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

FORM 10-Q

[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF
THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended September 30, 2000

OR

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

Commission file number 0-15701

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

DELAWARE	84-1007839
(State of other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

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

(760) 744-7340
(Registrant's telephone number, including area code)

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

Yes [X] No [ ]

5,761,880

(Number of shares of common stock of the registrant outstanding, net of treasury shares held, as of November 11, 2000)

NATURAL ALTERNATIVES INTERNATIONAL, INC.
PART I -- FINANCIAL INFORMATION
CONSOLIDATED BALANCE SHEETS

ASSETS

(Amounts in thousands except share data)	September 30, 2000	June 30, 2000

	(unaudited)	(audited)
Current Assets:		
Cash and cash equivalents	$ 803	$ 815
Accounts receivable - less allowance for doubtful accounts of $328 at September 30, 2000 and $330 at June 30, 2000	4,682	4,097
Inventories (Note 2)	7,902	7,627
Income tax refund receivable	1,500	1,500
Deferred income taxes	1,467	1,467
Related parties notes receivable - current portion	840	815
Prepaid expenses	637	635
Deposits	502	390
Other current assets	252	110
Total Current Assets	18,585	17,456
Property and equipment, net	14,593	15,037
Other Assets:		
Deferred income taxes	1,662	1,592
Investments	212	232
Related parties notes receivable, less current portion	442	444
Other noncurrent assets, net	114	114
Total Other Assets	2,430	2,382
TOTAL ASSETS	$35,608	$34,875

See accompanying notes to unaudited financial statements.

NATURAL ALTERNATIVES INTERNATIONAL, INC.
PART I -- FINANCIAL INFORMATION
CONSOLIDATED BALANCE SHEETS (CONTINUED)

LIABILITIES AND STOCKHOLDERS' EQUITY

(Amounts in thousands except share data)	September 30, 2000	June 30, 2000
	(unaudited)	(audited)
Current Liabilities:		
Accounts payable	$ 5,375	$ 4,422
Lines of credit and notes payable (Note 5)	4,423	4,544
Current installments of long-term debt (Note 5)	502	490
Accrual for loss on lease obligation	--	50
Accrued compensation and employee benefits	483	355
Total Current Liabilities	10,783	9,861
Deferred income taxes	766	766
Long-term debt, less current installments (Note 5)	3,148	3,345
Long-term pension liability	220	417

Total Liabilities	14,917	14,389
Stockholders' Equity (Note 6):		
Preferred stock; $.01 par value; 500,000 shares authorized; none issued or outstanding	--	--
Common stock; $.01 par value; 8,000,000 shares authorized, issued and outstanding 6,024,380	60	60
Additional paid-in capital	11,272	11,272
Retained earnings	10,703	10,498
Treasury stock, at cost, 262,500 shares	(1,283)	(1,283)
Accumulated other comprehensive loss	(61)	(61)
Total Stockholders' Equity	20,691	20,486
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 35,608	$ 34,875

See accompanying notes to unaudited financial statements.

NATURAL ALTERNATIVES INTERNATIONAL, INC.
PART I - FINANCIAL INFORMATION
CONSOLIDATED STATEMENTS OF OPERATIONS
(UNAUDITED)

(Dollars in thousands except share data)	Three months ended September 30, 2000	1999
Net sales	$ 10,223	$ 15,264
Cost of goods sold	8,212	12,075
GROSS PROFIT	2,011	3,189
Selling, general & administrative expenses	1,736	2,527
Loss on abandonment of leased facility	--	308
INCOME FROM OPERATIONS	275	354
Other income (expense):		
Interest income	31	28
Interest expense	(184)	(30)
Equity in loss of unconsolidated joint venture	(20)	--
Foreign exchange gain	39	--
Other, net	(6)	(8)
	(140)	(10)
EARNINGS BEFORE INCOME TAXES	135	344
Provision for income taxes (benefit)	(70)	257

NET EARNINGS AND COMPREHENSIVE INCOME	$ 205	$ 87
NET EARNINGS PER COMMON SHARE:		
Basic	$ 0.04	$ 0.02
Diluted	$ 0.04	$ 0.02
Weighted average common shares outstanding:		
Basic shares	5,761,880	5,776,427
Diluted shares	5,763,890	5,776,978

See accompanying notes to unaudited financial statements.

NATURAL ALTERNATIVES INTERNATIONAL, INC.
PART I -- FINANCIAL INFORMATION
CONSOLIDATED STATEMENTS OF CASH FLOWS
(UNAUDITED)

(Dollars in thousands)	Three months ended September 30, 2000	1999
CASH FLOWS PROVIDED BY OPERATING ACTIVITIES:		
Net earnings	$ 205	$ 87
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Bad debt provision	--	90
Write-off of notes receivable	--	72
Depreciation and amortization	634	422
Deferred income taxes	(70)	--
Pension expense, net of contributions	(197)	--
Loss on unconsolidated joint venture	20	--
Accrued interest - notes receivable	(23)	
Foreign exchange gains	(51)	--
Changes in operating assets and liabilities:		
(Increase) decrease in:		
Accounts receivable	(585)	(706)
Inventories	(275)	646
Tax refund receivable	--	301
Prepaid expenses	(2)	(151)
Deposits	(112)	(201)
Other current assets	(142)	832
(Decrease) increase in:		
Accounts payable	953	91
Accrued compensation and employee benefits	128	(82)
Accrual for loss on lease obligation	(50)	--
Net Cash Provided by Operating Activities	$ 433	$ 1,401

(continued)

NATURAL ALTERNATIVES INTERNATIONAL, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)
FOR THE QUARTERS ENDED SEPTEMBER 30, 2000 AND 1999
(UNAUDITED)

CASH FLOWS FROM INVESTING ACTIVITIES:		
Capital expenditures	$(190)	$(1,786)
Repayment of notes receivable	--	10
Net Cash Used in Investing Activities	(190)	(1,776)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Borrowings on lines of credit and notes payable	293	395
Payments on lines of credit and notes payable	(548)	(17)
Treasury stock acquisitions	--	(111)
Net Cash (Used in) Provided by Financing Activities	(255)	267
Net Decrease in Cash and Cash Equivalents	(12)	(108)
Cash and Cash Equivalents at Beginning of Period	815	1,063
Cash and Cash Equivalents at End of Period	$ 803	$ 955
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:		
Cash paid during the period for:		
Interest	$ 172	$ 28

See accompanying notes to unaudited financial statements.

NATURAL ALTERNATIVES INTERNATIONAL, INC.
PART I -- FINANCIAL INFORMATION
NOTES TO UNAUDITED FINANCIAL STATEMENTS

NOTE 1 -- Interim Financial Information

The unaudited consolidated financial statements of Natural Alternatives International, Inc. and subsidiaries (the "Company") have been prepared in accordance with generally accepted accounting principles and with Article 10 of the Securities and Exchange Commission's Regulation S-X. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete consolidated financial statements. In the opinion of management, the accompanying unaudited consolidated financial statements contain all adjustments, consisting of normal recurring adjustments, considered necessary for a fair presentation of the Company's financial information as of and for the three months ended September 30, 2000 and 1999.

In preparing consolidated financial statements in conformity with generally accepted accounting principles, management is required to make certain estimates and assumptions that may affect the reported amounts of assets, liabilities, revenues and expenses during the reporting periods. Actual results may differ from such estimates. The consolidated results of operations for the interim periods ended September 30, 2000 and 1999 are not necessarily indicative of the consolidated operating results for the full year. It is suggested that these consolidated financial statements be read in conjunction with the financial statements and notes thereto included in the Company's annual report on Form 10-K for the year ended June 30, 2000.

Principles of Consolidation

The consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries. All significant intercompany balances and transactions have been eliminated in consolidation.

Reclassifications

Certain amounts in prior periods' consolidated financial statements have been reclassified to conform to the presentation for the quarter ended September 30, 2000.

NOTE 2 - Inventories

Inventories are comprised of the following:

(Dollars in thousands)	September 30 2000	June 30 2000
Raw materials	$4,248	$4,187
Work in progress	2,721	2,409
Finished goods	933	1,031
	$7,902	$7,627

NOTE 3 -- Net Earnings Per Share

Basic net earnings per share is computed by dividing net earnings by the weighted average number of common shares outstanding during the period. Diluted net earnings per share reflects the potential dilution that could occur if stock options or other contracts to issue common stock were exercised or converted into common stock. The computation of diluted net earnings per share does not assume exercise or conversion of securities that would have an anti-dilutive effect on net earnings per share.

	2000	1999
NUMERATOR:		
Net earnings - Numerator for basic and diluted earnings per share - earnings available to common shareholders (In thousands)	$ 205	$ 87
DENOMINATOR:		
Denominator for basic earnings per share - weighted average shares	5,761,880	5,776,427
Effect of dilutive securities - employee stock options	2,010	551

Denominator for diluted earnings per share - adjusted weighted average shares with assumed conversions	5,763,890	5,776,978
Basic earnings per share	$ 0.04	$ 0.02
Diluted earnings per share	$ 0.04	$ 0.02

For the three months ended September 30, 2000 and 1999, there were outstanding options to purchase 301,000 and 274,500, respectively, shares of common stock, that were not included in the computation of diluted net earnings per share as their effect would have been anti-dilutive.

NOTE 4 -- Major Customers

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

(Dollars in thousands)	Three months ended September 30, 2000		1999	
Customer	Sales by Customer	%(a)	Sales by Customer	%(a)
Customer 1	$ 5,226	51%	$ 4,975	33%
Customer 2	1,259	12%	(b)	
Customer 3	(b)		3,095	20%
Customer 4	(b)		2,643	17%
	$ 6,485	63%	$10,713	70%

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

Accounts receivable from these customers totaled $2,285 and $1,248 at September 30, 2000 and June 30, 2000, respectively.

NOTE 5 -- Debt

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

September 30, 2000. (See Note 8 -- Subsequent Events)

The line of credit expires on December 1, 2000. The term note expired on November 1, 2000. As of September 30, 2000, amounts outstanding under the line of credit and term note were $2.4 million and $1.59 million, respectively. The Company expects this line to be renewed in the normal course of business and the Company is negotiating with various lenders to establish new working capital credit facility arrangements. (See Note 8 -- Subsequent Events)

The Company also has a term note secured by a building due June 2011 with the same lender that provides the working capital credit facility. As of September 30, 2000 the outstanding amount is $913,000.

The Company's wholly owned subsidiary in Switzerland has a line of credit agreement permitting borrowings up to CHF 2.0 million, or approximately $1.1 million at September 30, 2000 at an annual interest rate of 5.5%. The line of credit requires minimum annual principal payments of CHF 250,000, or $140,000, due annually on December 31; management expects this line to be renewed in the normal course of business. The agreement contains no financial covenants. As of September 30, 2000, the Company has converted borrowings under the line of credit of approximately $577,000 into various unsecured term notes with maturities from six to twelve months at interest rates ranging from 5.5% to 6.0%. The amount outstanding under the line of credit is approximately $432,000.

On November 9, 1999, the Company entered into a term note agreement for $2.5 million, secured by equipment, at an annual interest rate of 9.2%. The note has a five-year term that provides for principal and interest payable in monthly installments of $52,000; proceeds have been used to support working capital requirements. As of September 30, 2000 the outstanding amount is $2.16 million.

As of September 30, 2000, the composite interest rate on all outstanding debt was 8.7%.

Note 6 -- Stockholders' Equity

On August 28, 2000, under the 1999 Omnibus Equity Incentive Plan, the Company granted to various officers and employees stock options to purchase 130,200 shares of the Company's common stock at $1.81 per share.

Note 7 -- Custom Nutrition Joint Venture

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

During December 1999, the Company and FitnessAge formalized the joint venture by forming a new company named Custom Nutrition, LLC, a Delaware limited liability company ("Custom Nutrition") in which the Company has a 40% ownership. Custom Nutrition was formed for the purpose of developing, merchandising, selling and distributing customized nutritional and related products to health and fitness clubs, as well as over the internet. Under terms of a 10-year Exclusive Manufacturing Agreement, the Company is the exclusive manufacturer of all nutritional supplements for Custom Nutrition. In addition, Custom Nutrition obtained an exclusive royalty free license to FitnessAge's proprietary software technology, including their physical fitness assessments known as the FitnessAge System, as well as,

software under development designed to provide customized nutritional assessments. In accordance with its Operating Agreement, the Company was required to make an initial capital contribution of $100,000, which was funded during the fourth quarter of fiscal 2000. Income and losses are to be allocated and any additional capital contribution requirements of Custom Nutrition are to be made 60% to FitnessAge and 40% to the Company.

In addition, in November and December 1999, the Company loaned FitnessAge a total of $750,000 as part of a convertible secured promissory note (the "Loan"). The Loan is secured by all rights, title, and interest in Custom Nutrition and FitnessAge's allocable share of gross revenues received by Custom Nutrition from a major customer and includes interest accruing at an annual rate of 12%. The principal together with all accrued and unpaid interest was due November 10, 2000. The Company has the right at any time to convert all or any portion of the amount due on the Loan into the common stock of FitnessAge at a conversion price of $0.75 per share. As of September 30, 2000, the balance of the Loan, including all accrued and unpaid interest, was $830,000, and the Company's direct aggregate investment in FitnessAge was approximately $980,000. The Company is currently accounting for this investment under the cost method of accounting. (See Note 8 -- Subsequent Events)

In conjunction with the Loan, the Company received a three-year Warrant (the "Warrant") to purchase up to 150,000 shares of Common Stock of FitnessAge for $0.75 per share. The Company may exercise the Warrant at any time up to and including November 1, 2002. The Company was issued two additional warrants to purchase common stock as additional consideration for providing a short-term loan to FitnessAge which was repaid prior to June 30, 2000. One warrant provides for the purchase of 80,000 shares of FitnessAge common stock for $1.25 per share and the other warrant provides for the purchase of 80,000 shares of FitnessAge common stock for $2.00 per share. The Company may exercise these two Warrants at any time up to and including June 12, 2003. As of September 30, 2000, the Company had not exercised any portion of these Warrants. The Company also obtained the right to designate one representative of the Company to be a member of FitnessAge's Board of Directors, which consists of five board members, and registration rights and certain other rights as defined by the loan documents and by an Investor Rights Agreement. If the Company converted the Loan and exercised the Warrants, the Company would own less than five percent, on an as converted basis, of FitnessAge common stock.

NOTE 8 -- Subsequent Events

NEW CREDIT FACILITY

On November 13, 2000 the Company received a firm financing commitment letter to enter into a working capital line of credit and equipment term financing (the "new credit facility") with a new lender. The new credit facility allows up to a maximum of $9.35 million of borrowing capacity, subject to certain eligibility requirements of collateral balances of accounts receivable, inventory and fixed assets as defined in the new credit facility. The proposed new credit facility will also contain debt covenant restrictions for the Company including, but not limited to, certain coverage ratios, minimum net stockholders' equity and earnings amounts. The initial proceeds of this new credit facility will be used to pay-off the Company's outstanding indebtedness due during the second quarter of fiscal 2001 under the existing working capital and equipment term note of $2.4 million and $1.59 million, respectively.

FITNESSAGE LOAN EXTENSION

Effective November 13, 2000 the Company and FitnessAge entered into an agreement to revise the due date of the outstanding convertible secured loan (the "Loan") due from FitnessAge on November 11, 2000. The Company agreed to extend the due date of the Loan with a debt repayment schedule which requires payments of $150,000 in February 2001, $150,000 in March 2001, $225,000 in June 2001 and complete pay-off of any outstanding principal and accrued interest by September 2001. In the event that FitnessAge does not perform under the new settlement terms, the Company may place a notice of default of the Loan, convert the Loan to FitnessAge common stock or further amend the terms of the Loan.

In consideration for the Loan extension, FitnessAge agreed to provide the company additional collateral to secure FitnessAge's obligation to repay the Loan. The additional collateral consists of a non-exclusive, perpetual, royalty free, worldwide license of the FitnessAge assessment software, including but not limited to, all upgrades of its assessment technology and all rights of licenses in and to or from such technology.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Certain Forward-Looking Information

Information provided in this Quarterly Report on Form 10-Q may contain forward-looking statements within the meaning of Section 21E of the Securities Exchange Act of 1934 that are not historical facts and information. These statements represent the Company's expectations or beliefs, including, but not limited to, statements concerning future financial and operating results, statements concerning industry performance, the Company's operations, economic performance, financial condition, margins and growth in sales of the Company's products, capital expenditures, financing needs, as well as assumptions related to the foregoing. For this purpose, any statements contained in this Quarterly Report that are not statements of historical fact may be deemed to be forward-looking statements. Without limiting the generality of the foregoing, words such as "may", "will", "expect", "believe", "anticipate", "intend", "could", "estimate" or "continue" or the negative or other variations thereof or comparable terminology are intended to identify forward-looking statements. These forward-looking statements are based on current expectations and involve various risks and uncertainties that could cause actual results and outcomes for future periods to differ materially from any forward-looking statement or views expressed herein. The Company's financial performance and the forward-looking statements contained herein are further qualified by other risks including but not limited to those set forth herein and in the Company's most recent Form 10-K.

RESULTS OF OPERATIONS

FIRST QUARTER OF FISCAL 2001 AND 2000

Net sales for the first quarter of fiscal 2001 of $10.2 million decreased $5.1 million, or 33%, compared to net sales of $15.3 million for the first quarter of fiscal 2000. The decrease was primarily due to the loss of a major customer, NuSkin Enterprises, Inc., which accounted for sales of approximately $3.0 million, or 20% for the first quarter of fiscal 2000, with no sales in the first quarter of fiscal 2001. NuSkin informed the Company in December 1999 that its production needs had been transitioned to other vendors. The sales decrease from the first quarter of fiscal 2000 also included loss of sales to two other customers which had combined sales of approximately $1.8 million int the first quarter of fiscal 2000 and no sales in fiscal 2001. Also contributing to the sales decrease was a reduction in sales to our third largest customer of $1.7 million. Sales to this customer amounted to $2.6 million and $900,000 for the first quarters of fiscal 2000 and 2001, respectively. Fiscal 2000 sales volumes were bolstered as this customer acquired large quantities of product to support an inventory build for a major product introduction, while fiscal 2001 sales volume have stabilized. These losses were partially offset by increased sales to existing and new customers, including our largest customer with a sales increase of approximately $250,000. During the latter part of the third quarter of fiscal year 2000, the Company also commenced the initial marketing and sale of unique herbal health and natural supplement products under the Dr. Cherry label. The Company has a 10-year Exclusive Licensing and Manufacturing Agreement for the manufacture and distribution of these products. Sales of this product exceeded $1.0 million during the first quarter of fiscal 2001.

During the first quarter of fiscal 2001, the Company experienced an increase in cost of goods sold, as a percentage of net sales, to 80.3% compared to 79.1%, for the first quarter of fiscal 2000, resulting in an approximate reduction to gross margin of 1% of sales or $100,000. Material costs as a percentage of sales is comparable between the first quarter of fiscal 2001 and 2000. The decrease in gross margin, for the first quarter of fiscal 2000, was due primarily to a change in sales mix as a result of the decline in market share during the first quarter of fiscal 2000, and continuing competitive pressure, coupled with additional start-up costs of our Swiss operation ($450,000). Continuation of the cost containment program during the first quarter of fiscal 2001, produced savings in overhead costs of approximately $100,000, and costs of approximately $200,000 associated with excess manufacturing capacity were reclassified to selling, general and administrative expenses.

Selling, general and administrative expenses were as a percentage of net sales 17% for the quarters ended September 30, 2000 and 1999. In absolute dollars the expenses decreased by $791,000 to $1.7 million. The reduction was primarily the result of the continuing combined benefits of the cost containment program and the non-recurring nature of certain costs incurred in the first quarter of fiscal 2000 associated with the start-up of our Swiss manufacturing subsidiary and the training and implementation of a fully integrated manufacturing and accounting computer software system.

INCOME TAXES

Our effective tax rate was a benefit of 52% compared to an expense of 75% for the first quarters of fiscal 2001 and 2000, respectively. The decrease in expense relates to a tax holiday, which applies a zero tax rate to pretax earnings of our Swiss subsidiary which was profitable in the first quarter of fiscal 2001. U.S. operations recorded a net loss which generated the current period tax benefit.

COST CONTAINMENT PROGRAM

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

In May 2000, the Company took additional steps, which were completed by the end of June 2000, as follows:

(i) Substantial reduction of outside packaging services, as a result of the capital expansion initiative to invest in the integration of in-house finished goods packaging capabilities and to substantially eliminate future outside packaging services.

(ii) An additional reduction in force of 25% effective May 2000, including reductions in executive compensation and benefits.

(iii) Successfully terminating the long-term lease obligation related to the Carlsbad facility in June 2000. Initially the Company entered into two sublease agreements for the entire premises for approximately five years. Shortly thereafter, the Company completed a buyout of the fifteen-year lease obligation from the landlord. The buyout agreement provided for the sale of the Company's leasehold interests and obligations to the landlord for essentially the same cost of performing its obligations pursuant to the sublease agreements, resulting in the Company paying a $3.0 million settlement fee to the landlord.

Management is committed to the restoration of net profits by maintaining its operating cost structures with current operating levels.

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

LIQUIDITY AND CAPITAL RESOURCES

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

At September 30, 2000, the Company had cash of approximately $803,000, versus $815,000 at June 30, 2000. Net cash provided by operations during the first quarter of fiscal 2001 amounted to $433,000, which was used primarily to fund acquisition of capital equipment and to reduce outstanding debt.

Capital expenditures for the three months ended September 30, 2000 amounted to $190,000. These expenditures relate primarily to the acquisition of production equipment in both our U.S. and Swiss manufacturing facilities.

At September 30, 2000 the Company had working capital of $7.8 million, comparable to working capital at June 30, 2000. Current assets increased by approximately $1.1 million while current liabilities increased $900,000. Accounts receivable, inventory, deposits, and other current assets increased $585,000, $275,000, $112,000, and $142,000, respectively. The increase to accounts receivable was primarily caused by shipments occurring toward the end of the quarter. Increases to accounts payable and accrued compensation were coupled with decreases to current debt and the accrual for loss on lease obligation. The increase in accounts payable was $953,000, while the reduction to current debt was $109,000. The increase to accounts payable resulted from increased purchases offset by the increase in accounts receivable.

For the three months ended September 30, 2000, the Company's consolidated outstanding debt decreased approximately $300,000 to $8.1 million from approximately $8.4 million at June 30, 2000. The net decrease of $300,000 reflects borrowings of $300,000 offset by payments of $550,000 and $51,000 of foreign exchange gains realized on the Swiss Franc borrowings made by the Company's wholly owned subsidiary. The composite interest rate on all outstanding debt was approximately 8.7%.

The Company has access to approximately $6.1 million of funds from existing working capital credit facilities to support future operating requirements, net of borrowings outstanding under these facilities as of September 30, 2000 of approximately $3.4 million. The working capital line of credit facilities are subject to eligibility requirements for current accounts receivable and inventory balances. As of September 30, 2000 total excess borrowing capacity based on eligible working capital balances was approximately $1.1 million. One or more of the Company's loan agreements contain a number of covenants that restrict the operations of the Company. Such restrictions include requiring the Company to comply with specified financial ratios and tests, including minimum tangible net worth requirements, maximum leverage ratios, debt coverage ratios, and minimum Earnings before Interest, Depreciation and Amortization ("EBITDA") to cash interest expense ratios. The Company was not in compliance with certain of these ratios as of June 30, 2000, which the lender had agreed to waive through June 30, 2000. Effective July 1, 2000 the Company and the lender have amended the credit agreement to provide new debt covenant restrictions under which the Company is compliant. The Company is negotiating with various lenders to establish new loan arrangements. (See Note 8 -- Subsequent Events)

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

RISK FACTORS THAT MAY AFFECT FUTURE OPERATING RESULTS

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

RECENT LOSSES; DECLINING SALES

The net earnings and net sales for the first quarter of fiscal 2001 were $205,000 and $10.2 million, respectively, as compared with $87,000 and $15.3 million for the same period of fiscal 2000. The Company has implemented a cost containment program and a return to profitability program in an effort to reduce expenses to be consistent with current operating levels. While the current results of operations are encouraging, there can be no assurance these programs will be effective, or if they are, the Company cannot predict the level of profitability or whether the Company will be able to maintain profitability. The Company expects that operating results will fluctuate from period to period as a result of differences in when it incurs expenses and recognizes revenues from product sales. Some of these fluctuations may be significant.

DECLINE IN STOCK PRICE

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

RELIANCE ON LIMITED NUMBER OF CUSTOMERS FOR MAJORITY OF REVENUE

For the first quarter of fiscal 2001, the Company had 2 major customers, which together accounted for approximately 63% of the Company's net sales. The loss of either of these major customers, or any substantial reduction of their purchases from the Company, would have a material adverse impact on the business, operations and financial condition of the Company.

LOSS OF MAJOR CUSTOMER

During the quarter ended December 31,1999, one of the Company's major customers, NuSkin Enterprises, Inc. ("NuSkin"), advised the Company it would stop purchasing products from the Company, and no longer purchases any Company products. For the fiscal year ended June 30, 1999, NuSkin accounted for approximately $18.4 million or approximately 32% of the Company's net sales. For the year ended June 30, 2000, NuSkin accounted for approximately $4.3 million or 9% of the Company's net sales. The loss of NuSkin as a customer has had a material adverse impact on the revenues and operating results of the Company. There can be no assurance the Company will be able to generate revenue from any source in an amount sufficient to offset the loss of NuSkin as a customer.

RESTRICTIVE FINANCING COVENANTS.

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

SECURED PROMISSORY NOTE RECEIVABLE

The Company has loaned approximately $750,000 to its joint venture partner in a limited liability company. The debt is convertible into the private company's common stock and will become due and payable in the second fiscal quarter of 2001. The borrower is a development stage company and there can be no assurance it will have the funds to repay the debt when it becomes due. In the event it does not, the Company may elect to renegotiate the terms or grant an extension or convert the debt into the stock of the borrower on the same or revised terms as exist in the current loan agreements. (See Note 8 of Notes to unaudited financial statements)

LAWSUIT BY FORMER PRESIDENT, DIRECTOR AND CHIEF FINANCIAL OFFICER

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

POTENTIAL FOR INCREASED COMPETITION

The market for the Company's products is highly competitive. The Company competes with other dietary supplement products and over-the-counter pharmaceutical manufacturers. Among other factors, competition among these manufacturers is based upon price. If one or more manufacturers significantly reduce their prices in an effort to gain market share, the Company's business, operations and financial condition could be adversely affected. Many of the Company's competitors, particularly manufacturers of nationally advertised brand name products, are larger and have resources substantially greater than those of the Company. There has been speculation about the potential for increased participation in these markets by major international pharmaceutical companies. In the future, if not already, one or more of these companies could seek to compete more directly with the Company by manufacturing and distributing their own or others' products, or by significantly lowering the prices of existing national brand products. The Company sells substantially all of its supplement products to customers who re-sell and distribute the products. Although the Company does not currently participate significantly in other channels such as health food stores, direct mail, internet sales and direct sales, the Company is expanding its operations and its products, and will likely face increased competition in such distribution and sales channels as more vendors and customers utilize them.

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

The Company purchases certain products it does not manufacture from a limited number of raw material suppliers. Although the Company currently has supply arrangements with several suppliers of these raw materials, and such materials are generally available from numerous sources, the termination of the supply relationship by any material supplier or an unexpected interruption of supply could materially adversely affect the Company's business, operations and financial condition.

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

EFFECT OF ADVERSE PUBLICITY

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

provide unfavorable findings regarding the effect of products similar to those produced by the Company.

EXPOSURE TO PRODUCT LIABILITY CLAIMS

The Company, like other retailers, distributors and manufacturers of products that are ingested, faces a risk of exposure to product liability claims in the event that, among other things, the use of its products results in injury. The Company maintains product liability insurance coverage, including primary product liability and excess liability coverage. There can be no assurance that product liability insurance will continue to be available at an economically reasonable cost or that the Company's insurance will be adequate to cover any liability the Company incurs in respect to all possible product liability claims. In addition, some of the ingredients included in one or more of the products manufactured by the Company are subject to controversy involving potential negative side effects or questionable health benefits. Some insurers have recently excluded certain of these ingredients from their product liability coverage. Although the Company's product liability insurance does not presently have any such limitations, the Company's insurer could require such exclusions or limitations on coverage in the future. In such event, the Company may have to cease utilizing the ingredients or may have to rely on indemnification or similar arrangements with its customers who wish to continue to include such ingredients in their products. In such an event, the consequential increase in product liability risk or the loss of customers or product lines could have a material adverse impact on the Company's business, operations, and financial condition.

RISKS ASSOCIATED WITH INTERNATIONAL MARKETS

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

GOVERNMENT REGULATION

The manufacturing, processing, formulation, packaging, labeling and advertising of the Company's products are subject to regulation by one or more federal agencies, including the United States Food and Drug Administration ("FDA"), the Federal Trade Commission ("FTC"), the Consumer Product Safety Commission, the

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

The Dietary Supplement Health and Education Act of 1994 ("DSHEA") was enacted on October 25, 1994. DSHEA amends the Federal Food, Drug and Cosmetic Act by defining dietary supplements, which include vitamins, minerals, nutritional supplements and herbs as a new category of food separate from conventional food. DSHEA provides a regulatory framework to ensure safe, quality dietary supplements and the dissemination of accurate information about such products. Under DSHEA, the FDA is generally prohibited from regulating the active ingredients in dietary supplements as drugs unless product claims, such as claims that a product may heal, mitigate, cure or prevent an illness, disease or malady, trigger drug status.

DSHEA provides for specific nutritional labeling requirements for dietary supplements. DSHEA permits substantiated, truthful and non-misleading statements of nutritional support to be made in labeling, such as statements describing general well being resulting from consumption of a dietary ingredient or the role of a

nutrient or dietary ingredient in affecting or maintaining a structure or function of the body. The Company anticipates the FDA will finalize manufacturing process regulations that are specific to dietary supplements and require at least some of the quality control provisions applicable to drugs. The Company currently manufactures its vitamins and nutritional supplement products in compliance with the food good manufacturing processes.

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

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

DISTRIBUTION AND MANAGEMENT OF OPERATIONS

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

Company's results of operations.

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

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

CENTRALIZED LOCATION OF MANUFACTURING OPERATIONS

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

CONCENTRATION OF OWNERSHIP; CERTAIN ANTI-TAKEOVER CONSIDERATIONS

The Company's directors and executive officers beneficially own in excess of 24.9% of the outstanding Common Stock as of September 30, 2000. Accordingly, these shareholders will continue to have the ability to substantially influence the management, policies, and business operations of the Company. The

Company's Board of Directors has the authority to approve the issuance of 500,000 shares of preferred stock and to fix the rights, preferences, privileges and restrictions, including voting rights, of those shares without any further vote or action by the Company's shareholders. The rights of the holders of Common Stock will be subject to, and may be adversely affected by, the rights of holders of any preferred stock that may be issued in the future. Certain provisions of Delaware law, as well as the issuance of preferred stock, and other "anti-takeover" provisions in the Company's Articles and Bylaws, could delay or inhibit the removal of incumbent directors and could delay, defer, make more difficult or prevent a merger, tender offer or proxy content, or any change in control involving the Company, as well as the removal of management, even if such events would be beneficial to the interests of the Company's shareholders, and may limit the price certain investors may be willing to pay in the future for shares of Common Stock.

.NATURAL ALTERNATIVES INTERNATIONAL, INC.
PART I - FINANCIAL INFORMATION

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

At September 30, 2000, the Company's cash equivalents consisted of financial instruments with original maturities of three months or less.

The Company's debt totaled $8.1 million as of September 30, 2000 and was comprised principally of term notes and lines of credit. The Company's debt obligations bear a composite rate of 8.7%. An immediate change of one hundred basis points in interest rates would not have a material effect on our financial condition or results of operations due to the fixed rate nature of the majority of the debt.

NATURAL ALTERNATIVES INTERNATIONAL, INC.
PART II - OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

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

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

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

ITEM 2. CHANGES IN SECURITIES

None.

ITEM 3. DEFAULTS BY THE COMPANY ON ITS SENIOR SECURITIES

None.

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

None.

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

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

27.0 Financial Data Schedule

(b) No reports on Form 8-K were filed during the quarter for which this report is filed.

SIGNATURES

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

NATURAL ALTERNATIVES INTERNATIONAL, INC.

/S/ PETER C. WULFF Date: November 14, 2000

Peter C. Wulff
Chief Financial Officer
and Treasurer

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