

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

FORM 10-Q

QUARTERLY REPORT
pursuant to Section 13 or 15(d)
of the Securities Exchange Act of 1934

FOR THE QUARTERLY PERIOD ENDED MARCH 31, 2009

000-15701
(Commission file number)

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

Delaware
(State of incorporation)

84-1007839
(IRS Employer Identification No.)

1185 Linda Vista Drive
San Marcos, California 92078
(Address of principal executive offices)

(760) 744-7340
(Registrant's telephone number)

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

Yes No

Indicate by check mark whether NAI has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that NAI was required to submit and post such files).

Yes No

Indicate by check mark whether NAI is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company.

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company

Indicate by check mark whether NAI is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes No

As of May 13, 2009, 7,066,526 shares of NAI's common stock were outstanding, net of 180,941 treasury shares.

TABLE OF CONTENTS

| | <u>Page</u> |
|---|-------------|
| SPECIAL NOTE ABOUT FORWARD-LOOKING STATEMENTS | 1 |
| PART I FINANCIAL INFORMATION | 2 |
| Item 1. Financial Statements | 2 |
| Condensed Consolidated Balance Sheets | 2 |
| Condensed Consolidated Statements of Operations and Comprehensive (Loss) Income | 3 |
| Condensed Consolidated Statements of Cash Flows | 4 |
| Notes to Condensed Consolidated Financial Statements | 5 |
| Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations | 14 |
| Item 4. Controls and Procedures | 19 |
| PART II OTHER INFORMATION | 20 |
| Item 1. Legal Proceedings | 20 |
| Item 1A. Risk Factors | 20 |
| Item 2. Unregistered Sales of Equity Securities and Use of Proceeds | 20 |
| Item 3. Defaults Upon Senior Securities | 20 |
| Item 4. Submission of Matters to a Vote of Security Holders | 20 |
| Item 5. Other Information | 20 |
| Item 6. Exhibits | 20 |
| SIGNATURES | 25 |

SPECIAL NOTE ABOUT FORWARD-LOOKING STATEMENTS

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

- future financial and operating results, including projections of net sales, revenue, income or loss, net income or loss per share, profit margins, expenditures, liquidity, goodwill valuation and other financial items;
- our ability to develop relationships with new customers and maintain or improve existing customer relationships;
- development of new products, brands and marketing strategies;
- the effect of the discontinuance of Dr. Cherry’s television program and our ability to develop a new marketing plan for, and to sustain, our Pathway to Healing® product line;
- distribution channels, product sales and performance, and timing of product shipments;
- inventories and the adequacy and intended use of our facilities;
- current or future customer orders;
- the impact on our business and results of operations and variations in quarterly net sales from cost reduction programs, seasonal and other factors;
- management’s goals and plans for future operations;
- our ability to improve operational efficiencies, manage costs and business risks and improve or maintain profitability;
- growth, expansion, diversification, acquisition, divestment and consolidation strategies, the success of such strategies, and the benefits we believe can be derived from such strategies;
- personnel;
- the outcome of regulatory, tax and litigation matters;
- sources and availability of raw materials;
- operations outside the United States;
- the adequacy of reserves and allowances;
- overall industry and market performance;
- competition;
- current and future economic and political conditions;
- the impact of accounting pronouncements; and
- other assumptions described in this report underlying or relating to any forward-looking statements.

The forward-looking statements in this report speak only as of the date of this report and caution should be taken not to place undue reliance on any such forward-looking statements. Forward-looking statements are subject to certain events, risks, and uncertainties that may be outside of our control. When considering forward-looking statements, you should carefully review the risks, uncertainties and other cautionary statements in this report as they identify certain important factors that could cause actual results to differ materially from those expressed in or implied by the forward-looking statements. These factors include, among others, the risks described under Item 1A of Part II and elsewhere in this report, as well as in other reports and documents we file with the United States Securities and Exchange Commission (SEC).

Unless the context requires otherwise, all references in this report to the “Company,” “NAI,” “we,” “our,” and “us” refer to Natural Alternatives International, Inc. and, as applicable, Natural Alternatives International Europe S.A. (NAIE), Real Health Laboratories, Inc. (RHL) and our other wholly owned subsidiary.

PART I – FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

NATURAL ALTERNATIVES INTERNATIONAL, INC.
Condensed Consolidated Balance Sheets
(In thousands, except share and per share data)

| | March 31, 2009 (Unaudited) | June 30, 2008 |
|---|----------------------------------|------------------|
| Assets | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 2,712 | \$ 3,518 |
| Certificate of deposit | 699 | — |
| Accounts receivable - less allowance for doubtful accounts of \$15 at March 31, 2009 and \$17 at June 30, 2008 | 5,747 | 6,401 |
| Inventories, net | 12,220 | 14,135 |
| Income tax receivable | 175 | 1,354 |
| Prepays and other current assets | 1,505 | 1,223 |
| Current assets of discontinued operations | 1,161 | 6,299 |
| Total current assets | <u>24,219</u> | <u>32,930</u> |
| Property and equipment, net | 14,308 | 12,823 |
| Other noncurrent assets, net | 159 | 160 |
| Total assets | <u>\$ 38,686</u> | <u>\$45,913</u> |
| Liabilities and Stockholders' Equity | | |
| Current liabilities: | | |
| Accounts payable | \$ 5,367 | \$ 7,245 |
| Accrued liabilities | 1,173 | 1,048 |
| Accrued compensation and employee benefits | 942 | 1,332 |
| Income taxes payable | 443 | 409 |
| Line of credit | 1,820 | — |
| Current portion of long-term debt | 1,626 | 2,730 |
| Current liabilities of discontinued operations | 829 | 1,724 |
| Total current liabilities | <u>12,200</u> | <u>14,488</u> |
| Deferred income taxes | — | 61 |
| Deferred rent | 1,089 | 1,164 |
| Long-term pension liability | 236 | 198 |
| Total liabilities | <u>13,525</u> | <u>15,911</u> |
| Commitments and contingencies | | |
| Stockholders' equity: | | |
| Preferred stock; \$0.01 par value; 500,000 shares authorized; none issued or outstanding | — | — |
| Common stock; \$0.01 par value; 20,000,000 shares authorized; issued and outstanding 7,247,467 at March 31, 2009 and 7,210,937 at June 30, 2008 | 71 | 71 |
| Additional paid-in capital | 18,849 | 18,485 |
| Accumulated other comprehensive loss | (261) | (261) |
| Retained earnings | 7,601 | 12,806 |
| Treasury stock, at cost, 180,941 shares at March 31, 2009 and June 30, 2008 | <u>(1,099)</u> | <u>(1,099)</u> |
| Total stockholders' equity | <u>25,161</u> | <u>30,002</u> |
| Total liabilities and stockholders' equity | <u>\$ 38,686</u> | <u>\$45,913</u> |

See accompanying notes to condensed consolidated financial statements.

[Table of Contents](#)

NATURAL ALTERNATIVES INTERNATIONAL, INC.
Condensed Consolidated Statements of Operations and Comprehensive Loss
(In thousands, except share and per share data)
(Unaudited)

| | Three Months Ended March 31, | | Nine Months Ended March 31, | |
|---|---------------------------------|-----------|--------------------------------|-----------|
| | 2009 | 2008 | 2009 | 2008 |
| Net sales | \$ 17,348 | \$ 18,921 | \$ 54,490 | \$ 60,208 |
| Cost of goods sold | 14,241 | 16,356 | 48,211 | 50,527 |
| Gross profit | 3,107 | 2,565 | 6,279 | 9,681 |
| Selling, general & administrative expenses | 1,724 | 2,921 | 7,180 | 8,888 |
| Operating income (loss) from continuing operations | 1,383 | (356) | (901) | 793 |
| Other (expense) income: | | | | |
| Interest income | 9 | 5 | 14 | 18 |
| Interest expense | (57) | (53) | (179) | (235) |
| Foreign exchange (loss) gain | (83) | 155 | (427) | 305 |
| Other, net | 2 | 58 | 30 | 58 |
| | (129) | 165 | (562) | 146 |
| Income (loss) from continuing operations before income taxes | 1,254 | (191) | (1,463) | 939 |
| (Benefit) provision for income taxes | (183) | (213) | (3) | 24 |
| Income (loss) from continuing operations | 1,437 | 22 | (1,460) | 915 |
| Loss from discontinued operations, net of tax | (1,941) | (468) | (3,745) | (1,118) |
| Net loss | \$ (504) | \$ (446) | \$ (5,205) | \$ (203) |
| Unrealized gain resulting from change in fair value of derivative instruments, net of tax | — | 9 | — | 31 |
| Comprehensive loss | \$ (504) | \$ (437) | \$ (5,205) | \$ (172) |
| Net (loss) income per common share: | | | | |
| Basic: | | | | |
| Continuing operations | \$ 0.20 | \$ 0.00 | \$ (0.21) | \$ 0.13 |
| Discontinued operations | (0.27) | (0.07) | (0.53) | (0.16) |
| Net loss | \$ (0.07) | \$ (0.06) | \$ (0.74) | \$ (0.03) |
| Diluted: | | | | |
| Continuing operations | \$ 0.21 | \$ 0.00 | \$ (0.21) | \$ 0.13 |
| Discontinued operations | (0.28) | (0.07) | (0.53) | (0.16) |
| Net loss | \$ (0.07) | \$ (0.06) | \$ (0.74) | \$ (0.03) |
| Weighted average common shares outstanding: | | | | |
| Basic | 7,066,526 | 7,013,664 | 7,052,451 | 7,013,664 |
| Diluted | 7,003,895 | 6,969,324 | 7,031,574 | 7,034,156 |

See accompanying notes to condensed consolidated financial statements.

NATURAL ALTERNATIVES INTERNATIONAL, INC.
Condensed Consolidated Statements of Cash Flows
(In thousands)
(Unaudited)

| | Nine Months Ended March 31, | |
|---|--------------------------------|-----------------|
| | 2009 | 2008 |
| Cash flows from operating activities | | |
| (Loss) income before discontinued operations | \$(1,460) | \$ 915 |
| Adjustments to reconcile net (loss) income to net cash (used in) provided by operating activities: | | |
| Change in allowance for uncollectible accounts receivable | (2) | — |
| Depreciation and amortization | 2,340 | 2,233 |
| Non-cash compensation | 289 | 319 |
| Tax benefit from exercise of stock options | (88) | (194) |
| Deferred income taxes | (61) | 226 |
| Pension expense, net of contributions | 38 | 37 |
| Loss on disposal of assets | 12 | 69 |
| Changes in operating assets and liabilities: | | |
| Accounts receivable | 656 | 485 |
| Inventories, net | 1,915 | (3,523) |
| Other assets | (282) | (301) |
| Accounts payable and accrued liabilities | (1,827) | 2,977 |
| Income taxes receivable | 1,301 | (355) |
| Accrued compensation and employee benefits | (390) | (117) |
| Net cash provided by operating activities from continuing operations | 2,441 | 2,771 |
| Net cash (used in) operating activities from discontinued operations | (1,657) | (444) |
| Net cash provided by operating activities | 784 | 2,327 |
| Cash flows from investing activities | | |
| Proceeds from the sale of property and equipment | 34 | — |
| Capital expenditures | (3,871) | (1,280) |
| Purchase of certificate of deposit | (699) | — |
| Net cash used in investing activities from continuing operations | (4,536) | (1,280) |
| Net cash provided by (used in) investing activities from discontinued operations, including proceeds from the sale of As We | | |
| Change | 2,155 | (33) |
| Net cash used in investing activities | (2,381) | (1,313) |
| Cash flows from financing activities | | |
| Net borrowings on line of credit | 1,820 | — |
| Payments on long-term debt | (1,104) | (1,384) |
| Tax benefit from exercise of stock options | 88 | 194 |
| Repurchase of common stock | — | (724) |
| Net activity from issuance of common stock | (13) | 489 |
| Net cash provided by (used in) financing activities | 791 | (1,425) |
| Net decrease in cash and cash equivalents | (806) | (411) |
| Cash and cash equivalents at beginning of period | 3,518 | 4,095 |
| Cash and cash equivalents at end of period | <u>\$ 2,712</u> | <u>\$ 3,684</u> |
| Supplemental disclosures of cash flow information | | |
| Cash paid during the period for: | | |
| Interest | \$ 220 | \$ 281 |
| Taxes | <u>\$ 60</u> | <u>\$ 419</u> |

See accompanying notes to condensed consolidated financial statements.

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)**

A. Basis of Presentation and Summary of Significant Accounting Policies

Basis of Presentation

The accompanying interim unaudited condensed consolidated financial statements have been prepared in accordance with the instructions to Form 10-Q and applicable rules and regulations. Certain information and footnote disclosures normally included in financial statements prepared in accordance with U.S. generally accepted accounting principles have been condensed or omitted pursuant to such rules and regulations. In management's opinion, all adjustments necessary for a fair presentation of the financial position, results of operations and cash flows have been included and are of a normal, recurring nature. The results of operations for the three and nine months ended March 31, 2009 are not necessarily indicative of the operating results for the full fiscal year or any future periods.

You should read the financial statements and these notes, which are an integral part of the financial statements, together with our audited financial statements included in our Annual Report on Form 10-K for the fiscal year ended June 30, 2008 ("2008 Annual Report"). The accounting policies used to prepare the financial statements included in this report are the same as those described in the notes to the consolidated financial statements in our 2008 Annual Report unless otherwise noted below.

Reclassification

Certain prior year amounts have been reclassified to conform with the current year's presentation. Such reclassifications had no effect on net (loss) income.

Net (Loss) Income per Common Share

We compute net (loss) income per common share in accordance with Statement of Financial Accounting Standards (SFAS) No. 128, *Earnings Per Share*. This statement requires the presentation of basic net (loss) income per common share, using the weighted average number of common shares outstanding during the period, and diluted net (loss) income per common share, using the additional dilutive effect of all dilutive securities. The dilutive impact of stock options account for the additional weighted average shares of common stock outstanding for our diluted net (loss) income per common share computation. We calculated basic and diluted net (loss) income per common share as follows (in thousands, except per share data):

| | Three Months Ended March 31, | | Nine Months Ended March 31, | |
|--|---------------------------------|------------------|--------------------------------|----------------|
| | 2009 | 2008 | 2009 | 2008 |
| Numerator | | | | |
| Net (loss) | \$ (504) | \$ (446) | \$ (5,205) | \$ (203) |
| Denominator | | | | |
| Basic weighted average common shares outstanding | 7,067 | 7,014 | 7,052 | 7,014 |
| Dilutive effect of stock options | (63) | (45) | (20) | 20 |
| Diluted weighted average common shares outstanding | <u>7,004</u> | <u>6,969</u> | <u>7,032</u> | <u>7,034</u> |
| Basic net (loss) income per common share | <u>\$ (0.07)</u> | <u>\$ (0.06)</u> | <u>\$ (0.74)</u> | <u>\$ 0.03</u> |
| Diluted net (loss) income per common share | <u>\$ (0.07)</u> | <u>\$ (0.06)</u> | <u>\$ (0.74)</u> | <u>\$ 0.03</u> |

Shares related to stock options of 708,442 for the three months ended March 31, 2009, and 884,878 for the nine months ended March 31, 2009, were excluded from the calculation of diluted net (loss) income per common share, as the effect of their inclusion would have been anti-dilutive.

Shares related to stock options of 1,131,800 for the three months ended March 31, 2008, and 924,567 for the nine months ended March 31, 2008, were excluded from the calculation of diluted net income (loss) per common share, as the effect of their inclusion would have been anti-dilutive.

Stock-Based Compensation

We have an equity incentive plan under which we have granted nonqualified and incentive stock options to employees, non-employee directors and consultants. We also have an employee stock purchase plan. Effective July 1, 2005, we adopted the fair value recognition provisions of SFAS No. 123R, *Share Based Payment* (SFAS 123R), using the modified-prospective-transition method. Under that transition method, compensation cost is recognized (a) for all stock-based awards granted before, but not yet vested as of, July 1, 2005, based on the grant date fair value estimated in accordance with the original provisions of SFAS No. 123, *Accounting for Stock Based Compensation*, and (b) for all stock-based awards granted after July 1, 2005, based on the grant date fair value estimated in accordance with the provisions of SFAS 123R. Results for periods before implementation of SFAS 123R have not been restated.

[Table of Contents](#)

We estimated the fair value of the stock option awards at the date of grant and employee stock purchase plan shares at the beginning of the offering period using the Black-Scholes option valuation model. The Black-Scholes option valuation model was developed for use in estimating the fair value of traded options that have no vesting restrictions and are fully transferable. Option valuation models require the input of highly subjective assumptions. Black-Scholes uses assumptions related to volatility, the risk-free interest rate, the dividend yield (which is assumed to be zero, as we have not paid any cash dividends) and employee exercise behavior. Expected volatilities used in the model are based mainly on the historical volatility of our stock price. The risk-free interest rate is derived from the U.S. Treasury yield curve in effect in the period of grant. The expected life of stock option grants is derived from historical experience.

Our net loss for the three months ended March 31, 2009 included stock based compensation expense of approximately \$108,000 and for the three months ended March 31, 2008 included stock based compensation expense of approximately \$124,000. Our net loss included stock-based compensation expense of approximately \$289,000 for the nine months ended March 31, 2009 and our net income for the nine months ended March 31, 2008 was reduced by stock-based compensation expense of approximately \$319,000.

Adoption of New Accounting Standards

Effective July 1, 2008, the Company adopted SFAS No. 157, *Fair Value Measurements* (SFAS 157) for its financial assets and liabilities. In February 2008, the Financial Accounting Standards Board (FASB) issued FASB Staff Position (FSP) No. FAS 157-2, *Effective Date of FASB Statement No. 157*, which delayed the effective date of SFAS 157 for nonfinancial assets and liabilities, except for items that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually), to fiscal years beginning after November 15, 2008 and interim periods within those fiscal years. SFAS 157 establishes a framework for measuring fair value under generally accepted accounting principles and expands disclosures about fair value measurement. The adoption of SFAS 157 on July 1, 2008 did not have any effect on the Company's consolidated financial statements.

In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities – Including an amendment of FASB Statement No. 115* (SFAS 159), effective as of the beginning of the first fiscal year that begins after November 15, 2007. SFAS 159 permits entities to choose to measure many financial instruments and certain other items at fair value with changes in fair value recognized in earnings for each reporting period. The adoption of SFAS 159 on July 1, 2008 did not have any effect on the Company's consolidated financial statements as the Company did not elect any eligible items for fair value measurement.

B. Discontinued Operations

On August 4, 2008, RHL sold certain assets related to its catalog and internet business conducted under the name "As We Change[®]" to Miles Kimball Company for a cash purchase price of \$2.0 million. The purchase price was subject to certain post-closing adjustments based on a final accounting of the value of the assets sold to and the liabilities assumed by the buyer at the closing. As a result of the post-closing review, the purchase price was increased by \$299,000, resulting in an aggregate purchase price of \$2.3 million. We recorded a loss of \$226,000 as a result of this sale and we recognized \$221,000 in severance and related payroll costs during the nine months ended March 31, 2009.

We intend to market for sale legacy RHL's remaining business operations during fiscal 2009, with the exception of our Pathway to Healing[®] product line. As the plan to dispose of the legacy RHL business met the criteria of SFAS No. 144, *Accounting for the Disposal of Long-lived Assets* (SFAS 144), the current and prior periods presented in this report have been reclassified to reflect the legacy RHL business as discontinued operations.

As a result of our decision to sell the legacy RHL business, we also initiated an operational consolidation program during the first quarter of fiscal 2009 that transitioned the remaining branded products business operations to our corporate offices. This operational consolidation program was substantially complete as of September 30, 2008 and resulted in a charge to discontinued operations of \$866,000 in severance and other business related exit costs during the nine months ended March 31, 2009.

During the three months ended March 31, 2009, RHL's wholesale operation experienced a decline in sales activity from one of its largest customers as a result of the discontinuance of certain RHL product lines. Historically these product sales represented a significant portion of RHL's overall annual sales to this customer. Additionally, during this same period we received feedback from multiple parties related to their preliminary interest in acquiring the RHL operations. Due in part to the expected decline in future RHL sales as noted above and the current depressed worldwide economic conditions, the preliminary purchase price valuations provided by these third parties provided us with an indication that an impairment of the RHL net asset carrying values may exist.

Table of Contents

In accordance with SFAS No. 142, *Goodwill and Other Intangible Assets* (SFAS 142) and SFAS 144 we performed an analysis that compared the fair value of RHL's net assets as indicated by the third party purchase price valuations noted above to the current carrying amounts to determine if an impairment of value was evident. As a result of this analysis, we determined the current book value of RHL's net assets exceeded the fair value by approximately \$1.8 million and recorded an impairment charge for this amount to discontinued operations for the three month period ended March 31, 2009.

The following table presents the activity and the reserve balances related to the restructuring programs described above for the nine months ended March 31, 2009 (in thousands):

| | Balance at June 30, 2008 | Charges to Expense | Cash Payments | Balance at March 31, 2009 |
|--|-----------------------------|-----------------------|------------------|------------------------------|
| Employee termination costs | \$ — | \$ 956 | \$ (873) | \$ 83 |
| Lease liabilities and related facility closure costs | — | 131 | (71) | 60 |
| Total | <u>\$ —</u> | <u>\$ 1,087</u> | <u>\$ (944)</u> | <u>\$ 143</u> |
| Accrued restructuring charges: | | | | |
| Current portion – continuing operations | | | | \$ 12 |
| Discontinued operations | | | | 131 |
| Total | | | | <u>\$ 143</u> |

The following table summarizes the results of the legacy RHL business, classified as discontinued operations, for the periods ended March 31 (in thousands):

| | Three Months Ended March 31, | | Nine Months Ended March 31, | |
|--|---------------------------------|-----------------|--------------------------------|-------------------|
| | 2009 | 2008 | 2009 | 2008 |
| Net sales | \$ 415 | \$ 3,008 | \$ 2,589 | \$ 7,653 |
| Cost of goods sold and operating expense | 495 | 3,599 | 3,186 | 8,995 |
| Restructuring expenses | 37 | — | 1,087 | — |
| Impairment of goodwill and intangible assets | 1,804 | — | 1,804 | — |
| Loss on the sale of As We Change® | — | — | 226 | — |
| Other expense | 20 | 11 | 31 | 48 |
| Loss before income taxes | (1,941) | (602) | (3,745) | (1,390) |
| Income tax (benefit) | — | (134) | — | (272) |
| Loss from discontinued operations | <u>\$ (1,941)</u> | <u>\$ (468)</u> | <u>\$ (3,745)</u> | <u>\$ (1,118)</u> |

Assets and liabilities of the legacy RHL business included in the Condensed Consolidated Balance Sheets are summarized as follows (in thousands):

| | March 31, 2009 | June 30, 2008 |
|--|-------------------|------------------|
| Assets | | |
| Cash | \$ 121 | \$ 575 |
| Accounts receivable, net | 441 | 349 |
| Inventory, net | 289 | 805 |
| Other current assets | 99 | 204 |
| Plant and equipment, net | — | 351 |
| Goodwill and intangible assets | 211 | 4,015 |
| Total assets | <u>\$ 1,161</u> | <u>\$ 6,299</u> |
| Liabilities | | |
| Accounts payable | \$ — | \$ 678 |
| Accrued liabilities | 829 | 1,046 |
| Total liabilities | <u>829</u> | <u>1,724</u> |
| Net assets of discontinued operations | <u>\$ 332</u> | <u>\$ 4,575</u> |

[Table of Contents](#)**C. Inventories**

Inventories, net consisted of the following (in thousands):

| | March 31, 2009 | June 30, 2008 |
|------------------|-------------------|------------------|
| Raw materials | \$ 9,202 | \$10,428 |
| Work in progress | 2,265 | 2,517 |
| Finished goods | 1,846 | 1,997 |
| Reserves | (1,093) | (807) |
| | <u>\$12,220</u> | <u>\$14,135</u> |

D. Property and Equipment

Property and equipment, net consisted of the following (in thousands):

| | Depreciable Life In Years | March 31, 2009 | June 30, 2008 |
|---|------------------------------|-------------------|------------------|
| Land | N/A | \$ 393 | \$ 393 |
| Building and building improvements | 7 – 39 | 2,742 | 2,723 |
| Machinery and equipment | 3 – 12 | 23,360 | 19,963 |
| Office equipment and furniture | 3 – 5 | 3,850 | 3,774 |
| Vehicles | 3 | 204 | 204 |
| Leasehold improvements | 1 – 15 | 10,429 | 10,283 |
| Total property and equipment | | 40,978 | 37,340 |
| Less: accumulated depreciation and amortization | | (26,670) | (24,517) |
| Property and equipment, net | | <u>\$ 14,308</u> | <u>\$ 12,823</u> |

E. Debt

We have a bank credit facility of \$9.1 million, comprised of a \$7.5 million working capital line of credit and \$1.6 million in outstanding term loans. The working capital line of credit is secured by our accounts receivable and other rights to payment, general intangibles, inventory and equipment, has a fluctuating or fixed interest rate as elected by NAI from time to time and described in more detail below, and borrowings are subject to eligibility requirements for current accounts receivable and inventory balances. The working capital line of credit has no pre-determined minimum monthly payments and matures on November 1, 2010. As of March 31, 2009 the outstanding balances on the term loans consisted of a \$250,000, 15 year term loan due June 2011, secured by our San Marcos building, at an interest rate of 8.25%; a \$530,000, 10 year term loan due May 2014 with a twenty year amortization, secured by our San Marcos building, at an interest rate of LIBOR plus 2.25%; a \$60,000, five year term loan due May 2009, secured by equipment, at an interest rate of LIBOR plus 2.10%; and a \$780,000, four year term loan due December 2009, secured by equipment, at an interest rate of LIBOR plus 2.10%. Monthly payments on the term loans are approximately \$124,000 plus interest. As of March 31, 2009, we had \$1.8 million outstanding on the working capital line of credit.

On January 24, 2007, we amended our credit facility to extend the maturity date for the working capital line of credit from November 1, 2007 to November 1, 2008, and maintain the ratio of total liabilities/tangible net worth covenant at 1.25/1.0 for the remainder of the term of the credit facility.

On December 18, 2007, we further amended our credit facility to (i) extend the maturity date for the working capital line of credit from November 1, 2008 to November 1, 2009; (ii) reduce the maximum principal amount available under the working capital line of credit from \$12.0 million to \$7.5 million; (iii) reduce the maximum borrowings against inventory from \$6.0 million to \$3.75 million, provided any such borrowings do not at any time exceed eligible accounts receivable; and (iv) extend the availability of the Foreign Exchange Facility from November 1, 2007 to November 1, 2008 and the allowable contract term thereunder from November 1, 2008 to November 1, 2009. Our lender agreed to extend the availability of the Foreign Exchange Facility from November 1, 2008 to November 1, 2010 effective as of November 1, 2008.

Table of Contents

On December 29, 2008, we again amended our credit facility to (i) extend the maturity date for the working capital line of credit from November 1, 2009 to November 1, 2010; (ii) modify the interest rate payable on the line of credit from a rate equal to the Prime Rate or LIBOR plus 1.75%, as elected by NAI from time to time, to a rate equal to either a fluctuating rate per annum equal to 2.75% to 3.75% above the Daily One Month LIBOR Rate in effect from time to time or a fixed rate per annum equal to 2.50% to 3.50% above LIBOR, as elected by NAI from time to time, in each case with the percentage above the applicable LIBOR determined based on NAI's fixed charge coverage ratio; (iii) modify the fiscal year end net income requirement for fiscal 2009 from net income after taxes of not less than \$750,000 to a net loss not to exceed \$2,500,000; (iv) modify the fixed charge coverage ratio for the quarter ending March 31, 2009 from not less than 1.25 to 1.0 to not less than 0.50 to 1.0; and (v) eliminate the fixed charge coverage ratio and net income requirements that would have applied to the second quarter of fiscal 2009. In consideration of such amendments, NAI paid a \$25,000 amendment fee to the lender.

As of March 31, 2009 and June 30, 2008, we were not in compliance with our quarterly net income financial covenant under our credit facility, which requires quarterly net income after taxes of at least \$1.00. We were also not in compliance with our quarterly fixed charge coverage ratio as of March 31, 2009, which requires a quarterly fixed charge coverage ratio of no less than 1.0 to 0.5. Our lender agreed to waive its default rights as a result of these covenant violations as of March 31, 2009, for a \$25,000 waiver fee, and as of June 30, 2008. As a condition of the March 31, 2009 bank waiver, our credit facility is required to be modified on or before May 22, 2009. This modification will include (i) reduction in our borrowing base inventory advance rate to 35% of eligible raw materials inventory and 40% on eligible finished goods inventory; (ii) modify the interest rate payable on the line of credit from a rate equal to either a fluctuating rate per annum equal to 2.75% to 3.75% above the Daily One Month LIBOR Rate in effect from time to time or a fixed rate per annum equal to 2.50% to 3.50% above LIBOR, as elected by NAI from time to time, in each case with the percentage above the applicable LIBOR determined based on NAI's fixed charge coverage ratio, to a rate equal to either a fluctuating rate per annum equal to 2.75% to 4.25% above the Daily 90-Day LIBOR Rate in effect from time to time or a fixed rate per annum equal to 2.50% to 4.00% above LIBOR, as elected by NAI from time to time, in each case with the percentage above the applicable LIBOR determined based on NAI's fixed charge coverage ratio; and (iii) increase in the annual loan fee margin to 1.25% if the fixed charge coverage ratio is less than 1.25 to 1.0. If this loan modification was effective as of March 31, 2009 our available unused line of credit amount would have been reduced by approximately \$1.0 million to \$3.5 million. Based on the impact of our deferred tax asset valuation (as described under Note J below) and our cumulative losses from operations over the previous four fiscal quarters, we do not expect to meet our fixed charge coverage ratio or net income covenants as of June 30, 2009. If we fail to meet any of these covenants, we intend to request a waiver from our lender but there is no assurance when or if or on what terms a waiver will be provided. Therefore, in accordance with SFAS No. 78, *Classification of Obligations that are Callable by the Creditor* (SFAS 78), we have reclassified all of our long-term debt to current debt at March 31, 2009 and June 30, 2008.

On September 22, 2006, NAIE, our wholly owned subsidiary, entered into a credit facility to provide it with a credit line of up to CHF 1,300,000, or approximately \$1.1 million, which is the initial maximum aggregate amount that can be outstanding at any one time under the credit facility. This maximum amount was reduced by CHF 160,000, or approximately \$139,000, as of December 31, 2007 and will be reduced by an additional CHF 160,000 at the end of each succeeding calendar year. On February 19, 2007, NAIE amended its credit facility to provide that the maximum aggregate amount that may be outstanding under the facility cannot be reduced below CHF 500,000, or approximately \$435,000. As of March 31, 2009, there was no outstanding balance under the credit facility.

Under its credit facility, NAIE may draw amounts either as current account loan credits to its current or future bank accounts or as fixed loans with a maximum term of 24 months. Current account loans will bear interest at the rate of 5% per annum. Fixed loans will bear interest at a rate determined by the parties based on current market conditions and must be repaid pursuant to a repayment schedule established by the parties at the time of the loan. If a fixed loan is repaid early at NAIE's election or in connection with the termination of the credit facility, NAIE will be charged a pre-payment penalty equal to 0.1% of the principal amount of the fixed loan or CHF 1,000 (approximately \$870), whichever is greater. The bank reserves the right to refuse individual requests for an advance under the credit facility, although its exercise of such right will not have the effect of terminating the credit facility as a whole.

The composite interest rate on all of our outstanding debt was 6.70% at March 31, 2009 and 8.16% at March 31, 2008.

F. Defined Benefit Pension Plan

We sponsor a defined benefit pension plan that provides retirement benefits to employees based generally on years of service and compensation during the last five years before retirement. Effective June 20, 1999, our Board of Directors amended the plan to freeze the accrued benefit of each plan member at its then current amount and to no longer allow inactive plan members or other employees to become active members of the plan. We contribute an amount not less than the minimum funding requirements of the Employee Retirement Income Security Act of 1974 nor more than the maximum tax-deductible amount.

The components included in the net periodic expense for the periods ended March 31 were as follows (in thousands):

| | Three Months Ended March 31, | | Nine Months Ended March 31, | |
|--------------------------------|---------------------------------|--------------|--------------------------------|--------------|
| | 2009 | 2008 | 2009 | 2008 |
| Interest cost | \$ 20 | \$ 21 | \$ 60 | \$ 63 |
| Expected return on plan assets | (7) | (8) | (21) | (26) |
| Net periodic expense | <u>\$ 13</u> | <u>\$ 13</u> | <u>\$ 39</u> | <u>\$ 37</u> |

[Table of Contents](#)

G. Economic Dependency

We had substantial net sales to certain customers during the periods shown in the following table. The loss of any of these customers, or a significant decline in net sales or the growth rate of sales to these customers could have a material adverse impact on our net sales and net income. Net sales to any one customer representing 10% or more of the respective period's total net sales were as follows (dollars in thousands):

| | Three Months Ended March 31, | | | | Nine Months Ended March 31, | | | |
|------------|------------------------------|----------------------|-----------------------|----------------------|-----------------------------|----------------------|-----------------------|----------------------|
| | 2009 | | 2008 | | 2009 | | 2008 | |
| | Net Sales by Customer | % of Total Net Sales | Net Sales by Customer | % of Total Net Sales | Net Sales by Customer | % of Total Net Sales | Net Sales by Customer | % of Total Net Sales |
| Customer 1 | \$ 8,209 | 47% | \$ 10,211 | 54% | \$ 27,115 | 50% | \$ 29,673 | 49% |
| Customer 2 | 6,185 | 36 | 6,338 | 33 | 15,718 | 29 | 20,152 | 33 |
| | <u>\$ 14,394</u> | <u>83%</u> | <u>\$ 16,549</u> | <u>87%</u> | <u>\$ 42,833</u> | <u>79%</u> | <u>\$ 49,825</u> | <u>82%</u> |

We buy certain products from a limited number of raw material suppliers. The loss of any of these suppliers could have a material adverse impact on our net sales and net income. Raw material purchases from any one supplier representing 10% or more of the respective period's total raw material purchases were as follows (dollars in thousands):

| | Three Months Ended March 31, | | | | Nine Months Ended March 31, | | | |
|------------|------------------------------------|-----------------------------------|------------------------------------|-----------------------------------|------------------------------------|-----------------------------------|------------------------------------|-----------------------------------|
| | 2009 | | 2008 | | 2009 | | 2008 | |
| | Raw Material Purchases by Supplier | % of Total Raw Material Purchases | Raw Material Purchases by Supplier | % of Total Raw Material Purchases | Raw Material Purchases by Supplier | % of Total Raw Material Purchases | Raw Material Purchases by Supplier | % of Total Raw Material Purchases |
| Supplier 1 | \$ 874 | 14% | \$ 973 | 12 | \$ (a) | (a) | \$ (a) | (a) |
| Supplier 2 | 786 | 12% | 1,067 | 13 | 2,553 | 11 | 4,802 | 18 |
| Supplier 3 | (a) | (a) | 1,189 | 15% | 2,403 | 10% | 3,897 | 15% |
| | <u>\$ 1,660</u> | <u>26%</u> | <u>\$ 3,229</u> | <u>40%</u> | <u>\$ 4,956</u> | <u>21%</u> | <u>\$ 8,699</u> | <u>33%</u> |

(a) Purchases were less than 10% of the respective period's total raw material purchases.

H. Segment Information

Our business consists of two segments, as defined by SFAS No. 131, *Disclosures about Segments of an Enterprise and Related Information*, identified as private label contract manufacturing, which primarily provides private label contract manufacturing services to companies that market and distribute nutritional supplements and other health care products, and branded products, which markets and distributes branded nutritional supplements.

During the fourth quarter of fiscal 2008 we undertook a careful review of our branded products portfolio and operations. As a result of this review we decided to narrow our branded products focus and portfolio, which we expect to significantly improve our overall profitability and allow us to better pursue our growth strategies. As a result, before the end of fiscal 2008, we developed and approved a plan to sell the legacy RHL business. On August 4, 2008, RHL sold certain assets related to its catalog and internet business conducted under the name "As We Change[®]" to Miles Kimball Company for a cash purchase price of \$2.3 million.

We intend to market for sale legacy RHL's remaining business operations during fiscal 2009, with the exception of our Pathway to Healing[®] product line. As the plan to dispose of the legacy RHL business met the criteria of SFAS 144, the current and prior periods presented in this report have been reclassified to reflect the legacy RHL business as discontinued operations.

We evaluate performance based on a number of factors. The primary performance measures for each segment are net sales and income or loss from operations before corporate allocations. Operating income or loss for each segment does not include corporate general and administrative expenses, interest expense and other miscellaneous income and expense items. Corporate general and administrative expenses include, but are not limited to: human resources, legal, finance, information technology, and other corporate level related expenses, which are not allocated to either segment. The accounting policies of our segments are the same as those described in Note A above and in the consolidated financial statements included in our 2008 Annual Report.

Our operating results from continuing operations by business segment were as follows (in thousands):

[Table of Contents](#)

| | Three Months Ended March 31, | | Nine Months Ended March 31, | |
|---|---------------------------------|-----------------|--------------------------------|-----------------|
| | 2009 | 2008 | 2009 | 2008 |
| Net Sales | | | | |
| Private label contract manufacturing | \$16,721 | \$17,960 | \$52,441 | \$57,166 |
| Branded products | 627 | 961 | 2,049 | 3,042 |
| | <u>\$17,348</u> | <u>\$18,921</u> | <u>\$54,490</u> | <u>\$60,208</u> |
| | | | | |
| | Three Months Ended March 31, | | Nine Months Ended March 31, | |
| | 2009 | 2008 | 2009 | 2008 |
| Income (Loss) from Continuing Operations | | | | |
| Private label contract manufacturing | \$ 2,396 | \$ 1,390 | \$ 3,795 | \$ 6,052 |
| Branded products | 211 | 92 | 329 | 369 |
| Income from operations of reportable segments | 2,607 | 1,482 | 4,124 | 6,421 |
| Corporate expenses not allocated to segments | (1,224) | (1,838) | (5,025) | (5,628) |
| | <u>\$ 1,383</u> | <u>\$ (356)</u> | <u>\$ (901)</u> | <u>\$ 793</u> |
| | | | | |
| | | | March 31, | June 30, |
| | | | 2009 | 2008 |
| Total Assets | | | | |
| Private label contract manufacturing | | | \$37,252 | \$39,479 |
| Branded products | | | 273 | 135 |
| | | | <u>\$37,525</u> | <u>\$39,614</u> |

Our private label contract manufacturing products are sold both in the United States and in markets outside the United States, including Europe, Australia and Japan. Our primary market outside the United States is Europe. Our branded products are sold only in the United States.

Net sales by geographic region, based on the customers' location, were as follows (in thousands):

| | Three Months Ended March 31, | | Nine Months Ended March 31, | |
|-----------------------------------|---------------------------------|-----------------|--------------------------------|-----------------|
| | 2009 | 2008 | 2009 | 2008 |
| United States | \$12,254 | \$12,647 | \$37,117 | \$42,544 |
| Markets outside the United States | 5,094 | 6,274 | 17,373 | 17,664 |
| Total net sales | <u>\$17,348</u> | <u>\$18,921</u> | <u>\$54,490</u> | <u>\$60,208</u> |

Products manufactured by NAIE accounted for approximately 55% of net sales in markets outside the United States for the three months ended March 31, 2009, and 51% for the three months ended March 31, 2008. NAIE accounted for 54% of net sales in markets outside the United States for the nine months ended March 31, 2009, and 50% for the nine months ended March 31, 2008. No products manufactured by NAIE were sold in the United States during the nine months ended March 31, 2009 and 2008.

Assets and capital expenditures by geographic region, based on the location of the company or subsidiary at which they were located or made, were as follows (in thousands):

| | Long-Lived Assets | | Total Assets | | Capital Expenditures Nine Months Ended | |
|---------------|-------------------|-----------------|-----------------|-----------------|---|-----------------|
| | March 31, | June 30, | March 31, | June 30, | March 31, | March 31, |
| | 2009 | 2008 | 2009 | 2008 | 2009 | 2008 |
| United States | \$12,179 | \$11,202 | \$29,871 | \$32,179 | \$ 3,059 | \$ 1,166 |
| Europe | 2,288 | 1,781 | 7,654 | 7,435 | 812 | 114 |
| | <u>\$14,467</u> | <u>\$12,983</u> | <u>\$37,525</u> | <u>\$39,614</u> | <u>\$ 3,871</u> | <u>\$ 1,280</u> |

[Table of Contents](#)

I. Restructuring Costs

During the first nine months of fiscal 2009, the continued decline in economic conditions in the United States and the various foreign markets we service negatively impacted our customers' businesses and our operations. As a result, during the second quarter of fiscal 2009 we implemented a cost reduction program that resulted in the elimination of certain personnel and business activities. The cost reduction program is expected to reduce the financial impact of the anticipated reduction in future sales. This program resulted in a charge to our continuing operations of \$558,000 in severance from a reduction in force during the second quarter of fiscal 2009. All payments related to this cost reduction program are expected to be completed within the next twelve months.

The following table presents the activity and the reserve balance related to this restructuring program for the nine months ended March 31, 2009 (in thousands):

| | Balance at June 30, 2008 | Charges to Expense | Adjustments | Cash Payments | Balance at March 31, 2009 |
|---|--------------------------------|-----------------------|----------------|------------------|---------------------------------|
| Employee termination costs recorded to cost of goods sold | \$ — | \$ 187 | \$ — | \$ (162) | \$ 25 |
| Employee termination costs recorded to selling, general and administrative expenses | — | 371 | (15) | (242) | 114 |
| Total | \$ — | \$ 558 | \$ (15) | \$ (404) | \$ 139 |

J. Income Taxes

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

At December 31, 2008, we recorded a valuation allowance against deferred income tax assets of \$1.9 million, representing the amount of our deferred income tax assets in excess of our deferred income tax liabilities. We recorded the valuation allowance because management was unable to conclude, in light of the cumulative loss we have realized related to our US-based operations for the three year period ended December 31, 2008, that realization of the net deferred income tax asset was more likely than not. The valuation allowance recorded during the quarter ended December 31, 2008 primarily related to the tax benefits of federal net operating loss carryforwards recognized in the first six months of fiscal 2009. During the three months ended March 31, 2009 we recorded an additional net operating loss carryforward of \$423,000 that was also fully reserved during the quarter. As a result of the recognition of these valuation adjustments, we have a \$3.7 million gross deferred tax asset offset by a deferred tax liability of \$1.2 million and a valuation allowance of \$2.5 million resulting in a net deferred tax asset of zero as of March 31, 2009. This valuation allowance did not have any effect on the tax expense and related liability recorded for operating income recognized by our foreign subsidiary during the three and nine months ended March 31, 2009.

On July 1, 2007 we adopted the provisions of the FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes – An Interpretation of FASB Statement No. 109* (FIN 48). FIN 48 prescribes detailed guidance for the financial statement recognition, measurement and disclosure of uncertain tax positions recognized in an enterprise's financial statements in accordance with FASB Statement No. 109, *Accounting for Income Taxes*. Tax positions must meet a more-likely-than-not recognition threshold at the effective date to be recognized upon the adoption of FIN 48 and in subsequent periods. Our practice is to recognize interest and/or penalties related to income tax matters in income tax expense. Upon adoption of FIN 48 on July 1, 2007, we did not record any interest or penalties.

As of March 31, 2009 and June 30 2008, we had unrecognized tax liabilities of \$47,000. The total amount of unrecognized tax liabilities, if recognized, would not materially affect the effective tax rate.

We are subject to taxation in the United States, Switzerland and various state jurisdictions. Our tax years for the fiscal year ended June 30, 2006 and forward are subject to examination by the United States and state tax authorities and our tax years for the fiscal year ended June 30, 2007 and forward are subject to examination by the Switzerland tax authorities.

K. Contingencies

From time to time, we become involved in various investigations, claims and legal proceedings that arise in the ordinary course of our business. These matters may relate to product liability, employment, intellectual property, tax, regulation, contract or other matters. The resolution of these matters as they arise will be subject to various uncertainties and, even if such claims are without merit, could result in the expenditure of significant financial and managerial resources. While unfavorable outcomes are possible, based on available information, we generally do not believe the resolution of these matters will result in a material adverse effect on our business, consolidated financial condition, or results of operations. However, a settlement payment or unfavorable outcome could adversely impact our results of operations. Our evaluation of the likely impact of these actions could change in the future and we could have unfavorable outcomes that we do not expect.

As of May 13, 2009, neither NAI nor its subsidiaries were a party to any material pending legal proceeding nor was any of their property the subject of any material pending legal proceeding.

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

The following discussion and analysis is intended to help you understand our financial condition and results of operations for the three and nine months ended March 31, 2009. You should read the following discussion and analysis together with our unaudited condensed consolidated financial statements and the notes to the condensed consolidated financial statements included under Item 1 in this report, as well as the risk factors and other information included in our 2008 Annual Report and other reports and documents we file with the SEC. Our future financial condition and results of operations will vary from our historical financial condition and results of operations described below based on a variety of factors.

Executive Overview

The following overview does not address all of the matters covered in the other sections of this Item 2 or other items in this report or contain all of the information that may be important to our stockholders or the investing public. This overview should be read in conjunction with the other sections of this Item 2 and this report.

Our primary business activity is providing private label contract manufacturing services to companies that market and distribute vitamins, minerals, herbs and other nutritional supplements, as well as other health care products, to consumers both within and outside the United States. Historically, our revenue has been largely dependent on sales to one or two private label contract manufacturing customers and subject to variations in the timing of such customers' orders, which in turn is impacted by such customers' internal marketing programs, supply chain management, entry into new markets, new product introductions and general industry and economic conditions.

A cornerstone of our business strategy is to achieve long-term growth and profitability and to diversify our sales base. We have sought and expect to continue to seek to diversify our sales both by developing relationships with additional, quality-oriented, private label contract manufacturing customers and developing and growing our own line of branded products. In connection with our efforts to develop and grow our own line of branded products, we have determined to refine the types of products on which we will focus our efforts and in doing so have elected to discontinue certain of our branded products initiatives as described below.

During the fourth quarter of fiscal 2008, in an effort to enhance stockholder value, improve working capital and enable us to focus on our core contract manufacturing business, we elected to narrow our branded products focus and developed a plan to sell the legacy RHL business. On August 4, 2008, RHL sold certain assets related to its catalog and internet business conducted under the name "As We Change[®]" to Miles Kimball Company for a cash purchase price of \$2.0 million. The purchase price was subject to certain post-closing adjustments based on a final accounting of the value of the assets sold to and the liabilities assumed by the buyer at the closing. As a result of the post-closing review, the purchase price was increased by \$299,000, resulting in an aggregate purchase price of \$2.3 million. We recorded a loss of \$226,000 as a result of this sale and recognized \$221,000 in severance and related payroll costs during the nine months ended March 31, 2009. We intend to market for sale legacy RHL's remaining business operations during fiscal 2009, with the exception of our Pathway to Healing[®] product line. The financial information presented in this report has been reclassified to reflect the legacy RHL business as discontinued operations.

As a result of our decision to sell the legacy RHL business, we also initiated an operational consolidation program during the first quarter of fiscal 2009 that transitioned the remaining branded products business operations to our corporate offices. This operational consolidation program was substantially complete as of September 30, 2008 and resulted in a charge to discontinued operations of \$866,000 in severance and other business related exit costs during the nine months ended March 31, 2009.

During the three months ended March 31, 2009, RHL's wholesale operation experienced a decline in sales activity from one of its largest customers as a result of the discontinuance of certain RHL product lines. Historically these product sales represented a significant portion of RHL's overall annual sales to this customer. Additionally, during this same period we received feedback from multiple parties related to their preliminary interest in acquiring the RHL operations. Due in part to the expected decline in future RHL sales as noted above and the current depressed worldwide economic conditions, the preliminary purchase price valuations provided by these third parties provided us with an indication that an impairment of the RHL net asset carrying values may exist.

In accordance with SFAS 142 and SFAS 144, we performed an analysis that compared the fair value of RHL's net assets as indicated by the third party purchase price valuations noted above to the current carrying amounts to determine if an impairment of value was evident. As a result of this analysis, we determined the current book value of RHL's net assets exceeded the fair value by approximately \$1.8 million and recorded an impairment charge for this amount to discontinued operations for the three month period ended March 31, 2009.

During the first nine months of fiscal 2009, our net sales from continuing operations were 9.4% lower than in the first nine months of fiscal 2008. Private label contract manufacturing sales declined 8.3% primarily due to lower volumes of existing products in existing markets sold to one of our largest customers, unfavorable foreign currency fluctuations, and economic conditions. Net sales from our

[Table of Contents](#)

branded products declined 32.6% in the first nine months of fiscal 2009 as compared to the first nine months of fiscal 2008 due to the continued softening of our Pathway to Healing® product line.

Our revenue concentration risk for our two largest customers decreased to 79% as a percentage of our total sales from continuing operations for the first nine months of fiscal 2009 compared to 82% in the first nine months of fiscal 2008. We expect our contract manufacturing revenue concentration percentage for our two largest customers to remain consistent for the remainder of fiscal 2009.

During fiscal 2008, we invested substantial time and incurred substantial costs associated with hiring and training new quality assurance and other manufacturing support personnel, increased testing activity, and documentation and validation processes related to our Good Manufacturing Practices (GMPs) compliance programs and we expect to continue to make investments related to our GMPs through fiscal 2009. These additional expenses negatively impacted our gross margin from continuing operations during fiscal 2008 and the first nine months of fiscal 2009 and we expect this trend to continue during fiscal 2009 until we increase the volume of our private label business sufficiently to offset our higher fixed overhead structure. Although the cost of GMP compliance is significant, we believe our commitment to quality and our steadfast support of the United States Food and Drug Administration's (FDA) mandated GMPs makes us well positioned to operate within the higher standards of the FDA's GMPs and differentiates us from our competitors.

During our first nine months of fiscal 2009, the continued decline in economic conditions in the United States and the various foreign markets we service negatively impacted our customers' businesses and our operations. As a result, during the second quarter of fiscal 2009 we implemented a cost reduction program that resulted in the elimination of certain personnel and business activities. The cost reduction program is expected to reduce the financial impact of the anticipated reduction in future sales. This program resulted in a charge to our operations of \$558,000 during the second quarter of fiscal 2009 and is expected to reduce our operating overhead costs by approximately \$3.6 million annually. During the third quarter of fiscal 2009 our cost reduction program resulted in a savings of \$1.1 million compared to the cost structure in the comparable prior year period.

Beginning in April 2007, Dr. Cherry ceased airing his weekly television program, which had served as the primary customer acquisition vehicle in marketing the Pathway to Healing® product line. While sales of the product line have been primarily generated by continuity orders from long-standing repeat customers, the loss of the television program has had a negative impact on our ability to acquire new customers. We continue working with Dr. Cherry to evaluate alternative marketing programs and revise marketing plans to support the product line.

During the remainder of fiscal 2009, we plan to continue to focus on:

- Leveraging our state of the art, certified facilities to increase the value of the goods and services we provide to our highly valued private label contract manufacturing customers, and assist us in developing relationships with additional quality oriented customers;
- Implementing focused initiatives to grow our Pathway to Healing® product line; and
- Executing our cost reduction program and improving our operational efficiencies.

During fiscal 2009, in connection with our efforts to leverage our state of the art facilities, we received recertification of our Swissmedic Authority pharmaceutical license for our Manno, Switzerland manufacturing facility and our Therapeutic Goods Administration (TGA) of Australia certification for our Vista, California manufacturing facilities.

Looking forward, as a result of the uncertain near-term economic conditions including unfavorable currency markets, we expect reduced net sales from both our branded products and contract manufacturing businesses along with higher per unit operating costs related to our reduced manufacturing throughput in the fourth quarter of fiscal 2009, as compared to the fourth quarter in fiscal 2008. The negative effect on our operations associated with the anticipated decline in our fourth quarter sales is expected to be offset by the cost reduction program we implemented during the second quarter of fiscal 2009.

Critical Accounting Policies and Estimates

The preparation of our financial statements requires that we make estimates and assumptions that affect the amounts reported in our financial statements and their accompanying notes. We have identified certain policies that we believe are important to the portrayal of our financial condition and results of operations. These policies require the application of significant judgment by our management. We base our estimates on our historical experience, industry standards, and various other assumptions that we believe are reasonable under the circumstances. Actual results could differ from these estimates under different assumptions or conditions. An adverse effect on our financial condition, changes in financial condition, and results of operations could occur if circumstances change that alter the various assumptions or conditions used in such estimates or assumptions.

Our critical accounting policies are discussed under Item 7 of our 2008 Annual Report. There have been no significant changes to these policies during the nine months ended March 31, 2009.

[Table of Contents](#)

Results of Operations

The results of our operations for the periods ended March 31 were as follows (in thousands):

| | Three Months Ended March 31, | | | Nine Months Ended March 31, | | |
|--|---------------------------------|-----------------|-------------|--------------------------------|-----------------|-------------|
| | 2009 | 2008 | % Change | 2009 | 2008 | % Change |
| Private label contract manufacturing | \$16,721 | \$17,960 | (7) | \$52,441 | \$57,166 | (8) |
| Branded products | 627 | 961 | (35) | 2,049 | 3,042 | (33) |
| Total net sales | 17,348 | 18,921 | (8) | 54,490 | 60,208 | (9) |
| Cost of goods sold | 14,241 | 16,356 | (13) | 48,211 | 50,527 | (5) |
| Gross profit | 3,107 | 2,565 | 21 | 6,279 | 9,681 | (35) |
| Gross profit % | 17.9% | 13.6% | | 11.5% | 16.1% | |
| Selling, general & administrative expenses | 1,724 | 2,921 | (41) | 7,180 | 8,888 | (19) |
| % of net sales | 9.9% | 15.4% | | 13.2% | 14.8% | |
| Operating income (loss) from continuing operations | 1,383 | (356) | 488 | (901) | 793 | (214) |
| % of net sales | 8.0% | (1.9%) | | (1.7%) | 1.3% | |
| Other (expense) income, net | (129) | 165 | 178 | (562) | 146 | 485 |
| Income (loss) from continuing operations before income taxes | 1,254 | (191) | 757 | (1,463) | 939 | (256) |
| % of net sales | 7.2% | (1.0%) | | (2.7%) | 1.6% | |
| (Benefit) provision for income taxes | (183) | (213) | (14) | (3) | 24 | 113 |
| Income (loss) from continuing operations | 1,437 | 22 | (6,432) | (1,460) | 915 | (260) |
| Loss from discontinued operations, net of tax | (1,941) | (468) | (315) | (3,745) | (1,118) | (235) |
| Net loss | <u>\$ (504)</u> | <u>\$ (446)</u> | (13) | <u>\$ (5,205)</u> | <u>\$ (203)</u> | (2,464) |
| % of net sales | (2.9%) | (2.4%) | | (9.6%) | (0.3%) | |

The percentage decrease in contract manufacturing net sales was primarily attributed to the following for the periods ended March 31:

| | Three Months Ended | Nine Months Ended |
|--|-----------------------|----------------------|
| Mannatech, Incorporated ⁽¹⁾ | (1) | (8) |
| NSA International, Inc. ⁽¹⁾ | (12) | (5) |
| Other customers ⁽²⁾ | 6 | 5 |
| Total | <u>(7)%</u> | <u>(8)%</u> |

- 1 A decrease in net sales resulted primarily from the impact of the current economic conditions and unfavorable foreign currency fluctuations.
- 2 An increase in net sales to other customers was primarily due to increased sales from several of our existing customers along with increased sales from a new customer and income related to a sublicense agreement for the distribution of beta-alanine.

Net sales from our branded products segment decreased 35% from the comparable quarter in fiscal 2008 and 33% from the comparable nine month period last year due primarily to the continuing impact of the cessation of the Dr. Cherry weekly television program in April 2007, which had served as the primary acquisition vehicle in marketing the Pathway to Healing® product line.

Gross profit margin increased 4.3 percentage points from the comparable quarter in fiscal 2008 and decreased 4.6 percentage points from the comparable nine month period last year. The change in gross profit margin was primarily due to the following for the periods ended March 31:

| | Three Months Ended | Nine Months Ended |
|---------------------------------------|-----------------------|----------------------|
| Branded products operations | 0.5% | 0.5% |
| Contract manufacturing: | | |
| Shift in sales and material mix | (0.8) | (2.2) |
| Decreased overhead expenses | (1.3) | (2.7) |
| Incremental direct and indirect labor | 5.9 | 0.2 |
| Cost reduction program | — | (0.4) |
| Total | <u>4.3%</u> | <u>(4.6)%</u> |

[Table of Contents](#)

Selling, general and administrative expenses decreased \$1.2 million, or 41%, from the comparable quarter last year and \$1.7 million, or 19%, from the comparable year to date period last year. The decrease from the comparable quarter was attributed to a reduction in selling, general and administrative expenses primarily from our branded products business totaling \$332,000 associated with our operational consolidation, and a decrease in insurance, investor relations, professional fees, employee compensation and other expenses totaling \$864,000. The decrease from the comparable year to date period consisted of a \$564,000 reduction in expenses for our branded products business associated with our operational consolidation, and a decrease in insurance, investor relations, employee compensation and other expenses totaling \$1.1 million.

Other expense, net increased \$294,000 from the comparable quarter last year and \$708,000 from the comparable nine month period last year due primarily to unfavorable foreign currency exchange losses associated with the weakening of the Euro and the related impact on the translation of Euro denominated cash and receivables.

Our income tax benefit of \$183,000 for the quarter ended March 31, 2009 was the result of \$38,000 in tax expense from our foreign subsidiary at a statutory tax rate of 20% and \$221,000 in tax benefit from our US-based operations related to a change in the valuation allowance against our net deferred tax asset. Our income tax benefit of \$3,000 for the nine months ended March 31, 2009 was the result of \$94,000 in tax expense from our foreign subsidiary at a statutory tax rate of 20% and \$97,000 in tax benefit from our US-based operations related to the establishment of a valuation allowance against our net deferred tax asset. As a result of our deferred tax asset valuation, we did not record any income tax benefit during the nine months ended March 31, 2009 against our year-to-date US-based losses from operations.

Liquidity and Capital Resources

Our primary sources of liquidity and capital resources are cash flows provided by operating activities and the availability of borrowings under our credit facility. Net cash provided by operating activities was \$784,000 for the nine months ended March 31, 2009 compared to net cash provided by operating activities of \$2.3 million in the comparable period in the prior year.

At March 31, 2009, changes in accounts receivable, consisting primarily of amounts due from our private label contract manufacturing customers, provided \$656,000 in cash during the nine months ended March 31, 2009 compared to providing \$485,000 in the comparable period in the prior year. Cash provided by accounts receivable in the nine months ended March 31, 2009 was the result of lower sales and increased collections of prior period accounts receivable as compared to the comparable prior year period. Days sales outstanding was 31 days as of March 31, 2009 compared to 22 days as of March 31, 2008.

Approximately \$1.1 million of our operating cash flow was generated by NAIE in the nine months ended March 31, 2009. As of March 31, 2009, NAIE's undistributed retained earnings were considered indefinitely reinvested.

Capital expenditures were \$3.9 million during the nine months ended March 31, 2009 compared to \$1.3 million in the comparable period in the prior year. Capital expenditures during the nine months ended March 31, 2009 and March 31, 2008 were primarily for manufacturing equipment in our Vista, California and Manno, Switzerland facilities. Additionally, during the nine months ended March 31, 2009, we invested \$699,000 in a six month certificate of deposit and we received \$2.2 million in proceeds related to the sale of our As We Change business.

Our consolidated debt increased to \$3.4 million at March 31, 2009 from \$2.7 million at June 30, 2008 primarily due to borrowings on our working capital line of credit offset by payments on our term loans.

As of March 31, 2009, we had a bank credit facility of \$9.1 million, comprised of a \$7.5 million working capital line of credit and \$1.6 million in outstanding term loans. The working capital line of credit is secured by our accounts receivable and other rights to payment, general intangibles, inventory and equipment, has a fluctuating or fixed interest rate as elected by NAI from time to time and described in more detail below, and borrowings are subject to eligibility requirements for current accounts receivable and inventory balances. As of March 31, 2009 the outstanding balances on the term loans consisted of a \$250,000, 15 year term loan due June 2011, secured by our San Marcos building, at an interest rate of 8.25%; a \$530,000, 10 year term loan due May 2014 with a twenty year amortization, secured by our San Marcos building, at an interest rate of LIBOR plus 2.25%; a \$60,000, five year term loan due May 2009, secured by equipment, at an interest rate of LIBOR plus 2.10%; and a \$780,000, four year term loan due December 2009, secured by equipment, at an interest rate of LIBOR plus 2.10%. Monthly payments on the term loans are approximately \$124,000 plus interest. As of March 31, 2009, we had \$1.8 million outstanding on the working capital line of credit.

[Table of Contents](#)

On January 24, 2007, we amended our credit facility to extend the maturity date for the working capital line of credit from November 1, 2007 to November 1, 2008, and maintain the ratio of total liabilities/tangible net worth covenant at 1.25/1.0 for the remainder of the term of the credit facility.

On December 18, 2007, we further amended our credit facility to (i) extend the maturity date for the working capital line of credit from November 1, 2008 to November 1, 2009; (ii) reduce the maximum principal amount available under the working capital line of credit from \$12.0 million to \$7.5 million; (iii) reduce the maximum borrowings against inventory from \$6.0 million to \$3.75 million, provided any such borrowings do not at any time exceed eligible accounts receivable; and (iv) extend the availability of the Foreign Exchange Facility from November 1, 2007 to November 1, 2008 and the allowable contract term thereunder from November 1, 2008 to November 1, 2009. Our lender agreed to extend the availability of the Foreign Exchange Facility from November 1, 2008 to November 1, 2010 effective as of November 1, 2008.

On December 29, 2008, we again amended our credit facility to (i) extend the maturity date for the working capital line of credit from November 1, 2009 to November 1, 2010; (ii) modify the interest rate payable on the line of credit from a rate equal to the Prime Rate or LIBOR plus 1.75%, as elected by NAI from time to time, to a rate equal to either a fluctuating rate per annum equal to 2.75% to 3.75% above the Daily One Month LIBOR Rate in effect from time to time or a fixed rate per annum equal to 2.50% to 3.50% above LIBOR, as elected by NAI from time to time, in each case with the percentage above the applicable LIBOR determined based on NAI's fixed charge coverage ratio; (iii) modify the fiscal year end net income requirement for fiscal 2009 from net income after taxes of not less than \$750,000 to a net loss not to exceed \$2,500,000; (iv) modify the fixed charge coverage ratio for the quarter ending March 31, 2009 from not less than 1.25 to 1.0 to not less than 0.50 to 1.0; and (v) eliminate the fixed charge coverage ratio and net income requirements that would have applied to the second quarter of fiscal 2009. In consideration of such amendments, NAI paid a \$25,000 amendment fee to the lender.

As of March 31, 2009 and June 30, 2008, we were not in compliance with our quarterly net income financial covenant under our credit facility, which requires quarterly net income after taxes of at least \$1.00. We were also not in compliance with our quarterly fixed charge coverage ratio as of March 31, 2009, which requires a quarterly fixed charge coverage ratio of no less than 1.0 to 0.5. Our lender agreed to waive its default rights as a result of these covenant violations as of March 31, 2009, for a \$25,000 waiver fee, and as of June 30, 2008. As a condition of the March 31, 2009 bank waiver, our credit facility is required to be modified on or before May 22, 2009. This modification will include (i) reduction in our borrowing base inventory advance rate to 35% of eligible raw materials inventory and 40% on eligible finished goods inventory; (ii) modify the interest rate payable on the line of credit from a rate equal to either a fluctuating rate per annum equal to 2.75% to 3.75% above the Daily One Month LIBOR Rate in effect from time to time or a fixed rate per annum equal to 2.50% to 3.50% above LIBOR, as elected by NAI from time to time, in each case with the percentage above the applicable LIBOR determined based on NAI's fixed charge coverage ratio, to a rate equal to either a fluctuating rate per annum equal to 2.75% to 4.25% above the Daily 90-Day LIBOR Rate in effect from time to time or a fixed rate per annum equal to 2.50% to 4.00% above LIBOR, as elected by NAI from time to time, in each case with the percentage above the applicable LIBOR determined based on NAI's fixed charge coverage ratio; and (iii) increase in the annual loan fee margin to 1.25% if the fixed charge coverage ratio is less than 1.25 to 1.0. If this loan modification was effective as of March 31, 2009 our available unused line of credit amount would have been reduced by approximately \$1.0 million to \$3.5 million. Based on the impact of our deferred tax asset valuation (as described under Note J below) and our cumulative losses from operations over the previous four fiscal quarters, we do not expect to meet our fixed charge coverage ratio or net income covenants as of June 30, 2009. If we fail to meet any of these covenants, we intend to request a waiver from our lender but there is no assurance when or if or on what terms a waiver will be provided. Therefore, in accordance with SFAS No. 78, *Classification of Obligations that are Callable by the Creditor* (SFAS 78), we have reclassified all of our long-term debt to current debt at March 31, 2009 and June 30, 2008.

On September 22, 2006, NAIE, our wholly owned subsidiary, entered into a credit facility to provide it with a credit line of up to CHF 1,300,000, or approximately \$1.1 million, which is the initial maximum aggregate amount that can be outstanding at any one time under the credit facility. This maximum amount was reduced by CHF 160,000, or approximately \$139,000, as of December 31, 2007 and will be reduced by an additional CHF 160,000 at the end of each succeeding calendar year. On February 19, 2007, NAIE amended its credit facility to provide that the maximum aggregate amount that may be outstanding under the facility cannot be reduced below CHF 500,000, or approximately \$435,000. As of March 31, 2009, there was no outstanding balance under the credit facility.

Under its credit facility, NAIE may draw amounts either as current account loan credits to its current or future bank accounts or as fixed loans with a maximum term of 24 months. Current account loans will bear interest at the rate of 5% per annum. Fixed loans will bear interest at a rate determined by the parties based on current market conditions and must be repaid pursuant to a repayment schedule established by the parties at the time of the loan. If a fixed loan is repaid early at NAIE's election or in connection with the termination of the credit facility, NAIE will be charged a pre-payment penalty equal to 0.1% of the principal amount of the fixed loan or CHF 1,000 (approximately \$870), whichever is greater. The bank reserves the right to refuse individual requests for an advance under the credit facility, although its exercise of such right will not have the effect of terminating the credit facility as a whole.

As of March 31, 2009, we had \$2.7 million in cash and cash equivalents and \$4.5 million available under our line of credit. We believe our available cash, cash equivalents and potential cash flows from operations will be sufficient to fund our current working capital needs, capital expenditures and debt payments through at least the next 12 months.

Off-Balance Sheet Arrangements

As of March 31, 2009, we did not have any significant off-balance sheet debt nor did we have any transactions, arrangements, obligations (including contingent obligations) or other relationships with any unconsolidated entities or other persons that have or are reasonably likely to have a material current or future effect on our financial condition, changes in financial condition, results of operations, liquidity, capital expenditures, capital resources, or significant components of revenue or expenses material to investors.

Recent Accounting Pronouncements

Recent accounting pronouncements are discussed under Item 7 of our 2008 Annual Report and in the notes to the condensed consolidated financial statements included under Item 1 in this report. As of March 31, 2009, other than the pronouncements discussed in our 2008 Annual Report and in the notes to the condensed consolidated financial statements included under Item 1 in this report, we are not aware of any other pronouncements that materially affect our financial position or results of operations.

ITEM 4. CONTROLS AND PROCEDURES

We maintain certain disclosure controls and procedures as defined under the Securities Exchange Act of 1934. They are designed to help ensure that material information is: (1) gathered and communicated to our management, including our principal executive and financial officers, in a manner that allows for timely decisions regarding required disclosures; and (2) recorded, processed, summarized, reported and filed with the SEC as required under the Securities Exchange Act of 1934 and within the time periods specified by the SEC. Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of the design and operation of our disclosure controls and procedures as of March 31, 2009. Based on such evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective for their intended purpose described above as of March 31, 2009.

There were no changes to our internal control over financial reporting during the quarter ended March 31, 2009 that have materially affected, or that are reasonably likely to materially affect, our internal control over financial reporting.

PART II – OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

From time to time, we become involved in various investigations, claims and legal proceedings that arise in the ordinary course of our business. These matters may relate to product liability, employment, intellectual property, tax, regulation, contract or other matters. The resolution of these matters as they arise will be subject to various uncertainties and, even if such claims are without merit, could result in the expenditure of significant financial and managerial resources. While unfavorable outcomes are possible, based on available information, we generally do not believe the resolution of these matters will result in a material adverse effect on our business, consolidated financial condition, or results of operations. However, a settlement payment or unfavorable outcome could adversely impact our results of operations. Our evaluation of the likely impact of these actions could change in the future and we could have unfavorable outcomes that we do not expect.

As of May 13, 2009, neither NAI nor its subsidiaries were a party to any material pending legal proceeding nor was any of their property the subject of any material pending legal proceeding.

ITEM 1A. RISK FACTORS

You should carefully consider the risks described under Item 1A of our 2008 Annual Report, as well as the other information in our 2008 Annual Report, this report and other reports and documents we file with the SEC, when evaluating our business and future prospects. If any of the identified risks actually occur, our business, financial condition and results of operations could be seriously harmed. In that event, the market price of our common stock could decline and you could lose all or a portion of the value of your investment in our common stock.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

None.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

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

None.

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS

The following exhibit index shows those exhibits filed with this report and those incorporated by reference:

EXHIBIT INDEX

| Exhibit Number | Description | Incorporated By Reference To |
|-----------------------|--|--|
| 3(i) | Amended and Restated Certificate of Incorporation of Natural Alternatives International, Inc. filed with the Delaware Secretary of State on January 14, 2005 | Exhibit 3(i) of NAI's Quarterly Report on Form 10-Q for the quarterly period ended December 31, 2004, filed with the commission on February 14, 2005 |
| 3(ii) | Amended and Restated By-laws of Natural Alternatives International, Inc. dated as of February 9, 2009 | Exhibit 3(ii) of NAI's Current Report on Form 8-K dated February 9, 2009, filed with the commission on February 13, 2009 |
| 4(i) | Form of NAI's Common Stock Certificate | Exhibit 4(i) of NAI's Annual Report on Form 10-K for the fiscal year ended June 30, 2005, filed with the commission on September 8, 2005 |

Table of Contents

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| 10.1 | 1999 Omnibus Equity Incentive Plan as adopted effective May 10, 1999, amended effective January 30, 2004, and further amended effective December 3, 2004* | Exhibit 10.1 of NAI's Quarterly Report on Form 10-Q for the quarterly period ended December 31, 2004, filed with the commission on February 14, 2005 |
| 10.2 | 1999 Employee Stock Purchase Plan as adopted effective October 18, 1999 | Exhibit B of NAI's definitive Proxy Statement filed with the commission on October 21, 1999 |
| 10.3 | Management Incentive Plan* | Exhibit 10.3 of NAI's Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2003, filed with the commission on November 5, 2003 |
| 10.4 | Amended and Restated Employment Agreement dated as of January 30, 2004, by and between NAI and Mark A. LeDoux* | Exhibit 10.6 of NAI's Annual Report on Form 10-K for the fiscal year ended June 30, 2004, filed with the commission on September 14, 2004 |
| 10.5 | Amended and Restated Exclusive License Agreement effective as of September 1, 2004 by and among NAI and Dr. Reginald B. Cherry | Exhibit 10.11 of NAI's Annual Report on Form 10-K for the fiscal year ended June 30, 2004, filed with the commission on September 14, 2004 |
| 10.6 | Exclusive License Agreement effective as of September 1, 2004 by and among NAI and Reginald B. Cherry Ministries, Inc. | Exhibit 10.12 of NAI's Annual Report on Form 10-K for the fiscal year ended June 30, 2004, filed with the commission on September 14, 2004 |
| 10.7 | First Amendment to Exclusive License Agreement effective as of December 10, 2004 by and among NAI and Reginald B. Cherry Ministries, Inc. | Exhibit 10.3 of NAI's Quarterly Report on Form 10-Q for the quarterly period ended December 31, 2004, filed with the commission on February 14, 2005 |
| 10.8 | Lease of Facilities in Vista, California between NAI and Calwest Industrial Properties, LLC, a California limited liability company (lease reference date June 12, 2003) | Exhibit 10.10 of NAI's Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2003, filed with the commission on November 5, 2003 |
| 10.9 | Credit Agreement dated as of May 1, 2004 by and between NAI and Wells Fargo Bank, National Association | Exhibit 10.11 of NAI's Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2004, filed with the commission on May 17, 2004 |
| 10.10 | First Amendment to Credit Agreement dated as of February 1, 2005 by and between NAI and Wells Fargo Bank, National Association | Exhibit 10.1 of NAI's Current Report on Form 8-K dated February 1, 2005, filed with the commission on February 7, 2005 |
| 10.11 | Form of Indemnification Agreement entered into between NAI and each of its directors | Exhibit 10.15 of NAI's Annual Report on Form 10-K for the fiscal year ended June 30, 2004, filed with the commission on September 14, 2004 |
| 10.12 | Lease of Facilities in Manno, Switzerland between NAIE and Mr. Silvio Tarchini dated May 9, 2005 (English translation) | Exhibit 10.19 of NAI's Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2005, filed with the commission on May 13, 2005 |
| 10.13 | Lease of Facilities in Manno, Switzerland between NAIE and Mr. Silvio Tarchini dated July 25, 2003 (English translation) | Exhibit 10.19 of NAI's Annual Report on Form 10-K for the fiscal year ended June 30, 2005, filed with the commission on September 8, 2005 |
| 10.14 | Lease of Facilities in Manno, Switzerland between NAIE and Mr. Silvio Tarchini dated June 8, 2004 (English translation) | Exhibit 10.20 of NAI's Annual Report on Form 10-K for the fiscal year ended June 30, 2005, filed with the commission on September 8, 2005 |
| 10.15 | Lease of Facilities in Manno, Switzerland between NAIE and Mr. Silvio Tarchini dated February 7, 2005 (English translation) | Exhibit 10.21 of NAI's Annual Report on Form 10-K for the fiscal year ended June 30, 2005, filed with the commission on September 8, 2005 |
| 10.16 | License Agreement effective as of April 28, 1997 by and among Roger Harris, Mark Dunnett and NAI | Exhibit 10.22 of NAI's Annual Report on Form 10-K for the fiscal year ended June 30, 2005, filed with the commission on September 8, 2005 |

Table of Contents

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| 10.17 | Amendment to License Agreement effective as of March 17, 2001 by and among Roger Harris, Mark Dunnett and NAI | Exhibit 10.23 of NAI's Annual Report on Form 10-K for the fiscal year ended June 30, 2005, filed with the commission on September 8, 2005 |
| 10.18 | Amendment effective as of September 15, 2005 to Lease of Facilities in Manno, Switzerland between NAIE and Mr. Silvio Tarchini dated May 9, 2005 (English translation) | Exhibit 10.24 of NAI's Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2005, filed with the commission on November 4, 2005 |
| 10.19 | Lease of RHL Facilities in San Diego, California between RHL and Lessor dated February 5, 2003 | Exhibit 10.4 of NAI's Current Report on Form 8-K dated December 5, 2005, filed with the commission on December 9, 2005 |
| 10.20 | Promissory Note made by NAI for the benefit of Wells Fargo Equipment Finance, Inc. in the amount of \$3,800,000 | Exhibit 10.5 of NAI's Current Report on Form 8-K dated December 5, 2005, filed with the commission on December 9, 2005 |
| 10.21 | Patent License Agreement by and between Unither Pharma, Inc. and RHL dated May 1, 2002 | Exhibit 10.6 of NAI's Current Report on Form 8-K dated December 5, 2005, filed with the commission on December 9, 2005 |
| 10.22 | Second Amendment to Credit Agreement dated as of December 1, 2005 by and between NAI and Wells Fargo Bank, National Association | Exhibit 10.30 of NAI's Quarterly Report on Form 10-Q for the quarterly period ended December 31, 2005, filed with the commission on February 14, 2006 |
| 10.23 | Exclusive License Agreement by and between NAI and Richard Linchitz, M.D. effective as of August 23, 2005 | Exhibit 10.32 of NAI's Quarterly Report on Form 10-Q for the quarterly period ended December 31, 2005, filed with the commission on February 14, 2006 |
| 10.24 | Letter amendment to Lease of RHL Facilities in San Diego, California between RHL and Lessor dated January 10, 2006 | Exhibit 10.33 of NAI's Quarterly Report on Form 10-Q for the quarterly period ended December 31, 2005, filed with the commission on February 14, 2006 |
| 10.25 | First Amendment to Lease of Facilities in Vista, California between NAI and Calwest Industrial Properties, LLC, a California limited liability company, effective December 21, 2004 | Exhibit 10.34 of NAI's Quarterly Report on Form 10-Q for the quarterly period ended December 31, 2005, filed with the commission on February 14, 2006 |
| 10.26 | Second Amendment to Lease of Facilities in Vista, California between NAI and Calwest Industrial Properties, LLC, a California limited liability company, effective January 13, 2006 | Exhibit 10.35 of NAI's Quarterly Report on Form 10-Q for the quarterly period ended December 31, 2005, filed with the commission on February 14, 2006 |
| 10.27 | Third Amendment to Credit Agreement dated as of March 15, 2006 by and between NAI and Wells Fargo Bank, National Association | Exhibit 10.35 of NAI's Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2006, filed with the commission on May 9, 2006 |
| 10.28 | Standard Sublease Multi-Tenant by and between J. Gelt Corporation dba Casa Pacifica and RHL (lease reference date March 6, 2006) | Exhibit 10.37 of NAI's Annual Report on Form 10-K for the fiscal year ended June 30, 2006, filed with the commission on September 18, 2006 |
| 10.29 | Loan Agreement between NAIE and Credit Suisse dated as of September 22, 2006, including general conditions (portions of the Loan Agreement have been omitted pursuant to a request for confidential treatment) | Exhibit 10.36 of NAI's Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2006, filed with the commission on November 1, 2006 |
| 10.33 | Employment Agreement effective as of November 20, 2006, by and between NAI and Alvin McCurdy* | Exhibit 10.1 of NAI's Current Report on Form 8-K dated November 20, 2006, filed with the commission on November 21, 2006 |
| 10.31 | Fourth Amendment to Credit Agreement dated as of November 1, 2006, and entered into on January 24, 2007, by and between NAI and Wells Fargo Bank, National Association | Exhibit 10.37 of NAI's Quarterly Report on Form 10-Q for the quarterly period ended December 31, 2006, filed with the commission on January 30, 2007 |

Table of Contents

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| 10.32 | Sublease Contract for facilities in Manno, Switzerland, between NAIE and Vertime SA effective as of April 1, 2007 (portions of the Sublease Contract have been omitted pursuant to a request for confidential treatment) (English translation) | Exhibit 10.39 of NAI's Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2006, filed with the commission on May 14, 2007 |
| 10.33 | Second Amendment to License Agreement Amending The First Amendment Dated March 17, 2001 to License Agreement Dated April 28, 1997 by and among Roger Harris, Mark Dunnett and NAI dated as of March 26, 2007 | Exhibit 10.40 of NAI's Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2007, filed with the commission on May 14, 2007 |
| 10.34 | First Amendment to Loan Agreement between NAIE and Credit Suisse dated as of February 19, 2007 | Exhibit 10.41 of NAI's Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2007, filed with the commission on May 14, 2007 |
| 10.35 | Consulting Agreement effective as of July 1, 2007, by and between Dr. John A. Wise and NAI | Exhibit 10.44 of NAI's Annual Report on Form 10-K for the fiscal year ended June 30, 2007, filed with the commission on October 15, 2007 |
| 10.36 | Fifth Amendment to Credit Agreement dated as of November 1, 2007, and entered into on December 18, 2007, by and between NAI and Wells Fargo Bank, National Association | Exhibit 10.40 of NAI's Quarterly Report on Form 10-Q for the quarterly period ended December 31, 2007, filed with the commission on February 8, 2008 |
| 10.37 | Employment Agreement effective as of February 11, 2008, by and between NAI and Kenneth Wolf* | Exhibit 10.1 of NAI's Current Report on Form 8-K dated February 11, 2008, filed with the commission on February 14, 2008 |
| 10.38 | Asset Purchase Agreement by and between RHL and Miles Kimball Company dated August 4, 2008 | Exhibit 10.1 of NAI's Current Report on Form 8-K dated August 4, 2008, filed with the commission on August 8, 2008 |
| 10.39 | First Amendment to Employment Agreement dated November 20, 2006 by and between NAI and Alvin McCurdy, entered into effective as of June 28, 2008* | Exhibit 10.45 of NAI's Annual Report on Form 10-K for the fiscal year ended June 30, 2008, filed with the commission on September 22, 2008 |
| 10.40 | Revolving Line of Credit Note made by NAI for the benefit of Wells Fargo Bank, National Association in the amount of \$7,500,000 (with Addendum) | Filed herewith |
| 10.41 | Sixth Amendment to Credit Agreement dated as of November 1, 2008, by and between NAI and Wells Fargo Bank, National Association | Filed herewith |
| 10.42 | Separation Agreement and General Release of Claims by and between Real Health Laboratories, Inc. and John Dullea effective as of December 26, 2008 | Filed herewith |
| 10.43 | Separation Agreement and General Release of Claims by and between NAI and Randell Weaver effective as of March 13, 2009 | Filed herewith |
| 10.44 | Agreement to Sublicense by and between NAI and Compound Solutions, Inc. dated as of March 3, 2009 | Filed herewith |

[Table of Contents](#)

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|------|---|----------------|
| 31.1 | Rule 13a-14(a)/15d-14(a) Certification of Chief Executive Officer | Filed herewith |
| 31.2 | Rule 13a-14(a)/15d-14(a) Certification of Chief Financial Officer | Filed herewith |
| 32 | Section 1350 Certification | Filed herewith |

* Indicates management contract or compensatory plan or arrangement.

[Table of Contents](#)

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

Date: May 13, 2009

NATURAL ALTERNATIVES INTERNATIONAL, INC.

By: /s/ Kenneth E. Wolf
Kenneth E. Wolf, Chief Financial Officer

Mr. Wolf is the principal financial officer of Natural Alternatives International, Inc. and has been duly authorized to sign on its behalf.

REVOLVING LINE OF CREDIT NOTE

\$7,500,000.00

San Diego, California
November 1, 2008

FOR VALUE RECEIVED, the undersigned NATURAL ALTERNATIVES INTERNATIONAL, INC. ("Borrower") promises to pay to the order of WELLS FARGO BANK, NATIONAL ASSOCIATION ("Bank") at its San Diego Regional Commercial Banking Office, 401 B Street, Suite 2201, San Diego, California, or at such other place as the holder hereof may designate, in lawful money of the United States of America and in immediately available funds, the principal sum of Seven Million Five Hundred Thousand Dollars (\$7,500,000.00), or so much thereof as may be advanced and be outstanding, with interest thereon, to be computed on each advance from the date of its disbursement as set forth herein.

DEFINITIONS:

As used herein, the following terms shall have the meanings set forth after each, and any other term defined in this Note shall have the meaning set forth at the place defined:

(a) "Business Day" means any day except a Saturday, Sunday or any other day on which commercial banks in California are authorized or required by law to close.

(b) "Daily One Month LIBOR" means, for any day, the rate of interest equal to LIBOR then in effect for delivery for a one (1) month period.

(c) "Fixed Rate Term" means a period commencing on a Business Day and continuing for one (1), three (3) or six (6) months, as designated by Borrower, during which all or a portion of the outstanding principal balance of this Note bears interest determined in relation to LIBOR; provided however, that no Fixed Rate Term may be selected for a principal amount less than One Hundred Thousand Dollars (\$100,000.00); and provided further, that no Fixed Rate Term shall extend beyond the scheduled maturity date hereof. If any Fixed Rate Term would end on a day which is not a Business Day, then such Fixed Rate Term shall be extended to the next succeeding Business Day.

(d) "LIBOR" means the rate per annum (rounded upward, if necessary, to the nearest whole 1/8 of 1%) and determined pursuant to the following formula:

$$\text{LIBOR} = \frac{\text{Base LIBOR}}{100\% - \text{LIBOR Reserve Percentage}}$$

(i) "Base LIBOR" means the rate per annum for United States dollar deposits quoted by Bank (A) for the purpose of calculating effective rates of interest for loans making reference to LIBOR, as the Inter-Bank Market Offered Rate, with the understanding that such rate is quoted by Bank for the purpose of calculating effective rates of interest for loans making reference thereto, on the first day of a Fixed Rate Term for delivery of funds on said date for a period of time approximately equal to the number of days in such Fixed Rate Term and in an amount approximately equal to the principal amount to which such Fixed Rate Term applies, or (B) for the purpose of calculating effective rates of interest for loans making reference to the

Daily One Month LIBOR Rate, as the Inter-Bank Market Offered Rate in effect from time to time for delivery of funds for one (1) month in amounts approximately equal to the principal amount of such loans. Borrower understands and agrees that Bank may base its quotation of the Inter-Bank Market Offered Rate upon such offers or other market indicators of the Inter-Bank Market as Bank in its discretion deems appropriate including, but not limited to, the rate offered for U.S. dollar deposits on the London Inter-Bank Market.

(ii) "LIBOR Reserve Percentage" means the reserve percentage prescribed by the Board of Governors of the Federal Reserve System (or any successor) for "Eurocurrency Liabilities" (as defined in Regulation D of the Federal Reserve Board, as amended), adjusted by Bank for expected changes in such reserve percentage during the applicable term of this Note.

INTEREST:

(a) Interest. The outstanding principal balance of this Note shall bear interest (computed on the basis of a 360-day year, actual days elapsed) either (i) at a fluctuating rate per annum determined by Bank to be two and three-quarters percent (2.75%) above the Daily One Month LIBOR Rate in effect from time to time, or (ii) at a fixed rate per annum determined by Bank to be two and one-half percent (2.50%) above LIBOR in effect on the first day of the applicable Fixed Rate Term. When interest is determined in relation to the Daily One Month LIBOR Rate, each change in the interest rate shall become effective each Business Day that the Bank determines that the Daily One Month LIBOR Rate has changed. Bank is hereby authorized to note the date, principal amount and interest rate applicable thereto and any payments made thereon on Bank's books and records (either manually or by electronic entry) and/or on any schedule attached to this Note, which notations shall be prima facie evidence of the accuracy of the information noted.

(b) Selection of Interest Rate Options. At any time any portion of this Note bears interest determined in relation to LIBOR for a Fixed Rate Term, it may be continued by Borrower at the end of the Fixed Rate Term applicable thereto so that all or a portion thereof bears interest determined in relation to the Daily One Month LIBOR Rate or to LIBOR for a new Fixed Rate Term designated by Borrower. At any time any portion of this Note bears interest determined in relation to the Daily One Month LIBOR Rate, Borrower may at any time convert all or a portion thereof so that it bears interest determined in relation to LIBOR for a Fixed Rate Term designated by Borrower. At such time as Borrower requests an advance hereunder or wishes to select an interest rate determined in relation to the Daily One Month LIBOR Rate or a Fixed Rate Term for all or a portion of the outstanding principal balance hereof, and at the end of each Fixed Rate Term, Borrower shall give Bank notice specifying: (i) the interest rate option selected by Borrower; (ii) the principal amount subject thereto; and (iii) for each LIBOR selection for a Fixed Rate Term, the length of the applicable Fixed Rate Term. Any such notice may be given by telephone (or such other electronic method as Bank may permit) so long as, with respect to each LIBOR selection for a Fixed Rate Term, (A) if requested by Bank, Borrower provides to Bank written confirmation thereof not later than three (3) Business Days after such notice is given, and (B) such notice is given to Bank prior to 10:00 a.m. on the first day of the Fixed Rate Term, or at a later time during any Business Day if Bank, at its sole option but without obligation to do so, accepts Borrower's notice and quotes a fixed rate to Borrower. If Borrower does not immediately accept a fixed rate when quoted by Bank, the quoted rate shall expire and any subsequent LIBOR request from Borrower shall be subject to a redetermination by Bank of the applicable fixed rate. If no specific designation of interest is made at the time

any advance is requested hereunder or at the end of any Fixed Rate Term, Borrower shall be deemed to have made a Daily One Month LIBOR Rate interest selection for such advance or the principal amount to which such Fixed Rate Term applied.

(c) Taxes and Regulatory Costs. Borrower shall pay to Bank immediately upon demand, in addition to any other amounts due or to become due hereunder, any and all (i) withholdings, interest equalization taxes, stamp taxes or other taxes (except income and franchise taxes) imposed by any domestic or foreign governmental authority and related in any manner to LIBOR, and (ii) future, supplemental, emergency or other changes in the LIBOR Reserve Percentage, assessment rates imposed by the Federal Deposit Insurance Corporation, or similar requirements or costs imposed by any domestic or foreign governmental authority or resulting from compliance by Bank with any request or directive (whether or not having the force of law) from any central bank or other governmental authority and related in any manner to LIBOR to the extent they are not included in the calculation of LIBOR. In determining which of the foregoing are attributable to any LIBOR option available to Borrower hereunder, any reasonable allocation made by Bank among its operations shall be conclusive and binding upon Borrower.

(d) Payment of Interest. Interest accrued on this Note shall be payable on the 1st day of each month, commencing December 1, 2008.

(e) Default Interest. From and after the maturity date of this Note, or such earlier date as all principal owing hereunder becomes due and payable by acceleration or otherwise, the outstanding principal balance of this Note shall bear interest until paid in full at an increased rate per annum (computed on the basis of a 360-day year, actual days elapsed) equal to four percent (4%) above the rate of interest from time to time applicable to this Note.

BORROWING AND REPAYMENT:

(a) Borrowing and Repayment. Borrower may from time to time during the term of this Note borrow, partially or wholly repay its outstanding borrowings, and reborrow, subject to all of the limitations, terms and conditions of this Note and of any document executed in connection with or governing this Note; provided however, that the total outstanding borrowings under this Note shall not at any time exceed the principal amount stated above. The unpaid principal balance of this obligation at any time shall be the total amounts advanced hereunder by the holder hereof less the amount of principal payments made hereon by or for Borrower, which balance may be endorsed hereon from time to time by the holder. The outstanding principal balance of this Note shall be due and payable in full on November 1, 2010.

(b) Advances. Advances hereunder, to the total amount of the principal sum stated above, may be made by the holder at the oral or written request of (i) Randell Weaver or Kenneth E. Wolf, any one acting alone, who are authorized to request advances and direct the disposition of any advances until written notice of the revocation of such authority is received by the holder at the office designated above, or (ii) any person, with respect to advances deposited to the credit of any deposit account of Borrower, which advances, when so deposited, shall be conclusively presumed to have been made to or for the benefit of Borrower regardless of the fact that persons other than those authorized to request advances may have authority to draw against such account. The holder shall have no obligation to determine whether any person requesting an advance is or has been authorized by Borrower.

(c) Application of Payments. Each payment made on this Note shall be credited first, to any interest then due and second, to the outstanding principal balance hereof. All payments credited to principal shall be applied first, to the outstanding principal balance of this Note which bears interest determined in relation to the Daily One Month LIBOR Rate, if any, and second, to the outstanding principal balance of this Note which bears interest determined in relation to LIBOR, with such payments applied to the oldest Fixed Rate Term first.

PREPAYMENT:

(a) Daily One Month LIBOR Rate. Borrower may prepay principal on any portion of this Note which bears interest determined in relation to the Daily One Month LIBOR Rate at any time, in any amount and without penalty.

(b) LIBOR. Borrower may prepay principal on any portion of this Note which bears interest determined in relation to LIBOR at any time and in the minimum amount of One Hundred Thousand Dollars (\$100,000.00); provided however, that if the outstanding principal balance of such portion of this Note is less than said amount, the minimum prepayment amount shall be the entire outstanding principal balance thereof. In consideration of Bank providing this prepayment option to Borrower, or if any such portion of this Note shall become due and payable at any time prior to the last day of the Fixed Rate Term applicable thereto by acceleration or otherwise, Borrower shall pay to Bank immediately upon demand a fee which is the sum of the discounted monthly differences for each month from the month of prepayment through the month in which such Fixed Rate Term matures, calculated as follows for each such month:

- (i) Determine the amount of interest which would have accrued each month on the amount prepaid at the interest rate applicable to such amount had it remained outstanding until the last day of the Fixed Rate Term applicable thereto.
- (ii) Subtract from the amount determined in (i) above the amount of interest which would have accrued for the same month on the amount prepaid for the remaining term of such Fixed Rate Term at LIBOR in effect on the date of prepayment for new loans made for such term and in a principal amount equal to the amount prepaid.
- (iii) If the result obtained in (ii) for any month is greater than zero, discount that difference by LIBOR used in (ii) above.

Borrower acknowledges that prepayment of such amount may result in Bank incurring additional costs, expenses and/or liabilities, and that it is difficult to ascertain the full extent of such costs, expenses and/or liabilities. Borrower, therefore, agrees to pay the above-described prepayment fee and agrees that said amount represents a reasonable estimate of the prepayment costs, expenses and/or liabilities of Bank. If Borrower fails to pay any prepayment fee when due, the amount of such prepayment fee shall thereafter bear interest until paid at a rate per annum two percent (2.0%) above the Daily One Month LIBOR Rate in effect from time to time (computed on the basis of a 360-day year, actual days elapsed).

EVENTS OF DEFAULT:

This Note is made pursuant to and is subject to the terms and conditions of that certain Credit Agreement between Borrower and Bank dated as of May 1, 2004, as amended from time to time (the "Credit Agreement"). Any default in the payment or performance of any obligation under this Note, or any defined event of default under the Credit Agreement, shall constitute an "Event of Default" under this Note.

MISCELLANEOUS:

(a) Remedies. Upon the occurrence of any Event of Default, the holder of this Note, at the holder's option, may declare all sums of principal and interest outstanding hereunder to be immediately due and payable without presentment, demand, notice of nonperformance, notice of protest, protest or notice of dishonor, all of which are expressly waived by Borrower, and the obligation, if any, of the holder to extend any further credit hereunder shall immediately cease and terminate. Borrower shall pay to the holder immediately upon demand the full amount of all payments, advances, charges, costs and expenses, including reasonable attorneys' fees (to include outside counsel fees and all allocated costs of the holder's in-house counsel), expended or incurred by the holder in connection with the enforcement of the holder's rights and/or the collection of any amounts which become due to the holder under this Note, and the prosecution or defense of any action in any way related to this Note, including without limitation, any action for declaratory relief, whether incurred at the trial or appellate level, in an arbitration proceeding or otherwise, and including any of the foregoing incurred in connection with any bankruptcy proceeding (including without limitation, any adversary proceeding, contested matter or motion brought by Bank or any other person) relating to Borrower or any other person or entity.

(b) Obligations Joint and Several. Should more than one person or entity sign this Note as a Borrower, the obligations of each such Borrower shall be joint and several.

(c) Governing Law. This Note shall be governed by and construed in accordance with the laws of the State of California.

IN WITNESS WHEREOF, the undersigned has executed this Note as of the date first written above.

NATURAL ALTERNATIVES INTERNATIONAL, INC.

By: /s/ Mark A. LeDoux
Mark A. LeDoux
Chairman

By: /s/ Randell Weaver
Randell Weaver
President

ADDENDUM TO PROMISSORY NOTE
(LIBOR PRICING ADJUSTMENTS)

THIS ADDENDUM is attached to and made a part of that certain promissory note executed by NATURAL ALTERNATIVES INTERNATIONAL, INC. (“Borrower”) and payable to WELLS FARGO BANK, NATIONAL ASSOCIATION (“Bank”), or order, dated as of November 1, 2008, in the principal amount of Seven Million Five Hundred Thousand Dollars (\$7,500,000.00) (the “Note”).

The following provisions are hereby incorporated into the Note to reflect the interest rate adjustments agreed to by Bank and Borrower:

INTEREST RATE ADJUSTMENTS:

(a) Initial LIBOR Margin. The initial LIBOR margin applicable to this Note shall be as set forth in the “Interest” paragraph herein.

(b) LIBOR Rate Adjustments. Bank shall adjust the LIBOR margin used to determine the rate of interest applicable to LIBOR options selected by Borrower under this Note on a quarterly basis, commencing with Borrower’s fiscal quarter ending December 31, 2008, if required to reflect a change in Borrower’s ratio of Fixed Charge Coverage Ratio (as defined in the Credit Agreement referenced herein), in accordance with the following grid:

| <u>Fixed Charge Coverage Ratio</u> | <u>Applicable LIBOR Margin</u> | <u>Applicable Daily one month LIBOR Margin</u> | <u>Annual Fee Margin</u> |
|--|--------------------------------|--|--------------------------|
| 2.5 to 1.0 or greater | 2.50% | 2.75% | 0.25% |
| at least 1.75 to 1.00 but less than 2.5 to 1.0 | 3.00% | 3.25% | 0.50% |
| less 1.75 to 1.00 | 3.50% | 3.75% | 1.00% |

Each such adjustment shall be effective on the first Business Day of Borrower’s fiscal quarter following the quarter during which Bank receives and reviews Borrower’s most current fiscal quarter-end financial statements in accordance with any requirements established by Bank for the preparation and delivery thereof.

IN WITNESS WHEREOF, this Addendum has been executed as of the same date as the Note.

NATURAL ALTERNATIVES INTERNATIONAL, INC.

By: /s/ Mark A. LeDoux
Mark A. LeDoux
Chairman

By: /s/ Randell Weaver
Randell Weaver
President

SIXTH AMENDMENT TO CREDIT AGREEMENT

THIS AMENDMENT TO CREDIT AGREEMENT (this "Amendment") is entered into as of November 1, 2008, by and between NATURAL ALTERNATIVES INTERNATIONAL, INC., a Delaware corporation ("Borrower"), and WELLS FARGO BANK, NATIONAL ASSOCIATION ("Bank").

RECITALS

WHEREAS, Borrower is currently indebted to Bank pursuant to the terms and conditions of that certain Credit Agreement between Borrower and Bank dated as of May 1, 2004, as amended from time to time ("Credit Agreement").

WHEREAS, Bank and Borrower have agreed to certain changes in the terms and conditions set forth in the Credit Agreement and have agreed to amend the Credit Agreement to reflect said changes.

NOW, THEREFORE, for valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto agree that the Credit Agreement shall be amended as follows:

1. Section 1.1. is hereby amended by deleting "November 1, 2009" as the last day on which Bank will make advances under the Line of Credit, and by substituting for said date "November 1, 2010," with such change to be effective upon the execution and delivery to Bank of a promissory note dated as of November 1, 2008 (which promissory note shall replace and be deemed the Line of Credit Note defined in and made pursuant to the Credit Agreement) and all other contracts, instruments and documents required by Bank to evidence such change.

2. Section 4.3.(d) is hereby deleted in its entirety, and the following substituted therefor:

"(d) not later than 15 days after and as of the end of each month, an inventory collateral report, Borrowing Base Certificate, an aged listing of accounts receivable and accounts payable, and a reconciliation of accounts; semi-monthly collateral report if Borrower elects to use 35% concentration allowance for Mannatech, Inc. and a new account debtor acceptable to Bank, and not later than 30 days after and as of the end of each May and November, a list of the names, addresses and contact phone numbers of all Borrower's account debtors;"

3. Sections 4.9.(c) and 4.9.(d) are hereby deleted in their entirety, and the following substituted therefor:

"(c) Net income after taxes not less than \$1.00 as of each fiscal quarter, commencing March 31, 2009 and quarterly thereafter; net loss at fiscal year end June 30, 2009 not to exceed \$2,500,000.00; Net Income after taxes not less than \$750,000.00 on an annual basis, commencing June 30, 2010, determined as of each fiscal year end.

(d) Fixed Charge Coverage Ratio not less than 0.50 to 1.0 as of each fiscal quarter end, commencing March 31, 2009, and not less than 1.25 to 1.0 thereafter, determined on a rolling 4-quarter basis, with "Fixed Charge Coverage Ratio" defined as the aggregate of net profit after taxes plus depreciation expense, amortization expense and net contributions, divided by the aggregate of the current maturity of long-term debt and capitalized lease payments."

4. In consideration of the changes set forth herein and as a condition to the effectiveness hereof, immediately upon signing this Amendment Borrower shall pay to Bank a non-refundable fee of \$25,000.00 for the Line of Credit.

5. Except as specifically provided herein, all terms and conditions of the Credit Agreement remain in full force and effect, without waiver or modification. All terms defined in the Credit Agreement shall have the same meaning when used in this Amendment. This Amendment and the Credit Agreement shall be read together, as one document.

6. Borrower hereby remakes all representations and warranties contained in the Credit Agreement and reaffirms all covenants set forth therein. Borrower further certifies that as of the date of this Amendment there exists no Event of Default as defined in the Credit Agreement, nor any condition, act or event which with the giving of notice or the passage of time or both would constitute any such Event of Default.

IN WITNESS WHEREOF, the parties hereto have caused this Amendment to be executed as of the day and year first written above.

NATURAL ALTERNATIVES INTERNATIONAL, INC.

WELLS FARGO BANK, NATIONAL ASSOCIATION

By: /s/ Mark A. LeDoux
Title: Chairman & C.E.O.

By: /s/ Michael F. Sullivan
Michael F. Sullivan
SVP/Loan Team Manager

By: /s/ Kenneth E. Wolf
Title: CFO

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 September 30, 2008 ("Date of Termination").

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 all claims relating to Former Employee's employment and its termination. In particular, and without limiting the generality of the foregoing, Former Employee, Company and NAI are all parties to an Employment Agreement dated December 5, 2005 (the "Employment Agreement"), and desire to settle and compromise claims made by Former Employee pursuant to the Employment Agreement.

NOW, THEREFORE, incorporating the above recitals, and for good and valuable consideration, the receipt and sufficiency of which are 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:

(a) The Company agrees to pay Former Employee the gross sum of Four Hundred Eighty One Thousand Two Hundred Fifty and 00/100 dollars (\$481,250.00), less all applicable withholdings and deductions, which amount represents a severance benefit in the amount of twenty one (21) months' base salary. Former Employee acknowledges and agrees he has received payment for all unused, accrued vacation pay, as well as all salary to which he was entitled through the Date of Termination, less all applicable withholdings and deductions.

(b) Former Employee shall be entitled to receive the amount of Twelve Thousand and 00/100 dollars (\$12,000.00), payable directly to Former Employee, for executive outplacement services.

(c) Former Employee shall be entitled to receive continuing group health insurance coverage pursuant to COBRA and, should Former Employee elect to continue group health insurance coverage pursuant to COBRA, the Company will, following the Effective Date, commencing January 1, 2009, pay the premiums for such continuation coverage for a period of fifteen (15) months.

(d) In addition to the Company's payment of premiums for group health insurance coverage pursuant to COBRA, if elected by Former Employee, described in Section 1(c) above, the Company shall pay to Former Employee the amount of \$4,865.40, as reimbursement or payment of an additional six (6) months of medical benefits.

(e) Former Employee acknowledges and agrees that (i) the amounts set forth above represent additional payments to Former Employee, over and above all compensation (including salary, wages, bonuses, or benefits) to which Former Employee would otherwise be entitled due to Former Employee's employment with the Company and but for Former Employee's execution of this Agreement, Former Employee would not otherwise be entitled to such payments; and (ii) the payments set forth in Sections 1(a), 1(b), 1(c) and 1(d) represent the total consideration due to Former Employee from the Company under this Agreement.

(f) The Company will, within three (3) business days after the Effective Date (as hereinafter defined), pay to Former Employee the aggregate amount of the payments set forth in Sections 1(a), 1(b) and 1(d), by delivering a check to Former Employee or his representative at the offices of Bell, Boyd & Lloyd LLP, 3580 Carmel Mountain Road, Suite 200, San Diego, California 92130.

(g) In the event that the Company does not make the payment required under Section 1(f) herein, Former Employee may (but is not required to), within ten (10) business days after the Effective Date, declare this Agreement (including but not limited to the release set forth in Section 2) void by giving notice of such election to counsel for the Company. If the Company tenders payment pursuant to Section 1(f) but there is a good-faith disagreement between the Parties regarding the calculation of applicable withholdings and deductions, Former Employee shall not have the right or ability under this Section 1(g) to declare this Agreement void.

2. Release.

(a) Former Employee does hereby unconditionally, irrevocably and absolutely release and forever discharge the Company, and its parent, subsidiaries and affiliates, and its and their respective past and present directors, officers, employees, representatives, agents, attorneys, stockholders, insurers, successors and/or assigns (hereinafter individually a "Released Party" and collectively, the "Released Parties"), 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 the release given by Former Employee to the Released Parties in this Agreement applies, without limitation, to all wage claims, tort and/or contract claims, common law claims, claims for wrongful termination and/or retaliatory discharge, and claims arising under the Age Discrimination in Employment Act, the Older Workers' Benefit Protection Act, the Civil Rights Act of 1964 (Title VII), the Civil Rights Act of 1991, Section 1981, the Americans with Disabilities Act, the Rehabilitation Act of 1973, the Equal Pay Act, the California Fair

Employment and Housing Act, the Unruh and Ralph Civil Rights Act, the Fair Labor Standards Act, the Worker Adjustment and Retraining Notification Act, the Family and Medical Leave Act, the Employee Retirement and Income Security Act, the California Labor Code, the California Worker Adjustment and Retraining Notification Act, all as amended, any and all federal, state or local laws, regulations, statutes or ordinances governing discrimination and/or harassment in employment, and the California Business and Professions Code. This release does not extend to any matters that may not be released in this manner as a matter of law.

(b) Former Employee warrants, represents, acknowledges and agrees that Former Employee has not filed or otherwise cooperated in the authorization of the filing of any complaints, charges, or lawsuits against any Released Party with any governmental agency or court. If such a complaint, charge or lawsuit has been filed on Former Employee's behalf or is filed in the future, Former Employee hereby waives, releases and discharges any right to recover thereunder from any Released Party.

(c) The Company warrants and represents that as of the date of execution of this Agreement Randell Weaver, Chief Executive Officer of the Company and President of NAI, is not aware of any 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 the Company and NAI, on the one hand, and Former Employee, on the other, to date, including, but not limited to, Former Employee's employment with the Company and the termination of said employment.

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. Right to Consult Legal Counsel; Review Period.

(a) Former Employee is aware of and acknowledges the following: (i) Former Employee has the right, at Former Employee's expense, to consult with an attorney before signing this Agreement, has been advised in writing to do so, and has done so to the extent desired; (ii) Former Employee has twenty-one (21) days from the date of Former Employee's receipt of this Agreement 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 by delivering a written notice specifically stating Former Employee's desire to revoke this Agreement to the Company c/o Jo Phillippe, Natural Alternatives International, Inc., 1185 Linda Vista Drive, San Marcos, California 92078, which notice must be received by the Company not later than midnight on the seventh day following execution of this Agreement by Former Employee, and this Agreement shall not become effective or enforceable until the revocation period has expired; and (iv) this Agreement shall become effective eight (8) days after it is signed by Former Employee and the Company (provided it is not revoked), and in the event the parties do not sign on the same date, this Agreement shall become effective at 12:01 a.m. on the eighth day after the date it is signed by Former Employee ("Effective Date"). Former Employee shall, promptly upon signing this Agreement, deliver the executed original of the Agreement to the Company to the attention of Jo Phillippe.

(b) In the event Former Employee elects to execute this Agreement before the end of the twenty-one (21) day review period provided to Former Employee and thereby waive the remainder of the twenty-one (21) day review period, Former Employee does so knowingly and voluntarily, and Former Employee acknowledges and represents that the Company has not in any way coerced Former Employee to do so or otherwise threatened to withdraw or alter the Company's offer of severance pay set forth in this Agreement before the expiration of such twenty-one (21) day period.

7. Entire Agreement. The parties declare and represent that, with the exception of the Mutual Agreement to Mediate and Arbitrate Claims and the Confidential Information and Invention Assignment Agreement, Covenant of Exclusivity and Covenant Not to Compete each entered into by and between the Company and Former Employee effective as of December 5, 2005 (collectively, the "Prior Agreements"), no promise, inducement or agreement not herein expressed has been made to them and that this Agreement, together with the Prior Agreements, contain 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 with the exception of the Prior Agreements.

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.

17. Legal Representation; Independent Counsel. The law firm of Bell, Boyd & Lloyd LLP has prepared this Agreement on behalf of the Company based on the Company's instructions. Bell, Boyd & Lloyd 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 Bell, Boyd & Lloyd 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 Bell, Boyd & Lloyd LLP has recommended that Former Employee retain Former Employee's own counsel for such purpose. Former Employee further acknowledges that Former Employee (i) has read and understands this Agreement; (ii) has had the opportunity to retain separate counsel in connection with the negotiation and execution of this Agreement; and (iii) has relied on the advice of separate counsel with respect to this Agreement or made the conscious decision not to retain counsel in connection with the negotiation and execution of this Agreement.

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

[Signatures on following page.]

THIS AGREEMENT AFFECTS YOUR RIGHTS. BEFORE SIGNING THIS AGREEMENT, PLEASE MAKE SURE THAT YOU HAVE READ IT CAREFULLY. YOU ARE INVITED AND ADVISED TO CONSULT WITH AN ATTORNEY BEFORE YOU SIGN IT. IN EXCHANGE FOR THE SEVERANCE PAY OFFERED BY THE COMPANY, YOU ARE AGREEING TO WAIVE CERTAIN IMPORTANT RIGHTS.

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

FORMER EMPLOYEE

/s/ John F. Dullea

John F. Dullea

Dated: December 18, 2008

Executed in : San Diego, California
(City)

COMPANY

Real Health Laboratories, Inc.,
a California corporation

By: /s/ Randell Weaver

Randell Weaver, Chief Executive Officer

Dated: December 19, 2008

Executed in : San Marcos, California
(City)

SEPARATION AGREEMENT AND GENERAL RELEASE OF CLAIMS

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

RECITALS

A. Former Employee's employment with the Company terminated effective on December 31, 2008 ("Date of Termination").

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 all claims relating to Former Employee's employment and its termination. In particular, and without limiting the generality of the foregoing, Former Employee and Company are each parties to an Employment Agreement dated January 30, 2004, as amended June 28, 2008 (the "Employment Agreement"), and desire to settle and compromise claims made by Former Employee pursuant to the Employment Agreement.

NOW, THEREFORE, incorporating the above recitals, and for good and valuable consideration, the receipt and sufficiency of which are 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:

(a) The Company agrees to pay Former Employee the gross sum of Three Hundred Twenty Five Thousand and 00/100 dollars (\$325,000.00), less all applicable withholdings and deductions, which amount represents a severance benefit in the amount of one (1) year's base salary. Except as set forth below, Two Hundred Sixteen Thousand Six Hundred Sixty Six and 67/100 dollars (\$216,666.67) of such severance benefit will be paid by the Company to Former Employee within ten (10) business days after the Effective Date (as hereinafter defined) and the balance of the severance benefit will be paid by the Company to Former Employee on a bi-weekly basis over the period from the Effective Date until December 31, 2009 with the first such payment to be processed with the next regularly scheduled Company payroll after the Effective Date. Notwithstanding the foregoing, no amount of the severance benefit shall be due to Former Employee unless and until Former Employee has complied with Section 4(b) hereof. Former Employee acknowledges and agrees he has received payment for all unused, accrued vacation pay, as well as all salary to which he was entitled through the Date of Termination, less all applicable withholdings and deductions.

(b) Former Employee acknowledges and agrees that (i) the amounts set forth above represent additional payments to Former Employee, over and above all compensation (including salary, wages, bonuses, or benefits) to which Former Employee would otherwise be entitled due to Former Employee's employment with the Company and but for Former Employee's execution of this Agreement, Former Employee would not otherwise be entitled to such payments; and (ii) the payments set forth in Section 1(a) represent the total consideration due to Former Employee from the Company under this Agreement.

2. Release.

(a) Former Employee does hereby unconditionally, irrevocably and absolutely release and forever discharge the Company, and its subsidiaries and affiliates, and its and their respective past and present directors, officers, employees, representatives, agents, attorneys, stockholders, insurers, successors and/or assigns (hereinafter individually a "Released Party" and collectively, the "Released Parties"), 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 the release given by Former Employee to the Released Parties in this Agreement applies, without limitation, to all wage claims, tort and/or contract claims, common law claims, claims for wrongful termination and/or retaliatory discharge, and claims arising under the Age Discrimination in Employment Act, the Older Workers' Benefit Protection Act, the Civil Rights Act of 1964 (Title VII), the Civil Rights Act of 1991, Section 1981, the Americans with Disabilities Act, the Rehabilitation Act of 1973, the Equal Pay Act, the California Fair Employment and Housing Act, the Unruh and Ralph Civil Rights Act, the Fair Labor Standards Act, the Worker Adjustment and Retraining Notification Act, the Family and Medical Leave Act, the Employee Retirement and Income Security Act, the California Labor Code, the California Worker Adjustment and Retraining Notification Act, all as amended, any and all federal, state or local laws, regulations, statutes or ordinances governing discrimination and/or harassment in employment, and the California Business and Professions Code. This release does not extend to any matters that may not be released in this manner as a matter of law.

(b) Former Employee warrants, represents, acknowledges and agrees that Former Employee has not filed or otherwise cooperated in the authorization of the filing of any complaints, charges, or lawsuits against any Released Party with any governmental agency or court. If such a complaint, charge or lawsuit has been filed on Former Employee's behalf or is filed in the future, Former Employee hereby waives, releases and discharges any right to recover thereunder from any Released Party.

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.

(a) Subject to Section 4(b) below, 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.

(b) Notwithstanding Section 4(a) above, Former Employee shall be entitled to keep and retain his Company issued laptop, cell phone and cell phone number provided Former Employee first delivers his laptop to the Company for the removal of all Company data, which as of the date hereof the Company acknowledges and agrees Former Employee has done, and transfers the cell phone service contract for such cell phone and cell phone number from the Company to Former Employee such that Former Employee shall be solely responsible for the payment of all cell phone charges under such service contract. No later than five (5) business days after the Effective Date, the Company agrees to complete, execute and deliver to the cell phone service provider such documents as may be reasonably necessary or required by the cell phone service provider to effect the transfer of the cell phone service contract, the cell phone and cell phone number in accordance with the foregoing. Former Employee shall otherwise provide to the Company such documentation as the Company may reasonably request to confirm the transfer of the cell phone service contract.

5. Consulting Agreement. On the Effective Date, the Company agrees to enter into, execute and deliver the Consulting Agreement in the form attached hereto as Exhibit A.

6. 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.

7. Right to Consult Legal Counsel; Review Period.

(a) Former Employee is aware of and acknowledges the following: (i) Former Employee has the right, at Former Employee’s expense, to consult with an attorney before signing this Agreement, has been advised in writing to do so, and has done so to the extent desired; (ii) Former Employee has twenty-one (21) days from the date of Former Employee’s receipt of this Agreement 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 by delivering a written notice specifically stating Former Employee’s desire to revoke this Agreement to the Company c/o Ken Wolf, Natural Alternatives International, Inc., 1185 Linda Vista Drive, San Marcos, California 92078, which notice must be received by the Company not later than midnight on the seventh day following execution of this Agreement by Former Employee, and this Agreement shall not become effective or enforceable until the revocation period has expired; and (iv) this Agreement shall become effective eight (8) days after it is signed by Former Employee and the Company (provided it is not revoked), and in the event the parties do not sign on the same date, this Agreement shall become effective at 12:01 a.m. on the eighth day after the date it is signed by Former Employee (“Effective Date”). Former Employee shall, promptly upon signing this Agreement, deliver the executed original of the Agreement to the Company to the attention of Ken Wolf.

(b) In the event Former Employee elects to execute this Agreement before the end of the twenty-one (21) day review period provided to Former Employee and thereby waive the remainder of the twenty-one (21) day review period, Former Employee does so knowingly and voluntarily, and Former Employee acknowledges and represents that the Company has not in any way coerced Former Employee to do so or otherwise threatened to withdraw or alter the Company’s offer of severance pay set forth in this Agreement before the expiration of such twenty-one (21) day period.

8. Entire Agreement. The parties declare and represent that, with the exception of the Mutual Agreement to Mediate and Arbitrate Claims and the Confidential Information and Invention Assignment Agreement, Covenant of Exclusivity and Covenant Not to Compete each entered into by and between the Company and Former Employee effective as of January 30, 2004 (collectively, the "Prior Agreements"), no promise, inducement or agreement not herein expressed has been made to them and that this Agreement, together with the Prior Agreements, contain 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 with the exception of the Prior Agreements.

9. 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.

10. 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.

11. 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.

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

13. 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.

14. 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.

15. 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.

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

18. Legal Representation; Independent Counsel. The law firm of K&L Gates LLP has prepared this Agreement on behalf of the Company based on the Company's instructions. K&L Gates 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 K&L Gates 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 K&L Gates 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.

19. 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.

[Signatures on following page.]

THIS AGREEMENT AFFECTS YOUR RIGHTS. BEFORE SIGNING THIS AGREEMENT, PLEASE MAKE SURE THAT YOU HAVE READ IT CAREFULLY. YOU ARE INVITED AND ADVISED TO CONSULT WITH AN ATTORNEY BEFORE YOU SIGN IT. IN EXCHANGE FOR THE SEVERANCE PAY OFFERED BY THE COMPANY, YOU ARE AGREEING TO WAIVE CERTAIN IMPORTANT RIGHTS.

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

FORMER EMPLOYEE

/s/ Randell Weaver

Randell Weaver

Dated: March 5, 2009

Executed in: Encinitas, California
(City)

COMPANY

Natural Alternatives International, Inc.,
a Delaware corporation

By: /s/ Mark LeDoux

Mark LeDoux, Chief Executive Officer

Dated: March 4, 2009

Executed in: San Marcos, California
(City)

EXHIBIT A

FORM OF CONSULTING AGREEMENT

Exhibit-A

AGREEMENT TO SUBLICENSE

This Agreement to Sublicense ("Agreement") is made and entered into effective as of March 3, 2009 ("Effective Date"), by and between Natural Alternatives International, Inc., a Delaware corporation ("NAI"), and Compound Solutions, Inc., a California corporation ("CSI").

RECITALS

A. NAI is a party to that certain License Agreement effective as of April 28, 1997, by and among Roger Harris and Mark Dunnett (collectively, the "Licensors") and NAI, as amended by that certain Amendment to License Agreement dated March 17, 2001, as further amended by that certain Second Amendment to License Agreement dated March 26, 2007, and as may be further amended from time to time (the "License Agreement").

B. The License Agreement grants NAI a sublicenseable, exclusive, worldwide license to manufacture, use, sell, offer for sale and otherwise commercially dispose of certain Licensed Products (as hereinafter defined) made in accordance with or incorporating the Licensed Rights (as hereinafter defined).

C. NAI is also the owner of certain registered trademarks related to the mark "Camosyn" (as further described herein below and collectively, the "Trademark Rights").

D. CSI is in the business of raw material sourcing and sales, including the sourcing and sale to third parties of certain raw materials set forth on Exhibit A attached hereto that are necessary for the design, research, development and formulation of Licensed Products (the "Raw Materials").

E. CSI desires NAI grant to third parties who purchase the Raw Materials from CSI a sublicense of certain of its Licensed Rights under the License Agreement and a license to use its Trademark Rights, and NAI desires to grant such sublicenses and licenses in accordance with the terms and conditions of this Agreement.

Incorporating the foregoing recitals and in consideration of the mutual covenants and agreements contained herein and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto agree as follows:

AGREEMENT**1. DEFINITIONS.**

1.1 "Field of Use" means dietary supplements and other foods for human performance nutrition. For avoidance of doubt, the Field of Use does not include the use of the Raw Materials and/or Licensed Rights to treat dogs, horses and/or camels or for any human medical related use.

1.2 "Licensed Products" means those products made from or in accordance with, produced or manufactured using, or otherwise incorporating in whole or in part any of the Licensed Rights, including, without limitation, any products incorporating or made from the Raw Materials or any material, substance, organism, component or product derived or developed from or based upon the Raw Materials and covered in whole or in part by any of the claims of the Licensed Rights.

1.3 "Licensed Rights" means NAI's rights in information, discoveries, concepts, techniques, designs, processes and technology claimed in the following United States patents, and any reissues, reexaminations, or extensions, continuations, continuations-in-part, or divisionals of any of the following and any international counterparts, and in the inventions and discoveries described, covered and claimed therein:

- (a) US 5,965,596 filed August 12, 1997, entitled "Methods and Compositions for Increasing the Anaerobic Working Capacity in Tissues;"
- (b) US 6,172,098 filed May 25, 1999, entitled "Methods and Compositions for Increasing the Anaerobic Working Capacity in Tissues;"
- (c) US 6,426,361 filed January 9, 2001, entitled "Methods and Compositions for Increasing the Anaerobic Working Capacity in Tissues;"
- (d) US 6,680,294 filed July 30, 2002, entitled "Methods and Compositions for Increasing the Anaerobic Working Capacity in Tissues;" and
- (e) Allowed US application serial no. 10/717,217 filed November 18, 2003, entitled "Methods and Compositions for Increasing the Anaerobic Working Capacity in Tissues."

1.4 "Trademark Rights" means NAI's rights as the owner of the following registered trademarks:

- (a) CARNOSYN (standard character mark), Registration No. 3,146,289;
- (b) CARNOSYN CARNOSINE SYNTHESIZER (standard character mark), Registration No. 3,121,544; and
- (c) CARNOSYN CARNOSINE SYNTHESIZER & Design, Registration No. 3,091,092.

2. **SUBLICENSE.**

2.1 Subject to the terms and conditions of this Agreement, NAI hereby agrees to grant to the customers of CSI who purchase the Raw Materials from CSI a worldwide, non-exclusive, non-transferable, non-assignable, non-sublicenseable, royalty-free (i) sublicense of NAI's rights under the Licensed Rights to manufacture, offer for sale, and/or sell Licensed Products within the Field of Use (the "Sublicense"), and (ii) license to use and reproduce the trademarks comprising the Trademark Rights solely to advertise, market, and promote the Licensed Products within the Field of Use (the "Trademark License"). The term of such Sublicense and Trademark License shall automatically expire upon the expiration of NAI's Licensed Rights under the License Agreement and/or expiration of NAI's Trademark Rights.

2.2 CSI agrees to provide to each of its customers that purchases Raw Materials from CSI a copy of the Sublicense Agreement, in the form set forth in Exhibit B attached hereto (the "Sublicense Agreement"), which Sublicense Agreement may not be altered, amended, or modified except with the express written consent of an authorized officer of NAI. No Sublicense or Trademark License shall be granted or deemed to have been granted to any customer of CSI that does not receive and accept the Sublicense Agreement and, except as expressly provided in this Section 2, nothing contained in this Agreement is intended to confer by implication, estoppel, or otherwise, upon CSI or any customer of CSI a license or rights in any intellectual property or other rights of NAI.

3. **RESERVATION OF RIGHTS.**

3.1 CSI acknowledges and agrees that during the term of this Agreement, NAI and its affiliates will continue to design, develop, manufacture, sell, and distribute Licensed Products using the Licensed Rights and Trademark Rights and NAI may grant sublicenses and/or licenses of its rights under the Licensed Rights and Trademark Rights to manufacture, offer for sale and/or sell Licensed Products to third parties who are not customers of CSI and/or who did not purchase Raw Materials from CSI. Nothing in this Agreement shall be interpreted to limit in any manner or to any extent NAI's rights and ability to act in accordance with the foregoing and NAI hereby expressly reserves such rights.

3.2 CSI acknowledges and agrees the Licensed Rights and the Trademark Rights are and will remain the sole and exclusive property of NAI, subject to the rights of the Licensors, and that NAI is the owner of all proprietary rights and intellectual property rights associated therewith including without limitation all trademarks, trade dress, trade names, logos, domain names and service marks, together with all translations, adaptations, derivations and combinations, including all associated goodwill, and all applications, registrations, reservations and renewals in connection therewith, whether or not registered for the Licensed Rights or the Trademark Rights. Except as otherwise permitted herein, CSI will not take any action inconsistent with NAI's ownership of and rights under the Licensed Rights and Trademark Rights. CSI will not contest or aid others in contesting the validity, enforceability or NAI's ownership of and/or rights in the Licensed Rights and Trademark Rights.

4. **FEES.**

4.1 In consideration of NAI's agreement to grant Sublicenses and licenses to use the Trademark Rights pursuant to the terms of this Agreement, CSI agrees to pay to NAI, in United States dollars, the fees and amounts set forth on Schedule 1 attached hereto (the "Sublicense Fees").

4.2 The Sublicense Fees must be paid to NAI within thirty (30) days after the end of the calendar quarter in which such Sublicense Fees are earned. CSI shall submit to NAI with its payment of the Sublicense Fees a quarterly report summarizing total sales of Raw Materials to third parties during the immediately preceding calendar quarter. The report shall be in form and content as agreed to by the parties.

4.3 If any Sublicense Fees to be paid by CSI to NAI under this Agreement become delinquent, the delinquent amount shall bear interest until paid in full with such interest. The interest will be compounded annually and will accrue at the lesser of (i) the highest annual rate allowed under applicable law at the time the outstanding amount becomes delinquent, or (ii) 0.0005 multiplied by the outstanding amount per day of delinquency.

4.4 CSI agrees to keep and maintain accurate and adequately detailed accounting records, including copies of all purchase orders, for all sales of Raw Materials sold to third parties. Such accounting records shall be kept for a minimum of three (3) years following the end of the calendar quarter in which such sales were made. During the term of this Agreement and for one year thereafter, copies of all purchase orders for the sale of Raw Materials to third parties shall be made available to NAI upon request and NAI or its agents shall otherwise have the right, upon reasonable prior notice and during ordinary business hours, to inspect the relevant accounting records of CSI to verify the accuracy of the Sublicense Fees paid or payable to NAI. Any such inspection shall be conducted so as to not unreasonably interfere with CSI's normal business activities.

4.5 CSI agrees to take commercially reasonable actions to promote, market and sell the Raw Materials.

5. **PROSECUTION AND ENFORCEMENT OF LICENSED RIGHTS.**

5.1 NAI will have sole control over, but, subject to Section 5.2, no obligations to CSI with respect to, the filing, prosecution, and maintenance (collectively, the "Prosecution") of the Licensed Rights and the Trademark Rights. CSI will not have any right to participate in the Prosecution of any Licensed Rights and/or Trademark Rights.

5.2 During the term of this Agreement, NAI agrees to use commercially reasonable efforts to maintain and protect the Licensed Rights and Trademark Rights, to make any necessary filings, and to pay any necessary fees or other amounts due with respect thereto.

5.3 During the term of this Agreement, CSI agrees to promptly notify NAI in writing upon becoming aware of any known or suspected infringement or other improper use of any Licensed Rights or Trademark Rights. Such notice will include the identity of the third party or parties known or suspect to have infringed the Licensed Rights and/or Trademark Rights and any available information that is relevant to such infringement. NAI shall have sole control over enforcement and defense of all Licensed Rights and Trademark Rights. CSI shall not take any action to notify a known or suspected infringing party but shall use best efforts and cooperate with NAI, at NAI's request, in litigating, settling or otherwise terminating any such infringement of the Licensed Rights and/or Trademark Rights. NAI shall be entitled to any and all damages awarded as a result of or agreed to in a monetary settlement of any such claim of infringement.

6. **REPRESENTATIONS AND WARRANTIES OF CSI.**

6.1 CSI represents and warrants that all Raw Materials provided to customers of CSI that receive a Sublicense shall be of the best quality and pure and free from adulteration within the guidelines of the Food, Drug and Cosmetic Act of the United States as amended.

6.2 CSI further represents, warrants and guarantees that at the time of delivery of the Raw Materials to its customers the Raw Materials will, when delivered, conform to the description on the face of the purchase order relating to such Raw Materials, and be free of defects in materials and workmanship and further, that the Raw Materials and the import, sale, marketing and distribution of such Raw Materials by CSI will comply with all applicable international, federal and state laws governing and/or related thereto as in effect from time to time.

6.3 CSI represents and warrants that it has the full right, power and authority to enter into this Agreement, to perform its obligations and duties under this Agreement, and that the performance of such obligations and duties does not and will not conflict with or result in a breach of any other agreements of CSI or any judgment, order or decree by which CSI is bound.

7. **REPRESENTATIONS AND WARRANTIES OF NAI.**

7.1 NAI represents and warrants to CSI that it has full right, power and authority to sublicense the Licensed Rights and to license the Trademark Rights as provided in this Agreement. NAI further represents and warrants to CSI that it has the full right, power and authority to enter into this Agreement, to perform its obligations and duties under this Agreement, and that the performance of such obligations and duties does not and will not conflict with or result in a breach of any judgment, order or decree by which NAI is bound.

7.2 THE EXPRESS WARRANTIES SET FORTH IN SECTION 7.1 ARE THE ONLY WARRANTIES MADE BY NAI IN CONNECTION WITH THIS AGREEMENT AND ARE IN LIEU OF ALL OTHER WARRANTIES, EXPRESS, IMPLIED OR STATUTORY.

7.3 Without limiting the generality of Section 7.2, nothing in this Agreement shall be construed as giving rise to:

(a) a warranty or representation by NAI as to the validity, enforceability, or scope of any right included in the Licensed Rights or Trademark Rights;

(b) a warranty or representation by NAI that any Licensed Products made or sold under any license or sublicense granted in accordance with this Agreement will not infringe, directly or indirectly, any patent or other intellectual property rights of any third party under the laws of the United States or any other jurisdiction; or

(c) an obligation to furnish any know-how not provided in the Licensed Rights or Trademark Rights or any services other than those expressly specified in this Agreement.

8. **INDEMNITY; LIMITATION ON LIABILITY.**

8.1 CSI will defend, indemnify and hold NAI, its subsidiaries and affiliates and their respective officers, directors, agents and employees harmless from and against any and all claims, losses, liabilities, damages, costs and expenses (including reasonable attorneys' fees) directly or indirectly arising from or relating to (i) any breach of this Agreement by CSI, including any breach of the representations and warranties made by CSI, (ii) any intentional or negligent acts or omissions by CSI, its employees or agents,

(iii) any activities of CSI relating to, concerning, or based on the import, distribution, sale or marketing of the Raw Materials, or (iv) any claims or causes of action relating to product liability or for injury to property or person arising from any defects in the Raw Materials.

8.2 NAI will use reasonable efforts to notify CSI promptly of any claim for which NAI believes it is entitled to indemnification under this Section 8 and which NAI desires CSI to defend. However, NAI's failure to provide such notice or delay in providing such notice will relieve CSI of its obligations under this Section 8 only if and to the extent such delay or failure materially prejudices CSI's ability to defend such claim. NAI will have the right to participate in the defense of such claim with its own counsel. No settlement of a claim will be binding on NAI without NAI's prior written consent.

8.3 In no event shall NAI be liable for any indirect, special, incidental or consequential damages (including, without limitation, damages for loss of profits or expected savings or other economic losses, or for injury to persons or property) arising out of or in connection with this Agreement or its subject matter regardless of whether NAI knows or should know of the possibility of such damages. NAI's aggregate liability for all damages of any kind relating to this Agreement or its subject matter shall not exceed the amount of Sublicense Fees paid by CSI to NAI under this Agreement. The foregoing exclusions and limitations shall apply to all claims and actions of any kind, whether based on contract, tort (including but not limited to negligence), or any other grounds.

9. **INSURANCE.**

9.1 CSI shall, at its sole cost and expense, procure and maintain comprehensive or commercial general liability insurance in amounts not less than \$2,000,000 per incident and \$3,000,000 annual aggregate naming NAI as an additional insured. Such general liability insurance shall provide product liability coverage and broad form contractual liability coverage with a minimum of \$3,000,000 of product liability insurance. Copies of insurance certificates evidencing such insurance shall be provided to NAI upon request.

10. **TERM AND TERMINATION.**

10.1 The term of this Agreement shall begin on the Effective Date and, unless sooner terminated as provided herein, shall continue until March 2, 2011 unless ninety (90) days prior to such expiration the parties mutually agree to a written extension of this Agreement.

10.2 NAI and CSI acknowledge and agree that prior to the Effective Date and from on or about March 2007 they had an understanding covering the subject matter of this Agreement. NAI and CSI expressly agree that any sales by CSI of Raw Materials to third parties that were informed, directly or by implication, that they would have the right to use the Licensed Rights and/or the Trademark Rights or other rights similar thereto shall be considered to have been made under this Agreement and subject to the terms and conditions hereof. Without limiting the generality of the foregoing, within thirty (30) days after the Effective Date, CSI shall pay to NAI the Sublicense Fees on any such sales by CSI of Raw Materials from March 2007 until the Effective Date as if such sales had occurred during the term of this Agreement.

10.3 Either party may terminate this Agreement prior to the end of the term stated in Section 10.1 after notice to the other party but only if such other party materially fails to comply with any term or covenant in this Agreement and such failure continues for more than thirty (30) days after written notice of such breach from the non-breaching party; provided, however that if such failure cannot be reasonably cured within thirty (30) days the non-breaching party may terminate this Agreement if the breaching party fails to commence such cure within thirty (30) days and fails to thereafter diligently prosecute such cure to completion.

10.4 Upon termination of this Agreement, Sections 1, 3.2, 4.4, 6, 7, 8, 11 and 12 will survive.

11. **CONFIDENTIAL INFORMATION AND NON-DISCLOSURE.**

11.1 Each party shall be prohibited from disclosing or appropriating to its own use, or to the use of any third party, any proprietary, secret, or confidential information of the other party. Examples of confidential information that may be disclosed by one party to the other party include but are not limited to: information pertaining to products, product development, research, marketing information, promotional or advertising strategies, processes, future projects, intellectual property, and any information that is not in the public domain or is not readily available to the public. This confidentiality obligation shall not apply to: (i) information which at the time of the disclosure is in the public domain; (ii) information which, after disclosure, becomes part of the public knowledge by publication, or otherwise, except by breach of this Agreement; (iii) information that was in the possession of either party at the time of disclosure by the other party; (iv) information that was received by either party from third parties, provided such information was not obtained by said third parties, directly or indirectly, from either party on a confidential basis, or (v) information that is required to be disclosed by law, provided that the disclosing party promptly notifies the other party and cooperates reasonably with the other party's efforts to contest or limit the scope of such order. This confidentiality obligation shall exist at all times this Agreement is in force and for a period of three (3) years following termination or expiration of this Agreement.

11.2 CSI acknowledges that NAI may be required to disclose this Agreement in its filings made with the United States Securities and Exchange Commission and consents to such disclosure.

12. **GENERAL.**

12.1 Assignment. This Agreement may not be assigned by either party to any other entity or person without the prior written consent of the other party. Subject to the foregoing, this Agreement shall inure to the benefit of and be binding upon all of the parties to this Agreement and their respective successors and permitted assigns.

12.2 Entire Agreement. This Agreement and any attachments, schedules and/or exhibits hereto constitute the entire agreement between the parties hereto with respect to the subject matter hereof. This Agreement supersedes and replaces all prior or contemporaneous 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.

12.3 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.

12.4 No Implied Waivers: Amendment. No waiver of any term, provision or condition of this Agreement in any one or more instances, shall be deemed to be, or be construed as, a further or continuing waiver of any such term, provision or condition or as a waiver of any other term, provision or condition of this Agreement. No amendment or modification of the terms or conditions of this Agreement shall be valid unless in writing and signed by the both parties.

12.5 Attorneys' Fees. If any arbitration or legal proceeding is brought for the enforcement of this Agreement, or because of an alleged breach, default or misrepresentation in connection with any provision of this Agreement or other dispute concerning this Agreement, the successful or prevailing party shall be entitled to recover reasonable attorneys' fees incurred in connection with such arbitration or legal proceeding. The term "prevailing party" shall mean the party that is entitled to recover its costs in the proceeding under applicable law, or the party designated as such by the court or the arbitrators.

12.6 Arbitration. Any dispute, controversy or claim arising from, out of or in connection with or relating to this Agreement or any breach or alleged breach of this Agreement, will upon the request of any party involved be submitted to any private arbitration service utilizing former judges as mediators and approved by the parties. The dispute once submitted shall be settled by binding arbitration conducted in San Diego, California (or at any other place or under any other form of arbitration mutually acceptable to parties involved). The single arbitrator shall follow and apply the federal rules of evidence and the applicable local federal rules governing discovery in the arbitration. Any award rendered shall be final, binding and conclusive upon the parties and shall be non-appealable, and a judgment thereon may be entered in the highest state or federal court of the forum having jurisdiction. Subject to Section 12.5, the expenses of the arbitration shall be borne equally by the parties to the arbitration provided that each party shall pay for and bear the cost of its own experts, evidence and attorneys' fees, except that in the discretion of the arbitrator, any award may include the costs, fees and expenses of a party's attorney.

12.7 Governing Law. The laws of the state of California (without giving effect to its conflicts of laws principles) govern all 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. Any action or proceeding arising out of or relating to this Agreement or arising out of or in any manner relating to the relationship between the parties shall only be brought in the state or federal courts in the County of San Diego, California, and each of the parties hereto submits to the personal jurisdiction of such court (and of the appropriate appellate courts wherever located) in any such action or proceeding, and selects the courts in the County of San Diego, California for proper venue in any such action or proceeding.

12.8 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 or other electronic means 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 or other electronic means shall be deemed to be their original signatures for all purposes.

12.9 Construction. 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. Each party acknowledges that such party, after negotiation, has reviewed and revised this Agreement. 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 or thereto.

12.10 Relationship of the Parties. The terms and provisions of this Agreement shall not in any respect be construed to constitute NAI or CSI as the agent, employee, partner or joint venturer of the other. All persons employed by any party in connection with this Agreement shall be the employees or agents of that party and under no circumstances shall a party's employees or agents be deemed to be employees or agents of any other party. In the event any parties utilize common vendors or contractors, each party utilizing such common vendor or contractor will maintain such a relationship and any obligations, agreements and accounts with such common vendor or contractor separate and distinct from any other party's. Nothing contained in this Agreement shall be deemed to confer any right or benefit on any person who is not a party to this Agreement.

12.11 Further Assurances. The parties agree (i) to furnish upon request to each other such further information, (ii) to execute and deliver to each other such other documents, and (iii) to do such other acts and things, all as the other party may reasonably request for the purpose of carrying out the intent of this Agreement.

12.12 Publicity. Subject to Section 11.2, the parties agree that no press release, or public announcement of this Agreement or concerning the activities and transactions contemplated herein shall be issued without the prior written consent of both parties to the content of such release or public announcement, except as may be required by law.

12.13 Notice. 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; or (c) five days after deposit in the United States mail, if sent by certified mail, return receipt requested; in each case costs prepaid and to the following addresses and marked to the attention of the person (by name or title) designated below (or to such other address 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: Chief Executive Officer
Telephone: (760) 736-7742

If to CSI:

Compound Solutions, Inc.
2215 Auto Park Way
Escondido, CA 92029
Attn: Chief Executive Officer
Telephone: (760) 739-9881

[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/ Mark A. LeDoux

Mark A. LeDoux, Chief Executive Officer

CSI

Compound Solutions, Inc., a California corporation

/s/ Barry Titlow

Barry Titlow, Chief Executive Officer

EXHIBIT A

Raw Materials

1. Beta-alanine

EXHIBIT B

Form of Sublicense Agreement

(attached)

SCHEDULE 1

Sublicense Fees

(attached)

**Certification of Chief Executive Officer
Pursuant to
Rule 13a-14(a)/15d-14(a)**

I, Mark A. LeDoux, Chief Executive Officer of Natural Alternatives International, Inc., certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Natural Alternatives International, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 13, 2009

/s/ Mark A. LeDoux
Mark A. LeDoux, Chief Executive Officer

**Certification of Chief Financial Officer
Pursuant to
Rule 13a-14(a)/15d-14(a)**

I, Ken Wolf, Chief Financial Officer of Natural Alternatives International, Inc., certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Natural Alternatives International, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 13, 2009

/s/ Kenneth E. Wolf
Kenneth E. Wolf, Chief Financial Officer

Certification
Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
(Subsections (a) and (b) of Section 1350, Chapter 63 of Title 18, United States Code)

Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (Subsections (a) and (b) of Section 1350, Chapter 63 of Title 18, United States Code), each of the undersigned officers of Natural Alternatives International, Inc., a Delaware corporation, does hereby certify, to such officer's knowledge, that the Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2009 of Natural Alternatives International, Inc. fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 (15 U.S.C. 78m or 78o(d)) and that information contained in such report fairly presents, in all material respects, the financial condition and results of operations of Natural Alternatives International, Inc.

Date: May 13, 2009

/s/ Mark A. LeDoux
Mark A. LeDoux, Chief Executive Officer

Date: May 13, 2009

/s/ Kenneth E. Wolf
Kenneth E. Wolf, Chief Financial Officer

The foregoing certification is furnished solely pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (Subsections (a) and (b) of Section 1350, Chapter 63 of Title 18, United States Code) and is not being filed as part of the Form 10-Q or as a separate disclosure document.