

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 December 31, 1995

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
(State of other jurisdiction of
incorporation or organization)

84-1007839
(I.R.S. Employer
Identification No.)

1185 Linda Vista Drive, San Marcos, California 92069
(Address of principal executive offices)
(Zip Code)

(619) 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
----- -----

5,297,375

(Number of shares of common stock of the registrant outstanding as of
January 31, 1996)

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NATURAL ALTERNATIVES INTERNATIONAL, INC.
PART I - FINANCIAL INFORMATION

CONSOLIDATED BALANCE SHEETS

ASSETS

	December 31, 1995	June 30, 1995
	-----	-----
	(Unaudited)	
Current Assets:		
Cash and cash equivalents	\$ 2,471,195	\$ 2,526,839
Accounts receivable - less allowance for doubtful accounts of \$206,000 at December 31, 1995 and \$215,000 at June 30, 1995	4,285,826	5,590,165
Inventory	6,859,086	5,229,585
Notes receivable - current portion	157,045	183,255
Deferred income taxes	164,000	326,000

Other current assets	995,279	867,085
	-----	-----
Total Current Assets	\$ 14,932,431	\$ 14,722,929
	-----	-----
Property and equipment, at cost, less accumulated depreciation and amortization of \$4,093,000 at December 31, 1995 and \$3,698,000 at June 30, 1995	6,140,850	5,774,732
	-----	-----
Other Assets:		
Investments	44,404	50,254
Notes receivable, less current portion	336,712	365,871
Other non-current assets	130,370	279,994
	-----	-----
Total Other Assets	511,486	696,119
	-----	-----
TOTAL ASSETS	\$ 21,584,767	\$ 21,193,780
	=====	=====

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NATURAL ALTERNATIVES INTERNATIONAL, INC.
PART I - FINANCIAL INFORMATION
CONSOLIDATED BALANCE SHEETS (continued)
LIABILITIES AND STOCKHOLDERS' EQUITY

	December 31, 1995	June 30, 1995
	-----	-----
	(Unaudited)	
Current Liabilities:		
Accounts payable	\$ 4,901,082	\$ 4,974,845
Current installments of long-term debt	188,323	213,812
Current installments of capital lease obligations	22,150	20,786
Accrued compensation and employee benefits	230,495	528,704
Income taxes payable	26,075	738,075
Other current liabilities	54,544	39,475
	-----	-----
Total Current Liabilities	5,422,669	6,515,697
Deferred income taxes	290,000	285,000
Long-term debt, less current installments	934,175	1,043,179
Capital lease obligations, less current installments	56,715	71,649
	-----	-----
Total Liabilities	6,703,559	7,915,525
	-----	-----
Stockholders' Equity:		
Preferred stock; \$.01 par value; 500,000 shares authorized; none issued or outstanding	---	---
Common stock; \$.01 par value; 8,000,000 shares authorized; issued and outstanding 5,297,375 at December 31, 1995 and 5,257,875 at June 30, 1995	52,974	52,579
Additional paid-in capital	5,870,881	5,586,759
Retained earnings	9,003,062	7,678,776
Net unrealized losses on investments	(45,709)	(39,859)
	-----	-----
Total Stockholders' Equity	14,881,208	13,278,255
	-----	-----
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 21,584,767	\$ 21,193,780
	=====	=====

See accompanying notes to consolidated financial statements

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NATURAL ALTERNATIVES INTERNATIONAL, INC.
PART I - FINANCIAL INFORMATION

CONSOLIDATED STATEMENTS OF OPERATIONS

	For the Three Months Ended December 31,	
	(Unaudited)	
	1995	1994
	----	----
REVENUE, net	\$ 11,753,954	\$ 7,011,148
COST OF GOODS SOLD	8,853,416	5,100,547
	-----	-----
GROSS PROFIT	2,900,538	1,910,601
SELLING, GENERAL & ADMINISTRATIVE	1,685,162	1,449,132
	-----	-----
OPERATING INCOME	1,215,376	461,469
	-----	-----
OTHER INCOME (EXPENSE):		
Interest income	20,893	18,869
Interest expense	(39,373)	(27,769)
Other, net	12,500	(13,812)
	-----	-----
	(5,980)	(22,712)
	-----	-----
EARNINGS BEFORE INCOME TAXES	1,209,396	438,757
INCOME TAXES	474,000	197,000
	-----	-----
NET EARNINGS	\$ 735,396	\$ 241,757
	=====	=====
NET EARNINGS PER COMMON SHARE:		
Primary	\$ 0.13	\$ 0.05
	=====	=====
Fully Diluted	\$ 0.13	\$ 0.05
	=====	=====

See accompanying notes to consolidated financial statements

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NATURAL ALTERNATIVES INTERNATIONAL, INC.
PART I - FINANCIAL INFORMATION

CONSOLIDATED STATEMENTS OF OPERATIONS

	For the Six Months Ended December 31,	
	(Unaudited)	
	1995	1994
	-----	-----

	----	----
REVENUE, net	\$ 22,107,755	\$ 12,884,895
COST OF GOODS SOLD	16,513,002	9,270,084
	-----	-----
GROSS PROFIT	5,594,753	3,614,811
SELLING, GENERAL & ADMINISTRATIVE	3,402,707	2,950,366
	-----	-----
OPERATING INCOME	2,192,046	664,445
	-----	-----
OTHER INCOME (EXPENSE):		
Interest income	47,682	36,682
Interest expense	(67,652)	(52,707)
Other, net	15,210	(14,490)
	-----	-----
	(4,760)	(30,515)
	-----	-----
EARNINGS BEFORE INCOME TAXES	2,187,286	633,930
INCOME TAXES	863,000	282,000
	-----	-----
NET EARNINGS	\$ 1,324,286	\$ 351,930
	=====	=====
NET EARNINGS PER COMMON SHARE:		
Primary	\$ 0.24	\$ 0.07
	=====	=====
Fully Diluted	\$ 0.24	\$ 0.07
	=====	=====

See accompanying notes to consolidated financial statements

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NATURAL ALTERNATIVES INTERNATIONAL, INC.

PART I - FINANCIAL INFORMATION

CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY (Unaudited)

	Common Stock Shares	Amount	Additional Paid-in Capital	Retained Earnings	Net Unrealized Losses	Total
	-----	-----	-----	-----	-----	-----
Balance at June 30, 1995	5,257,875	\$ 52,579	\$ 5,586,759	\$ 7,678,776	\$ (39,859)	\$ 13,278,255
Issuance of common stock for employee stock options	39,500	395	192,122	---	---	192,517
Income tax benefit from employee stock options	---	---	92,000	---	---	92,000

Net unrealized losses on investments	---	---	---	---	(5,850)	(5,850)
Net earnings	---	---	---	1,324,286	---	1,324,286
Balance at December 31, 1995	5,297,375	\$ 52,974	\$ 5,870,881	\$ 9,003,062	\$ (45,709)	\$ 14,881,208

See accompanying notes to consolidated financial statements

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NATURAL ALTERNATIVES INTERNATIONAL, INC.
PART I - FINANCIAL INFORMATION

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the Six Months
Ended December 31,

(Unaudited)

1995 1994

CASH FLOWS FROM OPERATING ACTIVITIES:

Net earnings	\$ 1,324,286	\$ 351,930
Adjustments to reconcile net earnings to net cash provided by (used in) operating activities:		
Depreciation and amortization	501,263	505,354
Tax benefit on option exercise	92,000	1,000
Bad debt expense	199,203	75,612
(Gain)/loss on disposal of assets	(11,161)	16,300
Deferred income taxes	167,000	107,000

Changes in operating assets and liabilities:

(Increase) decrease in:		
Accounts receivable	1,171,530	2,631,297
Inventory	(1,629,501)	(1,413,975)
Other assets	7,439	175,049
(Decrease) increase in:		
Accounts payable	(73,763)	(1,253,193)
Accrued compensation and employee benefits	(298,209)	(62,141)
Income taxes payable	(712,000)	---
Other current liabilities	15,069	24,661

Net Cash Provided by Operating Activities	753,156	1,158,894
---	---------	-----------

CASH FLOWS FROM INVESTING ACTIVITIES:

Proceeds from sale of investments	30,375	---
Investments	(15,838)	---

Proceeds from sale of property and equipment	55,338	45,000
Capital expenditures	(920,103)	(1,158,457)
Issuance of notes receivable	(61,689)	(19,050)
Repayment of notes receivable	58,663	37,336
	-----	-----
Net Cash Used in Investing Activities	(853,254)	(1,095,171)
	-----	-----

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NATURAL ALTERNATIVES INTERNATIONAL, INC.
PART I - FINANCIAL INFORMATION

CONSOLIDATED STATEMENTS OF CASH FLOWS (continued)

For the Six Months
Ended December 31,

(Unaudited)

1995 1994

CASH FLOWS FROM FINANCING ACTIVITIES:

Payments on long-term debt and capital leases	\$ (148,063)	\$ (71,562)
Borrowing on lines of credit	---	650,000
Payment on lines of credit	---	(350,000)
Proceeds from issuance of common stock	192,517	2,440
	-----	-----
Net Cash Provided by Financing Activities	44,454	230,878
	-----	-----
Net Increase (Decrease) in Cash and Cash Equivalents	(55,644)	294,601
Cash and Cash Equivalents at Beginning of Period	2,526,839	813,754
	-----	-----
Cash and Cash Equivalents at End of Period	\$ 2,471,195	\$ 1,108,355
	=====	=====

See accompanying notes to consolidated financial statements

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NATURAL ALTERNATIVES INTERNATIONAL, INC.
PART I - FINANCIAL INFORMATION

NOTES TO CONDENSED
CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 - BASIS OF PRESENTATION

The accompanying unaudited consolidated financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments, consisting of a normal recurring nature considered necessary for a fair presentation, have been included. 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, 1995. The results of operations for the periods ended December 31, 1995 and 1994 are not necessarily indicative of the operating results for the full year.

Certain amounts in prior period financial statements have been reclassified to conform to the current period financial statements.

NOTE 2 - PRINCIPLES OF CONSOLIDATION

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries, Pro-Lean, Inc. (formerly Sonergy, Inc.), CellLife International, Inc. and CellLife Pharmaceuticals International, Inc. All significant intercompany accounts and transactions have been eliminated.

NOTE 3 - INVENTORIES

Inventories are comprised of:

	December 31, 1995	June 30, 1995
	-----	-----
Raw materials	\$ 3,061,320	\$ 2,419,083
Work in process	3,282,804	2,240,173
Finished goods	514,962	570,329
	-----	-----
	\$ 6,859,086	\$ 5,229,585
	=====	=====

NOTE 4 - NET EARNINGS PER SHARE

Primary earnings per share is computed based upon the weighted average number of shares outstanding during the period plus (in periods in which they have a dilutive effect) the effect of common shares contingently issuable from stock options. Fully diluted earnings per share reflect additional dilution related to common stock equivalents due to the use of the market price at the end of the period, when higher than the average price for the period.

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NATURAL ALTERNATIVES INTERNATIONAL, INC.
PART I - FINANCIAL INFORMATION

NOTES TO CONDENSED
CONSOLIDATED FINANCIAL STATEMENTS

NOTE 4 - NET EARNINGS PER SHARE (continued)

The weighted average number of shares outstanding and common stock equivalents are as follows:

	For the Three Months Ended December 31,		For the Six Months Ended December 31,	
	1995	1994	1995	1994
	---	----	----	----
Primary	5,616,895	5,257,875	5,576,927	5,257,856
Fully Diluted	5,616,895	5,257,875	5,576,927	5,257,856

NOTE 5 - MAJOR CUSTOMERS

The Company had substantial sales to three customers for the three months ended December 31, 1995, 1994 and the six months ended December 31, 1995, and substantial sales to four customers for the six months ended December 31, 1994. The loss of any of these customers would have an adverse impact on the Company's revenues and earnings in the short-term. Sales to these customers were as follows:

Industry	Three Months Ended				Six Months Ended			
	December 31, 1995		December 31, 1994		December 31, 1995		December 31, 1994	
	Total Revenue	% of Total Revenue	Total Revenue	% of Total Revenue	Total Revenue	% of Total Revenue	Total Revenue	% of Total Revenue
Cosmetics	\$ 561,521	5%	\$ 1,017,339	15%	\$ ---	---	\$ 2,299,400	18%
Multi-level Distribution	8,437,264	72%	3,718,423	53%	15,150,985	69%	6,907,478	54%
Weight Loss	---	---	1,061,878	15%	---	---	1,836,431	14%
Totals	\$ 8,998,785	77%	\$ 5,797,640	83%	\$15,150,985	69%	\$ 11,043,309	86%

Accounts receivable from these customers totaled \$2,730,734 and \$2,846,669 at December 31, 1995 and 1994, respectively.

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NATURAL ALTERNATIVES INTERNATIONAL, INC.
PART I - FINANCIAL INFORMATION

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION
AND RESULTS OF OPERATIONS

RESULTS OF OPERATIONS

SECOND QUARTER OF FISCAL 1995 AND 1994

The Company's consolidated net revenues for the quarter ended December 31, 1995, amounted to \$11.8 million, an increase of \$4.8 million from the \$7.0 million generated during the quarter ended December 31, 1994. The 69% increase in revenue is directly attributable to increases in sales from new and existing customers. On an unconsolidated basis, Natural Alternatives reported revenues of \$11.2 million for the quarter ending December 31, 1995, compared to \$6.5 million for the quarter ending December 31, 1994, a 72% increase. The Company's wholly-owned subsidiaries Pro-Lean, Inc. (Pro-Lean) and CellLife International, Inc. (CellLife) generated net revenues of \$.3 million each, for the quarter ending December 31, 1995, compared to \$.2 million each for the quarter ending December 31, 1994.

The Company's gross margins decreased to 24.7%, for the quarter ending December 31, 1995, compared to 27.3% for the quarter ending December 31, 1994. Total gross profits increased by \$1.0 million, or 51.8% as a result of the 69% increase in sales. The decrease in margins and increase in gross profits is directly attributable to the increased sales of lower margin products. Consolidated selling, general and administrative expenses as a percentage of revenues were 14.3% for the quarter ended December 31, 1995, compared to 20.7% for the quarter ending December 31, 1994, with the decrease being attributable to both sales growth and more effective means of controlling fixed and variable costs.

Net earnings for the quarter ended December 31, 1995, amounted to \$.7 million, a \$.5 million increase from the \$.2 million in net earnings produced for the quarter ended December 31, 1994. The increase in net earnings was due primarily to the 51.8% increase in gross profit and a decrease in selling, general and administrative expenses as a percentage of sales, both noted above. Primary earnings per share for the quarter ended December 31, 1995, was \$.13 compared to \$.05 for the quarter ended December 31, 1994. The increase was due to the reasons discussed above and was only slightly impacted by the increase in the Company's weighted average number of shares outstanding and the dilutive effect of common stock equivalents on the current quarter.

On an unconsolidated basis for the quarter ending December 31, 1995, Natural Alternatives reported net earnings of \$.8 million compared to \$.4 million for the quarter ended December 31, 1994. Pro-Lean reported a net loss of \$.1 million for each of the quarters ended December 31, 1995 and 1994. CellLife reported a break even position for each of the quarters ended December 31, 1995 and 1994.

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NATURAL ALTERNATIVES INTERNATIONAL, INC.
PART I - FINANCIAL INFORMATION

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION
AND RESULTS OF OPERATIONS

FIRST AND SECOND QUARTER OF FISCAL 1995 AND 1994

The Company's consolidated revenues for the six months ended December 31, 1995 amounted to \$22.1 million compared to \$12.9 million for the six months ended December 31, 1994. The \$9.2 million increase is primarily due to increased sales to new and existing customers. Management believes this positive trend should continue, as evidenced by the Company's relatively strong backlog position as of January 31, 1996, although there can be no assurance this trend will continue.

Gross profit margins decreased to 25.3% for the six months ended December 31, 1995 from 28.1% for the six months ended December 31, 1994. Net income for the six months ended December 31, 1995 amounted to \$1.3 million compared to \$.4 million for the six months ended December 31, 1994. Earnings per share for the six months ended December 31, 1995 was \$.24 compared to \$.07 for the six months ended December 31, 1994.

LIQUIDITY AND CAPITAL RESOURCES

The Company believes it has sufficient sources of funds to finance its ongoing operations and meet its capital asset purchases, as well as future growth through a combination of internally generated cash flow, revolving lines of credit and equipment financing.

At December 31, 1995, the Company had working capital of \$9,509,762 compared to \$8,207,232 as of June 30, 1995. The working capital component which represented the most significant increase was inventory with an offsetting decrease in accounts receivable. Inventory levels at December 31, 1995, compared to sales, increased moderately relative to historical levels, due principally to broader stocking requirements to cover current manufacturing requirements.

The Company has entered into an agreement with its two principal stockholders, Marie A. LeDoux and Mark A. LeDoux, to acquire for \$545,000, the offices and production facilities which the Company is presently leasing from them. The properties have been independently appraised at \$580,000. The Company expects to fund the acquisition through conventional mortgage financing and to consummate the transaction during the third quarter.

The Company has revolving line of credit agreements permitting borrowing up to \$3,000,000, which are secured by business assets and bear interest at rates ranging from the bank's prime rate to 1/2 percent over the bank's prime rate. The lines of credit expire on December 1, 1996. As of December 31, 1995 and June 30, 1995, there were no borrowing under these credit lines.

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NATURAL ALTERNATIVES INTERNATIONAL, INC.
PART II - OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

The Company is involved in various claims and legal actions arising in the ordinary course of business. In the opinion of management, based in part on the advice of counsel, the ultimate disposition of these matters will not have a material adverse impact on the Company's consolidated financial position, operations or cash flows.

ITEM 2. CHANGES IN SECURITIES

None.

ITEM 3. DEFAULTS BY THE COMPANY ON ITS SENIOR SECURITIES

None.

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

None.

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

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

- 11.1. Computation of per share earnings for the three months ended December 31, 1995.
- 11.2. Computation of per share earnings for the six months ended December 31, 1995.

(b) No reports on Form 8-K were filed during the quarter ended December 31, 1995.

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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 MARK A. LE DOUX

Date: February 7, 1996

Mark A. Le Doux
President

:/s WILLIAM P. SPENCER Date: February 7, 1996

William P. Spencer
Executive Vice President

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NATURAL ALTERNATIVES INTERNATIONAL, INC.

STATEMENT RE: COMPUTATION OF PER SHARE EARNINGS
(unaudited)

For the Three Months Ended December 31, 1995

	From	To	Days Out stand- ing	Shares	Primary Weighted Average Shares Outstanding	Fully Diluted Weighted Average Shares Outstanding	Outstanding
	-----	-----	---	-----	-----	-----	-----
Beginning shares	10/01/95	12/31/95	92	5,279,875	5,279,875	5,279,875	
Dilutive effect of common stock equivalents:							
At average price per share	10/01/95	12/31/95	92	1,001,000	326,966	326,966	
At closing price per share					n/a	n/a	
Exercise of employee stock options	11/09/95	12/31/95	53	15,000	8,641	8,641	
Exercise of employee stock options	11/10/95	12/31/95	52	2,500	1,413	1,413	
Ending shares					5,616,895	5,616,895	
Net Earnings					\$ 735,396	\$ 735,396	
Net Earnings Per Share					\$ 0.13	\$ 0.13	

EXHIBIT 11.2

NATURAL ALTERNATIVES INTERNATIONAL, INC.

STATEMENT RE: COMPUTATION OF PER SHARE EARNINGS
(unaudited)

For the Six Months Ended December 31, 1995

	From	To	Days Out- stand- ing	Shares	Primary Weighted Average Shares Outstanding	Fully Diluted Weighted Average Shares Outstanding
	-----	-----	-----	-----	-----	-----
Beginning shares	07/01/95	12/31/95	184	5,257,875	5,257,875	5,257,875
Dilutive effect of common stock equivalents:						
At average price per share	07/01/95	12/31/95	184	1,001,000	301,472	301,472
At closing price per share					n/a	n/a
Exercise of employee stock options	08/21/95	12/31/95	132	1,500	1,076	1,076
Exercise of employee stock options	09/19/95	12/31/95	103	20,500	11,476	11,476
Exercise of employee stock options	11/09/95	12/31/95	53	15,000	4,321	4,321
Exercise of employee stock options	11/10/95	12/31/95	52	2,500	707	707
					-----	-----
Ending shares					5,576,927	5,576,927
					=====	=====
Net Earnings					\$ 1,324,286	\$ 1,324,286
					=====	=====
Net Earnings Per Share					\$ 0.24	\$ 0.24

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