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

FORM 8-K

CURRENT REPORT
Pursuant to Section 13 or 15(d)
of the Securities Exchange Act of 1934

DATE OF REPORT (Date of earliest event reported): DECEMBER 5, 2005

000-15701
(Commission file number)

NATURAL ALTERNATIVES INTERNATIONAL, INC.

(Exact name of registrant as specified in its charter)

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

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

☐ Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)

☐ Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)

☐ Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))

☐ Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

Item 1.01. Entry into a Material Definitive Agreement.

On December 5, 2005, Natural Alternatives International, Inc., a Delaware corporation ("NAI"), acquired Real Health Laboratories, Inc., a California corporation ("RHL"). The acquisition of RHL by NAI was effected pursuant to the terms of a Stock Purchase Agreement, effective as of December 5, 2005 ("Stock Purchase Agreement"), by and among NAI, William H. Bunten II and/or Elizabeth W. Bunten, as the trustees of The Bunten Family Trust dated April 14, 2001 (collectively, "Bunten"), John F. Dullea and Carolyn A. Dullea, as the trustees of The John F. and Carolyn A. Dullea Trust dated June 20, 2001 (collectively, "Dullea"), Lincoln Fish ("Fish"), and Michael L. Irwin, as trustee of The Michael L. Irwin Trust u/t/a June 25, 1991 ("Irwin"). Bunten, Dullea, Fish and Irwin may be referred to herein individually as a "Selling Stockholder" or collectively as the "Selling Stockholders."

Pursuant to the terms of the Stock Purchase Agreement, NAI acquired from the Selling Stockholders all of the issued and outstanding shares of common stock, no par value, of RHL for an aggregate purchase price of $8,667,000, consisting of cash in the amount of $5,808,246, $1,000,000 of which is being held in an escrow account for 90 days following the close of the Acquisition (as hereinafter defined) for the purpose of providing a fund for the payment of any amounts that may be owed by the Selling Stockholders to NAI during such period in connection with the indemnification obligations of the Selling Stockholders under the Stock Purchase Agreement, and the issuance to the Selling Stockholders of an aggregate of 510,000 shares of NAI's authorized but unissued shares of common stock, $0.01 par value per share (the "Acquisition"). Solely for purposes of calculating the portion of the purchase price payable in cash, NAI and the Selling Stockholders agreed to value the shares of NAI stock issued to the Selling Stockholders at an aggregate amount equal to $2,858,754, based on the trailing ten day average of the last reported sale price of the NAI common stock on the Nasdaq Stock Market prior to the close of the Acquisition. At the close of the Acquisition, RHL became a wholly-owned subsidiary of NAI.

As part of the Acquisition and as further described below under Item 5.02, the officers and directors of RHL prior to the Acquisition each resigned their positions with RHL effective upon the close of the Acquisition, with the exception of Mr. John F. Dullea who resigned as director and Chief Executive Officer of RHL but who will continue as President of RHL after the Acquisition. Mark LeDoux, a director and the Chief Executive Officer of NAI, and Randell Weaver, the President of NAI, have been appointed as the directors of RHL. In addition, Mr. Weaver has been appointed as the Chief Executive Officer of RHL and Mr. John R. Reaves, the Chief Financial Officer of NAI, has been appointed the Chief Financial Officer of RHL, each effective upon the close of the Acquisition.

In addition, as part of the Acquisition, NAI agreed to (i) pay in full at the close of the Acquisition the aggregate outstanding principal balances, plus accrued and unpaid interest thereon, of RHL's outstanding lines of credit, which outstanding balances and accrued interest totaled approximately $589,790; (ii) pay $35,000 of the legal fees and expenses incurred by RHL and/or the Selling Stockholders in connection with the Acquisition; and (iii) file a resale registration statement with the United States Securities and Exchange Commission ("SEC") no later than 90 days after the close of the Acquisition covering all shares of common stock issued by NAI to the Selling Stockholders in connection with the Acquisition, which shares are currently restricted securities and are subject to Lock-Up Agreements with the Selling Stockholders generally prohibiting the Selling Stockholders from selling such shares until the earlier of 180 days after the close of the Acquisition or the effective date of the resale registration statement.

To fund, in part, the cash purchase price of the Acquisition, NAI acquired an additional $3,800,000 term loan with a term of four years, secured by certain equipment of NAI, at an interest rate of LIBOR (3 month) plus 2.1%. The remainder of the cash purchase price was paid from NAI's available cash on hand.

NAI also has negotiated certain amendments to its credit facility including (i) an increase in its ratio of total liabilities/tangible net worth covenant from 1.0/1.0 to 1.25/1.0 through June 2007 (the ratio returns to 1.0/1.0 thereafter); (ii) a limit on capital expenditures of $5,500,000 for fiscal years 2006 and 2007; (iii) an extension of the maturity date for the working capital line of credit from November 2006 to November 2007; (iv) an increase in NAI's ability to incur additional aggregate annual operating lease expenses from

$100,000 to $500,000 without prior approval from the lender; (v) an increase in NAI's ability to create specific indebtedness other than with the lender of the credit facility from $0 to $1,000,000; and (vi) replacement of the EBITDA coverage ratio with a fixed charge coverage ratio (aggregate of net profit after taxes, depreciation and amortization expenses and net contributions/aggregate current maturity of long-term debt and capitalized lease payments) not less than 1.25/1.0 as of each fiscal quarter end. Final documents for execution by the bank and NAI reflecting these amendments are being prepared.

Item 2.01 Completion of Acquisition or Disposition of Assets.

As a result of the Acquisition described in more detail under Item 1.01 above, which disclosure is incorporated herein by reference, on December 5, 2005, RHL became a wholly-owned subsidiary of NAI.

RHL is located in San Diego, California and markets branded nutritional supplements and other lifestyle products. RHL sells its supplements through many of the larger U.S. retailers and also markets nutritional supplements and other products through lifestyle catalogs. RHL's operations include graphic design, creative, fulfillment and call center activities.

Item 2.03 Creation of a Direct Financial Obligation or an Obligation under an Off-Balance Sheet Arrangement of a Registrant.

On December 5, 2005, to fund, in part, the cash purchase price of the Acquisition, NAI acquired an additional $3,800,000 term loan with a term of four years, secured by certain equipment of NAI, at an interest rate of LIBOR (3 month) plus 2.1%. Principal and accrued and unpaid interest on the loan are payable monthly during the term of the loan.

Item 3.02 Unregistered Sales of Equity Securities

On December 5, 2005, as part of the consideration payable to the Selling Stockholders in connection with the Acquisition, NAI issued to the Selling Stockholders 510,000 shares, in the aggregate, of NAI's authorized but unissued shares of common stock, $0.01 par value per share, under Rule 506 of Regulation D promulgated under the Securities Act of 1933, as amended. Each Selling Stockholder represented to NAI that he or it was an "accredited investor" as such term is defined under such Regulation D.

Item 5.02 Departure of Directors or Principal Officers; Election of Directors; Appointment of Principal Officers

As part of the Acquisition, the officers and directors of RHL prior to the Acquisition each resigned their positions with RHL effective upon the close of the Acquisition, with the exception of Mr. John F. Dullea who resigned as director and Chief Executive Officer of RHL but who will continue as President of RHL after the Acquisition. Mark LeDoux, a director and the Chief Executive Officer of NAI, and Randell Weaver, the President of NAI, have been appointed as the directors of RHL. In addition, Mr. Weaver has been appointed as the Chief Executive Officer of RHL and Mr. John R. Reaves, the Chief Financial Officer of NAI, has been appointed the Chief Financial Officer of RHL, each effective upon the close of the Acquisition. The business experience of Mr. Dullea is shown below.

John F. Dullea (Age 57)

President of RHL

Mr. Dullea has been the President of RHL since 1998. Previously, he served as director and Chief Executive Officer of RHL (1998 – December 5, 2005). Before joining RHL, Mr. Dullea was President of Market Makers International, a Vice President with KAO Corporation of Japan, and a Senior Consumer Products Executive with Johnson & Johnson, where he worked for 21 years. He received a Bachelor of Science degree in Mathematics from St. Peters College in New Jersey.

Effective as of December 5, 2005, RHL entered into an employment agreement with Mr. Dullea. Under the terms of the agreement, Mr. Dullea's employment is at-will and the employment may be terminated at any time, with or without cause, by either Mr. Dullea or RHL. Mr. Dullea will receive an annual salary of $275,000, payable no less frequently than monthly, and may receive certain employee benefits available generally to all employees or specifically to executives of RHL and/or NAI, including bonus compensation in a manner and at a level determined from time to time by the Board of Directors of RHL and/or NAI. Under the terms of the employment agreement, Mr. Dullea will be entitled to a severance benefit, including standard employee benefits available to other corporate officers of RHL and to the corporate officers of NAI, if he is terminated by RHL without cause in an amount equal to two years' base salary, if any such termination occurs on or before December 5, 2007, or an amount equal to eighteen months' base salary if any such termination occurs after December 5, 2007, provided in each case he executes and delivers to RHL a general release of claims. If he does not execute and deliver a general release of claims, the severance benefit is reduced to one month's compensation. Mr. Dullea is not entitled to any severance benefit if he is terminated by RHL for cause, or if he voluntarily resigns or retires. If Mr. Dullea is terminated by RHL without cause upon a change in control, he is entitled to receive a severance benefit in an amount equal to two years' compensation, provided he executes and delivers to RHL a general release of claims. If he does not execute and deliver a general release of claims, the severance benefit is reduced to one month's compensation. In addition, upon death or if he is terminated by RHL without cause upon a change of control, all then outstanding options held by Mr. Dullea become fully exercisable, provided that he executes and delivers to RHL a general release of claims.

On December 2, 2005, NAI's Board of Directors granted to Mr. Dullea, pursuant to NAI's 1999 Omnibus Equity Incentive Plan, options to purchase 100,000 shares, in the aggregate, of NAI's common stock at an exercise price of $6.655 per share and with a term of five years. The options vest 34% on December 5, 2006 and an additional 33% on each of December 5, 2007 and December 5, 2008.

Item 9.01. Financial Statements and Exhibits.

(a) Financial statements of business acquired.

The required financial statements will be provided by amendment to this Form 8-K not later than February 20, 2006.

(b) Pro forma financial information.

The required pro forma financial information will be provided by amendment to this Form 8-K not later than February 20, 2006.

(d) Exhibits.

10.1	Stock Purchase Agreement effective as of December 5, 2005, by and among NAI and William H. Bunten II and/or Elizabeth W. Bunten, as the trustees of The Bunten Family Trust dated April 14, 2001, John F. Dullea and Carolyn A. Dullea, as the trustees of The John F. and Carolyn A. Dullea Trust dated June 20, 2001, Lincoln Fish, and Michael L. Irwin, as trustee of The Michael L. Irwin Trust u/t/a June 25, 1991
10.2	Form of Lock-Up Agreement effective as of December 5, 2005 entered into between NAI and each Selling Stockholder
10.3	Employment Agreement effective as of December 5, 2005, by and between RHL and John F. Dullea
10.4	Lease of RHL Facilities in San Diego, California between RHL and Lessor dated February 5, 2003
10.5	Promissory Note made by NAI for the benefit of Wells Fargo Equipment Finance, Inc. in the amount of $3,800,000
10.6	Patent License Agreement by and between Unither Pharma, Inc. and RHL dated May 1, 2002

SIGNATURES

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

Natural Alternatives International, Inc.

Date: **December 9, 2005**

By: /s/ John Reaves
John Reaves
Chief Financial Officer

Exhibit 10.1

STOCK PURCHASE AGREEMENT

by and among

NATURAL ALTERNATIVES INTERNATIONAL, INC.,

WILLIAM H. BUNTEN II AND/OR ELIZABETH W. BUNTEN, AS THE TRUSTEES OF THE BUNTEN FAMILY TRUST DATED APRIL 14, 2001,

JOHN DULLEA AND CAROLYN A. DULLEA, AS THE TRUSTEES OF THE JOHN F. AND CAROLYN A. DULLEA TRUST DATED JUNE 20, 2001,

LINCOLN FISH, and

MICHAEL L. IRWIN, AS TRUSTEE OF THE MICHAEL L. IRWIN TRUST u/t/a JUNE 25, 1991

December 5, 2005

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STOCK PURCHASE AGREEMENT

This Stock Purchase Agreement ("Agreement") is made and entered into effective as of December 5, 2005 ("Effective Date"), by and among Natural Alternatives International, Inc., a Delaware corporation ("NAI"), William H. Bunten II and/or Elizabeth W. Bunten, as the trustees of The Bunten Family Trust dated April 14, 2001 (collectively, "Bunten"), John F. Dullea and Carolyn A. Dullea, as the trustees of The John F. and Carolyn A. Dullea Trust dated June 20, 2001 (collectively, "Dullea"), Lincoln Fish ("Fish"), and Michael L. Irwin, as trustee of The Michael L. Irwin Trust u/t/a June 25, 1991 ("Irwin"). Bunten, Dullea, Fish and Irwin may be referred to herein individually as a "Seller" or collectively as the "Sellers."

RECITALS

A. As of the Effective Date, the Sellers own all of the issued and outstanding shares of common stock, no par value (collectively, the "Shares"), of Real Health Laboratories, Inc., a California corporation ("RHL"), as set forth below:

Name of Seller	Number of Shares of RHL Common Stock	Percentage of Outstanding RHL Common Stock
Dullea	425,016	42.5%
Fish	99,996	10.0%
Irwin	100,008	10.0%
Bunten	375,012	37.5%
TOTAL	1,000,032	100.0%

B. Messrs. Dullea, Fish, Irwin and Bunten also are directors of RHL and represent a majority of the members of RHL's Board of Directors.

C. The Sellers each desire to sell all of their respective Shares to NAI, and NAI desires to purchase all of the Shares from Sellers, for the consideration and on the terms and subject to the conditions set forth in this Agreement.

NOW, THEREFORE, incorporating the above recitals and in consideration of the obligations contained herein and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto agree as follows:

AGREEMENT

1. **Definitions.**

For purposes of this Agreement, unless the context otherwise requires, the following terms have the meanings specified or referred to in this Section 1, applicable to both the singular and plural forms of any of the terms herein defined:

"Accounts Receivable" – as defined in Section 3.8.

"Affiliate" – any Person that directly or indirectly controls, is controlled by, or is under common control with, the indicated Person.

"Agreement" – this Stock Purchase Agreement.

"Balance Sheet" – the audited balance sheet of RHL dated as of October 31, 2004.

"Best Efforts" – the efforts that a prudent Person desirous of achieving a result would use in similar circumstances to ensure that such result is achieved as expeditiously as possible; provided, however, that an obligation to use Best Efforts under this Agreement does not require the Person subject to that obligation to take actions that would result in a materially adverse change in the benefits to such Person of this Agreement and the Contemplated Transactions.

"Breach" – a "Breach" of a representation, warranty, covenant, obligation, or other provision of this Agreement or any instrument delivered pursuant to this Agreement will be deemed to have occurred if there is or has been (a) any inaccuracy in or breach of, or any failure to perform or comply with, such representation, warranty, covenant, obligation or other provision, or (b) any claim (by any Person) or other occurrence or circumstance that is or was inconsistent with such representation, warranty, covenant, obligation, or other provision, and the term "Breach" means any such inaccuracy, breach, failure, claim, occurrence or circumstance.

"Cash Purchase Price" – as defined in Section 2.2.

"Closing" – as defined in Section 2.3.

"Code" – the Internal Revenue Code of 1986, as amended, or any successor law, and regulations issued by the IRS pursuant to the Code or any successor law.

"Consent" – any approval, consent, ratification, waiver or other authorization (including any Governmental Authorization).

"Contemplated Transactions" – all of the transactions contemplated by this Agreement, including, without limitation (a) the sale of the Shares by Sellers to NAI; (b) the execution, delivery, and performance of the Sellers' Closing Documents; (c) the execution, delivery, and performance of NAI's Closing Documents; (d) the performance by NAI and Sellers of their respective covenants and obligations under this Agreement; (e) the issuance of NAI Stock by NAI to Sellers; (f) the payment of the Cash Purchase Price by NAI to Sellers; and (g) NAI's acquisition and ownership of the Shares and exercise of control over RHL.

"Contract" – any agreement, contract, obligation, promise, or undertaking (whether written or oral and whether express or implied) that is legally binding.

"Damages" – as defined in Section 8.3.

"Effective Date" – the date first written above.

"Employment Agreement" – as defined in Section 2.4(a)(iii).

"Encumbrance" – any charge, claim, community property interest, condition, equitable interest, lien, option, pledge, security interest, right of first refusal, mortgage, easement, servitude, right of way, or restriction of any kind, including any restriction on use, voting, transfer, receipt of income or exercise of any other attribute of ownership.

"Environment" – soil, land surface or subsurface strata, surface waters (including navigable waters, ocean waters, streams, ponds, drainage basins, and wetlands), groundwater, drinking water supply, stream sediments, ambient air (including indoor air), plant and animal life, and any other environmental medium or natural resource.

"Environmental, Health, and Safety Liabilities" – any cost, damages, expense, liability, obligation, or other responsibility arising from or under Environmental Law or Occupational Safety and Health Law and consisting of or relating to: (a) any environmental, health, or safety matters or conditions (including on-site or off-site contamination, occupational safety and health, and regulation of chemical substances or products); (b) fines, penalties, judgments, awards, settlements, legal or administrative proceedings, damages, losses, claims, demands and response, investigative, remedial, or inspection costs and expenses arising under Environmental Law or Occupational Safety and Health Law; (c) financial responsibility under Environmental Law or Occupational Safety and Health Law for cleanup costs or corrective action, including any investigation, cleanup, removal, containment, or other remediation or response actions ("Cleanup") required by applicable Environmental Law or Occupational Safety and Health Law (whether or not such Cleanup has been required or requested by any Governmental Body or any other Person) and for any natural resource damages; or (d) any other compliance, corrective, investigative, or remedial measures required under Environmental Law or Occupational Safety and Health Law. The terms "removal," "remedial," and "response action," include the types of activities covered by the United States Comprehensive Environmental Response, Compensation, and Liability Act, 42 U.S.C. §9601 et seq., as amended ("CERCLA").

"Environmental Law" – any Legal Requirement that requires or relates to: (a) advising appropriate authorities, employees, and the public of intended or actual releases of pollutants or hazardous substances or materials, violations of discharge limits, or other prohibitions and of the commencement of activities, such as resource extraction or construction, that could have significant impact on the Environment; (b) preventing or reducing to acceptable levels the release of pollutants or hazardous substances or materials into the Environment; (c) reducing the quantities, preventing the release, or minimizing the hazardous characteristics of wastes that are generated; (d) assuring that products are designed, formulated, packaged, and used so that they do not present unreasonable risks to human health or the Environment when used or disposed of; (e) protecting resources, species, or ecological amenities; (f) reducing to acceptable levels the risks inherent in the transportation of hazardous substances, pollutants, oil or other potentially harmful substances; (g) cleaning up pollutants that have been released, preventing the threat of release, or paying the costs of such clean up or prevention; or (h) making responsible parties pay private parties, or groups of them, for damages done to their health or the Environment, or permitting self- appointed representatives of the public interest to recover for injuries done to public assets.

"ERISA" – the Employee Retirement Income Security Act of 1974, as amended, or any successor law, and regulations and rules issued pursuant to that act or any successor law.

"Escrow Agreement" – as defined in Section 2.4(c).

"Escrow Agent" – as defined in Section 2.4(c).

"Exchange Act" – the Securities Exchange Act of 1934, as amended, or any successor law, and regulations and rules issued pursuant to such act or any successor law.

"Facilities" – any real property, leaseholds, or other interests currently or formerly owned or operated by RHL and any buildings, plants, structures, or equipment (including motor vehicles, tank cars, and rolling stock) currently or formerly owned or operated by RHL.

"GAAP" – generally accepted United States accounting principles, applied on a basis consistent with the basis on which the financial statements referred to in Sections 3.4(b) and 4.10 were prepared.

"Governmental Authorization" – any approval, consent, license, permit, waiver, or other authorization issued, granted, given, or otherwise made available by or under the authority of any Governmental Body or pursuant to any Legal Requirement.

"Governmental Body" – any (a) nation, state, county, city, town, village, district, or other jurisdiction of any nature; (b) federal, state, local, municipal, foreign, or other government; (c) governmental or quasi-governmental authority of any nature (including any governmental agency, branch, department, official, or entity and any court or other tribunal); (d) multi-national organization or body; or (e) body exercising, or entitled to exercise, any administrative, executive, judicial, legislative, police, regulatory, or taxing authority or power of any nature.

"Hazardous Activity" – the distribution, generation, handling, importing, management, manufacturing, processing, production, refinement, Release, storage, transfer, transportation, treatment, or use of Hazardous Materials in, on, under, about, or from the Facilities or any part thereof into the Environment, and any other act, business, operation, or thing that increases the danger, or risk of danger, or poses an unreasonable risk of harm to persons or property on or off the Facilities, or that may affect the value of the Facilities or RHL.

"Hazardous Materials" – any waste or other substance that is listed, defined, designated, or classified as, or otherwise determined to be, hazardous, radioactive, or toxic or a pollutant or a contaminant under or pursuant to any Environmental Law, including any admixture or solution thereof, and specifically including petroleum and all derivatives thereof or synthetic substitutes therefore and asbestos or asbestos-containing materials.

"Indebtedness" – any obligation of RHL which under generally accepted accounting principles is required to be shown on the balance sheet of RHL as a liability. Any obligation secured by a Lien on, or payable out of the proceeds of production from, property of RHL shall be deemed to be Indebtedness even though such obligation is not assumed by RHL.

"Indebtedness for Borrowed Money" – (a) all Indebtedness in respect of money borrowed including, without limitation, Indebtedness which represents the unpaid amount of the purchase price of any property and is incurred in lieu of borrowing money or using available funds to pay such amounts and not constituting an account payable or expense accrual incurred or assumed in the Ordinary Course of Business of RHL, (b) all Indebtedness evidenced by a promissory note, bond or similar written obligation to pay money, or (c) all such Indebtedness guaranteed by RHL or for which RHL is otherwise contingently liable.

"Intellectual Property Assets" – as defined in Section 3.22.

"IRS" – the United States Internal Revenue Service or any successor agency, and, to the extent relevant, the United States Department of Treasury.

"Knowledge" – an individual will be deemed to have "Knowledge" of a particular fact or other matter if such individual is actually aware of such fact or other matter. A Person (other than an individual) will be deemed to have "Knowledge" of a particular fact or other matter if any individual who is serving, or who has at any time served, as a director, officer, partner, executor, or trustee of such Person (or in any similar capacity) has, or at any time had, Knowledge of such fact or other matter.

"Legal Requirement" – any federal, state, local, municipal, foreign, international, multinational, or other administrative order, constitution, law, ordinance, principle of common law, regulation, statute or treaty.

"Lien" – any mortgage, pledge, security interest, encumbrance, lien or charge of any kind, including, without limitation, any conditional sale or other title retention agreement, any lease in the nature thereof and the filing of or agreement to give any financing statement under the Uniform Commercial Code of any jurisdiction and including any lien or charge arising by statute or other law.

"Lock-Up Agreements" – as defined in Section 2.4(a)(vi).

"Material Adverse Change" and "Material Adverse Effect" – any change, event, circumstance, condition or effect that has, or could reasonably be expected to have, individually or in the aggregate, a materially adverse effect on the condition (financial or otherwise), capitalization, properties, assets (including intangible assets), liabilities, business, business prospects, operations or results of operations of an entity and its subsidiaries, taken as a whole, except and to the extent that any such change, event, circumstance, condition or effect primarily results from: (A) changes in general economic conditions; (B) changes affecting the industry generally in which such entity operates; (C) the effect of the public announcement or pendency of the Contemplated Transactions; or (D) the effect of actions by Sellers or RHL taken at the direction of NAI or otherwise required pursuant to this Agreement. Sellers and NAI agree that a Material Adverse Change or Material Adverse Effect shall include, but not be limited to, any change, event, circumstance, condition or effect that results, or could reasonably be expected to result, in any loss, obligation, damage, cost, expense, claim or liability of One Hundred Twenty Five Thousand Dollars ($125,000) or more.

"Material Contract" – as defined in Section 3.17(b).

"NAI" – Natural Alternatives International, Inc., a Delaware corporation.

"NAI's Closing Documents" – the agreements and documents listed in Section 2.4(b)(iii) through (vii).

"NAI's Disclosure Schedules" – the disclosure schedules delivered by NAI to Sellers' prior to the Closing and attached hereto.

"NAI Financial Statements" – as defined in Section 4.10.

"NAI SEC Documents" – as defined in Section 4.9.

"NAI Stock" – as defined in Section 2.2.

"Noncompetition Agreements" – as defined in Section 2.4(a)(iv).

"Occupational Safety and Health Law" – any Legal Requirement designed to provide safe and healthful working conditions and to reduce occupational safety and health hazards, and any program, whether governmental or private (including those promulgated or sponsored by industry associations and insurance companies), designed to provide safe and healthful working conditions.

"Order" – any award, decision, injunction, judgment, order, ruling, subpoena, or verdict entered, issued, made, or rendered by any court, administrative agency, or other Governmental Body or by any arbitrator.

"Ordinary Course of Business" – an action taken by a Person will be deemed to have been taken in the "Ordinary Course of Business" only if: (a) such action is consistent with the past practices of such Person and is taken in the ordinary course of the normal day-to-day operations of such Person; (b) such action is not required to be authorized by the board of directors of such Person (or by any Person or group of Persons exercising similar authority); and (c) such action is similar in nature and magnitude to actions customarily taken, without any authorization by the board of directors (or by any Person or group of Persons exercising similar authority), in the ordinary course of the normal day-to-day operations of other Persons that are in the same line of business as such Person.

"Organizational Documents" – the Articles of Incorporation and the By-Laws of RHL and any amendment to such Articles of Incorporation and By-Laws.

"Person" – any natural person, corporation (including any non-profit corporation), general or limited partnership, limited liability company, joint venture, estate, trust, association, organization, labor union, or other entity or Governmental Body.

"Proceeding" – any action, arbitration, audit, hearing, investigation, litigation, or suit (whether civil, criminal, administrative, investigative, or informal) commenced, brought, conducted, or heard by or before, or otherwise involving, any Governmental Body or arbitrator.

"Purchase Price" – as defined in Section 2.2.

"Related Person" – with respect to a particular individual (a) each other member of such individual's Family; (b) any Person that is directly or indirectly controlled by such individual or one or more members of such individual's Family; (c) any Person in which such individual or members of such individual's Family hold (individually or in the aggregate) a Material Interest; and (d) any Person with respect to which such individual or one or more members of such individual's Family serves as a director, officer, partner, executor, or trustee (or in a similar capacity). With respect to a specified Person other than an individual: (a) any Affiliate of such Person; (b) any Person that holds a Material Interest in such specified Person; (c) each Person that serves as a director, officer, partner, executor, or trustee of such specified Person (or in a similar capacity); (d) any Person in which such specified Person holds a Material Interest; (e) any Person with respect to which such specified Person serves as a general partner or a trustee (or in a similar capacity); and (f) any Related Person of any individual described in clause (b) or (c) immediately above. For purposes of this definition, (a) "Family" of an individual includes (i) the individual, (ii) the individual's spouse, (iii) any other natural person who is related to the individual or the individual's spouse within the second degree, and (iv) any other natural person who resides with such individual, and (b) "Material Interest" means direct or indirect beneficial ownership (as defined in Rule 13d-3 under the Exchange Act) of voting securities or other voting interests representing at least five percent of the outstanding voting power of a Person or equity securities or other equity interests representing at least five percent of the outstanding equity securities or equity interests in a Person.

"Release" – any spilling, leaking, emitting, discharging, depositing, escaping, leaching, dumping, or other releasing into the Environment, whether intentional or unintentional.

"Representative" – with respect to a particular Person, any director, officer, employee, agent, consultant, advisor, or other representative of such Person, including legal counsel, accountants and financial advisors.

"RHL" – Real Health Laboratories, Inc., a California corporation.

"SEC" – United States Securities and Exchange Commission.

"Securities Act" – the Securities Act of 1933, as amended, or any successor law, and regulations and rules issued pursuant to such act or any successor law.

"Sellers" – as set forth in the first paragraph of this Agreement.

"Sellers' Closing Documents" – the agreements and documents listed in Section 2.4(a)(i) through (xi).

"Sellers' Disclosure Schedules" – the disclosure schedules delivered by Sellers to NAI prior to the Closing and attached hereto.

"Sellers' Releases" – as defined in Section 2.4(a)(ii).

"Shareholders Agreement" – the Shareholders Agreement, dated as of March 31, 2001, by and among RHL, William Bunten, John Dullea and Fish, as amended by that certain Amendment to Shareholders Agreement, dated as of December 1, 2003, by and among RHL,

John F. Dullea, Dullea, William Bunten, Bunten, Fish, Michael L. Irwin, and Irwin, as further amended by that certain Amendment to Shareholders Agreement, dated as of March 19, 2004, by and among RHL, John F. Dullea, Dullea, Fish, Michael L. Irwin and Irwin.

"Shares" – all of the issued and outstanding shares of common stock of RHL, no par value.

"Subsidiary" – with respect to any Person (the "Owner"), any corporation or other Person of which securities or other interests having the power to elect a majority of that corporation's or other Person's board of directors or similar governing body, or otherwise having the power to direct the business and policies of that corporation or other Person (other than securities or other interests having such power only upon the happening of a contingency that has not occurred) are held by the Owner or one or more of its Subsidiaries.

"Tax" – any tax (including any income tax, capital gains tax, value-added tax, sales tax, sales and use tax, payroll tax, property tax, gift tax, or estate tax), levy, assessment, tariff, duty (including any customs duty), deficiency, or other fee, and any related charge or amount (including any fine, penalty, interest or addition to tax), imposed, assessed, or collected by or under the authority of any Governmental Body or payable pursuant to any tax-sharing agreement or any other Contract relating to the sharing or payment of any such tax, levy, assessment, tariff, duty, deficiency, or fee.

"Tax Returns" – any return (including any information return), report, statement, schedule, notice, form, or other document or information filed with or submitted to, or required to be filed with or submitted to, any Governmental Body in connection with the determination, assessment, collection, or payment of any Tax or in connection with the administration, implementation, or enforcement of or compliance with any Legal Requirement relating to any Tax.

"Threatened" – a claim, Proceeding, dispute, action, or other matter will be deemed to have been "Threatened" if any demand or statement has been made (orally or in writing) or any notice has been given (orally or in writing), or if any other event has occurred or any other circumstances exist, that would lead a prudent Person to conclude that such a claim, Proceeding, dispute, action or other matter is likely to be asserted, commenced, taken, or otherwise pursued in the future.

"Threat of Release" – a substantial likelihood of a Release that may require action in order to prevent or mitigate damage to the Environment that may result from such Release.

"Unaudited Balance Sheet" – the unaudited balance sheet of RHL dated as of October 31, 2005.

"Unaudited Financial Statements" – the Unaudited Balance Sheet, and the related unaudited statement of income for the fiscal year ended October 31, 2005.

2. **Sale and Transfer of Shares; Closing.**

2.1 **Shares.** Subject to the terms and conditions of this Agreement, at the Closing, Sellers will sell and transfer all of their respective Shares to NAI, and NAI will purchase all of such Shares from Sellers.

2.2 **Purchase Price.** The aggregate purchase price of the Shares shall be Eight Million Six Hundred Sixty Seven Thousand and No/100 Dollars ($8,667,000) ("Purchase Price"), payable in cash and shares of NAI common stock as follows: Five Hundred Ten Thousand (510,000) shares of NAI's authorized but unissued common stock, $0.01 par vale per share ("NAI Stock"), and Five Million Eight Hundred Eight Thousand Two Hundred Forty Six and No/100 Dollars ($5,808,246) in cash ("Cash Purchase Price"). NAI and Sellers each acknowledge and agree that the value, solely for the purpose of calculating the Cash Purchase Price, of the aggregate shares of NAI Stock to be issued as part of the Purchase Price is an amount equal to Two Million Eight Hundred Fifty Eight Thousand Seven Hundred Fifty Four and No/100 Dollars ($2,858,754), based on the trailing ten (10) day average of the last reported sale price of NAI Stock on the Nasdaq Stock Market. The ten (10) day period shall be the ten (10) business days immediately preceding, but not including, the Effective Date.

2.3 **Closing.** The closing of the purchase and sale of the Shares ("Closing") provided for in this Agreement will take place at the offices of Fisher Thurber LLP, 4225 Executive Square, Suite 1600, La Jolla, California, at 10:00 a.m. (local time) on the Effective Date, or at such other time and place as the parties may agree.

2.4 **Closing Obligations.** At the Closing:

(a) Sellers will deliver to NAI:

(i) certificates representing the Shares, duly endorsed (or accompanied by duly executed stock powers), for transfer to NAI;

(ii) releases in the form of Exhibit A attached hereto and executed by each Seller (collectively, the "Sellers' Releases");

(iii) an employment agreement in the form of Exhibit B attached hereto executed by John Dullea ("Employment Agreement");

(iv) noncompetition agreements in the form of Exhibit C attached hereto executed by each Seller other than Dullea (collectively, the "Noncompetition Agreements");

(v) executed resignations of William Bunten as a Director, Michael L. Irwin as a Director, Lincoln Fish as a Director, Wilbert Schwartz as a Director, Jay Beltz as Chief Financial Officer and Secretary, and John Dullea as Director and Chief Executive Officer (but not as President) of RHL, with the resignations to take effect upon the Closing;

(vi) one or more lock-up agreements executed by Sellers, substantially in the form attached hereto as Exhibit D, covering the shares of NAI Stock to be issued to Sellers (collectively, the "Lock-Up Agreements");

(vii) representation letters in the form attached hereto as Exhibit E, executed by each Seller;

(viii) the Escrow Agreement in the form attached hereto as Exhibit F, executed by each Seller;

(ix) an opinion of sellers' counsel in the form attached hereto as Exhibit G;

(x) copies of resolutions of RHL's Board of Directors, certified by the Secretary of RHL, appointing Randell Weaver and Mark LeDoux as directors of RHL effective upon the Closing; and

(xi) a notice of incentive stock option grant and a notice of nonqualified stock option grant (collectively, "Notices of Stock Option Grants"), and a stock option agreement ("Stock Option Agreement"), each executed by John Dullea, representing in the aggregate options to purchase 100,000 shares of NAI common stock under and subject to NAI's 1999 Omnibus Equity Incentive Plan at an exercise price equal to One Hundred Ten Percent (110%) of the last reported sale price as reported by the Nasdaq Stock Market on December 2, 2005, each with a term of five years, and each with vesting conditions precedent such that only 34% of the total number of shares underlying the option become vested and capable of being purchased upon exercise of the option on or after the first anniversary of the date of grant, an additional 33% of such shares may only become vested and capable of being purchased upon exercise of the option on or after the second anniversary of the date of grant, and the final 33% of such shares may become vested and capable of being purchased upon exercise of the option only on or after the third anniversary of the date of grant, and otherwise as set forth in such Notices of Stock Option Grants and Stock Option Agreement, each in the form attached hereto as Exhibits H and I, respectively.

(b) NAI will deliver:

(i) an aggregate amount equal to Four Million Eight Hundred Eight Thousand Two Hundred Forty Six and No/100 Dollars ($4,808,246), in U.S. dollars, which amount shall be delivered to Sellers by wire transfer in accordance with wire instructions provided by Sellers, respectively, as follows: Two Million Forty Three Thousand Five Hundred Fourteen and No/100 Dollars ($2,043,514) to Dullea; Four Hundred Eighty Thousand Seven Hundred Ninety One and No/100 Dollars ($480,791) to Fish; Four Hundred Eighty Thousand Eight Hundred Forty Nine and No/100 Dollars ($480,849) to Irwin; and One Million Eight Hundred Three Thousand Ninety Two and No/100 Dollars ($1,803,092) to Bunten;

(ii) the sum of One Million Dollars ($1,000,000) to the Escrow Agent referred to in Section 2.4(c) by wire transfer;

(iii) facsimile copies of certificates representing shares of NAI Stock to the Sellers as follows: Two Hundred Sixteen Thousand Seven Hundred Fifty One (216,751) shares registered in the name of Dullea; Fifty Thousand Nine Hundred Ninety Six (50,996)

shares registered in the name of Fish; Fifty One Thousand Three (51,003) shares registered in the name of Irwin; and One Hundred Ninety One Thousand Two Hundred Fifty (191,250) shares registered in the name of Bunten. Original copies of such certificates shall be delivered to Sellers, as applicable, within five (5) business days after Closing;

(iv) the Employment Agreement, executed by NAI;

(v) the Lock-Up Agreements, executed by NAI;

(vi) the Escrow Agreement, executed by NAI;

(vii) the Notices of Stock Option Grants and Stock Option Agreement, each executed by NAI; and

(viii) an amount equal to the aggregate outstanding principal balances, plus accrued and unpaid interest thereon, of RHL's four (4) outstanding lines of credit, which outstanding balances and accrued interest shall, at Closing, be equal to $357,754.12 payable on the line of credit with Merrill Lynch, $93,921.14 payable on the line of credit with Wells Fargo, $43,676.07 payable on the line of credit with California Bank & Trust, and $94,438.72 payable on the line of credit with Bank of America, and which amounts shall be delivered by wire transfer to the applicable lenders in accordance with wire instructions provided by Sellers.

(c) NAI and Sellers will enter into an escrow agreement in the form of Exhibit F attached hereto ("Escrow Agreement") with Wells Fargo Bank ("Escrow Agent").

(d) NAI acknowledges and understands that the Board of Directors of RHL has declared a one-time cash dividend to the shareholders of record on December 2, 2005, in the aggregate amount of Seven Hundred Fifty Thousand and no/100 Dollars ($750,000). Such dividend shall be payable at the Closing from RHL's available cash, provided at such time such distribution is permissible in accordance with Chapter 5 of the California Corporations Code and, except as disclosed in Sellers' Disclosure Schedules, would otherwise not result in an event of default under the terms of any Indebtedness.

3. **Representations and Warranties of Sellers.** Except as set forth in Sellers' Disclosure Schedules, Sellers jointly and severally make the representations and warranties to NAI contained in this Section 3 (except as to the representations and warranties made in Section 3.3(b) which are made severally and not jointly by the Sellers). Each exception set forth in Sellers' Disclosure Schedules and each other response to this Agreement set forth in Sellers' Disclosure Schedules is identified by reference to, or has been grouped under a heading referring to, a specific individual section of this Agreement but may also relate to other sections of this Agreement to the extent it is reasonably apparent from a reading of such response that it also qualifies or applies to such other sections of this Agreement.

3.1 **Organization and Good Standing.**

(a) RHL is a corporation duly organized, validly existing, and in good standing under the laws of the State of California, with full corporate power and authority to conduct its business as it is now being conducted, to own or use the properties and assets that it

purports to own or use, and to perform all its obligations under Material Contracts. RHL is duly qualified to do business as a foreign corporation and is in good standing under the laws of each state or other jurisdiction in which either the ownership or use of the properties owned or used by it, or the nature of the activities conducted by it, requires such qualification, except where the failure to be so qualified would not have a Material Adverse Effect on RHL.

(b) Copies of the Organizational Documents of RHL that have been delivered to NAI prior to the Effective Date are true and complete and have not since been amended or repealed.

(c) RHL has no Subsidiaries or direct or indirect interest (by way of stock ownership or otherwise) in any firm, corporation, limited liability company, partnership, association or business.

3.2 **Authority; No Conflict.**

(a) This Agreement, assuming its due, valid authorization, execution and delivery by NAI, constitutes the legal, valid, and binding obligation of Sellers, enforceable against Sellers in accordance with its terms, except as limited by applicable bankruptcy, insolvency, reorganization, moratorium, fraudulent conveyance and other similar laws of general application affecting enforcement of creditors' rights generally. Upon the execution and delivery by Sellers of the Sellers' Closing Documents, and assuming the due, valid authorization, execution and delivery by the other parties thereto, the Sellers' Closing Documents to which Sellers are a party will constitute the legal, valid, and binding obligations of Sellers, enforceable against Sellers in accordance with their respective terms, except as limited by applicable bankruptcy, insolvency, reorganization, moratorium, fraudulent conveyance and other similar laws of general application affecting enforcement of creditors' rights generally. Sellers have the absolute and unrestricted right, power, authority, and capacity to execute and deliver this Agreement and the Sellers' Closing Documents to which they are a party and to perform their obligations under this Agreement and the Sellers' Closing Documents to which they are a party.

(b) Except as set forth in Schedule 3.2 of Sellers' Disclosure Schedules, neither the execution and delivery of this Agreement nor the consummation or performance of any of the Contemplated Transactions will, directly or indirectly (with or without notice or lapse of time):

(i) contravene, conflict with, or result in a violation of (A) any provision of the Organizational Documents of RHL, or (B) any resolution adopted by the Board of Directors or the shareholders of RHL;

(ii) contravene, conflict with, or result in a material violation of, or give any Governmental Body or other Person the right to challenge any of the Contemplated Transactions or to exercise any remedy or obtain any relief under, any Legal Requirement or any Order to which RHL or any Seller, or any of the assets owned or used by RHL, are subject;

(iii) contravene, conflict with, or result in a material violation of any of the terms or requirements of, or give any Governmental Body the right to revoke, withdraw,

suspend, cancel, terminate, or modify, any Governmental Authorization that is held by RHL or that otherwise relates to the business of, or any of the assets owned or used by, RHL;

(iv) cause any of the assets owned by RHL to be reassessed or revalued by any taxing authority or other Governmental Body;

(v) contravene, conflict with, or result in a material violation or breach of any provision of, or give any Person the right to declare a default or exercise any remedy under, or to accelerate the maturity or performance of, or to cancel, terminate, or modify, any Material Contract; or

(vi) result in the imposition or creation of an Encumbrance upon or with respect to any of the assets owned or used by RHL.

(c) Except as set forth in Schedule 3.2 of Sellers' Disclosure Schedules, neither any Seller nor RHL is or will be required to give any notice to or obtain any Consent from any Person in connection with the execution and delivery of this Agreement or the consummation or performance of any of the Contemplated Transactions.

(d) Sellers are acquiring the NAI Stock for their own account and not with a view to its distribution within the meaning of Section 2(11) of the Securities Act. Each Seller is an "accredited investor" as such term is defined in Rule 501(a) of Regulation D promulgated under the Securities Act.

3.3 **Capitalization.**

(a) The authorized capital stock of RHL consists of Ten Million (10,000,000) shares of common stock, no par value, of which One Million Thirty Two (1,000,032) shares are issued and outstanding and constitute the Shares. All of the outstanding equity securities of RHL have been duly authorized and validly issued and are fully paid and nonassessable. There are no Contracts relating to the issuance, sale, or transfer of any equity securities or other securities of RHL, including any options, warrants or other derivative securities. All of the outstanding equity securities of RHL have been issued in material compliance with the registration or qualification requirements (or applicable exemptions therefrom) of the Securities Act and any other Legal Requirement. RHL does not own, nor does it have any Contract to acquire, any equity securities or other securities of any Person or any direct or indirect equity or ownership interest in any other business. Other than as set forth in this Section 3.3 or Schedule 3.3 of Sellers' Disclosure Schedules, no other common or preferred stock or equity securities of RHL or any options, warrants, rights, commitments or other agreements or instruments convertible, exchangeable or exercisable into common or preferred stock or other equity securities are issued or outstanding.

(b) Sellers are and will be as of the Closing the record and beneficial owners and holders of the Shares, free and clear of all Encumbrances except for restrictions on transfer (a) generally applicable under federal and state securities laws, and (b) pursuant to the Shareholders Agreement, which Shareholders Agreement shall terminate by its terms upon the Closing. The Sellers each own the number of Shares set forth above in Recital A. Except for "restricted securities" legends and such legends pursuant to the Shareholders Agreement, no

other legend or other reference to any purported Encumbrance appears upon any certificate representing equity securities of RHL.

3.4 **Financial Statements.** Sellers have delivered to NAI: (a) the Unaudited Financial Statements; and (b) the Balance Sheet and the audited balance sheet of RHL as of October 31, 2003, and the related statements of income and comprehensive income, and retained earnings and statements of cash flows for each of the fiscal years ended October 31, 2004 and 2003, including the notes thereto, together with the report thereon of McGladrey & Pullen, LLP, independent certified public accountants. Such financial statements and notes (a) fairly present, in all material respects, the financial condition and the results of operations, changes in shareholders' equity, and cash flow of RHL as of the respective dates of and for the periods referred to in such financial statements, and (b) except as disclosed in the notes to such financial statements, have been prepared in accordance with GAAP applied on a basis consistent throughout the periods involved, subject, in the case of the Unaudited Financial Statements, to normal recurring year-end adjustments (the effect of which will not, individually or in the aggregate, be materially adverse) and the absence of notes (that, if presented, would not differ materially from those included in the audited financial statements). No financial statements of any Person other than RHL are required by GAAP to be included in the financial statements of RHL.

3.5 **Books and Records.** The books of account, minute books, stock record books, and other records of RHL, all of which have been made available to NAI, are complete and correct in all material respects and have been maintained in accordance with sound business practices and all applicable Legal Requirements, except for such failures to be so complete, correct or maintained that would not have a Material Adverse Effect on RHL. The minute books of RHL contain, in all material respects, accurate and complete records of all meetings held of, and corporate action taken by, the shareholders, the Board of Directors, and any committees of the Board of Directors of RHL, and no meeting of any such shareholders, Board of Directors, or committees has been held for which minutes have not been prepared and are not contained in such minute books, except for such minutes the absence of which would not have a Material Adverse Effect on RHL. At the Closing, all of such books and records will be in the possession of RHL.

3.6 **Title to Properties; Encumbrances.** Schedule 3.6 of Sellers' Disclosure Schedules contains a complete and accurate list of all real property, leaseholds, or other interests therein owned by RHL. RHL owns (with good and marketable title in the case of real property, subject only to the matters permitted by the following sentence) all the properties and assets (whether real, personal, or mixed and whether tangible or intangible) that it purports to own, including all of the properties and assets reflected in the Unaudited Balance Sheet (except for assets held under capitalized leases disclosed or not required to be disclosed in Schedule 3.6 of Sellers' Disclosure Schedules and personal property sold since the date of the Unaudited Balance Sheet in the Ordinary Course of Business), and all of the properties and assets purchased or otherwise acquired by RHL since the date of the Unaudited Balance Sheet (except for personal property acquired and sold since the date of the Unaudited Balance Sheet in the Ordinary Course of Business and consistent with past practice). All material properties and assets reflected in the Unaudited Balance Sheet are free and clear of all Encumbrances and are not, in the case of real property, subject to any rights of way, building use restrictions, exceptions, variances,

reservations, or limitations of any nature except, with respect to all such properties and assets, (a) mortgages or security interests shown on the Unaudited Balance Sheet as securing specified liabilities or obligations, with respect to which no default (or event that, with notice or lapse of time or both, would constitute a default) exists, (b) mortgages or security interests incurred in connection with the purchase of property or assets after the date of the Unaudited Balance Sheet (such mortgages and security interests being limited to the property or assets so acquired), with respect to which no default (or event that, with notice or lapse of time or both, would constitute a default) exists, (c) liens for current taxes not yet due, and (d) with respect to real property (i) minor imperfections of title, if any, none of which is substantial in amount, materially detracts from the value or impairs the use of the property subject thereto, or impairs the operations of RHL, and (ii) zoning laws and other land use restrictions that do not impair the present or anticipated use of the property subject thereto.

3.7 **Condition and Sufficiency of Assets.** The buildings, plants, structures, and equipment of RHL are structurally sound, are in good operating condition and repair, reasonable wear and tear excepted. The buildings, plants, structures, and equipment of RHL are adequate for the uses to which they are being put, and none of such buildings, plants, structures, or equipment is in need of maintenance or repairs except for ordinary, routine maintenance and repairs that are not material in nature or cost. The building, plants, structures and equipment of RHL are sufficient for the continued conduct of RHL's business after the Closing in substantially the same manner as conducted prior to the Closing.

3.8 **Accounts Receivable.** Except as set forth on Schedule 3.8 of Sellers' Disclosure Schedules, all accounts receivable of RHL that are reflected on the Unaudited Balance Sheet or on the accounting records of RHL as of the Closing (collectively, the "Accounts Receivable") represent or will represent valid obligations arising from sales actually made or services actually performed in the Ordinary Course of Business. Except as set forth on Schedule 3.8 of Sellers' Disclosure Schedules, unless paid prior to the Closing, the Accounts Receivable are or will be as of the Closing current and collectible net of the respective reserves shown on the Unaudited Balance Sheet or on the accounting records of RHL as of the Closing (which reserves are adequate and calculated consistent with past practice and, in the case of the reserve as of the Closing, will not represent a greater percentage of the Accounts Receivable as of the Closing than the reserve reflected in the Unaudited Balance Sheet of the Accounts Receivable reflected therein and will not represent a Material Adverse Change in the composition of such Accounts Receivable in terms of aging). Except as set forth on Schedule 3.8 of Sellers' Disclosure Schedules, to the Knowledge of Sellers, there is no contest, claim, or right of set-off, other than returns in the Ordinary Course of Business, under any contract with any obligor of an Account Receivable relating to the amount or validity of such Accounts Receivable.

3.9 **Inventory.** All inventory of RHL, whether or not reflected in the Unaudited Balance Sheet, consists of a quality and quantity usable and salable in the Ordinary Course of Business, except for obsolete items and items of below-standard quality, all of which have been written off or written down to net realizable value in the Unaudited Balance Sheet or on the accounting records of RHL as of the Closing, as the case may be. All inventories not written off have been priced at the lower of cost or market on a first in, first out basis. The quantities of each item of inventory (whether raw materials, work-in-process or finished goods) are not excessive, but are reasonable in the present circumstances of RHL.

3.10 **No Undisclosed Liabilities.** Except as set forth in Schedule 3.10 of Sellers' Disclosure Schedules or other schedules of Sellers' Disclosure Schedules, RHL has no liabilities or obligations of any nature (whether known or unknown and whether absolute, accrued, contingent or otherwise, whether due or to become do), arising out of any transaction entered into at or prior to the Closing or otherwise, except for liabilities or obligations reflected or reserved against in the Unaudited Balance Sheet and current liabilities incurred in the Ordinary Course of Business since the respective dates thereof.

3.11 **Taxes.**

(a) RHL has filed or caused to be filed on a timely basis all Tax Returns that are or were required to be filed by or with respect to it, pursuant to applicable Legal Requirements. Sellers have delivered or made available to NAI copies of all such Tax Returns. RHL has paid, or made provision for the payment of, all Taxes that have or may have become due pursuant to those Tax Returns or otherwise, or pursuant to any assessment received by Sellers or RHL, except such Taxes, if any, as are listed in Schedule 3.11 of Sellers' Disclosure Schedules and are being contested in good faith and as to which adequate reserves (determined in accordance with GAAP) have been provided in the Unaudited Balance Sheet. All Tax Returns filed by RHL are true, correct, and complete in all material respects. There is no tax sharing agreement that will require any payment by RHL after the Effective Date.

(b) Schedule 3.11 of Sellers' Disclosure Schedules contains a complete and accurate list of all audits of the United States federal and state income Tax Returns of RHL, including a reasonably detailed description of the nature and outcome of each audit. All deficiencies proposed as a result of such audits have been paid, reserved against, settled, or, as described in Schedule 3.11 of Sellers' Disclosure Schedules, are being contested in good faith by appropriate proceedings. Except as described in Schedule 3.11 of Sellers' Disclosure Schedules, no Seller nor RHL has given or been requested to give waivers or extensions (or is or would be subject to a waiver or extension given by any other Person) of any statute of limitations relating to the payment of Taxes of RHL or for which RHL may be liable.

(c) The charges, accruals, and reserves with respect to Taxes on the books of RHL are adequate (determined in accordance with GAAP) and are at least equal to RHL's liability for Taxes. There exists no proposed tax assessment against RHL except as disclosed in the Balance Sheet or Schedule 3.11 of Sellers' Disclosure Schedules. No consent to the application of Section 341(f)(2) of the Code has been filed with respect to any property or assets held, acquired, or to be acquired by RHL. All Taxes that RHL is or was required by Legal Requirements to withhold or collect have been duly withheld or collected and, to the extent required, have been paid to the proper Governmental Body or other Person.

3.12 **No Material Adverse Change.** Since the date of the Balance Sheet, except as disclosed in Sellers' Disclosure Schedules, including Schedule 3.12 of Sellers' Disclosure Schedule, or reflected in the Unaudited Financial Statements, there has not been any Material Adverse Change in RHL, and, to the Knowledge of Sellers, no event has occurred or circumstances exist that could reasonably be expected to result in such a Material Adverse Change.

3.13 **Employee Benefits.**

(a) Except as disclosed on Schedule 3.13 of Sellers' Disclosure Schedules, there are no "employee benefit plans" (within the meaning of Section 3(3) of ERISA) nor any other employee benefit or fringe benefit arrangements, practices, contracts, policies or programs other than programs merely involving the regular payment of wages, commissions, or bonuses established, maintained or contributed to by RHL. Any plans listed on Schedule 3.13 of Sellers' Disclosure Schedules are hereinafter referred to as the "RHL Employee Benefit Plans."

(b) Any current and prior material documents, including all amendments thereto, with respect to each RHL Employee Benefit Plan have been given to NAI or its advisors.

(c) All RHL Employee Benefit Plans are in material compliance with the applicable requirements of ERISA, the Code, and any other applicable state, federal or foreign law.

(d) There are no pending, or to the Knowledge of Sellers, threatened, claims or lawsuits that have been asserted or instituted against any RHL Employee Benefit Plan, the assets of any of the trusts or funds under any RHL Employee Benefit Plan, the plan sponsor or the plan administrator of any of the RHL Employee Benefit Plans or against any fiduciary of an RHL Employee Benefit Plan with respect to the operation of such plan.

(e) There is no pending, or to the Knowledge of Sellers, threatened, investigation or pending or possible enforcement action by the Pension Benefit Guaranty Corporation, the Department of Labor, the Internal Revenue Service or any other government agency with respect to any RHL Employee Benefit Plan.

(f) No actual or, to the Knowledge of Sellers, contingent, liability exists with respect to the funding of any RHL Employee Benefit Plan or for any other expense or obligation of any RHL Employee Benefit Plan, except as disclosed in the financial statements of RHL provided as set forth in Section 3.4, and to the Knowledge of Sellers, no contingent liability exists under ERISA with respect to any "multi-employer plan," as defined in Section 3(37) or Section 4001(a)(3) of ERISA.

3.14 **Compliance with Legal Requirements; Governmental Authorizations.**

(a) Except as set forth in Schedule 3.14 of Sellers' Disclosure Schedules, (i) RHL is, and at all times since January 1, 2000 has been, in material compliance with each Legal Requirement that is or was applicable to it or to the conduct or operation of its business or the ownership or use of any of its assets; (ii) to the Knowledge of Sellers, no event has occurred or circumstance exists that (with or without notice or lapse of time) (A) may constitute or result in a material violation by RHL of, or a failure on the part of RHL to materially comply with, any Legal Requirement, or (B) may give rise to any obligation on the part of RHL to undertake, or to bear all or any portion of the cost of, any remedial action of any nature; and (iii) RHL has not received any notice or other communication (whether oral or written) from any Governmental Body or any other Person regarding (A) any actual, alleged, possible, or potential violation of, or failure to comply with, any Legal Requirement, or (B) any actual, alleged, possible, or potential

obligation on the part of RHL to undertake, or to bear all or any portion of the cost of, any remedial action of any nature.

(b) Schedule 3.14 of Sellers' Disclosure Schedules contains a complete and accurate list of each Governmental Authorization that is held by RHL or that otherwise relates to the business of, or to any of the assets owned or used by, RHL. Each Governmental Authorization listed or required to be listed on Schedule 3.14 of Sellers' Disclosure Schedules is valid and in full force and effect. Except as set forth in Schedule 3.14 of Sellers' Disclosure Schedules, (i) RHL is in material compliance with all of the terms and requirements of each Governmental Authorization identified or required to be identified in Schedule 3.14 of Sellers' Disclosure Schedules; (ii) to the Knowledge of Sellers, no event has occurred or circumstance exists that may (with or without notice or lapse of time) (A) constitute or result directly or indirectly in a material violation of or a failure to materially comply with any term or requirement of any Governmental Authorization listed or required to be listed in Schedule 3.14 of Sellers' Disclosure Schedules, or (B) result directly or indirectly in the revocation, withdrawal, suspension, cancellation, or termination of, or any modification to, any Governmental Authorization listed or required to be listed in Schedule 3.14 of Sellers' Disclosure Schedules; (iii) RHL has not received any notice or other communication (whether oral or written) from any Governmental Body or any other Person regarding (A) any actual, alleged, possible, or potential violation of or failure to comply with any term or requirement of any Governmental Authorization, or (B) any actual, proposed, possible or potential revocation, withdrawal, suspension, cancellation, termination of, or modification to any Governmental Authorization; and (iv) all applications required to have been filed for the renewal of the Governmental Authorizations listed or required to be listed in Schedule 3.14 of Sellers' Disclosure Schedules have been duly filed on a timely basis with the appropriate Governmental Bodies, and all other filings required to have been made with respect to such Governmental Authorizations have been duly made on a timely basis with the appropriate Governmental Bodies.

(c) The Governmental Authorizations listed in Schedule 3.14 of Sellers' Disclosure Schedules collectively constitute all of the Governmental Authorizations necessary to permit RHL to lawfully conduct and operate its business in the manner it currently conducts and operates such business and to permit RHL to own and use its assets in the manner in which it currently owns and uses such assets.

3.15 **Legal Proceedings; Orders.**

(a) Except as set forth in Schedule 3.15 of Sellers' Disclosure Schedules, there is no pending Proceeding, (i) that has been commenced by or against RHL or that otherwise relates to or may affect the business of, or any of the assets owned or used by, RHL; or (ii) that challenges, or that may have the effect of preventing, delaying, making illegal, or otherwise interfering with, any of the Contemplated Transactions. To the Knowledge of Sellers, (1) no such Proceeding has been Threatened, and (2) no event has occurred or circumstance exists that may give rise to or serve as a basis for the commencement of any such Proceeding. Sellers have delivered to NAI copies of all pleadings, correspondence, and other documents relating to each Proceeding listed in Schedule 3.15 of Sellers' Disclosure Schedules. The Proceedings listed in Schedule 3.15 of Sellers' Disclosure Schedules are not reasonably expected to have a Material Adverse Effect on RHL.

(b) Except as set forth in Schedule 3.15 of Sellers' Disclosure Schedules, (i) there is no Order to which RHL or any assets owned or used by RHL is subject; (ii) no Seller is subject to any Order that relates to the business of, or any of the assets owned or used by, RHL; and (iii) no officer, director, agent or, to the Knowledge of Sellers, employee of RHL is subject to any Order that prohibits such officer, director, agent or employee from engaging in or continuing any conduct, activity or practice relating to the business of RHL.

(c) Except as set forth in Schedule 3.15 of Sellers' Disclosure Schedules, (i) RHL is in material compliance with all of the terms and requirements of each Order to which it, or any of the assets owned or used by it, is or has been subject; (ii) to the Knowledge of Sellers, no event has occurred or circumstance exists that may constitute or result in (with or without notice or lapse of time) a material violation of or failure to materially comply with any term or requirement of any Order to which RHL, or any of the assets owned or used by RHL, is subject; and (iii) RHL has not received any notice or other communication (whether oral or written) from any Governmental Body or any other Person regarding any actual, alleged, possible, or potential violation of, or failure to comply with, any term or requirement of any Order to which RHL, or any of the assets owned or used by RHL, is or has been subject.

3.16 **Absence of Certain Changes and Events.** Except as set forth in Schedule 3.16 of Sellers' Disclosure Schedules or in the Unaudited Balance Sheet, since the date of the Balance Sheet, RHL has conducted its business only in the Ordinary Course of Business and there has not been any:

(a) change in RHL's authorized or issued capital stock; grant of any stock option or right to purchase shares of capital stock of RHL; issuance of any security convertible into such capital stock; grant of any registration rights; purchase, redemption, retirement, or other acquisition by RHL of any shares of any such capital stock; or declaration or payment of any dividend or other distribution or payment in respect of shares of capital stock (except as contemplated by Section 2.4(d) of this Agreement);

(b) amendment to the Organizational Documents of RHL;

(c) payment or increase by RHL of any bonuses, salaries, or other compensation to any shareholder, director, officer or (except in the Ordinary Course of Business) employee or entry into any employment, severance, or similar Contract with any director, officer, or employee;

(d) adoption of, or increase in the payments to or benefits under, any profit sharing, bonus, deferred compensation, savings, insurance, pension, retirement, or other employee benefit plan for or with any employees of RHL;

(e) damage to or destruction or loss of any asset or property of RHL, whether or not covered by insurance, that has had a Material Adverse Effect on RHL;

(f) entry into, termination of, or receipt of notice of termination of (i) any license, distributorship, dealer, sales representative, joint venture, credit, or similar agreement, or (ii) any Contract or transaction involving a total remaining commitment by or to RHL of at least Seventy Five Thousand Dollars ($75,000);

(g) sale (other than sales of inventory in the Ordinary Course of Business), lease, or other disposition of any material asset or property of RHL or mortgage, pledge, or imposition of any lien or other Encumbrance on any material asset or property of RHL, including the sale, lease, or other disposition of any of the Intellectual Property Assets;

(h) cancellation or waiver of any claims or rights with a value to RHL in excess of Seventy Five Thousand Dollars ($75,000);

(i) material change in accounting methods used by RHL; or

(j) agreement, whether oral or written, by RHL to do any of the foregoing.

3.17 **Contracts; No Defaults.**

(a) Except as set forth in Schedule 3.17 of Sellers' Disclosure Schedules, the Balance Sheet or the notes thereto, or the Unaudited Balance Sheet, RHL is not a party to any written or oral agreement not made in the Ordinary Course of Business that is material to RHL. Except as set forth in Schedule 3.17 of Sellers' Disclosure Schedules, RHL does not own any real property. RHL is not a party to or otherwise bound by any written or oral (a) agreement with any labor union, (b) agreement for the purchase of fixed assets or for the purchase of materials, supplies or equipment in excess of normal operating requirements, (c) agreement for the employment of any officer, individual employee or other Person on a full-time basis or any agreement with any Person for consulting services, (d) bonus, pension, profit sharing, retirement, stock purchase, stock option, deferred compensation, medical, hospitalization or life insurance or similar plan, contract or understanding with respect to any or all of the employees of RHL or any other Person, (e) indenture, loan or credit agreement, note agreement, deed of trust, mortgage, security agreement, promissory note or other agreement or instrument relating to or evidencing Indebtedness for Borrowed Money or subjecting any asset or property of RHL to any Lien or evidencing any Indebtedness, (f) guaranty of any Indebtedness, (g) lease or agreement under which RHL is lessee of or holds or operates any property, real or personal, owned by any other Person, (h) lease or agreement under which RHL is lessor or permits any Person to hold or operate any property, real or personal, owned or controlled by RHL, (i) agreement granting any preemptive right, right of first refusal or similar right to any Person, (j) agreement or arrangement with any Affiliate or any "associate" (as such term is defined in Rule 405 under the Securities Act) of RHL or any present or former officer, director or shareholder of RHL, (k) agreement obligating RHL to pay any royalty or similar charge for the use or exploitation of any tangible or intangible property, (l) covenant not to compete or other restriction on its ability to conduct a business or engage in any other activity, (m) distributor, dealer, manufacturer's representative, sales agency, franchise or advertising contract or commitment, (n) agreement to register securities under the Securities Act, (o) collective bargaining agreement, or (p) agreement or other commitment or arrangement with any Person continuing for a period of more than two months from the Effective Date that involves an expenditure or receipt by RHL in excess of $5,000. Except as disclosed on Schedule 3.17 of Sellers' Disclosure Schedules, RHL maintains no insurance policies and insurance coverage of any kind with respect to RHL, its business, premises, properties, assets, employees and agents. Schedule 3.17 of Sellers' Disclosure Schedules contains a true and complete list and description of each bank account, savings account, other deposit relationship and safety deposit box of RHL, including the name of the

bank or other depository, the account number and the names of the individuals having signature or other withdrawal authority with respect thereto. Except as disclosed on Schedule 3.17 of Sellers' Disclosure Schedules, no consent of any bank or other depository is required to maintain any bank account, other deposit relationship or safety deposit box of RHL in effect following the Closing and the Contemplated Transactions. Sellers have furnished to NAI true and complete copies of all agreements and other documents disclosed or referred to in Schedule 3.17 of Sellers' Disclosure Schedules or the Balance Sheet or the notes thereto, or the Unaudited Balance Sheet, as well as any additional agreements or documents requested by NAI.

(b) Except as set forth in Schedule 3.17 of Sellers' Disclosure Schedules, each Contract identified or required to be identified in Schedule 3.17 of Sellers' Disclosure Schedules (collectively, "Material Contracts") is in full force and effect and is valid and enforceable in accordance with its terms.

(c) Except as set forth in Schedule 3.17 of Sellers' Disclosure Schedules, (i) RHL is in material compliance with all applicable terms and requirements of each Material Contract; (ii) each Person that has or had any obligation or liability under any Material Contract is in material compliance with all applicable terms and requirements of such Material Contract; (iii) no event has occurred or circumstance exists that (with or without notice or lapse of time) may contravene, conflict with, or result in a material violation or breach of, or give RHL or other Person the right to declare a default or exercise any remedy under, or to accelerate the maturity or performance of, or to cancel or terminate, or modify, any Material Contract; and (iv) RHL has not given to nor received from any other Person any notice or other communication (whether oral or written) regarding any actual, alleged, possible, or potential violation or breach of, or default under, any Material Contract.

(d) Except as set forth on Schedule 3.17 of Sellers' Disclosure Schedules, there are no pending renegotiations of or attempts to renegotiate, or outstanding rights to renegotiate any material amounts paid or payable to RHL under current or completed Material Contracts with any Person and no such Person has made written demand for such renegotiation.

3.18 **Insurance.** Except as set forth on Schedule 3.18 of Sellers' Disclosure Schedules, (i) all insurance policies to which RHL is a party or that provide coverage to RHL or any director or officer of RHL: (A) are valid, outstanding, and enforceable; (B) are issued by an insurer that is financially sound and reputable; (C) taken together, provide adequate insurance coverage for the assets and operations of RHL for all risks to which RHL is normally exposed; (D) are sufficient for compliance with all Legal Requirements and Material Contracts to which RHL is a party or by which it is bound; (E) will continue in full force and effect following the consummation of the Contemplated Transactions; and (F) do not provide for any retrospective premium adjustment or other experienced-based liability on the part of RHL; (ii) RHL has not received (A) any refusal of coverage or any notice that a defense will be afforded with reservation of rights, or (B) any notice of cancellation or any other indication that any insurance policy is no longer in full force or effect or will not be renewed or that the issuer of any policy is not willing or able to perform its obligations thereunder; (iii) RHL has paid all premiums due, and has otherwise performed all of its respective obligations, under each policy to which RHL is a party or that provides coverage to RHL or any director thereof; and (iv) RHL has given notice to the insurer of all claims that may be insured thereby.

3.19 **Environmental Matters.** Except as set forth in Schedule 3.19 of Sellers' Disclosure Schedules:

(a) RHL is, and at all times since January 1, 2000 has been, in material compliance with, and has not been and is not in violation of or liable under, any Environmental Law. Sellers have no basis to expect, nor has RHL or, to the Knowledge of Sellers, any other Person for whose conduct RHL is or may be held to be responsible, received, any actual or Threatened order, notice, or other communication from (i) any Governmental Body or private citizen acting in the public interest, or (ii) the current or prior owner or operator of any Facilities, of any actual or potential violation or failure to comply with any Environmental Law, or of any actual or Threatened obligation to undertake or bear the cost of any Environmental, Health, and Safety Liabilities with respect to any of the Facilities or any other properties or assets (whether real, personal or mixed) in which RHL has had an interest, or with respect to any property or Facility at or to which Hazardous Materials were generated, manufactured, refined, transferred, imported, used, or processed by RHL or any other Person for whose conduct RHL is or may be held responsible, or from which Hazardous Materials have been transported, treated, stored, handled, transferred, disposed, recycled or received.

(b) There are no pending or, to the Knowledge of Sellers, Threatened claims, Encumbrances, or other restrictions of any nature, resulting from any Environmental, Health, and Safety Liabilities or arising under or pursuant to any Environmental Law, with respect to or affecting any of the Facilities or any other properties and assets (whether real, personal, or mixed) in which RHL has or had an interest.

(c) Sellers have no Knowledge of any basis to expect, nor has RHL or, to the Knowledge of Sellers, any other Person for whose conduct RHL is or may be held responsible, received, any citation, directive, inquiry, notice, Order, summons, warning, or other communication that relates to Hazardous Activity, Hazardous Materials, or any alleged, actual or potential violation or failure to comply with any Environmental Law, or of any alleged, actual or potential obligation to undertake or bear the cost of any Environmental, Health, and Safety Liabilities with respect to any of the Facilities or any other properties or assets (whether real, personal or mixed) in which RHL had an interest, or with respect to any property or facility to which Hazardous Materials generated, manufactured, refined, transferred, imported, used or processed by RHL or any other Person for whose conduct RHL is or may be held responsible, have been transported, treated, stored, handled, transferred, disposed, recycled or received.

(d) There has been no Release or, to the Knowledge of Sellers, Threat of Release, of any Hazardous Materials at or from the Facilities or at any other locations where any Hazardous Materials were generated, manufactured, refined, transferred, produced, imported, used, or processed from or by the Facilities, or from or by any other properties and assets (whether real, personal or mixed) in which RHL has or had an interest, whether by Sellers, RHL or any other Person.

(e) Sellers have delivered to NAI true and complete copies and results of any reports, studies, analyses, tests, or monitoring possessed or initiated by Sellers or RHL pertaining to Hazardous Materials or Hazardous Activities in, on, or under the Facilities, or concerning

compliance by RHL or any other Person for whose conduct RHL is or may be held responsible, with Environmental Laws.

3.20 **Employees.** Except as set forth on Schedule 3.20 of Sellers' Disclosure Schedules, other than pursuant to ordinary arrangements of employment compensation, RHL is not under any obligation or liability to any officer, director, employee or Affiliate of RHL. RHL has no employment agreements with, or any severance payment obligations to, any of its officers or employees. To the Knowledge of Sellers, no employee of RHL is a party to, or is otherwise bound by, any agreement or arrangement, including any confidentiality, noncompetition, or proprietary rights agreement, between such employee and any other Person that in any way adversely affects or will affect (i) the performance of such employee's duties as an employee of RHL, or (ii) the ability of RHL to conduct its business. To Sellers' Knowledge, except for the resignations required by Section 2.4(a)(v) no key employee of RHL intends to terminate his or her employment with RHL.

3.21 **Labor Relations; Compliance.** RHL has not been nor is it a party to any collective bargaining or similar Contract. There has not been, there is not presently pending or existing, and to Sellers' Knowledge there is not Threatened, (a) any strike, slowdown, picketing, work stoppage, or employee grievance process, (b) any Proceeding against or affecting RHL relating to the alleged violation of any Legal Requirement pertaining to labor relations or employment matters, including any charge or complaint filed by an employee or union with the National Labor Relations Board, the Equal Employment Opportunity Commission, or any comparable Governmental Body, organizational activity, or other labor or employment dispute against or affecting RHL or its premises, or (c) any application for certification of a collective bargaining agent. To Sellers' Knowledge, no event has occurred or circumstance exists that could provide the basis for any work stoppage or other labor dispute. There is no lock-out of any employees by RHL, and no such action is contemplated by RHL. RHL has complied in all material respects with all Legal Requirements relating to employment, equal employment opportunity, nondiscrimination, immigration, wages, hours, benefits, collective bargaining, the payment of social security and similar taxes, occupational safety and health, and plant closing. RHL is not liable for the payment of any compensation, damages, taxes, fines, penalties, or other amounts, however designated, for failure to comply with any of the foregoing Legal Requirements.

3.22 **Intellectual Property.**

(a) *Intellectual Property Assets* – The term "Intellectual Property Assets" includes: (i) the name "Real Health Laboratories, Inc.," all fictional business names, trading names, registered and unregistered trademarks, service marks, and applications (collectively, "Marks"); (ii) all patents, patent applications, and inventions and discoveries that may be patentable (collectively, "Patents"); (iii) all copyrights in both published works and unpublished works (collectively, "Copyrights"); (iv) all rights in mask works (collectively, "Rights in Mask Works"); and (v) all know-how, trade secrets, confidential information, customer lists, software, technical information, data, process technology, plans, drawings, and blue prints (collectively, "Trade Secrets"); owned, used or licensed by RHL as licensee or licensor.

(b) *Agreements* – Schedule 3.22 of Sellers' Disclosure Schedules contains a complete and accurate list and summary description, including any royalties paid or received by RHL, of all Contracts relating to Intellectual Property Assets to which RHL is a party or by which RHL is bound, except for any license implied by the sale of a product and perpetual, paid-up licenses for commonly available software programs with a value of less than $1,000 under which RHL is the licensee. There are no outstanding and, to Sellers' Knowledge, no Threatened disputes or disagreements with respect to any such agreement.

(c) *Know-How Necessary for the Business* – The Intellectual Property Assets are all those necessary for the operation of RHL's business as it is currently conducted. RHL has the valid right and license to use, or is the owner of all right, title and interest in and to, each of the Intellectual Property Assets, free and clear of all liens, security interests, charges, encumbrances, equities and other adverse claims, and, except for such Intellectual Property Assets subject to licenses set forth on Schedule 3.22 of Sellers' Disclosure Schedules, has the right to use all of the Intellectual Property Assets without payment to a third party; and (ii) except as set forth in Schedule 3.22 of Sellers' Disclosure Schedules, all former and current employees of RHL have executed written Contracts with RHL that assign to RHL all rights to any inventions, improvements, discoveries or information relating to the business of RHL. To the Knowledge of Sellers, no employee of RHL has entered into any Contract that restricts or limits in any way the scope or type of work in which the employee may be engaged or requires the employee to transfer, assign, or disclose information concerning his or her work to anyone other than RHL.

(d) *Patents* – RHL does not own any Patents. To the Knowledge of Sellers, none of the products manufactured and sold, nor any process or know-how used, by RHL infringes or is alleged to infringe any patent or other proprietary right of any other Person.

(e) *Trademarks* – (i) Schedule 3.22 of Sellers' Disclosure Schedules contains a complete and accurate list and summary description of all Marks. RHL is the owner of all right, title and interest in and to each of the Marks, free and clear of all liens, security interests, charges, encumbrances, equities, and other adverse claims; (ii) all Marks that have been registered with the United States Patent and Trademark Office are currently in material compliance with all formal legal requirements (including the timely post-registration filing of affidavits of use and incontestability and renewal applications), are valid and enforceable, and are not subject to any maintenance fees or taxes or actions falling due within ninety days after the Closing; (iii) no Mark has been or is now involved in any opposition, invalidation, or cancellation and, to Sellers' Knowledge, no such action is Threatened with respect to any of the Marks; (iv) to Sellers' Knowledge, there is no potentially interfering trademark or trademark application of any third party; (v) to Sellers Knowledge, no Mark is infringed or has been challenged or threatened in any way. To Sellers' Knowledge, none of the Marks used by RHL infringes or is alleged to infringe any trade name, trademark, or service mark of any third party; and (vi) all products and materials containing a federally registered Mark bear the proper federal registration notice where permitted by law.

(f) *Copyrights* – RHL does not own any Copyrights.

(g) *Trade Secrets* – (i) With respect to each Trade Secret, the documentation relating to such Trade Secret is current, accurate, and sufficient in detail and content to identify and explain it and to allow its full and proper use without reliance on the knowledge or memory of any individual; (ii) RHL has taken all commercially reasonable precautions to protect the secrecy, confidentiality, and value of the Trade Secrets; (iii) RHL has good title and an absolute (but not necessarily exclusive) right to use the Trade Secrets. The Trade Secrets are not part of the public knowledge or literature, and, to Sellers' Knowledge, have not been used, divulged, or appropriated either for the benefit of any Person (other than RHL) or to the detriment of RHL. No Trade Secret is subject to any adverse claim or has been challenged or threatened in any way.

3.23 **Certain Payments.** Neither RHL nor any director, officer, agent or employee of RHL, or to Sellers' Knowledge any other Person associated with or acting for or on behalf of RHL, has directly or indirectly (a) made any contribution, gift, bribe, rebate, payoff, influence payment, kickback, or other payment to any Person, private or public, regardless of form, whether in money, property or services (i) to obtain favorable treatment in securing business, (ii) to pay for favorable treatment for business secured, (iii) to obtain special concessions or for special concessions already obtained, for or in respect of RHL or any Affiliate of RHL, or (iv) in violation of any Legal Requirement, or (b) established or maintained any fund or asset that has not been recorded in the books and records of RHL.

3.24 **Disclosure.**

(a) No representation or warranty of Sellers in this Agreement and no statement in Sellers' Disclosure Schedules omits to state a material fact necessary to make the statements herein or therein, in light of the circumstances in which they were made, not misleading.

(b) There is no fact known to any Seller that has specific applicability to a Seller or RHL (other than general economic or industry conditions) and that materially adversely affects or, as far as Sellers can reasonably foresee, materially threatens, the assets, business, prospects, financial condition, or results of operations of RHL that has not been set forth in this Agreement or Sellers' Disclosure Schedules.

3.25 **Relationships with Related Persons.** No Seller or any Related Person of Sellers or of RHL has any interest in any property (whether real, personal or mixed and whether tangible or intangible), used in or pertaining to RHL's business. No Seller or any Related Person of Sellers or of RHL owns (of record or as a beneficial owner) an equity interest or any other financial or profit interest in, a Person that has (i) had business dealings or a material financial interest in any transaction with RHL (other than business dealings or transactions conducted in the Ordinary Course of Business at substantially prevailing market prices and on substantially prevailing market terms), or (ii) engaged in competition with RHL with respect to any line of the products or services of RHL (a "Competing Business") in any market presently served by RHL (except for ownership of less than one percent of the outstanding capital stock of any Competing Business that is publicly traded on any recognized exchange or in the over-the-counter market). Except as set forth in Schedule 3.25 of Sellers' Disclosure Schedules, no Seller or any Related Person of Seller or RHL is a party to any Contract with, or has any claim or right against, RHL.

3.26 **Brokers or Finders.** No Person is entitled by reason of any act or omission of Sellers or RHL to any broker's or finder's fees, commission or other similar compensation with respect to the execution and delivery of this Agreement or with respect to the consummation of the Contemplated Transactions.

4. **Representations and Warranties of NAI.** Except as set forth in NAI's Disclosure Schedules, NAI makes the representations and warranties to Sellers contained in this Section 4. Each exception set forth in NAI's Disclosure Schedules and each other response to this Agreement set forth in NAI's Disclosure Schedules is identified by reference to, or has been grouped under a heading referring to, a specific individual section of this Agreement but may also relate to other sections of this Agreement to the extent it is reasonably apparent from a reading of such response that it also qualifies or applies to such other sections of this Agreement.

4.1 **Organization and Good Standing.** NAI is a corporation duly organized, validly existing, and in good standing under the laws of the State of Delaware with full corporate power and authority to conduct its business as it is now being conducted. NAI is duly qualified to do business as a foreign corporation and is in good standing under the laws of each state or other jurisdiction in which either the ownership or use of the properties owned or used by it, or the nature of the activities conducted by it, requires such qualification, except where the failure to be so qualified would not have a Material Adverse Effect on NAI.

4.2 **Authority; No Conflict.**

(a) This Agreement, assuming its due, valid authorization, execution, and delivery by all of the Sellers, constitutes the legal, valid, and binding obligation of NAI, enforceable against NAI in accordance with its terms, except as limited by applicable bankruptcy, insolvency, reorganization, moratorium, fraudulent conveyance and other similar laws of general application affecting enforcement of creditors' rights generally. Upon the execution and delivery by NAI of NAI's Closing Documents, and assuming the due, valid authorization, execution, and delivery by the other parties thereto, NAI's Closing Documents will constitute the legal, valid, and binding obligations of NAI, enforceable against NAI in accordance with their respective terms, except as limited by applicable bankruptcy, insolvency, reorganization, moratorium, fraudulent conveyance and other similar laws of general application affecting enforcement of creditors' rights generally. NAI has the absolute and unrestricted right, power, and authority to execute and deliver this Agreement and NAI's Closing Documents and to perform its obligations under this Agreement and NAI's Closing Documents.

(b) Except as set forth in Schedule 4.2 of NAI's Disclosure Schedules, neither the execution and delivery of this Agreement by NAI nor the consummation or performance of any of the Contemplated Transactions by NAI will, directly or indirectly (with or without notice or lapse of time) give any Governmental Body or other Person the right to challenge, prevent, delay or otherwise interfere with any of the Contemplated Transactions pursuant to:

(i) any provision of the Organizational Documents of NAI, or any resolution adopted by the Board of Directors or the stockholders of NAI;

(ii) any Legal Requirement or any Order to which NAI is subject; or

(iii) any Contract to which NAI is a party or by which NAI is bound.

(c) Except as set forth in Schedule 4.2 of NAI's Disclosure Schedules, NAI is not and will not be required to obtain any Consent from any Governmental Body or other Person in connection with the execution and delivery of this Agreement or the consummation or performance of any of the Contemplated Transactions.

4.3 **Capitalization.** The authorized capital stock of NAI consists of Twenty Million (20,000,000) shares of common stock, par value $0.01 per share ("NAI Common Stock"), of which Six Million Thirty Eight Thousand Five Hundred Sixty Seven (6,038,567) shares of NAI Common Stock are issued and outstanding, and Five Hundred Thousand (500,000) shares of preferred stock, par value $0.01 per share, of which no shares are issued and outstanding. All outstanding shares of NAI Common Stock are duly authorized, validly issued, fully paid and nonassessable and not subject to preemptive rights. All outstanding shares of NAI Common Stock have been offered, issued, sold and delivered by NAI in material compliance with the registration or qualification requirements (or applicable exemptions therefrom) of the Securities Act and any other Legal Requirement. One Million Nine Hundred Forty Thousand Nine Hundred Fifty Two (1,940,952) shares of NAI Common Stock are reserved for issuance upon exercise of stock options issued under the 1999 Omnibus Equity Incentive Plan, of which One Million Three Hundred Twenty Nine Thousand Two Hundred (1,329,200) shares of NAI Common Stock are subject to outstanding stock options and Six Hundred Eleven Thousand Seven Hundred Fifty Two (611,752) shares are available for issuance thereunder. All outstanding stock options are duly authorized and validly issued, and have been offered, issued, and delivered by NAI in material compliance with the registration or qualification requirements (or applicable exemptions therefrom) of the Securities Act and any other Legal Requirement.

4.4 **Issuance of NAI Stock.** The shares of NAI Stock to be issued to Sellers in connection with the Contemplated Transactions when issued against the sale and transfer of the Shares to NAI in accordance with the terms of this Agreement, will be duly authorized, validly issued, fully paid and non-assessable, free and clear of all Encumbrances (except for restrictions imposed under the Lock-Up Agreements and applicable federal and state securities laws) and preemptive rights, and, assuming each Seller is an "accredited investor" (as defined in Rule 501 of Regulation D promulgated under the Securities Act) and assuming the accuracy of the representations and warranties of each Seller set forth in the representation letters contemplated under Section 2.4(a)(vii), issued in compliance with all applicable United States federal and state securities laws currently in effect.

4.5 **Investment Intent.** NAI is acquiring the Shares for its own account and not with a view to its distribution within the meaning of Section 2(11) of the Securities Act.

4.6 **Certain Proceedings.** There is no pending Proceeding that has been commenced against NAI and that challenges, or may have the effect of preventing, delaying, making illegal, or otherwise interfering with, any of the Contemplated Transactions. To NAI's Knowledge, no such Proceeding has been Threatened.

4.7 **Disclosure**.

(a) No representation or warranty of NAI in this Agreement and no statement in NAI's Disclosure Schedules omits to state a material fact necessary to make the statements herein or therein, in light of the circumstances in which they were made, not misleading.

(b) There is no fact known to NAI that has specific applicability to NAI (other than general economic or industry conditions) that materially adversely affects or, as far as NAI can reasonably foresee, materially threatens, the assets, business, prospects, financial condition, or results of operations of NAI that has not been set forth in this Agreement, NAI's Disclosure Schedules, or NAI's SEC Documents.

4.8 **Brokers or Finders.** No Person is entitled by reason of any act or omission of NAI to any broker's or finder's fees, commission or other similar compensation with respect to the execution and delivery of this Agreement or with respect to the consummation of the Contemplated Transactions.

4.9 **SEC Reporting and Compliance.**

(a) NAI has timely filed with the SEC all reports required to be filed by NAI during the twelve calendar months preceding the Effective Date and has otherwise filed with the SEC all registration statements, prospectuses, reports, forms, statements, schedules, certifications and other documents required to be filed by companies registered pursuant to Section 12(g) of the Exchange Act (all such required registration statements, prospectuses, reports, forms, statements, schedules, certifications and other documents are referred to herein as the "NAI SEC Documents"). At the time they were filed with the SEC (or at the effective date thereof in the case of registration statements) or if amended or superseded by a filing prior to the Effective Date, then on the date of such filing, NAI SEC Documents (i) complied in all material respects with the requirements of the Securities Act, the Exchange Act, the Sarbanes-Oxley Act (to the extent then applicable), and the rules and regulations of the SEC promulgated thereunder applicable to such NAI SEC Documents, and (ii) did not contain any untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary in order to make the statements therein, in light of the circumstances under which they were made, not misleading.

(b) NAI has not filed, and nothing has occurred with respect to which NAI would be required to file, any report on Form 8-K since October 25, 2005, with the exception of the Contemplated Transactions and the funding of certain additional term debt NAI intends to obtain to fund the Cash Purchase Price, each of which shall require the filing by NAI of a report on Form 8-K within four (4) business days after the Closing.

(c) NAI has otherwise complied in all material respects with the Securities Act, Exchange Act and all other applicable United States federal and state securities laws.

4.10 **Financial Statements.** The balance sheets, and statements of operations, statements of changes in stockholders' equity and statements of cash flows contained in the NAI SEC Documents (the "NAI Financial Statements") (i) complied, at the respective time of filing

of the NAI SEC Documents with the SEC (or at the effective date thereof in the case of registration statements) or if amended or superseded by a filing prior to the Effective Date, then on the date of such filing, as to form in all material respects with the published rules and regulations of the SEC with respect thereto, (ii) have been prepared in accordance with GAAP applied on a basis consistent with prior periods (and, in the case of unaudited financial information, on a basis consistent with year-end audits), (iii) are in accordance with the books and records of NAI, and (iv) present fairly in all material respects the financial condition of NAI at the dates therein specified and the results of its operations and changes in financial position for the periods therein specified. The financial statements included in the Annual Report on Form 10-K for the fiscal year ended June 30, 2005, are audited by, and include the related report of Ernst & Young LLP, NAI's independent registered public accounting firm. The financial information included in the Quarterly Report on Form 10-Q for the quarter ended September 30, 2005 is unaudited, but reflects all adjustments (including normally recurring accounts) that NAI considers necessary for a fair presentation of such information and have been prepared in accordance with generally accepted accounting principles, consistently applied.

5. **Conditions Precedent to NAI's Obligation to Close.** NAI's obligation to purchase the Shares and to take the other actions required to be taken by NAI at the Closing is subject to the satisfaction, at or prior to the Closing of each of the following conditions (any of which may be waived by NAI, in whole or in part):

5.1 **No Errors, etc.** The representations and warranties of the Sellers under this Agreement shall be deemed to have been made as of the Closing and shall then be true and correct in all material respects.

5.2 **Compliance with Agreement.** Sellers shall have performed and complied in all material respects with all agreements and conditions required by this Agreement to be performed or complied with by them on or before the Closing. Each of Sellers' Closing Documents must have been delivered to NAI at or prior to the Closing.

5.3 **Consents.** Each of the Consents identified in Schedule 3.2 of Sellers' Disclosure Schedules and 4.2 of NAI's Disclosure Schedules must have been obtained and must be in full force and effect.

5.4 **No Breach.** There shall not exist as of the Closing any Breach or any event or condition, that with the giving of notice or lapse of time, or both, would constitute a Breach, and except as set forth in Sellers' Disclosure Schedules or the Unaudited Balance Sheet, since the date of the Balance Sheet, there shall have been no Material Adverse Change in the financial condition of RHL.

5.5 **Opinion of Sellers' Counsel.** NAI shall have received from Sonnenschein Nath & Rosenthal, Los Angeles, California, counsel for Sellers a favorable opinion dated the Effective Date to the effect set forth in Exhibit G.

5.6 **Evidence of Good Standing.** NAI shall have received as of a date within thirty (30) days of the Effective Date evidence of the good standing and corporate existence of RHL issued by the California Secretary of State and by the California Franchise Tax Board.

5.7 **Payment of Sellers' Indebtedness.** Except as expressly provided in this Agreement, Sellers will cause all indebtedness, if any, owed to RHL by any Seller or any Related Person of Sellers to be paid in full prior to Closing.

5.8 **No Restraining Action.** There must not have been commenced or Threatened against NAI, or against any Person affiliated with NAI, any Proceeding (a) involving any challenge to, or seeking damages or other relief in connection with, any of the Contemplated Transactions, or (b) that may have the effect of preventing, delaying, making illegal, or otherwise interfering with any of the Contemplated Transactions.

5.9 **No Claim Regarding Stock Ownership or Sale Proceeds.** There must not have been made or Threatened by any Person any claim asserting that such Person (a) is the holder or the beneficial owner of, or has the right to acquire or to obtain beneficial ownership of, any stock of, or any other voting, equity, or ownership interest in, RHL, or (b) is entitled to all or any portion of the Purchase Price payable for the Shares.

5.10 **No Prohibition.** Neither the consummation nor the performance of any of the Contemplated Transaction will, directly or indirectly (with or without notice or lapse of time), materially contravene, or conflict with, or result in a material violation of, or cause NAI or any Person affiliated with NAI to suffer any Material Adverse Effect under, (a) any applicable Legal Requirement or Order, or (b) any Legal Requirement or Order that has been published, introduced, or otherwise proposed by or before any Governmental Body.

5.11 **Additional Documents.** NAI shall have received such additional supporting documentation and other information with respect to the Contemplated Transactions as NAI may reasonably request. All corporate and other proceedings and actions taken in connection with the Contemplated Transactions and all certificates, opinions, agreements, instruments and documents mentioned herein or incident to any such transactions shall be satisfactory in form and substance to NAI and its legal counsel.

6. **Conditions Precedent to Sellers' Obligation to Close.** Sellers' obligation to sell the Shares and to take the other actions required to be taken by Sellers at the Closing is subject to the satisfaction, at or prior to the Closing, of each of the following conditions (any of which may be waived by the Sellers, in whole or in part):

6.1 **No Errors, etc.** The representations and warranties of NAI under this Agreement shall be deemed to have been made as of the Closing and shall then be true and correct in all material respects.

6.2 **Compliance with Agreement.** NAI shall have performed and complied in all material respects with all agreements and conditions required by this Agreement to be performed or complied with by it on or before the Closing. Each of NAI's Closing Documents must have been delivered to Sellers at or prior to the Closing.

6.3 **Consents.** Each of the Consents identified in Schedule 3.2 of Sellers' Disclosure Schedules and Schedule 4.2 of NAI's Disclosure Schedules must have been obtained and must be in full force and effect.

6.4 **No Breach.** There shall not exist as of the Closing any Breach or any event or condition, that with the giving of notice or lapse of time, or both, would constitute a Breach.

6.5 **Evidence of Good Standing.** Sellers shall have received as of a date within thirty (30) days of the Effective Date evidence of the good standing and corporate existence of NAI issued by the Secretary of State of Delaware and of California.

6.6 **No Restraining Action.** There must not have been commenced or Threatened against RHL, Sellers, or against any Person affiliated with Sellers or RHL, any Proceeding (a) involving any challenge to, or seeking damages or other relief in connection with, any of the Contemplated Transactions, or (b) that may have the effect of preventing, delaying, making illegal, or otherwise interfering with any of the Contemplated Transactions.

6.7 **No Prohibition.** Neither the consummation nor the performance of any of the Contemplated Transaction will, directly or indirectly (with or without notice or lapse of time), materially contravene, or conflict with, or result in a material violation of, or cause RHL, Sellers or any Person affiliated with Sellers or RHL to suffer any Material Adverse Effect under, (a) any applicable Legal Requirement or Order, or (b) any Legal Requirement or Order that has been published, introduced, or otherwise proposed by or before any Governmental Body.

6.8 **Additional Documents.** Sellers shall have received such additional supporting documentation and other information with respect to the Contemplated Transactions as Sellers may reasonably request. All corporate and other proceedings and actions taken in connection with the Contemplated Transactions and all certificates, opinions, agreements, instruments and documents mentioned herein or incident to any such transactions shall be satisfactory in form and substance to RHL, Sellers and their respective legal counsels.

7. **Termination.**

7.1 **Termination Events.** This Agreement may, by notice given prior to or at the Closing, be terminated:

(a) by either NAI or Sellers if a material Breach of any provision of this Agreement has been committed by the other party and such Breach has not been waived or cured within a reasonable amount of time after written notice of such Breach by the non-breaching party to the breaching party. Notwithstanding the foregoing, if the nature of the Breach is such that it would be impractical or unreasonable to give the breaching party an opportunity to cure such Breach, the non-breaching party need not give the breaching party such opportunity;

(b) (i) by NAI if any of the conditions in Section 5 has not been satisfied as of the Closing or if satisfaction of such a condition is or becomes impossible (other than through the failure of NAI to comply with its obligations under this Agreement) and NAI has not waived such condition on or before the Closing; or (ii) by Sellers, if any of the conditions in Section 6 has not been satisfied as of the Closing or if satisfaction of such a condition is or becomes impossible (other than through the failure of Sellers to comply with their obligations under this Agreement) and Sellers have not waived such condition on or before the Closing;

(c) by mutual written consent of NAI and Sellers; or

(d) by either NAI or Sellers if the Closing has not occurred (other than through the failure of any party seeking to terminate this Agreement to comply fully with its obligations under this Agreement) on or before December 15, 2005, or such later date as the parties may agree upon.

7.2 **Effect of Termination.** Each party's right of termination under Section 7.1 is in addition to any other rights it may have under this Agreement or otherwise, and the exercise of a right of termination will not be an election of remedies. If this Agreement is terminated pursuant to Section 7.1, all further obligations of the parties under this Agreement will terminate, except that the obligations in Sections 8, 9.1, 9.2, 9.3, 9.5, 9.12 and 9.16 will survive; provided, however, that if this Agreement is terminated by a party because of the Breach of the Agreement by the other party or because one or more of the conditions to the terminating party's obligations under this Agreement is not satisfied as a result of the other party's failure to comply with its obligations under this Agreement, the terminating party's right to pursue all legal remedies will survive such termination unimpaired.

8. **Indemnification; Remedies.**

8.1 **Survival.** All representations, warranties, covenants, and obligations in this Agreement, including all exhibits and schedules attached hereto, will survive the Closing for a period of one (1) year from the Effective Date.

8.2 **Notice as to Breach.** The right to indemnification, payment of Damages, or other remedy based on such representations, warranties, covenants, and obligations referred to in Section 8.1 will not be affected by any investigation conducted with respect to, or any Knowledge acquired (or capable of being acquired) at any time, whether before or after the execution and delivery of this Agreement or the Closing, with respect to the accuracy or inaccuracy of or compliance with, any such representation, warranty, covenant or obligation. The waiver of any condition based on the accuracy of any representation or warranty, or on the performance of or compliance with any covenant or obligation, will not affect the right to indemnification, payment of Damages, or other remedy based on such representations, warranties, covenants and obligations. Notwithstanding anything in this Section 8.2 to the contrary, in the event that, at any time prior to the Closing, NAI or Sellers shall have Knowledge that any representation or warranty made by the other hereunder is untrue, NAI or Sellers, as applicable, shall promptly provide the other party written notice to that effect, indicating the basis for such belief that such representation or warranty is untrue. For purposes of this Section 8, a party shall not be deemed to have breached any representation, warranty, covenant or obligation if (i) the other party, prior to the Closing, had Knowledge of the Breach, or facts and circumstances constituting or resulting in a Breach, of such representation, warranty, covenant or obligation, (ii) the Breach could have been cured within a reasonable time by, or at the direction of, the breaching party if the breaching party had known of the Breach, and (iii) the non-breaching party did not notify the breaching party of the Breach and consummated the Contemplated Transactions notwithstanding the non-breaching party's Knowledge of the Breach. This Section 8.2 shall not limit any claim for fraud or any covenant or agreement of the parties which by its terms contemplates performance after the Effective Date.

8.3 **Indemnification and Payment of Damages by Sellers.** Sellers, jointly and severally, will indemnify and hold harmless NAI, RHL and their respective Representatives, stockholders, controlling persons, and Affiliates (collectively, the "Indemnified Persons") for, and will pay to the Indemnified Persons the amount of, any loss, liability, claim, damage, expense (including costs of investigation and defense and reasonable attorneys' fees) or diminution of value, whether or not involving a third party claim (collectively, "Damages"), arising, directly or indirectly, from or in connection with:

(a) any Breach of any representation or warranty made by Sellers in this Agreement, including all exhibits or schedules attached hereto and delivered by Sellers pursuant to this Agreement;

(b) any Breach by any Seller of any covenant or obligation of such Seller in this Agreement, including all exhibits or schedules attached hereto and delivered by Sellers pursuant to this Agreement;

(c) any claim by any Person for brokerage or finder's fees or commissions or similar payments based upon any agreement or understanding alleged to have been made by any such Person with any Seller or RHL (or any Person acting on their behalf) in connection with any of the Contemplated Transactions;

(d) Real Health Laboratories, LLC, a California limited liability company, and Real Health Company, a California general partnership; and

(e) the transfer and acquisition of the assets and business of Real Health Company to and by RHL;

The remedies provided in this Section 8.3 will not be exclusive of or limit any other remedies that may be available to NAI or the other Indemnified Persons.

8.4 **Indemnification and Payment of Damages by NAI.** NAI will indemnify and hold harmless Sellers, and will pay to Sellers the amount of any Damages arising, directly or indirectly, from or in connection with:

(a) any Breach of any representation or warranty made by NAI in this Agreement, including all exhibits or schedules attached hereto and delivered by NAI pursuant to this Agreement;

(b) any Breach by NAI of any covenant or obligation of NAI in this Agreement, including all exhibits or schedules attached hereto and delivered by NAI pursuant to this Agreement; and

(c) any claim by any Person for brokerage or finder's fees or commissions or similar payments based upon any agreement or understanding alleged to have been made by such Person with NAI (or any Person acting on its behalf) in connection with any of the Contemplated Transactions.

The remedies provided in this Section 8.4 will not be exclusive of or limit any other remedies that may be available to Sellers.

8.5 **Escrow; Right of Set-Off.** Upon written notice to Sellers specifying in reasonable detail the basis for such set-off, and Sellers do not in good faith dispute NAI's basis for such set-off within ten (10) calendar days of receipt of such notice from NAI, NAI may set off any amount to which it is entitled under this Section 8 against amounts held in escrow pursuant to the Escrow Agreement and in accordance with the procedures set forth in such Escrow Agreement. Any exercise of such right to set-off will not constitute an election of remedies or limit NAI in any manner in the enforcement of any other remedies that may be available to it.

8.6 **Procedure for Indemnification – Third Party Claims.**

(a) Promptly after receipt by an Indemnified Person entitled to indemnity under Section 8.3 or a Seller entitled to indemnity under Section 8.4 (an "Indemnitee") of notice of the assertion of a third party claim against it, such Indemnitee shall, if a claim is to be made against the party obligated to indemnify under such section ("Indemnitor"), give written notice to the Indemnitor of the assertion of such third party claim, but the failure or delay in notifying the Indemnitor will not relieve the Indemnitor of any liability that it may have to Indemnitee, except to the extent that the Indemnitor demonstrates that the defense of the third party claim is prejudiced by the Indemnitee's failure or delay in giving such notice.

(b) Indemnitor shall be entitled to participate in the defense of any third party claim for which indemnification is sought and, to the extent that it wishes (unless (i) the third party claim is also against Indemnitor and Indemnitee determines in good faith that joint representation would be inappropriate, or (ii) Indemnitor fails to provide reasonable assurance to Indemnitee of its financial capacity to defend such third party claim and provide indemnification with respect to such third party claim), to assume the defense of such third party claim with counsel reasonably satisfactory to Indemnitee. After notice from the Indemnitor to the Indemnitee of its election to assume the defense of such third party claim, the Indemnitor shall not, as long as it diligently conducts such defense, be liable to the Indemnitee under this Section 8 for any fees of other counsel or any other expenses with respect to the defense of such third party claim, in each case subsequently incurred by Indemnitee in connection with the defense of such third party claim, other than reasonable costs of investigation. If the Indemnitor assumes such defense of a third party claim, the Indemnitee shall have the right to participate in the defense thereof and to employ counsel, at its own expense, separate from the counsel employed by the Indemnitor. If the Indemnitor assumes the defense of a third party claim, (i) such assumption will not in any way establish, or constitute evidence, for purposes of this Agreement, that the claims made in that third party claim are within the scope of and subject to indemnification; (ii) no compromise or settlement of such third party claim may be effected by the Indemnitor without the Indemnitee's prior written consent unless (A) there is no finding or admission of any violation of any legal requirement or any violation of the rights of any person and no effect on any other claims that may be made against the Indemnitee, and (B) the sole relief provided is monetary damages that are paid in full by the Indemnitor; and (iii) the Indemnitee shall have no liability with respect to any compromise or settlement of such third party claim effected without its consent. If notice is given to Indemnitor of the assertion of any

third party claim and the Indemnitor fails to assume the defense of such third party claim within ten (10) days after the Indemnitee's notice is given if required to do so under this Section 8, the Indemnitee will (upon delivering notice to such effect to the Indemnitor) have the right to undertake, at the Indemnitor's cost and expense, the defense, compromise or settlement of such third party claim on behalf of and for the account and risk of the Indemnitor; provided, however, in which event the Indemnitor shall be entitled, at the Indemnitor's cost, risk and expense, to participate in such defense, compromise or settlement with separate counsel of its own choosing; provided, further, that such third party claim shall not be compromised or settled without the written consent of the Indemnitor, which consent shall not be unreasonably withheld. If the Indemnitee settles or compromises such third party action without the prior written consent of the Indemnitor, the Indemnitor will bear no liability hereunder for or with respect to such third party claim unless such consent has been requested and unreasonably denied.

(c) Notwithstanding the foregoing, if Indemnitee determines in good faith that there is a reasonable probability that a third party claim may adversely affect it other than as a result of monetary damages for which it would be entitled to indemnification under this Agreement, Indemnitee may, by notice to Indemnitor, assume the exclusive right to defend, compromise, or settle such third party claim, but the Indemnitor will not be bound by any determination of any third party claim so defended for the purposes of this Agreement or any compromise or settlement effected without its consent (which may not be unreasonably withheld).

(d) With respect to any third party claim subject to indemnification under this Section 8, (i) both Indemnitor and Indemnitee, as the case may be, shall keep the other fully informed of the status of such third party claim and any related proceedings at all stages thereof where such party is not represented by its own counsel, and (ii) the parties agree (each at its own expense) to render to each other such assistance as they may reasonably require of each other and to cooperate in good faith with each other in order to ensure the proper and adequate defense of any third party claim.

(e) With respect to any third party claim subject to indemnification under this Section 8, the parties agree to cooperate in such a manner as to preserve in full (to the extent possible) the confidentiality of all Confidential Information and the attorney-client and work-product privileges.

8.7 **Procedure for Indemnification – Other Claims.** A claim for indemnification for any matter not involving a third-party claim may be asserted by notice to the party from whom indemnification is sought within a reasonable time after determination that an event has occurred that has given rise to a right of indemnification hereunder.

8.8 **Limitations on Liability.** Notwithstanding any other provision of this Agreement: (i) the liability of Sellers or NAI for any Damages shall be limited to direct Damages and shall not include incidental, consequential or punitive damages (whether arising in tort, contract or otherwise, including the negligence or gross negligence of any of the parties and whether or not foreseeable), unless such Damages arise as a result of fraud or willful misconduct; (ii) no party shall have any liability for any Damages unless and until the aggregate amount of all Damages against such party exceeds Twenty Five Thousand Dollars ($25,000), whereupon such

party shall be liable for and shall indemnify the other party from and against all Damages; and (iii) the obligations of Sellers or NAI for Damages, whether pursuant to the indemnity obligations of this Section 8 or otherwise, arising, directly or indirectly, from or in connection with, this Agreement or the Contemplated Transactions, shall in no event exceed in the aggregate the Purchase Price.

9. **General Provisions.**

9.1 **Expenses.** Except as otherwise expressly provided in this Agreement, each party to this Agreement will bear its respective expenses incurred in connection with the preparation, execution, and performance of this Agreement and the Contemplated Transactions, including all fees and expenses of agents, representatives, counsel and accountants. Notwithstanding the foregoing, NAI consents to RHL agreeing to pay Sonnenschein Nath & Rosenthal LLP a total of Thirty Five Thousand Dollars ($35,000) for fees and costs incurred from and after November 1, 2005 in connection with this Agreement and the Contemplated Transactions, which amount is in addition to other legal fees and costs owing as set forth in the Unaudited Balance Sheet and as may be incurred from and after November 1, 2005 in the Ordinary Course of Business. In the event of termination of this Agreement, the obligation of each party to pay its own expenses will be subject to any rights of such party arising from a breach of this Agreement by another party.

9.2 **Public Announcements.** Prior to the Closing, no party shall make any public disclosure or issue any press release or other announcement, whether written or oral, with respect to this Agreement or the Contemplated Transactions. After the Closing, any public announcement or similar publicity with respect to this Agreement or the Contemplated Transactions will be issued, if at all, at such time and in such manner as NAI determines and otherwise in compliance with applicable Legal Requirements. Notwithstanding the foregoing, prior to the Closing, any party hereto may make any announcements required by applicable Legal Requirements as long as the party making the disclosure or announcement (i) notifies the other parties promptly upon learning of such requirement, (ii) provides the other parties a copy of such proposed disclosure or announcement and an opportunity to comment thereon, and (iii) in good faith attempts to otherwise comply with this Section 9.2. Sellers and NAI agree to consult with each other concerning the means by which RHL's employees, customers, and suppliers and others having dealings with RHL will be informed of the Contemplated Transactions, and NAI will have the right to be present for any such communication.

9.3 **Confidentiality.**

(a) The parties acknowledge that the existence of this Agreement and certain information that has been or may be disclosed by the parties is considered Confidential Information. For purposes of this Agreement, "Confidential Information" means all information and material that is proprietary to the disclosing party, whether or not marked as "confidential" or "proprietary" and that is disclosed to another party hereto, which relates to the disclosing party's past, present or future research, development or business activities. Confidential Information includes, without limitation, all of the following: designs, drawings, specifications, techniques, models, data, source codes, object codes, documentation, diagrams, flow charts, research, development, processes, procedures, "know-how," new product or new technology information, product prototypes, product copies, manufacturing, development or marketing

techniques and material, 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 other trade secrets or nonpublic business information. Confidential Information does not include any information that (a) was in the lawful and unrestricted possession of the receiving party before its disclosure to the receiving party by the disclosing party; (b) is or becomes generally available to the public by acts other than those of the receiving party after receiving it; or (c) has been received lawfully and in good faith by the receiving party from a third party who did not derive it from the disclosing party.

(b) Each party hereto agrees to not, and to cause the respective directors, officers, employees, agents, and advisors of NAI and RHL, as applicable, to not, without the prior written consent of the other parties, use, copy, disclose or allow access to any Confidential Information, or disclose the existence of this Agreement, the information contained herein or any other information delivered by a party to any other party to any Person other than such party's accountants, attorneys, or Governmental Bodies and any other Persons who need such information to assist a party in determining whether to enter into this Agreement and to consummate the Contemplated Transactions for so long afterwards as the pertinent information or data remain Confidential Information, regardless of whether the Confidential Information is in written or tangible form. The parties acknowledge that money damages for a breach under this Section 9.3 may be inadequate and that a party shall be entitled to seek specific enforcement of this provision.

(c) Upon request of the disclosing party and, in any event, upon the termination of this Agreement, all Confidential Information and all copies thereof, whether in printed or electronic form, shall be returned to the disclosing party.

(d) Sellers understand that NAI is a publicly traded company and acknowledge that they are aware of the restrictions imposed by the United States securities laws on the purchase or sale of securities by any Person who has received material, non-public information from the issuer of such securities and on the communication of such information to any other Person when it is reasonably foreseeable that such other Person is likely to purchase or sell such securities in reliance upon such information. Sellers agree until the termination of this Agreement or otherwise in accordance with the terms of the Lock-Up Agreements, not to offer, sell, contract to sell, pledge, hypothecate, assign, publicly announce the intention to sell, or otherwise transfer or dispose of any shares of NAI Stock, whether now owned or hereafter acquired or with respect to which a Seller would be considered to have beneficial ownership within the meaning of Rule 13d-3 promulgated under the Exchange Act, or any interest therein, or any options, warrants or other rights to purchase or otherwise acquire any shares of NAI Stock.

9.4 **Amendment; Waiver.** No amendment or modification of any of the terms of this Agreement, nor any purported waiver of any condition or breach of any provision hereof, shall be effective unless in writing and signed by each of the other parties hereto. The rights and remedies of the parties to this Agreement are cumulative and not alternative. The failure of any party at any time to require performance by any 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 any party of a breach of any provision hereof be taken or held to be a waiver of such provision. No waiver of any provision of this Agreement shall be deemed, or shall constitute, a waiver of any other provision, whether or not similar, nor shall any waiver constitute a continuing waiver.

9.5 **Governing Law.** The laws of the State of Delaware (without giving effect to its conflicts of laws principles) shall govern the issuance of the NAI Stock to Sellers and the laws of the State of California (without giving effect to its conflicts of laws principles) shall govern all other matters arising out of or relating to this Agreement and all of the Contemplated Transactions, including without limitation, its validity, interpretation, construction, performance, and enforcement.

9.6 **Severability.** If any provision of this Agreement is held invalid, illegal or unenforceable for any reason by any court of competent jurisdiction (or, if applicable, an arbitrator), the remaining provisions of this Agreement shall not be affected and shall remain in full force and effect, and this Agreement shall be construed as if such invalid, illegal or unenforceable provision had not been contained in this Agreement. Any provision of this Agreement held invalid, illegal or unenforceable only in part or degree shall remain in full force and effect to the extent not held invalid, illegal or unenforceable.

9.7 **Entire Agreement.** This Agreement, together with all exhibits and schedules attached hereto and other documents referred to herein, constitutes the entire agreement between the parties hereto with respect to the subject matter hereof. This Agreement supersedes and replaces all prior understandings, negotiations, commitments, writings and agreements between the parties hereto, whether written or oral, express or implied, with respect to its subject matter. Each party to this Agreement acknowledges that no representations, warranties, 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.

9.8 **Construction.** Words used in the singular shall include the plural, and vice-versa, and any gender shall be deemed to include the other. The captions and headings contained in this Agreement are for convenience of reference only, and shall not be deemed to define or limit the provisions hereof. The terms of this Agreement shall be fairly construed and the usual rule of construction, to the effect that any ambiguities herein should be resolved against the drafting party, shall not be employed in the interpretation of this Agreement or any amendments, modifications, schedules or exhibits hereto. Unless otherwise expressly provided, the word "including" does not limit the preceding words or terms. All references to currency herein are to United States Dollars unless otherwise specified herein.

9.9 **Counterparts; Facsimile Signatures.** This Agreement may be executed in counterparts, each of which shall be deemed an original and all of which, when taken together, shall be deemed to constitute one and the same instrument. 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.

9.10 **Disclosure Schedules.** In the event of any inconsistency between the statements in the body of this Agreement and those in Sellers' Disclosure Schedules or NAI's Disclosure Schedules (other than an exception or limitation expressly set forth as such in Sellers' Disclosure Schedules or NAI's Disclosure Schedules), the statements in the body of this Agreement will control.

9.11 **No Parties in Interest.** Nothing in this Agreement, whether express or implied, is intended to confer any rights or remedies under or arising by reason of this Agreement on any Persons other than the parties hereto and their respective successors and permitted assigns. Nothing in this Agreement is intended to relieve or discharge the obligation or liability of any third Person to any party to this Agreement, nor shall any provision give any third Person any right of subrogation or action over or against any party to this Agreement.

9.12 **Attorneys' Fees.** If any party brings a suit or other proceeding against another party as a result of any alleged breach or failure by the other party to fulfill or perform any covenants or obligations under this Agreement, then the prevailing party obtaining final judgment in such action or proceeding shall be entitled to receive from the non-prevailing party the prevailing party's reasonable attorneys' fees incurred by reason of such action or proceeding and all costs associated with such action or proceeding incurred by the prevailing party, including the costs of preparation and investigation. The term "prevailing party" shall mean the party that is entitled to recover its attorneys' fees, costs and expenses in the proceeding under applicable law or the party designated as such by the court or arbitrator.

9.13 **Time of Essence.** With regard to all dates and time periods set forth or referred to in this Agreement, time is of the essence.

9.14 **Notices.** All notices, consents, waivers and other communications required or permitted under this Agreement must be in writing and will be deemed to have been given by a party (a) when delivered by hand; (b) one day after deposit with a nationally recognized overnight courier service; (c) five days after deposit in the United States mail, if sent by certified mail, return receipt requested; or (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) above); in each case costs prepaid and to the following addresses or facsimile numbers and marked to the attention of the person (by name or title) designated below (or to such other address, facsimile number, or person as a party may designate by notice to the other parties).

If to NAI:	Natural Alternatives International, Inc. 1185 Linda Vista Drive San Marcos, CA 92078 Attn: John Reaves Facsimile No.: (760) 591-9637
With a copy to:	Fisher Thurber LLP 4225 Executive Square, Suite 1600 La Jolla, CA 92037 Attn: David A. Fisher Facsimile No.: (858) 535-1616

If to Dullea:	The John F. and Carolyn A. Dullea Trust c/o John F. Dullea and/or Carolyn A. Dullea, trustees 12189 Caminito Corriente San Diego, CA 92128 Facsimile No.: (619) 213-1203
If to Bunten:	The Bunten Family Trust c/o William H. Bunten II and/or Elizabeth W. Bunten, trustees 14781 Memorial Drive #1142 Houston, TX 77079 Facsimile No.: None
If to Fish:	Lincoln Fish 1660 Hotel Circle N, Suite 620 San Diego, CA 92108 Facsimile No.: (619) 819-6990
If to Irwin:	The Michael L. Irwin Trust c/o Michael L. Irwin, trustee 42 56th Place Long Beach, CA 90803 Facsimile No.: None

9.15 **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 parties may reasonably request for the purpose of carrying out the intent of this Agreement and the Contemplated Transactions.

9.16 **Venue.** Any action or proceeding arising out of or relating to this Agreement shall only be brought in the state or federal courts in San Diego, California, and each of the parties hereto submits to the personal jurisdiction of such courts (and of the appropriate appellate courts wherever located) in any such action or proceeding, and selects the courts in San Diego, California for proper venue in any such action or proceeding.

9.17 **Binding Agreement.** This Agreement shall be binding upon and inure to the benefit of the respective heirs, executors, administrators, personal representatives, beneficiaries, successors and permitted assigns of the respective parties hereto. Notwithstanding the foregoing, no party hereto may assign his or its rights or obligations under this Agreement without the written consent of the other parties hereto, except that NAI may assign any of its rights under this Agreement to any Subsidiary of NAI.

[Signatures on following page.]

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

NAI

NATURAL ALTERNATIVES INTERNATIONAL, INC.,
a Delaware corporation

/s/ Randell Weaver
Randell Weaver, President

SELLERS

/s/ Lincoln Fish
Lincoln Fish

THE MICHAEL L. IRWIN TRUST
u/t/a June 25, 1991

/s/ Michael L. Irwin
Michael L. Irwin, Trustee

BUNTEN FAMILY TRUST
dated April 14, 2001

/s/ William H. Bunten II
William H. Bunten II, co-Trustee

/s/ Elizabeth W. Bunten
Elizabeth W. Bunten, co-Trustee

THE JOHN F. AND CAROLYN A. DULLEA TRUST
dated June 20, 2001

/s/ John Dullea
John Dullea, co-Trustee

/s/ Carolyn A. Dullea
Carolyn A. Dullea, co-Trustee

Exhibit 10.2

LOCK-UP AGREEMENT

This Lock-Up Agreement ("Agreement") is made and entered into effective as of December 5, 2005 ("Effective Date"), by and between Natural Alternatives International, Inc., a Delaware corporation ("NAI"), and _____ ("Stockholder").

RECITALS

A. On the Effective Date, NAI, William H. Bunten II and/or Elizabeth W. Bunten, as the trustees of The Bunten Family Trust dated April 14, 2001, John F. Dullea and Carolyn A. Dullea, as the trustees of The John F. and Carolyn A. Dullea Trust dated June 20, 2001, Lincoln Fish, and Michael L. Irwin, as trustee of The Michael L. Irwin Trust u/t/a June 25, 1991 (collectively, the "Selling Stockholders"), entered into a Stock Purchase Agreement, effective as of December 5, 2005 ("Stock Purchase Agreement"), pursuant to which NAI agreed to purchase the outstanding common stock of Real Health Laboratories, Inc., a California corporation ("RHL"), pursuant to the terms of the Stock Purchase Agreement. Capitalized terms used but not defined herein shall have the meaning specified in the Stock Purchase Agreement.

B. Pursuant to Section 2.4(a)(vi) of the Stock Purchase Agreement, as a condition precedent to NAI's obligations under the Stock Purchase Agreement, NAI shall have received one or more executed lock-up agreements covering in the aggregate the Five Hundred Ten Thousand (510,000) shares of NAI common stock to be issued to the Selling Stockholders pursuant to the Stock Purchase Agreement.

C. At the Closing, the Stockholder will own _____ shares of common stock of NAI, par value $0.01 per share ("Common Stock").

D. The parties hereto desire to enter into this Agreement in accordance with the requirements of Section 2.4(a)(vi) of the Stock Purchase Agreement.

NOW, THEREFORE, incorporating the above recitals and in consideration of the obligations contained herein and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto agree as follows:

AGREEMENT

1. Restrictions on Transfer.

a. The Stockholder hereby agrees that, during the period commencing on the Effective Date and continuing to and including the earlier of (i) the date 180 days after the Effective Date, or (ii) the effective date of the "resale" registration statement first filed by NAI with the United States Securities and Exchange Commission ("SEC") after the Closing and as described in Section 3 herein below (the "Lock-Up Period"), such Stockholder will not offer, sell, contract to sell, pledge, hypothecate, assign, announce the intention to sell, or otherwise transfer or dispose of any shares of Common Stock, whether now owned or hereafter acquired by the Stockholder or with respect to which the Stockholder would be considered to have beneficial ownership within the meaning of Rule 13d-3 promulgated under the Securities Act of 1934, as

amended (collectively, the "Lock-Up Shares"), or any interest therein, or any options, warrants or other rights to purchase or otherwise acquire any of the Lock-Up Shares, or any securities convertible into, exchangeable for or that represent the right to receive Lock-Up Shares.

b. The foregoing restriction is expressly agreed to preclude the Stockholder from engaging in any hedging or other transaction that is designed to or which reasonably could be expected to lead to or result in a sale or disposition of the Lock-Up Shares even if such Lock-Up Shares would be disposed of by someone other than the Stockholder. Such prohibited hedging or other transactions would include, without limitation, any short sale or any purchase, sale or grant of any right (including without limitation any put or call option) with respect to any of the Lock-Up Shares or with respect to any securities that include, relate to, or derive any significant part of their value from, or otherwise transfer to any other person any or all of the economic consequences of ownership of the Lock-Up Shares.

c. The Stockholder agrees and consents to the entry of stop transfer instructions with NAI's transfer agent and registrar against any transfer of the Lock-Up Shares prohibited by this Agreement.

d. The Stockholder understands that the restrictions imposed by this Agreement are in addition to any other restrictions imposed on the transfer of the Lock-Up Shares by applicable federal and state securities laws.

2. Permitted Transfers. Notwithstanding the restrictions set forth in Section 1, the Stockholder may transfer the Lock-Up Shares (i) as a bona fide gift or gifts, provided that the donee or donees thereof agree in writing to be bound by the restrictions set forth herein; (ii) if the Stockholder is an individual, to any trust for the direct or indirect benefit of the Stockholder or the immediate family of the Stockholder, provided that the trustee of the trust agrees in writing to be bound by the restrictions set forth herein, and provided further that any such transfer shall not involve a disposition for value; or (iii) with the prior written consent of NAI. For purposes of the foregoing, "immediate family" shall mean the Stockholder's spouse, parents, siblings and lineal descendants. For purposes of this Agreement, the term "Stockholder" shall also include a permitted transferee.

3. Registration of NAI Stock; Rule 144.

a. *Resale Registration Statement*. NAI shall use its Best Efforts to file with the SEC not later than 90 days after the Closing (the "Filing Date") a registration statement ("Registration Statement") under the Securities Act of 1933, as amended (the "Securities Act"), covering all of the shares of NAI Stock and permitting the continuous resale from time to time of the NAI Stock by the Sellers. NAI shall use its Best Efforts to have the Registration Statement declared effective by the SEC as soon as reasonably practicable and, in any event, within 180 days after the Closing (the "Effective Date"). NAI will only be obligated to file and maintain the effectiveness of one registration statement pursuant to this Agreement. The Selling Stockholders and their permitted transferees and assigns may be referred to in this Section 3 as "Sellers."

b. *Registration Procedures*. In connection with its obligations pursuant to Section 3(a) above, NAI will:

i. subject to the timelines provided in this Agreement, prepare and file with the SEC the Registration Statement, with respect to the NAI Stock and use its Best Efforts to cause the Registration Statement to become and remain effective for the period of the distribution contemplated thereby (determined as herein provided), promptly notify the Stockholder of all filings and SEC letters of comment with respect to the Registration Statement, and make available to the Stockholder copies of all such filings and SEC letters of comment to the extent such filings and letters are not publicly available on the SEC's EDGAR system;

ii. prepare and file with the SEC such amendments and supplements to the Registration Statement and the prospectus contained therein as may be necessary to keep the Registration Statement continuously effective pursuant to Rule 415 until such time as all shares registered under the Registration Statement have been sold or are otherwise able to be sold under Rule 144 of the Securities Act without regard to volume limitations, whichever is earlier (the "Registration Effective Period"), and comply with the provisions of the Securities Act with respect to the disposition of all of the Stockholder's NAI Stock covered by the Registration Statement in accordance with the Stockholder's intended method of disposition set forth in the Registration Statement for the Registration Effective Period;

iii. make available to the Stockholder such number of copies of the Registration Statement and the prospectus included therein (including each preliminary prospectus) as the Stockholder reasonably may request to facilitate the public sale or disposition of the securities covered by the Registration Statement to the extent such documents are not publicly available on the SEC's EDGAR system;

iv. before any resale of the Stockholder's NAI Stock registered under the Registration Statement, use its Best Efforts to register or qualify (or exempt therefrom) such NAI Stock for resale under the securities or "blue sky" laws of such jurisdictions as the Stockholder shall reasonably request in writing, provided, however, that NAI shall not for any such purpose be required to qualify generally to transact business as a foreign corporation in any jurisdiction where it is not then so qualified, consent to general service of process in any such jurisdiction, or become subject to any material tax in any such jurisdiction;

v. if applicable, use its Best Efforts to list the NAI Stock covered by the Registration Statement with any securities exchange on which the Common Stock of NAI is then listed; and

vi. as promptly as practicable after becoming aware of such event, notify the Stockholder of the happening of any event of which NAI has knowledge as a result of which the prospectus contained in the Registration Statement, as then in effect, includes an untrue statement of a material fact

or omits to state a material fact required to be stated therein or necessary to make the statements therein not misleading in light of the circumstances then existing. The Stockholder agrees that, upon receipt of such notice, the Stockholder will immediately discontinue the disposition of NAI Stock pursuant to the Registration Statement until NAI has notified the Stockholder that it has filed with the SEC a supplement or amendment to the Registration Statement or the prospectus contained therein to correct such untrue statement or omission; provided that, for not more than twenty (20) consecutive days, NAI may delay the disclosure of material, non-public information concerning NAI (as well as prospectus or Registration Statement updating) the disclosure of which at the time is not, in the good faith opinion of NAI, in the best interest of NAI (an "Allowed Delay"); provided further, that NAI shall promptly (i) notify the Stockholder in writing of the existence of (but in no event, without the prior written consent of the Stockholder, shall NAI disclose to the Stockholder any of the facts or circumstances regarding) material non-public information giving rise to an Allowed Delay and (ii) advise the Stockholder in writing to cease all sales under the Registration Statement until the end of the Allowed Delay, provided the above actions do not violate and are otherwise consistent with the requirements of the Securities Act and/or the Securities Exchange Act of 1934, as amended ("Exchange Act") or other applicable law. NAI shall file with the SEC on or prior to the end of the period covered by the Allowed Delay a supplement or amendment to the Registration Statement or the prospectus contained therein to correct any untrue statement or omission and shall promptly notify the Stockholder in writing of such filing and the Stockholder's ability to resume sales under the Registration Statement. Notwithstanding the foregoing, NAI may not exercise an Allowed Delay more than twice in any twelve (12) month period.

c. *Provision of Documents*. In connection with the registration described in this Section 3, the Stockholder agrees to furnish to NAI in writing such information and representation letters with respect to itself and the proposed distribution by it as may be reasonably requested by NAI. The Stockholder further agrees to cooperate as reasonably requested by NAI in connection with the preparation of the Registration Statement with respect to such registration, and for so long as NAI is obligated to file and keep effective such Registration Statement, shall provide NAI, in writing, for use in the Registration Statement, all such information regarding the Stockholder and its plan of distribution of the NAI Stock included in such registration as may be reasonably necessary to enable NAI to prepare the Registration Statement, to maintain the currency and effectiveness thereof and otherwise to comply with all applicable requirements of federal and state law in connection therewith.

d. *Expenses*. NAI shall bear all fees and expenses incurred by NAI in complying with this Section 3, including, without limitation, all registration and filing fees, reasonable printing expenses, fees and disbursements of legal counsel and independent public accountants for NAI, fees and expenses (including reasonable counsel fees of NAI) incurred in connection with complying with state securities or "blue sky" laws, fees of transfer agents and registrars and

costs of insurance. In addition, NAI shall bear or reimburse Sellers for the reasonable fees and disbursements of one firm of legal counsel for Sellers. All underwriting discounts and selling commissions applicable to the sale of NAI Stock shall be borne by the Sellers and may be apportioned among the Sellers in proportion to the number of shares sold by each Seller relative to the number of shares sold under the Registration Statement or as all Sellers thereunder may agree.

e. *Indemnification and Contribution*.

i. To the extent permitted by law, NAI will indemnify and hold harmless the Stockholder, the partners, officers, directors and legal counsel of the Stockholder, and each person, if any, who controls the Stockholder within the meaning of the Securities Act or the Exchange Act, against any losses, claims, damages, or liabilities (joint or several) to which the Stockholder becomes subject under the Securities Act, the Exchange Act or other federal or state law, insofar as such losses, claims, damages or liabilities (or actions in respect thereof) arise out of or are based upon any of the following statements, omissions or violations (collectively a "Violation") by NAI: (i) any untrue statement or alleged untrue statement of a material fact contained in the Registration Statement, including any prospectus contained therein or any amendments or supplements thereto; (ii) the omission or alleged omission to state therein a material fact required to be stated therein, or necessary to make the statements therein not misleading; or (iii) any violation or alleged violation by NAI of the Securities Act, the Exchange Act, any state securities law or any rule or regulation promulgated under the Securities Act, the Exchange Act or any state securities law in connection with the offering covered by such Registration Statement; and NAI will reimburse such Stockholder, partner, officer or director or controlling person for any legal or other expenses reasonably incurred by them in connection with investigating or defending any such loss, claim, damage, liability or action; provided, however, that the indemnity agreement contained in this Section 3(e)(i) shall not apply to amounts paid in settlement of any such loss, claim, damage, liability or action if such settlement is effected without the consent of NAI, which consent shall not be unreasonably withheld, nor shall NAI be liable in any such case for any such loss, claim, damage, liability or action (i) to the extent that it arises out of or is based upon a Violation which occurs in reliance upon and in conformity with written information furnished expressly for use in connection with such registration by any Seller, or any partner, officer, director, legal counsel or controlling person of any Seller or (ii) if and only to the extent that a prospectus or any amendment thereto relating to the registration was filed by NAI, NAI provides Sellers with notice of such filing but it was not thereafter sent or given by or on behalf of any Seller with or prior to the delivery of written confirmation of the sale by such Seller to the person asserting the loss, claim, damage or liability, and if the prospectus as so amended or supplemented would have cured the defect giving rise to such loss, claim, damage or liability.

ii. To the extent permitted by law, the Stockholder will, if NAI Stock held by the Stockholder is included in the securities as to which such registration qualifications or compliance is being effected, indemnify and hold harmless NAI, each of its directors, its officers, and legal counsel and each person, if any, who controls NAI within the meaning of the Securities Act and any other Seller selling securities under the Registration Statement or any of such other Sellers' partners, directors or officers, legal counsel or any person who controls such Seller, against any losses, claims, damages or liabilities (joint or several) to which NAI or any such director, officer, legal counsel, controlling person or other such Seller, or partner, director, officer, legal counsel or controlling person of such other Seller may become subject under the Securities Act, the Exchange Act or other federal or state law, insofar as such losses, claims, damages or liabilities (or actions in respect thereto) arise out of or are based upon any Violation, in each case to the extent (and only to the extent) that such Violation occurs in reliance upon and in conformity with written information furnished by the Stockholder specifically for use in connection with such registration and the Stockholder will reimburse any legal or other expenses reasonably incurred by NAI or any such director, officer, legal counsel, controlling person or other Seller, or partner, officer, director, legal counsel or controlling person of such other Seller in connection with investigating or defending any such loss, claim, damage, liability or action; provided, however, that the indemnity agreement contained in this Section 3(e)(ii) shall not apply to amounts paid in settlement of any such loss, claim, damage, liability or action if such settlement is effected without the consent of the Stockholder, which consent shall not be unreasonably withheld; provided further, that in no event shall any indemnity under this Section 3(e) exceed the proceeds from the offering received by the Stockholder, net of discounts and commissions.

iii. The procedures for indemnification under this Section 3(e) shall be the procedures for indemnification as set forth in Sections 8.6 and 8.7 of the Stock Purchase Agreement.

iv. If the indemnification provided for in this Section 3(e) is held by a court of competent jurisdiction to be unavailable to an indemnified party with respect to any losses, claims, damages or liabilities referred to herein, the indemnifying party, in lieu of indemnifying such indemnified party thereunder, shall to the extent permitted by applicable law contribute to the amount paid or payable by such indemnified party as a result of such loss, claim, damage or liability in such proportion as is appropriate to reflect the relative fault of the indemnifying party on the one hand and of the indemnified party on the other in connection with the Violation(s) that resulted in such loss, claim, damage or liability, as well as any other relevant equitable considerations. The relative fault of the indemnifying party and of the indemnified party shall be determined by a court of law by reference to, among other things, whether the untrue or alleged untrue

statement of a material fact or the omission to state a material fact relates to information supplied by the indemnifying party or by the indemnified party and the parties' relative intent, knowledge, access to information and opportunity to correct or prevent such statement or omission; provided that in no event shall any contribution by the Stockholder hereunder exceed the proceeds from the offering received by the Stockholder. No person guilty of fraudulent misrepresentation shall be entitled to contribution from any person who was not guilty of such fraudulent misrepresentation.

v. The obligations of NAI and the Stockholder under this Section 3(e) shall survive completion of any offering of NAI Stock in the Registration Statement and the termination of this Agreement.

f. *Rule 144 Reporting*. With a view to making available to the Stockholder the benefits of certain rules and regulations of the SEC that may permit the sale of the NAI Stock to the public without registration, NAI agrees to use its Best Efforts to:

i. make and keep public information available, as those terms are understood and defined in Rule 144 promulgated under the Securities Act;

ii. file with the SEC, in a timely manner, all reports and other documents required of NAI under the Exchange Act; and

iii. during the Registration Effective Period, furnish to the Stockholder forthwith upon written request: (1) a written statement by NAI as to its compliance with the reporting requirements of Rule 144 of the Securities Act, and of the Exchange Act; and (2) a copy of the most recent annual or quarterly report of NAI to the extent not publicly available on the SEC's EDGAR system; and (3) such other reports and documents as the Stockholder may reasonably request in availing itself of any rule or regulation of the SEC allowing it to sell any such securities without registration to the extent such reports and documents are not publicly available on the SEC's EDGAR system and the provision of such reports and documents by NAI would not result in the provision of material non-public information concerning NAI to the Stockholder.

g. *Delivery of Unlegended Shares*.

i. Within five (5) business days (such fifth business day, the "Unlegended Shares Delivery Date") after the business day on which NAI has received (1) a notice from the Stockholder that NAI Stock has been sold by the Stockholder either pursuant to the Registration Statement or Rule 144 under the Securities Act, (2) a representation that the prospectus delivery requirements, or the requirements of Rule 144, as applicable, have been satisfied, and (3) the original share certificates representing the shares of NAI Stock that have been sold, and (4) in the case of sales under Rule 144 customary representation letters of the Stockholder and Stockholder's

broker regarding compliance with the requirements of Rule 144, NAI at its expense, (y) shall deliver, and shall cause legal counsel selected by NAI to deliver, to its transfer agent (with copies to the Stockholder) an appropriate instruction and opinion of such counsel, directing the delivery of shares of Common Stock without any legends, issuable pursuant to any effective and current Registration Statement described in Section 3 of this Agreement or pursuant to Rule 144 under the Securities Act (the "Unlegended Shares"); and (z) cause the transmission of the certificates representing the Unlegended Shares together with a legended certificate representing the balance of the Stockholder's unsold shares of NAI Stock, if any, to the Stockholder at the address specified in the notice of sale, via express courier, by electronic transfer or otherwise on or before the Unlegended Shares Delivery Date. Transfer fees shall be the responsibility of the Seller.

ii. In lieu of delivering physical certificates representing the Unlegended Shares, if NAI's transfer agent is participating in the Depository Trust Company ("DTC") Fast Automated Securities Transfer program, upon request of the Stockholder, so long as the certificates therefor do not bear a legend and the Stockholder is not obligated to return such certificate for the placement of a legend thereon, NAI shall cause its transfer agent to electronically transmit the Unlegended Shares by crediting the account of Stockholder's prime placement agent with DTC through its Deposit Withdrawal Agent Commission system. Such delivery must be made on or before the Unlegended Shares Delivery Date.

h. *Remedies; Specific Performance*. NAI and the Stockholder agree that the Stockholder will suffer damages if the Registration Statement is not filed by the Filing Date and not declared effective by the SEC by the Effective Date and maintained in the manner and within the time periods contemplated by this Section 3 hereof, and it would not be feasible to ascertain the extent of such damages with precision. Accordingly, NAI agrees that, in addition to any other remedy to which the Stockholder may be entitled at law (including recovery of damages) or in equity, the Stockholder shall be entitled to seek to compel specific performance of the obligations of NAI under this Section 3, without the posting of any bond, in any court of the United States or any state thereof having jurisdiction, and if any action should be brought in equity to enforce the provisions of this Section 3, NAI agrees not to raise the defense that there is an adequate remedy at law. Obtaining specific performance shall not be considered an election of remedies or a waiver of any right to assert any other remedies which the Stockholder has at law or in equity. All available remedies shall be cumulative. No waiver of any breach or violation hereof shall be implied from forbearance or failure by the Stockholder to take action thereof. The prevailing party in any action to enforce the provisions of this Section 3 shall be entitled to recover any and all reasonable costs and expenses incurred by it, including attorneys' fees.

4. Representations and Warranties of the Stockholder.

The Stockholder hereby represents and warrants to NAI as follows:

a. *Authority; No Violation*. The Stockholder has all necessary power and authority to enter into this Agreement and perform all the Stockholder's obligations hereunder. This Agreement has been duly and validly authorized, executed and delivered by the Stockholder and constitutes a valid and binding agreement of and is enforceable against the Stockholder and the Stockholder's spouse, if the Lock-Up Shares will constitute community property, in accordance with its terms.

b. *No Conflicts.* The execution, delivery and performance of this Agreement and the consummation by the Stockholder of the transactions contemplated hereby will not conflict with or constitute a violation of or default under any written contract, commitment, agreement or restriction of any kind to which the Stockholder is a party or by which the Stockholder is bound including, without limitation, any voting agreement, stockholders' agreement, trust agreement or voting trust.

c. *Ownership of Shares.* Stockholder is the beneficial owner or record holder of the shares of Common Stock as set forth in Recital C and has sole voting power and sole power of disposition with respect to such shares of Common Stock, with no restrictions on such powers, subject to applicable laws and the terms of this Agreement.

5. Representations and Warranties of NAI.

a. *Authority; No Violation*. NAI has all necessary corporate power and authority to enter into this Agreement and perform all the obligations of NAI hereunder. This Agreement has been duly and validly authorized, executed and delivered by NAI and constitutes a valid and binding agreement of and is enforceable against NAI in accordance with its terms.

b. *No Conflicts.* The execution, delivery and performance of this Agreement and the consummation by NAI of the transactions contemplated hereby will not conflict with or constitute a violation of or default under any written contract, commitment, agreement or restriction of any kind to which NAI is a party or by which NAI is bound.

6. Miscellaneous.

a. *Amendment; Waiver*. No amendment or modification of any of the terms of this Agreement, nor any purported waiver of any condition or breach of any provision hereof, shall be effective unless in writing and signed by the party purported to be bound thereby. The failure of any party at any time to require performance by any 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 any party of a breach of any provision hereof be taken or held to be a waiver of such provision. No waiver of any provision of this Agreement shall be deemed, or shall constitute, a waiver of any other provision, whether or not similar, nor shall any waiver constitute a continuing waiver.

b. *Governing Law*. The laws of the State of Delaware (without giving effect to its conflicts of laws principles) shall govern the issuance of the NAI Stock to the Selling Stockholders and the laws of the State of California (without giving effect to its conflicts of laws principles) shall govern all other matters arising out of or relating to this Agreement and all of

the transactions it contemplates, including without limitation, its validity, interpretation, construction, performance, and enforcement.

c. *Severability*. If any provision of this Agreement is held invalid, illegal or unenforceable for any reason by any court of competent jurisdiction (or, if applicable, an arbitrator), the remaining provisions of this Agreement shall not be affected and shall remain in full force and effect, and this Agreement shall be construed as if such invalid, illegal or unenforceable provision had not been contained in this Agreement. Any provision of this Agreement held invalid, illegal or unenforceable only in part or degree shall remain in full force and effect to the extent not held invalid, illegal or unenforceable.

d. *Entire Agreement*. This Agreement constitutes the entire agreement between the parties hereto with respect to the subject matter hereof. This Agreement supersedes and replaces all prior understandings, negotiations, commitments, writings and agreements between the parties hereto, whether written or oral, express or implied, with respect to its subject matter. Each party to this Agreement acknowledges that no representations, warranties, 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.

e. *Construction*. Words used in the singular shall include the plural, and vice-versa, and any gender shall be deemed to include the other. The captions and headings contained in this Agreement are for convenience of reference only, and shall not be deemed to define or limit the provisions hereof. The terms of this Agreement shall be fairly construed and the usual rule of construction, to the effect that any ambiguities herein should be resolved against the drafting party, shall not be employed in the interpretation of this Agreement or any amendments, modifications or exhibits hereto.

f. *Counterparts*. This Agreement may be executed in counterparts, each of which shall be deemed an original and all of which, when taken together, shall be deemed to constitute one and the same instrument. 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.

g. *No Parties in Interest*. Nothing in this Agreement, whether express or implied, is intended to confer any rights or remedies under or arising by reason of this Agreement on any persons other than the parties hereto and their respective successors and permitted assigns. Nothing in this Agreement is intended to relieve or discharge the obligation or liability of any third person to any party to this Agreement, nor shall any provision give any third person any right of subrogation or action over or against any party to this Agreement.

h. *Attorneys' Fees*. If any party brings a suit or other proceeding against another party as a result of any alleged breach or failure by the other party to fulfill or perform any covenants or obligations under this Agreement, then the prevailing party obtaining final judgment in such action or proceeding shall be entitled to receive from the non-prevailing party the prevailing party's reasonable attorneys' fees incurred by reason of such action or proceeding

and all costs associated with such action or proceeding incurred by the prevailing party, including the costs of preparation and investigation. The term "prevailing party" shall mean the party that is entitled to recover its attorneys' fees, costs and expenses in the proceeding under applicable law or the party designated as such by the court or arbitrator.

i. *Notices*. All notices, consents, waivers and other communications required or permitted under this Agreement must be in writing and will be deemed to have been given by a party (a) when delivered by hand; (b) one day after deposit with a nationally recognized overnight courier service; (c) five days after deposit in the United States mail, if sent by certified mail, return receipt requested; or (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) above); in each case costs prepaid and to the following addresses or facsimile numbers and marked to the attention of the person (by name or title) designated below (or to such other address, facsimile number, or person as a party may designate by notice to the other parties).

If to NAI:	Natural Alternatives International, Inc. 1185 Linda Vista Drive San Marcos, CA 92078 Attn: John Reaves Facsimile No.: (760) 591-9637
With a copy to:	Fisher Thurber LLP 4225 Executive Square, Suite 1600 La Jolla, CA 92037 Attn: David A. Fisher Facsimile No.: (858) 535-1616
If to Stockholder:	[Insert Name] [address and fax number to be provided]

j. *Further Assurances*. The Stockholder agrees to execute and/or cause to be delivered to NAI such additional instruments and documents and shall take such other actions as NAI may reasonably request to effectuate the intent and purpose of this Agreement.

k. *Venue*. Any action or proceeding arising out of or relating to this Agreement shall only be brought in the state or federal courts in San Diego, California, and each of the parties hereto submits to the personal jurisdiction of such courts (and of the appropriate appellate courts wherever located) in any such action or proceeding, and selects the courts in San Diego, California for proper venue in any such action or proceeding.

l. *Binding Agreement*. Each party hereto understands that the other party is relying on this Agreement in proceeding toward consummation of the transactions contemplated by the Stock Purchase Agreement. The Stockholder further understands that this Agreement is irrevocable and shall be binding upon and inure to the benefit of the respective heirs, executors, administrators, personal representatives, beneficiaries, successors and permitted assigns of the respective parties hereto. Notwithstanding the foregoing, no party hereto may assign his, her or its rights or obligations under this Agreement without the written consent of the other party hereto.

[Signatures on following page.]

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

NAI

NATURAL ALTERNATIVES INTERNATIONAL, INC.,
a Delaware corporation

_____
Randell Weaver, President

STOCKHOLDER

_____
[Insert sig block for applicable stockholder]

Exhibit 10.3

EMPLOYMENT AGREEMENT

This Employment Agreement ("Agreement") is made and entered into effective as of December 5, 2005 ("Effective Date"), by and between John F. Dullea ("Employee"), and Real Health Laboratories, Inc., a California corporation ("Company") and wholly-owned subsidiary of Natural Alternatives International, Inc., a Delaware corporation ("NAI"). The Company and Employee may be referred to herein collectively as the "Parties."

RECITALS

WHEREAS, on the Effective Date, NAI acquired all of the outstanding stock of the Company and the Company became a wholly-owned subsidiary of NAI pursuant to the terms of a Stock Purchase Agreement by and among NAI, and William H. Bunten II and/or Elizabeth W. Bunten, as the trustees of The Bunten Family Trust dated April 14, 2001, John F. Dullea and Carolyn A. Dullea, as the trustees of The John F. and Carolyn A. Dullea Trust dated June 20, 2001, Lincoln Fish, and Michael L. Irwin, as trustee of The Michael L. Irwin Trust u/t/a June 25, 1991 (collectively, the stockholders of RHL prior to the Effective Date), dated as of the Effective Date ("Stock Purchase Agreement");

WHEREAS, prior to the Effective Date, Employee served as a Director and as the Chief Executive Officer and President of the Company;

WHEREAS, pursuant to the terms of the Stock Purchase Agreement, Employee resigned his positions as Director and Chief Executive Officer (but not as President) of the Company effective as of the Effective Date; and

WHEREAS, the Company and Employee each desire to enter into this Agreement to set forth the terms and conditions of Employee's employment with the Company from and after the Effective Date.

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 President of the Company beginning on the Effective Date. 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 (which shall include any committee or subcommittee thereof authorized to determine matters of executive employment and compensation).

2. **Employee Handbook.** Employee and the Company understand and agree that nothing in the Company's Employee Handbook is intended to be, and nothing in it should be construed to be, a limitation of the Company's right to terminate, transfer, demote, suspend and

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

3. **Position and Responsibilities.**

a. During Employee's employment with the Company hereunder, Employee shall report to the Company's Chief Executive Officer and Board of Directors and shall have such responsibilities, duties and authority as the Company, through its Board of Directors, may from time to time assign to Employee. Employee shall perform any other duties reasonably required by the Company and, upon mutual agreement of the Parties, shall serve as a director and/or as an additional officer of the Company or any parent, subsidiary or affiliate of the Company without additional compensation.

b. Employee, in Employee's capacity as President of 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 any parent, subsidiary or affiliate of the Company. Employee agrees not to engage in any other business activity that would materially interfere with the performance of Employee's duties under this Agreement. Employee represents to the Company that Employee has no other outstanding commitments inconsistent with any of the terms of this Agreement or the services to be rendered under it.

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

d. Employee will abide by all policies and decisions made by the Company, as well as all applicable federal, state and local laws, rules, regulations and ordinances, to the best of Employee's knowledge and abilities.

4. **Compensation.**

a. Salary. During the term of Employee's employment hereunder, the Company agrees to pay Employee a base salary of $275,000 per year, payable in arrears no less frequently than monthly in accordance with the Company's general payroll practices. In the first year of employment, the base salary will be prorated from the Effective Date. The amount of Employee's base salary as set forth in this Section 4(a) may be adjusted from time to time by an agreement in writing signed by the Chief Executive Officer of the Company and Employee, the terms of which were approved in advance by action of the Company's Board of Directors (or authorized committee or subcommittee thereof). All references in this Agreement to Employee's base salary shall mean the base salary as adjusted from time to time.

b. Additional Benefits. During Employee's employment with the Company, in addition to the other compensation and benefits set forth herein, Employee shall be entitled to receive an amount equal to $530 per month as payment or reimbursement for golf club membership dues and to receive and/or participate in such other benefits of employment generally available to the Company's other corporate officers and the corporate officers of NAI when and as Employee becomes eligible for them, including, without limitation, participation in NAI's Executive Incentive Compensation Program as may be in effect from time to time. 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.

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 or NAI.

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. Notwithstanding the foregoing, in the event of Employee's termination due to death, upon execution and delivery on behalf of Employee's estate of a Release (as defined under Section 5(b), the Company shall cause each then-outstanding stock option granted by the Company and/or NAI to the Employee as of the date of termination to become fully exercisable.

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 and to the corporate officers of NAI, in an amount equal to two (2) years' base salary, if any such termination occurs on or before December 5, 2007, or an amount equal to eighteen (18) months' base salary if any such termination occurs after December 5, 2007. 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 base salary. One half of any severance benefit owing hereunder shall be paid within ten (10) business days of termination and the balance shall be paid on a bi-weekly basis over the applicable severance period of one (1) month, two (2) years or eighteen (18) months. In addition to the above described severance benefit, Employee shall be entitled to receive a reasonable amount for executive outplacement services during the applicable severance period, as determined by the Company's Board of Directors based on the then-current market price for such services.

c. With Cause, No Severance Benefit. The Company may terminate Employee for Cause. For purposes of this Agreement, Cause shall mean the occurrence of one or more of the following events: (i) the Employee's commission of any fraud against the Company or any parent, subsidiary or affiliate of the Company; (ii) Employee's intentional appropriation for Employee's personal use or benefit of 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 or any parent, subsidiary or affiliate 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 or gratuities as in effect from time to time; or (vii) when Employee has been disabled and is unable to perform the essential functions of the position for any reason notwithstanding reasonable accommodation, provided Employee has received from the Company compensation in an amount equivalent to Employee's severance benefit payment. No severance benefit shall be due to Employee if Employee is terminated for Cause, including if Employee is terminated for Cause upon or after a Change in Control (as hereinafter defined and separately addressed below), except in the event of disability as set forth above.

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

e. Payment Through Date of Termination. Except as otherwise set forth herein, upon the termination of this Agreement for any reason, Employee shall be entitled to receive any unpaid compensation earned through the effective date of termination. If this Agreement is terminated for any reason before year-end bonus or other compensation 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 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 any parent, subsidiary or affiliate of the Company, 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 or any parent, subsidiary or affiliate of the Company. Employee shall also cooperate in the defense of any action brought by any third party against the Company or any parent, subsidiary or affiliate of 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 or NAI 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 or NAI, as applicable, 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 or NAI's assets;

(iii) A change in the composition of the Company's or NAI'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 or NAI, as applicable, 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 or NAI representing at least 20% of the total voting power represented by the Company's or NAI'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 or NAI in substantially the same proportions as their ownership of the common stock of the Company or NAI, as applicable.

A transaction shall not constitute a Change in Control if its sole purpose is to change the state of the Company's or NAI'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 or NAI'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. Subject to applicable law, 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, subject to applicable law, 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 and/or NAI 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 parent, subsidiary or affiliate of 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 parent, subsidiary or affiliate of 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 or any parent, subsidiary or affiliate of the Company, the Employee shall advise 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 a parent or 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.

[Signatures on following page.]

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

EMPLOYEE

/s/ John F. Dullea
John F. Dullea

COMPANY

Real Health Laboratories, Inc.,
a California corporation

By: /s/ Randell Weaver
Randell Weaver, Chief Executive Officer

ACKNOWLEDGED AND AGREED:

NAI

Natural Alternatives International, Inc.,
a Delaware corporation

By: /s/ Randell 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 December 5, 2005 ("Effective Date"), by and between John F. Dullea ("Employee"), and Real Health Laboratories, Inc., a California corporation ("Company") and wholly-owned subsidiary of Natural Alternatives International, Inc., a Delaware corporation ("NAI").

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

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

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

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

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

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

(iv) Any public policy; and

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

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

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

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

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

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

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

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

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

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

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

b. The party demanding arbitration shall submit a written claim to the other party, setting out the basis of the claim and proposing the name of 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 county of San Diego, California, at a time and place selected by the arbitrator. A pre-arbitration hearing shall be held within ten (10) business days after the arbitrator's selection. The arbitration shall be held within sixty (60) calendar days after the pre-arbitration hearing. The arbitrator shall establish all discovery and other deadlines necessary to accomplish this goal.

d. Each party shall be entitled to 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/ John F. Dullea
John F. Dullea

COMPANY

Real Health Laboratories, Inc.,
a California corporation

By: /s/ Randell Weaver
Randell Weaver, 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 John F. Dullea ("Employee" or "I," "me" or "my"), and accepted and agreed to by Real Health Laboratories, Inc., a California corporation ("Company") and wholly-owned subsidiary of Natural Alternatives International, Inc., a Delaware corporation ("NAI"), as of December 5, 2005 ("Effective Date").

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

1. **Inventions.**

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

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

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

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

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

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

b. Assignment. I hereby assign to the Company without royalty or any other further consideration my entire right, title and interest in and to each and every Invention I am required to disclose under Section 1(a) other than an Invention that (i) I have or shall have developed entirely on my own time without using the Company's equipment, supplies, facilities or trade secret information, (ii) does not relate at the time of conception or reduction to practice of the Invention to the Company's business, or actual or demonstrably anticipated research or development of the Company, and (iii) does not result from any work performed by me for the Company. I acknowledge that the Company has notified me that the assignment provided for in this Section 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 the Effective Date 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 the Effective Date). 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 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.

k. 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.

[Signatures on following page.]

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

/s/ John F. Dullea
John F. Dullea

ACCEPTED AND AGREED TO:

Real Health Laboratories, Inc.,
a California corporation

By: /s/ Randell Weaver
Randell Weaver, 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):

NONE

EXHIBIT C

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

NONE

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 F. Dullea ("Former Employee") and Real Health Laboratories, Inc., a California corporation ("Company") and wholly-owned subsidiary of Natural Alternatives International, Inc., a Delaware corporation ("NAI").

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, and its parent, subsidiaries and affiliates, and its and their respective directors, officers, employees, volunteers, agents, attorneys, stockholders, insurers, successors and/or assigns from any and all losses, liabilities, claims, demands, causes of action, or suits of any type, whether in law and/or in equity, related directly or indirectly or in any way in connection with any transaction, affairs or occurrences between them to date, including, but not limited to, Former Employee's employment with the Company and the termination of said employment. Former Employee agrees and understands that this Agreement applies, without limitation, to all wage claims, tort and/or contract claims, claims for wrongful termination, and claims arising under Title VII of the Civil Rights Act of 1991, the Americans with Disabilities Act, the Age Discrimination in Employment Act, the Equal Pay Act, the California Fair

Employment and Housing Act, the Fair Labor Standards Act, the Family and Medical Leave Act, the California Labor Code, any and all federal or state statutes or provisions governing discrimination in employment, and the California Business and Professions Code.

(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, and its parent, subsidiaries and affiliates and its and their respective officers, directors, employees, volunteers, agents, attorneys, stockholders, successors and/or assigns 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 and/or its parent may be required to disclose certain terms, aspects or conditions of this Agreement and/or Former Employee's termination of employment in NAI'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 December 5, 2005, by and between the Company and Former Employee.

16. 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.

17. 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 F. Dullea

Dated: _____

Executed in: _____, California
(City)

COMPANY

Real Health Laboratories, Inc.,
a California corporation

By: _____
(Signature)

Printed Name: _____

Title: _____

Dated: _____

Executed in: _____, California
(City)

EXHIBIT 10.4

STANDARD INDUSTRIAL/COMMERCIAL
MULTI-TENANT LEASE - GROSS
AMERICAN INDUSTRIAL REAL ESTATE ASSOCIATION

1. **Basic Provisions ("Basic Provisions").**

1.1 **Parties:** This Lease **("Lease")**, dated for reference purposes only February 5, 2003, is made by and between *

_____

_____

_____**("Lessor")**

(Lessor) and Real Health Laboratories, Inc. **("Lessee")**, (collectively the **"Parties"**, or individually a **"Party"**).

* Jonathan Glasier and Elizabeth M. Glasier, Husband and Wife as Joint Tenants as to an undivided 92.93% Interest and Joel Gattey a single man, as to an undivided 7.07% interest

1.2(a) **Premises:** That certain portion of the Project (as defined below), including all improvements therein or to be provided by Lessor under the terms of this Lease, commonly known by the street address of 1424 30Th St., located in the City of San Diego, County of SanDiego , State of CA, with zip code 92154, as outlined on Exhibit A attached hereto (**"Premises"**) and generally described as (describe briefly the nature of the Premises): an approximate 14,145 SF industrial space.

In addition to Lessee's rights to use and occupy the Premises as hereinafter specified, Lessee shall have non-exclusive rights to the Common Areas (as defined in Paragraph 2.7 below) as hereinafter specified, but shall not have any rights to the roof, exterior walls or utility raceways of the building containing the Premises **("Building")** or to any other buildings in the Project. The Premises, the Building, the Common Areas, the land upon which they are located, along with all other buildings and improvements thereon, are herein collectively referred to as the **"Project."** (See also Paragraph 2.)

1.2(b) **Parking:** _____ unreserved vehicle parking spaces (**"Unreserved Parking Spaces"**); and *_____ reserved vehicle parking spaces **("Reserved Parking Spaces")**. (See also Paragraph 2.6.) * See attached Parking Exhibit

1.3 **Term:** 3 years and no months (**"Original Term"**) commencing See Addendum (**"Commencement Date"**) and ending See Addendum (**"Expiration Date"**). (See also Paragraph 3.)

1.4 **Early Possession**: See Addendum **("Early Possession Date")**. (See also Paragraphs 3.2 and 3.3.)

1.5 **Base Rent:** $8,333.00 per month **("Base Rent")**, payable on the _____ day of each month commencing . _____ (See also Paragraph 4.)

☒ If this box is checked, there are provisions in this Lease for the Base Rent to be adjusted. Base Rent will increase by 3.0% annually.

1.6 **Lessee's Share of Common Area Operating Expenses:** n/a percent (__%) ("Lessee's Share").

1.7 **Base Rent and Other Monies Paid Upon Execution:**

(a) **Base Rent:** $8,333.00 for the period First month..

(b) **Common Area Operating Expenses:** $0. for the period initial and option term .

(c) **Security Deposit:** $8,333.00 **("Security Deposit")**. (See also Paragraph 5.)

(d) **Other:** $ 0. for _____.

(e) **Total Due Upon Execution of this Lease:** $ 16, 666.00

1.8 **Agreed Use:** Warehousing, distribution, and office space for nutritional supplements. (See also Paragraph 6.)

1.9 **Insuring Party.** Lessor is the **"Insuring Party"**. (See also Paragraph 8.)

~~1.10 **Real Estate Brokers:** (See also Paragraph 15.)~~

~~(a) **Representation:** The following real estate brokers (the **"Brokers"**) and brokerage relationships exist in this transaction (check applicable boxes):~~

~~☐ _____ represents Lessor exclusively **("Lessor's Broker");**~~

~~☐ _____ represents Lessee exclusively **("Lessee's Broker");** or~~

~~_____~~

~~_____~~

~~☐ _____ represents both Lessor and Lessee **("Dual Agency").**~~

~~(b) **Payment to Brokers:** Upon execution and delivery of this Lease by both Parties, Lessor shall pay to the Brokers the brokerage fee agreed to in a separate written agreement (or if there is no such agreement, the sum of _____ or _____% of the total Base Rent for the brokerage services rendered by the Brokers).~~

1.11 **Guarantor**. The obligations of the Lessee under this Lease are to be guaranteed by See attached Guaranty of Lease (**"Guarantor"**). (See also Paragraph 37.)

1.12 **Addenda and Exhibits**. Attached hereto is an Addendum or Addenda consisting of Paragraphs 50 through 51 and Exhibits ** through _____, all of which constitute a part of this Lease. ** Addendum to Lease, Guaranty of Lease, Parking Exhibit, Space Plan Exhibit, Option To Extend.

2. **Premises.**

2.1 **Letting.** Lessor hereby leases to Lessee, and Lessee hereby leases from Lessor, the Premises, for the term, at the rental, and upon all of the terms, covenants and conditions set forth in this Lease. Unless otherwise provided herein, any statement of size set forth in this Lease, or that may have been used in calculating Rent, is an approximation which the Parties agree is reasonable and any payments based thereon are not subject to revision whether or not the actual size is more or less.

~~2.2 **Condition.** Lessor shall deliver that portion of the Premises contained within the Building ("**Unit**") to Lessee broom clean and free of debris on the Commencement Date or the Early Possession Date, whichever first occurs ("**Start Date**"), and, so long as the required service contracts described in Paragraph 7.1(b) below are obtained by Lessee and in effect within thirty days following the Start Date, warrants that the existing electrical, plumbing, fire sprinkler, lighting, heating,. ventilating and air conditioning systems (**"HVAC"**), loading doors, if any, and all other such elements in the Unit, other than those constructed by Lessee, shall be in good operating condition on said date and that the structural elements of the roof, bearing walls and~~

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foundation of the Unit shall be free of material defects. If a non-compliance with such warranty exists as of the Start Date, or if one of such systems or elements should malfunction or fail within the appropriate warranty period, Lessor shall, as Lessor's sole obligation with respect to such matter, except as otherwise provided in this Lease, promptly after receipt of written notice from Lessee setting forth with specificity the nature and extent of such non compliance, malfunction or failure, rectify same at Lessor's expense. The warranty periods shall be as follows: (i) 6 months as to the HVAC systems, and (ii) 30 days as to the remaining systems and other elements of the Unit. If Lessee does not give Lessor the required notice within the appropriate warranty period, correction of any such non compliance, malfunction or failure shall be the obligation of Lessee at Lessee's sole cost and expense (except for the repairs to the fire sprinkler systems, roof, foundations, and/or bearing walls – see Paragraph 7).

2.3 **Compliance**. Lessor warrants that the improvements on the Premises and the Common Areas comply with the building codes that were in effect at the time that each such improvement, or portion thereof, was constructed, and also with all applicable laws, covenants or restrictions of record, regulations, and ordinances in effect on the Start Date (**"Applicable Requirements"** Said warranty does not apply to the use to which Lessee will put the Premises or to any Alterations or Utility Installations (as defined in Paragraph 7.3(a).) made or to be made by Lessee. **NOTE: Lessee is responsible for determining whether or not the zoning is appropriate for Lessee's intended use, and acknowledges that past uses of the Premises may no longer be allowed.** If the Premises do not comply with said warranty, Lessor shall, except as otherwise provided, promptly after receipt of written notice from Lessee setting forth with specificity the nature and extent of such non-compliance, rectify the same at Lessor's expense. If Lessee does not give Lessor written notice of a non compliance with this warranty within 6 months following the Start Date, correction of that non compliance shall be the obligation of Lessee at Lessee's sole cost and expense. If the Applicable Requirements are hereafter changed so as to require during the term of this Lease the construction of an addition to or an alteration of the Unit, Premises and/or Building, the remediation of any Hazardous Substance, or the reinforcement or other physical modification of the Unit, Premises and/or Building (**"Capital Expenditure"**), Lessor and Lessee shall allocate the cost of such work as follows:

(a) Subject to Paragraph 2.3 (c) below, if such Capital Expenditures are required as a result of the specific and unique use of the Premises by Lessee as compared with uses by tenants in general, Lessee shall be fully responsible for the cost thereof, provided, however, that if such Capital Expenditure is required during the last 2 years of this Lease and the cost thereof exceeds 6 months' Base Rent, Lessee may instead terminate this Lease unless Lessor notifies Lessee, in writing, within 10 days after receipt of Lessee's termination notice that Lessor has elected to pay the difference between the actual cost thereof and the amount equal to 6 months' Base Rent. If Lessee elects termination, Lessee shall immediately cease the use of the Premises which requires such Capital Expenditure and deliver to Lessor written notice specifying a termination date at least 90 days thereafter. Such termination date shall, however, in no event be earlier than the last day that Lessee could legally utilize the Premises without commencing such Capital Expenditure.

(b) If such Capital Expenditure is not the result of the specific and unique use of the Premises by Lessee (such as, governmentally mandated seismic modifications), then Lessor and Lessee shall allocate the obligation to pay for the portion of such costs reasonably attributable to the Premises pursuant to the formula set out in Paragraph 7.1(d); provided, however, that if such Capital Expenditure is required during the last 2 years of this Lease or if Lessor reasonably determines that it is not economically feasible to pay its share thereof, Lessor shall have the option to terminate this Lease upon 90 days prior written notice to Lessee unless Lessee notifies Lessor, in writing, within 10 days after receipt of Lessor's termination notice that Lessee will pay for such Capital Expenditure. If Lessor does not elect to terminate, and fails to tender its share of any such Capital Expenditure, Lessee may advance such funds and deduct same, with, Interest, from Rent until Lessor's share of such costs have been fully paid. If Lessee is unable to finance Lessor's share, or if the balance of the Rent due and payable for the remainder of this Lease is not sufficient to fully reimburse Lessee on an offset basis, Lessee shall have the right to terminate this Lease upon 30 days written notice to Lessor.

(c) Notwithstanding the above, the provisions concerning Capital Expenditures are intended to apply only to non-voluntary, unexpected, and new Applicable Requirements. If the Capital Expenditures are instead triggered by Lessee as a result of an actual or proposed change in use, change in intensity of use, or modification to the Premises then, and in that event, Lessee shall be fully responsible for the cost thereof, and Lessee shall not have any right to terminate this Lease.

2.4 **Acknowledgements**. Lessee acknowledges that: (a) it has been advised by Lessor and/or Brokers to satisfy itself with respect to the condition of the Premises (including but not limited to the electrical, HVAC and fire sprinkler systems, security, environmental aspects, and compliance with Applicable Requirements and the Americans with Disabilities Act), and their suitability for Lessee's intended use, (b) Lessee has made such investigation as it deems necessary with reference to such matters and assumes all responsibility therefor as the same relate to its occupancy of the Premises, and (c) neither Lessor, Lessor's agents, nor Brokers have made any oral or written representations or warranties with respect to said matters other than as set forth in this Lease. In addition, Lessor acknowledges that: (i) Brokers have made no representations, promises or warranties concerning Lessee's ability to honor the Lease or suitability to occupy the Premises, and (ii) it is Lessor's sole responsibility to investigate the financial capability and/or suitability of all proposed tenants.

2.5 **Lessee as Prior Owner/Occupant**. The warranties made by Lessor in Paragraph 2 shall be of no force or effect if immediately prior to the Start Date Lessee was the owner or occupant of the Premises. In such event, Lessee shall be responsible for any necessary corrective work.

2.6 **Vehicle Parking.** Lessee shall be entitled to use the number of Unreserved Parking Spaces and Reserved Parking Spaces specified in Paragraph 1.2(b) on those portions of the Common Areas designated from time to time by Lessor for parking. Lessee shall not use more parking spaces than said number. Said parking spaces shall be used for parking by vehicles no larger than full-size passenger automobiles or pick-up trucks, herein called **"Permitted Size Vehicles."** Lessor may regulate the loading and unloading of vehicles by adopting Rules and Regulations as provided in Paragraph 2.9. No vehicles other than Permitted Size Vehicles may be parked in the Common Area without the prior written permission of Lessor.

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

(b) Lessee shall not service or store any vehicles in the Common Areas.

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

2.7 **Common Areas - Definition**. The term **"Common Areas"** is defined as all areas and facilities outside the Premises and within the exterior boundary line of the Project and interior utility raceways and installations within the Unit that are provided and designated by the Lessor from time to time for the general non-exclusive use of Lessor, Lessee and other tenants of the Project and their respective employees, suppliers, shippers, customers, contractors and invitees, including parking areas, loading and unloading areas, trash areas, roadways, walkways, driveways and landscaped areas.

2.8 **Common Areas - Lessee's Rights**. Lessor grants to Lessee, for the benefit of Lessee and its employees, suppliers, shippers, contractors, customers and invitees, during the term of this Lease, the non-exclusive right to use, in common with others entitled to such use, the Common Areas as they exist from

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

2.9 **Common Areas - Rules and Regulations**. Lessor or such other person(s) as Lessor may appoint shall have the exclusive control and management of the Common Areas and shall have the right, from time to time, to establish, modify, amend and enforce reasonable rules and regulations **("Rules and Regulations")** for the management, safety, care, and cleanliness of the grounds, the parking and unloading of vehicles and the preservation of good order, as well as for the convenience of other occupants or tenants of the Building and the Project and their invitees. Lessee agrees to abide by and conform to all such Rules and Regulations, and to cause its employees, suppliers, shippers, customers, contractors and invitees to so abide and conform. Lessor shall not be responsible to Lessee for the non-compliance with said Rules and Regulations by other tenants of the Project.

2.10 **Common Areas - Changes**. Lessor shall have the right, in Lessor's sole discretion, from time to time:

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

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

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

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

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

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

3. **Term.**

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

3. 2 **Early Possession**. If Lessee totally or partially occupies the Premises prior to the Commencement Date, the obligation to pay Base Rent shall be abated for the period of such early possession. All other terms of this Lease (including but not limited to the obligations to pay Lessee's Share of Common Area Operating Expenses, Real Property Taxes and insurance premiums and to maintain the Premises) shall, however, be in effect during such period. Any such early possession shall not affect the Expiration Date.

3.3 **Delay In Possession**. Lessor agrees to use its best commercially reasonable efforts to deliver possession of the Premises to Lessee by the Commencement Date. If, despite said efforts, Lessor is unable to deliver possession as agreed, Lessor shall not be subject to any liability therefor, nor

shall such failure affect the validity of this Lease. Lessee shall not, however, be obligated to pay Rent or perform its other obligations until it receives possession of the Premises. If possession is not delivered within 60 days after the Commencement Date, Lessee may, at its option, by notice in writing within 10 days after the end of such 60 day period, cancel this Lease, in which event the Parties shall be discharged from all obligations hereunder. If such written notice is not received by Lessor within said 10 day period, Lessee's right to cancel shall terminate. Except as otherwise provided, if possession is not tendered to Lessee by the Start Date and Lessee does not terminate this Lease, as aforesaid, any period of rent abatement that Lessee would otherwise have enjoyed shall run from the date of delivery of possession and continue for a period equal to what Lessee would otherwise have enjoyed under the terms hereof, but minus any days of delay caused by the acts or omissions of Lessee. If possession of the Premises is not delivered within 4 months after the Commencement Date, this Lease shall terminate unless other agreements are reached between Lessor and Lessee, in writing.

3.4 **Lessee Compliance**. Lessor shall not be required to tender possession of the Premises to Lessee until Lessee complies with its obligation to provide evidence of insurance (Paragraph 8.5). Pending delivery of such evidence, Lessee shall be required to perform all of its obligations under this Lease from and after the Start Date, including the payment of Rent, notwithstanding Lessor's election to withhold possession pending receipt of such evidence of insurance. Further, if Lessee is required to perform any other conditions prior to or concurrent with the Start Date, the Start Date shall occur but Lessor may elect to withhold possession until such conditions are satisfied.

4. **Rent**.

4.1. **Rent Defined.** All monetary obligations of Lessee to Lessor under the terms of this Lease (except for the Security Deposit) are deemed to be rent (**"Rent"**).

4.2 **Common Area Operating Expenses.** Lessee shall pay to Lessor during the term hereof, in addition to the Base Rent, Lessee's Share (as specified in Paragraph 1.6.) of all Common Area Operating Expenses, as hereinafter defined, during each calendar year of the term of this Lease, in accordance with the following provisions:

(a) **"Common Area Operating Expenses"** are defined, for purposes of this Lease, as all costs incurred by Lessor relating to the ownership and operation of the Project, including, but not limited to, the following:

(i) The operation, repair and maintenance, in neat, clean, good order and condition, but not the replacement (see subparagraph (c)), of the following:

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

(bb) Exterior signs and any tenant directories.

(cc) Any fire sprinkler systems.

(ii) The cost of water, gas, electricity and telephone to service the Common Areas and any utilities not separately metered.

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

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

(v) Any increase above the Base Real Property Taxes (as defined in Paragraph 10).

(vi) Any "Insurance Cost Increase" (as defined in Paragraph 8).

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

(viii) The cost of any Capital Expenditure to the Building or the Project not covered under the provisions of Paragraph 2.3 provided; however, that Lessor shall allocate the cost of any such Capital Expenditure over a 12 year period and Lessee shall not be required to pay more than Lessee's Share of 1/144th of the cost of such Capital Expenditure in any given month.

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

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

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

(d) Lessee's Share of Common Area Operating Expenses shall be payable by Lessee within 10 days after a reasonably detailed statement of actual expenses is presented to Lessee. At Lessor's option, however, an amount may be estimated by Lessor from time to time of Lessee's Share of annual Common Area Operating Expenses and the same shall be payable monthly or quarterly, as Lessor shall designate, during each 12-month period of the Lease term, on the same day as the Base Rent is due hereunder. Lessor shall deliver to Lessee within 60 days after the expiration of each calendar year a reasonably detailed statement showing Lessee's Share of the actual Common Area Operating Expenses incurred during the preceding year. If Lessee's payments under this Paragraph 4.2(d) during the preceding year exceed Lessee's Share as indicated on such statement, Lessor shall credit the amount of such over payment against Lessee's Share of Common Area Operating Expenses next becoming due. If Lessee's payments under this Paragraph 4.2(d) during the preceding year were less than Lessee's Share as indicated on such statement, Lessee shall pay to Lessor the amount of the deficiency within 10 days after delivery by Lessor to Lessee of the statement.

(e) When a capital component such as the roof, foundations, exterior walls or a Common Area capital improvement, such as the parking lot paving, elevators, fences, etc. requires replacement, rather than repair or maintenance, Lessor shall, at Lessor's expense, be responsible for such replacement. Such expenses and/or costs are not Common Area Operating Expenses.

4.3 **Payment.** Lessee shall cause payment of Rent to be received by Lessor in lawful money of the United States, without offset or deduction (except as

specifically permitted in this Lease), on or before the day on which it is due. Rent for any period during the term hereof which is for less than one full calendar month shall be prorated based upon the actual number of days of said month. Payment of Rent shall be made to Lessor at its address stated herein or to such other persons or place as Lessor may from time to time designate in writing. Acceptance of a payment which is less than the amount then due shall not be a waiver of Lessor's rights to the balance of such Rent, regardless of Lessor's endorsement of any check so stating. In the event that any check, draft, or other instrument of payment given by Lessee to Lessor is dishonored for any reason, Lessee agrees to pay to Lessor the sum of $25.

5. **Security Deposit.** Lessee shall deposit with Lessor upon execution hereof the Security Deposit as security for Lessee's faithful performance of its obligations under this Lease. If Lessee fails to pay Rent, or otherwise Defaults under this Lease, Lessor may use, apply or retain all or any portion of said Security Deposit for the payment of any amount due Lessor or to reimburse or compensate Lessor for any liability, expense, loss or damage which Lessor may suffer or incur by reason thereof. If Lessor uses or applies all or any portion of the Security Deposit, Lessee shall within 10 days after written request therefor deposit monies with Lessor sufficient to restore said Security Deposit to the full amount required by this Lease. If the Base Rent increases during the term of this Lease, Lessee shall, upon written request from Lessor, deposit additional monies with Lessor so that the total amount of the Security Deposit shall at all times bear the same proportion to the increased Base Rent as the initial Security Deposit bore to the initial Base Rent. Should the Agreed Use be amended to accommodate a material change in the business of Lessee or to accommodate a sublessee or assignee, Lessor shall have the right to increase the Security Deposit to the extent necessary, in Lessor's reasonable judgment, to account for any increased wear and tear that the Premises may suffer as a result thereof. If a change in control of Lessee occurs during this Lease and following such change the financial condition of Lessee is, in Lessor's reasonable judgment, significantly reduced, Lessee shall deposit such additional monies with Lessor as shall be sufficient to cause the Security Deposit to be at a commercially reasonable level based on such change in financial condition. Lessor shall not be required to keep the Security Deposit separate from its general accounts. Within 14 days after the expiration or termination of this Lease, if Lessor elects to apply the Security Deposit only to unpaid Rent, and otherwise within 30 days after the Premises have been vacated pursuant to Paragraph 7.4(c) below, Lessor shall return that portion of the Security Deposit not used or applied by Lessor. No part of the Security Deposit shall be considered to be held in trust, to bear interest or to be prepayment for any monies to be paid by Lessee under this Lease.

6. **Use.**

6.1 **Use.** Lessee shall use and occupy the Premises only for the Agreed Use, or any other legal use which is reasonably comparable thereto, and for no other purpose. Lessee shall not use or permit the use of the Premises in a manner that is unlawful, creates damage, waste or a nuisance, or that disturbs occupants of or causes damage to neighboring premises or properties. Lessor shall not unreasonably withhold or delay its consent to any written request for a modification of the Agreed Use, so long as the same will not impair the structural integrity of the improvements on the Premises or the mechanical or electrical systems therein, and/or is not significantly more burdensome to the Premises. If Lessor elects to withhold consent, Lessor shall within 7 days after such request give written notification of same, which notice shall include an explanation of Lessor's objections to the change in the Agreed Use.

6.2 **Hazardous Substances.**

(a) **Reportable Uses Require Consent.** The term **"Hazardous Substance"** as used in this Lease shall mean any product, substance, or waste whose presence, use, manufacture, disposal, transportation, or release, either by itself or in combination with other materials expected to be on the Premises, is either: (i) potentially injurious to the public health, safety or welfare, the environment or the Premises, (ii) regulated or monitored by any governmental authority, or (iii) a basis for potential liability of Lessor to any governmental agency or third party under any applicable statute or common law theory. Hazardous Substances shall include, but not be limited to, hydrocarbons, petroleum, gasoline, and/or crude oil or any products, by-products or

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fractions thereof. Lessee shall not engage in any activity in or on the Premises which constitutes a Reportable Use of Hazardous Substances without the express prior written consent of Lessor and timely compliance (at Lessee's expense) with all Applicable Requirements. **"Reportable Use"** shall mean (i) the installation or use of any above or below ground storage tank, (ii) the generation, possession, storage, use, transportation, or disposal of a Hazardous Substance that requires a permit from, or with respect to which a report, notice, registration or business plan is required to be filed with, any governmental authority, and/or (iii) the presence at the Premises of a Hazardous Substance with respect to which any Applicable Requirements requires that a notice be given to persons entering or occupying the Premises or neighboring properties. Notwithstanding the foregoing, Lessee may use any ordinary and customary materials reasonably required to be used in the normal course of the Agreed Use, so long as such use is in compliance with all Applicable Requirements, is not a Reportable Use, and does not expose the Premises or neighboring property to any meaningful risk of contamination or damage or expose Lessor to any liability therefor. In addition, Lessor may condition its consent to any Reportable Use upon receiving such additional assurances as Lessor reasonably deems necessary to protect itself, the public, the Premises and/or the environment against damage, contamination, injury and/or liability, including, but not limited to, the installation (and removal on or before Lease expiration or termination) of protective modifications (such as concrete encasements) and/or increasing the Security Deposit.

(b) **Duty to Inform Lessor.** If Lessee knows, or has reasonable cause to believe, that a Hazardous Substance has come to be located in, on, under or about the Premises, other than as previously consented to by Lessor, Lessee shall immediately give written notice of such fact to Lessor, and provide Lessor with a copy of any report, notice, claim or other documentation which it has concerning the presence of such Hazardous Substance.

(c) **Lessee Remediation.** Lessee shall not cause or permit any Hazardous Substance to be spilled or released in, on, under, or about the Premises (including through the plumbing or sanitary sewer system) and shall promptly, at Lessee's expense, take all investigatory and/or remedial action reasonably recommended, whether or not formally ordered or required, for the cleanup of any contamination of, and for the maintenance, security and/or monitoring of the Premises or neighboring properties, that was caused or materially contributed to by Lessee, or pertaining to or involving any Hazardous Substance brought onto the Premises during the term of this Lease, by or for Lessee, or any third party.

(d) **Lessee Indemnification.** Lessee shall indemnify, defend and hold Lessor, its agents, employees, lenders and ground lessor, if any, harmless from and against any and all loss of rents and/or damages, liabilities, judgments, claims, expenses, penalties, and attorneys' and consultants' fees arising out of or involving any Hazardous Substance brought onto the Premises by or for Lessee, or any third party (provided, however, that Lessee shall have no liability under this Lease with respect to underground migration of any Hazardous Substance under the Premises from areas outside of the Project). Lessee's obligations shall include, but not be limited to, the effects of any contamination or injury to person, property or the environment created or suffered by Lessee, and the cost of investigation, removal, remediation, restoration and/or abatement, and shall survive the expiration or termination of this Lease. No termination, cancellation or release agreement entered into by Lessor and Lessee shall release Lessee from its obligations under this Lease with respect to Hazardous Substances, unless specifically so agreed by Lessor in writing at the time of such agreement.

(e) **Lessor Indemnification.** Lessor and its successors and assigns shall indemnify, defend, reimburse and hold Lessee, its employees and lenders, harmless from and against any and all environmental damages, including the cost of remediation, which existed as a result of Hazardous Substances on the Premises prior to the Start Date or which are caused by the gross negligence or willful misconduct of Lessor, its agents or employees. Lessor's obligations, as and when required by the Applicable Requirements, shall include, but not be limited to, the cost of investigation, removal, remediation, restoration and/or abatement, and shall survive the expiration or termination of this Lease.

(f) **Investigations and Remediations.** Lessor shall retain the responsibility and pay for any investigations or remediation measures required by governmental entities having jurisdiction with respect to the existence of Hazardous Substances on the Premises prior to the Start Date, unless such remediation measure is required as a result of Lessee's use (including "Alterations", as defined in paragraph 7.3(a) below) of the Premises, in which event Lessee shall be responsible for such payment. Lessee shall cooperate fully in any such activities at the request of Lessor, including allowing Lessor and Lessor's agents to have reasonable access to the Premises at reasonable times in order to carry out Lessor's investigative and remedial responsibilities.

(g) **Lessor Termination Option.** If a Hazardous Substance Condition (see Paragraph 9.1 (e)) occurs during the term of this Lease, unless Lessee is legally responsible therefor (in which case Lessee shall make the investigation and remediation thereof required by the Applicable Requirements and this Lease shall continue in full force and effect, but subject to Lessor's rights under Paragraph 6.2(d) and Paragraph 13), Lessor may, at Lessor's option, either (i) investigate and remediate such Hazardous Substance Condition, if required, as soon as reasonably possible at Lessor's expense, in which event this Lease shall continue in full force and effect, or (ii) if the estimated cost to remediate such condition exceeds 12 times the then monthly Base Rent or $100,000, whichever is greater, give written notice to Lessee, within 30 days after receipt by Lessor of knowledge of the occurrence of such Hazardous Substance Condition, of Lessor's desire to terminate this Lease as of the date 60 days following the date of such notice. In the event Lessor elects to give a termination notice, Lessee may, within 10 days thereafter, give written notice to Lessor of Lessee's commitment to pay the amount by which the cost of the remediation of such Hazardous Substance Condition exceeds an amount equal to 12 times the then monthly Base Rent or $100,000, whichever is greater. Lessee shall provide Lessor with said funds or satisfactory assurance thereof within 30 days following such commitment. In such event, this Lease shall continue in full force and effect, and Lessor shall proceed to make such remediation as soon as reasonably possible after the required funds are available. If Lessee does not give such notice and provide the required funds or assurance thereof within the time provided, this Lease shall terminate as of the date specified in Lessor's notice of termination.

6.3 **Lessee's Compliance with Applicable Requirements.** Except as otherwise provided in this Lease, Lessee shall, at Lessee's sole expense, fully, diligently and in a timely manner, materially comply with all Applicable Requirements, the requirements of any applicable fire insurance underwriter or rating bureau, and the recommendations of Lessor's engineers and/or consultants which relate in any manner to the Premises, without regard to whether said requirements are now in effect or become effective after the Start Date. Lessee shall, within 10 days after receipt of Lessor's written request, provide Lessor with copies of all permits and other documents, and other information evidencing Lessee's compliance with any Applicable Requirements specified by Lessor, and shall immediately upon receipt, notify Lessor in writing (with copies of any documents involved) of any threatened or actual claim, notice, citation, warning, complaint or report pertaining to or involving the failure of Lessee or the Premises to comply with any Applicable Requirements.

6.4 **Inspection; Compliance.** Lessor and Lessor's "Lender" (as defined in Paragraph 30) and consultants shall have the right to enter into Premises at any time, in the case of an emergency, and otherwise at reasonable times, for the purpose of inspecting the condition of the Premises and for verifying compliance by Lessee with this Lease. The cost of any such inspections shall be paid by Lessor, unless a violation of Applicable Requirements, or a contamination is found to exist or be imminent, or the inspection is requested or ordered by a governmental authority. In such case, Lessee shall upon request reimburse Lessor for the cost of such inspection, so long as such inspection is reasonably related to the violation or contamination.

7. **Maintenance; Repairs; Utility Installations; Trade Fixtures and Alterations.**

7.1 **Lessee's Obligations.**

(a) **In General.** Subject to the provisions of Paragraph 2.2 (Condition), 2.3 (Compliance), (6.3 (Lessee's Compliance with Applicable

Requirements), 7.2 (Lessor's Obligations), 9 (Damage or Destruction), and 14 (Condemnation), Lessee shall, at Lessee's sole expense, keep the Premises, Utility Installations (intended for Lessee's exclusive use, no matter where located), and Alterations in good order, condition and repair (whether or not the portion of the Premises requiring repairs, or the means of repairing the same, are reasonably or readily accessible to Lessee, and whether or not the need for such repairs occurs as a result of Lessee's use, any prior use, the elements or the age of such portion of the Premises), including, but not limited to, all equipment or facilities, such as plumbing, HVAC equipment, electrical, lighting facilities, boilers, pressure vessels, fixtures, interior walls, interior surfaces of exterior walls, ceilings, floors, windows, doors, plate glass, and skylights but excluding any items which are the responsibility of Lessor pursuant to Paragraph 7.2. Lessee, in keeping the Premises in good order, condition and repair, shall exercise and perform good maintenance practices, specifically including the procurement and maintenance of the service contracts required by Paragraph 7.1(b) below. Lessee's obligations shall include restorations, replacements or renewals when necessary to keep the Premises and all improvements thereon or a part thereof in good order, condition and state of repair.

(b) **Service Contracts.** Lessee shall, at Lessee's sole expense, procure and maintain contracts, with copies to Lessor, in customary form and substance for, and with contractors specializing and experienced in the maintenance of the following equipment and improvements, if any, if and when installed on the Premises: (i) HVAC equipment, (ii) boiler and pressure vessels, (iii) clarifiers, and (iv) any other equipment, if reasonably required by Lessor. However, Lessor reserves the right, upon notice to Lessee, to procure and maintain any or all of such service contracts, and if Lessor so elects, Lessee shall reimburse Lessor, upon demand, for the cost thereof.

(c) **Failure to Perform.** If Lessee fails to perform Lessee's obligations under this Paragraph 7.1, Lessor may enter upon the Premises after 10 days' prior written notice to Lessee (except in the case of an emergency, in which case no notice shall be required), perform such obligations on Lessee's behalf, and put the Premises in good order, condition and repair, and Lessee shall promptly reimburse Lessor for the cost thereof.

(d) **Replacement.** Subject to Lessee's indemnification of Lessor as set forth in Paragraph 8.7 below, and without relieving Lessee of liability resulting from Lessee's failure to exercise and perform good maintenance practices, if an item described in Paragraph 7.1(b) cannot be repaired other than at a cost which is in excess of 50% of the cost of replacing such item, then such item shall be replaced by Lessor, and the cost thereof shall be prorated between the Parties and Lessee shall only be obligated to pay, each month during the remainder of the term of this Lease, on the date on which Base Rent is due, an amount equal to the product of multiplying the cost of such replacement by a fraction, the numerator of which is one, and the denominator of which is 144 (ie. 1/144th of the cost per month). Lessee shall pay interest on the unamortized balance at a rate that is commercially reasonable in the judgment of Lessor's accountants. Lessee may, however, prepay its obligation at any time.

7.2 **Lessor's Obligations.** Subject to the provisions of Paragraphs 2.2 (Condition), 2.3 (Compliance), 4.2 (Common Area Operating Expenses), 6 (Use), 7.1 (Lessee's Obligations), 9 (Damage or Destruction) and 14 (Condemnation), Lessor, subject to reimbursement pursuant to Paragraph 4.2, shall keep in good order, condition and repair the foundations, exterior walls, structural condition of interior bearing walls, exterior roof, fire sprinkler system, Common Area fire alarm and/or smoke detection systems, fire hydrants, parking lots, walkways, parkways, driveways, landscaping, fences, signs

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and utility systems serving the Common Areas and all parts thereof, as well as providing the services for which there is a Common Area Operating Expense pursuant to Paragraph 4.2. Lessor shall not be obligated to paint the exterior or interior surfaces of exterior walls nor shall Lessor be obligated to maintain, repair or replace windows, doors or plate glass of the Premises. Lessee expressly waives the benefit of any statute now or hereafter in effect to the extent it is inconsistent with the terms of this Lease.

7.3 **Utility Installations; Trade Fixtures; Alterations.**

(a) **Definitions.** The term "Utility Installations" refers to all floor and window coverings, air lines, power panels, electrical distribution, security and fire protection systems, communication systems, lighting fixtures, HVAC equipment, plumbing, and fencing in or on the Premises. The term **"Trade Fixtures"** shall mean Lessee's machinery and equipment that can be removed without doing material damage to the Premises. The term **"Alterations"** shall mean any modification of the improvements, other than Utility Installations or Trade Fixtures, whether by addition or deletion. **"Lessee Owned Alterations and/or Utility Installations"** are defined as Alterations and/or Utility Installations made by Lessee that are not yet owned by Lessor pursuant to Paragraph 7.4(a).

(b) **Consent.** Lessee shall not make any Alterations or Utility Installations to the Premises without Lessor's prior written consent. Lessee may, however, make non-structural Utility Installations to the interior of the Premises (excluding the roof) without such consent but upon notice to Lessor, as long as they are not visible from the outside, do not involve puncturing, relocating or removing the roof or any existing walls, and the cumulative cost thereof during this Lease as extended does not exceed a sum equal to 3 month's Base Rent in the aggregate or a sum equal to one month's Base Rent in any one year. Notwithstanding the foregoing, Lessee shall not make or permit any roof penetrations and/or install anything on the roof without the prior written approval of Lessor. Lessor may, as a precondition to granting such approval, require Lessee to utilize a contractor chosen and/or approved by Lessor. Any Alterations or Utility Installations that Lessee shall desire to make and which require the consent of the Lessor shall be presented to Lessor in written form with detailed plans. Consent shall be deemed conditioned upon Lessee's: (i) acquiring all applicable governmental permits, (ii) furnishing Lessor with copies of both the permits and the plans and specifications prior to commencement of the work, and (iii) compliance with all conditions of said permits and other Applicable Requirements in a prompt and expeditious manner. Any Alterations or Utility Installations shall be performed in a workmanlike manner with good and sufficient materials. Lessee shall promptly upon completion furnish Lessor with as-built plans and specifications. For work which costs an amount in excess of one month's Base Rent, Lessor may condition its consent upon Lessee providing a lien and completion bond in an amount equal to 150% of the estimated cost of such Alteration or Utility Installation and/or upon Lessee's posting an additional Security Deposit with Lessor.

(c) **Indemnification.** Lessee shall pay, when due, all claims for labor or materials furnished or alleged to have been furnished to or for Lessee at or for use on the Premises, which claims are or may be secured by any mechanic's or materialmen's lien against the Premises or any interest therein. Lessee shall give Lessor not less than 10 days notice prior to the commencement of any work in, on or about the Premises, and Lessor shall have the right to post notices of non-responsibility. If Lessee shall contest the validity of any such lien, claim or demand, then Lessee shall, at its sole expense defend and protect itself, Lessor and the Premises against the same and shall pay and satisfy any such adverse judgment that may be rendered thereon before the enforcement thereof. If Lessor shall require, Lessee shall furnish a surety bond in an amount equal to 150% of the amount of such contested lien, claim or demand, indemnifying Lessor against liability for the same. If Lessor elects to participate in any such action, Lessee shall pay Lessor's attorneys' fees and costs.

7.4 **Ownership; Removal; Surrender; and Restoration.**

(a) **Ownership.** Subject to Lessor's right to require removal or elect ownership as hereinafter provided, all Alterations and Utility Installations made by Lessee shall be the property of Lessee, but considered a part of the Premises. Lessor may, at any time, elect in writing to be the owner of all or any specified part of the Lessee Owned Alterations and Utility Installations. Unless otherwise instructed per paragraph 7.4(b) hereof, all Lessee Owned Alterations and Utility Installations shall, at the expiration or termination of this Lease, become the property of Lessor and be surrendered by Lessee with the Premises.

(b) **Removal.** By delivery to Lessee of written notice from Lessor not earlier than 90 and not later than 30 days prior to the end of the term of this Lease, Lessor may require that any or all Lessee Owned Alterations or Utility Installations be removed by the expiration or termination of this Lease. Lessor may require the removal at any time of all or any part of any Lessee Owned Alterations or Utility Installations made without the required consent.

(c) **Surrender; Restoration.** Lessee shall surrender the Premises by the Expiration Date or any earlier termination date, with all of the improvements, parts and surfaces thereof broom clean and free of debris, and in good operating order, condition and state of repair, ordinary wear and tear excepted. "Ordinary wear and tear" shall not include any damage or deterioration that would have been prevented by good maintenance practice. Notwithstanding the foregoing, if this Lease is for 12 months or less, then Lessee shall surrender the Premises in the same condition as delivered to Lessee on the Start Date with NO allowance for ordinary wear and tear. Lessee shall repair any damage occasioned by the installation, maintenance or removal of Trade Fixtures, Lessee owned Alterations and/or Utility Installations, furnishings, and equipment as well as the removal of any storage tank installed by or for Lessee. Lessee shall also completely remove from the Premises any and all Hazardous Substances brought onto the Premises by or for Lessee, or any third party (except Hazardous Substances which were deposited via underground migration from areas outside of the Project) even if such removal would require Lessee to perform or pay for work that exceeds statutory requirements. Trade Fixtures shall remain the property of Lessee and shall be removed by Lessee. The failure by Lessee to timely vacate the Premises pursuant to this Paragraph 7.4(c) without the express written consent of Lessor shall constitute a holdover under the provisions of Paragraph 26 below.

8. **Insurance; Indemnity.**

~~8.1 **Payment of Premium Increases.**~~

~~(a) As used herein, the term **"Insurance Cost Increase"** is defined as any increase in the actual cost of the insurance applicable to the Building and/or the Project and required to be carried by Lessor, pursuant to Paragraphs 8.2(b), 8.3(a) and 8.3(b), ("Required Insurance"), over and above the Base Premium, as hereinafter defined, calculated on an annual basis. Insurance Cost Increase shall include, but not be limited to, requirements of the holder of a mortgage or deed of trust covering the Premises, Building and/or Project, increased valuation of the Premises, Building and/or Project, and/or a general premium rate increase. The term Insurance Cost Increase shall not, however, include any premium increases resulting from the nature of the occupancy of any other tenant of the Building. If the parties insert a dollar amount in Paragraph 1.9, such amount shall be considered the **"Base Premium".** The Base Premium shall be the annual premium applicable to the 12 month period immediately preceding the Start Date. If, however, the Project was not insured for the entirety of such 12 month period, then the Base Premium shall be the lowest annual premium reasonably obtainable for the Required Insurance as of the Start Date, assuming the most nominal use possible of the Building. In no event, however, shall Lessee be responsible for any portion of the premium cost attributable to liability insurance coverage in excess of $2,000,000 procured under Paragraph 8.2(b).~~

~~(b) Lessee shall pay any Insurance Cost Increase to Lessor pursuant to Paragraph 4.2. Premiums for policy periods commencing prior to, or extending beyond, the term of this Lease shall be prorated to coincide with the corresponding Start Date or Expiration Date.~~

8.2 **Liability Insurance.**

(a) **Carried by Lessee.** Lessee shall obtain and keep in force a Commercial General Liability policy of insurance protecting Lessee and Lessor as an additional insured against claims for bodily injury, personal injury and property damage based upon or arising out of the ownership, use, occupancy or maintenance of the Premises and all areas appurtenant thereto. Such insurance shall be on an occurrence basis providing single limit coverage in an amount not less than $1,000,000 per occurrence with an annual aggregate of not less than $2,000,000, an "Additional Insured-Managers or Lessors of Premises Endorsement" and contain the "Amendment of the Pollution Exclusion Endorsement" for damage caused by heat, smoke or fumes from a hostile fire. The policy shall not contain any intra-insured exclusions as between insured persons or organizations, but shall include coverage for liability assumed under this Lease as an **"insured contract"** for the performance of Lessee's indemnity obligations under this Lease. The limits of said insurance shall not, however, limit the liability of Lessee nor relieve Lessee of any obligation hereunder. All insurance carried by Lessee shall be primary to and not contributory with any similar insurance carried by Lessor, whose insurance shall be considered excess insurance only.

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

8.3 **Property Insurance - Building, Improvements and Rental Value.**

(a) **Building and Improvements.** Lessor shall obtain and keep in force a policy or policies of insurance in the name of Lessor, with loss payable to Lessor, any ground-lessor, and to any Lender insuring loss or damage to the Premises. The amount of such insurance shall be equal to the full replacement cost of the Premises, as the same shall exist from time to time, or the amount required by any Lender, but in no event more than the commercially reasonable and available insurable value thereof. Lessee Owned Alterations and Utility Installations, Trade Fixtures, and Lessee's personal property shall be insured by Lessee under Paragraph 8.4. If the coverage is available and commercially appropriate, such policy or policies shall insure against all risks of direct physical loss or damage (except the perils of flood and/or earthquake unless required by a Lender), including coverage for debris removal and the enforcement of any Applicable Requirements requiring the upgrading, demolition, reconstruction or replacement of any portion of the Premises as the result of a covered loss. Said policy or policies shall also contain an agreed valuation provision in lieu of any coinsurance clause, waiver of subrogation, and inflation guard protection causing an increase in the annual property insurance coverage amount by a factor of not less than the adjusted U.S. Department of Labor Consumer Price Index for All Urban Consumers for the city nearest to where the Premises are located. If such insurance coverage has a deductible clause, the deductible amount shall not exceed $1,000 per occurrence.

(b) **Rental Value.** Lessor shall also obtain and keep in force a policy or policies in the name of Lessor with loss payable to Lessor and any Lender, insuring the loss of the full Rent for one year with an extended period of indemnity for an additional 180 days (**"Rental Value insurance"**). Said insurance shall contain an agreed valuation provision in lieu of any coinsurance clause, and the amount of coverage shall be adjusted annually to reflect the projected Rent otherwise payable by Lessee, for the next 12 month period.

(c) **Adjacent Premises.** Lessee shall pay for any increase in the premiums for the property insurance of the Building and for the

Common Areas or other buildings in the Project if said increase is caused by Lessee's acts, omissions, use or occupancy of the Premises.

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

8.4 **Lessee's Property; Business Interruption Insurance.**

(a) **Property Damage.** Lessee shall obtain and maintain insurance coverage on all of Lessee's personal property, Trade Fixtures, and Lessee Owned Alterations and Utility Installations. Such insurance shall be full replacement cost coverage with a deductible of not to exceed $1,000 per occurrence. The proceeds from any such insurance shall be used by Lessee for the replacement of personal property, Trade Fixtures and Lessee Owned Alterations and Utility Installations. Lessee shall provide Lessor with written evidence that such insurance is in force.

(b) **Business Interruption.** Lessee shall obtain and maintain loss of income and extra expense insurance in amounts as will reimburse Lessee for direct or indirect loss of earnings attributable to all perils commonly insured against by prudent lessees in the business of Lessee or attributable to prevention of access to the Premises as a result of such perils.

(c) **No Representation of Adequate Coverage.** Lessor makes no representation that the limits or forms of coverage of insurance specified herein are adequate to cover Lessee's property, business operations or obligations under this Lease.

8.5 **Insurance Policies.** Insurance required herein shall be by companies duly licensed or admitted to transact business in the state where the Premises are located, and maintaining during the policy term a "General Policyholders Rating" of at least B+, V, as set forth in the most current issue of "Best's Insurance Guide", or such other rating as may be required by a Lender. Lessee shall not do or permit to be done anything which invalidates the required insurance policies. Lessee shall, prior to the Start Date, deliver to Lessor certified copies of policies of such insurance or certificates evidencing the existence and amounts of the required insurance. No such policy shall be cancelable or subject to modification except after 30 days prior written notice to Lessor. Lessee shall, at least 30 days prior to the expiration of such policies, furnish Lessor with evidence of renewals or "insurance binders" evidencing renewal thereof, or Lessor may order such insurance and charge the cost thereof to Lessee, which amount shall be payable by Lessee to Lessor upon demand. Such policies shall be for a term of at least one year, or the length of the remaining term of this Lease, whichever is less. If either Party shall fail to procure and maintain the insurance required to be carried by it, the other Party may, but shall not be required to, procure and maintain the same.

8.6 **Waiver of Subrogation.** Without affecting any other rights or remedies, Lessee and Lessor each hereby release and relieve the other, and waive their entire right to recover damages against the other, for loss of or damage to its property arising out of or incident to the perils required to be insured against herein. The effect of such releases and waivers is not limited by the amount of insurance carried or required, or by any deductibles applicable hereto. The Parties agree to have their respective property damage insurance carriers waive any right to subrogation that such companies may have against Lessor or Lessee, as the case may be, so long as the insurance is not invalidated thereby.

8.7 **Indemnity.** Except for Lessor's gross negligence or willful misconduct, Lessee shall indemnify, protect, defend and hold harmless the Premises, Lessor and its agents, Lessor's master or ground lessor, partners and Lenders, from and against any and all claims, loss of rents and/or damages, liens, judgments, penalties, attorneys' and consultants' fees, expenses and/or liabilities arising out of, involving, or in connection with, the use and/or occupancy of the Premises by Lessee. If any action or proceeding is brought against Lessor by reason of any of the foregoing matters, Lessee shall upon notice defend the same at Lessee's expense by counsel reasonably satisfactory to Lessor and Lessor shall cooperate with Lessee in such defense. Lessor need not have first paid any such claim in order to be defended or indemnified.

8.8 **Exemption of Lessor from Liability.** Lessor shall not be liable for injury or damage to the person or goods, wares, merchandise or other property of Lessee, Lessee's employees, contractors, invitees, customers, or any other person in or about the Premises, whether such damage or injury is caused by or results from fire, steam, electricity, gas, water or rain, or from the breakage, leakage, obstruction or other defects of pipes, fire sprinklers, wires, appliances, plumbing, HVAC or lighting fixtures, or from any other cause, whether the said injury or damage results from conditions arising upon the Premises or upon other portions of the Building, or from other sources or places. Lessor shall not be liable for any damages arising from any act or neglect of any other tenant of Lessor nor from the failure of Lessor to enforce the provisions of any other lease in the Project. Notwithstanding Lessor's negligence or breach of this Lease, Lessor shall under no circumstances be liable for injury to Lessee's business or for any loss of income or profit therefrom.

9. **Damage or Destruction.** *

9.1 **Definitions.**

(a) **"Premises Partial Damage"** shall mean damage or destruction to the improvements on the Premises, other than Lessee Owned Alterations and Utility Installations, which can reasonably be repaired in 3 months or less from the date of the damage or destruction, and the cost thereof does not exceed a sum equal to 6 month's Base Rent. Lessor shall notify Lessee in writing within 30 days from the date of the damage or destruction as to whether or not the damage is Partial or Total.

(b) **"Premises Total Destruction"** shall mean damage or destruction to the improvements on the Premises, other than Lessee Owned Alterations and Utility Installations and Trade Fixtures, which cannot reasonably be repaired in 3 months or less from the date of the damage or destruction and/or the cost thereof exceeds a sum equal to 6 month's Base Rent. Lessor shall notify Lessee in writing within 30 days from the date of the damage or destruction as to whether or not the damage is Partial or Total.

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

(d) **"Replacement Cost"** shall mean the cost to repair or rebuild the improvements owned by Lessor at the time of the occurrence to their condition existing immediately prior thereto, including demolition, debris removal and upgrading required by the operation of Applicable Requirements, and without deduction for depreciation.

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

9.2 **Partial Damage - Insured Loss.** If a Premises Partial Damage that is an Insured Loss occurs, then Lessor shall, at Lessor's expense, repair such damage (but not Lessee's Trade Fixtures or Lessee Owned Alterations and Utility Installations) as soon as reasonably possible and this Lease shall continue in full force and effect; provided, however, that Lessee shall, at Lessor's election, make the repair of any damage or destruction the total cost to repair of

which is $5,000 or less, and, in such event, Lessor shall make any applicable insurance proceeds available to Lessee on a reasonable basis for that purpose. Notwithstanding the foregoing, if the required insurance was not in force or the insurance proceeds are not sufficient to effect such repair, the Insuring Party shall promptly contribute the shortage in proceeds as and when required to complete said repairs. In the event, however, such shortage was due to the fact that, by reason of the unique nature of the improvements, full replacement cost insurance coverage was not commercially reasonable and available, Lessor shall have no obligation to pay for the shortage in insurance proceeds or to fully restore the unique aspects of the Premises unless Lessee provides Lessor with the funds to cover same, or adequate assurance thereof, within 10 days following receipt of written notice of such shortage and request therefor. If Lessor receives said funds or adequate assurance thereof within said 10 day period, the party responsible for making the repairs shall complete them as soon as reasonably possible and this Lease shall remain in full force and effect. If such funds or assurance are not received, Lessor may nevertheless elect by written notice to Lessee within 10 days thereafter to: (i) make such restoration and repair as is commercially reasonable with Lessor paying any shortage in proceeds, in which case this Lease shall remain in full force and effect, or (ii) have this Lease terminate 30 days thereafter. Lessee shall not be entitled to reimbursement of any funds contributed by Lessee to repair any such damage or destruction. Premises Partial Damage due to flood or earthquake shall be subject to Paragraph 9.3, notwithstanding that there may be some insurance coverage, but the net proceeds of any such insurance shall be made available for the repairs if made by either Party.

9.3 **Partial Damage - Uninsured Loss.** If a Premises Partial Damage that is not an Insured Loss occurs, unless caused by a negligent or willful act of Lessee (in which event Lessee shall make the repairs at Lessee's expense), Lessor may either: (i) repair such damage as soon as reasonably possible at Lessor's expense, in which event this Lease shall continue in full force and effect, or (ii) terminate this Lease by giving written notice to Lessee within 30 days after receipt by Lessor of knowledge of the occurrence of such damage. Such termination shall be effective 60 days following the date of such notice. In the event Lessor elects to terminate this Lease, Lessee shall have the right within 10 days after receipt of the termination notice to give written notice to Lessor of Lessee's commitment to pay for the repair of such damage without reimbursement from Lessor. Lessee shall provide Lessor with said funds or satisfactory assurance thereof within 30 days after making such commitment. In such event this Lease shall continue in full force and effect, and Lessor shall proceed to make such repairs as soon as reasonably possible after the required funds are available. If Lessee does not make the required commitment, this Lease shall terminate as of the date specified In the termination notice.

9.4 **Total Destruction.** Notwithstanding any other provision hereof, if a Premises Total Destruction occurs, this Lease shall terminate 60 days following such Destruction. If the damage or destruction was caused by the gross negligence or willful misconduct of Lessee, Lessor shall have the right to recover Lessor's damages from Lessee, except as provided in Paragraph 8.6.

9.5 **Damage Near End of Term.** If at any time during the last 6 months of this Lease there is damage for which the cost to repair exceeds one month's Base Rent, whether or not an Insured Loss, Lessor may terminate this Lease effective 60 days following the date of occurrence of such damage by giving a written termination notice to Lessee within 30 days after the date of occurrence of such damage. Notwithstanding the foregoing, if Lessee at that time has an exercisable option to extend this Lease or to purchase the Premises, then Lessee may preserve this Lease by, (a) exercising such option and (b) providing Lessor with any shortage in insurance proceeds (or adequate assurance thereof) needed to make the repairs on or before the earlier of (i) the date which is 10 days after Lessee's receipt of Lessor's written notice purporting to terminate this Lease, or (ii) the day prior to the date upon which such option expires. If Lessee duly exercises such option during such period and provides Lessor with funds (or adequate assurance thereof) to cover any shortage in

* If there is any damage or destruction to the property, not caused by Lessee, that materially affects the use of the premises by lessee cannot be repaired within 90 days, this lease may be terminated by lessee.

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insurance proceeds, Lessor shall, at Lessor's commercially reasonable expense, repair such damage as soon as reasonably possible and this Lease shall continue in full force and effect. If Lessee fails to exercise such option and provide such funds or assurance during such period, then this Lease shall terminate on the date specified in the termination notice and Lessee's option shall be extinguished.

9.6 **Abatement of Rent; Lessee's Remedies.**

(a) **Abatement.** In the event of Premises Partial Damage or Premises Total Destruction or a Hazardous Substance Condition for which Lessee is not responsible under this Lease, the Rent payable by Lessee for the period required for the repair, remediation or restoration of such damage shall be abated in proportion to the degree to which Lessee's use of the Premises is impaired, but not to exceed the proceeds received from the Rental Value insurance. All other obligations of Lessee hereunder shall be performed by Lessee, and Lessor shall have no liability for any such damage, destruction, remediation, repair or restoration except as provided herein.

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

9.7 **Termination; Advance Payments.** Upon termination of this Lease pursuant to Paragraph 6.2(g) or Paragraph 9, an equitable adjustment shall be made concerning advance Base Rent and any other advance payments made by Lessee to Lessor. Lessor shall, in addition, return to Lessee so much of Lessee's Security Deposit as has not been, or is not then required to be, used by Lessor.

9.8 **Waive Statutes.** Lessor and Lessee agree that the terms of this Lease shall govern the effect of any damage to or destruction of the Premises with respect to the termination of this Lease and hereby waive the provisions of any present or future statute to the extent inconsistent herewith.

10. **Real Property Taxes.**

10.1 **Definitions.**

(a) **"Real Property Taxes."** As used herein, the term **"Real Property Taxes"** shall include any form of assessment; real estate, general, special, ordinary or extraordinary, or rental levy or tax (other than inheritance, personal income or estate taxes); improvement bond; and/or license fee imposed upon or levied against any legal or equitable interest of Lessor in the Project, Lessor's right to other income therefrom, and/or Lessor's business of leasing, by any authority having the direct or indirect power to tax and where the funds are generated with reference to the Project address and where the proceeds so generated are to be applied by the city, county or other local taxing authority of a jurisdiction within which the Project is located. The term "Real Property Taxes" shall also include any tax, fee, levy, assessment or charge, or any increase therein, imposed by reason of events occurring during the term of this Lease, including but not limited to, a change in the ownership of the Project or any portion thereof or a change in the improvements thereon.

(b) **"Base Real Property Taxes."** As used herein, the term **"Base Real Property Taxes"** shall be the amount of Real Property Taxes, which are assessed against the Premises, Building, Project or Common Areas in the calendar year during which the Lease is executed. In calculating Real Property Taxes for any calendar year, the Real Property Taxes for any real estate tax year shall be included in the calculation of Real Property Taxes for such calendar year based upon the number of days which such calendar year and tax year have in common.

10.2 **Payment of Taxes.** Lessor shall pay the Real Property Taxes applicable to the Project, and except as otherwise provided in Paragraph 10.3, any increases in such amounts over the Base Real Property Taxes shall be included in the calculation of Common Area Operating Expenses in accordance with the provisions of Paragraph 4.2.

10.3 **Additional Improvements.** Common Area Operating Expenses shall not include Real Property Taxes specified in the tax assessor's records and work sheets as being caused by additional improvements placed upon the Project by other lessees or by Lessor for the exclusive enjoyment of such other lessees. Notwithstanding Paragraph 10.2 hereof, Lessee shall, however, pay to Lessor at the time Common Area Operating Expenses are payable under Paragraph 4.2, the entirety of any increase in Real Property Taxes if assessed solely by reason of Alterations, Trade Fixtures or Utility Installations placed upon the Premises by Lessee or at Lessee's request.

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

10.5 **Personal Property Taxes.** Lessee shall pay prior to delinquency all taxes assessed against and levied upon Lessee Owned Alterations and Utility Installations, Trade Fixtures, furnishings, equipment and all personal property of Lessee contained in the Premises. When possible, Lessee shall cause its Lessee Owned Alterations and Utility Installations, Trade Fixtures, furnishings, equipment and all other personal property to be assessed and billed separately from the real property of Lessor. If any of Lessee's said property shall be assessed with Lessor's real property, Lessee shall pay Lessor the taxes attributable to Lessee's property within 10 days after receipt of a written statement setting forth the taxes applicable to Lessee's property.

11. **Utilities.** Lessee shall pay for all ~~water~~, gas, heat, light, power, telephone, trash disposal and other utilities and services supplied to the Premises, together with any taxes thereon. Notwithstanding the provisions of Paragraph 4.2, if at any time in Lessor's sole judgment, Lessor determines that Lessee is using a disproportionate amount of water, electricity or other commonly metered utilities, or that Lessee is generating such a large volume of trash as to require an increase in the size of the dumpster and/or an increase in the number of times per month that the dumpster is emptied, then Lessor may increase Lessee's Base Rent by an amount equal to such increased costs, lessor shall pay for water utility costs.

12. **Assignment and Subletting.**

12.1 **Lessor's Consent Required.**

(a) Lessee shall not voluntarily or by operation of law assign, transfer, mortgage or encumber (collectively, **"assign or assignment"**) or sublet all or any part of Lessee's interest in this Lease or in the Premises without Lessor's prior written consent.

~~(b) A change in the control of Lessee shall constitute an assignment requiring consent. The transfer, on a cumulative basis, of 25% or more of the~~

~~voting control of Lessee shall constitute a change in control for this purpose.~~

~~(c) The involvement of Lessee or its assets in any transaction, or series of transactions (by way of merger, sale, acquisition, financing, transfer, leveraged buy-out or otherwise), whether or not a formal assignment or hypothecation of this Lease or Lessee's assets occurs, which results or will result in a reduction of the Net Worth of Lessee by an amount greater than 25% of such Net Worth as it was represented at the time of the execution of this Lease or at the time of the most recent assignment to which Lessor has consented, or as it exists immediately prior to said transaction or transactions constituting such reduction, whichever was or is greater, shall be considered an assignment of this Lease to which Lessor may withhold its consent.~~ **~~"Net Worth of Lessee"~~** ~~shall mean the net worth of Lessee (excluding any guarantors) established under generally accepted accounting principles.~~

(d) An assignment or subletting without consent shall, at Lessor's option, be a Default curable after notice per Paragraph 13.1(c), or a noncurable Breach without the necessity of any notice and grace period. If Lessor elects to treat such unapproved assignment or subletting as a noncurable Breach, Lessor may either: (i) terminate this Lease, or (ii) upon 30 days written notice, increase the monthly Base Rent to 110% of the Base Rent then in effect. Further, in the event of such Breach and rental adjustment, (i) the purchase price of any option to purchase the Premises held by Lessee shall be subject to similar adjustment to 110% of the price previously in effect, and (ii) all fixed and non-fixed rental adjustments scheduled during the remainder of the Lease term shall be increased to 110% of the scheduled adjusted rent.

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

12.2 **Terms and Conditions Applicable to Assignment and Subletting.**

(a) Regardless of Lessor's consent, any assignment or subletting shall not: (i) be effective without the express written assumption by such assignee or sublessee of the obligations of Lessee under this Lease, (ii) release Lessee of any obligations hereunder, or (iii) alter the primary liability of Lessee for the payment of Rent or for the performance of any other obligations to be performed by Lessee.

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

(c) Lessor's consent to any assignment or subletting shall not constitute a consent to any subsequent assignment or subletting.

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

(e) Each request for consent to an assignment or subletting shall be in writing, accompanied by information relevant to Lessor's determination as to the financial and operational responsibility and appropriateness of the proposed assignee or sublessee, including but not limited to the intended use and/or required modification of the Premises, if any, together with a fee of $1,000 or 10% of the current monthly Base Rent applicable to the portion of the Premises which is the subject of the proposed assignment or sublease, whichever is greater, as consideration for Lessor's considering and processing said request. Lessee agrees to provide Lessor with such other or additional information and/or documentation as may be reasonably requested.

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

12.3 **Additional Terms and Conditions Applicable to Subletting**. The following terms and conditions shall apply to any subletting by Lessee of all or any part of the Premises and shall be deemed included in all subleases under this Lease whether or not expressly incorporated therein:

(a) Lessee hereby assigns and transfers to Lessor all of Lessee's interest in all Rent payable on any sublease, and Lessor may collect such Rent and apply same toward Lessee's obligations under this Lease; provided, however, that until a Breach shall occur in the performance of Lessee's obligations, Lessee may collect said Rent. Lessor shall not, by reason of the foregoing or any assignment of such sublease, nor by reason of the collection of Rent, be deemed liable to the sublessee for any failure of Lessee to perform and comply with any of Lessee's obligations to such sublessee. Lessee hereby irrevocably authorizes and directs any such sublessee, upon receipt of a written notice from Lessor stating that a Breach exists in the performance of Lessee's obligations under this Lease, to pay to Lessor all Rent due and to become due under the sublease. Sublessee shall rely upon any such notice from Lessor and shall pay all Rents to Lessor without any obligation or right to inquire as to whether such Breach exists, notwithstanding any claim from Lessee to the contrary.

(b) In the event of a Breach by Lessee, Lessor may, at its option, require sublessee to attorn to Lessor, in which event Lessor shall undertake the obligations of the sublessor under such sublease from the time of the exercise of said option to the expiration of such sublease; provided, however, Lessor shall not be liable for any prepaid rents or security deposit paid by such sublessee to such sublessor or for any prior Defaults or Breaches of such sublessor.

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

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

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

13. **Default; Breach; Remedies.**

13.1 **Default; Breach.** A **"Default"** is defined as a failure by the Lessee to comply with or perform any of the terms, covenants, conditions or Rules and Regulations under this Lease. A "Breach" is defined as the occurrence of one or more of the following Defaults, and the failure of Lessee to cure such Default within any applicable grace period:

(a) The abandonment of the Premises; or the vacating of the Premises without providing a commercially reasonable level of security, or where the coverage of the property insurance described in Paragraph 8.3 is jeopardized as a result thereof, or without providing reasonable assurances to minimize potential vandalism.

(b) The failure of Lessee to make any payment of Rent or any Security Deposit required to be made by Lessee hereunder, whether to Lessor or to a third party, when due, to provide reasonable evidence of insurance or surety bond, or to fulfill any obligation under this Lease which endangers or threatens life or property, where such failure continues for a period of 3 10 business days following written notice to Lessee.

(c) The failure by Lessee to provide (i) reasonable written evidence of compliance with Applicable Requirements, (ii) the service contracts, (iii) the rescission of an unauthorized assignment or subletting, (iv) an Estoppel Certificate, (v) a requested subordination, (vi) evidence concerning any guaranty and/or Guarantor, (vii) any document requested under Paragraph 41 (easements), or (viii) any other documentation or information which Lessor may reasonably require of Lessee under the terms of this Lease, where any such failure continues for a period of 10 days following written notice to Lessee.

(d) A Default by Lessee as to the terms, covenants, conditions or provisions of this Lease, or of the rules adopted under Paragraph 2.9 hereof, other than those described in subparagraphs 13.1(a), (b) or (c), above, where such Default continues for a period of 30 days after written notice; provided, however, that if the nature of Lessee's Default is such that more than 30 days are reasonably required for its cure, then it shall not be deemed to be a Breach if Lessee commences such cure within said 30 day period and thereafter diligently prosecutes such cure to completion.

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

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

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

13.2 **Remedies.** If Lessee fails to perform any of its affirmative duties or obligations, within 30 ~~10~~ days after written notice (or in case of an emergency, without notice), Lessor may, at its option, perform such duty or obligation on Lessee's behalf, including but not limited to the obtaining of reasonably required bonds, insurance policies, or governmental licenses, permits or approvals. The costs and expenses of any such performance by Lessor shall be due and payable by Lessee upon receipt of invoice therefor. If any check given to Lessor by Lessee shall not be honored by the bank upon which it is drawn, Lessor, at its option, may require all future payments to be made by Lessee to be by cashier's check. In the event of a Breach, Lessor may, with or without further notice or demand, and without limiting Lessor in the exercise of any right or remedy which Lessor may have by reason of such Breach:

(a) Terminate Lessee's right to possession of the Premises by any lawful means, in which case this Lease shall terminate and Lessee shall immediately surrender possession to Lessor. In such event Lessor shall be entitled to recover from Lessee: (i) the unpaid Rent which had been earned at the time of termination; (ii) the worth at the time of award of the amount by which the unpaid rent which would have been earned after termination until the time

of award exceeds the amount of such rental loss that the Lessee proves could have been reasonably avoided; (iii) the worth at the time of award of the amount by which the unpaid rent for the balance of the term after the time of award exceeds the amount of such rental loss that the Lessee proves could be reasonably avoided; and (iv) any other amount necessary to compensate Lessor for all the detriment proximately caused by the Lessee's failure to perform its obligations under this Lease or which in the ordinary course of things would be likely to result therefrom, including but not limited to the cost of recovering possession of the Premises, expenses of reletting, including necessary renovation and alteration of the Premises, reasonable attorneys' fees, and that portion of any leasing commission paid by Lessor in connection with this Lease applicable to the unexpired term of this Lease. The worth at the time of award of the amount referred to in provision (iii) of the immediately preceding sentence shall be computed by discounting such amount at the discount rate of the Federal Reserve Bank of the District within which the Premises are located at the time of award plus one percent. Efforts by Lessor to mitigate damages caused by Lessee's Breach of this Lease shall not waive Lessor's right to recover damages under Paragraph 12. If termination of this Lease is obtained through the provisional remedy of unlawful detainer, Lessor shall have the right to recover in such proceeding any unpaid Rent and damages as are recoverable therein, or Lessor may reserve the right to recover all or any part thereof in a separate suit. If a notice and grace period required under Paragraph 13.1 was not previously given, a notice to pay rent or quit, or to perform or quit given to Lessee under the unlawful detainer statute shall also constitute the notice required by Paragraph 13.1. In such case, the applicable grace period required by Paragraph 13.1 and the unlawful detainer statute shall run concurrently, and the failure of Lessee to cure the Default within the greater of the two such grace periods shall constitute both an unlawful detainer and a Breach of this Lease entitling Lessor to the remedies provided for in this Lease and/or by said statute.

(b) Continue the Lease and Lessee's right to possession and recover the Rent as it becomes due, in which event Lessee may sublet or assign, subject only to reasonable limitations. Acts of maintenance, efforts to relet, and/or the appointment of a receiver to protect the Lessor's interests, shall not constitute a termination of the Lessee's right to possession.

(c) Pursue any other remedy now or hereafter available under the laws or judicial decisions of the state wherein the Premises are located. The expiration or termination of this Lease and/or the termination of Lessee's right to possession shall not relieve Lessee from liability under any indemnity provisions of this Lease as to matters occurring or accruing during the term hereof or by reason of Lessee's occupancy of the Premises.

13.3 **Inducement Recapture.** Any agreement for free or abated rent or other charges, or for the giving or paying by Lessor to or for Lessee of any cash or other bonus, inducement or consideration for Lessee's entering into this Lease, all of which concessions are hereinafter referred to as **"Inducement Provisions"**, shall be deemed conditioned upon Lessee's full and faithful performance of all of the terms, covenants and conditions of this Lease. Upon Breach of this Lease by Lessee, any such Inducement Provision shall automatically be deemed deleted from this Lease and of no further force or effect, and any rent, other charge, bonus, inducement or consideration theretofore abated, given or paid by Lessor under such an Inducement Provision shall be immediately due and payable by Lessee to Lessor, notwithstanding any subsequent cure of said Breach by Lessee. The acceptance by Lessor of rent or the cure of the Breach which initiated the operation of this paragraph shall not be deemed a waiver by Lessor of the provisions of this paragraph unless specifically so stated in writing by Lessor at the time of such acceptance.

13.4 **Late Charges.** Lessee hereby acknowledges that late payment by Lessee of Rent will cause Lessor to incur costs not contemplated by this Lease, the exact amount of which will be extremely difficult to ascertain. Such costs include, but are not limited to, processing and accounting charges, and late charged which may be imposed upon Lessor by any Lender. Accordingly, if any Rent shall not be received by Lessor within 5 10 days after such

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amount shall be due, then, without any requirement for notice to Lessee, Lessee shall pay to Lessor a one-time late charge equal to 40 5% of each such overdue amount or $100, whichever is greater. The parties hereby agree that such late charge represents *a* fair and reasonable estimate of the costs Lessor will incur by reason of such late payment. Acceptance of such late charge by Lessor shall in no event constitute a waiver of Lessee's Default or Breach with respect to such overdue amount, nor prevent the exercise of any of the other rights and remedies granted hereunder. In the event that a late charge is payable hereunder, whether or not collected, for 3 consecutive installments of Base Rent, then notwithstanding any provision of this Lease to the contrary, Base Rent shall, at Lessor's option, become due and payable quarterly in advance.

13.5 **Interest**. Any monetary payment due Lessor hereunder, other than late charges, not received by Lessor, when due as to scheduled payments (such as Base Rent) or within 30 days following the date on which it was due for non-scheduled payment, shall bear interest from the date when due, as to scheduled payments, or the 31st day after it was due as to non-scheduled payments. The interest (**"Interest"**) charged shall be equal to the prime rate reported in the Wall Street Journal as published closest prior to the date when due plus 4%, but shall not exceed the maximum rate allowed by law. Interest is payable in addition to the potential late charge provided for in Paragraph 13.4.

13.6 **Breach by Lessor**.

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

(b) Performance by Lessee on Behalf of Lessor. In the event that neither Lessor nor Lender cures said breach within 30 days after receipt of said notice, or if having commenced said cure they do not diligently pursue it to completion, then Lessee may elect to cure said breach at Lessee's expense and offset from Rent an amount equal to the greater of one month's Base Rent or the Security Deposit, and to pay an excess of such expense under protest, reserving Lessee's right to reimbursement from Lessor. Lessee shall document the cost of said cure and supply said documentation to Lessor.

14. **Condemnation**. If the Premises or any portion thereof are taken under the power of eminent domain or sold under the threat of the exercise of said power (collectively **"Condemnation"**), this Lease shall terminate as to the part taken as of the date the condemning authority takes title or possession, whichever first occurs. If more than 10% of the floor area of the Unit, or more than 25% of Lessee's Reserved Parking Spaces, is taken by Condemnation, Lessee may, at Lessee's option, to be exercised in writing within 10 days after Lessor shall have given Lessee written notice of such taking (or in the absence of such notice, within 10 days after the condemning authority shall have taken possession) terminate this Lease as of the date the condemning authority takes such possession. If Lessee does not terminate this Lease in accordance with the foregoing, this Lease shall remain in full force and effect as to the portion of the Premises remaining, except that the Base Rent shall be reduced in proportion to the reduction in utility of the Premises caused by such Condemnation. Condemnation awards and/or payments shall be the property of Lessor, whether such award shall be made as compensation for diminution in value of the leasehold, the value of the part taken, or for severance damages; provided, however, that Lessee shall be entitled to any compensation for Lessee's relocation expenses, loss of business goodwill and/or Trade Fixtures, without regard to whether or not this Lease is terminated pursuant to the provisions of this Paragraph. All Alterations and Utility Installations made to the Premises by Lessee, for purposes of Condemnation only, shall be considered the property of the Lessee and Lessee shall be entitled to any and all compensation which is payable therefor. In the event that this Lease is not terminated by reason of the Condemnation, Lessor shall repair any damage to the Premises caused by such Condemnation.

15. **Brokerage Fees**.

~~15.1 **Additional Commission**. In addition to the payments owed pursuant to Paragraph 1.10 above, and unless Lessor and the Brokers otherwise agree in writing, Lessor agrees that: (a) if Lessee exercises any Option, (b) if Lessee acquires from Lessor any rights to the Premises or other premises owned by Lessor and located within the Project, (c) if Lessee remains in possession of the Premises, with the consent of Lessor, after the expiration of this Lease, or (d) if Base Rent is increased, whether by agreement or operation of an escalation clause herein, then, Lessor shall pay Brokers a fee in accordance with the schedule of the Brokers in effect at the time of the execution of this Lease.~~

~~15.2 **Assumption of Obligations**. Any buyer or transferee of Lessor's interest in this Lease shall be deemed to have assumed Lessor's obligation hereunder. Brokers shall be third party beneficiaries of the provisions of Paragraphs 1.10, 15, 22 and 31. If Lessor fails to pay to Brokers any amounts due as and for brokerage fees pertaining to this Lease when due, then such amounts shall accrue Interest. In addition, if Lessor fails to pay any amounts to Lessee's Broker when due, Lessee's Broker may send written notice to Lessor and Lessee of such failure and if Lessor fails to pay such amounts within 10 days after said notice, Lessee shall pay said monies to its Broker and offset such amounts against Rent. In addition, Lessee's Broker shall be deemed to be a third party beneficiary of any commission agreement entered into by and/or between Lessor and Lessor's Broker for the limited purpose of collecting any brokerage fee owed.~~

~~15.3 **Representations and Indemnities of Broker Relationships**. Lessee and Lessor each represent and warrant to the other that it has had no dealings with any person, firm, broker or finder (other than the Brokers, if any) in connection with this Lease, and that no one other than said named Brokers is entitled to any commission or finder's fee in connection herewith. Lessee and Lessor do each hereby agree to indemnify, protect, defend and hold the other harmless from and against liability for compensation or charges which may be claimed by any such unnamed broker, finder or other similar party by reason of any dealings or actions of the indemnifying Party, including any costs, expenses, attorneys' fees reasonably incurred with respect thereto.~~

16. **Estoppel Certificates**.

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

(b) If the Responding Party shall fail to execute or deliver the Estoppel Certificate within such 10 day period, the Requesting Party may execute an Estoppel Certificate stating that: (i) the Lease is in full force and effect without modification except as may be represented by the Requesting Party, (ii) there are no uncured defaults in the Requesting Party's performance, and (iii) if Lessor is the Requesting Party, not more than one month's rent has been paid in advance. Prospective purchasers and encumbrancers may rely upon the Requesting Party's Estoppel Certificate, and the Responding Party shall be estopped from denying the truth of the facts contained in said Certificate.

(c) If Lessor desires to finance, refinance, or sell the Premises, or any part thereof, Lessee and all Guarantors shall deliver to any potential lender or purchaser designated by Lessor such financial statements as may be reasonably required by such lender or purchaser, including but not limited to Lessee's financial statements for the past 3 years. All such financial statements shall be received by Lessor and such lender or purchaser in confidence and shall be

used only for the purposes herein set forth.

17. **Definition of Lessor**. The term **"Lessor"** as used herein shall mean the owner or owners at the time in question of the fee title to the Premises, or, if this is a sublease, of the Lessee's interest in the prior lease. In the event of a transfer of Lessor's title or interest in the Premises or this Lease, Lessor shall deliver to the transferee or assignee (in cash or by credit) any unused Security Deposit held by Lessor. Except as provided in Paragraph 15, upon such transfer or assignment and delivery of the Security Deposit, as aforesaid, the prior Lessor shall be relieved of all liability with respect to the obligations and/or covenants under this Lease thereafter to be performed by the Lessor. Subject to the foregoing, the obligations and/or covenants in this Lease to be performed by the Lessor shall be binding only upon the Lessor as hereinabove defined. Notwithstanding the above, and subject to the provisions of Paragraph 20 below, the original Lessor under this Lease, and all subsequent holders of the Lessor's interest in this Lease shall remain liable and responsible with regard to the potential duties and liabilities of Lessor pertaining to Hazardous Substances as outlined in Paragraph 6.2 above.

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

19. **Days**. Unless otherwise specifically indicated to the contrary, the word "days" as used in this Lease shall mean and refer to calendar days.

20. **Limitation on Liability**. Subject to the provisions of Paragraph 17 above, the obligations of Lessor under this Lease shall not constitute personal obligations of Lessor, the individual partners of Lessor or its or their individual partners, directors, officers or shareholders, and Lessee shall look to the Premises, and to no other assets of Lessor, for the satisfaction of any liability of Lessor with respect to this Lease, and shall not seek recourse against the individual partners of Lessor, or its or their individual partners, directors, officers or shareholders, or any of their personal assets for such satisfaction.

21. **Time of Essence**. Time is of the essence with respect to the performance of all obligations to be performed or observed by the Parties under this Lease.

22. **No Prior or Other Agreements; Broker Disclaimer**. This Lease contains all agreements between the Parties with respect to any matter mentioned herein, and no other prior or contemporaneous agreement or understanding shall be effective. Lessor and Lessee each represents and warrants to the Brokers that it has made, and is relying solely upon, its own investigation as to the nature, quality, character and financial responsibility of the other Party to this Lease and as to the use, nature, quality and character of the Premises. Brokers have no responsibility with respect thereto or with respect to any

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default or breach hereof by either Party. The liability (including court costs and attorneys' fees), of any Broker with respect to negotiation, execution, delivery or performance by either Lessor or Lessee under this Lease or any amendment or modification hereto shall be limited to an amount up to the fee received by such Broker pursuant to this Lease; provided, however, that the foregoing limitation on each Broker's liability shall not be applicable to any gross negligence or willful misconduct of such Broker.

23. **Notices**.

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

23.2 **Date of Notice**. Any notice sent by registered or certified mail, return receipt requested, shall be deemed given on the date of delivery shown on the receipt card, or if no delivery date is shown, the postmark thereon. If sent by regular mail the notice shall be deemed given 48 hours after the same is addressed as required herein and mailed with postage prepaid. Notices delivered by United States Express Mail or overnight courier that guarantee next day delivery shall be deemed given 24 hours after delivery of the same to the Postal Service or courier. Notices transmitted by facsimile transmission or similar means shall be deemed delivered upon telephone confirmation of receipt (confirmation report from fax machine is sufficient), provided a copy is also delivered via delivery or mail. If notice is received on a Saturday, Sunday or legal holiday, it shall be deemed received on the next business day.

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

25. **Disclosures Regarding The Nature of a Real Estate Agency Relationship**.

(a) When entering into a discussion with a real estate agent regarding a real estate transaction, a Lessor or Lessee should from the outset understand what type of agency relationship or representation it has with the agent' or agents in the transaction. Lessor and Lessee acknowledge being advised by the Brokers in this transaction, as follows:

(i) Lessor's Agent. A Lessor's agent under a listing agreement with the Lessor acts as the agent for the Lessor only. A Lessor's agent or subagent has the following affirmative obligations: To the Lessor: A fiduciary duty of utmost care, integrity, honesty, and loyalty in dealings with the Lessor. To the Lessee and the Lessor: a. Diligent exercise of reasonable skills and care in performance of the agent's duties. b. A duty of honest and fair dealing and good faith. c. A duty to disclose all facts known to the agent materially affecting the value or desirability of the property that are not known to, or within the diligent attention and observation of, the Parties. An agent is not obligated to reveal to either Party any confidential information obtained from the other Party which does not involve the affirmative duties set forth above.

(ii) Lessee's Agent. An agent can agree to act as agent for the Lessee only. In these situations, the agent is not the Lessor's agent, even if by agreement the agent may receive compensation for services rendered, either in full or in part from the Lessor. An agent acting only for a Lessee has the following affirmative obligations. To the Lessee: A fiduciary duty of utmost care, integrity, honesty, and loyalty in dealings with the Lessee. To the Lessee and the Lessor: a. Diligent exercise of reasonable skills and care in performance of the agent's duties. b. A duty of honest and fair dealing and good faith. c. A duty to disclose all facts known to the agent materially affecting the value or desirability of the property that are not known to, or within the diligent attention and observation of, the Parties. An agent is not obligated to reveal to either Party any confidential information obtained from the other Party which does not involve the affirmative duties set forth above.

(iii) Agent Representing Both Lessor and Lessee. A real estate agent, either acting directly or through one or more associate licenses, can legally be the agent of both the Lessor and the Lessee in a transaction, but only with the knowledge and consent of both the Lessor and the Lessee. In a dual agency situation, the agent has the following affirmative obligations to both the Lessor and the Lessee: a. A fiduciary duty of utmost care, integrity, honesty and loyalty in the dealings with either Lessor or the Lessee. b. Other duties to the Lessor and the Lessee as stated above in subparagraphs (i) or (ii). In representing both Lessor and Lessee, the agent may not without the express permission of the respective Party, disclose to the other Party that the Lessor will accept rent in an amount less than that indicated in the listing or that the Lessee is willing to pay a higher rent than that offered. The above duties of the agent in a real estate transaction do not relieve a Lessor or Lessee from the responsibility to protect their own interests. Lessor and Lessee should carefully read all agreements to assure that they adequately express their understanding of the transaction. A real estate agent is a person qualified to advise about real estate. If legal or tax advice is desired, consult a competent professional.

(b) Brokers have no responsibility with respect to any default or breach hereof by either Party. The liability (including court costs and attorneys' fees), of any Broker with respect to any breach of duty, error or omission relating to this Lease shall not exceed the fee received by such Broker pursuant to this Lease; provided, however, that the foregoing limitation on each Broker's liability shall not be applicable to any gross negligence or willful misconduct of such Broker.

(c) Buyer and Seller agree to identify to Brokers as "Confidential" any communication or information given Brokers that is considered by such Party to be confidential.

26. **No Right To Holdover**. Lessee has no right to retain possession of the Premises or any part thereof beyond the expiration or termination of this Lease. In the event that Lessee holds over, then the Base Rent shall be increased to ~~150~~ 103 % of the Base Rent applicable immediately preceding the expiration or termination. Nothing contained herein shall be construed as consent by Lessor to any holding over by Lessee.

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

28. **Covenants and Conditions; Construction of Agreement**. All provisions of this Lease to be observed or performed by Lessee are both covenants and conditions. In construing this Lease, all headings and titles are for the convenience of the Parties only and shall not be considered a part of this Lease. Whenever required by the context, the singular shall include the plural and vice versa. This Lease shall not be construed as if prepared by one of the Parties,

but rather according to its fair meaning as a whole, as if both Parties had prepared it.

29. **Binding Effect; Choice of Law**. This Lease shall be binding upon the parties, their personal representatives, successors and assigns and be governed by the laws of the State in which the Premises are located. Any litigation between the Parties hereto concerning this Lease shall be initiated in the county in which the Premises are located.

30. **Subordination; Attornment; Non-Disturbance.**

30.1 **Subordination**. This Lease and any Option granted hereby shall be subject and subordinate to any ground lease, mortgage, deed of trust, or other hypothecation or security device (collectively, **"Security Device"**), now or hereafter placed upon the Premises, to any and all advances made on the security thereof, and to all renewals, modifications, and extensions thereof. Lessee agrees that the holders of any such Security Devices (in this Lease together referred to as **"Lender"**) shall have no liability or obligation to perform any of the obligations of Lessor under this Lease. Any Lender may elect to have this Lease and/or any Option granted hereby superior to the lien of its Security Device by giving written notice thereof to Lessee, whereupon this Lease and such Options shall be deemed prior to such Security Device, notwithstanding the relative dates of the documentation or recordation thereof.

30.2 **Attornment**. Subject to the non-disturbance provisions of Paragraph 30.3, Lessee agrees to attorn to a Lender or any other party who acquires ownership of the Premises by reason of a foreclosure of a Security Device, and that in the event of such foreclosure, such new owner shall not: (a) be liable for any act or omission of any prior lessor or with respect to events occurring prior to acquisition of ownership; (b) be subject to any offsets or defenses which Lessee might have against any prior lessor, (c) be bound by prepayment of more than one month's rent, or (d) be liable for the return of any security deposit paid to any prior lessor.

30.3 **Non-Disturbance**. With respect to Security Devices entered into by Lessor after the execution of this Lease, Lessee's subordination of this Lease shall be subject to receiving a commercially reasonable non-disturbance agreement (a **"Non-Disturbance Agreement"**) from the Lender which Non-Disturbance Agreement provides that Lessee's possession of the Premises, and this Lease, including any options to extend the term hereof, will not be disturbed so long as Lessee is not in Breach hereof and attorns to the record owner of the Premises. Further, within 60 days after the execution of this Lease, Lessor shall use its commercially reasonable efforts to obtain a Non-Disturbance Agreement from the holder of any pre-existing Security Device which is secured by the Premises. In the event that Lessor is unable to provide the Non-Disturbance Agreement within said 60 days, then Lessee may, at Lessee's option, directly contact Lender and attempt to negotiate for the execution and delivery of a Non-Disturbance Agreement.

30.4 **Self-Executing**. The agreements contained in this Paragraph 30 shall be effective without the execution of any further documents;

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provided, however, that, upon written request from Lessor or a Lender in connection with a sale, financing or refinancing of the Premises, Lessee and Lessor shall execute such further writings as may be reasonably required to separately document any subordination, attornment and/or Non-Disturbance Agreement provided for herein.

31. **Attorneys' Fees.** If any Party or Broker brings an action or proceeding involving the Premises whether founded in tort, contract or equity, or to declare rights hereunder, the Prevailing Party (as hereafter defined) in any such proceeding, action, or appeal thereon, shall be entitled to reasonable attorneys' fees. Such fees may be awarded in the same suit or recovered in a separate suit, whether or not such action or proceeding is pursued to decision or judgment. The term, "Prevailing Party" shall include, without limitation, a Party or Broker who substantially obtains or defeats the relief sought, as the case may be, whether by compromise, settlement, judgment, or the abandonment by the other Party or Broker of its claim or defense. The attorneys' fees award shall not be computed in accordance with any court fee schedule, but shall be such as to fully reimburse all attorneys' fees reasonably incurred. In addition, Lessor shall be entitled to attorneys' fees, costs and expenses incurred in the preparation and service of notices of Default and consultations in connection therewith, whether or not a legal action is subsequently commenced in connection with such Default or resulting Breach ($200 is a reasonable minimum per occurrence for such services and consultation).

32. **Lessor's Access; Showing Premises; Repairs.** Lessor and Lessor's agents shall have the right to enter the Premises at any time, in the case of an emergency, and otherwise at reasonable times for the purpose of showing the same to prospective purchasers, lenders, or tenants, and making such alterations, repairs, improvements or additions to the Premises as Lessor may deem necessary. All such activities shall be without abatement of rent or liability to Lessee. Lessor may at any time place on the Premises any ordinary **"For Sale"** signs and Lessor may during the last 6 months of the term hereof place on the Premises any ordinary **"For Lease"** signs. Lessee may at any time place on the Premises any ordinary **"For Sublease"** sign.

33. **Auctions.** Lessee shall not conduct, nor permit to be conducted, any auction upon the Premises without Lessor's prior written consent. Lessor shall not be obligated to exercise any standard of reasonableness in determining whether to permit an auction.

34. **Signs.** Except for ordinary "For Sublease" signs which may be placed only on the Premises, Lessee shall not place any sign upon the Project without Lessor's prior written consent. All signs must comply with all Applicable Requirements.

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

36. **Consents.** Except as otherwise provided herein, wherever in this Lease the consent of a Party is required to an act by or for the other Party, such consent shall not be unreasonably withheld or delayed. Lessor's actual reasonable costs and expenses (including but not limited to architects', attorneys', engineers' and other consultants' fees) incurred in the consideration of, or response to, a request by Lessee for any Lessor consent, including but not limited to consents to an assignment, a subletting or the presence or use of a Hazardous Substance, shall be paid by Lessee upon receipt of an invoice and supporting documentation therefor. Lessor's consent to any act, assignment or subletting shall not constitute an acknowledgment that no Default or Breach by Lessee of this Lease exists, nor shall such consent be deemed a waiver of any then existing Default or Breach, except as may be otherwise specifically stated in writing by Lessor at the time of such consent. The failure to specify herein any particular condition to Lessor's consent shall not preclude the imposition by Lessor at the time of consent of such further or other conditions as are then reasonable with reference to the particular matter for which consent is being given. In the event that either Party disagrees with any determination made by the other hereunder and reasonably requests the reasons for such determination, the determining party shall furnish its reasons in writing and in reasonable detail within 10 business days following such request.

37. **Guarantor.**

37.1 **Execution.** The Guarantors, if any, shall each execute a guaranty in the form most recently published by the American Industrial Real Estate Association, and each such Guarantor shall have the same obligations as Lessee under this Lease.

37.2 **Default.** It shall constitute a Default of the Lessee if any Guarantor fails or refuses, upon request to provide: (a) evidence of the execution of the guaranty, including the authority of the party signing on Guarantor's behalf to obligate Guarantor, and in the case of a corporate Guarantor, a certified copy of a resolution of its board of directors authorizing the making of such guaranty, (b) current financial statements, (c) an Estoppel Certificate, or (d) written confirmation that the guaranty is still in effect.

38. **Quiet Possession.** Subject to payment by Lessee of the Rent and performance of all of the covenants, conditions and provisions on Lessee's part to be observed and performed under this Lease, Lessee shall have quiet possession and quiet enjoyment of the Premises during the term hereof.

39. **Options.** If Lessee is granted an option, as defined below, then the following provisions shall apply.

39.1 **Definition. "Option"** shall mean: (a) the right to extend the term of or renew this Lease or to extend or renew any lease that Lessee has on other property of Lessor; (b) the right of first refusal or first offer to lease either the Premises or other property of Lessor; (c) the right to purchase or the right of first refusal to purchase the Premises or other property of Lessor.

39.2 **Options Personal To Original Lessee.** Any Option granted to Lessee in this Lease is personal to the original Lessee, and cannot be assigned or exercised by anyone other than said original Lessee and only while the original Lessee is in full possession of the Premises and, if requested by Lessor, with Lessee certifying that Lessee has no intention of thereafter assigning or subletting.

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

39.4 **Effect of Default on Options.**

(a) Lessee shall have no right to exercise an Option: (i) during the period commencing with the giving of any notice of Default and continuing until said Default is cured, (ii) during the period of time any Rent is unpaid (without regard to whether notice thereof is given Lessee), (iii) during the time Lessee is in Breach of this Lease, or (iv) in the event that Lessee has been given 3 or more notices of separate Default, whether or not the Defaults are cured, during the 12 month period immediately preceding the exercise of the Option.

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

(c) An Option shall terminate and be of no further force or effect, notwithstanding Lessee's due and timely exercise of the Option, if, after such exercise and prior to the commencement of the extended term, (i) Lessee fails to pay Rent for a period of 30 days after such Rent becomes due (without any necessity of Lessor to give notice thereof), (ii) Lessor gives to Lessee 3 or more notices of separate Default during any 12 month period, whether or not the Defaults are cured, or (iii) if Lessee commits a Breach of this Lease.

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

41. **Reservations.** Lessor reserves the right: (i) to grant, without the consent or joinder of Lessee, such easements, rights and dedications that Lessor deems necessary, (ii) to cause the recordation of parcel maps and restrictions, and (iii) to create and/or install new utility raceways, so long as such easements, rights, dedications, maps, restrictions, and utility raceways do not unreasonably interfere with the use of the Premises by Lessee. Lessee agrees to sign any documents reasonably requested by Lessor to effectuate such rights.

42. **Performance Under Protest.** If at any time a dispute shall arise as to any amount or sum of money to be paid by one Party to the other under the provisions hereof, the Party against whom the obligation to pay the money is asserted shall have the right to make payment "under protest" and such payment shall not be regarded as a voluntary payment and there shall survive the right on the part of said Party to institute suit for recovery of such sum. If it shall be adjudged that there was no legal obligation on the part of said Party to pay such sum or any part thereof, said Party shall be entitled to recover such sum or so much thereof as it was not legally required to pay.

43. **Authority.** If either Party hereto is a corporation, trust, limited liability company, partnership, or similar entity, each individual executing this Lease on behalf of such entity represents and warrants that he or she is duly authorized to execute and deliver this Lease on its behalf. Each party shall, within 30 days after request, deliver to the other party satisfactory evidence of such authority.

44. **Conflict.** Any conflict between the printed provisions of this Lease and the typewritten or handwritten provisions shall be controlled by the typewritten or handwritten provisions.

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45. **Offer.** Preparation of this Lease by either party or their agent and submission of same to the other Party shall not be deemed an offer to lease to the other Party. This Lease is not intended to be binding until executed and delivered by all Parties hereto.

46. **Amendments.** This Lease may be modified only in writing, signed by the Parties in interest at the time of the modification. As long as they do not materially change Lessee's obligations hereunder, Lessee agrees to make such reasonable non-monetary modifications to this Lease as may be reasonably required by a Lender in connection with the obtaining of normal financing or refinancing of the Premises.

47. **Multiple Parties.** If more than one person or entity is named herein as either Lessor or Lessee, such multiple Parties shall have joint and several responsibility to comply with the terms of this Lease.

48. **Waiver of Jury Trial.** The Parties hereby waive their respective rights to trial by jury in any action or proceeding involving the Property or arising out of this Agreement.

49. **Mediation and Arbitration of Disputes.** An Addendum requiring the Mediation and/or the Arbitration of all disputes between the Parties and/or Brokers arising out of this Lease ☐ is ☑ is not attached to this Lease.

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

ATTENTION: NO REPRESENTATION OR RECOMMENDATION IS MADE BY THE AMERICAN INDUSTRIAL REAL ESTATE ASSOCIATION OR BY ANY BROKER AS TO THE LEGAL SUFFICIENCY, LEGAL EFFECT, OR TAX CONSEQUENCES OF THIS LEASE OR THE TRANSACTION TO WHICH IT RELATES. THE PARTIES ARE URGED TO:

1. SEEK ADVICE OF COUNSEL AS TO THE LEGAL AND TAX CONSEQUENCES OF THIS LEASE.

2. RETAIN APPROPRIATE CONSULTANTS TO REVIEW AND INVESTIGATE THE CONDITION OF THE PREMISES. SAID INVESTIGATION SHOULD INCLUDE BUT NOT BE LIMITED TO: THE POSSIBLE PRESENCE OF HAZARDOUS SUBSTANCES, THE ZONING OF THE PREMISES, THE STRUCTURAL INTEGRITY, THE CONDITION OF THE ROOF AND OPERATING SYSTEMS, COMPLIANCE WITH THE AMERICANS WITH DISABILITIES ACT AND THE SUITABILITY OF THE PREMISES FOR LESSEE'S INTENDED USE.

WARNING: IF THE PREMISES ARE LOCATED IN A STATE OTHER THAN CALIFORNIA, CERTAIN PROVISIONS OF THE LEASE MAY NEED TO BE REVISED TO COMPLY WITH THE LAWS OF THE STATE IN WHICH THE PREMISES ARE LOCATED.

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

Executed at: _____	Executed at: _____
on: _____	on: _____
By LESSOR: * _____	By LESSEE: Real Health Laboratories, Inc. _____

* Jonathan Glasier and Elizabeth M. Glasier, Husband and Wife as Joint Tenants as to an undivided 92.93% interest and Joel Gattey a single man, as to an undivided 7.07% interest

By:	/s/ Jonathan Glasier	By:	/s/ John F. Dullea
Name Printed:	Jonathan Glasier	Name Printed:	John F. Dullea
Title:	Buyer	Title:	President
By:	/s/ Elizabeth M. Glasier	By:	
Name Printed:	Elizabeth M. Glasier	Name Printed:	
Title:	Buyer	Title:	
Address:	PO Box 371443 San Diego, CA 92137	Address:	1424 30Th St., San Diego, CA 92154
	/s/ Joel Gattey		
	Joel Gattey		
Telephone:	(619) 238-3593	Telephone:	(619) 213-2200
Facsimile:	(____) _____	Facsimile:	(619) 213-1203
Federal ID No.		Federal ID No.	

These forms are often modified to meet changing requirements of law and needs of the industry. Always write or call to make sure you are utilizing the most current form: American Industrial Real Estate Association, 700 South Flower Street, Suite 600, Los Angeles, CA 90017. (213) 687-8777.

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ADDENDUM TO STANDARD INDUSTRIAL/COMMERCIAL MULTI-
TENANT LEASE – GROSS DATED FEBRUARY 5, 2003 FOR * AS
LESSOR AND REAL HEALTH LABORATORIES, INC. AS LESSEE
FOR SPACE LOCATED AT
1424 30TH ST. IN SAN DIEGO

50. The lease will commence upon close of escrow by Lessor (Lessor is a purchaser of the property which is in escrow currently).

51. There will be no additional rent or common area expenses to be paid by Lessee other than the base rent stipulated in # 1.5. This base rent will increase by 3.0% annually.

AGREED AND ACCEPTED:

LESSOR: *

/s/ Jonathan Glasier	May 8, 2003
Jonathan Glasier	Date
/s/ Joel Gattey	
Joel Gattey	
/s/ Elizabeth M. Glasier	May 8, 2003
Elizabeth M. Glasier	Date

LESSEE: REAL HEALTH LABORATORIES, INC.

/s/ John F. Dullea	5/7/03
John F. Dullea	Date

* Jonathan Glasier and Elizabeth M. Glasier, Husband and Wife as Joint Tenants as to an undivided 92.93% interest and Joel Gattey a single man, as to an undivided 7.07% interest

OPTION(S) TO EXTEND
STANDARD LEASE ADDENDUM

Dated	February 5, 2003
By and Between (Lessor)*	_____
	_____
(Lessee)	Real Health Laboratories, Inc.
	_____
Address of Premises:	1424 30Th St.
	_____

* Jonathan Glasier and Elizabeth M. Glasier, Husband and Wife as Joint Tenants as to an undivided 92.93% interest and Joel Gattey a single man, as to an undivided 7.07% interest

Paragraph _____

A. **OPTION(S) TO EXTEND:**

Lessor hereby grants to Lessee the option to extend the term of this Lease for one additional thirty six month period(s) commencing when the prior term expires upon each and all of the following terms and conditions:

(i) In order to exercise an option to extend, Lessee must give written notice of such election to Lessor and Lessor must receive the same at least Four ~~but not more than _____~~ months prior to the date that the option period would commence, time being of the essence. If proper notification of the exercise of an option is not given and/or received, such option shall automatically expire. Options (if there are more than one) may only be exercised consecutively.

(ii) The provisions of paragraph 39, including those relating to Lessee's Default set forth in paragraph 39.4 of this Lease, are conditions of this Option.

(iii) Except for the provisions of this Lease granting an option or options to extend the term, all of the terms and conditions of this Lease except where specifically modified by this option shall apply.

(iv) This Option is personal to the original Lessee, and cannot be assigned or exercised by anyone other than said original Lessee and only while the original Lessee is in full possession of the Premises and without the intention of thereafter assigning or subletting.

(v) The monthly rent for each month of the option period shall be calculated as follows, using the method(s) indicated below:
(Check Method(s) to be Used and Fill in Appropriately)

☐ ~~**I. Cost of Living Adjustment(s) (COLA)**~~

~~a. On (Fill in COLA Dates): _____~~
~~the Base Rent shall be adjusted by the change, if any, from the Base Month specified below, in the Consumer Price Index of the Bureau of Labor Statistics of the U.S. Department of Labor for (select one): ☐ CPI W (Urban Wage Earners and Clerical Workers) or ☐ CPI U (All Urban Consumers), for (Fill in Urban Area):~~

~~_____~~
~~All Items (1982-1984-100), herein referred to as "CPI".~~

~~b. The monthly rent payable in accordance with paragraph A.l.a. of this Addendum shall be calculated as follows: the Base Rent set forth in paragraph 1.5 of the attached Lease, shall be multiplied by a fraction the numerator of which shall be the CPI of the calendar month 2 months prior to the month(s) specified in paragraph A.l.a. above during which the adjustment is to take effect, and the denominator of which shall be the CPI of the calendar month which is 2 months prior to (select one): ☐ the first month of the term of this Lease as set forth in paragraph 1.3 ("Base Month") or ☐ (Fill in Other "Base Month"):. The sum so calculated shall constitute the new monthly rent hereunder, but in no event, shall any such new monthly rent be less than the rent payable for the month immediately preceding the rent adjustment.~~

~~c. In the event the compilation and/or publication of the CPI shall be transferred to any other governmental department or bureau or agency or shall be discontinued, then the index most nearly the same as the CPI shall be used to make such calculation. In the event that the Parties cannot agree on such alternative index, then the matter shall be submitted for decision to the American Arbitration Association in accordance with the then rules of said Association and the decision of the arbitrators shall be binding upon the parties. The cost of said Arbitration shall be paid equity by the Parties.~~

☐ ~~**II. Market Rental Value Adjustment(s) (MRV)**~~

~~a. On (Fill in MRV Adjustment Date(s)): _____~~
~~the Base Rent shall be adjusted to the "Market Rental Value" of the property as follows:~~

~~1) Four months prior to each Market Rental Value Adjustment Date described above, the Parties shall attempt to agree upon what the new MRV will be on the adjustment date. If agreement cannot be reached, within thirty days, then:~~

~~(a) Lessor and Lessee shall immediately appoint a mutually acceptable appraiser or broker to establish the new MRV within the next 30 days. Any associated costs will be split equally between the Parties, or~~

~~(b) Both Lessor and Lessee shall each immediately make a reasonable determination of the MRV and submit such determination, in~~

~~writing, to arbitration in accordance with the following provisions:~~

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~~(i) Within 15 days thereafter, Lessor and Lessee shall each select an [ ] appraiser or [ ] broker (**"Consultant"** check one) of their choice to act as an arbitrator. The two arbitrators so appointed shall immediately select a third mutually acceptable Consultant to act as a third arbitrator.~~

~~(ii) The 3 arbitrators shall within 30 days of the appointment of the third arbitrator reach a decision as to what the actual MRV for the Premises is, and whether Lesser's or Lessee's submitted MRV is the closest thereto. The decision of a majority of the arbitrators shall be binding on the Parties. The submitted MRV which is determined to be the closest to the actual MRV shall thereafter be used by the Parties.~~

~~(iii) If either of the Parties fails to appoint an arbitrator within the specified 15 days, the arbitrator timely appointed by one of them shall reach a decision on his or her own, and said decision shall be binding on the Parties.~~

~~(iv) The entire cost of such arbitration shall be paid by the party whose submitted MRV is not selected, ie. the one that is NOT the closest to the actual MRV.~~

~~2) Notwithstanding the foregoing, the new MRV shall not be less than the rent payable for the month immediately preceding the rent adjustment.~~

~~b. Upon the establishment of each New Market Rental Value:~~

~~1) the new MRV will become the new "Base Rent" for the purpose of calculating any further Adjustments, and~~

~~2) the first month of each Market Rental Value term shall become the new "Base Month" for the purpose of calculating any further Adjustments.~~

☑ III. Fixed Rental Adjustment(s) (FRA)

The Base Rent shall be increased to the following amounts on the dates set forth below:

On (Fill in FRA Adjustment Date(s)):	The New Base Rent shall be:
Thirty seventh month	$ 9,106.
Forty ninth month	$ 9, 379
Sixty first month	$ 9,660.
_____	$_____

B. NOTICE:

Unless specified otherwise herein, notice of any rental adjustments, other than Fixed Rental Adjustments, shall be made as specified in paragraph 23 of the Lease.

C. ~~BROKER'S FEE:~~

~~The Brokers shall be paid a Brokerage Fee for each adjustment specified above in accordance with paragraph 15 of the Lease.~~

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

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AMERICAN INDUSTRIAL REAL ESTATE ASSOCIATION

GUARANTY OF LEASE

WHEREAS, *, hereinafter "Lessor", and Real Health Laboratories, Inc., hereinafter "Lessee", are about to execute a document entitled "Lease" dated February 5, 2003 concerning the premises commonly known as 1424 30Th St. in San Diego (the space leased by Real Health Laboratories, Inc.) wherein Lessor will lease the premises to Lessee, and

WHEREAS, John F. Dullea, William H. Bunten II, Lincoln K. Fish hereinafter "Guarantors" have a financial interest in Lessee, and

WHEREAS, Lessor would not execute the Lease if Guarantors did not execute and deliver to Lessor this Guarantee of Lease.

* Jonathan Glasier and Elizabeth M. Glasier, Husband and Wife as Joint Tenants as to an undivided 92.93% interest and Joel Gattey a single man, as to an undivided 7.07% interest

NOW THEREFORE, in consideration of the execution of the foregoing Lease by Lessor and as a material inducement to Lessor to execute said Lease, Guarantors hereby jointly, severally, unconditionally and irrevocably guarantee the prompt payment by Lessee of all rents and all other sums payable by Lessee under said Lease and the faithful and prompt performance by Lessee of each and every one of the terms, conditions and covenants of said Lease to be kept and performed by Lessee. Notwithstanding anything to the contrary in the printed form Guaranty, none of the Guarantors shall have any liability or obligation with respect to any obligation, including but not limited to the obligation to pay rent, that arises under the Lease after the date (the "Termination Date") that is 12 months after the date of this Guaranty. This Guarantee shall terminate and be of no further force or effect if Lessee is not in default of any obligation under the Lease as of the Termination Date. If any default by Lessee exists under the Lease as of the Termination Date (an "Outstanding Default"), the obligations of Guarantors under this Guaranty shall be applicable only to such Outstanding Default.

It is specifically agreed that the terms of the foregoing Lease may be modified by agreement between Lessor and Lessee, or by a course of conduct, and said Lease may be assigned by Lessor or any assignee of Lessor without consent or notice to Guarantors and that this Guaranty shall guarantee the performance of said Lease as so modified.

This Guaranty shall not be released, modified or affected by the failure or delay on the part of Lessor to enforce any of the rights or remedies of the Lessor under said Lease, whether pursuant to the terms thereof or at law or in equity.

No notice of default need be given to Guarantors, it being specifically agreed that the guarantee of the undersigned is a continuing guarantee under which Lessor may proceed immediately against Lessee and/or against Guarantors following any breach or default by Lessee or for the enforcement of any rights which Lessor may have as against Lessee under the terms of the Lease or at law or in equity.

Lessor shall have the right to proceed against Guarantors hereunder following any breach or default by Lessee without first proceeding against Lessee and without previous notice to or demand upon either Lessee or Guarantors.

Guarantors hereby waive (a) notice of acceptance of this Guaranty, (b) demand of payment, presentation and protest, (c) all right to assert or plead any statute of limitations relating to this Guaranty or the Lease, (d) any right to require the Lessor to proceed against the Lessee or any other Guarantor or any other person or entity liable to Lessor, (e) any right to require Lessor to apply to any default any security deposit or other security it may hold under the Lease, (f) any right to require Lessor to proceed under any other remedy Lessor may have before proceeding against Guarantors, (g) any right of subrogation.

Guarantors do hereby subrogate all existing or future indebtedness of Lessee to Guarantors to the obligations owed to Lessor under the Lease and this Guaranty.

If a Guarantor is married, such Guarantor expressly agrees that recourse may be had against his or her separate property for all of the obligations hereunder.

The obligations of Lessee under the Lease to execute and deliver estoppel statements and financial statements, as therein provided, shall be deemed to also require the Guarantors hereunder to do and provide the same.

The term "Lessor" refers to and means the Lessor named in the Lease and also Lessor's successors and assigns. So long as Lessor's interest in the Lease, the leased premises or the rents, issues and profits therefrom, are subject to any mortgage or deed of trust or assignment for security, no acquisition by Guarantors of the Lessor's interest shall affect the continuing obligation of Guarantors under this Guaranty which shall nevertheless continue in full force and effect for the benefit of the mortgagee, beneficiary, trustee or assignee under such mortgage, deed of trust or assignment and their successors and assigns.

The term "Lessee" refers to and means the Lessee named in the Lease and also Lessee's successors and assigns.

In the event any action be brought by said Lessor against Guarantors hereunder to enforce the obligation of Guarantors hereunder, the unsuccessful party in such action shall pay to the prevailing party therein a reasonable attorney's fee which shall be fixed by the court.

If this Form has been filled in, it has been prepared for submission to your attorney for his approval. No representation or recommendation is made by the American Industrial Real Estate Association, the real estate broker or its agents or employees as to the legal sufficiency, legal effect, or tax consequences of this Form or the transaction relating thereto.

Executed at San Diego
on May 7, 2003

Address _____

_____

John F. Dullea
William H. Bunten II

Lincoln K. Fish /s/ Lincoln K. Fish

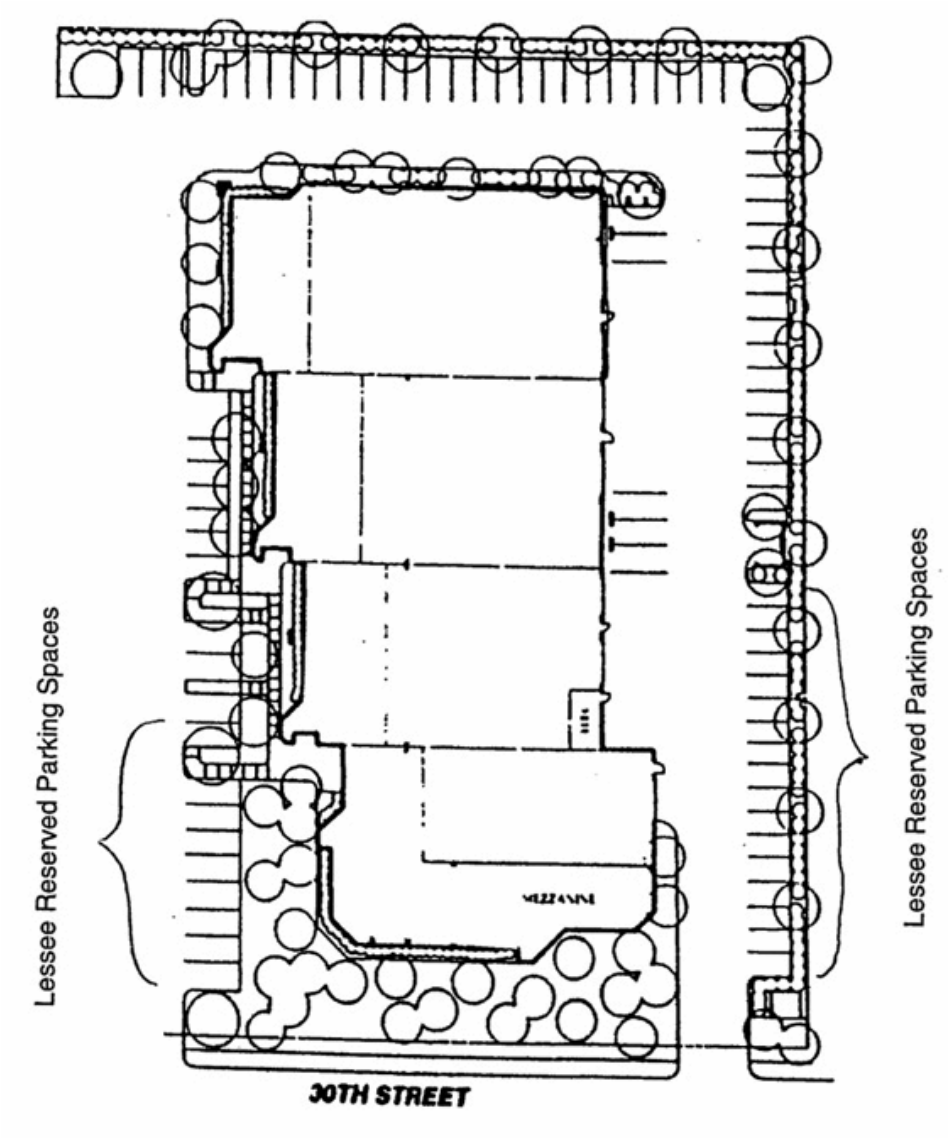
"GUARANTORS"

 REVISED **FORM GR-1-12/96E**

PARKING EXHIBIT

TO STANDARD INDUSTRIAL/COMMERCIAL MULTI-TENANT
LEASE – GROSS DATED FEBRUARY 5, 2003 FOR * AS LESSOR AND
REAL HEALTH LABORATORIES, INC. AS LESSEE FOR SPACE
LOCATED AT
1424 30TH ST. IN SAN DIEGO

* Jonathan Glasier and Elizabeth M. Glasier, Husband and Wife as Joint Tenants as to an undivided 92.93% interest and Joel Gattey a single man, as to an undivided 7.07% interest

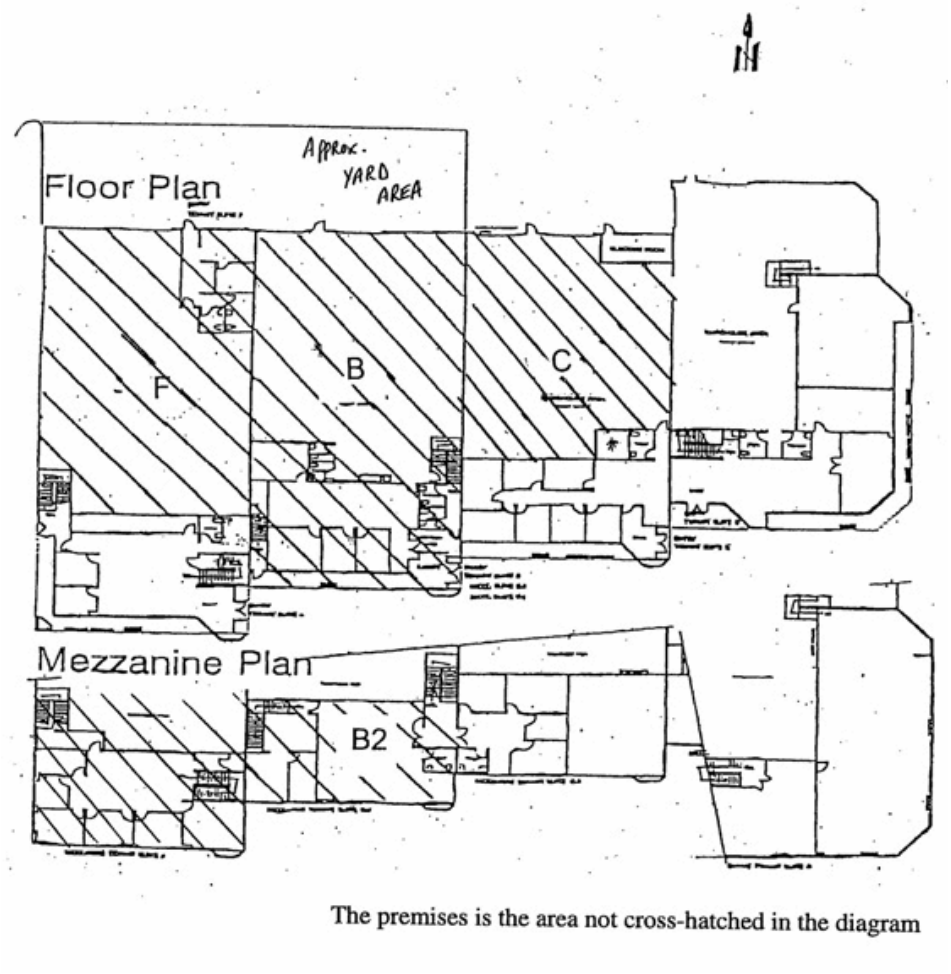


LESSOR: **[ILLEGIBLE] [ILLEGIBLE]**
LESSEE: **[ILLEGIBLE]**

SPACE PLAN EXHIBIT

TO STANDARD INDUSTRIAL/COMMERCIAL MULTI-TENANT
LEASE – GROSS DATED FEBRUARY 5, 2003 FOR * AS LESSOR AND
REAL HEALTH LABORATORIES, INC. AS LESSEE FOR SPACE
LOCATED AT
1424 30TH ST. IN SAN DIEGO

* Jonathan Glasier and Elizabeth M. Glasier, Husband and Wife as Joint Tenants as to an undivided 92.93% interest and Joel Gattey a single man, as to an undivided 7.07% interest



The premises is the area not cross-hatched in the diagram

LESSOR: **[ILLEGIBLE] [ILLEGIBLE]**
LESSEE: **[ILLEGIBLE]**

Exhibit 10.5

Promissory Note

Wells Fargo Equipment Finance, Inc.
733 Marquette Avenue, Suite 700
MAC N9306-070
Minneapolis, MN 55402

*Contract Number **0120423-702** dated as of **November 9, 2005***

*For Value Received, the undersigned hereby promises to pay to the order of Wells Fargo Equipment Finance, Inc. (the "Lender") at its main office in Minneapolis, MN, in lawful money of the United States of America, the principal sum of **$3,800,000.00** together with interest on the unpaid balance hereof from the date the loan proceeds are disbursed hereunder at an annual rate (computed on the basis of actual number of days elapsed in a 360-day year) determined as set forth below.*

*The interest rate in effect on the date the loan proceeds are disbursed hereunder shall be the Index (as hereinafter defined) on the first business day of the month in which the loan proceeds are disbursed plus 2.**10%** and shall remain in effect through the last day of the calendar quarter in which the loan proceeds are disbursed hereunder. The interest rate in effect for each calendar quarter thereafter during the term of this Note shall be the same percentage over the Index as in effect on the first day of such calendar quarter; provided, however, that notwithstanding any change in the Index after the maturity of this Note, this Note shall bear the same rate of interest after maturity as it bore at maturity.*

For purposes of this Note, the terms "Index" or "the Index" mean, as of the date of determination, the London interbank offered rate for deposits in United States dollars having a maturity of three months which appears in the "Money Rates" section of the Wall Street Journal, published on the business day on, or immediately preceding, the first day of each calendar quarter. If the Index is no longer available, Lender will choose an index that is based upon comparable information and will give the undersigned notice of such new "Index".

*The First Payment Due Date shall be the date that is one month after the date loan proceeds are disbursed hereunder. The undersigned agrees that the dates of the First Payment Due Date and the Final Installment Due Date may be left blank when this Note is executed and hereby authorizes Lender to insert such dates based upon a **48-month term** from the date the loan proceeds are disbursed.*

*Principal and interest shall be payable in **47** consecutive equal monthly installments of **$89,871.66** each commencing on the First Payment Due Date and continuing on the same day of each month thereafter, and in a final installment of the entire unpaid principal balance of this Note plus accrued but unpaid interest on the Final Installment Due Date, provided; however, that annual adjustment payments shall be made as set forth below.*

*The amount of each monthly installment hereunder other than the final installment is the amount necessary to fully amortize this Note in equal monthly installments from the First Payment Due Date through the Final Installment Due Date at an interest rate of **6.36%** per annum. On each annual anniversary of the First Payment Due Date, the undersigned shall pay Lender or Lender shall credit to the next installment or installments in the order of maturity, as the case may be, an amount necessary to make the unpaid principal balance of this Note on such anniversary date equal to what it would have been on such anniversary date had the interest rate hereon been the rate set forth in this paragraph throughout the previous 12 months. Payments shall be applied first to interest and then to principal.*

This Note may be prepaid in whole at any time by paying to Lender the unpaid principal balance of this Note but only if accompanied by a prepayment premium of 2% of the unpaid principal balance, together with accrued but unpaid interest.

This Note may be prepaid in part but only as a result of a disposition of an item of collateral which secures this Note. The amount of such prepayment shall be the product of the unpaid principal balance of this Note times a fraction, the numerator of which is the original advance made by the Lender with respect to the item of collateral in question and the denominator of which is the original principal balance of this Note with respect to the existing collateral securing this Note, together with accrued but unpaid interest multiplied by the same fraction, plus a prepayment premium equal to the percentage set forth in the preceding paragraph times the principal amount prepaid. Nothing contained in this paragraph shall be construed as an authorization by Lender to the undersigned to sell or otherwise dispose of an item of collateral which secures this Note. Such sale or disposition of an item of collateral by the undersigned shall be made solely in accordance with the terms of the security agreement or other agreement pursuant to which the undersigned pledged such item of collateral to Lender.

The undersigned may remit to Lender amounts in excess of an installment that is due hereunder and Lender shall apply such amount to the next maturing installment or installments. Payment of amounts in excess of the installment that is due or installments prior to the due date thereof shall not be treated as a prepayment or result in a change to either the total number of installments or the total sum of all installments payable under this Note.

Each of the following shall constitute an Event of Default hereunder: (a) failure to pay any installment or other payment hereunder when due; (b) the occurrence of an Event of Default as defined in any security agreement or mortgage securing this Note; (c) the commencement of any bankruptcy or insolvency proceedings by or against the undersigned or any guarantor of this Note; and (d) any indebtedness the undersigned may now or hereafter owe to any affiliate of Lender shall be accelerated following a default thereunder or, if any such indebtedness is payable on demand, payment thereof shall be demanded, upon the occurrence of an Event of Default, Lender may do any one or more of the following as it may elect, provided, however, that upon the occurrence of an Event of Default specified in (c) above, the entire unpaid balance of this Note shall automatically become and be due and payable without

THIS AGREEMENT INCLUDES THE TERMS ON THE ATTACHED PAGE(S).

IN WITNESS WHEREOF the Debtor has signed this Agreement as of the date first above written.

Natural Alternatives International, Inc.
Debtor

/s/ John Reaves
By

CFO

notice or demand of any kind: (i) upon written notice to the undersigned, declare the entire unpaid balance of this Note to be immediately due and payable and the same shall thereupon become and be immediately due and payable; (ii) exercise any one or more of the rights and remedies available to it under any security agreement or mortgage securing this Note or under any other agreement or by law.

The undersigned hereby waives presentment, notice of dishonor, and protest. The undersigned agrees to pay all costs of collection of this Note, including reasonable attorney's fees. The holder hereof may change the terms of payment of this Note by extension, renewal or otherwise, and release any security for, or party to, this Note and such action shall not release any accommodation maker, endorser, or guarantor from liability on this Note.

Notwithstanding anything to the contrary contained herein, if the rate of interest, late payment fee, prepayment premium or any other charges or fees due hereunder are determined by a court of competent jurisdiction to be usurious, then said interest rate, fees and/or charges shall be reduced to the maximum amount permissible under applicable law and any such excess amounts shall be applied towards the reduction of the principal balance of this Note.

This Note shall be construed and enforced in accordance with, and the rights of the parties shall be governed by, the laws of the state of Minnesota without regard to conflicts of law rules.

ARBITRATION:

(a) Arbitration. The parties hereto agree, upon demand by any party, to submit to binding arbitration all claims, disputes and controversies between or among them (and their respective employees, officers, directors, attorneys, and other agents), whether in tort, contract or otherwise arising out of or relating to in any way (i) the loan and related loan and security documents which are the subject of this Note and its negotiation, execution, collateralization, administration, repayment, modification, extension, substitution, formation, inducement, enforcement, default or termination; or (ii) requests for additional credit.

(b) Governing Rules. Any arbitration proceeding will (i) proceed in a location selected by the American Arbitration Association ("AAA"); (ii) be governed by the Federal Arbitration Act (Title 9 of the United States Code), notwithstanding any conflicting choice of law provision in any of the documents between the parties; and (iii) be conducted by the AAA, or such other administrator as the parties shall mutually agree upon, in accordance with the AAA's commercial dispute resolution procedures, unless the claim or counterclaim is at least $1,000,000.00 exclusive of claimed interest, arbitration fees and costs in which case the arbitration shall be conducted in accordance with the AAA's optional procedures for large, complex commercial disputes (the commercial dispute resolution procedures or the optional procedures for large, complex commercial disputes to be referred to, as applicable, as the "Rules"). If there is any inconsistency between the terms hereof and the Rules, the terms and procedures set forth herein shall control. Any party who fails or refuses to submit to arbitration following a demand by any other party shall bear all costs and expenses incurred by such other party in compelling arbitration of any dispute. Nothing contained herein shall be deemed to be a waiver by any party that is a bank of the protections afforded to it under 12 U.S.C. §91 or any similar applicable state law.

(c) No Waiver of Provisional Remedies. Self-Help and Foreclosure. The arbitration requirement does not limit the right of any party to (i) foreclose against real or personal property collateral; (ii) exercise self-help remedies relating to collateral or proceeds of collateral such as setoff or repossession; or (iii) obtain provisional or ancillary remedies such as replevin, injunctive relief, attachment or the appointment of a receiver, before during or after the pendency of any arbitration proceeding. This exclusion does not constitute a waiver of the right or obligation of any party to submit any dispute to arbitration or reference hereunder, including those arising from the exercise of the actions detailed in sections (i), (ii) and (iii) of this paragraph.

(d) Arbitrator Qualifications and Powers. Any arbitration proceeding in which the amount in controversy is $5,000,000.00 or less will be decided by a single arbitrator selected according to the Rules, and who shall not render an award of greater than $5,000,000.00. Any dispute in which the amount in controversy exceeds $5,000,000.00 shall be decided by majority vote of a panel of three arbitrators; provided however, that all three arbitrators must actively participate in all hearings and deliberations. The arbitrator will be a neutral attorney licensed in, or a neutral retired judge of the state or federal judiciary of the state in which the arbitration proceeding takes place, in either case with a minimum of ten years experience in the substantive law applicable to the subject matter of the dispute to be arbitrated. The arbitrator will determine whether or not an issue is arbitratable and will give effect to the statutes of limitation in determining any claim. In any arbitration proceeding the arbitrator will decide (by documents only or with a hearing at the arbitrator's discretion) any pre-hearing motions which are similar to motions to dismiss for failure to state a claim or motions for summary adjudication. The arbitrator shall resolve all disputes in accordance with the substantive law of Minnesota and may grant any remedy or relief that a court of such state could order or grant within the scope hereof and such ancillary relief as is necessary to make effective any award. The arbitrator shall also have the power to award recovery of all costs and fees, to impose sanctions and to take such other action as the arbitrator deems necessary to the same extent a judge could pursuant to the Federal Rules of Civil Procedure, the Minnesota Rules of Civil Procedure or other applicable law, Judgment upon the award rendered by the arbitrator may be entered in any court having jurisdiction. The institution and maintenance of an action for judicial relief or pursuit of a provisional or ancillary remedy shall not constitute a waiver of the right of any party, including the plaintiff, to submit the controversy or claim to "arbitration if any other party contests such action for judicial relief.

(e) Discovery. In any arbitration proceeding discovery will be permitted in accordance with the Rules. All discovery shall be expressly limited to matters directly relevant to the dispute being arbitrated and must be completed no later than 20 days before the hearing date and within 180 days of the filing of the dispute with the AAA. Any requests for an extension of the discovery periods, or any discovery disputes, will be subject to final determination by the arbitrator upon a showing that the request for discovery is essential for the party's presentation and that no alternative means for obtaining information is available.

(f) Class Proceedings and Consolidations. The resolution of any dispute arising pursuant to the terms of this Note shall be determined by a separate arbitration proceeding and such dispute shall not be consolidated with other disputes or included in any class proceeding.

(g) Payment Of Arbitration Costs And Fees. The arbitrator shall award all costs and expenses of the arbitration proceeding.

(h) Miscellaneous. To the maximum extent practicable, the AAA, the arbitrators and the parties shall take all action required to conclude any arbitration proceeding within 180 days of the filing of the dispute with the AAA. No arbitrator or other party to an arbitration proceeding may disclose the existence, content or results thereof, except for disclosures of information by a party required in the ordinary course of its business or by applicable law or regulation. If more than one agreement for arbitration by or between the parties potentially applies to a dispute, the arbitration provision most directly related to the documents between the parties or the subject matter of the dispute shall control. This arbitration provision shall survive termination, amendment or expiration of any of the documents or any relationship between the parties.

If Debtor is not an individual, (i) the execution, delivery and performance of this Note has been duly authorized by all necessary action on the part of Debtor and will not violate any provision of Debtor's governing documents; (ii) the person signing on behalf of Debtor is duly authorized; and (iii) this Note constitutes a legal, valid and binding obligation of Debtor.

If this Note is signed by more than one person as Debtor, then the term "Debtor" shall refer to each of them separately and to all of them jointly, and each such person shall be liable hereunder individually in full and jointly with the others.

First Payment Due Date: _____ *Final Installment Due Date:* _____

Wells Fargo Equipment Finance, Inc.
733 Marquette Avenue, Suite 700
MAC N9306-070
Minneapolis, MN 55402

Dated as of November 9, 2005
Contract Number 0120423-702

Name and Address of Debtor:
Natural Alternatives International, Inc.
1185 Linda Vista Drive
San Marcos, CA 92069

1. ***Security Interest and Collateral. To secure the payment and performance of each and every debt, liability and obligation of every type and description which*** *Debtor may now or at any time hereafter owe to Wells Fargo Equipment Finance, Inc. ("Secured Party") (whether such debt, liability or obligation now exists or is hereafter created or incurred, whether it is currently contemplated by the Debtor and Secured Party, whether any documents evidencing it refer to the Security Agreement, and whether it is or may be direct or indirect, due or to become due, absolute or contingent, primary or secondary, liquidated or unliquidated, or joint, several or joint and several; all such debts, liabilities and obligations being herein collectively referred to as the "Obligations"), Debtor hereby grants Secured Party a security interest (herein called the "Security Interest") in the following property (herein called the "Collateral"):*

   The Equipment described on Schedule A attached hereto and made a part hereof.
   together with all substitutions and replacements for and products of the Collateral, all proceeds, accessories, attachments, parts, equipment and repairs now or hereafter attached or affixed to or used in connection with the Collateral.

2. ***Representations, Warranties and Agreements.*** *Debtor represents, warrants and agrees that:*

   (a) ***Authorization.*** *If Debtor is not an individual, (i) the execution, delivery and performance of this Agreement has been duly authorized by all necessary action on the part of the Debtor and will not violate any provision of the Debtor's governing documents; and (ii) the person signing this Agreement on behalf of the Debtor is duly authorized.*

   (b) ***Office Location and Organization.*** *Debtor's chief executive office (if Debtor is a corporation, a partnership or a limited liability company) is located at the address for Debtor shown above. Debtor will not change the location of its chief executive office or his/her residence, as the case may be, or its state of organization or form of organization (if Debtor is a corporation, a partnership or a limited liability company) without first giving Secured Party at least 10 days prior written notice of the proposed change,*

   (c) ***Business Purpose; Lawful Use.*** *The Equipment will be used primarily for business purposes as opposed to personal, family or household purposes. Debtor will comply with all laws and regulations applicable to the Equipment and its use.*

3. ***Additional Representations, Warranties and Agreements.*** *Debtor represents, warrants and agrees that:*

   (a) *Debtor has (or will have at the time Debtor acquires rights in Collateral hereafter arising) absolute title to each item of Collateral free and clear of all security interests, liens and encumbrances, except the Security Interest and will defend the Collateral against all claims or demands of all persons other than Secured Party. Debtor will not sell or otherwise dispose of the Collateral or any interest therein without the prior written consent of Secured Party.*

   (b) *Debtor will not permit any Collateral to be located in any state (and, if county filing is required, in any county) in which the financing statement covering such Collateral is required to be, but has not in fact been, filed in order to perfect the Security Interest.*

(c) *Debtor will (i) keep all Collateral in good repair, working order and condition, normal depreciation excepted, and will, from time to time, replace any worn, broken or defective parts thereof; (ii) promptly pay all taxes and other governmental charges levied or assessed upon or against any Collateral or upon or against the creation, perfection or continuance of the Security Interest; (iii) keep all Collateral free and clear of all security interests, liens and encumbrances except the Security Interest: (iv) at all reasonable times, permit Secured Party or its representatives to examine or inspect any Collateral, wherever located, and to examine, inspect and copy Debtor's books and records pertaining to the Collateral and its business and financial condition; (v) keep accurate and complete records pertaining to Debtor's business and financial condition and submit* to *Secured Party such periodic reports concerning Debtor's business and financial condition as Secured Party may from time to time reasonably request; (vi) promptly notify Secured Party of any loss of or material damage to any Collateral; (vii) at all times keep all Collateral insured against risks of fire (including so-called extended coverage), theft, collision (in case of Collateral consisting of motor vehicles) and such other risks and in such amounts as Secured Party may reasonably request, with any loss payable to Secured Party to the extent of its interest and with a provision requiring the insurer to notify Secured Party in writing at least 10 days prior to cancellation or modification of any such policy, (viii) from time to time execute such financing statements as Secured Party may reasonably require in order to perfect the Security Interest and, if any Collateral consists of a motor vehicle, execute such documents as may be required to have the Security Interest property noted on a certificate of title; (ix) pay when due or reimburse Secured Party on demand for all costs of collection of any of the Obligations and all other out-of-pocket expenses (including in each case all reasonable attorneys' fees) incurred by Secured Party in connection with the creation, perfection, satisfaction, protection, defense or enforcement of the Security Interest or the creation, continuance, protection, defense or enforcement of this Agreement or any or all of the Obligations, including expenses incurred in any litigation or bankruptcy or insolvency proceedings; (x) execute, deliver or endorse any and all instruments, documents, assignments, security agreements and other agreements and writings which Secured Party may at any time reasonably request in order to secure, protect, perfect or enforce the Security Interest and Secured Party's rights under this Agreement; (xi) not use or keep any Collateral, or permit it to be used or kept, for any unlawful purpose or in violation of any federal, state or local law, statute or ordinance; and (xii) not permit any Collateral to become part of or to be affixed to any real property without first assuring to the reasonable satisfaction of Secured Party that the Security Interest will be prior and senior to any interest or lien then held or thereafter acquired by any mortgagee of such real property or the owner or purchaser of any interest therein. If Debtor at any time fails to perform or observe any agreement contained in this Section 3(c), and if such failure shall continue for a period of ten calendar days after Secured Party gives Debtor written notice thereof (or, in the case of the agreements contained in clauses (vii) and (viii) of this Section 3(c), immediately upon the occurrence of such failure, without notice or lapse of time), Secured Party may (but need not) perform or observe such agreement on behalf and in the name, place and stead of Debtor (or, at Secured Party's option, in Secured Party's own name) and may (but need not) take any and all other actions which Secured Party may reasonably deem necessary to cure or correct such failure (including, without limitation, the payment of taxes, the satisfaction of security interests, liens, or encumbrances, the procurement and maintenance*

THIS AGREEMENT INCLUDES THE TERMS ON THE ATTACHED PAGE(S).

Natural Alternatives International, Inc.
Debtor

/s/ John Reaves
By

CFO
Title

SECAGREQ: ACOSB01:11092005:1535:120423-702:164806:16997

of insurance, the execution of financing statements, the endorsement of instruments, and the procurement of repairs, transportation or insurance); and, except to the extent that the effect of such payment would be to render any loan or forbearance of money usurious or otherwise illegal under any applicable law Debtor shall thereupon pay Secured Party on demand the amount of all moneys expended and all costs and expenses (including reasonable attorneys' fees) incurred by Secured Party in connection with or as a result of Secured Party's performing or observing such agreement or taking such actions, together with interest thereon from the date expended or incurred by Secured Party at the highest rate then applicable to any of the Obligations. To facilitate the performance or observance by Secured Party of such agreements of Debtor, Debtor hereby irrevocably appoints (which appointment is coupled with an interest) Secured Party, or its delegate, as the attorney-in-fact of Debtor with the right (but not the duty) from time to time to create, prepare, complete, execute, deliver, endorse or file, in the name and on behalf of Debtor, any and all instruments, documents, financing statements, applications for insurance and other agreements and writings required to be obtained, executed, delivered or endorsed by Debtor under this Section 3.

4. ***Assignment of Insurance**. Debtor hereby assigns to Secured Party, as additional security for the payment of the Obligations, any and all moneys (including but not limited to proceeds of insurance and refunds of unearned premiums) due or to become due under, and all other rights of Debtor under or with respect to, any and all policies of insurance covering the Collateral, and Debtor hereby directs the issuer of any such policy to pay any such moneys directly to Secured Party. Both before and after the occurrence of an Event of default, Secured Party may (but need not), in its own name or in Debtor's name, execute and deliver proofs of claim, receive all such moneys, endorse checks and other instruments representing payment of such moneys, and adjust, litigate, compromise or release any claim against the issuer of any such policy,*

5. ***Events of Default**. Each of the following occurrences shall constitute an event of default under this Agreement (herein called "Event of Default"): (i) Debtor shall fail to pay any or all of the Obligations when due or (if payable on demand) on demand, or shall fail to observe or perform any covenant or agreement herein binding on it; (ii) any representation or warranty by Debtor set forth in the Agreement or made to Secured Party in any financial statements or reports submitted to Secured Party by or on behalf of Debtor shall prove materially false or misleading; (iii) a garnishment, summons or a writ of attachment shall be issued against or served upon the Secured Party for the attachment of any property of Debtor or any indebtedness owing to Debtor: (iv) Debtor or any guarantor of any Obligation shall (A) be or become insolvent (however defined); or (B) voluntarily file, or have filed against it involuntarily, a petition under the United States Bankruptcy Code; or (C) if a corporation, partnership, or organization, be dissolved or liquidated or, if a partnership, suffer the death of a partner or, if an individual, die; or (D) go out of business; (v) an event of default shall occur under any indebtedness Debtor may now or hereafter owe to any affiliate of Secured Party; (vi) if Debtor is a corporation, more than 50% of the shares of voting stock of Debtor shall become owned by a shareholder or shareholders who were not owners of voting stock of Debtor on the date of this Agreement or, if Debtor is a partnership, more than 50% of the partnership interests in the Debtor shall become owned by a partner or partners who were not partners of Debtor on the date of this Agreement; or (vii) Debtor shall consolidate with or merge into, or sell all or substantially all of its assets to, any individual, corporation, or other entity.*

6. ***Remedies upon Event of Default**. Upon the occurrence of an Event of Default under Section 5 and at any time thereafter, Secured Party may exercise any one or more of the following rights and remedies: (i) declare all unmatured Obligations to be immediately due and payable, and the same shall thereupon be immediately due and payable, without presentment or other notice or demand; (ii) exercise and enforce any or all rights and remedies available upon default to a secured party under the Uniform Commercial Code, including but not limited to the right to take possession of any Collateral, proceeding without judicial process or by judicial process (without a prior hearing or notice thereof, which Debtor hereby expressly waives), and the right to sell, lease or otherwise dispose of any or all of the Collateral, and in connection therewith, Secured Party may require Debtor to make the Collateral available to Secured Party at a place to be designated by Secured Party which is reasonably convenient to both parties, and if notice to Debtor of any intended disposition of Collateral or any other intended action is required by law in a particular instance, such notice shall be deemed commercially reasonable if given (in the manner specified in Section 7) at least 10 calendar days prior to the date of intended disposition or other action; (iii) exercise or enforce any or all other rights or remedies available to Secured Party by law or agreement against the Collateral, against Debtor or against any other person or property. Upon the occurrence of the Event of Default described in Section 5(iv)(B), all Obligations shall be immediately due and payable without demand or notice thereof.*

7. ***Miscellaneous**. This Agreement can be waived, modified, amended, terminated or discharged, and the Security Interest can be released, only explicitly in a writing signed by Secured Party. A waiver signed by Secured Party shall be effective only in the specific instance and for the specific purpose given. Mere delay or failure to act shall not preclude the exercise or enforcement of any of Secured Party's rights or remedies. All rights and remedies of Secured Party shall be cumulative and may be exercised singularly or concurrently, at Secured Party's option, and the exercise or enforcement of any one such right or remedy shall neither be a condition to nor bar the exercise or enforcement of any other. All notices to be given to Debtor shall be deemed sufficiently given if delivered or mailed by registered or certified mail, postage prepaid, to Debtor at its address set forth above or at the most recent address shown on Secured Party's records. Secured Party's duty of care with respect to Collateral in its possession (as imposed by law) shall be deemed fulfilled if Secured Party exercises reasonable care in physically safekeeping such Collateral or, in the case of Collateral in the custody or possession of a bailee or other third person, exercises reasonable care in the selection of the bailee or other third person, and Secured Party need not otherwise preserve, protect, insure or care for any Collateral. Secured Party shall not be obligated to reserve any rights Debtor may have against prior parties, to realize on the Collateral at all or in any particular manner or order, or to apply any cash proceeds of Collateral in any particular order of application. This Agreement shall be binding upon and inure to the benefit of Debtor and Secured Party and their respective heirs, representatives, successors and assigns and shall take effect when signed by Debtor and delivered to Secured Party, and Debtor waves notice of Secured Party's acceptance hereof. Secured Party may execute this Agreement if appropriate for the purpose of filing, but the failure of Secured Party to execute this Agreement shall not affect or impair the validity or effectiveness of this Agreement. A carbon, photographic or other reproduction of this Agreement or of any financing statement signed by the Debtor shall have the same force and effects as the original for all purposes of a financing statement. Except to the extent otherwise required by law, this Agreement shall be governed by the internal laws of the state of Minnesota. If any provision or application of this Agreement is held unlawful or unenforceable in any respect, such illegality or unenforceability shall not affect other provisions or applications which can be given effect, and this Agreement shall be construed as if the unlawful or unenforceable provision or application had never been contained herein or prescribed hereby. All representations and warranties contained in this Agreement shall survive the execution, delivery and performance of this Agreement and the creation and payment of the Obligations. If this Agreement is signed by more than one person as Debtor, the term "Debtor" shall refer to each of them separately and to both or all of them jointly; all such persons shall be bound both severally and jointly with the other(s); and the Obligations shall include all debts, liabilities and obligations owed to Secured Party by any Debtor solely or by both or several or all Debtors jointly or jointly and severally, and all property described in Section 1 shall be included as part of the Collateral, whether it is owned jointly by both or all Debtors or is owned in whole or in part by one (or more) of them. There shall be (1) counterpart of this Agreement and it will be marked "Original." To the extent that this Agreement constitutes chattel paper (as that term is defined by the Uniform Commercial Code), a security interest only may be created in the Agreement marked "Original."*

ARBITRATION:

(a) Arbitration. The parties hereto agree, upon demand by any party, to submit to binding arbitration all claims, disputes and controversies between

or among them (and their respective employees, officers, directors, attorneys, and other agents), whether in tort, contract or otherwise arising out of or relating to in any way (i) the loan and related loan and security documents which are the subject of this Agreement and its negotiation, execution, collateralization, administration, repayment, modification, extension, substitution, formation, inducement, enforcement, default or termination; or (ii) requests for additional credit.

(b) Governing Rules. Any arbitration proceeding will (i) proceed in a location selected by the American Arbitration Association ("AAA"); (ii) be governed by the Federal Arbitration Act (Title 9 of the United States Code), notwithstanding any conflicting choice of law provision in any of the documents between the parties; and (iii) be conducted by the AAA, or such other administrator as the parties shall mutually agree upon, in accordance with the AAA's commercial dispute resolution procedures, unless the claim or counterclaim is at least $1,000,000.00 exclusive of claimed interest, arbitration fees and costs in which case the arbitration shall be conducted in accordance with the AAA's optional procedures for large, complex commercial disputes (the commercial dispute resolution procedures or the optional procedures for large, complex commercial disputes to be referred to, as applicable, as the "Rules"). If there is any inconsistency between the terms hereof and the Rules, the terms and procedures set forth herein shall control. Any party who fails or refuses to submit to arbitration following a demand by any other party shall bear all costs and expenses incurred by such other party in compelling arbitration of any dispute. Nothing contained herein shall be deemed to be a waiver by any party that is a bank of the protections afforded to it under 12 U.S.C. §91 or any similar applicable state law.

(c) No Waiver of Provisional Remedies, Self-Help and Foreclosure. The arbitration requirement does not limit the right of any party to (i) foreclose against real or personal property collateral; (ii) exercise self-help remedies relating to collateral or proceeds of collateral such as setoff or repossession; or (iii) obtain provisional or ancillary remedies such as replevin, injunctive relief, attachment or the appointment of a receiver, before during or after the pendency of any arbitration proceeding. This exclusion does not constitute a waiver of the right or obligation of any party to submit any dispute to arbitration or reference hereunder, including those arising from the exercise of the actions detailed in sections (i), (ii) and (iii) of this paragraph.

(d) Arbitrator Qualifications and Powers. Any arbitration proceeding in which the amount in controversy is $5,000,000.00 or less will be decided by a single arbitrator selected according to the Rules, and who shall not render an award of greater than $5,000,000.00. Any dispute in which the amount in controversy exceeds $5,000,000.00 shall be decided by majority vote of a panel of three arbitrators; provided however, that all three arbitrators must actively participate in all hearings and deliberations. The arbitrator will be a neutral attorney licensed in, or a neutral retired judge of the state or federal judiciary of the state in which the arbitration proceeding takes place, in either case with a minimum of ten years experience in the substantive law applicable to the subject matter of the dispute to be arbitrated. The arbitrator will determine whether or not an issue is arbitratable and will give effect to the statutes of limitation in determining any claim. In any arbitration proceeding the arbitrator will decide (by documents

only or with a hearing at the arbitrator's discretion) any pre-hearing motions which are similar to motions to dismiss for failure to state a claim or motions for summary adjudication. The arbitrator shall resolve all disputes in accordance with the substantive law of Minnesota and may grant any remedy or relief that a court of such state could order or grant within the scope hereof and such ancillary relief as is necessary to make effective any award. The arbitrator shall also have the power to award recovery of all costs and fees, to impose sanctions and to take such other action as the arbitrator deems necessary to the same extent a judge could pursuant to the Federal Rules of Civil Procedure, the Minnesota Rules of Civil Procedure or other applicable law. Judgment upon the award rendered by the arbitrator may be entered in any court having jurisdiction. The institution and maintenance of an action for judicial relief or pursuit of a provisional or ancillary remedy shall not constitute a waiver of the right of any party, including the plaintiff, to submit the controversy or claim to arbitration if any other party contests such action for judicial relief.

(e) Discovery. In any arbitration proceeding discovery will be permitted in accordance with the Rules. All discovery shall be expressly limited to matters directly relevant to the dispute being arbitrated and must be completed no later than 20 days before the hearing date and within 180 days of the filing of the dispute with the AAA. Any requests for an extension of the discovery periods, or any discovery disputes, will be subject to final determination by the arbitrator upon a showing that the request for discovery is essential for the party's presentation and that no alternative means for obtaining information is available.

(f) Class Proceedings and Consolidations. The resolution of any dispute arising pursuant to the terms of this Agreement shall be determined by a separate arbitration proceeding and such dispute shall not be consolidated with other disputes or included in any class proceeding.

(g) Payment Of Arbitration Costs And Fees. The arbitrator shall award all costs and expenses of the arbitration proceeding.

(h) Miscellaneous. To the maximum extent practicable, the AAA, the arbitrators and the parties shall take all action required to conclude any arbitration proceeding within 180 days of the filing of the dispute with the AAA. No arbitrator or other party to an arbitration proceeding may disclose the existence, content or results thereof, except for disclosures of information by a party required in the ordinary course of its business or by applicable law or regulation. If more than one agreement for arbitration by or between the parties potentially applies to a dispute, the arbitration provision most directly related to the documents between the parties or the subject matter of the dispute shall control. This arbitration provision shall survive termination, amendment or expiration of any of the documents or any relationship between the parties.

Schedule A

Wells Fargo Equipment Finance, Inc.
2030 Main Street, Ste. 900
Irvine, CA 92614

Contract Number ***120423-702*** *dated as of* ***November 9, 2005***

Debtor: Natural Alternatives International, Inc.

Equipment location: 1215 Park Center Dr. Ste. C Vista, CA 92083
The following Manufacturing equipment & other equipment as more fully described on the referenced Invoices:

Description	Serial #	Vendor	Invoice #
OFFICE FURNITURE - LAB AT VISTA FACILITY		GML OFFICE FURNITURE, INC	14937
HPLC SYSTEM, 2695 SEPARATION MODULE W/3 DETECTORS		WATERS CORP	263955531, 263952140, 263985240, 263955877, 263951800
METAL DETECTOR & TRANSFER CONVEYOR, POWDER LINE #3		LOMA SYSTEMS	35324
CAPSULE FILLING MACH REPLACEMENT PARTS, MATIC 90 FAS #277	2183&2174	IMA NORTH AMERICA, INC.	IS32669-IN
FARMATIC 90 REBUILD PARTS (SEE ASSET#194)	2183&2174	IMA NORTH AMERICA, INC.	IS32669-IN
LEAK/BURST PRESSURE DECAY TESTER	0604H417	MOCON, INC	74343
QC LAB EQUIPMENT-BALANCE, AUTO FEEDER, QC CONTROL SYSTEM. DISH		FISHER SCIENTIFIC	8089674
S200 NETWORKABLE DIODE ARRAY UV/VIS DETECTOR	292G1122511	Perkin Elmer	5300639614
HPLC SYSTEM, 2695 SEPARATION MODULE W/1 DETECTOR		WATERS CORP	264057335
COMBUSTION ANALYZER W/AUTOSAMPLER & SOFTWARE KIT	H51104235052	SHIMADZU SCIENTIFIC	40025918
VACUUM PUMP REBUILD, RIETSCHLE 501 (SEE ASSET #375)		ADVANCED AIR & VACUUM	11195, 11365
BRIDGE CRANE (INCLUDES FABRICATION AND INSTALLATION)	74975	GEORGE & KROUGH	13239, 13202, 13328, P.O. 603081
HEAT PUMPS (TOTAL OF TWO 5-TON)		AIR VAC	S.O. 6234
HOPPER, AUTO SCREW FEED (PURCHASED USED FROM AUCTION)		TAUBER-ARONS, INC.	112
HOPPER, AUTO SCREW FEED (PURCHASED USED FROM AUCTION)		TAUBER-ARONS, INC.	112
2002 CREMER AUTOMATIC TABLET COUNTER	12625-01	TAUBER-ARONS, INC.	112
INKJET PRINTERS	0020700-18-WD; 0020700-16-WD; 20020700-1-WD	TAUBER-ARONS, INC.	112
ENCAPSULATOR, IMPRESSA HIGH-SPEED AUTO (USED FROM AUCTION)	PC-1004	TAUBER-ARONS, INC.	112
CHANGE PARTS (0-00) FOR IMPRESSA ENCAPSULATOR, FAS #1953		TAUBER-ARONS, INC.	112
POUCHER, OMAG 3-LANE (PURCHASED USED FROM AUCTION)	1648	TAUBER-ARONS, INC.	112
WASHING MACHINE SYSTEM FOR TOTES AND LIDS	3282	KUHL INTERNATIONAL	35506
WASHING MACHINE SYSTEM FOR DRUMS AND LIDS	3283	KUHL INTERNATIONAL	35506
FOIL SEALER, HEAT INDUCTION AUTO MATE AM-250	A25940	AUTO MATE/KAPS ALL	50806
BOTTLE CAPPER, C8 CAPPER WITH FSRF-36 ROTARY CAP FEEDER	5623, 4319	KAPS-ALL	39478
BRONCO LABELER 125		NJM PACKAGING SYSTEMS	M04D0021
TOTES, 17,000 QUANTITY FOR NEW TABLETING & ENCAPSULATING AREA		BUCKhorn	407603, 408332, 408404

SLAT COUNTER, PROCOUNT 72-42	*040303/P2037*	*INTEGRATED PACKAGING SYS*	*7607*
BOTTLE UNSCRAMBLER. WITH 36" PREFEEDER, 12" ELEVATOR & 15CF HOPR	*5614*	*KAPS-ALL*	*39479*
CONVEYOR TABLE TOP 20'		*APPLIED INDUSTRIAL TECH.*	*85457187*

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CONVEYOR TABLE TOP 20'		*APPLIED INDUSTRIAL TECH.*	*85457187*
CONVEYOR TABLE TOP 24'		*APPLIED INDUSTRIAL TECH.*	*85457187*
AUTO CAPSEALERAND VERTICAL PERFORATION ATTACHMENT		*MARBURG INDUSTRIES INC.*	*10501*
COMPRESSOR, 75 HP W/ DRYER AND TANK REGRLATOR	*003145566, T0405209J*	*C.A.S.E.I.*	*18438*
FITZPATRICK CHILSONATOR SYSTEM (W/COMPACTOR, COMMINUTOR)	*716, 11846*	*THE FITZPATRICK COMPANY*	*285783*
HPLC SYSTEM, 2695XC SEPARATION MODULE W/2996 ARRAY DETECTOR		*WATERS CORP*	*264163124*
HPLC SYSTEM, 2695XC SEPARATION MODULE W/2996 ARRAY DETECTOR		*WATERS CORP*	*264163124*
HPLC SYSTEM, 2695XC SEPARATION MODULE W/2996 ARRAY DETECTOR		*WATERS CORP*	*264163124*
CAPSULE FILLING MACHINE REBUILD, ZANASI 40F (SEE ALSO FAS #347)	*44124*	*IMA NORTH AMERICA, INC.*	*IS37521-IN, IS37653-IN, IS38654-IN, IT38153-IN, IT*
OMAG SIX LANE VERTICAL PACKAGING MACHINE UPGRADE (SEE FAS #1599)	*1633*	*VARIOUS*	*31996, 814593, 8153726, 8138933, 275-957, 275-958, 81536150, 2121588, 31999, 85454777, 85454735, 85454628, 85455524, 85455573, 854455185, 85455632, 8546668, 86455657, 85455732, 03360/0085454601*
FUME HOODS & RELATED ASSESSORIES FOR LABORATORY		*VWR SCIENTIFIC*	*21381177, 21381189, 14313*
COTTON INSERTING MACHINE, CS2 FULLY AUTOMATED		*EQUIPMENT TECHNOLOGY*	*0105-13*
COTTON INSERTING MACHINE, CS2 FULLY AUTOMATED		*EQUIPMENT TECHNOLOGY*	*0105-13*
BLENDING MACHINE, 60 CF, SLANT CONE SLOW SPEED AGITATOR	*None*	*GEMCO*	*33679*
PALLET RACKING/FLO SYSTEM W/12 SINGLE WIDE BAYS (INCL INSTALL.)		*COLBRESE*	*1950*
AC Upgrade Vacuum Rooms		*Good & Roberts Inc.*	*505800001*
DI Skid Water Purification System		*Pacific Coast Water and Filtration*	*20226, 20312, 20232*
6 New Dock Door Seals		*Door Service & Repair*	*1021817*
Manufacturing Consolidation Project		*A&D Fire Protection Inc; CDS Architects dba Smith Consulting Architects; Partners;*	*205173, 13816, 13827, 4043, 14110, 14121, 13955*
Install Aluminum Sheeting in Blender Rooms		*George & Krogh Welding Inc.*	*33358*
Security System Upgrade		*American Surveillance/Adobe Lock and Safe*	*6337, 6536, 7004, 7015, 7862, 7993*
DI Skid Water Purification Water System		*Applied Microbiological Services*	*2221, 2210,2211*
New Hallway Buildout		*Ozzy's Plumbing & Drain Services, Inc.*	*3263*
Server and Memory Upgrade		*AmeriComp*	*26732*
Spectrometer Workstation Unit		*AmeriComp*	*27084*
Floor Scrubber		*Tenhant Sales and Service Co*	*93416356*

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Drum Storage Table System		*Colbrese Material Handling*	*1649, 1608, 1598, 1624, 1639, 1653, 4868, 1686, no invoice #, 2300, 1712, 2170*
Conveyor System for Tabling & Encapsulating Areas		*Colbrese Material Handling*	*1669, 2140, 1713, 1753, 1793, 1774, 2138, 4727, 2259, 2184*
Incubator Glass Door		*Fisher Scientific*	*4217917*
Automated Dissolution Tester		*Logan Instruments Corp*	*8325*
Autoclave Sterilizer		*South Shore Scientific/Consolidated Stills & Sterilizers*	*16396*
Ribbon Mixer Motor		*Applied Industrial Tec*	*85462580, 85462755*
Blender Safety Rails		*George & Krogh Welding Inc*	*33703*
Inverter		*Applied Industrial Tech*	*85463671*
Two (2) Complete Ventilator kits, including all parts and accessories		*TMP Mechanical, Inc.*	*7602*
Two (2) CK30C Wireless Keypad Handheld Computers, including all parts and accessories		*Softchoice*	
One (1) Impressa Machine	*PC1009*	*IMA North America Inc.*	*IM46698-IN, IA4588I-IN*
Misc. parts to the Impressa Machine including Caps Chute, SC1000, connector, cover capsules tank, square plate, cinvyeing unit capsules	*None*	*IMA North America Inc.*	*IS43964-IN*
Two (2) 6Ft. Cabinets with Stands	*None*	*VWR International*	*23279729*

Dated: November 9, 2005

Debtor: Natural Alternatives International, Inc.

By: /s/ John Reaves
Its: CFO

Exhibit 10.6

PATENT LICENSE AGREEMENT

UNITHER PHARMA, INC.

and

Real Health Laboratories, Inc.

May 1, 2002

PATENT LICENSE AGREEMENT

This PATENT LICENSE AGREEMENT (this "License Agreement") is made as of May 1, 2002 between Unither Pharma, Inc. (formerly Cooke Pharma, Inc.) ("Unither"), located at 1110 Spring Street, Silver Spring, Maryland 20910 ("Licensor"), and Real Health Laboratories, Inc. ("Licensee"), located at 1424 30th Street #B1, San Diego, California 92154.

RECITALS

WHEREAS a dispute ("the Dispute") has arisen between Licensor and Licensee over the alleged infringement of the patents identified in Exhibit A attached hereto (the "Issued Patents"), which the parties desire to settle on terms which include Licensor granting to Licensee a nonexclusive license to the Issued Patents;

WHEREAS Licensor holds certain licenses to the Issued Patents granted by the Board of Trustees of the Leland Stanford Junior University ("Stanford") and New York Medical College ("NYMC") (collectively "Patentees"), which Issued Patents claim L-Arginine and methods for administering the amino acid L-Arginine, and Licensor desires to grant a nonexclusive license to Licensee;

WHEREAS Licensee sells certain nutritional supplements containing the amino acid L-Arginine, Licensee admits that the sale of its L-Arginine containing products infringes certain claims contained in the Issued Patents (the "Infringed Claims"), Licensee admits the validity and enforceability of the Issued Patents and Licensee desires to obtain a nonexclusive license to the Issued Patents so that it may continue selling products containing L-Arginine in accordance with this License Agreement;

NOW THEREFORE, for the consideration herein described and upon the terms listed below, the parties hereby agree as follows:

ARTICLE I - DEFINITIONS

"Cardiovascular" means referring or relating to the human heart and circulatory system including veins, arteries, and capillaries, and further including references to diseases of the human cardiovascular system.

The "Field of Use" is enhancing human sexual performance, specifically nutritional supplements that are offered, promoted and/or marketed as enhancing human sexual performance through products containing L-Arginine or oral administration of L-Arginine. Field of Use shall include and permit Cardiovascular claims that are limited to human sexual performance as specifically permitted in Article VII of this License Agreement.

"Fiscal Year" means from November 1 through October 31, which is Licensee's current fiscal year used for accounting purposes.

"Infringed Claims" means those numbered claims of each of the Issued Patents identified as Infringed Claims in Exhibit A attached hereto.

"L-Arginine-Based Products" means products intended for human consumption that contain the amino acid L-Arginine, including but not limited to salts and peptides or other compositions in which L-Arginine may be bonded to other moieties, as an ingredient for enhancing nitric oxide, reducing vascular resistance, increasing blood flow, and/or enhancing physical performance.

"Licensed Patents" means the Issued Patents and any patents that hereafter issue in the United States from applications pending before the U.S. Patent and Trademark Office as herein described, and any other patents issued or licensed to, or acquired by, Licensor in the United States or elsewhere in the world that relate to composition of L-Arginine Based Products, or to any method of orally administering L-Arginine Based Products. Without limiting the generality of the foregoing, Licensed Patents shall include any patent issuing pursuant to U.S. Patent Application No. 10/060,252 entitled "Enhancement of Vascular Function by Modulation of Endogenous Nitric Oxide Production or Activity" filed February 1, 2002 (the "Pending Application"), subject to the royalty obligations set forth in Paragraph 3.2, below. Licensed Patents does not include any other Stanford-owned or managed patents or NYMC-owned or managed patents other than those specifically included within the license between Stanford and Licensor and NYMC and Licensor.

"Licensed Products" means any product within the Field of Use, including any L-Arginine Based Products, the manufacture, importation, sale or marketing of which would infringe any claim of the Licensed Patents.

"Net Sales" means gross revenues from sales of Licensed Products in any country in which Licensed Patents are issued and outstanding, less sales taxes, value added taxes, direct to consumer sales shipping costs (incurred in connection with sales for which shipping and handling costs are billed to consumers and included in gross sales), product returns, early payment and other discounts, and slotting allowances directly attributed to Licensed Products. For the purposes of this License Agreement and for determining Net Sales, Licensed Products are considered sold on the date of the associated invoice or credit card payment processing, and gross revenues from sales of Licensed Products shall be calculated on cash payments received by licensee pursuant to such invoices or credit card payment processing.

"Promotional Statements" means statements printed or displayed on or in product labels, product inserts, product advertisements, books, brochures, product catalogs, Licensee's web site, and public statements made by Licensee's officers, agents, consultants and spokespersons, and any other public statements by or on behalf of Licensee, its officers, agents, distributors and assigns that may have the effect of promoting, advertising or sustaining sales of Licensee's Licensed Products.

"Related Company" means any corporation, partnership or other entity with respect to which more than fifty percent (50%) of the beneficial ownership is held by Licensor.

"Quarter" means three successive calendar months commencing November 1 through January 31 ("First Quarter"), February 1 through April 30 ("Second Quarter"), May 1 through July 31 ("Third Quarter") and August 1 through October 31 ("Fourth Quarter").

"Term" means for the duration of this License Agreement as provided for in Article V.

"Third Party" means any person, company or entity that manufactures or sells Licensed Products.

"Total Net Sales of Licensed Products within a Fiscal Year" means Licensee's running total of the Net Sales of Licensed Products through all sales channels that are invoiced within the Fiscal Year of the Quarter for which the Royalty Payment is being calculated.

ARTICLE II - LICENSE GRANT

2.1. License Grant. Licensor hereby grants to Licensee a nonexclusive license under the Licensed Patents to make, have made, use, offer to sell, sell, and import Licensed Products within the Field of Use throughout the world for the Term of this License Agreement.

2.2. Licensee agrees that Licensed Products sold in the United States shall be manufactured substantially in the United States, although Licensee shall be entitled to import ingredients for use in the manufacture of Licensed Products.

2.3. No Other Rights Granted. The license granted hereunder shall not be construed to confer any rights upon Licensee by implication, estoppel or otherwise to any technology not specifically claimed in the Licensed Patents.

2.4. Notice of Licensed Patents. Licensor shall give notice to Licensee of the issuance to or acquisition by Licensor of any patents included within the definition of Licensed Patents, which notice shall be given within sixty (60) days after any such patent is issued to or acquired by Licensor.

ARTICLE III - ROYALTIES, PAYMENTS AND REPORTS

3.1. Continuing Royalty Obligations - Initial Royalty Calculation. In consideration for the patent license granted in Paragraph 2.1, Licensee shall pay Licensor a continuing royalty every Quarter of the Term as specified in this Article III. Royalty obligations will be calculated and paid quarterly based upon Licensee's total Net Sales invoiced within the Fiscal Year associated with that Quarter. Royalty Payments are due forty-five (45) days after the end of each Quarter. Royalty Payments shall be calculated for each Quarter as follows:

(a) For Total Net Sales of Licensed Products within a Fiscal Year up to Six Million Dollars ($6,000,000), the Royalty Payment is two percent (2%) of the total Net Sales invoiced in the Quarter.

(b) During any Quarter in which Total Net Sales within a Fiscal Year exceeds Six Million Dollars ($6,000,000), but is less than Twenty-Five Million Dollars ($25,000,000),

the Royalty Payment is two percent (2%) of that portion of total Net Sales invoiced in the Quarter that brings the Fiscal Year total to Six Million Dollars ($6,000,000), and five percent (5%) of the remaining additional Net Sales invoiced in the Quarter.

(c) During any Quarter in which Total Net Sales within a Fiscal Year exceeds Twenty-Five Million Dollars ($25,000,000), the Royalty Payment is two percent (2%) of that portion of total Net Sales invoiced in the Quarter that brings the Fiscal Year total to Six Million Dollars ($6,000,000), five percent (5%) of that portion of the additional Net Sales invoiced in the Quarter that brings the Fiscal Year total to Twenty-Five Million Dollars ($25,000,000), and ten percent (10%) of the remaining additional Net Sales invoiced in the Quarter.

3.2. Continuing Royalty Obligations - Provisional Royalty Calculation. Whereas the parties have agreed that the Pending Application, if granted by the U.S. Patent Office, would cover the Licensed Products, and whereas Licensee desires that this License Agreement address such an eventuality, the parties agree to implement the Provisional Royalty Calculation defined in this paragraph in consideration for including within the Licensed Patents any patent that issues from the Pending Application. This Provisional Royalty Calculation will automatically become effective in the Quarter following the Quarter in which a U.S. Patent issues containing at least one claim that is substantially the same as or broader than the present claim number 22 in the Pending Application, a copy of which claim is attached hereto as Exhibit B. When the Provisional Royalty Calculation is effective, royalty obligations will be paid quarterly based upon Licensee's total Net Sales invoiced within the Fiscal Year associated with that Quarter, due forty-five (45) days after the end of each Quarter, and calculated for each Quarter as follows:

(a) For Total Net Sales of Licensed Products within a Fiscal Year up to Five Million Dollars ($5,000,000), the Royalty Payment is three percent (3%) of the total Net Sales invoiced in the Quarter.

(b) During any Quarter in which Total Net Sales within a Fiscal Year exceeds Five Million Dollars ($5,000,000), but is less than Twenty-Five Million Dollars ($25,000,000), the Royalty Payment is three percent (3%) of that portion of total Net Sales invoiced in the Quarter that brings the Fiscal Year total to Five Million Dollars ($5,000,000), and six percent (6%) on the remainder of total Net Sales invoiced in the Quarter.

(c) During any Quarter in which total Net Sales within a Fiscal Year exceeds Twenty-Five Million Dollars ($25,000,000), the Royalty Payment is three percent (3%) of that portion of total Net Sales invoiced in the Quarter that brings the Fiscal Year total to Five Million Dollars ($5,000,000), six percent (6%) of that portion of the additional Net Sales invoiced in the Quarter that brings the Fiscal Year total to Twenty-Five Million Dollars ($25,000,000), and ten percent (10%) of the remaining additional Net Sales invoiced in the Quarter.

3.3. Third Party Licenses: Most Favored Nations Option. If Licensor shall hereafter grant to a Third Party, other than a Related Company, a license under any of the Issued Patents (a "Third Party License") that permits such Third Party to make or sell Licensed Products within the Field of Use, then Licensor shall:

(a) Promptly notify Licensee of such Third Party License, which notification shall contain a complete and accurate description of the royalties and other material terms contained in such Third Party License, and

(b) Extend to Licensee an option to modify this License Agreement by incorporating into this License Agreement as a whole all of the material terms contained in such Third Party License, including all royalty rates and financial terms, in substitution of the corresponding material terms of this License Agreement. Licensee may exercise such option to modify this License Agreement by advising Licensor in a written notice that it accepts all offered terms of the Third Party License, provided Licensee's notice is received by Licensor within sixty (60) days following notification of such Third Party License.

3.4. Times and Currencies of Payments.

(a) Payments owing hereunder shall be payable in United States dollars. Payments may be made by check payable to "Unither Pharma, Inc." mailed to Licensor at the address for notices set forth in this License Agreement. However, if the license between Stanford and/or NYMC and Licensor is terminated, payments owing hereunder shall be paid directly to Stanford and/or NYMC as Stanford and NYMC jointly designate.

(b) Royalty Payments received after the due date specified herein shall accrue interest from the date such amounts are due and payable at two percentage points above the prime lending rate as established by the Chase Manhattan Bank, N.A., in New York City, New York, or at such lower rate as may be required by law.

(c) Licensee shall, within one hundred twenty (120) days after the end of each Fiscal Year of Licensee ending during the term of this License Agreement, submit an annual report (an "Annual Report") showing total net sales of Licensed Products for each such Fiscal Year, based upon the audited financial statements of Licensee for such Fiscal Year. To the extent that the aggregate Royalty Payments already made for the four (4) Quarters of such Fiscal Year are greater than the Royalty Payments owing as set forth in the Annual Report, the excess shall be applied to the Royalty Payments owing for the first Quarter of the following Fiscal Year. To the extent that the aggregate Royalty Payments made for the four (4) Quarters of such Fiscal Year are less than the Royalty Payments owing pursuant to the Annual Report, Licensee shall make payment of the deficit to Licensor within one hundred twenty (120) days after the end of such Fiscal Year, and, if such payment is timely made, Licensee shall not be deemed to be in default of this License Agreement notwithstanding any shortfall for any individual Quarter in such Fiscal Year.

3.5. Record Keeping and Reports.

(a) Licensee shall keep good and accurate books of account sufficient to permit the calculation of the Royalty Payments and prepare the written reports due hereunder. Licensee shall maintain the books of account for at least three (3) years following the end of the Fiscal Year to which they pertain for inspection and audit by Licensor as provided for in Paragraph 3.6.

(b) Within forty-five 45) days following the end of each Quarter, Licensee shall send to Licensor, with a copy to Stanford, a written report setting forth the number and description of Licensed Products sold or otherwise disposed of by Licensee during the preceding Quarter and the associated aggregate Net Sales invoiced during the Quarter. The quarterly report shall also identify all wholesale customers to whom Licensee delivered Licensed Products during each Quarter. A report shall be sent to Licensor even when no Licensed Products were sold or otherwise disposed of during the Quarter.

3.6. Audit Rights. Licensee shall make its books of account available for inspection by an independent accountant designated by Licensor. Such inspections shall be no more frequent than once each calendar year during the Term and once within six months after termination of this License Agreement. The designated accountant shall retain in confidence the information in the books of account and shall report to Licensor only the accuracy or inaccuracies of the reports rendered pursuant to Paragraph 3.5(b) herein. Such inspections will be at Licensor's expense unless the designated accountant identifies underpayment of royalties due by five percent (5%) or more, in which event Licensee shall pay for such inspection. Licensor's failure to inspect shall not constitute a waiver of Licensor's right to object to the accuracy of the reports rendered or payments made under this License Agreement; provided, however, that Licensor shall have no right to audit or object to the reports submitted by Licensee, and royalties paid by Licensee, for any Fiscal Year, unless such audit or objection is made no later than two (2) years following the end of such Fiscal Year. Refusal of a Licensor's request for an audit shall constitute a material breach of this License Agreement.

ARTICLE IV - TRANSFERABILITY OF RIGHTS AND OBLIGATIONS

4.1. No Right To Sublicense. Licensee shall not sublicense the rights granted hereunder to any third party. Licensee may, however, contract with third parties for the manufacture of Licensed Products provided such Licensed Products are only sold or distributed by Licensee pursuant to this License Agreement.

4.2. Assignment Restrictions. The license granted by this License Agreement is personal to Licensee, and therefore may not, except as provided below, be assigned, conveyed or otherwise transferred to any third party without the prior express written consent of Licensor. Licensor reserves the right to withhold consent for the assignment or transfer of this License Agreement to third parties for any reason whatsoever. Notwithstanding the foregoing, in the event of a transaction consisting of a sale by Licensee of substantially all of its assets and business, or a transaction in which Licensee is acquired by, or merged or consolidated with, any other person and Licensee is not the surviving entity in such transaction, then the person acquiring all of the assets and business of Licensee, or the person constituting the surviving entity in any such merger, acquisition or consolidation transaction (any such person being referred to herein as a "Succeeding Party"), shall acquire all of the rights of Licensee under this License Agreement, without any requirement for consent of Licensor, but subject to the remaining provisions of this Paragraph 4.2. The Succeeding Party in any of the foregoing transactions shall be required to give written notice to Licensor of the consummation of any transaction described in the preceding sentence within thirty (30) days following the closing of such transaction, which notice shall state that the Succeeding Party agrees to be bound by all of the provisions of this License Agreement in consideration for acquiring all the rights of the

Licensee under this License Agreement. The Succeeding Party in any such transaction shall succeed to all of the rights of Licensee hereunder except, however, if the Succeeding Party also has been granted a license to the Issued Patents at royalty rates greater than those specified in Article III of this License Agreement, then the license granted to the Succeeding Party shall take precedence and this License Agreement shall terminate.

ARTICLE V - TERM AND TERMINATION

5.1. Term. The "Term" of this License Agreement is from the date of its execution until it is terminated as provided in Paragraphs 5.2 – 5.4 herein.

5.2. Termination Upon Expiration of Licensed Patents. This License Agreement shall terminate upon the expiration of the last to expire of the Licensed Patents unless terminated earlier under a provision of this Article V.

5.3. Termination Upon Patent Invalidation. This License Agreement shall terminate in the same manner as if all of the Licensed Patents had expired in the event that every Infringed Claim, and every claim that would be infringed by Licensed Products as contained in every Licensed Patent other than the Issued Patents, is rendered abandoned, invalid or unenforceable by an order of a court of law of competent jurisdiction, or by action of the United States Patent and Trademark Office acting in an official capacity, provided said order or action is unappealable or the time for any appeal has expired.

5.4. Termination For Cause. This License Agreement may be terminated as provided for below if any of the following occur:

(a) Material Breach of License Agreement. In the event of a material breach of this License Agreement, the nonbreaching party may terminate the License Agreement by providing written notice to the breaching party of the breach and intent to terminate this License Agreement. The License Agreement shall terminate thirty (30) days following delivery of notice of breach unless the breaching party corrects the breach; provided, however, if such breach is capable of being cured, and such cure cannot be reasonably accomplished within said thirty (30) days, this License Agreement shall not terminate if the breaching party diligently commences and continues its efforts to cure such breach until such breach is cured within a reasonable time.

(b) Failure to Make Timely Royalty Payments. If Licensee fails to make timely Royalty Payments for two (2) successive Quarters or three (3) Quarters out of any successive six (6) Quarters, including any adjustments made pursuant to an audit under Paragraph 3.6, and provided that notices of all such failures have previously been given pursuant to Paragraph 5.4(a), this License Agreement may be terminated by Licensor immediately upon delivery of a notice of termination pursuant to this Paragraph 5.4(b).

(c) Licensee Discontinues All Licensed Products. This License Agreement shall terminate when Licensee stops selling Licensed Products. Licensee may initiate termination under this paragraph by noticing Licensor that it has suspended all sales of Licensed Products with the intention of not selling Licensed Products during the remaining term of the

Licensed Patents. Licensor may initiate termination under this paragraph by notice to Licensee when Licensee has reported no Net Sales of Licensed Products for two (2) successive Quarters.

(d) Insolvency, Dissolution or Assignment. This License Agreement shall automatically terminate in the event of (a) Licensee becomes insolvent or files for bankruptcy (voluntary or involuntary); (b) Licensee is dissolved or the sale of all or substantially all of its assets is made for the benefit of creditors, or (c) an attempt to assign this License Agreement is made contrary to the terms of this License Agreement; provided, however, notwithstanding the foregoing, if Licensee is involved in a Chapter 11 bankruptcy reorganization proceeding, and Licensee continues to perform all of its obligations under this License Agreement during the course of such proceeding, and such proceeding concludes with the confirmation of a plan of reorganization that provides for the affirmation and continuation of this License Agreement, this License Agreement shall not automatically terminate but shall continue in full force and effect so long as Licensee continues to perform all of its obligations hereunder.

5.5. Termination by Mutual Agreement. The parties may terminate this License Agreement at any time upon mutual agreement expressed in a writing signed by authorized representatives of both parties.

5.6. Obligations in the Event of Termination.

(a) Right to Complete Contracted Sales. In the event of termination of this License Agreement, Licensee shall have the right to complete all contracts for the sale of Licensed Products under which Licensee is obligated on the date of termination, provided Licensee pays royalties on such sales as required herein and provided all such sales are completed within three (3) months after the date of termination.

(b) Obligations to Make Royalty Payments. In the event of termination of this License Agreement, Licensee shall pay Licensor all outstanding royalty obligations which shall include Royalty Payments for sales of Licensed Products since the last Quarter for which Royalty Payments have been made, including the sales of Licensed Products after termination permitted in Paragraph 5.6(a) herein. The final Royalty Payment is due on the latter of forty-five (45) days after the date of termination, or forty-five (45) days after the last sale pursuant to Paragraph 5.6(a).

(c) Termination Report. In the event of termination of this License Agreement, Licensee shall send to Licensor a Termination Report identifying the Net Sales of Licensed Product sales since the last quarterly report through termination, and the anticipated Net Sales of Licensed Products for which the deliveries will take place after termination as provided for in Paragraph 5.6(a). The Termination Report shall be transmitted to Licensor within forty-five (45) days following termination.

(d) Surviving Provisions. The obligations on Licensee specified in Paragraphs 3.5, 3.6, 6.1, 9.1, 9.3, 11.1, 11.2, 11.3, 11.4, 12.2 and 12.3 herein shall survive termination of this License Agreement and remain enforceable in accordance with the provisions of Article XI.

ARTICLE VI - INDEMNIFICATION

6.1. Indemnification of Licensor. Licensee shall defend, indemnify and hold harmless Licensor, its officers, Board of Directors, stockholders, employees, and agents, and Patentees, their respective trustees, officers, employees, students and agents, for and against any and all claims, demands, damages, losses, and expenses of any nature (including attorneys, fees and other litigation expenses), resulting from, but not limited to, death, personal injury, illness, economic loss, improper business practices or product liability arising from or in connection with any of the following:

(a) Any manufacture, use, sale or other disposition by Licensee of its Licensed Products;

(b) The direct or indirect use by any person of Licensed Products made, used, sold or otherwise distributed by Licensee or an agent of Licensee; or

(c) A material breach of this License Agreement by Licensee.

6.2. No Consequential Damages. Licensor and Patentees shall not be liable for any indirect, special, consequential, or other damages whatsoever, whether grounded in tort (including negligence), strict liability, contract or otherwise. Licensor and Patentees shall not have any responsibilities or liabilities whatsoever with respect to Licensed Products.

6.3. Worker's Compensation and Employer's Liability Requirements. Licensee shall at all times comply, through insurance or self-insurance, with all statutory workers' compensation and employers' liability requirements covering any and all employees with respect to activities performed under this License Agreement.

6.4. Liability Insurance. In addition to the foregoing, Licensee shall maintain, during the term of this License Agreement, Comprehensive General Liability Insurance, including Products Liability Insurance, with reputable and financially secure insurance carrier(s) reasonably acceptable to Licensor to cover the activities of Licensee and its sublicensee(s). Commencing with the introduction of Licensed Product(s) into humans for any purpose, including clinical trials, such insurance shall provide minimum limits of liability of Five Million Dollars ($5,000,000) and shall include Licensee, NYMC, Stanford, Stanford University Hospital, their trustees, directors, officers, employees, students, and agents as additional insureds. Such insurance shall be written to cover claims incurred, discovered, manifested, or made during or after the expiration of this License Agreement. At Licensor's request, Licensee shall furnish a Certificate of Insurance evidencing primary coverage and requiring thirty (30) days prior written notice of cancellation or material change to Licensor, NYMC and Stanford. Licensee shall advise Licensor, in writing, that it maintains excess liability coverage (following form) over primary insurance for at least the minimum limits set forth above. All such insurance of Licensee shall be primary coverage; insurance of Licensor, NYMC, Stanford or Stanford Health Services shall be excess and noncontributory. Failure to purchase or maintain such product liability insurance shall be considered a material breach of this License Agreement.

ARTICLE VII - PROMOTION AND MARKING OF LICENSED PRODUCTS

7.1. Labeling and Advertising Limitations.

(a) The parties agree that this license is specifically limited to the Field of Use defined herein, and specifically excludes the use and promotion by Licensee of Licensed Products for Cardiovascular health benefit purposes. Accordingly, Licensee shall refrain from making Cardiovascular claims on any of its products containing L-Arginine, and shall restrict its labeling, advertising and promotional statements regarding Licensed Products to the Field of Use as provided for herein.

(b) Licensee shall not participate in or otherwise cooperate with any third party's manufacture, importation, sales or promotion of products containing L-Arginine and offered for its Cardiovascular health benefits not within the Field of Use.

(c) Licensee shall have the right to make product claims and promotional statements regarding Licensed Products promoting "sexual function", "sexual performance", "erectile strength and endurance" and "sexual energy and vitality". Further, Licensee shall have the right to describe and explain the role of L-Arginine in creating nitric oxide within the body as it relates to vascular dilation and to improved or increased blood flow to the sex organs. Further in this regard, Licensee shall have the right to refer to the 1998 Nobel Prize for Medicine to explain that medical research demonstrated the role of nitric oxide in increasing vascular blood flow, and that such increased blood flow improves and enhances sexual function.

7.2. Marking of Licensed Products.

Licensee agrees to mark all Licensed Products sold by it under this License Agreement with the words "Patent" or "Patents" and the numbers of the issued Licensed Patents or pending patent applications applicable thereto. Notwithstanding the foregoing, Licensee and its retail customers and end users shall have the right to dispose of all inventory of products labeled "The Vasorect Formula" existing on the effective date of this License Agreement even though such products are not marked in accordance with the preceding sentence.

ARTICLE VIII - ENFORCEMENT OF PATENTS

8.1. Notification of Infringement. Licensee shall notify Licensor of any information obtained by Licensee relating to activities of any Third Party consisting of the marketing, promotion, advertising, sale or distribution or any products that contain L-Arginine and which are marketed with promotional claims and/or promotional statements that promote "sexual function," "sexual performance," "erectile strength and endurance," "sexual energy and vitality," and/or other similar claims or statements (any such activities being referred to herein as "Infringing Activities").

8.2. No Right to Enforce. This License Agreement conveys no right to Licensee to enforce the Licensed Patents, nor does it obligate Licensor in any way to enforce the Licensed Patents on behalf of Licensee. Licensor reserves to itself all rights to enforce or not enforce the

Licensed Patents, including the right to grant additional nonexclusive licenses or to sue for patent infringement and retain all damages collected therefrom.

ARTICLE IX - CONFIDENTIALITY AND PUBLICITY

9.1. Confidentiality. All license discussions and terms shall be kept confidential by both parties, and confidentiality is a material term of this License Agreement. Notwithstanding the foregoing, Unither shall have the right to disclose the terms of this License Agreement in order to enter into settlements and/or licensing arrangements with Third Party infringers, and the parties to this License Agreement shall be entitled to disclose the terms hereof (a) to a party's attorneys, financial institutions, accountants or other professional advisors in the course of seeking professional advice, (b) to the extent required by a court or governmental agency, or by applicable law, order, rule or regulation, or (c) to entities with which a party is discussing a proposed sale of its stock, a sale of all or substantially all of its assets, merger or consolidation, or obtaining financing or entering into a partnership, joint venture, or similar arrangement, provided that any such entity to whom such disclosure is made shall have entered into a confidential agreement sufficient to preserve the obligations of confidentiality established under this License Agreement. Furthermore, the parties shall be entitled to disclose and make public the fact that they have settled all prior disputes between them, and that they have entered into this License Agreement, and that Licensee is a licensee of Licensor with respect to the marketing, sale and distribution of Licensed Products.

9.2. Publicity. Either party may issue a press release announcing this License Agreement provided the text of such press release is approved in writing by the other party prior to public release, such approval not to be unreasonably withheld or delayed. In preparing such press releases, the parties agree to keep the royalty provisions of Article 3 confidential.

9.3. Non-Use of Names. Except if required by applicable law, Licensee shall not use the names or trademarks of Licensor, NYMC or Stanford, nor any adaptation thereof, nor the names of any of their employees, in any advertising, promotional or sales literature without prior written consent obtained from the respective party or its employee, in each case, except that Licensee may state that it is licensed by Licensor under one or more of the Licensed Patents. Nothing in the preceding sentence shall preclude Licensee from referring to, distributing or otherwise publishing any articles, reports or studies that have previously been published by any person, including but not limited to NYMC or Stanford or persons affiliated with such institutions.

ARTICLE X - COVENANT NOT TO CHALLENGE

10.1. Covenant Not to Challenge. Licensee covenants not to challenge the validity or enforceability of the Issued Patents during the term of this License Agreement. Licensee further agrees not to aid any third party seeking to challenge the validity or enforceability of the Issued Patents in any way. Licensee further covenants not to comment on the allowability of Licensor's pending patent application with the U.S. Patent and Trademark Office.

10.2. Covenant Not to Aid. Licensee shall refrain from making any release or disclosure to any party or into the public domain of any of its findings, prior art or expert reports,

or other documents or testimony arising out the litigation or any preparation for the litigation. Licensee further agrees to refrain from aiding in any way any party engaged in litigation with Licensor regarding enforcement or challenges to validity or enforceability of the Licensed Patents.

ARTICLE XI - DISPUTE RESOLUTION

11.1. Dispute Resolution Procedure. The parties agree that any disputes that may arise under this License Agreement, including suitability of Promotional Statements regarding Licensed Products, should be resolved by the parties without resorting to litigation. Accordingly, the parties agree to the following dispute resolution procedure.

(a) In the event either party feels the other party has failed to comply with the provisions of this License Agreement, that party shall notice the other party of the nature of the dispute and the requested corrective action. Following such notice, the parties shall meet to confer in an attempt to resolve the dispute on mutually acceptable business terms. If, after meeting and conferring regarding the dispute, either party considers that the dispute requires arbitration, that party shall notice the other party of its intent to initiate the Arbitration Procedure defined in Paragraph 11.1 (b).

(b) Within ninety (90) days after receipt of written notice by one party of the existence of a dispute requiring arbitration, the parties shall initiate arbitration in accordance with the rules of the American Arbitration Association, as modified by this Article. Such arbitration shall take place in English in San Diego, California, before a single Arbitrator appointed by the American Arbitration Association. The Arbitrator shall apply the laws of the State of California and shall render a written decision with the reasons therefor within six (6) months from the date the matter is submitted to arbitration.

(c) The initiation of any arbitration hereunder shall not (a) relieve Licensee of its obligations to make Royalty Payments to Licensor as required by the terms of this License Agreement during the continuance of the Arbitration Proceeding, or (b) prevent Licensor from applying for and obtaining from a Court a temporary restraining order and/or preliminary injunction injunctive relief pending the outcome of the arbitration.

(d) The decision of the Arbitrator shall be binding and conclusive on the parties, and they shall comply with such decision in good faith.

11.2. Enforcement Of Arbitration. Each party hereby submits itself to the jurisdiction of the District Court of the Southern District of California, but only for the entry of judgment with respect to the decision of the arbitrator hereunder, including injunctive relief if appropriate to render effective the arbitrator's decision. Notwithstanding the foregoing, judgment on the award of the arbitrator may be entered in any court having jurisdiction. If judicial enforcement or review of the arbitrator's decision is sought, the prevailing party shall be entitled to its costs and reasonable attorneys' fees in addition to any amount of recovery ordered by the court.

11.3. Litigation. In the event that any party hereto shall bring any arbitration, legal action or other proceeding with respect to the breach, interpretation, or enforcement of this

License Agreement, or with respect to any dispute relating to any transaction covered by this License Agreement, the losing party or parties in such arbitration, action or proceeding shall reimburse the prevailing party or parties therein for all reasonable costs of arbitration or litigation, including reasonable attorneys' fees, in such amount as may be determined by the arbitrator, court or other tribunal having jurisdiction, including matters on appeal.

11.4. Applicable Law. This License Agreement shall be governed by and construed in accordance with the laws of the State of California, without regard to conflicts of laws principles thereof.

11.5. Choice of Forum. Any judicial action under this License Agreement must be brought in the District Court of the Southern District of California.

ARTICLE XII - REPRESENTATIONS AND WARRANTIES

12.1. Licensor warrants that (i) it holds valid exclusive licenses (the "Basic Licenses") to the Issued Patents and the Pending Application, (ii) it has the authority to grant the licenses provided hereunder, (iii) the execution of this License Agreement will not create a cause of action against Licensee by Stanford, NYMC or any other party, and (iv) Licensee shall be entitled to retain all rights under this License Agreement subject to the provisions of the Basic Licenses notwithstanding any termination of the Basic Licenses or any default or alleged default by Licensor under the Basic Licenses.

12.2. Excluding the limited warranty set forth in Paragraph 12.1, nothing in this License Agreement is or shall be construed as:

(a) A warranty or representation by Licensor or Patentees as to the validity or scope of any Licensed Patent(s);

(b) A warranty or representation that anything made, used, sold, or otherwise disposed of under any license granted in this License Agreement is or will be free from infringement of patents, copyrights, and other rights of third parties;

(c) An obligation to bring or prosecute actions or suits against third parties for infringement, except to the extent and in the circumstances described in Article 8;

(d) Granting by implication, estoppel, or otherwise any licenses or rights under patents or other rights of Stanford and NYMC other than the Licensed Patents, regardless of whether such patents or other rights are dominant or subordinate to any Licensed Patents; or

(e) An obligation to furnish any technology or technological information.

12.3. Disclaimer of Warranties. Except as expressly set forth in this License Agreement, LICENSOR AND PATENTEES MAKE NO REPRESENTATIONS AND EXTENDS NO WARRANTIES OF ANY KIND, EITHER EXPRESS OR IMPLIED. THERE ARE NO EXPRESS OR IMPLIED WARRANTIES OF MERCHANTABILITY OR FITNESS

FOR A PARTICULAR PURPOSE, OR THAT THE MANUFACTURE, SALE OR USE OF THE LICENSED PRODUCT(S) WILL NOT INFRINGE ANY PATENT, COPYRIGHT, TRADEMARK, OR OTHER RIGHTS OR ANY OTHER EXPRESS OR IMPLIED WARRANTIES.

ARTICLE XIII - MISCELLANEOUS

13.1. Severability. In the event that any term, provision, or covenant of this License Agreement shall be determined by a court of competent jurisdiction to be invalid, illegal or unenforceable, that term will be curtailed, limited or deleted, but only to the extent necessary to remove such invalidity, illegality or unenforceability, and the remaining terms, provisions and covenants shall not in any way be affected or impaired thereby.

13.2. Notices. All notices, demands or other communications required or permitted to be given in connection with this License Agreement, or the transactions contemplated hereby, shall be in writing, and shall be deemed delivered when (i) personally delivered to a party (by personal delivery to an officer of a corporate party, a partner of a partnership, or other authorized representative of a party), (ii) if mailed, three (3) business days after deposit in the United States mail, postage prepaid, certified or registered mail, return receipt requested, (iii) if delivered by a reputable nationally recognized overnight carrier, one (1) business day after delivery to such carrier, or (iv) if delivered by facsimile, on the date facsimile transmission is confirmed, provided that, on such date, a separate copy is also delivered to a reputable nationally recognized overnight carrier for delivery on the next business day. Delivery by mail, overnight carrier, or facsimile shall be addressed to the parties as follows:

To Licensor:
Unither Pharma, Inc.
1110 Spring Street
Silver Spring, MD 20910
Attn: President
Facsimile: 202-483-4005

with copy to:
Foley and Lardner
3000 K Street N.W., Suite 500
Washington, D.C. 20007
Attn: Stephen B. Maebius
Facsimile: (202) 672-5399

To Licensee:
Real Health Laboratories, Inc.
1424 30th Street #B1
San Diego, CA 921547300
Attn: President
Facsimile: 619-213-1203

with copy to: Sonnenschein Nath & Rosenthal
601 S. Figueroa St., Suite 1500
Los Angeles, CA 90017
Attn: J. A. Shafran, Esq.
Facsimile: 213-623-9924

Any party may change its address for notice by written notice given in accordance with the foregoing provisions. Notwithstanding the manner of delivery, whether or not in compliance with the foregoing provisions, any notice, demand or other communication actually received by a party shall be deemed delivered when so received.

13.3. Waiver. No waiver by either party of any breach of this License Agreement, no matter how long continuing or how often repeated, shall be deemed a waiver of any subsequent breach thereof, nor shall any delay or omission on the part of either party to exercise any right, power, or privilege hereunder be deemed a waiver of such right, power or privilege.

13.4. Article Headings. The article headings herein are for purposes of convenient reference only and shall not be used to construe or modify the terms written in the text of this License Agreement.

13.5. No Agency Relationship. The relationship between the parties is that of independent contractor and contractee. Neither party shall be deemed to be an agent of the other in connection with the exercise of any rights hereunder, and neither shall have any right or authority to assume or create any obligation or responsibility on behalf of the other.

13.6. Force Majeure. Neither party hereto shall be deemed to be in default of any provision of this License Agreement, or for any failure in performance, resulting from acts or events beyond the reasonable control of such party, such as Acts of God, acts of civil or military authority, civil disturbance, war, strikes, fires, power failures, natural catastrophes or other "force majeure" events.

13.7. Final Agreement of the Parties. This License Agreement contains the entire understanding of the parties with respect to the matters contained herein. The parties may, from time to time during the continuance of this License Agreement, modify, vary or alter any of the provisions of this License Agreement, but only by a written instrument duly executed by authorized officials of both parties hereto.

13.8. Authority to Bind. Each of the persons executing this License Agreement on behalf of Licensor, Licensee and/or Patentees, respectively, hereby represents and warrants that he or she is duly authorized to bind the party on whose behalf he or she is executing this License Agreement.

13.9. Construction of License Agreement. The parties acknowledge and agree that this License Agreement has been diligently and Extensively negotiated, and is the final product of multiple drafts and revisions prepared after Review and discussion. In consideration of such negotiations, it is agreed that prior drafts of this License Agreement shall not be considered in the interpretation of this License Agreement or any provisions contained herein, and, without

limiting the generality of the foregoing, it is agreed that no inferences, conclusions, or interpretations are to be made based upon the fact (i) that a particular provision contained in an earlier draft is not included in the executed version of this License Agreement, (ii) that a particular provision that is included in the executed version of this License Agreement was not contained in a prior draft, or (iii) that a particular provision has been modified from a version contained in a prior draft. The language contained herein shall in all events be construed simply in accordance with its fair meaning, and, for purposes of California Civil Code Section 1654, or any similar law or rule of construction, this License Agreement, and each of the provisions contained herein, shall not be deemed to have been drafted by any particular party, and shall not be construed for or against any particular party on the basis of which party drafted this License Agreement or any particular provision herein.

13.10. Binding Effect. This License Agreement shall be binding upon and inure to the benefit of the parties hereto and their respective heirs, estates, personal representatives, successors, and assigns.

13.11. Illegality. In the event that any provision of this License Agreement shall be adjudicated to be void, illegal, invalid, or unenforceable, the remaining terms and provisions of this License Agreement shall not be affected thereby, and each of such remaining terms and provisions of this License Agreement shall be valid and enforceable to the fullest extent permitted by law.

13.12. Counterpart Copies. This License Agreement may be executed in one or more counterpart copies, and each of which so executed, irrespective of the date of execution and delivery, shall be deemed to be an original, and all such counterparts together shall constitute one and the same instrument. The signature pages of one or more of the counterpart copies may be removed from such counterpart copies and all attached to the same copy of this License Agreement which, with all attached signature pages, shall be deemed to be an original License Agreement.

-----Signatures on Next Page-----

IN WITNESS WHEREOF, the undersigned have executed this agreement effective the date first stated above.

Unither Pharma, Inc.

/s/ Illegible — Dated: 5/23/02

By: **Illegible**
Its: **Illegible**

Real Health Laboratories, Inc.

/s/ JOHN F. DULLEA — Date: 5/1/02

By: **John F. Dullea**
Its: **President/CEO**

ACKNOWLEDGMENT

The undersigned owners of the Issued Patents and the Pending Application hereby acknowledge the existence of this License Agreement, and hereby confirm and agree that (i) Licensor has the rights to the Licensed Patents as referred to in this License Agreement, and (ii) provided Licensee has not breached the License Agreement and Licensee continues to perform its obligations under the License Agreement and tenders such performance to Stanford and/or NYMC following any such termination, Licensee may continue to exercise its rights under the License Agreement if there is a termination of any or all of the underlying license agreements that allow Licensor to grant licensee those rights provided for in this License Agreement.

The Board of Trustees of the Leland Stanford Junior University

/s/ KATHARINE KU — Dated: May 16, 2002

By: **Katharine KU**
Its: **Director**
Technology Licensing

New York Medical College

/s/ CATHARINE CREA — Dated: 5/30/02

By: **Catharine Crea**
Its: **Associate Dean,**
Research Administration

EXHIBIT A

ISSUED PATENTS

1. U.S. Patent No. 5,217,997 entitled "Use of L-Arginine in the Treatment of Hypertension and Other Vascular Disorders" issued June 8, 1993. The Infringed Claims in the foregoing patent consist of claims 1, 11 and 12.

2. U.S. Patent No. 5,428,070 entitled "Treatment of Vascular Degenerative Diseases by Modulation of Endogenous Nitric Oxide Production of Activity" issued June 27, 1995. None of the claims in the foregoing patent constitute Infringed Claims for purposes of this License Agreement, but Licensee acknowledges and admits having infringed claims 1 and 3 thereof in its prior sale, advertising and marketing of "The CardioFitness Formula," which Licensee has now discontinued, and in various statements contained in past advertising and promotion of "The VasoRect Formula," which Licensee shall in the future avoid by complying with the provisions of Paragraph 7.1 of this License Agreement.

3. U.S. Patent No. 5,891,459 entitled "Enhancement of Vascular Function by Modulation of Endogenous Nitric Oxide Production or Activity" issued April 6, 1999. The Infringed Claims in the foregoing patent consist of claims 1,19, 20 and 21.

4. U.S. Patent No. 6,117,872 entitled "Enhancement of Exercise Performance by Augmenting Endogenous Nitric Oxide Production or Activity" issued September 12, 2000. The Infringed Claims in the foregoing patent consist of claims 1, *2,* 3, 4, 5, 12, 13 and 14.

EXHIBIT B

CLAIM NO. 22 OF PENDING PATENT APPLICATION NO. 10/060,252

22. A composition comprising L-arginine or a physiologically acceptable salt thereof in an amount sufficient to enhance nitric oxide production and at least one additional ingredient that enhances production of nitric oxide or that inhibits degradation of nitric oxide, wherein said composition is in a form suitable for oral administration selected from the group consisting of a pill, tablet, powder, and capsule.