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

FORM 10-Q

[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF
THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended March 31, 2001

OR

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

Commission file number 0-15701

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

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

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

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

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

Yes [X] No [ ]

5,777,289

(Number of shares of common stock of the registrant outstanding,
net of treasury shares held, as of May 14, 2001

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

ASSETS

(Amounts in thousands except share data)	March 31 2001 (unaudited)	June 30 2000 (audited)
Current Assets:		
Cash and cash equivalents	$ 485	$ 815
Accounts receivable - less allowance for doubtful accounts of $495 at March 31, 2000 and $330 at June 30, 2000	3,735	4,097

Inventories (Note 2)	6,643	7,627
Income tax refund receivable	--	1,500
Deferred income taxes	1,467	1,467
Related parties notes receivable - current portion (Note 7)	12	815
Prepaid expenses	767	635
Deposits	506	390
Other current assets	168	110
Total Current Assets	13,783	17,456
Property and equipment, net	14,100	15,037
Other Assets:		
Deferred income taxes	1,935	1,592
Investments	44	232
Related parties notes receivable, less current portion (Note 7)	530	444
Investment in intangible assets acquired (Notes 8 and 9)	1,217	--
Other noncurrent assets, net	114	114
Total Other Assets	3,840	2,382
TOTAL ASSETS	$31,723	$34,875

See accompanying notes to unaudited financial statements.

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

LIABILITIES AND STOCKHOLDERS' EQUITY

(Amounts in thousands except share data)	March 31 2001 (unaudited)	June 30 2000 (audited)
Current Liabilities:		
Accounts payable	$ 3,991	$ 4,422
Lines of credit and notes payable (Note 5)	771	4,544
Current installments of long-term debt (Note 5)	845	490
Income taxes payable	43	--
Accrual for loss on lease obligation	--	50
Accrued compensation and employee benefits	425	355
Total Current Liabilities	6,075	9,861
Deferred income taxes	766	766
Long-term debt, less current installments (Note 5)	3,739	3,345
Long-term pension liability	223	417
Total Liabilities	10,803	14,389
Stockholders' Equity (Note 6):		
Preferred stock; $.01 par value; 500,000 shares authorized; none issued or outstanding	--	--
Common stock; $.01 par value; 8,000,000 shares authorized, issued and outstanding 6,039,789 at March 31, 2001 and 6,024,380 at June 30, 2000	60	60

Additional paid-in capital	11,292	11,272
Retained earnings	10,912	10,498
Treasury stock, at cost, 262,500 shares	(1,283)	(1,283)
Accumulated other comprehensive loss	(61)	(61)
Total Stockholders' Equity	20,920	20,486
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 31,723	$ 34,875

See accompanying notes to unaudited financial statements.

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

(Dollars in thousands except share data)	Three months ended March 31		Nine months ended March 31	
	2001	2000	2001	2000
Net sales	$ 10,341	$ 9,538	$ 31,804	$ 36,866
Cost of goods sold	8,051	8,942	24,658	31,912
Inventory write-off	--	--	--	2,000
Total cost of goods sold	8,051	8,942	24,658	33,912
GROSS PROFIT	2,290	596	7,146	2,954
Selling, general & administrative expenses	2,864	2,102	6,771	7,224
Loss on abandonment of leased facility	--	1,039	--	1,662
INCOME (LOSS) FROM OPERATIONS	(574)	(2,545)	375	(5,932)
Other income (expense):				
Interest income	10	48	78	94
Interest expense	(192)	(113)	(575)	(218)
Equity in loss of unconsolidated joint venture	--	--	(38)	--
Foreign exchange gain (loss)	47	--	(18)	--
Other, net	188	(74)	292	(131)
	53	(139)	(261)	(255)
EARNINGS (LOSS) BEFORE INCOME TAXES	(521)	(2,684)	114	(6,187)
Income tax benefit	(287)	(921)	(300)	(2,100)
NET EARNINGS (LOSS) AND COMPREHENSIVE INCOME (LOSS)	($ 234)	($ 1,763)	$ 414	($ 4,087)
NET EARNINGS (LOSS) PER COMMON SHARE:				
Basic	$ (0.04)	$ (0.31)	$ 0.07	$ (0.71)
Diluted	$ (0.04)	$ (0.31)	$ 0.07	$ (0.71)
Weighted average common shares outstanding:				
Basic shares	5,777,289	5,739,875	5,767,016	5,758,061
Diluted shares	5,777,289	5,739,875	5,805,784	5,758,061

See accompanying notes to unaudited financial statements

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

(Dollars in thousands)	Nine months ended March 31 2001	2000
CASH FLOWS PROVIDED BY OPERATING ACTIVITIES:		
Net earnings (loss)	$ 414	($4,087)
Adjustments to reconcile net earnings (loss) to net cash provided by operating activities:		
Bad debt provision	220	240
Write-off of inventory	--	2,000
Write-off of notes receivable and accrued interest	--	72
Depreciation and amortization	1,869	1,401
Provision for deferred income taxes	(343)	(150)
Pension expense, net of contributions	(194)	--
Loss on disposal of assets	4	--
Loss on unconsolidated joint venture	38	--
Accrued interest - notes receivable	(50)	(42)
Other	--	46
Foreign exchange gains - notes payable	(65)	--
Changes in operating assets and liabilities:		
(Increase) decrease in:		
Accounts receivable	35	3,099
Inventories	984	334
Tax refund receivable	1,500	(1,288)
Prepaid expenses	(132)	(74)
Deposits	(116)	(665)
Other current assets	(122)	1,022
Accounts payable	(460)	(2,226)
Income taxes payable	43	--
Accrued compensation and employee benefits	70	(203)
Accrual for loss on lease obligation	(50)	600
Net Cash Provided by Operating Activities	$ 3,645	$ 79

(continued)

NATURAL ALTERNATIVES INTERNATIONAL, INC.
PART 1 -- FINANCIAL INFORMATION
CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)
(UNAUDITED)

Nine months ended

	March 31	
	2001	2000
CASH FLOWS FROM INVESTING ACTIVITIES:		
Capital expenditures	$ (936)	$ (3,776)
Repayment of notes receivable	12	31
Issuance of notes receivable	(100)	(808)
Other assets	(12)	(100)
Net Cash Used in Investing Activities	(1,036)	(4,653)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Borrowings on lines of credit and notes payable	13,736	4,849
Payments on lines of credit and notes payable	(16,695)	(171)
Issuance of common stock	20	--
Treasury stock acquisitions	--	(167)
Net Cash (Used in) Provided by Financing Activities	(2,939)	4,511
Net Increase (Decrease) in Cash and Cash Equivalents	(330)	(63)
Cash and Cash Equivalents at Beginning of Period	815	1,063
Cash and Cash Equivalents at End of Period	$ 485	$ 1,000
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:		
Cash paid during the period for:		
Interest	$ 681	$ 203
Cash paid (received) during the period for:		
Income taxes	($ 1,500)	$ 0
SUPPLEMENTAL SCHEDULE OF NON-CASH INVESTING ACTIVITIES:		
Related parties notes receivable	$ 855	$ 0
Investments	150	--
Accounts receivable	107	--
Other current assets	64	--
Accounts payable	(29)	--
	$ 1,147	$ 0

See accompanying notes to unaudited financial statements.

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

NOTE 1 -- Interim Financial Information

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

information as of and for the three and nine months ended March 31, 2001 and 2000.

In preparing consolidated financial statements in conformity with generally accepted accounting principles, management is required to make certain estimates and assumptions that may affect the reported amounts of assets, liabilities, revenues and expenses during the reporting periods. Actual results may differ from such estimates. The consolidated results of operations for the interim periods ended March 31, 2001 and 2000 are not necessarily indicative of the consolidated operating results for the full year. It is suggested that these consolidated financial statements be read in conjunction with the financial statements and notes thereto included in the Company's annual report on Form 10-K for the year ended June 30, 2000.

Principles of Consolidation

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

NOTE 2 - Inventories

Inventories are comprised of the following:

(Dollars in thousands)	March 31 2001	June 30 2000
Raw materials	$2,888	$4,187
Work in progress	1,221	2,409
Finished goods	2,534	1,031
	$6,643	$7,627

NOTE 3 -- Net Earnings Per Share

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

(Amounts in thousands except share data)	Three Months Ended March 31		Nine Months Ended March 31	
	2001	2000	2001	2000
NUMERATOR:				
Net earnings (loss) - Numerator for basic and diluted earnings (loss) per share - earnings available to common shareholders	$ (234)	$ (1,763)	$ 414	$ (4,087)
DENOMINATOR:				
Denominator for basic earnings (loss) per share - weighted average shares	5,777,289	5,739,875	5,767,016	5,758,061
Effect of dilutive securities - employee stock options	--	--	38,768	--
Denominator for diluted earnings (loss) per share - adjusted weighted average shares with assumed conversions	5,777,289	5,739,875	5,805,784	5,758,061

Basic earnings (loss) per share	$	(0.04)	$	(0.31)	$	0.07	$	(0.71)
Diluted earnings (loss) per share	$	(0.04)	$	(0.31)	$	0.07	$	(0.71)

For the three months ended March 31, 2001, there were outstanding options to purchase 215,000 shares of common stock, that were not included in the computation of diluted net loss per share as their effect would have been anti-dilutive.

For the three and nine months ended March 31, 2000, there were outstanding options to purchase 313,000 shares of common stock, that were not included in the computation of diluted net loss per share as their effect would have been anti-dilutive.

NOTE 4 -- Major Customers

The Company had substantial sales to five separate customers during one or more of the periods shown in the following table. The loss of any of these customers could have a material adverse impact on the Company's revenues and earnings. Sales by customer, representing 8% or more of the respective period's total net sales, are shown below.

	Three months ended March 31				Nine months ended March 31			
	2001		2000		2001		2000	
(Dollars in thousands) Customer	Sales by Customer	%(a)	Sales by Customer	%(a)	Sales by Customer	%(a)	Sales by Customer	%(a)
Customer 1	$ 5,110	49%	$ 6,365	67%	$16,144	51%	$14,981	41%
Customer 2	1,342	13%	1,321	14%	3,311	10%	5,963	16%
Customer 3	(b)		(b)		(b)		4,256	12%
Customer 4	(b)		(b)		(b)		3,747	10%
Customer 5	982	10%	870	9%	3,215	10%	2,964	8%
	$ 7,434	72%	$ 8,556	90%	$22,670	71%	$31,911	87%

(a) Percent of total sales
(b) Sales for the period were less than 8% of total sales.

Accounts receivable from these customers totaled $2.8 million and $3.4 million at March 31, 2001 and June 30, 2000, respectively.

NOTE 5 -- Debt

On December 20, 2000, the Company replaced an existing credit agreement with $9.35 million in new financing. The new financing consists of a two year $7.0 million working capital line of credit, a $1.6 million five-year equipment term note, and a line of credit of up to $750,000 for new capital equipment financing. Interest accrues at an annual rate of prime plus 0.5%. At March 31, 2001 the effective interest rate was 8.5%. As of March 31, 2001, amounts outstanding under the working capital line of credit and equipment term note were $401,000 and $1.52 million, respectively. Borrowings under the working capital line of credit are collateralized by eligible accounts receivable and inventory, as defined in the agreement; proceeds are to be used to support ongoing operating requirements. Financial covenants associated with this facility obligate the Company to comply with specified financial ratios and tests, including minimum working capital and tangible net worth requirements, maximum leverage ratios, and minimum earnings levels. As of March 31, 2001, the Company was in compliance with all financial covenant provisions of the credit agreement.

The Company also has a term note secured by a building due June 2011 with annual interest at 8.25%. The note provides for principal and interest payable in monthly installments of $11,000. As of March 31, 2001, the outstanding amount is $886,000.

The Company's wholly owned subsidiary in Switzerland has a line of credit agreement permitting borrowings up to CHF 1.0 million, or approximately $592,000 at March 31, 2001 at an annual interest rate of 5.5%. The line of credit requires minimum annual principal payments of CHF 250,000, or $148,000, due annually on December 31; management expects this line to be renewed in the normal course of business. The agreement contains no financial covenants. As of March 31, 2001, the Company has converted borrowings under the line of credit of approximately $237,000 into various unsecured term notes with maturities from six to twelve months at interest rates ranging from 5.5% to 6.0%. The amount outstanding under the line of credit is approximately $370,000 at March 31, 2001. Availability under the line includes cash on hand, which was approximately $167,000 at March 31, 2001.

On November 9, 1999, the Company entered into a term note agreement for $2.5 million, secured by equipment, at an annual interest rate of 9.2%. The note has a five-year term that provides for principal and interest payable in monthly installments of $52,000; proceeds have been used to support working capital requirements. As of March 31, 2001 the outstanding amount is $1.94 million.

As of March 31, 2001, the composite interest rate on all outstanding debt was 8.3%.

NOTE 6 -- Stockholders' Equity

During the nine months ended March 31, 2001, under the 1999 Omnibus Equity Incentive Plan, the Company granted to various directors, officers and employees, stock options to purchase shares, at fair market value, of the Company's common stock as follows:

Date	No. of options	Exercise Price
August 28, 2000	167,000	$ 2.00
January 8, 2001	20,000	$ 2.44
March 1, 2001	30,000	$ 2.69
Total Granted	217,000	

NOTE 7 -- Related Party Transactions / Notes Receivable

During the second fiscal quarter, ended December 31, 2000, the Company made a further advance on a non-interest bearing loan to the Chairperson of the Board of Directors, in the amount of $50,000. Amounts owed on this loan, which is secured by proceeds from a life insurance policy, were $350,000 and $300,000 at March 31, 2001 and June 30, 2000, respectively.

On February 6, 2001, the Company made a 12% convertible interest-bearing loan to a consulting organization Pulse Information Network, LLC ("PIN") of $50,000. The principal, and all accrued interest, is payable on or before February 5, 2004. The Company can convert the note at anytime into equity of PIN.

NOTE 8 -- Custom Nutrition Joint Venture

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

During December 1999, the Company and FitnessAge formalized the joint venture by forming a new company named Custom Nutrition, LLC, a Delaware limited liability company ("Custom Nutrition") in which the Company at formation had a 40%

ownership. Custom Nutrition was formed for the purpose of developing, merchandising, selling and distributing customized nutritional and related products to health and fitness clubs, as well as over the Internet. Under terms of a 10-year Exclusive Manufacturing Agreement, the Company is the exclusive manufacturer of all nutritional supplements for Custom Nutrition. In addition, Custom Nutrition obtained an exclusive royalty free license to FitnessAge's proprietary software technology, including their physical fitness assessments known as the FitnessAge System, as well as, software under development designed to provide customized nutritional assessments. In accordance with the Custom Nutrition LLC Operating Agreement, the Company was required to make an initial capital contribution of $100,000, which was funded during the fourth quarter of fiscal 2000. Income and losses were to be allocated and any additional capital contribution requirements of Custom Nutrition were to be made 60% to FitnessAge and 40% to the Company.

In addition, in November and December 1999, the Company loaned FitnessAge a total of $750,000 (the "Loan"). The Loan was secured by all rights, title, and interest of FitnessAge in Custom Nutrition and FitnessAge's allocable share of gross revenues which at the time could have been received by Custom Nutrition from a major customer and included interest accruing at an annual rate of 12%. The principal together with all accrued and unpaid interest on the Loan was due November 10, 2000. The Company had the right at any time to convert all or any portion of the amount due on the Loan into the common stock of FitnessAge at a conversion price of $0.75 per share. (See Note 9)

In conjunction with the Loan, the Company received a three-year Warrant (the "Warrant") to purchase up to 150,000 shares of Common Stock of FitnessAge for $0.75 per share. The Company may exercise the

Warrant at any time up to and including November 1, 2002. The Company was issued two additional warrants to purchase common stock as additional consideration for providing a short-term loan to FitnessAge which was repaid prior to June 30, 2000. One warrant provides for the purchase of 80,000 shares of FitnessAge common stock for $1.25 per share and the other warrant provides for the purchase of 80,000 shares of FitnessAge common stock for $2.00 per share. The Company may exercise these two Warrants at any time up to and including June 12, 2003. As of March 31, 2001, the Company had not exercised any portion of these Warrants. The Company also obtained the right to designate one representative of the Company to be a member of FitnessAge's Board of Directors, which consists of five board members, and registration rights and certain other rights as defined by the loan documents and by an Investor Rights Agreement. As of March 31, 2001, the Company waived its rights to board representation.

As of November 10, 2000, the Company agreed with FitnessAge to extend the maturity of the Loan (the "Extension"). Pursuant to the Extension, the Company combined all accrued and unpaid interest on the Loan into a revised payment schedule requiring payments of $150,000 in February 2001, $150,000 in March 2001, $225,000 in June 2001 and complete pay-off of any outstanding principal and accrued interest by September 2001. In consideration of the Extension, FitnessAge provided the Company with additional collateral in the form of a perpetual, irrevocable, nonexclusive, royalty-free worldwide license to FitnessAge's proprietary physical assessment software technology.

The Company believes these assets have future commercial value based on the alternatives that may be available including those described below. The Company reclassified its interests in FitnessAge and Custom Nutrition to Investment in Intangible Assets Acquired as of March 31, 2001. (See Note 9)

NOTE 9 -- FitnessAge Loan Default and Retention of Collateralized Assets

FitnessAge did not meet its loan payment obligation on February 1, 2001 pursuant to the Extension discussed in Note 8. As a result, the Company notified FitnessAge on February 2, 2001 of its decision to accelerate the maturity of the Loan and its intention to retain the Loan collateral in satisfaction of FitnessAge's obligations. As of February 23, 2001, the Company perfected its interest in the collateralized assets, as defined per the escrow agreement and the Uniform Commercial Code, and took full ownership and possession of Custom Nutrition LLC and the perpetual, irrevocable, nonexclusive, royalty-free worldwide license to FitnessAge's proprietary physical assessment software

technology. The Company retains its equity interest in FitnessAge by its ownership of common stock and warrants as described in Note 8. The Company is evaluating the actions it may take, including but not limited to, moving forward to commercialize the assets alone, or with others, restructuring the joint venture with FitnessAge, abandoning its investment, or other alternatives.

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

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

Certain Forward-Looking Information

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

RESULTS OF OPERATIONS

THIRD QUARTER OF FISCAL 2001 AND 2000

Net sales for the third quarter of fiscal 2001 of $10.3 million increased approximately $800,000, or 8%, compared to net sales of $9.5 million for the third quarter of fiscal 2000. This increase reflects additional sales from our direct-to-consumer product line and our smaller customers partially offset by net decrease of sales from our five largest customers. Sales to our five largest customers totaled $9.1 million in the third quarter of fiscal 2000, while sales to the same group was only $7.5 million in the current year a decrease of $1.6 million. Sales to our largest customer decreased by $1.3 million reflecting stabilization in inventory levels built-up during fiscal 2000. The remaining decline in sales is due to the loss of certain customers in fiscal 2000. The decline in sales of these major customers were offset by an increase in sales from our direct-to-consumer natural products, sold under the Dr. Cherry physicians branded label, which was first introduced during the third quarter of fiscal year 2000. Sales from the direct-to-consumer product totaled $1.7 million during the third quarter of fiscal 2001 as compared to $66,000 for the same period in fiscal 2000.

Gross profit for the third quarter of fiscal 2001 increased to $2.3 million, representing 22% of net sales, an increase of $1.7 million over the $596,000, 6% of sales, for the third quarter of fiscal 2000. Direct and indirect manufacturing expenses decreased from period to period by $640,000 to 21% versus 27% of net sales for fiscal 2001 and fiscal 2000, respectively. Material costs, including outside packaging costs, decreased to $6.0 million for the current period, 58% of net sales, from $6.2 million, 65% of net sales, for the same period last year. During the fourth quarter of fiscal 2000, the Company began packaging most of its finished goods internally. Prior to this conversion in the fourth quarter of fiscal 2000, independent 3rd-party vendors packaged all of the Company's products. Savings from bringing this function in-house have been significant. Cost of outside packaging during the third quarter of fiscal 2000

were approximately $1.2 million or 13% of net sales, compared with $180,000, or 2%, for the same period of fiscal 2001. The favorable impact on gross margin achieved through bringing packaging operations in-house, were augmented by the reduction of direct and indirect manufacturing expenses achieved primarily as a result of the cost containment program (discussed below), partially offset by the internal operating costs for in-house packaging.

Selling, general and administrative expenses, excluding the loss on abandonment of leased facility, were as a percentage of net sales 28% and 22% for the quarters ended March 31, 2001 and 2000, respectively. In absolute dollars the expenses increased by $762,000 to $2.9 million for the third quarter of fiscal 2001. The noted increase over the prior year was primarily the result of increased litigation expense ($236,000),

bad debt expense ($240,000) and additional advertising and fulfillment expenses ($358,000) associated with our direct-to-consumer product sales. Litigation expense for the current quarter is net of $184,000 of insurance proceeds received in March 2001. These increases were partially offset by the non-recurring nature of certain costs incurred in the third quarter of fiscal 2000 associated with the start-up of our Swiss manufacturing subsidiary. During the third quarter of fiscal 2000, the Company increased the reserve, for the loss on abandonment of the leased facility, by $600,000, to a total of $3.0 million at March 31, 2000.

The Company is a plaintiff in an anti-trust lawsuit against several manufacturers of vitamins and other raw materials purchased by the Company. Other income for the quarter ended March 31, 2001 includes receipt of approximately $188,000 in settlement of the claims made against one of the defendants in the suit. See Part II -- Item 1. Legal Proceedings.

NINE MONTHS ENDED MARCH 31, 2001 AND 2000

Net sales for the nine months ended March 31, 2001 of $31.8 million decreased $5.1 million, or 14%, compared to net sales of $36.9 million for the same period of fiscal 2000. The sales decline was primarily due to the loss of two of our larger customers (NuSkin Enterprises Inc. and Bally Total Fitness) with combined sales of $8.0 million during the first nine months ended March 31, 2000 and $238,000 during the same period in fiscal 2001. NuSkin informed the Company in December 1999 that its production needs have been transitioned to other vendors. Sales to our second largest customer in the first nine months of fiscal 2001 decreased by $2.7 million from $6.0 million for the first nine months ended March 31, 2000. Fiscal 2000 sales were higher as this customer acquired large quantities of product to support an inventory build for a major product introduction, while fiscal 2001 sales volumes have stabilized at lower levels. The loss of these major customers were offset by an increase in sales to our largest customer coupled with sales from our direct-to-consumer natural products sold under the Dr. Cherry physicians branded label which was first introduced during the third quarter of fiscal year 2000. Sales to our largest customer of $16.1 million for the first nine months of fiscal 2001, increased by $1.1 million from $15.0 million for the same period last year, while the direct-to-consumer sales volume of the Dr. Cherry brand totaled $4.0 million during the first nine months of fiscal 2001, an increase of $3.9 million.

Gross profit for the first nine months ended March 31, 2001 increased to $7.1 million, representing 22% of net sales, an increase of approximately $4.2 million over the gross profit of $3.0 million, or 8% of net sales, for the same period of fiscal 2000. Direct and indirect manufacturing expenses decreased by $820,000 for the first nine months ended March 31, 2001, versus the same period of the previous year. This reduction is directly related to our continuing cost containment program partially offset by the internal operating costs for in-house packaging. Material costs, including outside packaging costs, decreased to $16.8 million for the current period, 53% of net sales, from $23.2 million, 63% of net sales, for the same period last year. During the fourth quarter of fiscal 2000, the Company began packaging most of its finished goods internally. Prior to this independent 3rd-party vendors performed all packaging of the Company's products. Savings from bringing this function in-house have been significant. Cost of outside packaging during the first nine months ended March 31, 2000 were approximately $4.6 million or 14% of net sales, compared with $600,000, or 2%, for the same period of fiscal 2001. During the second quarter

of fiscal 2000, the Company wrote-off inventory of $2.0 million, 5% of sales, which included $735,000 for deposits on inventory. The analysis of inventory balances and subsequent write-off in fiscal 2000, related primarily to the loss of the major customers, a decline in market share and continuing competitive pressures, which caused the Company to re-evaluate all product lines and reduce or slow production of products with limited future value.

Selling, general and administrative expenses were as a percentage of net sales 21% and 20% for the first nine months of fiscal 2001 and 2000, respectively. In absolute dollars the expenses decreased by $453,000 to $6.8 million as reported for the first nine months of fiscal 2001. The reduction was primarily the result of (i) the continuing benefits of the cost containment program, discussed below, (ii) the non-recurring nature of certain costs incurred in fiscal 2000 associated with the start-up of our Swiss manufacturing subsidiary, (iii) training and implementation expenses associated with the installation of our integrated manufacturing and accounting computer software system in May 1999, and (iv) rent of an abandoned leased facility. These savings were partially offset by an increase during fiscal 2001 of litigation expenses of $563,000 and an increase in advertising and fulfillment expenses of $863,000 associated with our direct-to-consumer product sales. Litigation expense for fiscal 2001 is net of $184,000 of insurance proceeds received in March 2001. During the third quarter of fiscal 2000, the Company increased the reserve for the loss on abandonment of the leased facility by $600,000, to a total of $3.0 million at March 31, 2000.

The Company is a plaintiff in an anti-trust lawsuit against several manufacturers of vitamins and other raw materials purchased by the Company. Other income for the nine months ended March 31, 2001 includes receipt of approximately $299,000 in settlement of the claims made against one of the defendants in the suit. See Part II -- Item 1. Legal Proceedings.

COST CONTAINMENT PROGRAM

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

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

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

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

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

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

The Company will continue to concentrate its efforts on improving operational efficiencies, resource requirements, and core business processes to improve operating performance. In addition, the Company will continue to focus on existing customers and realizing the returns from the strategies implemented to diversify and expand geographical and distribution channels through its Swiss

manufacturing operations, FitnessAge/Custom Nutrition business venture and physician branding direct-to-consumer initiatives.

INCOME TAXES

Our effective tax rates (excluding our Swiss subsidiary) were benefits of 36% and 34% for the nine months in fiscal 2001 and 2000, respectively. The total benefit for income taxes of $300,000 for fiscal 2001 reflects the benefit of a five-year tax holiday, which applies, at the Swiss federal level, a zero tax rate to pretax earnings of our Swiss subsidiary, which was profitable in fiscal 2001. Earnings of our Swiss subsidiary are taxed at the local level. The effective Swiss tax rate is approximately 4% and resulted in $43,000 of tax expense for the nine months ended March 31, 2001.

LIQUIDITY AND CAPITAL RESOURCES

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

At March 31, 2001, the Company has cash and cash equivalents of approximately $485,000, a decrease from $815,000 at June 30, 2000. Net cash provided by operations during the first nine months of fiscal 2001 amounted to $3.6 million, which was used primarily to fund our investing activities including the acquisition of capital equipment and to reduce outstanding debt.

Capital expenditures for the first nine months ended March 31, 2001 amounted to $936,000. These expenditures relate primarily to the acquisition of production equipment in both our U.S. and Swiss manufacturing facilities.

During the first nine months of fiscal 2001, the Company's consolidated outstanding debt decreased approximately $3.0 million to $5.4 million from approximately $8.4 million at June 30, 2000. The net decrease reflects positive cash flow from operations affecting the Company's lines of credit (borrowings of $10.0 million, net of repayments of $13.0 million) and excludes the $3.7 million associated with the establishment our new financing, the initial proceeds, from which, were used to extinguish existing debt in December 2000. See Note 5 to the Unaudited Financial Statements. The composite interest rate on all outstanding debt at March 31, 2001 was approximately 8.3%.

The Company has access to approximately $8.3 million of funds from existing working capital credit facilities to support future operating requirements. Borrowings outstanding under these facilities as of March 31, 2001 total approximately $1.0 million. The working capital line of credit facilities are subject to eligibility requirements for current accounts receivable and inventory balances. As of March 31, 2001, total excess borrowing capacity based on eligible working capital balances was approximately $4.0 million. One or more of the Company's loan agreements contain a number of covenants that restrict the operations of the Company. Such restrictions include requiring the Company to comply with specified financial ratios and tests, including minimum tangible net worth requirements, maximum leverage ratios, debt coverage ratios, and minimum net income. As of March 31, 2001, the Company was in compliance with all restrictive covenants of these agreements.

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

RISK FACTORS THAT MAY AFFECT FUTURE OPERATING RESULTS

In addition to the other information included in this Report, the following factors should be considered in evaluating the Company's business and future prospects. The Company's business and results of operations could be seriously harmed by any of the following risks. In addition, the market price of our common stock could decline due to many factors, including but not limited to, any of these risks.

DECLINING SALES, INDETERMINATE PROFITS

The net earnings and net sales for the first nine months of fiscal 2001 were $414,000 and $31.8 million, respectively, as compared with a loss of $4.1 million and sales of $36.9 million for the same period of fiscal 2000. The Company implemented a cost containment program and a return to profitability program in the prior fiscal year in an effort to reduce expenses to be consistent with current operating levels. The Company is experiencing continued difficulty in maintaining expenses consistent with operating levels and there can be no assurance it will be able to do so in the future. The Company cannot predict with any assurance whether the Company will be able to achieve profitability in future periods. In addition the Company expects operating results will fluctuate from period to period as a result of differences in when it incurs expenses and recognizes revenues from product sales. Some of these fluctuations may be significant.

RESULTS OF INVESTMENT IN JOINT VENTURE

In fiscal 2000 the Company loaned approximately $750,000 to a joint venture partner. The debt became due and payable and was extended and restructured in the second fiscal quarter of 2001. In the third fiscal quarter of 2001 the borrower was not able to meet its obligations under the restructured debt. As a result the Company, in February 2001, perfected its rights and took full ownership and possession of the loan collateral. The Company is evaluating the actions it may take, including but not limited to, moving forward to commercialize the acquired assets by itself or in future joint ventures or by sub-licenses to third parties. At the present time the Company has not completed this evaluation. If the Company abandons its investment or is unable to salvage a reasonable business opportunity from its investment it will likely have a material adverse impact upon its operations and financial condition.

RELIANCE ON LIMITED NUMBER OF CUSTOMERS FOR MAJORITY OF REVENUE

For the first nine months of fiscal 2001, the Company had three major customers, which together accounted for approximately 72% of the Company's net sales. The loss of any of these major customers, or any substantial reduction of their purchases from the Company, would have a material adverse impact on the business, operations and financial condition of the Company.

RESTRICTIVE FINANCING COVENANTS.

One or more of the Company's loan agreements contain a number of covenants that restrict the operations of the Company. Such restrictions include requiring the Company to comply with specified financial ratios and tests, including minimum tangible net worth requirements, maximum leverage ratios, debt coverage ratios, minimum net income and minimum Earnings before Interest, Depreciation and Amortization ("EBITDA") to cash interest expense ratios. As of March 31, 2001, the Company was in compliance with all financial covenant provisions of its various credit agreements, but does not currently anticipate it will be in compliance with such requirements at the end of the current fiscal year ended June 30, 2001. There can be no assurance the Company will be able to comply with the existing covenants or that the lender will restructure them in a fashion that the Company could presently comply with in future periods. The Company's ability to comply with such covenants and other restrictions may be affected by events beyond its control, including prevailing economic, financial and industry conditions. The breach of any such covenants or restrictions could result in a default under the various loan agreements that would permit the lenders to declare all amounts outstanding there under to be immediately due and payable, together with accrued and unpaid interest, and to terminate their commitments to make further extensions of credit. Any such action could have a material adverse impact upon the business operations and financial condition of the Company.

DECLINE IN STOCK PRICE

The Company's stock price has experienced significant volatility at times during the past few years and is currently at or near historic lows. In view of the Company's difficulty in maintaining profitability there can be no assurance that the stock price will not continue to languish at the current level or decline further. Current market conditions in the vitamin and nutritional supplement industry including increased price competition, consolidation, oversupply of vitamin and supplement products, operating results of competitors, adverse publicity and other factors such as operating results lower than the expectations of analysts and investors, may have a continuing adverse affect on the price of the Company's stock.

LAWSUIT BY FORMER PRESIDENT, DIRECTOR AND CHIEF FINANCIAL OFFICER

The Company is a party to a lawsuit filed by its former President, Director and Chief Financial Officer, William P. Spencer. The Company terminated Mr. Spencer for cause in January 1999. The lawsuit includes various claims, and alleges damages in excess of six million dollars. The Company has responded to the lawsuit and has denied it has any liability associated with the claim. Management believes the claims against the Company are without merit. The Company filed a cross-complaint in the lawsuit against Mr. Spencer and Imagenetix, Inc., a corporation in which Mr. Spencer is currently a director, principal shareholder and chief executive, and three other individuals, two of whom are former employees of the Company and the other a former consultant to the Company. Both the Company's and the other parties' complaints have been amended, and additional parties have been added. Management believes the Company will not be found liable on any claim, and will prevail in its cross-complaint against each cross-defendant. The Company has expended considerable sums to date in connection with the ongoing litigation and anticipates continuing expenses in connection with the litigation to be significant in the present and future periods. In the event the Company obtains a judgment in its favor there can be no assurance the Company will be able to collect all or any portion thereof. In the event a judgment is obtained against the Company in the amount of the damages alleged in the lawsuit or any significant portion thereof, it would have a material adverse impact upon the financial condition of the Company.

POTENTIAL FOR INCREASED COMPETITION

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

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

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

The Company relies on a single supplier to process certain raw materials for a product line of the Company's largest customer. An unexpected interruption of

supply of this service would materially adversely affect the Company's business, operations and financial condition.

EFFECT OF ADVERSE PUBLICITY

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

EXPOSURE TO PRODUCT LIABILITY CLAIMS

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

RISKS ASSOCIATED WITH INTERNATIONAL MARKETS

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

GOVERNMENT REGULATION

The manufacturing, processing, formulation, packaging, labeling and advertising

of the Company's products are subject to regulation by one or more federal agencies, including the United States Food and Drug Administration ("FDA"), the Federal Trade Commission ("FTC"), the Consumer Product Safety Commission, the United States Department of Agriculture, the United States Postal Service, the United States Environmental Protection Agency, and the Occupational Safety and Health Administration. The Company's activities are also regulated by various agencies of the states and localities in which the Company's products are sold. In particular, the FDA regulates the safety, labeling and distribution of dietary supplements, including vitamins, minerals, herbs, food, and over-the-counter and prescription drugs and cosmetics. In addition, the FTC has overlapping jurisdiction with the FDA to regulate the labeling,

promotion and advertising of vitamins, over-the-counter drugs, cosmetics and foods.

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

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

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

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

DISTRIBUTION AND MANAGEMENT OF OPERATIONS

In fiscal 1999, the Company leased and commenced operating three additional facilities. Two of these are adjacent facilities comprising 74,000 square feet in Vista, California used as a receiving, warehousing, weighing, blending, finished goods packaging, and distribution facility. The third new facility is an 18,000 square foot manufacturing facility in Lugano, Switzerland. All of these facilities were completed and became fully operational during fiscal 2000. During fiscal 1999, the Company also implemented an entirely new software system to manage its materials, manufacturing and accounting operations, and use of this system has continued to be refined in fiscal 2001. While the Company believes new facilities and operating systems will increase the Company's

manufacturing and distribution capabilities, there can be no assurance they will result in improved sales, profit margins or earnings. A significant, unexpected disruption of these systems and facilities could have a material adverse effect on the Company's results of operations.

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

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

CENTRALIZED LOCATION OF MANUFACTURING OPERATIONS

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

CONCENTRATION OF OWNERSHIP; CERTAIN ANTI-TAKEOVER CONSIDERATIONS

The Company's directors and executive officers beneficially own in excess of 24.9% of the outstanding Common Stock as of March 31, 2001. Accordingly, these shareholders will continue to have the ability to substantially influence the management, policies, and business operations of the Company. The Company's Board of Directors has the authority to approve the issuance of 500,000 shares of preferred stock and to fix the rights, preferences, privileges and restrictions, including voting rights, of those shares without any further vote or action by the Company's shareholders. The rights of the holders of Common Stock will be subject to, and may be adversely affected by, the rights of holders of any preferred stock that may be issued in the future. Certain provisions of Delaware law, as well as the issuance of preferred stock, and other "anti-takeover" provisions in the Company's Articles and Bylaws, could delay or inhibit the removal of incumbent directors and could delay, defer, make more difficult or prevent a merger, tender offer or proxy contest, or any change in control involving the Company, as well as the removal of management, even if such events would be beneficial to the interests of the Company's shareholders, and may limit the price certain investors may be willing to pay in the future for shares of Common Stock.

NATURAL ALTERNATIVES INTERNATIONAL, INC.
PART I - FINANCIAL INFORMATION

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The Company is exposed to market risks from adverse changes in interest rates, and foreign exchange rates affecting the return on our investments and the cost of our debt. The Company does not use derivative financial instruments to reduce the impact of changes in interest or foreign exchange rates.

At March 31, 2001, the Company's cash equivalents consisted of financial

instruments with original maturities of three months or less.

The Company's debt as of March 31, 2001 totaled $5.4 million and was comprised of fixed rate loans of $3.5 million and variable rate loans of $1.9 million. The average composite interest rates at March 31, 2001 for fixed rate and variable rate loans were 8.2% and 8.5%, respectively.

The Company's wholly owned Swiss subsidiary has a line of credit denominated in Swiss Francs. The balance of borrowing under the line was CHF 1.0 million at March 31, 2001 ($607,000). The interest rate applied to the line is fixed, but the Company is exposed to movements in the exchange rate between the Swiss Franc and the U.S. Dollar. On March 31, 2001, the Swiss Franc closed at 1.69 to 1 U.S. dollar. The same rate was 1.64 Swiss Francs to 1 U.S. dollar at June 30, 2000. Foreign exchange loss for the first nine months of fiscal 2001 was $18,000.

An immediate adverse change of one hundred basis points in interest rates would increase interest expense on an annual basis by $19,000. A 10% adverse change to the Swiss Franc exchange rate would decrease earnings by $67,000.

NATURAL ALTERNATIVES INTERNATIONAL, INC.
PART II - OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

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

The Company is a plaintiff in an anti-trust lawsuit against several manufacturers of vitamins and other raw materials purchased by the Company. Other similarly situated companies have filed a number of similar lawsuits against some or all of the same manufacturers. The Company's lawsuit has been consolidated with some of the others and is captioned In re: Vitamin Antitrust Litigation, and is pending in U.S. District Court in Washington D.C. One or more consumer class actions have also been filed against some or all of the same defendants, and at least one of these is presently in a settlement process. The Company brought its own action to insure it understood what actually occurred. To date the Company has received $415,000 in settlement payments from certain defendants. There can be no assurance the remaining claims will be resolved, or, if they are, that it will result in a material benefit to the Company.

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

ITEM 2. CHANGES IN SECURITIES

None.

ITEM 3. DEFAULTS BY THE COMPANY ON ITS SENIOR SECURITIES

None.

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

On January 8, 2001, at the Company's annual meeting, the shareholders elected each of the following two directors with the following votes:

Name	Votes For	Votes Withheld
Mark A. Le Doux	5,412,403	49,539
Joe E. Davis	5,413,168	48,774

The shareholders approved a second proposal to ratify the appointment of KPMG LLP as independent auditors for the fiscal year ending June 30, 2001. This proposal received the following votes: for 5,439,958; against 16,479; and abstain 5,505.
None.

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits: None

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

SIGNATURES

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

NATURAL ALTERNATIVES INTERNATIONAL, INC.

/s/ Peter C. Wulff   Date: May 15, 2001

Peter C. Wulff
Chief Financial Officer
and Treasurer