18. Further Acknowledgements. Each party represents and acknowledges that it is not being influenced by any statement made by or on behalf of the other party to this Agreement. Former Employee and the Company have relied and are relying solely upon his, her or its own judgment, belief and knowledge of the nature, extent, effect and consequences relating to this Agreement and/or upon the advice of their own legal counsel concerning the consequences of this Agreement.

IN WITNESS WHEREOF, the undersigned have executed this Agreement on the date(s) shown below.

FORMER EMPLOYEE

____

Robert A. Kay, Ph.D., R.D.

Dated: ____________________________

Executed in : ____________________ ,California
(City)

COMPANY

Natural Alternatives International, Inc.,
a Delaware corporation

By: ____________________________
(Signature)

Printed Name: ____________________________

Title: ____________________________

Dated: ____________________________

Executed in : ____________________ ,California
(City)

Exhibit 10.11

AMENDED AND RESTATED
EXCLUSIVE LICENSE AGREEMENT

This AMENDED AND RESTATED EXCLUSIVE LICENSE AGREEMENT (“Agreement”) is entered into effective as of September 1, 2004, by and among Natural Alternatives International, Inc., a Delaware corporation (“NAI”) with its principal offices at 1185 Linda Vista Drive, San Marcos, California 92078, and Dr. Reginald B. Cherry, an individual (“Dr. Cherry”), with his principal address at 8323 Southwest Freeway, Suite 440, Houston, Texas 77074. The Parties to this Agreement are sometimes referred to collectively herein as the “Parties” or separately as a “Party”.

RECITALS

A. NAI is in the business of designing, researching, formulating, developing, manufacturing, packaging, distributing and marketing nutritional Products and has demonstrated its capability to develop formulae and to manufacture nutritional Products derived from such formulae.

B. Dr. Cherry entered into an assignment agreement (“Cherry Assignment”) with Reginald
B. Cherry Ministries, Inc., a Texas nonprofit corporation (“Ministries”), in which Dr. Cherry assigned to Ministries an undivided fifty-one percent (51%) interest in and to his name and likeness for the promotion of nutritional foods and supplements, retaining an undivided forty-nine percent (49%) interest in and to his name and likeness for the promotion of nutritional foods and supplements (the “Retained Interest”).

C. Dr. Cherry desires to utilize the expertise of NAI to design, research, formulate, develop, manufacture, package, sell, distribute and market nutritional Products.

D. NAI desires to work with Dr. Cherry to design, research, formulate, develop, manufacture, package, sell, distribute and market nutritional Products using the names, likenesses, styles, persona, patents, trademarks, logos, domain names and copyrights of Dr. Cherry.

E. NAI desires to design, research, formulate, develop, manufacture, package, sell, distribute and market all nutritional Products developed under this Agreement to all markets worldwide, and through all channels or means of distribution.

F. In order to allow NAI to design, research, formulate, develop, manufacture, package, sell, distribute and market nutritional Products using the likeness, style, persona and other attributes of Dr. Cherry, Dr. Cherry intends hereby to grant to NAI an exclusive license to all of his rights in the Retained Interest for NAI’s use in the design, research, formulation, development, manufacture, packaging, sales, distribution and marketing of nutritional Products, subject to Dr. Cherry retaining the non-exclusive right to assist in the promotion and marketing of the nutritional Products.

Incorporating the above recitals herein and in consideration of the covenants and obligations contained herein and other good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, the Parties agree as follows:

Incorporating the above recitals herein and in consideration of the covenants and obligations contained herein and other good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, the Parties agree as follows:

ARTICLE I
GRANT OF EXCLUSIVE LICENSE

1.1 **Grant of License.** Dr. Cherry grants to NAI the exclusive right to use solely in connection with distribution of Products, the names, likenesses, styles, persona, patents, trademarks, logos, domain names, copyrights and all other attributes, whether currently existing or to be developed in the future, of Dr. Cherry with respect to the Retained Interest (the “Proprietary Assets”). The rights granted herein pursuant to this Section are referred to as the “License Rights”.

1.2 **Territory.** The territory for which NAI is granted the License Rights shall be worldwide.

1.3 **Products.** “Product” or “Products” means all nutritional foods, nutritional and dietary supplements and related materials or products of any description, including but not limited to capsules, tablets, powders, liquids, bars and other forms and packaged in any and all manners using the Proprietary Assets developed as part of the individual and product identity of Dr. Cherry. NAI shall have the right to have the labeling and all promotional materials for all Products include a representation that the Product has been manufactured by NAI.

1.4 **Duties of NAI.** In connection with the License granted herein, NAI shall:

1.4.1 Take such actions as are commercially reasonable in an effort to design, develop, formulate, manufacture, promote, market, distribute and sell the maximum number of Products while maintaining the quality of the Products and NAI’s service to its customers.

1.4.2 Meet, confer and cooperate with Dr. Cherry in connection with development of any packaging and promotional materials utilizing the Proprietary Assets.

1.4.3 Cooperate with Dr. Cherry with respect to Dr. Cherry’s preparation of material for inclusion in or use in connection with medical clinics, television programs, Web sites, books, mini-books, study guides, and audiotapes of Dr. Cherry.

1.4.4 Maintain a regular schedule of contact with Dr. Cherry to discuss ideas, priorities, action steps and issues.

1.4.5 Cooperate with all parties in the current and future development of the Products and use best efforts to produce and distribute Products under this Agreement.

1.4.6 Submit promotional copy, artwork, and layout to Dr. Cherry for review, comment, and editing, so that promotional materials reflect the public image of Dr. Cherry and

his activities associated with maintaining and restoring health. NAI may proceed with producing said promotional material only after obtaining approval of Dr. Cherry pursuant to Section 1.5.3.

1.4.7 Develop the Products with the collaboration and assistance of Dr. Cherry. NAI will design, formulate, manufacture, and package the Products. NAI will use reasonable efforts to ensure Product formulas do not infringe upon the existing patents or registered trademarks of any other party.

1.4.8 NAI will develop all packaging and labeling with respect to the Products.

1.5 Duties of Dr. Cherry. In connection with the exclusive license granted in this Agreement, Dr. Cherry shall:

1.5.1 Devote such time, effort, attention and energies as is commercially reasonable to promote, expand, improve, safeguard and develop the Proprietary Assets, and to promote, market and sell the Products and teach about the importance and benefits of the Products as a part thereof, and in connection with such efforts and the promotion and maintenance of the Proprietary Assets and Products, to maintain or expand the scope of distribution and public awareness of Dr. Cherry, and shall not take any action that would be inconsistent with the public image of either Dr. Cherry, NAI, the Products or Proprietary Assets, or degrade, tarnish, deprecate or disparage Dr. Cherry, NAI, the Products or Proprietary Assets or in any way reflect negatively on any of them in society or standing in the community, or prejudice Dr. Cherry, NAI, the Products or Proprietary Assets, and that Dr. Cherry will terminate such activities promptly upon notice.

1.5.2 Regularly recommend and review the Products for use and meet, confer, and cooperate with NAI in connection with the development of Products.

1.5.3 Review, comment, edit, and approve or disapprove, in its reasonable discretion the design, formulation, labeling and packaging of all Products and all material changes thereto and all promotional material submitted by NAI prior to the expiration of fifteen (15) business days following receipt of such materials. Any failure to approve or disapprove of such materials within the time period provided, shall constitute approval.

1.5.4 Collaborate and cooperate with NAI and otherwise assist NAI with Product design, development and formulation, and the design and development of the packaging and labeling of the Products.

1.5.5 Maintain a regular schedule of contact with NAI to discuss ideas, priorities, action steps and issues.

1.5.6 Advise NAI on a regular basis as to the schedule and content of Dr. Cherry’s activities, corrected as changes occur for a forward looking calendar of at least six (6) months.

1.5.7 Cooperate with all parties in the current and future development of Products and use best efforts to promote, market and sell the Products.

1.5.8 With the exception of Promensol, Dr. Cherry shall refrain from promoting, marketing or selling any Product distributed by anyone other than NAI.

ARTICLE II
ROYALTIES

2.1 **Royalties.** NAI shall pay Dr. Cherry a royalty on the annual Net Sales revenue from the Products. "Net Sales" shall be computed as the gross invoice amount billed by NAI to purchasers of the Products, less customer shipping and handling charges, credit card charge fees and returns actually credited. The amount of such royalty shall be the amount set forth in Section 2.1.2 herein below:

2.1.1 **Minimum Annual Net Sales.** During the periods of the term of this Agreement set forth below, NAI shall produce minimum annual Net Sales of the Products. The amount of the minimum annual sales shall be as set forth below for each period.

Effective Date through December 31, 2004 $5,000,000
January 1, 2005 through December 31, 2005 $6,000,000
January 1, 2006 through December 31, 2006 $6,500,000
January 1, 2007 through December 31, 2007 $7,000,000
January 1, 2008 through December 31, 2008 $7,500,000
January 1, 2009 through December 31, 2009 $8,000,000

In the event Minimum Annual Net Sales are not achieved, NAI shall have the option to retain all rights under this Agreement by paying to Dr. Cherry the difference between the amount of royalties actually paid to Dr. Cherry pursuant to Section 2.1.2 for Net Sales achieved during the respective year, and the amount which would have been due if the Minimum Annual Net Sales requirement had been achieved. If the Minimum Annual Net Sales requirement is not achieved and NAI does not pay to Dr. Cherry such difference, Dr. Cherry shall have the right in his sole discretion to: (i) waive the non-compliance; (ii) notify NAI this Agreement has been automatically converted to a non-exclusive license on otherwise all the same terms and conditions; or (iii) terminate this Agreement at which time all rights previously licensed shall revert to Dr. Cherry. No waiver of this requirement by Dr. Cherry (if any) shall act as a future waiver.

2.1.2 **Annual Net Sale Royalty.** During the entire term of this Agreement, the royalty due for the period shall be in the amount set forth in this Section 2.1.2.

4.90% of annual Net Sales not exceeding $25,000,000;

5.39% of annual Net Sales in excess of $25,000,000 but not exceeding $30,000,000;

5.88% of annual Net Sales in excess of $30,000,000 but not exceeding $35,000,000;
6.37% of annual Net Sales in excess of $35,000,000 but not exceeding $40,000,000;
6.86% of annual Net Sales in excess of $40,000,000 but not exceeding $45,000,000;
7.35% of annual Net Sales in excess of $45,000,000

2.1.3 **Royalty Payments.** Royalty payments shall be made monthly, on or before the 30th day of the month succeeding the close of each calendar month. Each payment hereunder shall be accompanied by a report setting forth the information described in Section 2.3. All payments shall be made in United States currency and be drawn on a United States bank. The amount of the monthly royalty payment due during each of the first three (3) quarters of each annual period described in Section 2.1.1, shall be calculated according to Section 2.1.2. The amount of the monthly royalty payment due during the fourth quarter of each annual period described in Section 2.1.1, shall be the greater of: (i) the amount calculated for the quarter pursuant to Section 2.1.2; or (ii) the minimum amount due for the annual period as set forth in Section 2.1.1 less the amount of all royalties already paid for the same annual period.

2.2 **Dr. Cherry Promotional Expense Sharing.** NAI and Dr. Cherry shall mutually develop and approve a budget for any direct costs incurred by Dr. Cherry in connection with the promotion of the Products. NAI shall contribute or reimburse such parties for a percentage of such costs, which percentage shall be an amount mutually agreed upon by NAI and Dr. Cherry.

2.3 **Reports.** NAI shall deliver a report to Dr. Cherry within thirty (30) days after the end of each calendar month, which shall consist of an accurate statement of Net Sales of Products, along with any royalty payments or sublicensing revenues due Dr. Cherry. Such reports shall be provided to Dr. Cherry, regardless of whether any Products were sold during the period covered by the report. The acceptance by Dr. Cherry of any of the statements furnished or royalties paid shall not preclude Dr. Cherry questioning the correctness at any time of any payments or statements. In connection therewith, Dr. Cherry shall be entitled to examine or audit at his own expense the documents underlying the statements described in this Section not more often than annually. In the event such audit reveals an understatement of royalties due hereunder in an amount equal to or exceeding 5% of the actual royalties due over the period of such audit, NAI shall bear the cost of audit. Any such underpayment shall be immediately due and payable, with interest accrued from the date the payment was originally due at the lesser of 1.5% per month or the maximum rate permitted by law.

ARTICLE III
TERM OF AGREEMENT

3.1 **Effective Date.** The term “Effective Date” shall mean, and this Agreement is effective as, of the date first written above.

3.2 **Term and Termination.**

3.2.1 **Initial Term.** This Agreement shall remain in effect until December 31, 2009, unless earlier terminated in accordance herewith. Upon expiration of the initial term, the term of this Agreement shall be automatically extended for successive one (1) year periods unless terminated by either party by written notice delivered at least 120 days prior to expiration of any such period.

3.2.2 **NAI Termination.** NAI may terminate this Agreement at any time upon giving Dr. Cherry ninety (90) days notice.

3.2.3 **Dr. Cherry Termination.** Dr. Cherry may terminate this Agreement after notice to NAI only if NAI materially fails to comply with any covenant in this Agreement and such failure continues for more than thirty (30) days after written notice thereof from Dr. Cherry, unless such failure cannot reasonably be cured within 30 days then only if NAI fails to commence such cure within thirty (30) days and diligently thereafter prosecutes such cure to completion.

3.3 **Termination on Specific Events.** Either Party may terminate this Agreement immediately only if:

3.3.1 The other Party suspends or discontinues its business operations, makes any assignment for the benefit of its creditors, commences voluntary proceedings for liquidation in bankruptcy, admits in writing its inability to pay its debts generally as they become due or consents to the appointment of a receiver, trustee or liquidator of the other Party or of all or any material part of its property, or if there is an execution of a material portion of its assets.

3.3.2 The other Party shall commence any case, proceeding or other action under any existing or future law of any jurisdiction, domestic or foreign, relating to bankruptcy, insolvency, reorganization or relief of debtors seeking to have an order for relief entered with respect to it, or seeking to adjudicate it a bankrupt or insolvent, or seeking reorganization, arrangement, adjustment, winding-up, liquidation, dissolution, composition or other relief with respect to it or its debts.

3.3.3 (i) There shall be commenced against the other Party any case, proceeding or other action of a nature referred to in section 3.3.2 above which results in the entry of an order for relief or any such adjudication or appointment or remains undismissed, undischarged, unstayed or unbonded for period of ninety (90) days; or (ii) there shall be commenced against the other Party any case, proceeding or other action seeking issuance of a warrant of attachment, execution, distraint or similar process against all or any substantial part of its assets, which results in the entry of an order for any such relief which shall not have been vacated, discharged or stayed or bonded pending appeal within ninety (90) days from the entry thereof; or (iii) the other Party shall take any action in furtherance of, or indicating its consent to, approval of, or acquiescence in, any of the acts set forth in clause (i) or (ii) above.

3.3.4 NAI assigns its rights to a party who is at the time of transfer involved as an adverse party in material and adverse litigation against Dr. Cherry.

3.3.5 NAI fails to make the royalty payments as required by Article II within thirty (30) days following receipt of written notice from Dr. Cherry of the late payment.

3.4 **Duties on Termination.** Upon termination of this Agreement, copies of all records related to Dr. Cherry shall be kept by NAI for a minimum of three (3) years following production. In addition, NAI shall complete all work in process in a timely fashion and take all acts reasonably necessary to complete all other prior obligations and maintain the Proprietary Assets and deliver to Dr. Cherry all materials strictly related thereto. The Parties shall cooperate and utilize their best efforts to prepare such final reconciliations of accounts and amounts due Dr. Cherry.

3.4.1 After the termination or expiration of this license, all rights granted to NAI under this Agreement shall terminate and revert to Dr. Cherry, and NAI will refrain from further copying, marketing, distribution, or use of the Proprietary Assets. Within thirty (30) days after termination, NAI shall deliver to Dr. Cherry a statement indicating the number and description of the Products that it had on hand or is in the process of manufacturing as of the termination date. Dr. Cherry shall have the right for thirty (30) days following notice of termination to notify NAI of his election to purchase all such Products not committed to another purchaser as of the date of termination. If Dr. Cherry elects to do so, the purchase and sale shall be on commercially reasonable terms. If Dr. Cherry does not elect to purchase such Products NAI may dispose of the Products covered by this Agreement for a period of three (3) months after termination or expiration. At the end of the post-termination sale period, NAI shall furnish a royalty payment and statement as required under Article II.

3.4.2 In the event of termination of this Agreement, Dr. Cherry will immediately cease any current or future solicitation of any NAI customers who have not participated in any Dr. Cherry activities as of the termination date, and shall return to NAI any confidential or proprietary information of NAI including, but not limited to, any existing electronic or physical documentation of the identities of any NAI customers.

ARTICLE IV
MAINTENANCE OF INTELLECTUAL PROPERTY

4.1 **Protection of Proprietary Assets.** Dr. Cherry shall seek in his own name or the name of any entity which is bound by the terms of this Agreement and at his own expense, all appropriate patent, trademark, copyright or other available means of intellectual property protection for the Proprietary Assets. In the event Dr. Cherry does not seek any appropriate patent, trademarks, copyright or other available means of intellectual property protection within thirty (30) days following a written request therefor by NAI, NAI may seek such protection on behalf of Dr. Cherry and itself and credit the cost of such action against royalties due or becoming due under the terms of Article II, except for the License Rights granted to NAI herein with respect to the Proprietary Assets and the Products.

4.2 **Protection of Products.** NAI may seek in its own name and at its own expense, and if obtained, shall maintain appropriate patent, trademark, copyright or registration protection for any element or component included in the Products or any part thereof, and NAI shall retain ownership of such elements or components. In the event of termination of this agreement, NAI agrees to sell to Dr. Cherry from at then applicable commercial rates any element or component included in the Products for which NAI in NAI's sole discretion continues to maintain appropriate sourcing.

4.3 **Ownership of Formulae.** Subject to the rights of NAI, as licensee, pursuant to this Agreement, Dr. Cherry shall own an undivided forty-nine percent (49%) interest in the formula, trade name and design for each Product.

4.4 **Enforcement of Intellectual Property Rights.**

4.4.1 In the event any Party becomes aware of any claim or unauthorized use, or infringement on the Proprietary Assets, License Rights, or Products during the term of this Agreement, that Party shall immediately notify all of the other Parties of such violation and shall consult with and cooperate in any way requested by any Party with respect to the enforcement of all intellectual property rights.

4.4.2 Dr. Cherry shall, at his own cost and expense, take all action necessary to enforce his rights and cause any violation with respect to Proprietary Assets to cease and be remedied. In the event Dr. Cherry fails to take all action necessary to remedy any such violation, NAI, upon ten (10) business days prior written notice, may take such action and may offset one half the costs incurred in connection with such actions against any amounts coming due to Dr. Cherry under the terms of Article II. Dr. Cherry shall approve or disapprove such action within ten (10) business days following receipt of notice as provided above and approval may not be unreasonably withheld. In connection with such action, the Parties shall execute all papers necessary or appropriate in the discretion of the Party taking such action in response to a violation or infringement of the Proprietary Assets, and shall testify in any legal action whenever requested to do so by the prosecuting Party.

4.5 **Assistance in Protection.** In addition to their respective undertakings set forth in the preceding Sections, the Parties agree to render, to each other all assistance reasonably requested of them in connection with the protection of the Proprietary Assets and to make promptly available to one another information they possess or to which they have access that may be of use to the other in such protection.

4.6 **Notice of Infringement.** In the event any Party becomes aware of any claim or unauthorized use with respect to the Proprietary Assets, it will notify the other Parties of such claim or unauthorized use immediately, but in no event, more than two (2) business days following the date on which it became aware of the claim or unauthorized use.

4.7 **Preservation of Proprietary Assets.** Dr. Cherry undertakes and agrees he will maintain the existing image and public persona of himself, and will use best efforts to further develop, improve and otherwise enhance the image and public persona of Dr. Cherry. In no event will Dr. Cherry take any action which would be inconsistent with the public image of himself, NAI, the Products or Proprietary Assets or denigrate himself, NAI, the Products or Proprietary Assets or in any way reflect negatively on himself, NAI, the Products or Proprietary Assets.

4.8 **Regulatory Action.** If the Food and Drug Administration or any other federal, state or local government agency gives notice of or makes an inspection at any Party's premises, seizes any Product or requests a recall, the other Parties shall be notified immediately but in no event later than the next business day. Duplicates of any samples of Product taken by such agency shall be sent to the other Parties promptly. In the event of any action described in this Section, the Parties shall cooperate in determining the response, if any, to be made to such action and each party agrees NAI shall be the Parties' representative in responding to such action, and each agrees to cooperate with and assist NAI in attempting to resolve any such action and to refrain from any activity with respect to such action which is not previously approved by NAI, except such activities as may be required by law.

4.9 **NAI Customer List.** NAI may maintain a list of its customers purchasing from NAI. This information is NAI's exclusive property. NAI may allow its customer list to be used by any third party only after given seven (7) business days prior written notice to Dr. Cherry, which shall approve or disapprove of each use in its reasonable discretion prior to the expiration of seven (7) business days following such notice. Any failure to approve or disapprove of such use within the time period provided, shall constitute approval for purposes of this Section.

4.10 **NAI Distribution for Dr. Cherry to NAI Customer List.** Upon Dr. Cherry's reasonable request, NAI agrees to distribute to its customers Dr. Cherry material at Dr. Cherry's expense up to six (6) times annually provided such distribution is for no purpose other than enlisting participants in Dr. Cherry activities. Dr. Cherry shall provide NAI five (5) business days prior written notice of such requests NAI shall retain the right in its reasonable discretion to approve or disapprove of the content of each distribution, and shall approve or disapprove such distribution prior to the expiration of five (5) business days following such notice. NAI shall cooperate in processing such distribution by or through any agent or vendor of Dr. Cherry's designation.

4.11 **Fulfillment Vendor.** The Parties understand and approve of NAI's use of fulfillment vendors to assist in distribution of the Products, and acknowledge and approve of such arrangements. NAI agrees any additional or different fulfillment vendor must be capable of providing telephone customer service which appropriately reflects the public image of Dr. Cherry.

ARTICLE V
REPRESENTATIONS AND WARRANTIES

5.1 **Representations and Warranties of Dr. Cherry.** Dr. Cherry owns and/or controls the nonexclusive rights to the Proprietary Assets, and has the authority to grant this license to use the Proprietary Assets in the manner and form provided in this Agreement. Dr. Cherry has received no notice of any claim with respect to any of the Proprietary Assets which is inconsistent with his rights in the Proprietary Assets, nor has he received any notice of any unauthorized use thereof. The Proprietary Assets do not infringe upon or violate any rights of any third party. Neither the execution and delivery of this Agreement nor the consummation of the transactions contemplated hereunder will violate or constitute a default under any agreement or instrument to which Dr. Cherry is a party or by which he is bound.

5.2 **Representations and Warranties of NAI.** NAI has the authority to enter into this Agreement. Neither the execution and delivery of this Agreement nor the consummation of the transactions contemplated hereunder will violate or constitute a default under any agreement or instrument to which NAI is a party or by which it is bound.

ARTICLE VI
CONFIDENTIALITY

6.1 **Duty to Protect Confidential Information.** Any confidential information disclosed or conveyed by either Party to the other in connection with its business by written communication and marked as confidential, or by oral communication and confirmed in writing within thirty (30) working days of oral disclosure, shall be treated by the receiving Party as secret and confidential and shall be held in trust for the disclosing Party. The receiving Party shall treat such information and take such steps to assure its continued confidentiality in like manner as it would use to protect its own trade secrets or confidential information and will not, except as required by law, disclose any such confidential information received from the other Party to any third Party who is not bound under a confidentiality and non-disclosure agreement.

6.2 **Means of Protecting Confidential Information.** NAI and Dr. Cherry agree to take reasonable steps to ensure the proprietary and confidential nature of the other's confidential information and of Proprietary Assets, License Rights, and Products in which confidential information is embodied or included and to protect the same from loss or theft and agree to clearly mark such confidential information and properly indicate its proprietary nature.

6.3 **Terms of Agreement.** Except as otherwise required by law, including, but not limited to, NAI's disclosure obligations in connection with the U.S. Securities Act of 1934, the Parties agree that the terms of this Agreement are proprietary and confidential, as is the existence of this Agreement. Each Party agrees to maintain the existence of this Agreement and the terms and information contained herein strictly confidential and will not disclose any such information to any person who is not a Party hereto without the prior written consent of all Parties, which consent may be granted or withheld in the absolute discretion of each Party.

6.4 **Dr. Cherry Use.** The Parties acknowledge Dr. Cherry has an interest in utilizing confidential information developed by NAI in connection with his distribution of Products, if any, for the purpose of enlisting participants in Dr. Cherry activities. The Parties agree that upon the request of Dr. Cherry they will meet, confer and negotiate in good faith the terms under which Dr. Cherry may use such information to enlist additional participants while providing adequate protections for the reasonable interest of NAI in connection therewith.

6.5 **Provisions Divisible.** It is agreed by all Parties that the foregoing covenants are appropriate and reasonable in light of the nature and extent of the business conducted by the Parties and their respective relationships. It is further agreed that the covenants set forth herein are divisible in the event they are held to be invalid, unreasonable, arbitrary or against public policy. Further, it is agreed by the Parties that if any court of competent jurisdiction or authorized arbitrator makes such a determination, they may determine what time period and geographical area are reasonably necessary to protect the Parties' legitimate business interests and which are enforceable.

6.6 **Irreparable Injury.** Each Party acknowledges that damages at law will be an insufficient remedy for violation of the terms of this Article and that the other Party would suffer irreparable injury as a result of such violation. Accordingly, it is agreed upon application to a court of competent jurisdiction, the Parties may obtain injunctive relief to enforce the provisions of this Article of this Agreement, which injunctive relief shall be in addition to any other rights or remedies available to it or them.

6.7 **Extended Term of Confidentiality.** It is recognized by all Parties that due to their respective positions of confidence giving rise to access to confidential, proprietary information during the term of this Agreement, that the provisions of this Article VI apply during the term of this Agreement and for a period of three (3) years thereafter.

ARTICLE VII
CLAIMS AND INDEMNIFICATION

7.1 **Indemnification by NAI Against Third-Party Claims.** Except as otherwise set forth above in Article VI, NAI shall indemnify, defend, and hold harmless Dr. Cherry, and his heirs, administrators, successors and assigns harmless from and against any and all damage, loss, expense (including reasonable attorneys' fees and costs), award, settlement, or other obligation arising out of any claims, demands, actions, suits, or prosecutions that may be made or instituted against them or any of them, (i) arising from any alleged breach of NAI's warranties contained herein, (ii) arising from any injury or death from any defect in the Proprietary Assets; and (iii) any claims arising out of NAI marketing, distribution, promotion, sale, or use of Products or Proprietary Assets.

7.2 **Indemnification by Dr. Cherry Against Third-Party Claims.** Except as otherwise set forth above in Article VI, Dr. Cherry shall indemnify, defend, and hold harmless NAI, its subsidiaries, affiliated and/or controlled companies and all sublicensees, as well as their respective officers, directors, agents, and employees, harmless from and against any and all

damage, loss, expense (including reasonable attorneys' fees and costs), award, settlement, or other obligation arising out of any claims, demands, actions, suits, or prosecutions that may be made or instituted against them or any of them, (i) arising from any alleged breach of Dr. Cherry's warranties contained herein, (ii) arising from any injury or death from any defect in the Proprietary Assets specifically excluding any claim relating to the Products manufactured by NAI exclusive of the Proprietary Assets; and (iii) any claims arising out of the content or manner of Dr. Cherry's marketing, distribution, promotion, sale, or recommended use of Licensed Products or Proprietary Assets, and specifically excluding NAI's marketing, distribution, promotion, sale, or recommended use of the Products of the Proprietary Assets.

7.3 **Insurance.** NAI shall carry with companies reasonably satisfactory to Dr. Cherry: (i) Workers' Compensation and Employees' Liability Insurance; (ii) Standard Form Fire and Extended Coverage Insurance for the full replacement value of any of the Products or any premiums or packaging materials, and (iii) Public Liability Insurance including Contractual Liability and Products Liability Coverage (with Broad Form Vendor's Endorsement naming Dr. Cherry and his authorized distributors and customers as insured) with a combined single limit of not less than Ten Million Dollars ($10,000,000). NAI shall submit policies and/or certificates of insurance evidencing the above coverage (which shall include an agreement by the insurer not to cancel or materially alter its coverage except upon thirty (30) days prior written notice to Dr. Cherry) to Dr. Cherry upon Dr. Cherry's written request therefore. Products Liability Insurance shall continue in effect for Dr. Cherry's benefit for a period often (10) years from the date of the last sale of Products by NAI. In case of NAI's failure to carry said policies and/or furnish certificates of insurance or upon cancellation of any required insurance, Dr. Cherry may, at his option, immediately terminate this Agreement unless (in the case of cancellation) NAI has obtained substitute insurance coverage before such insurance becomes canceled and provides Dr. Cherry with satisfactory evidence thereof.

7.4 **Liability for Claims of Parties.** Except as otherwise provided in this Agreement, no Party shall be liable for injury to any other Party's business or any loss of income therefrom or for damage to the other Party's property, employees, invitees, customers or any other person or thing, nor shall any Party be liable for injury to the persons of the other or their respective employees, agents or contractors, whether or not such damage or injury arises or results from the performance or conduct imposed by this Agreement either directly or indirectly.

ARTICLE VIII
MISCELLANEOUS PROVISIONS

8.1 **Sublicense.** NAI may sublicense the rights granted pursuant to this Agreement, provided NAI obtains Dr. Cherry's prior written consent to such sublicense. Dr. Cherry's consent to any sublicense shall not be unreasonably withheld and in any such sublicense agreement, provision shall be made so that Dr. Cherry receives such revenue or royalty payment as provided for herein. Any sublicense granted in violation of this provision shall be void.

8.2 **Entire Agreement; Amendment.** This Agreement contains the entire understanding between the Parties with respect to the subject matter hereof and supersedes all

prior or contemporaneous written or oral negotiations and agreements between them regarding the subject matter hereof. This Agreement may be amended only by a writing signed by both of the Parties and clearly designated as an amendment to this Agreement by an appropriate heading.

8.3 **Severability.** If any provision or portion thereof of this Agreement is determined to be invalid or unenforceable, the provision or portion shall be deemed to be severable from the remainder of this Agreement and shall not cause the invalidity or unenforceability of the remainder of this Agreement.

8.4 **No Implied Waivers.** The failure of either Party at any time to require performance by the other Party of any provision hereof shall not affect in any way the right to require such performance at any later time, nor shall the waiver by either Party of a breach of any provision hereof be taken or held to be a waiver of such provision.

8.5 **Attorneys Fees.** If any arbitration or legal proceeding is brought for the enforcement of this Agreement, or because of an alleged breach, default or misrepresentation in connection with any provision of this Agreement or other dispute concerning this Agreement, the successful or prevailing Party shall be entitled to recover reasonable attorneys fees incurred in connection with such arbitration or legal proceeding. The term "Prevailing Party" shall mean the Party which is entitled to recover its costs in the proceeding under applicable law, or the Party designated as such by the court or the arbitrators.

8.6 Arbitration. Any dispute, controversy or claim arising from, out of or in connection with, or relating to, this Agreement or any breach or alleged breach of this Agreement, except allegations of violations of Federal or State securities laws, will upon the request of any Party involved be submitted to any private arbitration service utilizing former judges as mediators and approved by the Parties. The dispute once submitted shall be settled by arbitration in Houston (or at any other place or under any other form of arbitration mutually acceptable to Parties involved). The arbitrator shall follow and apply the federal rules of evidence and the applicable local federal rules of governing discovery in the arbitration. Any award rendered shall be final, binding and conclusive upon the Parties and shall be non-appealable, and a judgment thereon may be entered in the highest State or Federal court of the forum, having jurisdiction. The expenses of the arbitration shall be borne equally by the Parties to the arbitration, provided that each Party shall pay for and bear the cost of its own experts, evidence and attorneys' fees, except that in the discretion of the arbitrator, any award may include the costs, fees and expenses of a Party's attorneys.

8.7 **Governing Law.** This Agreement shall be construed and interpreted under the laws of the State of Texas. All disputes or controversies or questions arising under or relating to this Agreement between the Parties hereto in relation to this Agreement shall be construed and resolved under the laws of the State of Texas. Each Party acknowledges and waives any objection to venue for such disputes in state or federal courts sitting in Houston, Texas. Any judgments upon the award entered by the arbitrators may be entered in the State or Federal Courts situated in the State of Texas.

8.8 **Counterparts.** This Agreement may be executed in one or more counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument.

8.9 **Captions.** The captions of the sections and subsections of this Agreement are included for reference purposes only and are not intended to be a part of the Agreement or in any way to define, limited or describe the scope or intent of the particular provision to which they refer.

8.10 **Relationship of the Parties.** The terms and provisions of this agreement are intended to be a license agreement and it shall not in any respect be construed to constitute NAI or Dr. Cherry as the agent, employee, partner or joint venturer of the other. All persons employed by any Party in connection with the manufacture, distribution, marketing, promotion and sale of the Products shall be the employees or agents of that Party and under no circumstances shall a Party's employees or agents be deemed to be employees or agents of any other Party. Each Party will bear the cost of its distribution, marketing, promotion and sale of Products through its own channels. In the event any Parties utilize common vendors or contractors, each Party utilizing such common vendor or contractor will maintain such relationship and any obligations, agreements and accounts with such common vendor or contractor separate and distinct from any other Party's.

8.11 **Notice; Designation.** All notices, consents, waivers and other communications under this Agreement must be in writing and will be deemed to have been given by a party (a) when delivered by hand (with delivery receipt required, costs prepaid by sender); (b) one day after deposit with a nationally recognized overnight courier service (all costs prepaid by sender); (c) five days after deposit in the United States mail by certified delivery, return receipt requested (postage prepaid); (d) when sent by facsimile with confirmation of transmission by the transmitting equipment (a confirming copy of the notice shall also be delivered by the method specified in (b) in this Section). Notices shall be sent in each case to the address indicated for each party below. The notice provision for any party may be changed by sending notice in accordance with this Section.

If to NAI:

Natural Alternatives International, Inc.
1185 Linda Vista Drive
San Marcos, California 92078
Attn: President or Chief Operating Officer
Telephone: (760) 744-7340
Facsimile: (760) 591-9637

with a copy to:

Fisher Thurber LLP
4225 Executive Square, Suite 1600
La Jolla, California 92037
Attention: David A. Fisher
Telephone: (858) 535-9400
Facsimile: (858) 535-1616

If to Dr. Cherry:

Reginald B. Cherry, M.D.
8323 Southwest Freeway, Suite 440
Houston, Texas 77074
Telephone: (713) 961-2789
Facsimile: (713) 961-0899

8.11.1 If a specific contact person is designated in a provision, notice concerning the subject matter of such provision shall be directed to such person. The address or the name of any Party or contact person may be changed by sending notice in the manner set forth above.

8.12 **Successors, Assignment.** This Agreement shall inure to the benefit of and be binding upon the successors and permitted assigns of the Parties. NAI and Dr. Cherry may assign their rights and obligations under this Agreement to their Affiliate. Any such assignment will not release or discharge them from any liability or obligation hereunder. The rights and obligations of Dr. Cherry and NAI may only be assigned to other than Affiliate after first obtaining the other Party's written consent, which consent may not be unreasonably withheld. As used herein, Affiliate shall refer to any person or entity that is under direct or indirect control of the applicable Party. The term "control" includes without limitation, ownership of interest representing a majority of the total voting power in an entity or the ability to manage or direct such entity.

8.13 **Further Assurances.** The Parties agree (i) to furnish upon request to each other such further information, (ii) to execute and deliver to each other such other documents, and (iii) to do such other acts and things, all as the other Party may reasonably request for the purpose of carrying out the intent of this Agreement and the documents referred to in this Agreement.

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Signature page follows

Intending to be legally bound, the Parties have executed this Amended and Restated Exclusive License Agreement effective as of the Effective Date.

NATURAL ALTERNATIVES INTERNATIONAL, INC.
A Delaware corporation

By: /s/ Randell Weaver

Randell Weaver, President

/s/ Reginald B. Cherry, M.D.

Reginald B. Cherry, M.D.

Exhibit 10.12

EXCLUSIVE LICENSE AGREEMENT

This EXCLUSIVE LICENSE AGREEMENT ("Agreement") is entered into effective as of September 1, 2004, by and among Natural Alternatives International, Inc., a Delaware corporation ("NAI") with its principal offices at 1185 Linda Vista Drive, San Marcos, California 92078, and Reginald B. Cherry Ministries, Inc. a Texas non-profit corporation ("Ministries"), with its principal address at 8323 Southwest Freeway, Suite 440, Houston, Texas 77074. The Parties to this Agreement are sometimes referred to collectively herein as the "Parties" or separately as a "Party".

RECITALS

A. NAI is in the business of designing, researching, formulating, developing, manufacturing, packaging, distributing and marketing nutritional Products and has demonstrated its capability to develop formulae and to manufacture nutritional Products derived from such formulae.

B. Ministries is exempt from federal income tax under section 501(c)(3) of the Internal Revenue Code of 1986, as amended, and is organized and operated for charitable, educational and religious purposes, and specifically operates a television ministry, a major tenet of which is the importance of physical, mental and spiritual health in the acceptance, advancement and promotion of God and his teachings (the "Exempt Purposes").

C. In furtherance of and to advance its Exempt Purposes, Ministries entered into an assignment agreement ("Cherry Assignment") with Dr. Reginald B. Cherry, an individual ("Dr. Cherry"), in which Dr. Cherry assigned to Ministries an undivided fifty-one percent (51%) interest in his name and likeness in connection with the manufacture, use and sale of nutritional foods and supplements.

D. Ministries believes that its relationship with NAI under this Agreement will further and advance the Exempt Purposes and activities of Ministries.

E. Ministries desires to utilize the expertise of NAI to design, research, formulate, develop, manufacture, package, sell, distribute and market nutritional Products which, in Ministries' good faith belief, will further and advance the Exempt Purposes and activities of Ministries.

F. NAI desires to design, research, formulate, develop, manufacture, package, sell, distribute and market nutritional Products to all markets worldwide, and through all channels or means of distribution using the names, likenesses, styles, persona, patents, trademarks, logos, domain names and copyrights developed and to be developed by Ministries under the Cherry Assignment.

G. In order to allow NAI to design, research, formulate, develop, manufacture, package, sell, distribute and market nutritional Products using the likeness, style, personal and other attributes of Dr. Cherry assigned to Ministries under the Cherry Assignment which Ministries has determined will further its Exempt Purposes, Ministries intends hereby to grant to NAI an

exclusive license to all of its rights under the Cherry Assignment for NAI's use in the design, research, formulation, development, manufacture, packaging, sales, distribution and marketing of nutritional Products.

Incorporating the above recitals herein and in consideration of the covenants and obligations contained herein and other good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, the Parties agree as follows:

ARTICLE I
GRANT OF EXCLUSIVE LICENSE

1.1 **Grant of License**. Ministries grants to NAI the exclusive right to use solely in connection with distribution of Products, the names, likenesses, styles, persona, patents, trademarks, logos, domain names, copyrights and all other attributes, whether currently existing or to be developed in the future, of Dr. Cherry as assigned to Ministries under the Cherry Assignment (the "Proprietary Assets"). The rights granted herein pursuant to this Section are referred to as the "License Rights".

1.2 **Territory.** The territory for which NAI is granted the License Rights shall be worldwide.

1.3 **Products**. "Product" or "Products" means all nutritional foods, nutritional and dietary supplements and related materials or products of any description, including but not limited to capsules, tablets, powders, liquids, bars and other forms and packaged in any and all manners using the Proprietary Assets developed as part of the individual and product identity of Dr. Cherry. NAI shall have the right to have the labeling and all promotional materials for all Products include a representation that the Product has been manufactured by NAI.

1.4 **Duties of NAI**. In connection with the License granted herein, NAI shall:

1.4.1 Take such actions as are commercially reasonable in an effort to design, develop, formulate, manufacture, promote, market, distribute and sell the maximum number of Products while maintaining the quality of the Products and NAI's service to its customers.

1.4.2 Meet, confer and cooperate with Ministries in connection with development of any packaging and promotional materials utilizing the Proprietary Assets in order to seek to ensure that such development will advance and promote the Exempt Purposes of Ministries.

1.4.3 Cooperate with Ministries with respect to Ministries' preparation of material for inclusion in or use in connection with the television program, Web site, books, mini-books, study guides, and audiotapes of Ministries all in furtherance of the Exempt Purposes of Ministries.

1.4.4 Maintain a regular schedule of contact with Ministries to discuss ideas, priorities, action steps and issues.

1.4.5 Cooperate with all parties in the current and future development of the Products and use best efforts to produce and distribute Products under this Agreement.

1.4.6 Submit promotional copy, artwork, and layout to Ministries for review so that promotional materials are consistent with and advance the Exempt Purposes of Ministries. NAI may proceed with producing said promotional material only after obtaining approval of Ministries pursuant to Section 1.5.3.

1.4.7 NAI will design, formulate, manufacture, and package the Products. NAI will use reasonable efforts to ensure Product formulas do not infringe upon the existing patents or registered trademarks of any other party.

1.4.8 NAI will develop all packaging and labeling with respect to the Products.

1.5 **Duties of** Ministries. In connection with the exclusive license granted in this Agreement, Ministries shall:

1.5.1 Continue to operate a television ministry in accordance with the Exempt Purposes to teach about the importance of physical, mental and spiritual health in the acceptance, advancement and promotion of God and to teach about the importance and benefits of nutritional supplements and vitamins as a part thereof, and shall not, knowingly or intentionally, take any action that would be inconsistent with the public image of either the Ministries, Dr. Cherry, NAI, the Products or Proprietary Assets, or degrade, tarnish, deprecate or disparage the Ministries, Dr. Cherry, NAI, the Products or Proprietary Assets or in any way reflect negatively on any of them in society or standing in the community, or prejudice the Ministries, Dr. Cherry, NAI, the Products or Proprietary Assets, and that Ministries will terminate such activities promptly upon notice.

1.5.2 Periodically review the Products in order to seek to ensure that they are consistent with and advance the Exempt Purposes of Ministries.

1.5.3 Review, comment, edit, and approve or disapprove, in its reasonable discretion the design, formulation, labeling and packaging of all Products and all material changes thereto and all promotional material submitted by NAI prior to the expiration of fifteen (15) business days following receipt of such materials solely in order to attempt to ensure they are consistent with and advance the Exempt Purposes of Ministries. Any failure to approve or disapprove of such materials within the time period provided, shall constitute approval.

1.5.4 Maintain a periodic schedule of contact with NAI to discuss ideas, priorities and issues to seek to ensure that the transactions contemplated hereby advance and are consistent with the Exempt Purposes of Ministries.

ARTICLE II
ROYALTIES

2.1 **Royalties**. NAI shall pay Ministries a royalty on the annual Net Sales revenue from the Products. “Net Sales” shall be computed as the gross invoice amount billed by NAI to purchasers of the Products, less customer shipping and handling charges, credit card charge fees and returns actually credited. The amount of such royalty shall be the amount set forth in Section 2.1.2 herein below:

2.1.1 **Minimum Annual Net Sales**. During the periods of the term of this Agreement set forth below, NAI shall produce minimum annual Net Sales of the Products. The amount of the minimum annual sales shall be as set forth below for each period.

Effective Date through December 31, 2004 $5,000,000
January 1, 2005 through December 31, 2005 $6,000,000
January 1, 2006 through December 31, 2006 $6,500,000
January 1, 2007 through December 31, 2007 $7,000,000
January 1, 2008 through December 31, 2008 $7,500,000
January 1, 2009 through December 31, 2009 $8,000,000

In the event Minimum Annual Net Sales are not achieved, NAI shall have the option to retain all rights under this Agreement by paying to Ministries the difference between the amount of royalties actually paid to Ministries pursuant to Section 2.1.2 for Net Sales achieved during the respective year, and the amount which would have been due if the Minimum Annual Net Sales requirement had been achieved. If the Minimum Annual Net Sales requirement is not achieved and NAI does not pay to Ministries such difference, Ministries shall have the right in its sole discretion to: (i) waive the non-compliance; (ii) notify NAI this Agreement has been automatically converted to a non-exclusive license on otherwise all the same terms and conditions; or (iii) terminate this Agreement at which time all rights previously licensed shall revert to Ministries. No waiver of this requirement by Ministries (if any) shall act as a future waiver.

2.1.2 **Annual Net Sale Royalty.** During the entire term of this Agreement, the royalty due for the period shall be in the amount set forth in this Section 2.1.2.

5.10% of annual Net Sales not exceeding $25,000,000;
5.61% of annual Net Sales in excess of $25,000,000 but not exceeding $30,000,000;
6.12% of annual Net Sales in excess of $30,000,000 but not exceeding $35,000,000;
6.63% of annual Net Sales in excess of $35,000,000 but not exceeding $40,000,000;

7.14% of annual Net Sales in excess of $40,000,000 but not exceeding $45,000,000;

7.65% of annual Net Sales in excess of $45,000,000.

2.1.3 **Royalty Payments**. Royalty payments shall be made monthly, on or before the 30th day of the month succeeding the close of each calendar month. Each payment hereunder shall be accompanied by a report setting forth the information described in Section 2.2. All payments shall be made in United States currency and be drawn on a United States bank. The amount of the monthly royalty payment due during each of the first three (3) quarters of each annual period described in Section 2.1.1, shall be calculated according to Section 2.1.2. The amount of the monthly royalty payment due during the fourth quarter of each annual period described in Section 2.1.1, shall be the greater of: (i) the amount calculated for the quarter pursuant to Section 2.1.2; or (ii) the minimum amount due for the annual period as set forth in Section 2.1.1 less the amount of all royalties already paid for the same annual period.

2.2 **Reports**. NAI shall deliver a report to Ministries within thirty (30) days after the end of each calendar month, which shall consist of an accurate statement of Net Sales of Products, along with any royalty payments or sublicensing revenues due Ministries. Such reports shall be provided to Ministries, regardless of whether any Products were sold during the period covered by the report. The acceptance by Ministries of any of the statements furnished or royalties paid shall not preclude Ministries questioning the correctness at any time of any payments or statements. In connection therewith, Ministries shall be entitled to examine or audit at its own expense the documents underlying the statements described in this Section not more often than annually. In the event such audit reveals an understatement of royalties due hereunder in an amount equal to or exceeding 5% of the actual royalties due over the period of such audit, NAI shall bear the cost of audit. Any such underpayment shall be immediately due and payable, with interest accrued from the date the payment was originally due at the lesser of 1.5% per month or the maximum rate permitted by law.

ARTICLE III
TERM OF AGREEMENT

3.1 **Effective Date**. The term “Effective Date” shall mean, and this Agreement is effective as, of the date first written above.

3.2 **Term and Termination.**

3.2.1 **Initial Term.** This Agreement shall remain in effect until December 31, 2009, unless earlier terminated in accordance herewith. Upon expiration of the initial term, the term of this Agreement shall be automatically extended for successive one (1) year periods unless terminated by either party by written notice delivered at least 120 days prior to expiration of any such period.

3.2.2 **NAI Termination.** NAI may terminate this Agreement at any time upon giving Ministries ninety (90) days notice.

3.2.3 **Ministries Termination.** Ministries may terminate this Agreement after notice to NAI only if NAI materially fails to comply with any covenant in this Agreement and such failure continues for more than thirty (30) days after written notice thereof from Ministries, unless such failure cannot reasonably be cured within 30 days then only if NAI fails to commence such cure within thirty (30) days and diligently thereafter prosecutes such cure to completion.

3.3 **Termination on Specific Events.** Either Party may terminate this Agreement immediately only if:

3.3.1 The other Party suspends or discontinues its business operations, makes any assignment for the benefit of its creditors, commences voluntary proceedings for liquidation in bankruptcy, admits in writing its inability to pay its debts generally as they become due or consents to the appointment of a receiver, trustee or liquidator of the other Party or of all or any material part of its property, or if there is an execution of a material portion of its assets.

3.3.2 The other Party shall commence any case, proceeding or other action under any existing or future law of any jurisdiction, domestic or foreign, relating to bankruptcy, insolvency, reorganization or relief of debtors seeking to have an order for relief entered with respect to it, or seeking to adjudicate it a bankrupt or insolvent, or seeking reorganization, arrangement, adjustment, winding-up, liquidation, dissolution, composition or other relief with respect to it or its debts.

3.3.3 (i) There shall be commenced against the other Party any case, proceeding or other action of a nature referred to in section 3.3.2 above which results in the entry of an order for relief or any such adjudication or appointment or remains undismissed, undischarged, unstayed or unbonded for period of ninety (90) days; or (ii) there shall be commenced against the other Party any case, proceeding or other action seeking issuance of a warrant of attachment, execution, distraint or similar process against all or any substantial part of its assets, which results in the entry of an order for any such relief which shall not have been vacated, discharged or stayed or bonded pending appeal within ninety (90) days from the entry thereof; or (iii) the other Party shall take any action in furtherance of, or indicating its consent to, approval of, or acquiescence in, any of the acts set forth in clause (i) or (ii) above.

3.3.4 NAI assigns its rights to a party who is at the time of transfer involved as an adverse party in material and adverse litigation against Ministries.

3.3.5 NAI fails to make the royalty payments as required by Article II within thirty (30) days following receipt of written notice from Ministries of the late payment.

3.4 **Duties on Termination.** Upon termination of this Agreement, copies of all records related to Ministries shall be kept by NAI for a minimum of three (3) years following production. In addition, NAI shall complete all work in process in a timely fashion and take all acts reasonably necessary to complete all other prior obligations and maintain the Proprietary Assets and deliver to Ministries all materials strictly related thereto. The Parties shall cooperate and utilize their best efforts to prepare such final reconciliations of accounts and amounts due Ministries.

3.4.1 After the termination or expiration of this license, all rights granted to NAI under this Agreement shall terminate and revert to Ministries, and NAI will refrain from further copying, marketing, distribution, or use of the Proprietary Assets. Within thirty (30) days after termination, NAI shall deliver to Ministries a statement indicating the number and description of the Products that it had on hand or is in the process of manufacturing as of the termination date. Ministries shall have the right for thirty (30) days following notice of termination to notify NAI of its election to purchase all such Products not committed to another purchaser as of the date of termination. If Ministries elects to do so, the purchase and sale shall be on commercially reasonable terms. If Ministries does not elect to purchase such Products NAI may dispose of the Products covered by this Agreement for a period of three (3) months after termination or expiration. At the end of the post-termination sale period, NAI shall furnish a royalty payment and statement as required under Article II.

3.4.2 In the event of termination of this Agreement, Ministries will immediately cease any current or future solicitation of any NAI customers who have not participated in any Ministries activities as of the termination date, and shall return to NAI any confidential or proprietary information of NAI including, but not limited to, any existing electronic or physical documentation of the identities of any NAI customers.

ARTICLE IV
MAINTENANCE OF INTELLECTUAL PROPERTY

4.1 **Protection of Proprietary Assets.** Ministries shall seek in its own name or the name of any entity which is bound by the terms of this Agreement and at its own expense, all appropriate patent, trademark, copyright or other available means of intellectual property protection for the Proprietary Assets. In the event Ministries does not seek any appropriate patent, trademarks, copyright or other available means of intellectual property protection within thirty (30) days following a written request therefor by NAI, NAI may seek such protection on behalf of Ministries and itself and credit the cost of such action against royalties due or becoming due under the terms of Article II, except for the License Rights granted to NAI herein with respect to the Proprietary Assets and the Products.

4.2 **Protection of Products.** NAI may seek in its own name and at its own expense, and if obtained, shall maintain appropriate patent, trademark, copyright or registration protection for any element or component included in the Products or any part thereof, and NAI shall retain ownership of such elements or components. In the event of termination of this agreement, NAI

agrees to sell to Ministries from at then applicable commercial rates any element or component included in the Products for which NAI in NAI's sole discretion continues to maintain appropriate sourcing.

4.3 **Ownership of Formulae.** Subject to the rights of NAI, as licensee, pursuant to this Agreement, Ministries shall own an undivided 51% interest in the formula, trade name and design for each Product.

4.4 **Enforcement of Intellectual Property Rights.**

4.4.1 In the event any Party becomes aware of any claim or unauthorized use, or infringement on the Proprietary Assets, License Rights, or Products during the term of this Agreement, that Party shall immediately notify all of the other Parties of such violation and shall consult with and cooperate in any way requested by any Party with respect to the enforcement of all intellectual property rights.

4.4.2 Ministries shall, at its own cost and expense, take all action necessary to enforce its rights and cause any violation with respect to Proprietary Assets to cease and be remedied. In the event Ministries fails to take all action necessary to remedy any such violation, NAI, upon ten (10) business days prior written notice, may take such action and may offset one half the costs incurred in connection with such actions against any amounts coming due to Ministries under the terms of Article II. Ministries shall approve or disapprove such action within ten (10) business days following receipt of notice as provided above and approval may not be unreasonably withheld. In connection with such action, the Parties shall execute all papers necessary or appropriate in the discretion of the Party taking such action in response to a violation or infringement of the Proprietary Assets, and shall testify in any legal action whenever requested to do so by the prosecuting Party.

4.5 **Assistance in Protection.** In addition to their respective undertakings set forth in the preceding Sections, the Parties agree to render to each other all assistance reasonably requested of them in connection with the protection of the Proprietary Assets and to make promptly available to one another information they possess or to which they have access that may be of use to the other in such protection.

4.6 **Notice of Infringement.** In the event any Party becomes aware of any claim or unauthorized use with respect to the Proprietary Assets, it will notify the other Parties of such claim or unauthorized use immediately, but in no event, more than two (2) business days following the date on which it became aware of the claim or unauthorized use.

4.7 **Preservation of Proprietary Assets.** In no event will Ministries knowingly or intentionally take any action which would be inconsistent with the public image of itself, Dr. Cherry, NAI, the Products or Proprietary Assets or denigrate itself, Dr. Cherry, NAI, the Products or Proprietary Assets or in any way reflect negatively on itself, Dr. Cherry, NAI, the Products or Proprietary Assets.

4.8 **Regulatory Action.** If the Food and Drug Administration or any other federal, state or local government agency gives notice of or makes an inspection at any Party's premises, seizes any Product or requests a recall, the other Parties shall be notified immediately but in no event later than the next business day. Duplicates of any samples of Product taken by such agency shall be sent to the other Parties promptly. In the event of any action described in this Section, the Parties shall cooperate in determining the response, if any, to be made to such action and each party agrees NAI shall be the Parties' representative in responding to such action, and each agrees to cooperate with and assist NAI in attempting to resolve any such action and to refrain from any activity with respect to such action which is not previously approved by NAI, except such activities as may be required by law.

4.9 **NAI Customer List.** NAI may maintain a list of its customers purchasing from NAI. This information is NAI's exclusive property. NAI may allow its customer list to be used by any third party only after given seven (7) business days prior written notice to Ministries, which shall approve or disapprove of each use in its reasonable discretion prior to the expiration of seven (7) business days following such notice. Any failure to approve or disapprove of such use within the time period provided, shall constitute approval for purposes of this Section.

4.10 **NAI Distribution for Ministries to NAI Customer List.** Upon Ministries' reasonable request, NAI agrees to distribute to its customers Ministries materials at Ministries' expense up to six (6) times annually provided such distribution is for no purpose other than enlisting participants in Ministries activities in order to assist Ministries in advancing and promoting its Exempt Purposes. Ministries shall provide NAI five (5) business days prior written notice of such requests NAI shall retain the right in its reasonable discretion to approve or disapprove of the content of each distribution, and shall approve or disapprove such distribution prior to the expiration of five (5) business days following such notice. NAI shall cooperate in processing such distribution by or through any agent or vendor of Ministries' designation.

4.11 **Fulfillment Vendor.** The Parties understand and approve of NAI's use of fulfillment vendors to assist in distribution of the Products, and acknowledge and approve of such arrangements. NAI agrees any additional or different fulfillment vendor must be capable of providing telephone customer service which appropriately reflects the public image of Ministries.

ARTICLE V
REPRESENTATIONS AND WARRANTIES

5.1 **Representations and Warranties of Ministries.** Ministries owns and/or controls the nonexclusive rights to the Proprietary Assets, and has the authority to grant this license to use the Proprietary Assets in the manner and form provided in this Agreement. Ministries has received no notice of any claim with respect to any of the Proprietary Assets which is inconsistent with its rights in the Proprietary Assets, nor has it received any notice of any unauthorized use thereof. The Proprietary Assets do not infringe upon or violate any rights of any third party. Neither the execution and delivery of this Agreement nor the consummation of the transactions contemplated hereunder will violate or constitute a default under any agreement or instrument to which Ministries is a party or by which it is bound.

5.2 **Representations and Warranties of NAI.** NAI has the authority to enter into this Agreement. Neither the execution and delivery of this Agreement nor the consummation of the transactions contemplated hereunder will violate or constitute a default under any agreement or instrument to which NAI is a party or by which it is bound.

ARTICLE VI
CONFIDENTIALITY

6.1 **Duty to Protect Confidential Information.** Any confidential information disclosed or conveyed by either Party to the other in connection with its business by written communication and marked as confidential, or by oral communication and confirmed in writing within thirty (30) working days of oral disclosure, shall be treated by the receiving Party as secret and confidential and shall be held in trust for the disclosing Party. The receiving Party shall treat such information and take such steps to assure its continued confidentiality in like manner as it would use to protect its own trade secrets or confidential information and will not, except as required by law, disclose any such confidential information received from the other Party to any third Party who is not bound under a confidentiality and non-disclosure agreement.

6.2 **Means of Protecting Confidential Information.** NAI and Ministries agree to take reasonable steps to ensure the proprietary and confidential nature of the other's confidential information and of Proprietary Assets, License Rights, and Products in which confidential information is embodied or included and to protect the same from loss or theft and agree to clearly mark such confidential information and properly indicate its proprietary nature.

6.3 **Terms of Agreement.** Except as otherwise required by law, including, but not limited to, NAI's disclosure obligations in connection with the U.S. Securities Act of 1934, the Parties agree that the terms of this Agreement are proprietary and confidential, as is the existence of this Agreement. Each Party agrees to maintain the existence of this Agreement and the terms and information contained herein strictly confidential and will not disclose any such information to any person who is not a Party hereto without the prior written consent of all Parties, which consent may be granted or withheld in the absolute discretion of each Party.

6.4 **Ministries Use.** The Parties acknowledge Ministries has an interest in utilizing confidential information developed by NAI in connection with its distribution of Products for the purpose of enlisting participants in Ministries activities. The Parties agree that upon the request of Ministries they will meet, confer and negotiate in good faith the terms under which Ministries may use such information to enlist additional participants while providing adequate protections for the reasonable interest of NAI in connection therewith.

6.5 **Provisions Divisible.** It is agreed by all Parties that the foregoing covenants are appropriate and reasonable in light of the nature and extent of the business conducted by the

Parties and their respective relationships. It is further agreed that the covenants set forth herein are divisible in the event they are held to be invalid, unreasonable, arbitrary or against public policy. Further, it is agreed by the Parties that if any court of competent jurisdiction or authorized arbitrator makes such a determination, they may determine what time period and geographical area are reasonably necessary to protect the Parties' legitimate business interests and which are enforceable.

6.6 **Irreparable Injury.** Each Party acknowledges that damages at law will be an insufficient remedy for violation of the terms of this Article and that the other Party would suffer irreparable injury as a result of such violation. Accordingly, it is agreed upon application to a court of competent jurisdiction, the Parties may obtain injunctive relief to enforce the provisions of this Article of this Agreement, which injunctive relief shall be in addition to any other rights or remedies available to it or them.

6.7 **Extended Term of Confidentiality.** It is recognized by all Parties that due to their respective positions of confidence giving rise to access to confidential, proprietary information during the term of this Agreement, that the provisions of this Article VI apply during the term of this Agreement and for a period of three (3) years thereafter.

ARTICLE VII
CLAIMS AND INDEMNIFICATION

7.1 **Indemnification by NAI Against Third-Party Claims.** Except as otherwise set forth above in Article VI, NAI shall indemnify, defend, and hold harmless Ministries, its subsidiaries, affiliated and/or controlled companies and all sublicensees, as well as their respective officers, directors, agents, and employees, harmless from and against any and all damage, loss, expense (including reasonable attorneys' fees and costs), award, settlement, or other obligation arising out of any claims, demands, actions, suits, or prosecutions that may be made or instituted against them or any of them, (i) arising from any alleged breach of NAI's warranties contained herein, (ii) arising from any injury or death from any defect in the Proprietary Assets; and (iii) any claims arising out of NAI marketing, distribution, promotion, sale, or use of Products or Proprietary Assets.

7.2 **Indemnification by Ministries Against Third-Party Claims.** Except as otherwise set forth above in Article VI, Ministries shall indemnify, defend, and hold harmless NAI, its subsidiaries, affiliated and/or controlled companies and all sublicensees, as well as their respective officers, directors, agents, and employees, harmless from and against any and all damage, loss, expense (including reasonable attorneys' fees and costs), award, settlement, or other obligation arising out of any claims, demands, actions, suits, or prosecutions that may be made or instituted against them or any of them, (i) arising from any alleged breach of Ministries' warranties contained herein, and (ii) arising from any injury or death from any defect in the Proprietary Assets specifically excluding any claim relating to the Products manufactured by NAI exclusive of the Proprietary Assets

7.3 **Insurance.** NAI shall carry with companies reasonably satisfactory to Ministries: (i)Workers' Compensation and Employees' Liability Insurance; (ii) Standard Form Fire and Extended Coverage Insurance for the full replacement value of any of the Products or any premiums or packaging materials, and (iii) Public Liability Insurance including Contractual Liability and Products Liability Coverage (with Broad Form Vendor's Endorsement naming Ministries and its authorized distributors and customers as insured) with a combined single limit of not less than Ten Million Dollars ($10,000,000). NAI shall submit policies and/or certificates of insurance evidencing the above coverage (which shall include an agreement by the insurer not to cancel or materially alter its coverage except upon thirty (30) days prior written notice to Ministries) to Ministries upon Ministries' written request therefore. Products Liability Insurance shall continue in effect for Ministries' benefit for a period of ten (10) years from the date of the last sale of Products by NAI. In case of NAI's failure to carry said policies and/or furnish certificates of insurance or upon cancellation of any required insurance, Ministries may, at its option, immediately terminate this Agreement unless (in the case of cancellation) NAI has obtained substitute insurance coverage before such insurance becomes canceled and provides Ministries with satisfactory evidence thereof.

7.4 **Liability for Claims of Parties.** Except as otherwise provided in this Agreement, no Party shall be liable for injury to any other Party's business or any loss of income therefrom or for damage to the other Party's property, employees, invitees, customers or any other person or thing, nor shall any Party be liable for injury to the persons of the other or their respective employees, agents or contractors, whether or not such damage or injury arises or results from the performance or conduct imposed by this Agreement either directly or indirectly.

ARTICLE VIII
MISCELLANEOUS PROVISIONS

8.1 **Sublicense.** NAI may sublicense the rights granted pursuant to this Agreement, provided NAI obtains Ministries' prior written consent to such sublicense. Ministries' consent to any sublicense shall not be unreasonably withheld and in any such sublicense agreement, provision shall be made so that Ministries receives such revenue or royalty payment as provided for herein. Any sublicense granted in violation of this provision shall be void.

8.2 **Entire Agreement; Amendment.** This Agreement contains the entire understanding between the Parties with respect to the subject matter hereof and supersedes all prior or contemporaneous written or oral negotiations and agreements between them regarding the subject matter hereof. This Agreement may be amended only by a writing signed by both of the Parties and clearly designated as an amendment to this Agreement by an appropriate heading.

8.3 **Severability.** If any provision or portion thereof of this Agreement is determined to be invalid or unenforceable, the provision or portion shall be deemed to be severable from the remainder of this Agreement and shall not cause the invalidity or unenforceability of the remainder of this Agreement.

8.4 **No Implied Waivers.** The failure of either Party at any time to require performance by the other Party of any provision hereof shall not affect in any way the right to require such performance at any later time, nor shall the waiver by either Party of a breach of any provision hereof be taken or held to be a waiver of such provision.

8.5 **Attorneys Fees.** If any arbitration or legal proceeding is brought for the enforcement of this Agreement, or because of an alleged breach, default or misrepresentation in connection with any provision of this Agreement or other dispute concerning this Agreement, the successful or prevailing Party shall be entitled to recover reasonable attorneys fees incurred in connection with such arbitration or legal proceeding. The term “Prevailing Party” shall mean the Party which is entitled to recover its costs in the proceeding under applicable law, or the Party designated as such by the court or the arbitrators.

8.6 **Arbitration.** Any dispute, controversy or claim arising from, out of or in connection with, or relating to, this Agreement or any breach or alleged breach of this Agreement, except allegations of violations of Federal or State securities laws, will upon the request of any Party involved be submitted to any private arbitration service utilizing former judges as mediators and approved by the Parties. The dispute once submitted shall be settled by arbitration in Houston (or at any other place or under any other form of arbitration mutually acceptable to Parties involved). The arbitrator shall follow and apply the federal rules of evidence and the applicable local federal rules of governing discovery in the arbitration. Any award rendered shall be final, binding and conclusive upon the Parties and shall be non-appealable, and a judgment thereon may be entered in the highest State or Federal court of the forum, having jurisdiction. The expenses of the arbitration shall be borne equally by the Parties to the arbitration, provided that each Party shall pay for and bear the cost of its own experts, evidence and attorneys’ fees, except that in the discretion of the arbitrator, any award may include the costs, fees and expenses of a Party’s attorneys.

8.7 **Governing Law.** This Agreement shall be construed and interpreted under the laws of the State of Texas. All disputes or controversies or questions arising under or relating to this Agreement between the Parties hereto in relation to this Agreement shall be construed and resolved under the laws of the State of Texas. Each Party acknowledges and waives any objection to venue for such disputes in state or federal courts sitting in Houston, Texas. Any judgments upon the award entered by the arbitrators may be entered in the State or Federal Courts situated in the State of Texas.

8.8 **Counterparts.** This Agreement may be executed in one or more counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument.

8.9 **Captions.** The captions of the sections and subsections of this Agreement are included for reference purposes only and are not intended to be a part of the Agreement or in any way to define, limited or describe the scope or intent of the particular provision to which they refer.

8.10 **Relationship of the Parties.** The terms and provisions of this agreement are intended to be a license agreement and it shall not in any respect be construed to constitute NAI or Ministries as the agent, employee, partner or joint venturer of the other.

8.11 **Notice; Designation.** All notices, consents, waivers and other communications under this Agreement must be in writing and will be deemed to have been given by a party (a) when delivered by hand (with delivery receipt required, costs prepaid by sender); (b) one day after deposit with a nationally recognized overnight courier service (all costs prepaid by sender); (c) five days after deposit in the United States mail by certified delivery, return receipt requested (postage prepaid); (d) when sent by facsimile with confirmation of transmission by the transmitting equipment (a confirming copy of the notice shall also be delivered by the method specified in (b) in this Section). Notices shall be sent in each case to the address indicated for each party below. The notice provision for any party may be changed by sending notice in accordance with this Section.

If to NAI:

Natural Alternatives International, Inc.
1185 Linda Vista Drive
San Marcos, California 92078
Attn: President or Chief Operating Officer
Telephone: (760) 744-7340
Facsimile: (760) 591-9637

with a copy to:

Fisher Thurber LLP
4225 Executive Square, Suite 1600
La Jolla, California 92037
Attention: David A. Fisher
Telephone: (858) 535-9400
Facsimile: (858) 535-1616

If to Ministries:

Reginald B. Cherry Ministries, Inc.
8323 Southwest Freeway, Suite 440
Houston, Texas 77074
Attention: Reginald B. Cherry, M.D.

Telephone: (713) 961-2789
Facsimile: (713) 961-0899

8.11.1 If a specific contact person is designated in a provision, notice concerning the subject matter of such provision shall be directed to such person. The address or the name of any Party or contact person may be changed by sending notice in the manner set forth above.

release or discharge them from any liability or obligation hereunder. The rights and obligations of Ministries and NAI may only be assigned to other than Affiliate after first obtaining the other Party's written consent, which consent may not be unreasonably withheld. As used herein, Affiliate shall refer to any person or entity that is under direct or indirect control of the applicable Party. The term "control" includes without limitation, ownership of interest representing a majority of the total voting power in an entity or the ability to manage or direct such entity.

8.13 **Further Assurances.** The Parties agree (i) to furnish upon request to each other such further information, (ii) to execute and deliver to each other such other documents, and (iii) to do such other acts and things, all as the other Party may reasonably request for the purpose of carrying out the intent of this Agreement and the documents referred to in this Agreement.

Rest of page intentionally left blank
Signature page follows

Intending to be legally bound, the Parties have executed this Exclusive License Agreement effective as of the Effective Date.

NATURAL ALTERNATIVES INTERNATIONAL, INC.
A Delaware corporation

By: /s/ Randell Weaver

Randell Weaver, President

REGINALD B. CHERRY MINISTRIES, INC.
A Texas non-profit corporation

By: /s/ Reginald B. Cherry, M.D.

Name: Reginald B. Cherry, M.D.
Title: President

Exhibit 10.15

INDEMNIFICATION AGREEMENT

This Indemnification Agreement (the "Agreement") is made and entered into effective as of _________ by and between Natural Alternatives International, Inc., a Delaware corporation (the "Company") and _________ ("Indemnitee").

RECITALS

WHEREAS, the Board of Directors of the Company has adopted Bylaws (the "Bylaws") providing for the indemnification of the officers and directors of the Company to the maximum extent authorized by Section 145 of the Delaware General Corporation Law, as amended ("Law");

WHEREAS, the Bylaws and the Law, by their nonexclusive nature, permit contracts between the Company and the officers or directors of the Company with respect to indemnification of such officers or directors;

WHEREAS, in accordance with the authorization as provided by the Law, the Company may purchase and maintain a policy or policies of directors' and officers' liability insurance ("D & O Insurance"), covering certain liabilities which may be incurred by its officers or directors in the performance of their obligations to the Company; and

WHEREAS, in order to induce Indemnitee to serve as a director of the Company, the Company has determined and agreed to enter into this Agreement with Indemnitee.

NOW, THEREFORE, in consideration of Indemnitee's service as a director from and after the date hereof, and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto agree as follows:

AGREEMENT

1. Indemnity of Indemnitee. The Company hereby agrees to hold harmless and indemnify Indemnitee to the full extent authorized or permitted by the provisions of the Law, as such may be amended from time to time, and the Bylaws, as such may be amended. In furtherance of the foregoing indemnification, and without limiting the generality thereof:

(a) Proceedings Other Than Proceedings by or in the Right of the Company. Indemnitee shall be entitled to the rights of indemnification provided in this Section 1(a) if, by reason of his Corporate Status (as hereinafter defined), he is, or is threatened to be made, a party to or participant in any Proceeding (as hereinafter defined) other than a Proceeding by or in the right of the Company. Pursuant to this Section 1(a), Indemnitee shall be indemnified against all Expenses (as hereinafter defined), judgments, penalties, fines and amounts paid in settlement actually and reasonably incurred by him or on his behalf in connection with such Proceeding or any claim, issue or matter therein, if he acted in good faith and in a manner he reasonably

believed to be in or not opposed to the best interests of the Company and, with respect to any criminal Proceeding, had no reasonable cause to believe his conduct was unlawful.

(b) Proceedings by or in the Right of the Company. Indemnitee shall be entitled to the rights of indemnification provided in this Section 1(b) if, by reason of his Corporate Status, he is, or is threatened to be made, a party to or participant in any Proceeding brought by or in the right of the Company. Pursuant to this Section 1(b), Indemnitee shall be indemnified against all Expenses actually and reasonably incurred by him or on his behalf in connection with such Proceeding if he acted in good faith and in a manner he reasonably believed to be in or not opposed to the best interests of the Company; provided, however, that, if applicable law so provides, no indemnification against such Expenses shall be made in respect of any claim, issue or matter in such Proceeding as to which Indemnitee shall have been adjudged to be liable to the Company unless and to the extent that the Court of Chancery of the State of Delaware shall determine that such indemnification may be made.

(c) Indemnification for Expenses of a Party Who is Wholly or Partly Successful. Notwithstanding any other provision of this Agreement, to the extent that Indemnitee is, by reason of his Corporate Status, a party to and is successful, on the merits or otherwise, in any Proceeding, he shall be indemnified to the maximum extent permitted by law against all Expenses actually and reasonably incurred by him or on his behalf in connection therewith. If Indemnitee is not wholly successful in such Proceeding but is successful, on the merits or otherwise, as to one or more but less than all claims, issues or matters in such Proceeding, the Company shall indemnify Indemnitee against all Expenses actually and reasonably incurred by him or on his behalf in connection with each successfully resolved claim, issue or matter. For purposes of this Section and without limitation, the termination of any claim, issue or matter in such a Proceeding by dismissal, with or without prejudice, shall be deemed to be a successful result as to such claim, issue or matter.

2. Additional Indemnity. In addition to, and without regard to any limitations on, the indemnification provided for in Section 1, the Company shall and hereby does indemnify and hold harmless Indemnitee against all Expenses, judgments, penalties, fines and amounts paid in settlement actually and reasonably incurred by him or on his behalf if, by reason of his Corporate Status, he is, or is threatened to be made, a party to or participant in any Proceeding (including a Proceeding by or in the right of the Company), including, without limitation, all liability arising out of the negligence or active or passive wrongdoing of Indemnitee. The only limitation that shall exist upon the Company's obligations pursuant to this Agreement shall be that the Company shall not be obligated to make any payment to Indemnitee that is finally determined (under the procedures, and subject to the presumptions, set forth in Sections 6 and 7 hereof) to be unlawful under Delaware law.

3. Contribution in the Event of Joint Liability.

(a) Whether or not the indemnification provided in Sections 1 and 2 hereof is available, in respect of any threatened, pending or completed action, suit or proceeding in which the Company is jointly liable with Indemnitee (or would be if joined in such action, suit or proceeding), the Company shall pay, in the first instance, the entire amount of any judgment or

settlement of such action, suit or proceeding without requiring Indemnitee to contribute to such payment and the Company hereby waives and relinquishes any right of contribution it may have against Indemnitee. The Company shall not enter into any settlement of any action, suit or proceeding in which the Company is jointly liable with Indemnitee (or would be if joined in such action, suit or proceeding) unless such settlement provides for a full and final release of all claims asserted against Indemnitee.

(b) Without diminishing or impairing the obligations of the Company set forth in the preceding subparagraph, if, for any reason, Indemnitee shall elect or be required to pay all or any portion of any judgment or settlement in any threatened, pending or completed action, suit or proceeding in which the Company is jointly liable with Indemnitee (or would be if joined in such action, suit or proceeding), the Company shall contribute to the amount of expenses (including attorneys' fees), judgments, fines and amounts paid in settlement actually and reasonably incurred and paid or payable by Indemnitee in proportion to the relative benefits received by the Company and all officers, directors or employees of the Company other than Indemnitee who are jointly liable with Indemnitee (or would be if joined in such action, suit or proceeding), on the one hand, and Indemnitee, on the other hand, from the transaction from which such action, suit or proceeding arose; provided, however, that the proportion determined on the basis of relative benefit may, to the extent necessary to conform to law, be further adjusted by reference to the relative fault of Company and all officers, directors or employees of the Company other than Indemnitee who are jointly liable with Indemnitee (or would be if joined in such action, suit or proceeding), on the one hand, and Indemnitee, on the other hand, in connection with the events that resulted in such expenses, judgments, fines or settlement amounts, as well as any other equitable considerations which the law may require to be considered. The relative fault of the Company and all officers, directors or employees of the Company other than Indemnitee who are jointly liable with Indemnitee (or would be if joined in such action, suit or proceeding), on the one hand, and Indemnitee, on the other hand, shall be determined by reference to, among other things, the degree to which their actions were motivated by intent to gain personal profit or advantage, the degree to which their liability is primary or secondary, and the degree to which their conduct is active or passive.

(c) The Company hereby agrees to fully indemnify and hold Indemnitee harmless from any claims of contribution which may be brought by officers, directors or employees of the Company other than Indemnitee who may be jointly liable with Indemnitee.

4. Indemnification for Expenses of a Witness. Notwithstanding any other provision of this Agreement, to the extent that Indemnitee is, by reason of his Corporate Status, a witness in any Proceeding to which Indemnitee is not a party, he shall be indemnified against all Expenses actually and reasonably incurred by him or on his behalf in connection therewith.

5. Advancement of Expenses. Notwithstanding any other provision of this Agreement, the Company shall advance all Expenses incurred by or on behalf of Indemnitee in connection with any Proceeding by reason of Indemnitee's Corporate Status within ten (10) days after the receipt by the Company of a statement or statements from Indemnitee requesting such advance or advances from time to time, whether prior to or after final disposition of such Proceeding. Such statement or statements shall reasonably evidence the Expenses incurred by

Indemnitee and shall include or be preceded or accompanied by an undertaking by or on behalf of Indemnitee to repay any Expenses advanced if it shall ultimately be determined that Indemnitee is not entitled to be indemnified against such Expenses. Any advances and undertakings to repay pursuant to this Section 5 shall be unsecured and interest free. Notwithstanding the foregoing, the obligation of the Company to advance Expenses pursuant to this Section 5 shall be subject to the condition that, if, when and to the extent that the Company determines that Indemnitee would not be permitted to be indemnified under applicable law, the Company shall be entitled to be reimbursed, within thirty (30) days of such determination, by Indemnitee (who hereby agrees to reimburse the Company) for all such amounts theretofore paid; provided, however, that if Indemnitee has commenced or thereafter commences legal proceedings in a court of competent jurisdiction to secure a determination that Indemnitee should be indemnified under applicable law, any determination made by the Company that Indemnitee would not be permitted to be indemnified under applicable law shall not be binding and Indemnitee shall not be required to reimburse the Company for any advance of Expenses until a final judicial determination is made with respect thereto (as to which all rights of appeal therefrom have been exhausted or lapsed).

6. Procedures and Presumptions for Determination of Entitlement to Indemnification. It is the intent of this Agreement to secure for Indemnitee rights of indemnity that are as favorable as may be permitted under the law and public policy of the State of Delaware. Accordingly, the parties agree that the following procedures and presumptions shall apply in the event of any question as to whether Indemnitee is entitled to indemnification under this Agreement:

(a) To obtain indemnification (including, but not limited to, the advancement of Expenses and contribution by the Company) under this Agreement, Indemnitee shall submit to the Company a written request, including therein or therewith such documentation and information as is reasonably available to Indemnitee and is reasonably necessary to determine whether and to what extent Indemnitee is entitled to indemnification. The Secretary of the Company shall, promptly upon receipt of such a request for indemnification, advise the Board of Directors in writing that Indemnitee has requested indemnification.

(b) Upon written request by Indemnitee for indemnification pursuant to the first sentence of Section 6(a) hereof, a determination, if required by applicable law, with respect to Indemnitee's entitlement thereto shall be made in the specific case by one of the following three methods, which shall be at the election of Indemnitee: (1) by a majority vote of the disinterested directors, even though less than a quorum, or (2) by independent legal counsel in a written opinion, or (3) by the stockholders.

(c) If the determination of entitlement to indemnification is to be made by Independent Counsel pursuant to Section 6(b) hereof, the Independent Counsel shall be selected as provided in this Section 6(c). The Independent Counsel shall be selected by Indemnitee (unless Indemnitee shall request that such selection be made by the Board of Directors). Indemnitee or the Company, as the case may be, may, within 10 days after such written notice of selection shall have been given, deliver to the Company or to Indemnitee, as the case may be, a written objection to such selection; provided, however, that such objection may be asserted only

on the ground that the Independent Counsel so selected does not meet the requirements of "Independent Counsel" as defined in Section 13 of this Agreement, and the objection shall set forth with particularity the factual basis of such assertion. Absent a proper and timely objection, the person so selected shall act as Independent Counsel. If a written objection is made and substantiated, the Independent Counsel selected may not serve as Independent Counsel unless and until such objection is withdrawn or a court has determined that such objection is without merit. If, within 20 days after submission by Indemnitee of a written request for indemnification pursuant to Section 6(a) hereof, no Independent Counsel shall have been selected and not objected to, either the Company or Indemnitee may petition the Court of Chancery of the State of Delaware or other court of competent jurisdiction for resolution of any objection which shall have been made by the Company or Indemnitee to the other's selection of Independent Counsel and/or for the appointment as Independent Counsel of a person selected by the court or by such other person as the court shall designate, and the person with respect to whom all objections are so resolved or the person so appointed shall act as Independent Counsel under Section 6(b) hereof. The Company shall pay any and all reasonable fees and expenses of Independent Counsel incurred by such Independent Counsel in connection with acting pursuant to Section 6(b) hereof, and the Company shall pay all reasonable fees and expenses incident to the procedures of this Section 6(c), regardless of the manner in which such Independent Counsel was selected or appointed.

(d) In making a determination with respect to entitlement to indemnification hereunder, the person or persons or entity making such determination shall presume that Indemnitee is entitled to indemnification under this Agreement if Indemnitee has submitted a request for indemnification in accordance with Section 6(a) of this Agreement. Anyone seeking to overcome this presumption shall have the burden of proof and the burden of persuasion, by clear and convincing evidence.

(e) Indemnitee shall be deemed to have acted in good faith if Indemnitee's action is based on the records or books of account of the Enterprise, including financial statements, or on information supplied to Indemnitee by the officers of the Enterprise in the course of their duties, or on the advice of legal counsel for the Enterprise or on information or records given or reports made to the Enterprise by an independent certified public accountant or by an appraiser or other expert selected with reasonable care by the Enterprise. In addition, the knowledge and/or actions, or failure to act, of any director, officer, agent or employee of the Enterprise shall not be imputed to Indemnitee for purposes of determining the right to indemnification under this Agreement. Whether or not the foregoing provisions of this Section 6(e) are satisfied, it shall in any event be presumed that Indemnitee has at all times acted in good faith and in a manner he reasonably believed to be in or not opposed to the best interests of the Company. Anyone seeking to overcome this presumption shall have the burden of proof and the burden of persuasion, by clear and convincing evidence.

(f) If the person, persons or entity empowered or selected under Section 6 to determine whether Indemnitee is entitled to indemnification shall not have made a determination within thirty (30) days after receipt by the Company of the request therefor, the requisite determination of entitlement to indemnification shall be deemed to have been made and Indemnitee shall be entitled to such indemnification, absent (i) a misstatement by Indemnitee of

a material fact, or an omission of a material fact necessary to make Indemnitee's statement not materially misleading, in connection with the request for indemnification, or (ii) a prohibition of such indemnification under applicable law; provided, however, that such 30 day period may be extended for a reasonable time, not to exceed an additional fifteen (15) days, if the person, persons or entity making the determination with respect to entitlement to indemnification in good faith requires such additional time for the obtaining or evaluating documentation and/or information relating thereto; and provided, further, that the foregoing provisions of this Section 6(f) shall not apply if the determination of entitlement to indemnification is to be made by the stockholders pursuant to Section 6(b) of this Agreement and if (A) within fifteen (15) days after receipt by the Company of the request for such determination the Board of Directors or the Disinterested Directors, if appropriate, resolve to submit such determination to the stockholders for their consideration at an annual meeting thereof to be held within seventy five (75) days after such receipt and such determination is made thereat, or (B) a special meeting of stockholders is called within fifteen (15) days after such receipt for the purpose of making such determination, such meeting is held for such purpose within sixty (60) days after having been so called and such determination is made thereat.

(g) Indemnitee shall cooperate with the person, persons or entity making such determination with respect to Indemnitee's entitlement to indemnification, including providing to such person, persons or entity upon reasonable advance request any documentation or information which is not privileged or otherwise protected from disclosure and which is reasonably available to Indemnitee and reasonably necessary to such determination. Any Independent Counsel, member of the Board of Directors, or stockholder of the Company shall act reasonably and in good faith in making a determination under the Agreement of the Indemnitee's entitlement to indemnification. Any costs or expenses (including attorneys' fees and disbursements) incurred by Indemnitee in so cooperating with the person, persons or entity making such determination shall be borne by the Company (irrespective of the determination as to Indemnitee's entitlement to indemnification) and the Company hereby indemnifies and agrees to hold Indemnitee harmless therefrom.

(h) The Company acknowledges that a settlement or other disposition short of final judgment may be successful if it permits a party to avoid expense, delay, distraction, disruption and uncertainty. In the event that any action, claim or proceeding to which Indemnitee is a party is resolved in any manner other than by adverse judgment against Indemnitee (including, without limitation, settlement of such action, claim or proceeding with or without payment of money or other consideration) it shall be presumed that Indemnitee has been successful on the merits or otherwise in such action, suit or proceeding. Anyone seeking to overcome this presumption shall have the burden of proof and the burden of persuasion, by clear and convincing evidence.

7. Remedies of Indemnitee.

(a) In the event that (i) a determination is made pursuant to Section 6 of this Agreement that Indemnitee is not entitled to indemnification under this Agreement, (ii) advancement of Expenses is not timely made pursuant to Section 5 of this Agreement, (iii) no determination of entitlement to indemnification shall have been made pursuant to Section 6(b) of

this Agreement within 90 days after receipt by the Company of the request for indemnification, (iv) payment of indemnification is not made pursuant to this Agreement within ten (10) days after receipt by the Company of a written request therefor, or (v) payment of indemnification is not made within ten (10) days after a determination has been made that Indemnitee is entitled to indemnification or such determination is deemed to have been made pursuant to Section 6 of this Agreement, Indemnitee shall be entitled to an adjudication in an appropriate court of the State of Delaware, or in any other court of competent jurisdiction, of his entitlement to such indemnification. Indemnitee shall commence such proceeding seeking an adjudication within 180 days following the date on which Indemnitee first has the right to commence such proceeding pursuant to this Section 7(a). The Company shall not oppose Indemnitee's right to seek any such adjudication.

(b) In the event that a determination shall have been made pursuant to Section 6(b) of this Agreement that Indemnitee is not entitled to indemnification, any judicial proceeding commenced pursuant to this Section 7 shall be conducted in all respects as a de novo trial, on the merits and Indemnitee shall not be prejudiced by reason of that adverse determination under Section 6(b).

(c) If a determination shall have been made pursuant to Section 6(b) of this Agreement that Indemnitee is entitled to indemnification, the Company shall be bound by such determination in any judicial proceeding commenced pursuant to this Section 7, absent a prohibition of such indemnification under applicable law.

(d) In the event that Indemnitee, pursuant to this Section 7, seeks a judicial adjudication of his rights under, or to recover damages for breach of, this Agreement, or to recover under any directors' and officers' liability insurance policies maintained by the Company the Company shall pay on his behalf, in advance, any and all expenses (of the types described in the definition of Expenses in Section 13 of this Agreement) actually and reasonably incurred by him in such judicial adjudication, regardless of whether Indemnitee ultimately is determined to be entitled to such indemnification, advancement of expenses or insurance recovery.

(e) The Company shall be precluded from asserting in any judicial proceeding commenced pursuant to this Section 7 that the procedures and presumptions of this Agreement are not valid, binding and enforceable and shall stipulate in any such court that the Company is bound by all the provisions of this Agreement.

8. <u>Non-Exclusivity; Survival of Rights; Insurance; Subrogation</u>.

(a) The rights of indemnification as provided by this Agreement shall not be deemed exclusive of any other rights to which Indemnitee may at any time be entitled under applicable law, the certificate of incorporation of the Company, the Bylaws, any agreement, a vote of stockholders or a resolution of directors, or otherwise. No amendment, alteration or repeal of this Agreement or of any provision hereof shall limit or restrict any right of Indemnitee under this Agreement in respect of any action taken or omitted by such Indemnitee in his Corporate Status prior to such amendment, alteration or repeal. To the extent that a change in the Law, whether by statute or judicial decision, permits greater indemnification than would be

afforded currently under the Bylaws and this Agreement, it is the intent of the parties hereto that Indemnitee shall enjoy by this Agreement the greater benefits so afforded by such change. No right or remedy herein conferred is intended to be exclusive of any other right or remedy, and every other right and remedy shall be cumulative and in addition to every other right and remedy given hereunder or now or hereafter existing at law or in equity or otherwise. The assertion or employment of any right or remedy hereunder, or otherwise, shall not prevent the concurrent assertion or employment of any other right or remedy.

(b) To the extent that the Company maintains an insurance policy or policies providing liability insurance for directors, officers, employees, or agents or fiduciaries of the Company or of any other corporation, partnership, joint venture, trust, employee benefit plan or other enterprise which such person serves at the request of the Company, Indemnitee shall be covered by such policy or policies in accordance with its or their terms to the maximum extent of the coverage available for any such director, officer, employee or agent under such policy or policies.

(c) In the event of any payment under this Agreement, the Company shall be subrogated to the extent of such payment to all of the rights of recovery of Indemnitee, who shall execute all papers required and take all action necessary to secure such rights, including execution of such documents as are necessary to enable the Company to bring suit to enforce such rights.

(d) The Company shall not be liable under this Agreement to make any payment of amounts otherwise indemnifiable hereunder if and to the extent that Indemnitee has otherwise actually received such payment under any insurance policy, contract, agreement or otherwise.

9. Exception to Right of Indemnification. Notwithstanding any other provision of this Agreement, Indemnitee shall not be entitled to indemnification under this Agreement with respect to any Proceeding brought by Indemnitee, or any claim therein, unless (a) the bringing of such Proceeding or making of such claim shall have been approved by the Board of Directors of the Company or (b) such Proceeding is being brought by the Indemnitee to assert, interpret or enforce his rights under this Agreement.

10. Duration of Agreement. All agreements and obligations of the Company contained herein shall continue during the period Indemnitee is an officer or director of the Company (or is or was serving at the request of the Company as a director, officer, employee or agent of another corporation, partnership, joint venture, trust or other enterprise) and shall continue thereafter so long as Indemnitee shall be subject to any Proceeding (or any proceeding commenced under Section 7 hereof) by reason of his Corporate Status, whether or not he is acting or serving in any such capacity at the time any liability or expense is incurred for which indemnification can be provided under this Agreement. This Agreement shall be binding upon and inure to the benefit of and be enforceable by the parties hereto and their respective successors (including any direct or indirect successor by purchase, merger, consolidation or otherwise to all or substantially all of the business or assets of the Company), assigns, spouses, heirs, executors and personal and legal representatives. This Agreement shall continue in effect

regardless of whether Indemnitee continues to serve as an officer or director of the Company or any other Enterprise at the Company's request.

11. Security. To the extent requested by the Indemnitee and approved by the Board of Directors of the Company, the Company may at any time and from time to time provide security to the Indemnitee for the Company's obligations hereunder through an irrevocable bank line of credit, funded trust or other collateral. Any such security, once provided to the Indemnitee, may not be revoked or released without the prior written consent of the Indemnitee.

12. Enforcement.

(a) The Company expressly confirms and agrees that it has entered into this Agreement and assumed the obligations imposed on it hereby in order to induce Indemnitee to serve as an officer or director of the Company, and the Company acknowledges that Indemnitee is relying upon this Agreement in serving as an officer or director of the Company.

(b) This Agreement constitutes the entire agreement between the parties hereto with respect to the subject matter hereof and supersedes all prior agreements and understandings, oral, written and implied, between the parties hereto with respect to the subject matter hereof.

13. Definitions. For purposes of this Agreement:

(a) "Corporate Status" describes the status of a person who is or was a director, officer, employee or agent or fiduciary of the Company or of any other corporation, partnership, joint venture, trust, employee benefit plan or other enterprise which such person is or was serving at the express written request of the Company.

(b) "Disinterested Director" means a director of the Company who is not and was not a party to the Proceeding in respect of which indemnification is sought by Indemnitee.

(c) "Enterprise" shall mean the Company and any other corporation, partnership, joint venture, trust, employee benefit plan or other enterprise of which Indemnitee is or was serving at the express written request of the Company as a director, officer, employee, agent or fiduciary.

(d) "Expenses" shall include all reasonable attorneys' fees, retainers, court costs, transcript costs, fees of experts, witness fees, travel expenses, duplicating costs, printing and binding costs, telephone charges, postage, delivery service fees, and all other disbursements or expenses of the types customarily incurred in connection with prosecuting, defending, preparing to prosecute or defend, investigating, participating, or being or preparing to be a witness in a Proceeding.

(e) "Independent Counsel" means a law firm, or a member of a law firm, that is experienced in matters of corporation law and neither presently is, nor in the past five years has been, retained to represent: (i) the Company or Indemnitee in any matter material to either

such party (other than with respect to matters concerning the Indemnitee under this Agreement, or of other indemnitees under similar indemnification agreements), or (ii) any other party to the Proceeding giving rise to a claim for indemnification hereunder. Notwithstanding the foregoing, the term "Independent Counsel" shall not include any person who, under the applicable standards of professional conduct then prevailing, would have a conflict of interest in representing either the Company or Indemnitee in an action to determine Indemnitee's rights under this Agreement. The Company agrees to pay the reasonable fees of the Independent Counsel referred to above and to fully indemnify such counsel against any and all Expenses, claims, liabilities and damages arising out of or relating to this Agreement or its engagement pursuant hereto.

(f) "Proceeding" includes any threatened, pending or completed action, suit, arbitration, alternate dispute resolution mechanism, investigation, inquiry, administrative hearing or any other actual, threatened or completed proceeding, whether brought by or in the right of the Company or otherwise and whether civil, criminal, administrative or investigative, in which Indemnitee was, is or will be involved as a party or otherwise, by reason of the fact that Indemnitee is or was a director of the Company, by reason of any action taken by him or of any inaction on his part while acting as an officer or director of the Company, or by reason of the fact that he is or was serving at the request of the Company as a director, officer, employee or agent of another corporation, partnership, joint venture, trust or other Enterprise; in each case whether or not he is acting or serving in any such capacity at the time any liability or expense is incurred for which indemnification can be provided under this Agreement; including one pending on or before the date of this Agreement; and excluding one initiated by an Indemnitee pursuant to Section 7 of this Agreement to enforce his rights under this Agreement.

14. Severability. If any provision or provisions of this Agreement shall be held by a court of competent jurisdiction to be invalid, void, illegal or otherwise unenforceable for any reason whatsoever: (a) the validity, legality and enforceability of the remaining provisions of this Agreement (including without limitation, each portion of any section of this Agreement containing any such provision held to be invalid, illegal or unenforceable, that is not itself invalid, illegal or unenforceable) shall not in any way be affected or impaired thereby and shall remain enforceable to the fullest extent permitted by law; and (b) to the fullest extent possible, the provisions of this Agreement (including, without limitation, each portion of any section of this Agreement containing any such provision held to be invalid, illegal or unenforceable, that is not itself invalid, illegal or unenforceable) shall be construed so as to give effect to the intent manifested thereby.

15. Modification and Waiver. No supplement, modification, termination or amendment of this Agreement shall be binding unless executed in writing by both of the parties hereto. No waiver of any of the provisions of this Agreement shall be deemed or shall constitute a waiver of any other provisions hereof (whether or not similar) nor shall such waiver constitute a continuing waiver.

16. Notice By Indemnitee. Indemnitee agrees promptly to notify the Company in writing upon being served with any summons, citation, subpoena, complaint, indictment, information or other document relating to any Proceeding or matter which may be subject to indemnification covered hereunder. The failure to so notify the Company shall not relieve the

Company of any obligation which it may have to the Indemnitee under this Agreement or otherwise unless and only to the extent that such failure or delay materially prejudices the Company.

17. Notices. All notices, requests, demands and other communications hereunder shall be in writing and shall be deemed to have been duly given if (i) delivered by hand and receipted for by the party to whom said notice or other communication shall have been directed, or (ii) mailed by certified or registered mail with postage prepaid, on the third business day after the date on which it is so mailed:

(a) If to Indemnitee, to the address set forth below Indemnitee's signature hereto;

(b) If to the Company, to: 1185 Linda Vista Drive, San Marcos, California 92078, Attention: President;

or to such other address as may have been furnished to Indemnitee by the Company or to the Company by Indemnitee, as the case may be.

18. Identical Counterparts. This Agreement may be executed in one or more counterparts, each of which shall for all purposes be deemed to be an original but all of which together shall constitute one and the same Agreement. Only one such counterpart signed by the party against whom enforceability is sought needs to be produced to evidence the existence of this Agreement.

19. Headings. The headings of the paragraphs of this Agreement are inserted for convenience only and shall not be deemed to constitute part of this Agreement or to affect the construction thereof.

20. Governing Law. The parties agree that this Agreement shall be governed by, and construed and enforced in accordance with, the laws of the State of Delaware without application of the conflict of laws principles thereof.

[Signatures on following page.]

IN WITNESS WHEREOF, the parties hereto have executed this Agreement on and as of the date first set forth above.

NATURAL ALTERNATIVES INTERNATIONAL, INC.,
a Delaware corporation

By: ______________________________

Name: ______________________________

Title: President

INDEMNITEE:

____

Address: ______________________________

____

____

Exhibit 10.16

AMENDED AND RESTATED EXCLUSIVE LICENSE AGREEMENT

This AMENDED AND RESTATED EXCLUSIVE LICENSING AGREEMENT ("Agreement") is entered into effective as of February 5, 2003, between Natural Alternatives International, Inc., a Delaware corporation ("NAI"), with its principal offices at 1185 Linda Vista Drive, San Marcos, California 92069, and the Chopra Enterprises, LLC, a California limited liability company ("Chopra Enterprises"), Deepak Chopra, M.D., an individual ("Deepak Chopra") and David Simon, M.D., an individual ("Simon"). Chopra Enterprises, Deepak Chopra and Simon are sometimes referred to collectively as "CCS." The Parties to this Agreement are sometimes referred to collectively herein as the "Parties" or separately with NAI alone, and CCS collectively referred to as a "Party."

RECITALS

A. The Parties agree to modify their ongoing business relationship as initially established by an Exclusive License Agreement and an Exclusive Manufacturing Agreement between the Parties both entered into effective February 5, 2003.

B. In order to reduce their modified agreements to writing, the Parties agree to amend and restate the February 5, 2003, Exclusive License Agreement as set forth herein, and to cause it to remain effective as of February 5, 2003. The Parties agree the Exclusive Manufacturing Agreement entered into between them effective February 5, 2003, shall remain in full force and effect.

C. Chopra Enterprises, Deepak Chopra and Simon have developed well-known international identities, reputations and goodwill in part through programs, products, and services for the integration of mind, body, spirit and environment in health care, education, business and personal development. Chopra Enterprises, Deepak Chopra and Simon each hold the exclusive right to utilize their respective name and/or likeness in connection with the sale, promotion and advertising of the Products (as hereafter defined).

D. The operations of Chopra Enterprises rely heavily on the training, knowledge, experience, personality, persona, image and likeness of Deepak Chopra and Simon.

E. Chopra Enterprises desires to expand its operations by offering Products through its existing medical center, programs, workshops, seminars, Web site, books, CDs and audiotapes.

F. NAI is in the business of designing, researching, formulating, developing, manufacturing, packaging, distributing and marketing nutritional products. NAI desires to design, develop, research, formulate, manufacture, and package a line of Products for Chopra Enterprises, Deepak Chopra and Simon.

G. CCS desires to utilize the expertise of NAI to design, research, formulate, develop, manufacture and package Products for CCS to market and distribute.

H. NAI desires to have the exclusive rights to market, distribute and otherwise promote and sell the line of Products manufactured by NAI for CCS through Exclusive Channels of Distribution (as hereinafter defined).

I. In connection with NAI's separate marketing and distribution of Products for CCS, the Parties have executed an Exclusive Manufacturing Agreement of even date herewith, granting to NAI the right to manufacture Products for CCS using the names, likenesses, styles, persona, patents, trademarks, logos, domain names and copyrights developed and to be developed as part of the individual, corporate and public identities of Chopra Enterprises, Deepak Chopra and Simon.

J. To allow NAI the right to manufacture, market and distribute a line of Products, Chopra Enterprises, Deepak Chopra and Simon intend to grant NAI an exclusive license to certain proprietary rights, including but not limited to names, likenesses, styles, persona, patents, trademarks, logos, domain names and copyrights associated with and to become associated with Chopra Enterprises, Deepak Chopra and Simon for NAI's use in connection with marketing and distributing the Products in the channels of distribution set forth in this Agreement.

AGREEMENT

Incorporating the above recitals herein and in consideration of the covenants and obligations contained herein and other good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, the Parties agree as follows:

ARTICLE I
GRANT OF LICENSE

1.1 **Grant of License.** CCS grants NAI the exclusive rights to use in connection with distribution of the Products the names, likenesses, styles, persona, patents, trademarks, logos, domain names, copyrights and all other attributes, whether currently existing or to be developed in the future by Chopra Enterprises, Deepak Chopra and Simon (collectively, the "Proprietary Assets"). CCS grants NAI the rights to research, formulate, develop, manufacture, package and sell the Products in the following exclusive channels of distribution: Direct Response TV, Series TV, Direct Mail, Direct Response Radio and Direct Response Print ("Exclusive Channels of Distribution"). NAI's rights in the Exclusive Channels of Distribution shall include without limitation printed catalogs, order forms, newsletters, brochures and other bounce back or continuity printed materials associated with the traditional repeat order process typically included when Product orders are fulfilled. CCS grants NAI the rights to the Proprietary Assets and Exclusive Channels of Distribution in the following exclusive territories: United States of America, Canada and Switzerland ("Exclusive Territory" or "Exclusive Territories"). During the term of this Agreement, except as otherwise permitted herein, CCS will not (i) grant to any person or entity other than NAI the right and/or license to produce, sell and distribute Products or competitive products in the Exclusive Territory or Exclusive Channels of Distribution or any right and/or license to use the Proprietary Assets in connection with the advertising, publicizing, promoting, sponsoring, endorsing, production, distribution or sale of the Products or competitive products in the Exclusive Territory or Exclusive Channels of Distribution; or (ii) itself or in

association with any person or entity advertise, publicize, promote, sponsor, endorse, produce, distribute or sell Products or competitive products in the Exclusive Territory or Exclusive Channels of Distribution or use the Proprietary Assets in connection with the advertising, publicizing, promoting, sponsoring, endorsing production, distribution or sale of Products or competitive products in the Exclusive Territory or Exclusive Channels of Distribution.

1.1.1 **Exception to Exclusivity in the Direct Response Radio Channel of Distribution.** Notwithstanding the above, in connection with the marketing, selling and distribution of the Products in the Direct Response Radio channel of distribution, CCS shall be entitled to use the company known as HALO.TV for syndicated broadcast radio programs, HALO.TV webcasting workshops, seminars and other programs, and HALO.TV short form "Morning Minute" programs broadcasted via traditional and digital medium on a subscription or sponsorship basis (collectively "HALO.TV DRR Programming").

1.1.2 **Grant of Nonexclusive Rights to the Internet or World Wide Web.** CCS grants NAI the nonexclusive right to use the Internet or World Wide Web as an additional channel of distribution in all Exclusive Territories. CCS is entitled to market and sell all Products through HALO.TV via CCS' associated Web site www.halo.tv or through CCS' independently operated Web site www.chopra.com. (collectively, "CCS Web Sites"). CCS may enter into content, linking or similar agreements with third parties permitting third parties to link to the CCS Web Sites and sell Products on those third party Web sites. CCS warrants to comply with Section 1.3.2 of this Agreement and to cooperate in good faith to permit CCS and NAI to jointly review all third party Web sites for compliance with the terms of this Agreement. For purposes of this Agreement, "Internet" or "World Wide Web" or "Web" shall mean a system for accessing and viewing text, graphics, sound and other media via the collection of computer networks known as the Internet.

1.1.3 **Specific Exclusions From Rights Granted to NAI.** Notwithstanding the foregoing, CCS is entitled to use the Proprietary Assets in connection with marketing, selling and distribution of the Products in the following channels of distribution (listed by way of example only and without limitation): Chopra Center retail stores; KSL Property retail stores; Hampshire Resorts retail stores; hotel, spa, hospital, medical center, health center, fitness, bookstore, and gift retail outlets; Resort Condominiums International retail sales; Infinite Possibilities Knowledge instructors and distributors; and sales by Creating Wellness Centers licensed franchisees and operators. In addition, CCS shall be entitled to send out direct mailings and solicitations to past, current and prospective customers, patients and contacts of the Chopra Center.

1.2 **Exclusive Territory or Exclusive Territories.** Exclusive Territory or Exclusive Territories shall have the meanings defined above in this Article.

1.2.1 **First Right to Additional Territories.** At any time during the term of this Agreement and to the extent not prohibited by applicable law or any applicable agreement to the contrary, CCS grants to NAI a first right to develop additional exclusive territories to market and sell Products in NAI's Exclusive Channels of Distribution and nonexclusive channels of distribution on terms mutually acceptable to the Parties.

1.3 **Products.** "Product" or "Products" means all nutritional foods, nutritional and dietary supplements and related materials or products of any description, including but not limited to capsules, tablets, powders, liquids, bars, creams, lotions, gels and other forms and packaged in any and all manners using the names, likenesses, styles, persona, patents, trademarks, logos, domain names, copyrights and all other attributes, whether currently existing or to be developed in the future as part of the individual, corporate and public identities of Chopra Enterprises, Deepak Chopra and Simon. The definition of Product(s) includes any modification, derivative, alteration, improvement, enhancement or successor thereof approved by the Parties. NAI shall have the right to have the labeling and all promotional materials for all Products include a representation that the Product has been manufactured by NAI.

1.3.1 **First Right of Manufacture.** It is the intent of NAI and CCS to develop numerous Products for marketing and sale under this Agreement. At any time during the term of this Agreement and to the extent not prohibited by applicable law or any applicable agreement to the contrary, CCS grants to NAI a first right to research, formulate, develop, manufacture, package and sell all new Products developed in the future by the Parties. All new Products shall include any modification, derivative, alteration, improvement, enhancement or successor of an existing Product.

1.3.2 **Suggested Retail Pricing.** Manufacturer's suggested retail prices shall be set for all Products, including without limitation discount, promotion, rebate or other price breaks. The Parties agree to communicate manufacturer's suggested retail prices to all third party retailers or resellers who shall have the choice to adhere to the manufacturer's suggested retail prices or to not sell Products.

1.4 **Duties of NAI.** In connection with this License Agreement and the rights granted hereunder, NAI shall:

1.4.1 Take such actions as are commercially reasonable in an effort to design, develop, formulate, manufacture, promote, market, distribute and sell the maximum number of Products while maintaining the quality of the Products and NAI's service to its customers. NAI agrees it and its agents shall make aggregate testing commitments of $500,000 investment in Advertising & Promotion, $125,000 investment in COGS, and $50,000 investment in R&D product formulation in support of initial product development and marketing. The aggregate testing commitments shall apply to the first eighteen months of this Agreement only and NAI agrees to satisfy these commitments by December 31, 2004. Notwithstanding the above, NAI is not obligated to satisfy the aggregate testing expenditure commitments set forth in this Section if it achieves Minimum Annual Net Sales of $1,500,000 by December 31, 2004.

1.4.2 Meet, confer and cooperate with CCS in connection with development of any packaging and promotional materials utilizing the Proprietary Assets.

1.4.3 Cooperate with CCS with respect to its preparation of material for inclusion in or use in connection with the existing medical center, programs, workshops, seminars, Web site, books, CDs and audiotapes of CCS.

1.4.4 Maintain a regular schedule of contact with CCS to discuss ideas, priorities, action steps and issues.

1.4.5 Cooperate with the other parties in the current and future development of the Products and use reasonable best efforts to commence production and distribution of the initial Products as soon as reasonably practical following the date of this Agreement.

1.4.6 Submit promotional copy, artwork and layout to CCS for review, comment, and editing in accordance with the provisions of Section 1.5.3. below, so that promotional materials reflect the public image of Chopra Enterprises, Deepak Chopra and Simon and their activities associated with maintaining and restoring health.

1.4.7 Not knowingly permit, do or commit any act or thing that would degrade, tarnish or deprecate or disparage itself, the Products or Chopra Enterprises, Deepak Chopra or Simon or the public image of Chopra Enterprises, Deepak Chopra or Simon, in society or standing in the community and that it will terminate such activities promptly upon notice.

1.5 **Duties of CCS.** In connection with this License Agreement and the rights granted hereunder, Chopra Enterprises, Deepak Chopra and Simon shall:

1.5.1 Devote such time, effort, attention and energies as commercially reasonable to create print, videotape and audiotape materials connected to the development of custom produced Direct Response TV, Series TV, Direct Mail, Direct Response Radio and Direct Response Print programs and be responsible for participating in ongoing advertising and marketing efforts relating to the Products, provided, however, such efforts do not include infomercials .

1.5.1.1 Use reasonable best efforts to promote and develop the Proprietary Assets and educate the general public about the benefits of using the Products through active writing, speaking and teaching about such benefits. In connection with such educational and promotional efforts, Deepak Chopra and Simon shall maintain their medical licenses and use reasonable best efforts to maintain or expand the scope of distribution and public awareness of the existing medical center, programs, workshops, seminars, Web site, books, CDs and audiotapes of CCS.

1.5.2 Regularly meet, confer and cooperate with NAI in connection with the development of Products and new Products.

1.5.3 Review and edit, prior to the expiration of ten (10) business days following receipt of such materials, all promotional copy, artwork and layout so that promotional materials reflect the public image of Chopra Enterprises, Deepak Chopra and Simon and their activities associated with maintaining and restoring health. Any failure to approve or disapprove of such materials within the time period provided shall constitute approval.

1.5.4 Maintain a regular schedule of contact with NAI to discuss ideas, priorities, action steps and issues.

1.5.5 Make available to NAI a monthly business schedule and public and media appearance schedules for Deepak Chopra's and Simon's educational activities associated with maintaining and restoring health.

1.5.6 Not knowingly permit, do or commit any act or thing that would degrade, tarnish, deprecate or disparage Chopra Enterprises, Deepak Chopra and Simon, the Products or NAI or the public image of NAI in society or standing in the community and that Chopra Enterprises, Deepak Chopra and Simon will terminate such activities promptly upon notice.

1.5.7 To protect brand image, use reasonable best efforts to ensure attributes of strong customer service are followed at all times by its affiliates and agents in marketing, pricing, order fulfillment and distribution of all Products in any channel of distribution.

1.5.8 Refrain, unless otherwise in accordance with the terms of this Agreement, from promoting, marketing or selling any competing products such as nutritional foods, nutritional and dietary supplements and related materials or products of any description, including but not limited to capsules, tablets, powders, liquids, bars and other forms and packaged in any and all manners manufactured or distributed by anyone.

1.5.9 Cooperate to make Deepak Chopra and Simon available to NAI for three full (3) business days each calendar year for exclusive business meetings or product development meetings with NAI. Deepak Chopra and Simon shall mutually develop and approve a per diem expense budget of One Hundred Fifty Dollars ($150) per day plus reimbursement to Deepak Chopra and Simon each for travel related expenses and other approved costs incurred exclusively on behalf of NAI. Travel related expenses eligible for reimbursement include without limitation first class airfare, car and driver and hotel accommodations. NAI shall approve and reimburse Deepak Chopra and Simon for travel related expenses incurred in connection with their promotion of the Products on a non-exclusive basis in amounts mutually agreed upon by the Parties.

ARTICLE II
ROYALTIES

2.1 **Royalties.** NAI shall pay Chopra Enterprises a royalty on the annual Net Sales revenue from the Products. "Net Sales" shall be computed as the gross invoice amount billed by NAI to purchasers of the Products, less customer shipping and handling charges, credit card charge fees and returns actually credited. The amount of such royalty shall be the amount set forth in Section 2.1.2 below:

2.1.1 **Minimum Annual Net Sales.** During the periods of the term of this Agreement set forth below, NAI shall produce the following "Minimum Annual Net Sales."

July 1, 2003 through December 31, 2004	$ 1,500,000
January 1, 2005 through December 31, 2005	$ 3,000,000
January 1, 2006 through December 31, 2006	$ 6,000,000
January 1, 2007 through December 31, 2007	$12,000,000

January 1, 2008 through December 31, 2008	$14,400,000
January 1, 2009 through December 31, 2009	$17,280,000
January 1, 2010 through December 31, 2010	$20,736,000
January 1, 2011 through December 31, 2011	$22,809,600
January 1, 2012 through December 31, 2012	$25,090,560
January 1, 2013 through December 31, 2013	$27,599,616

In the event the Minimum Annual Net Sales are not achieved, NAI shall have the option to retain all rights under this Agreement by paying to Chopra Enterprises the difference between the royalties actually paid to Chopra Enterprises pursuant to Section 2.1.2 for Net Sales achieved during the respective year, and the royalties that would have been due if the Minimum Annual Net Sales requirement had been achieved. If the Minimum Annual Net Sales requirement is not achieved and NAI does not pay to Chopra Enterprises such difference, Chopra Enterprises shall have the right in its sole discretion to: (i) waive the non-compliance; or (ii) notify NAI this License Agreement has been automatically converted to a non-exclusive license on otherwise all the same terms and conditions; or (iii) terminate this License Agreement at which time all rights previously licensed shall revert to Chopra Enterprises, Deepak Chopra and Simon. In addition, if the Minimum Annual Net Sales requirement is not achieved and NAI does not pay to Chopra Enterprises such difference, and Chopra Enterprises elects to terminate this License Agreement, Chopra Enterprises shall have the right in its sole discretion to elect to terminate the Exclusive Manufacturing Agreement entered into of even date herewith. No waiver of this requirement by CCS (if any) shall act as a future waiver.

2.1.2 **Annual Net Sale Royalty.** During the entire term of this Agreement, the royalty due for the period shall be in the amount set forth in this Section 2.1.2.

10% of annual Net Sales not exceeding $25,000,000;
11% of annual Net Sales in excess of $25,000,000 but not exceeding $30,000,000;
12% of annual Net Sales in excess of $30,000,000 but not exceeding $35,000,000;
13% of annual Net Sales in excess of $35,000,000 but not exceeding $40,000,000;
14% of annual Net Sales in excess of $40,000,000 but not exceeding $45,000,000;
15% of annual Net Sales in excess of $45,000,000.

2.1.3 **Royalty Payments.** Royalty payments shall be made quarterly on or before the 30th day of the month succeeding the close of each calendar quarter except that in calendar year 2004 only, minimum royalty payments shall be made on the first day of each calendar quarter in accordance with the following payment schedule:

Q1 2004 - $30,000 royalty due January 1, 2004
Q2 2004 - $35,000 royalty due April 1, 2004
Q3 2004 - $40,000 royalty due July 1, 2004
Q4 2004 - $45,000 royalty due October 1, 2004

2.1.3.1 Each royalty payment shall be supplemented by a report setting forth the information described in Section 2.2. All payments shall be made in United States

currency and be drawn on a United States bank. The amount of the royalty payment due for each of the first three (3) quarters of each annual period described in Section 2.1.1, shall be calculated according to Section 2.1.2. Other than for calendar year 2004, as set forth above, the amount of the royalty payment due for the fourth quarter of each annual period described in Section 2.1.1, shall be the greater of: (i) the amount calculated for the quarter pursuant to Section 2.1.2; or (ii) the minimum amount due for the annual period as set forth in Section 2.1.1 less the amount of all royalties already paid for the same annual period.

2.1.3.2 Notwithstanding the above, with respect to each minimum quarterly royalty payment due in 2004, as set forth in Section 2.1.3 above, if the actual royalty due on Net Sales of Products in each quarter of 2004 is greater than the minimum quarterly royalty payment, then NAI shall: (i) pay the difference between the greater Net Sales royalty due and the minimum quarterly royalty payment; (ii) receive credit for the difference paid, and (iii) apply that credit to reduce the next minimum quarterly royalty payment due.

2.1.4 **Minimum Guaranteed Royalty for Period Ending December 31, 2004.** For the period ending December 31, 2004, NAI shall pay a minimum royalty totaling $150,000 to CCS, or the difference between the royalties actually paid to Chopra Enterprises pursuant to Section 2.1.2 for Net Sales achieved during the initial year ending December 31, 2004, and $150,000, if any. The minimum guaranteed royalty shall apply only to the period ending December 31, 2004, and shall apply in the event NAI elects to terminate this Agreement effective on or before December 31, 2004. Notwithstanding the preceding, NAI is not obligated to pay the minimum guaranteed royalty set forth in this Section if it satisfies the aggregate testing expenditure commitments set forth in Section 1.4.1 prior to December 31, 2004. Notwithstanding the preceding, in the event NAI satisfies the aggregate testing expenditure commitments set forth in Section 1.4.1 prior to December 31, 2004, and NAI elects to terminate this Agreement on or before December 31, 2004, then CCS shall reimburse NAI for the difference between royalties actually paid to Chopra Enterprises pursuant to Section 2.1.3 and royalties payable to Chopra Enterprises pursuant to Section 2.1.2 for Net Sales achieved during the initial year ending on the termination date.

2.1.5 **Net Sales Not Subject to Royalty.** NAI is not required to pay a royalty for any Product purchased by or fulfilled for CCS or its agents or selling partners pursuant to this Agreement.

2.2 **Reports.** NAI shall deliver a report to CCS within thirty (30) days after the end of each calendar quarter which shall consist of an accurate statement of Net Sales of Products along with any royalty payments or sublicensing revenues due to CCS. Such reports shall be provided to CCS regardless of whether any Products were sold during the period covered by the report. The acceptance by CCS of any of the statements furnished or royalties paid shall not preclude CCS questioning the correctness at any time of any payments or statements. In connection therewith, CCS shall be entitled to examine or audit at its own expense the documents underlying the statements described in this Section not more often than annually. In the event such audit reveals an understatement of royalties due hereunder in an amount equal to or exceeding 5% of the actual royalties due over the period of such audit, NAI shall bear the cost of audit. Any such underpayment shall be immediately due and payable, with interest accrued

from the date the payment was originally due at the lesser of 1.5% per month or the maximum rate permitted by law.

ARTICLE III
TERM OF AGREEMENT

3.1 **Effective Date.** The term "Effective Date" shall mean, and this Agreement is effective as, of the date first written above.

3.2 **Term and Termination.**

3.2.1 **Initial Term.** This Agreement shall remain in effect for a period of ten (10) years from the date hereof unless earlier terminated in accordance herewith. Upon expiration of the initial term, the term of this Agreement shall be automatically extended for successive one (1) year periods unless terminated by either Party by written notice delivered at least 120 days prior to expiration of any such period.

3.2.2 **Right to Terminate by NAI.** NAI may terminate this Agreement at any time upon giving CCS ninety (90) days notice, *provided, however,* if NAI terminates this Agreement on or before December 31, 2004, NAI shall make the minimum royalty due, if any, pursuant to Section 2.1.4.

3.3 **Right to Terminate by CCS.** CCS shall have the right to terminate this Agreement if:

3.3.1 After notice from CCS, NAI materially fails to comply with any covenant in this Agreement and such failure continues for more than thirty (30) days following receipt of written notice unless such failure cannot reasonably be cured within 30 days then only if NAI fails to commence such cure within thirty (30) days and diligently thereafter prosecutes such cure to completion within 90 days or other commercially reasonable time period.

3.3.2 NAI assigns its rights to a party who is at the time of transfer involved as an adverse party in material and adverse litigation against CCS.

3.3.3 NAI fails to make the royalty payments as required by Article II within thirty (30) days following receipt of written notice from CCS of the late payment.

3.4 **Termination on Specific Events.** Either Party may terminate this Agreement immediately only if:

3.4.1 The other Party suspends or discontinues its business operations, makes any assignment for the benefit of its creditors, commences voluntary proceedings for liquidation in bankruptcy, admits in writing its inability to pay its debts generally as they become due or consents to the appointment of a receiver, trustee or liquidator of the other Party or of all or any material part of its property, or if there is an execution of a material portion of its assets.

3.4.2 The other Party shall commence any case, proceeding or other action under any existing or future law of any jurisdiction, domestic or foreign, relating to bankruptcy, insolvency, reorganization or relief of debtors seeking to have an order for relief entered with respect to it, or seeking to adjudicate it a bankrupt or insolvent, or seeking reorganization, arrangement, adjustment, winding-up, liquidation, dissolution, composition or other relief with respect to it or its debts.

3.4.3 (A) There shall be commenced against the other Party any case, proceeding or other action of a nature referred to in Section 3.4.2 above which results in the entry of an order for relief or any such adjudication or appointment or remains undismissed, undischarged, unstayed or unbonded for period of ninety (90) days; or (B) there shall be commenced against the other Party any case, proceeding or other action seeking issuance of a warrant of attachment, execution, distraint or similar process against all or any substantial part of its assets, which results in the entry of an order for any such relief which shall not have been vacated, discharged or stayed or bonded pending appeal within ninety (90) days from the entry thereof; or (C) the other Party shall take any action in furtherance of, or indicating its consent to, approval of, or acquiescence in, any of the acts set forth in clause (A) or (B) above.

3.4.4 A Party acts in a manner deemed by the other Party to be in breach of either Section 1.4.7 or Section 1.5.6 of this Agreement whereupon the other Party shall have the right to give written notice of termination of this Agreement, providing complete information regarding the claimed breach and providing a period of ten (10) calendar days in which to either completely correct the conduct deemed in violation of either Section 1.4.7 or Section 1.5.6 to the reasonable satisfaction of the Party giving notice, or prove to the reasonable satisfaction of the Party giving notice that no violation occurred.

3.5 **Duties on Termination.** Upon termination of this Agreement, copies of all records related to CCS shall be kept by NAI for a minimum of three (3) years following production. In addition, NAI shall take all acts reasonably necessary to maintain the Proprietary Assets and deliver to CCS all materials strictly related thereto. The Parties shall cooperate and utilize their reasonable best efforts to prepare such final reconciliations of accounts and amounts to be provided as between them in connection with such termination.

3.6 **Reversion of Rights.** Upon the expiration of the term of this Agreement or earlier termination of this Agreement for any of the reasons set forth herein, all rights, licenses, and privileges granted to NAI hereunder shall automatically cease and revert to CCS, and NAI shall execute any and all documents evidencing such automatic reversion.

ARTICLE IV
MAINTENANCE OF INTELLECTUAL PROPERTY

4.1 **Protection of Proprietary Assets.** CCS shall seek in its own name or the name of any individual or entity bound by the terms of this Agreement and at its own expense, all appropriate patent, trademark, copyright or other available means of intellectual property protection for the Proprietary Assets. In the event CCS does not seek any appropriate patent, trademarks, copyright or other available means of intellectual property protection within thirty

(30) days following a written request by NAI, NAI may seek such protection on behalf of CCS and itself and credit the cost of such action against royalties due or becoming due under the terms of Article II.

4.2 **Protection of Proprietary Components.** NAI may seek in its own name and at its own expense, and if obtained, shall maintain appropriate patent, trademark, copyright or registration protection and ownership for any element or component proprietary to NAI that is included in the Products or any part thereof.

4.3 **Ownership of Formulas, Specifications and Technical Information.** All Formulas, Specifications and Technical Information, as defined in the Exclusive Manufacturing Agreement of even date herewith, developed by either Party for all Products shall remain the property of that Party during and following the term of this Agreement.

4.4 **Enforcement of Intellectual Property Rights.**

4.4.1 In the event any Party becomes aware of any claim or unauthorized use, or infringement on the Proprietary Assets or Products during the term of this Agreement, that Party shall immediately notify all of the other Parties of such violation and shall consult with and cooperate in any way requested by any Party with respect to the enforcement of all intellectual property rights.

4.4.2 CCS shall, at its own cost and expense, take all action necessary to enforce its rights and cause any violation with respect to Proprietary Assets to cease and be remedied. In the event CCS fails to take all action necessary to remedy any such violation, NAI, upon ten (10) business days prior written notice, may take such action and may offset one half the costs incurred in connection with such actions against any amounts coming due to CCS under the terms of Article II. CCS shall approve or disapprove such action within ten (10) business days following receipt of notice as provided above and approval may not be unreasonably withheld. In connection with such action, the Parties shall execute all papers necessary or appropriate in the discretion of the Party taking such action in response to a violation or infringement of the Proprietary Assets, and shall testify in any legal action whenever requested to do so by the prosecuting Party.

4.5 **Assistance in Protection.** In addition to their respective undertakings set forth in the preceding Sections, the Parties agree to render to each other all assistance reasonably requested of them in connection with the protection of the Proprietary Assets and to make promptly available to one another information they possess or to which they have access that may be of use to the other in such protection.

4.6 **Notice of Infringement.** In the event any Party becomes aware of any claim or unauthorized use with respect to the Proprietary Assets, it will notify the other Parties of such claim or unauthorized use immediately but in no event more than two (2) business days following the date on which it became aware of the claim or unauthorized use.

4.7 **Preservation of Proprietary Assets.** Chopra Enterprises, Deepak Chopra and Simon undertake and agree to maintain the existing image and public persona of themselves, and will use reasonable best efforts to further develop, improve and otherwise enhance the image and public persona of themselves. In no event will Chopra Enterprises, Deepak Chopra and Simon take any action inconsistent with the public image of Chopra Enterprises, Deepak Chopra and Simon or denigrate any of the Products or the Proprietary Assets or in any way reflect negatively on the Products or the Proprietary Assets.

4.8 **Regulatory Action.** If the Food and Drug Administration or any other federal, state or local government agency gives notice of or makes an inspection at any Party's premises, seizes any Product or requests a recall, the other Parties shall be notified immediately but in no event later than the next business day. Duplicates of any samples of Product taken by such agency shall be sent to the other Parties promptly. In the event of any action described in this Section, the Parties shall cooperate in determining the response, if any, to be made to such action and each Party agrees NAI shall be the Parties' representative in responding to such action, and each agrees to cooperate with and assist NAI in attempting to resolve any such action and to refrain from any activity with respect to such action which is not previously approved by NAI, except such activities as may be required by law.

4.9 **NAI Customer List.** NAI may maintain a list of its customers purchasing from NAI. This information is NAI's exclusive property.

4.10 **Fulfillment and Call Center Vendors.** The Parties understand and approve of NAI's use of third party fulfillment and call center vendors to assist in its distribution of the Products, and acknowledge and approve of such arrangements. NAI agrees any third party fulfillment and call center vendor must be capable of providing telephone customer service that appropriately reflects the public image of Chopra Enterprises, Deepak Chopra and Simon.

ARTICLE V
REPRESENTATIONS AND WARRANTIES

5.1 **Representations and Warranties of Chopra Enterprises, Deepak Chopra and Simon.** Chopra Enterprises, Deepak Chopra and Simon own and/or control the exclusive rights to the Proprietary Assets, and have the authority to grant this license to use the Proprietary Assets in the manner and form provided in this Agreement. Neither Chopra Enterprises, Deepak Chopra nor Simon have received notice of any claim with respect to any of the Proprietary Assets which is inconsistent with exclusive ownership of the Proprietary Assets, nor have any of them received any notice of any unauthorized use thereof. The Proprietary Assets do not infringe upon or violate any rights of any third party. Neither the execution and delivery of this Agreement nor the consummation of the transactions contemplated hereunder will violate or constitute a default under any agreement or instrument to which Chopra Enterprises, Deepak Chopra or Simon is a Party or by which any of them is bound.

5.1.1 **Competitive Protection.** Effective as of the date of this Agreement and continuing throughout the term, Chopra Enterprises, Deepak Chopra and Simon each agree to not render services in the form of advertising, publicizing, promoting, sponsoring or endorsing any

items, products or services that compete in the marketplace with any Products or services contemplated by this Agreement. Additionally, Chopra Enterprises, Deepak Chopra or Simon will neither permit nor authorize the use of any Proprietary Assets, including without limitation, the name and/or likeness (photograph and/or drawing), voice, signature and/or endorsement of any of them by any Direct Competitor or by any third party whose items, products or services compete in the marketplace with any Products or services contemplated by this Agreement except as may be used for the non-profit, non-commercial activities of Chopra Enterprises, provided such activities are not related in any way to the promotion of items, products or services of any Direct Competitor or any third party whose items, products or services compete in the marketplace with any Products or services contemplated by this Agreement. For purposes of this Agreement, "Direct Competitor" shall refer to any business entity that develops items and/or sells products or provides services relating to the design, development, research, formulation, manufacture and packaging of nutritional products or other Products contemplated by this Agreement.

5.1.2 Without limiting the generality of the foregoing, Chopra Enterprises, Deepak Chopra and Simon shall not directly or indirectly participate in the development, production or promotion by any Direct Competitor or any third party of any items, products or services that compete in the marketplace with any Products or services contemplated by this Agreement.

5.2 **Representations and Warranties of NAI.** NAI has the authority to enter into this Agreement. Neither the execution and delivery of this Agreement nor the consummation of the transactions contemplated hereunder will violate or constitute a default under any agreement or instrument to which NAI is a party or by which it is bound. NAI shall be the sole owner of all preexisting Product formulations, packaging, designs and other intellectual property associated with the Products or any element or component proprietary to NAI that is included in the Products or any part thereof and none of the actions contemplated by this Agreement will violate or constitute a default under any agreement or instrument to which NAI is a party or by which it is bound.

ARTICLE VI
CONFIDENTIALITY

6.1 **Duty to Protect Confidential Information.** Any confidential information disclosed or conveyed by either Party to the other in connection with its business by written communication and marked as confidential, or by oral communication and confirmed in writing within thirty (30) working days of oral disclosure, shall be treated by the receiving Party as secret and confidential and shall be held in trust for the disclosing Party. The receiving Party shall treat such information and take such steps to assure its continued confidentiality in like manner as it would use to protect its own trade secrets or confidential information and will not, except as required by law, disclose any such confidential information received from the other Party to any third Party who is not bound under a confidentiality and non-disclosure agreement.

6.2 **Means of Protecting Confidential Information.** NAI and CCS agree to take reasonable steps to ensure the proprietary and confidential nature of the other's confidential

information and the Proprietary Assets and Product(s) in which confidential information is embodied or included and to protect the same from loss or theft and agree to clearly mark such confidential information and properly indicate its proprietary nature.

6.3 **Terms of Agreement.** Except as otherwise required by law including, but not limited to, NAI's disclosure obligations in connection with the U.S. Securities Act of 1934, the Parties agree that the terms of this Agreement are proprietary and confidential, as is the existence of this Agreement. Each Party agrees to maintain the existence of this Agreement and the terms and information contained herein strictly confidential and will not disclose any such information to any person who is not a Party hereto without the prior written consent of all Parties, which consent may be granted or withheld in the absolute discretion of each Party.

6.4 **CCS Use of NAI Confidential Information.** The Parties acknowledge CCS is interested, for the purpose of enlisting participants in CCS activities, in utilizing confidential information developed by NAI in connection with NAI's distribution of Products. The Parties agree that upon the request of CCS they will meet, confer and negotiate in good faith the terms under which CCS may use such information to enlist additional CCS participants while providing adequate protections for the reasonable confidentiality and privacy interests of NAI and its customers in connection therewith.

6.5 **Provisions Divisible.** It is agreed by all Parties that the foregoing covenants are appropriate and reasonable in light of the nature and extent of the business conducted by the Parties and their respective relationships. It is further agreed that the covenants set forth herein are divisible in the event they are held to be invalid, unreasonable, arbitrary or against public policy. Further, it is agreed by the Parties that if any court of competent jurisdiction or authorized arbitrator makes such a determination, they may determine what time period and geographical area are reasonably necessary to protect the Parties' legitimate business interests and which are enforceable.

6.6 **Irreparable Injury.** Each Party acknowledges that damages at law will be an insufficient remedy for violation of the terms of this Article and that the other Party would suffer irreparable injury as a result of such violation. Accordingly, it is agreed upon application to a court of competent jurisdiction, the Parties may obtain injunctive relief to enforce the provisions of this Article of this Agreement, which injunctive relief shall be in addition to any other rights or remedies available to it or them.

6.7 **Extended Term of Confidentiality**. It is recognized by all Parties that due to their respective positions of confidence giving rise to access to confidential, proprietary information during the term of this Agreement, that the provisions of this Article VI apply during the term of this Agreement and for a period of three (3) years thereafter.

ARTICLE VII
CLAIMS AND INDEMNIFICATION

7.1 **Indemnification by NAI Against Third-Party Claims.** Except as otherwise set forth above in Article VI, NAI shall indemnify, defend, and hold harmless CCS, its subsidiaries,

affiliated and/or controlled companies and all sublicensees, as well as their respective officers, directors, agents, and employees, from and against any and all damage, loss, expense (including reasonable attorneys' fees and costs), award, settlement, or other obligation arising out of any claims, demands, actions, suits, or prosecutions that may be made or instituted against them or any of them, (a) arising from any alleged breach of NAI's warranties contained herein, and (b) any claims arising out of NAI's marketing, distribution, promotion, sale, or use of Products or Proprietary Assets, including any claims arising out of Section 1.3.2.

7.2 **Indemnification by CCS Against Third-Party Claims.** Except as otherwise set forth above in Article VI, Chopra Enterprises, Deepak Chopra or Simon shall, jointly and severally, indemnify, defend, and hold harmless NAI, its subsidiaries, affiliated and/or controlled companies and all sublicensees, as well as their respective officers, directors, agents, and employees, from and against any and all damage, loss, expense (including reasonable attorneys' fees and costs), award, settlement, or other obligation arising out of any claims, demands, actions, suits, or prosecutions that may be made or instituted against them or any of them, (a) arising from any alleged breach of CCS' warranties contained herein, (b) arising from any injury or death from any defect in the Proprietary Assets specifically excluding any claim relating to the Products manufactured by NAI exclusive of the Proprietary Assets; and (c) any claims arising out of the content or manner of CCS' marketing, distribution, promotion, sale, or recommended use of Products or Proprietary Assets.

7.3 **Insurance.** NAI shall carry with companies reasonably satisfactory to CCS: (i) Workers' Compensation and Employees' Liability Insurance; (ii) Standard Form Fire and Extended Coverage Insurance for the full replacement value of any of the Products or any premiums or packaging materials; and (iii) Public Liability Insurance including Contractual Liability and Products Liability Coverage with a combined single limit of not less than Five Million Dollars ($5,000,000). NAI shall submit policies and/or certificates of insurance evidencing the above coverage upon CCS' written request. NAI shall name CCS as additional insureds under such policies. Product Liability Insurance shall be maintained in effect by NAI for a period of one (1) year from the date of the last delivery of any Product by NAI to CCS. In case of NAI's failure to carry said policies and/or furnish certificates of insurance or upon cancellation of any required insurance, CCS may, at its option, immediately terminate this Agreement unless NAI has obtained substitute insurance coverage before such insurance becomes canceled and provides CCS with satisfactory evidence thereof.

7.4 **No Consequential Damages.** EXCEPT FOR THE CIRCUMSTANCES SET FORTH IN SECTION 1.4.7, UNDER NO CIRCUMSTANCES SHALL NAI OR ANY AFFILIATE OF NAI HAVE ANY LIABILITY WHATSOEVER FOR INCIDENTAL OR CONSEQUENTIAL DAMAGES, such as, but not limited to, loss of profit or revenue; loss of use of the Products; cost of capital; or claims resulting from contracts between CCS, their customers and/or suppliers. Unless expressly provided for herein, in no event shall NAI or any affiliate of NAI assume responsibility or liability for (i) penalties, penalty, clauses or liquidated damages clauses of any description, or (ii) indemnification of CCS or others for costs, damages or expenses arising out of or related to the Products or part thereof.

ARTICLE VIII
MISCELLANEOUS PROVISIONS

8.1 **Sublicense.** NAI may sublicense the rights granted pursuant to this Agreement, provided NAI obtains CCS' prior written consent to such sublicense. CCS' consent to any sublicense shall not be unreasonably withheld and in any such sublicense agreement, provision shall be made so that CCS receives such revenue or royalty payment as provided for herein. Any sublicense granted in violation of this provision shall be void.

8.2 **Entire Agreement; Amendment.** This Agreement contains the entire understanding between the Parties with respect to the subject matter hereof and supersedes all prior or contemporaneous written or oral negotiations and agreements between them regarding the subject matter hereof. Only a writing signed by all Parties or by duly authorized corporate officers of a Party and clearly designated as an amendment to this Agreement by an appropriate heading may amend this Agreement.

8.3 **Severability.** If any provision or portion thereof of this Agreement is determined to be invalid or unenforceable, the provision or portion shall be deemed to be severable from the remainder of this Agreement and shall not cause the invalidity or unenforceability of the remainder of this Agreement.

8.4 **No Implied Waivers.** The failure of either Party at any time to require performance by the other Party of any provision hereof shall not affect in any way the right to require such performance at any later time, nor shall the waiver by either Party of a breach of any provision hereof be taken or held to be a waiver of such provision.

8.5 **Attorneys Fees.** If any arbitration or legal proceeding is brought for the enforcement of this Agreement, or because of an alleged breach, default or misrepresentation in connection with any provision of this Agreement or other dispute concerning this Agreement, the successful or prevailing Party shall be entitled to recover reasonable attorneys fees incurred in connection with such arbitration or legal proceeding. The term "Prevailing Party" shall mean the Party that is entitled to recover its costs in the proceeding under applicable law, or the Party designated as such by the court or the arbitrators.

8.6 **Arbitration.** Any dispute, controversy or claim arising from, out of or in connection with, or relating to, this Agreement or any breach or alleged breach of this Agreement, except allegations of violations of Federal or State securities laws, will upon the request of any Party involved be submitted to any private arbitration service utilizing former judges as mediators and approved by the Parties. The dispute once submitted shall be settled by binding arbitration conducted in San Diego, California (or at any other place or under any other form of arbitration mutually acceptable to Parties involved). The single arbitrator shall follow and apply the federal rules of evidence and the applicable local federal rules of governing discovery in the arbitration. Any award rendered shall be final, binding and conclusive upon the Parties and shall be non-appealable, and a judgment thereon may be entered in the highest State or Federal court of the forum, having jurisdiction. The expenses of the arbitration shall be borne equally by the Parties to the arbitration, provided that each Party shall pay for and bear the cost of

its own experts, evidence and attorneys' fees, except that in the discretion of the arbitrator, any award may include the costs, fees and expenses of a Party's attorneys.

8.7 **Governing Law.** This Agreement shall be construed and interpreted under the laws of the State of California. All disputes or controversies or questions arising under or relating to this Agreement between the Parties hereto in relation to this Agreement shall be construed and resolved under the laws of the State of California. Each Party acknowledges and waives any objection to venue for such disputes in state or federal courts sitting in San Diego, California. Any judgments upon the award entered by the arbitrator may be entered in the State or Federal Courts situated in the State of California.

8.8 **Counterparts.** This Agreement may be executed in one or more counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument.

8.9 **Captions.** The captions of the sections and subsections of this Agreement are included for reference purposes only and are not intended to be a part of the Agreement or in any way to define, limited or describe the scope or intent of the particular provision to which they refer.

8.10 **Relationship of the Parties.** The terms and provisions of this agreement are intended to be a license agreement and it shall not in any respect be construed to constitute NAI or CCS as the agent, employee, partner or joint venturer of the other. All persons employed by any Party in connection with the manufacture, distribution, marketing, promotion and sale of the Products shall be the employees or agents of that Party and under no circumstances shall a Party's employees or agents be deemed to be employees or agents of any other Party. Each Party will bear the cost of its distribution, marketing, promotion and sale of Products through its own channels. In the event any Parties utilize common vendors or contractors, each Party utilizing such common vendor or contractor will maintain such relationship and any obligations, agreements and accounts with such common vendor or contractor separate and distinct from any other Party's.

8.11 **Notices.** All notices, consents, waivers and other communications under this Agreement must be in writing and will be deemed to have been duly given upon (a) delivery by hand (with written confirmation of receipt), (b) one day after confirmation of receipt if sent by facsimile, (c) one day after deposit with a nationally recognized overnight delivery service (receipt requested), or (d) five days after deposit in the United States mail by certified delivery, return receipt requested. Notices shall be sent in each case to the appropriate addresses indicated for each Party below, or to such other addresses as a Party may designate in writing by notice to the other Party:

If to NAI:	with a copy to:
Natural Alternatives International, Inc. 1185 Linda Vista Drive San Marcos, California 92069 Attn: President or Chief Operating Officer Telephone: (760) 736-7742 Facsimile: (760) 591-9637	Fisher Thurber LLP 4225 Executive Square, Suite 1600 La Jolla, California 92037 Attention: David A. Fisher Telephone: (858) 535-9400 Facsimile: (858) 535-1616
If to Chopra Enterprises, Deepak Chopra or Simon:	with a copy to:
c/o Chopra Center for Well Being, La Costa Resort and Spa 2100 Costa Del Mar Road La Costa CA 92009 Telephone: (760) 931-7564 Facsimile: (760) 931-7572	Howard Simon, Esq. 1959 Thayer Avenue Los Angeles CA 90025 Telephone: (310) 474-6022 Facsimile: (310) 474-2428

8.11.1 **Designated Contact.** If a specific contact person is designated in a provision, notice concerning the subject matter of such provision shall be directed to such person. The address, facsimile number or the name of any Party or contact person or other number may be changed by sending notice in the manner set forth above.

8.12 **Key Man Insurance.** NAI shall have the right, but no obligation to purchase policies of insurance on the lives of Deepak Chopra and Simon and on either not becoming disabled. NAI shall bear the costs of any such policies and it on its designee shall be the owner and beneficiary of such policies. Deepak Chopra and Simon agree to cooperate with NAI in connection with the purchase of such policies and shall take any reasonable action requested by NAI in order to facilitate the issuance of such policies.

8.13 **Incapacity or Death of Deepak Chopra or David Simon**. Except as otherwise provided herein, the rights granted to NAI in this Agreement are intended to survive the incapacity or death of Deepak Chopra or Simon. Upon the occurrence of any such event, all actions with respect to Deepak Chopra hereunder shall be exercisable on behalf of Deepak Chopra by another person (the "Chopra Representative") who, at the execution date of this agreement, is hereby designated by Deepak Chopra to be his daughter Mallika Chopra. Upon the occurrence of any such event, all actions with respect to David Simon hereunder shall be exercisable on behalf of David Simon by another person (the "Simon Representative") who, at the execution date of this agreement, is hereby designated by David Simon to be his brother Howard Simon.

8.13.1 If prior to the death of Deepak Chopra or Simon, either is pronounced to be incapacitated *(i.e.,* as being incapable of managing or conducting his own business affairs due to physical or mental infirmity) by his Representative, then said Representative shall thereafter and for so long as Deepak Chopra or Simon or both of them is incapacitated have full right to

take any and all acts on behalf of Deepak Chopra or Simon under this Agreement. Any Representative appointed in accordance with this Section shall have full right to take any and all acts on behalf of Deepak Chopra or Simon under this Agreement and NAI may rely on such acts as the lawful and duly authorized acts of Deepak Chopra and Simon.

8.14 **Successors, Assignment.** This Agreement shall inure to the benefit of and be binding upon the successors and permitted assigns of the Parties. NAI and Chopra Enterprises may assign their rights and obligations under this Agreement to their Affiliate. Any such assignment will not release or discharge them from any liability or obligation hereunder. The rights and obligations or Chopra Enterprises and NAI may only be assigned to other than Affiliate after first obtaining the other Party's written consent, which consent may not be unreasonably withheld. The rights and obligations of Deepak Chopra and Simon are personal and may not be assigned hereunder without NAI's written consent which may be given or withheld in NAI's sole discretion. As used herein, Affiliate shall refer to any person or entity that is under direct or indirect control of the applicable Party. The term "control" includes without limitation, ownership of interest representing a majority of the total voting power in an entity or the ability to manage or direct such entity.

8.15 **Further Assurances.** The Parties agree (a) to furnish upon request to each other such further information, (b) to execute and deliver to each other such other documents, and (c) to do such other acts and things, all as the other Party may reasonably request for the purpose of carrying out the intent of this Agreement and the documents referred to in this Agreement.

[signature page follows]

The Parties have executed this Exclusive License Agreement as of the day and year first above written.

NATURAL ALTERNATIVES INTERNATIONAL, INC.
a Delaware corporation

By: /s/ Randy Weaver
Randell Weaver, President

CHOPRA ENTERPRISES, LLC
a California limited liability company

By: /s/ Deepak Chopra
Deepak Chopra, Managing Member

DEEPAK CHOPRA, M.D.

By: /s/ Deepak Chopra
Deepak Chopra, M.D.

DAVID SIMON, M.D.

By: /s/ David Simon
David Simon, M.D.

Exhibit 21

List of Subsidiaries of
Natural Alternatives International, Inc., a Delaware corporation

Name of Subsidiary	State or other Jurisdiction of Incorporation or Organization
Natural Alternatives International Europe S.A.	Switzerland
Custom Nutrition, LLC	Delaware, USA
CellLife Pharmaceuticals International, Inc.	California, USA
CellLife International, Inc.	Delaware, USA
Transformative Health Products, Inc.	Delaware, USA

Exhibit 23.1

Consent of Independent Registered Public Accounting Firm

We consent to the incorporation by reference in the Registration Statement (Form S-8 No. 33-73980) pertaining to the 1992 Incentive Stock Option Plan and the 1992 Nonqualified Stock Option Plan, in the Registration Statement (Form S-8 No. 333-00947) pertaining to the 1994 Nonqualified Stock Option Plan, in the Registration Statement (Form S-8 No. 333-32828) pertaining to the 1999 Omnibus Equity Incentive Plan, the 1999 Employee Stock Purchase Plan, and the Two Outstanding Non-Employee Director Option Agreements outside of any plan, and the Registration Statement (Form S-8 No. 333-117020) pertaining to the 1999 Omnibus Equity Incentive Plan of our report dated August 6, 2004, with respect to the consolidated financial statements and schedule of Natural Alternatives International, Inc. included in its Annual Report (Form 10-K) for the year ended June 30, 2004.

/s/ Ernst & Young LLP

San Diego, California
September 7, 2004

Exhibit 31.1

Certification of Chief Executive Officer
Pursuant to
Rule 13a-14(a)/15d-14(a)

I, Mark A. LeDoux, Chief Executive Officer of Natural Alternatives International, Inc., certify that:

1. I have reviewed this Annual Report on Form 10-K of Natural Alternatives International, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:

a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

c) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting;

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: September 13, 2004

/s/ Mark A. LeDoux

Mark A. LeDoux, Chief Executive Officer

Exhibit 31.2

Certification of Chief Financial Officer
Pursuant to
Rule 13a-14(a)/15d-14(a)

I, John R. Reaves, Chief Financial Officer of Natural Alternatives International, Inc., certify that:

1. I have reviewed this Annual Report on Form 10-K of Natural Alternatives International, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:

a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

c) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting;

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: September 13, 2004

/s/ John R. Reaves

John R. Reaves, Chief Financial Officer

Exhibit 32

Certification
Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
(Subsections (a) and (b) of Section 1350, Chapter 63 of Title 18, United States Code)

Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (Subsections (a) and (b) of Section 1350, Chapter 63 of Title 18, United States Code), each of the undersigned officers of Natural Alternatives International, Inc., a Delaware corporation, does hereby certify, to such officer's knowledge, that the Annual Report on Form 10-K for the fiscal year ended June 30, 2004 of Natural Alternatives International, Inc. fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 (15 U.S.C. 78m or 78o(d)) and that information contained in such report fairly presents, in all material respects, the financial condition and results of operations of Natural Alternatives International, Inc.

Date: September 13, 2004

/s/ Mark A. LeDoux

Mark A. LeDoux, Chief Executive Officer

Date: September 13, 2004

/s/ John R. Reaves

John R. Reaves, Chief Financial Officer

The foregoing certification is furnished solely pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (Subsections (a) and (b) of Section 1350, Chapter 63 of Title 18, United States Code) and is not being filed as part of the Form 10-K or as a separate disclosure document.