

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

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**FORM 10-Q**

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

**FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2003**

**000-15701**  
(Commission file number)

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**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 92069**  
(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 is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act).

Yes  No

As of November 4, 2003, 5,821,973 shares of NAI's common stock were outstanding, net of 272,400 treasury shares.

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## SPECIAL NOTE – FORWARD-LOOKING STATEMENTS

Certain statements in this report 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, 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. Forward-looking statements in this report may include statements about:

- future financial and operating results, including projections of revenues, income, earnings per share, profit margins, expenditures, liquidity and other financial items;
- inventories and facilities;
- sources and availability of raw materials;
- personnel;
- operations outside the United States;
- overall industry and market performance;
- competition;
- current and future economic and political conditions;
- product development;
- growth and acquisition strategies;
- the outcome of regulatory and litigation matters;
- customers;
- management’s goals and plans for future operations; 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. 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 Items 2 and 3 and elsewhere in this report, as well as in other reports and documents we file with the 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), its wholly-owned subsidiary.

## PART I – FINANCIAL INFORMATION

## ITEM 1. FINANCIAL STATEMENTS

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

	September 30, 2003	June 30, 2003
	(Unaudited)	
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 3,179	\$ 5,482
Accounts receivable, net of allowance for doubtful accounts of \$28 at September 30, 2003 and \$27 at June 30, 2003	6,150	5,668
Inventories, net	10,443	7,845
Prepaid expenses	1,069	502
Other current assets	287	264
Total current assets	21,128	19,761
Property and equipment, net	10,541	10,820
Other assets, net	134	143
Total assets	\$ 31,803	\$ 30,724
<b>Liabilities and Stockholders' Equity</b>		
Current liabilities:		
Accounts payable	\$ 5,312	\$ 5,001
Accrued liabilities	1,319	1,106
Accrued compensation and employee benefits	764	717
Income taxes payable	62	46
Current portion of long-term debt	572	570
Total current liabilities	8,029	7,440
Long-term debt, less current portion	2,243	2,386
Long-term pension liability	156	121
Total liabilities	10,428	9,947
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 6,094,373 at September 30, 2003 and 6,087,532 at June 30, 2003	61	61
Additional paid-in capital	11,457	11,426
Retained earnings	11,160	10,593
Treasury stock, at cost, 272,400 shares at September 30, 2003 and June 30, 2003	(1,303)	(1,303)
Total stockholders' equity	21,375	20,777
Total liabilities and stockholders' equity	\$ 31,803	\$ 30,724

See accompanying notes to condensed consolidated financial statements.

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**NATURAL ALTERNATIVES INTERNATIONAL, INC.**  
**Condensed Consolidated Statements Of Operations And Comprehensive Income**  
**(In thousands, except share and per share amounts)**  
**(Unaudited)**

	Three Months Ended September 30,	
	2003	2002
Net sales	\$ 16,721	\$ 13,136
Cost of goods sold	12,575	9,941
Gross profit	4,146	3,195
Selling, general & administrative expenses	3,516	2,792
Income from operations	630	403
Other income (expense):		
Interest income	9	7
Interest expense	(43)	(82)
Foreign exchange gain (loss)	15	(6)
Proceeds from vitamin antitrust litigation	—	225
Other, net	(22)	(2)
	(41)	142
Income before income taxes	589	545
Provision for income taxes	22	8
Net income	\$ 567	\$ 537
Net income per common share:		
Basic	\$ 0.10	\$ 0.09
Diluted	\$ 0.09	\$ 0.09
Weighted average common shares outstanding:		
Basic shares	5,820,709	5,804,267
Diluted shares	6,106,834	5,928,884

*See accompanying notes to condensed consolidated financial statements.*

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

	Three Months Ended September 30,	
	2003	2002
<b>Cash flow from operating activities</b>		
Net income	\$ 567	\$ 537
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Provision for uncollectible accounts receivable	1	(10)
Depreciation and amortization	670	615
Non-cash compensation	7	30
Pension expense, net of contributions	35	(27)
Loss on disposal of asset	3	3
Changes in operating assets and liabilities:		
Accounts receivable	(483)	(152)
Inventories	(2,598)	350
Prepaid expenses	(567)	(604)
Other assets	(14)	3
Accounts payable and accrued liabilities	540	176
Accrued compensation and employee benefits	47	188
Net cash provided by (used in) operating activities	(1,792)	1,109
<b>Cash flows from investing activities</b>		
Proceeds from sale of property and equipment	—	95
Capital expenditures	(394)	(270)
Repayment of notes receivable	—	2
Net cash used in investing activities	(394)	(173)
<b>Cash flows from financing activities</b>		
Net borrowings on lines of credit	—	1,386
Payments on long-term debt	(141)	(141)
Proceeds from issuance of common stock	24	3
Net cash provided by (used in) financing activities	(117)	1,248
Net increase (decrease) in cash and cash equivalents	(2,303)	2,184
Cash and cash equivalents at beginning of period	5,482	640
Cash and cash equivalents at end of period	\$ 3,179	\$ 2,824
<b>Supplemental disclosures of cash flow information</b>		
Cash paid during the period for interest	\$ 43	\$ 83

*See accompanying notes to condensed consolidated financial statements.*

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

**A. Basis of Presentation and 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 accounting principles generally accepted in the United States 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 months ended September 30, 2003 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, 2003 ("2003 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 2003 Annual Report unless otherwise noted below.

We have reclassified certain prior period amounts to conform to the current year presentation.

**Stock-Based Compensation**

We have stock option plans under which we have granted non-qualified and incentive stock options to employees and non-employee directors. We also have an employee stock purchase plan. We account for stock-based awards to employees in accordance with Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" ("APB 25"), and related interpretations. We have adopted the disclosure-only alternative of SFAS 123, "Accounting for Stock-Based Compensation" ("SFAS 123"), as amended by SFAS 148, "Accounting for Stock-Based Compensation—Transition and Disclosure" ("SFAS 148").

Pro forma information regarding net income and net income per common share is required and has been determined as if we had accounted for our stock-based awards under the fair value method, instead of the guidelines provided by APB 25. The fair value of the awards was estimated at the date of grant 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, including expected life and stock price volatility. Because our options have characteristics significantly different from those of traded options, and because changes in the subjective input assumptions can materially affect fair value estimates, in the opinion of management, the existing models do not necessarily provide a reliable single measure of the fair value of our options.

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For purposes of pro forma disclosures, we have amortized the estimated fair value of the options to expense over the options' vesting periods. Our pro forma information under SFAS 123 and SFAS 148 is as follows:

	Three Months Ended September 30,	
	2003	2002
	<i>(in thousands, except per share data)</i>	
Net income—as reported	\$ 567	\$ 537
Plus: Reported stock-based compensation	7	30
Less: Fair value stock-based compensation	(80)	(70)
Net income—pro forma	\$ 494	\$ 497
Reported basic net income per common share	\$ 0.10	\$ 0.09
Pro forma basic net income per common share	\$ 0.08	\$ 0.09
Reported diluted net income per common share	\$ 0.09	\$ 0.09
Pro forma diluted net income per common share	\$ 0.08	\$ 0.08

### Net Income per Common Share

We compute net income per common share in accordance with SFAS 128, "Earnings Per Share." This statement requires the presentation of basic income per common share, using the weighted average number of shares outstanding during the period, and diluted 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 income per common share computation. We calculated basic and diluted net income per common share as follows:

	Three Months Ended September 30,	
	2003	2002
	<i>(in thousands, except share and per share data)</i>	
<b>Numerator</b>		
Net income	\$ 567	\$ 537
<b>Denominator</b>		
Basic weighted average common shares outstanding	5,820,709	5,804,267
Dilutive effect of stock options	286,125	124,617
Diluted weighted average common shares outstanding	6,106,834	5,928,884
Basic net income per common share	\$ 0.10	\$ 0.09
Diluted net income per common share	\$ 0.09	\$ 0.09

Shares related to stock options of 170,000 for the three months ended September 30, 2003, and 110,000 for the three months ended September 30, 2002, were excluded from the calculation of diluted net income per share, as the effect of their inclusion would be anti-dilutive.



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**B. Inventories**

Inventories (net) at September 30, 2003, consisted of (in thousands):

Raw materials	\$ 6,060
Work in progress	3,318
Finished goods	1,065
	<hr/>
	\$10,443
	<hr/>

**C. Property and Equipment**

The following is a summary of property and equipment at September 30, 2003 (in thousands):

	<u>Depreciable Life In Years</u>	
Land	NA	\$ 393
Building and building improvements	5 - 39	3,288
Machinery and equipment	3 - 15	15,957
Office equipment and furniture	5 - 7	4,003
Vehicles	3	207
Leasehold improvements	1 - 10	4,400
		<hr/>
Total property and equipment		28,248
Less: accumulated depreciation and amortization		(17,707)
		<hr/>
Property and equipment, net		\$ 10,541
		<hr/>

**D. Debt**

We have a \$6.5 million credit facility which expires on October 24, 2004. The facility is comprised of a \$4.0 million working capital line of credit and a \$2.5 million term loan and is secured by all of our assets. The working capital line of credit is subject to eligibility requirements for current accounts receivable and inventory balances. As of September 30, 2003, we had \$4.0 million available under the line of credit. The interest rate on the line of credit and term loan is prime plus 0.5%. As of September 30, 2003 the outstanding amount on the term loan was \$2.1 million.

On May 2, 1996, we entered into a term loan agreement for \$1.1 million, secured by a building, at an annual interest rate of 8.25%. The loan is due in June 2011 and provides for principal and interest payable in monthly installments of \$10,800. The outstanding amount was \$731,000 at September 30, 2003.

The composite interest rate on all outstanding debt was 5.96% at September 30, 2003, and 7.37% at September 30, 2002.

**E. Commitments**

We lease part of our manufacturing facilities under non-cancelable operating leases.

We entered into two lease agreements during fiscal year 1999 for adjacent buildings located in Vista, California. The facilities are leased from an unaffiliated third party and consist of a total of approximately 74,000 square feet. The lease for the first building, 1215 Park Center Drive, commenced in August 1998 under a 5-year lease agreement for the rental of approximately 54,000 square feet that is utilized as a warehousing and blending facility. The lease for the second building, 1211C Park Center Drive, commenced in March 1999 under a 4.5-year lease agreement for the rental of approximately 20,000 square feet that is utilized as a packaging facility. In June 2003 we exercised our option to extend the lease terms for both facilities for an additional five years ending June 2008.

On October 27, 2003 we entered into a new lease, which includes the previous space and an additional 46,000 square feet available for manufacturing activities. The new lease will begin April 2004 at 1215 Park Center Drive contiguous to our existing space utilized

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for warehousing and blending. The new space will be utilized for tableting and encapsulation, which are currently located in San Marcos, CA. The new lease provides for a total of 120,000 square feet through March of 2014.

Under the new lease we are required to deliver a Letter of Credit, as collateral, in the amount of \$330,000 before January 5, 2004. The amount of the Letter of Credit will automatically reduce by 33.3% per year.

Minimum rental commitments as of October 27, 2003, (exclusive of property tax, insurance and maintenance) under all non-cancelable operating leases, including the new lease agreement referred to above, (with initial or remaining lease terms in excess of one year) are set forth below (dollars in thousands):

2004	\$ 796
2005	1,327
2006	1,324
2007	1,300
2008	1,314
Thereafter	6,938
	<u>\$12,999</u>

**F. Economic Dependency**

We had substantial net sales to two customers during the periods shown in the following table. The loss of any of these customers could have a material adverse impact on our net sales and earnings. Sales by customer, representing 10% or more of the respective period's total sales, were (in thousands):

	Three Months Ended September 30,			
	2003		2002	
	Net Sales by Customer	% of Total Net Sales	Net Sales by Customer	% of Total Net Sales
Customer 1	\$ 6,928	41%	\$ 5,619	43%
Customer 2	4,558	27	2,814	21
	<u>\$ 11,486</u>	<u>69%</u>	<u>\$ 8,433</u>	<u>64%</u>

We buy certain products from a limited number of raw material suppliers. We had substantial purchases from three separate suppliers during the periods shown in the following table. The loss of any of these suppliers could have a material adverse impact on our sales and earnings.

Raw material purchases, representing 10% or more of the respective quarter's raw material purchases, are shown below (in thousands):

	Three Months Ended September 30,			
	2003		2002	
	Raw Material Purchases by Supplier	% of Total Raw Material Purchases	Raw Material Purchases by Supplier	% of Total Raw Material Purchases
Supplier 1	\$ 3,151	34%	\$ 1,204	23%
Supplier 2	(a)	—	689	13
Supplier 3	(a)	—	552	11
	<u>\$ 3,151</u>	<u>34%</u>	<u>\$ 2,445</u>	<u>47%</u>

(a) Purchases were less than 10% of total raw material purchases.

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Our segment information by geographic area was (in thousands):

	Net Sales for the Three Months Ended September 30,	
	2003	2002
United States	\$ 14,783	\$ 11,227
Europe	1,938	1,909
	<u>\$ 16,721</u>	<u>\$ 13,136</u>

	Long Lived Assets		Total Assets	
	September 30, 2003	June 30, 2003	September 30, 2003	June 30, 2003
United States	\$ 9,793	\$ 9,996	\$ 27,622	\$ 26,724
Europe	1,286	1,362	4,181	4,000
	<u>\$ 11,079</u>	<u>\$ 11,358</u>	<u>\$ 31,803</u>	<u>\$ 30,724</u>

**H. Contingencies**

We were a plaintiff in an anti-trust lawsuit against several manufacturers of vitamins and other raw materials that we purchased. Other similarly situated companies filed a number of similar lawsuits against some or all of the same manufacturers. Our lawsuit was consolidated with some of the others and captioned *In re: Vitamin Antitrust Litigation*. As of June 30, 2003 all of the Company's claims under the *Vitamin Antitrust Litigation* were settled. Settlement payments received by the Company of \$225,000 are included in proceeds from vitamin antitrust litigation in the accompanying statements of operations for the three months ended September 30, 2002.

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. While unfavorable outcomes are possible, we believe the resolution of these matters, individually or in the aggregate, will not result in a material adverse effect on our business, financial condition or results of operations.

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[Table of Contents](#)**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 months ended September 30, 2003. You should read the following discussion and analysis together with our unaudited financial statements and the notes to the financial statements included under Item 1 in this report, as well as the information included in our 2003 Annual Report. Our future financial condition and results of operations will vary from our historical financial condition and results of operations as described below.

**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 2003 Annual Report. There have been no significant changes to these policies during the three months ended September 30, 2003.

**Recent Developments**

On October 27, 2003, in an effort to enhance our manufacturing capacity and improve the efficiency of our operations, we amended our Vista, California property leases to increase the square footage by an additional 46,000 square feet. The total leased property in Vista, California increased from approximately 74,000 square feet to approximately 120,000 square feet. The new lease, including the additional space, commences on April 1, 2004 and has a term of ten years. The new space will be utilized for tableting and encapsulation, which are currently located in San Marcos, CA.

Additionally, we continue to evaluate expansion opportunities that could increase product lines, enhance our manufacturing capabilities or reduce risks associated with reliance on a limited number of customers.

**Results of Operations – Three Months Ended September 30, 2003 vs. Three Months Ended September 30, 2002***Net Sales*

	Three Months Ended September 30,	
	2003	2002
	<i>(in thousands)</i>	
Private Label Contract Manufacturing	\$13,718	\$10,525
Direct-to-Consumer Marketing Program	3,003	2,611
<b>Total Net Sales</b>	<b>\$16,721</b>	<b>\$13,136</b>

Our total net sales increased \$3.6 million, or 27%, during the three months ended September 30, 2003, compared to the comparable period ended September 30, 2002. The net sales growth resulted from a \$3.2 million, or 30%, increase in our private label contract manufacturing sales and a \$392,000, or 15%, increase in net sales from our direct-to-consumer marketing program. Our private label contract manufacturing sales increase was due primarily to new product sales together with an increase in the volume of established products for our two largest customers. Our direct-to-consumer marketing program increase was due primarily to the introduction of four new direct-to-consumer products.

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### *Gross Profit*

	Three Months Ended September 30,	
	2003	2002
	<i>(in thousands)</i>	
Gross Profit	\$4,146	\$3,195
As a Percentage of Net Sales	24.8%	24.3%

The improvement in gross profit margin to 24.8% from 24.3% was due to additional fixed cost leverage on higher net sales and improved efficiency from investments in our packaging operations. Our direct and indirect manufacturing expenses were 21.2% and 22.9% of net sales in the three months ended September 30, 2003 and September 30, 2002, respectively. Our material costs as a percentage of net sales was 54% in the three months ended September 30, 2003 (\$9.0 million) and 52.7% in the three months ended September 30, 2002 (\$6.9 million).

### *Selling, General and Administrative Expenses*

Selling, general and administrative expenses were \$3.5 million (21% of net sales) in the three months ended September 30, 2003, compared to \$2.8 million (21.3% of net sales) in the three months ended September 30, 2002. The increase in absolute dollars was primarily due to increases in direct-to-consumer fulfillment costs of \$84,000 associated with incremental sales, additional direct-to-consumer media and production costs of \$198,000 to market the Dr. Cherry's Pathway to Healing™ brand in several new television markets, sales personnel costs of \$90,000, research and development personnel and professional costs of \$173,000 for strengthening regulatory compliance, insurance premiums of \$71,000, and \$65,000 for public company reporting and compliance matters.

### *Income from Operations*

Our income from operations was \$630,000 for the three months ended September 30, 2003, compared to \$403,000 for the three months ended September 30, 2002. The improvement in our income from operations was due to the increase in gross profit of \$951,000 from improved gross margin on higher net sales, partially offset by incremental selling, general and administrative expenses of \$724,000.

### *Net Income*

Our net income was \$567,000 (\$0.09 per diluted share) in the three months ended September 30, 2003 compared to \$537,000 (\$0.09 per diluted share) in the three months ended September 30, 2002. Excluding the effect of the litigation settlement proceeds in the prior period, net income increased \$255,000 from \$312,000 (\$0.05 per diluted share).

### **Liquidity and Capital Resources**

Our working capital increased in the three months ended September 30, 2003 to \$13.1 million versus \$12.3 million at June 30, 2003. Cash and cash equivalents decreased \$2.3 million primarily as a result of an increase of \$2.6 million in inventory. Inventory increased primarily due to customer requirements and anticipated revenue growth.

Accounts receivable increased \$482,000 due to higher net sales in the three months ended September 30, 2003, as compared with the three months ended June 30, 2003 while days sales outstanding remained consistent. Accounts payable as a percentage of inventory was 51% at September 30, 2003 versus 64% at June 30, 2003 due to timing of disbursements to vendors.

Approximately \$400,000 of our operating cash flow was generated by NAIE in the three months ended September 30, 2003. There are currently no material restrictions on the transfer of these funds within the Company.

Capital expenditures for the three months ended September 30, 2003 were approximately \$394,000. These expenditures were primarily for the continuing investment in our domestic manufacturing of approximately \$371,000. We plan on significantly increasing capital expenditures in the remaining nine months of fiscal 2004 to expand manufacturing capacity and improve efficiency in encapsulation, tableting and packaging operations.

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Our consolidated debt decreased to \$2.8 million at September 30, 2003 from \$3.0 million at June 30, 2003. Our consolidated debt of \$2.8 million was comprised of a \$731,000 term loan secured by a building and a \$2.1 million term loan included in our new credit facility. We have a \$6.5 million credit facility expiring in October 2004. The facility includes a \$4.0 million working capital line of credit and a \$2.5 million term loan and is secured by all of our assets. The working capital line of credit is subject to eligibility requirements for current accounts receivable and inventory balances. As of September 30, 2003, we had \$4.0 million available under the line of credit. The interest rate on the line of credit and the term loan is prime plus 0.5%.

We plan on funding our current working capital needs, capital expenditures and debt payments using cash flow from operations and our existing credit facility. Additionally, we are evaluating expanding our credit facility to provide sufficient capital for our long-term growth strategies.

On June 24, 2003 we purchased option contracts designated as cash flow hedges to protect against the foreign currency exchange risk inherent in our forecasted transactions denominated in Euros. The option contracts had a notional amount of \$1.5 million and a purchase price of \$16,100. The premium associated with each option contract is amortized on a straight-line basis over the term of the option, and mark-to-market amounts and realized gains or losses are recognized on the settlement date in foreign exchange gain (loss). The risk of loss associated with purchased options is limited to premium amounts paid for the option contracts. At September 30, 2003, the value of the purchased options of \$1,300 was included in other current assets in the consolidated financial statements. There are no other derivative financial instruments at September 30, 2003.

### **Off-Balance Sheet Arrangements**

We do not have any off-balance sheet debt nor do we have any transactions, arrangements or relationships with any special purposes entities.

### **Contractual Obligations**

This table summarizes our known contractual obligations and commercial commitments, including the new lease agreement, at October 27, 2003 (in thousands).

<b>Contractual Obligations</b>	<b>Total</b>	<b>Fiscal 2004</b>	<b>Fiscal 2005</b>	<b>Fiscal 2006</b>	<b>Fiscal 2007</b>	<b>Fiscal 2008</b>	<b>Thereafter</b>
Long-term Debt	\$ 2,815	\$ 429	\$1,784	\$ 83	\$ 90	\$ 97	\$ 332
Operating Leases	12,999	796	1,327	1,324	1,300	1,314	6,938
<b>Total Obligations</b>	<b>\$15,814</b>	<b>\$1,225</b>	<b>\$3,111</b>	<b>\$1,407</b>	<b>\$1,390</b>	<b>\$1,411</b>	<b>\$ 7,270</b>

### **Recent Accounting Pronouncements**

Recent accounting pronouncements are discussed under Item 7 of our 2003 Annual Report. As of September 30, 2003, we are not aware of any additional pronouncements that materially effect our financial position or results of operations.

### **Risks**

You should carefully consider the risks described under Item 7 of our 2003 Annual Report, as well as the other information in our 2003 Annual Report and in this report, 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 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

We are exposed to market risk, which is the potential loss arising from adverse changes in market rates and prices, such as foreign currency exchange and interest rates. We generally do not enter into derivatives or other financial instruments for trading or speculative purposes. We may, however, enter into financial instruments to try to manage and reduce the impact of changes in foreign currency exchange rates. We cannot predict with any certainty our future exposure to fluctuations in foreign currency exchange and interest rates or other market risks or the impact, if any, such fluctuations may have on our future business, product pricing, consolidated financial condition, results of operations or cash flows. The actual impact of any fluctuations in foreign currency exchange or interest rates may differ significantly from those discussed below.

#### **Interest Rates**

At September 30, 2003, we had fixed rate debt of \$731,000 and variable rate debt of \$2.1 million. The interest rate on our variable rate debt is equal to prime plus 0.5%, and was 4.5% as of September 30, 2003. An immediate one hundred basis point (1%) increase in the interest rate on our variable rate debt, holding other variables constant, would increase our annual interest expense by \$5,400. Interest rates have been at or near historic lows in recent years. There can be no guarantee that interest rates will not rise. Any increase in interest rates may adversely affect our results of operations and financial condition.

#### **Foreign Currencies**

To the extent our business continues to expand outside the United States, an increasing share of our net sales and cost of sales will be transacted in currencies other than the United States dollar. Accounting practices require that our non-United States dollar-denominated transactions be converted to United States dollars for reporting purposes. Consequently, our reported net earnings may be significantly affected by fluctuations in currency exchange rates. When the United States dollar strengthens against currencies in which products are sold or weakens against currencies in which we incur costs, net sales and costs could be adversely affected.

Our main exchange rate exposures are with the Swiss Franc and the Euro against the United States dollar. This is due to NAIE's operations in Switzerland and the payment in Euros by our largest customer for finished goods. Additionally, we pay our NAIE employees in Swiss Francs. We may enter into forward exchange contracts, foreign currency borrowings and option contracts to hedge our foreign currency risk. Our goal in seeking to manage foreign currency risk is to provide reasonable certainty to the functional currency value of foreign currency cash flows and to help stabilize the value of non-United States dollar-denominated earnings.

On June 24, 2003, we bought option contracts designated as cash flow hedges to protect against the foreign currency exchange risk inherent in a portion of our forecasted transactions denominated in Euros. The option contracts had a notional amount of \$1.5 million and a purchase price of \$16,100. The options allow us to sell \$227,273 Euros a month for a period of six months at an exchange rate of 1.10 Euros to 1.00 United States dollar. The risk of loss associated with the options is limited to premium amounts paid for the option contracts. As of September 30, 2003, we had not exercised any of the options and three of the options had expired.

On September 30, 2003, the Swiss Franc closed at 1.32 to 1.00 United States dollar and the Euro closed at 0.86 to 1.00 United States dollar. A 10% adverse change to the exchange rates between the Swiss Franc and the Euro against the United States dollar would have decreased our earnings for the three months ended September 30, 2003 by \$271,000.

### **ITEM 4. CONTROLS AND PROCEDURES**

We maintain certain disclosure controls and procedures. They are designed to help ensure that material information is: (1) gathered and communicated to our management, including our principal executive and financial officers, on a timely basis; and (2) recorded, processed, summarized, reported and filed with the SEC as required under the Securities Exchange Act of 1934.

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Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of our disclosure controls and procedures as of September 30, 2003. Based on their evaluation, they concluded that our disclosure controls and procedures were effective for their intended purpose described above. There were no changes to our internal controls during the quarterly period ended September 30, 2003 that have materially affected, or that are reasonably likely to materially affect, our internal controls.

**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. While unfavorable outcomes are possible, we believe the resolution of these matters, individually or in the aggregate, will not result in a material adverse effect on our business, financial condition or results of operations.

As of November 4, 2003, neither NAI nor its subsidiaries were a party to any material pending legal proceedings nor was any of their property the subject of any material pending legal proceedings.

**ITEM 2. CHANGES IN 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 AND REPORTS ON FORM 8-K**

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



**EXHIBIT INDEX**

<b>Exhibit Number</b>	<b>Description</b>	<b>Incorporated By Reference To</b>
3(i)	Restated Certificate of Incorporation of Natural Alternatives International, Inc. filed with the Delaware Secretary of State on July 31, 1996	Exhibit 3(i) of NAI's Annual Report on Form 10-K for the fiscal year ended June 30, 2003, filed with the commission on September 17, 2003
3(ii)	By-laws of Natural Alternatives International, Inc. dated as of December 21, 1990	NAI's Registration Statement on Form S-1 (File No. 33-44292) filed with the commission on December 21, 1992
10.1	1999 Omnibus Equity Incentive Plan as adopted effective May 10, 1999	Exhibit A of NAI's definitive Proxy Statement filed with the commission on October 21, 1999
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	Filed herewith
10.4	Form of Executive Employment Agreement dated as of September 13, 2003, by and between NAI and Mark Zimmerman	Filed herewith
10.5	Form of Executive Employment Agreement dated as of September 13, 2003, by and between NAI and Randell Weaver	Filed herewith
10.6	Form of Executive Employment Agreement dated as of September 13, 2003, by and between NAI and Mark A. LeDoux	Filed herewith
10.7	Form of Executive Employment Agreement dated as of September 13, 2003, by and between NAI and John Wise	Filed herewith
10.8	Form of Executive Employment Agreement dated as of September 13, 2003, by and between NAI and John Reaves	Filed herewith
10.9	Form of Executive Employment Agreement dated as of September 13, 2003, by and between NAI and Timothy E. Belanger	Filed herewith
10.10	Lease of Facilities in Vista, California between NAI and Calwest Industrial Properties, LLC, a California limited liability company dated October 27, 2003	Filed herewith
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

(b) Reports on Form 8-K

On September 9, 2003, we filed a Current Report on Form 8-K with the SEC that included a press release issued on September 9, 2003, announcing our financial results for the fourth quarter and fiscal year ended June 30, 2003. This report was the only report on Form 8-K that we filed during the quarterly period ended September 30, 2003.

**SIGNATURES**

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: November 4, 2003

NATURAL ALTERNATIVES INTERNATIONAL, INC.

By: /s/ JOHN R. REAVES

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John R. Reaves, Chief Financial Officer

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

NATURAL ALTERNATIVES INTERNATIONAL  
MANAGEMENT CASH INCENTIVE PLAN

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**NATURAL ALTERNATIVES INTERNATIONAL  
MANAGEMENT INCENTIVE PLAN**

**Plan Design**

The NAI Management Incentive Plan is designed to reward Participants for contributing significantly to the successful performance of NAI during the fiscal year, which is referred to herein as the Plan Year. This Plan applies to Senior Managers and Executives, and is intended to reward quantitative, measurable performance in areas that are key to growing and maintaining our business. Awards will be based on the performance of goals set for the Company, for the Participant's functional or departmental responsibilities, and for individual performance.

**Participation**

Eligibility to participate in this Plan will be limited to individuals who are approved by the Human Resources Committee of the Board of Directors, based on Management's recommendation, and who meet all of the following criteria:

1. Classified as an active employee in an incentive eligible position for at least six months during the Plan Year, which must include the final day of the Plan Year and the subsequent date of determination of any Award, except as provided in the Changes in Employment Status section
2. Performing at a satisfactory level and not subject to disciplinary action at any time during or at the end of the Plan Year
3. Not a participant in another NAI cash incentive plan.

Participants might be placed into groups based on their reporting relationship to the Chief Executive Officer, their salary, their title, on other criteria, or on no criteria. If groupings are used for this Plan, they will be intended only for the use of this Plan, and will not convey any rights or privileges other than for the purposes of this Plan. If groupings are used in this Plan, the Plan specifics may vary from one group to another.

**Performance Goal Categories**

One or more performance goals will be set in various goal categories, including, but not necessarily limited to, Company performance, Functional/Departmental performance, and Individual performance. The relative importance, or weight, of goals in these goal categories will be set in writing for each Participant at the beginning of, or soon after the beginning of, the Plan Year.

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For example, the weighting of the goal categories for senior executives might be as follows:

<u>Goal Category</u>	<u>Goal Weighting</u>
Corporate goals	50%
Functional/Departmental goals	25%
Individual goals	25%
Total	100%

**Corporate Goal**

Each year Management and the Board of Directors will decide on one or more Corporate Goals; the Plan anticipates these goal(s) will be one or more of the following: revenue, after-tax after bonus net income, and profit margin (defined as after-tax after bonus net income divided by revenue).

The Board might designate one or more of these goals as a “gating item,” with a minimum performance level requirement, called the Threshold. If performance does not at least equal this minimum level, no bonus will be payable under this plan, regardless of performance on other goals in this or other goal categories.

**Functional/Departmental, and Individual Goals**

Participants will likely be covered by Functional/Departmental and Individual goals. The specific goal or goals in these categories will be discussed and agreed upon between the Participant and his or her manager. All goals in these categories must be in writing, and accepted and approved the Human Resources Committee.

**Performance Evaluation**

Determination of a measure of completion or performance of all goals will be evaluated by Management, but will be subject to the review and approval of the Human Resources Committee in their sole and absolute discretion.

**Incentive Opportunities**

Each Participant shall be advised by Management of his or her incentive opportunity for each Plan Year. The opportunity may be allocated among the Company’s goals and the Department’s or the Participant’s individual goals as determined by the Human Resources Committee for each Plan Year. The opportunities may be defined as a percent of salary and/or a flat dollar amount, and might vary from participant to participant, and from goal to goal.

Performance or completion of each goal may be evaluated on a “pass/fail” basis, or may be designated at three performance levels: a Threshold, a Target, and an Outstanding (truly stretch) level. The bonus earned will be directly related to the Participant’s performance and determination of achievement (if any) of each performance goal.

For example, the participant may be given a table like the following, showing the incentive as a percent of base salary (the numbers are for illustration only):

<u>For Functional/Departmental Goal "X"</u>	<u>Incentive Oppty.</u>
For meeting Threshold	1%
For meeting the Target level	20%
For meeting the Outstanding level	40%

Performance that falls between two levels (e.g., above the Threshold, but below the Target) will produce a pro-rated bonus. Performance that exceeds the Outstanding level will result in an Award that increases in the same mathematical progression as the Award increases from the Target to the Outstanding level. There is no maximum award limitation under this Plan.

Performance or achievement (if any) of each goal will be measured independently and will lead to bonuses determined separately for each goal, subject to any overall Corporate "gating item" provision(s), if applicable for each Plan Year. Thus, awards may be earned in one, two, or all three categories.

**Timing and Payment of Awards**

Awards are not earned until the Human Resources Committee approves the Award. This means that although the Plan Year has ended, the Participant is not entitled to an Award unless the Human Resources Committee of the Board of Directors determines the Participant is entitled to receive the Award. The Plan specifically requires that a Participant be on the active payroll at the time the Award is approved and paid, except for special provisions for certain separations described in the Changes in Employment Status section.

No awards will be approved, and therefore cannot be earned, until the audited financial results for the Company are completed.

Awards will be paid in a single cash payment shortly after the Human Resources Committee has approved the Award.

**No Employment Right**

Nothing contained in nor any action taken under the Plan will confer upon any Participant any right to continue in the employment of NAI, and does not constitute any contract or agreement of employment, or interfere in any way with the right of NAI to terminate such person's employment as an "At Will" employee.

**Changes in Employment Status**

**Transfers, Promotions, Disability, Retirement or Leave of Absence**

Proposed Awards will be paid after the yearly audit has been completed and the Human Resources Committee of the Board of Directors, subject to the following, has approved the Award:

1. Transfer or promotion into a position not eligible under this Plan, or from an ineligible position to an eligible one, will result in the Participant becoming eligible for a pro-rated bonus, as long as he/she has been in an eligible position for not less than six months in the Plan Year.

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2. Total and permanent disability will result in the Participant becoming eligible for a pro-rated award, subject to actual performance of the goals set for the Participant prior to the disability and for the Company during the entire Plan Year.
  3. Retirement from active employment, subject to qualifying for retirement benefits under any then applicable retirement plans and the approval of the Human Resources Committee will result in the Participant becoming eligible for a pro-rated bonus, provided all other performance requirements of the individual prior to retirement and the Company for the entire Plan Year having been met.
  4. An approved leave of absence will be treated in the same manner as a transfer from or into an eligible position.

**Termination**

Company Initiated: If the employment of a Participant is terminated by NAI with or without cause for any reason prior to payment of the Award the Participant forfeits all rights to any Award for the Plan Year.

Voluntary: Participants terminating employment by their own action prior to payment of the Award forfeit all rights to any Award.

**Death of a Participant**

A pro-rated bonus may be paid to a Participant's estate, assuming performance prior to his or her death reached or exceeded the Minimum or Threshold performance level requirements, subject to any corporate Minimum or Threshold performance requirements being met.

A Participant may file with NAI a designation of a beneficiary or beneficiaries on a form provided by the Human Resources Department. The designation may be changed or revoked by the Participant's sole action, provided that such change or revocation is filed with NAI in writing in any form approved by NAI.

## EXECUTIVE EMPLOYMENT AGREEMENT

Mark Zimmerman ("Employee") hereby accepts the offer of Natural Alternatives International, Inc. ("NAI" or the "Company") for employment as Vice President Operations beginning September 13, 2003. Collectively, NAI and Employee will be referred to herein as the "Parties."

1. **Employment.** Notwithstanding the rights of the Parties to terminate the relationship described below, the Parties anticipate that Employee will be employed through June 30, 2004. Employee's employment will be at-will and may be terminated by either Employee or NAI at any time for any reason or no reason, with or without cause upon written notice to the other, or without any notice upon the death of Employee. The at-will status of the employment relationship may not be modified except in writing authorized in advance by the Board of Directors of NAI and signed by the Board of Directors of NAI and Employee.

2. **Employee Handbook.** Employee and NAI further understand and agree that nothing in the NAI Employee Handbook is intended to be, and nothing in it should be construed to be, a limitation of NAI's right to terminate, transfer, demote, suspend and administer discipline at any time for any reason. Employee and NAI understand and agree nothing in the Handbook is intended to, and nothing in the Handbook should be construed to, create an implied or express contract of employment contrary to this Agreement.

3. **Position and Responsibilities.** During employment, Employee shall have such responsibilities, duties and authority as NAI through its Board of Directors may from time to time assign to Employee, and that are normal and customary duties of a Vice President Operations of a publicly held corporation. Employee's initial title shall be Vice President Operations.

4. **Term.** If Employee continues working for NAI past June 30, 2004, and if NAI still desires Employee's services, then the following terms and conditions will apply:

a. **At-will.** Employee shall be an at-will employee and NAI or Employee will be entitled to terminate the employment relationship for any reason or for no reason, with or without cause and with or without notice;

b. **Compensation.** Employee will be compensated at the rate set forth in Section 5 below unless another rate is mutually agreed upon; and

c. **Benefits.** As to benefits and other terms of employment, Employee shall be subject to the same policies and procedures as other employees of NAI in similar positions.

5. **Compensation.** While Employee is employed by NAI as Vice President Operations, Employee's rate of compensation will be at a rate of \$175,000 per year, payable no less frequently than monthly. The compensation set forth in this Section 5 will be Employee's only compensation except standard employee benefits available to other level one executives of NAI or any other written compensation arrangement approved by the Board of Directors of NAI. Employee will be entitled to participate in any bonus compensation in a manner and at a level consistent with other level one executives of NAI.



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6. **Termination.** In the event of termination or resignation, the following terms and conditions will apply:

a. **Without Cause, Severance Benefit.** In the event Employee is terminated by NAI without cause, Employee shall be entitled to receive a severance benefit, including standard employee benefits available to other level one executives of NAI, in an amount equal to one months' compensation for each completed year of service up to a maximum severance benefit of six (6) months' compensation. One half of any severance benefit owing hereunder shall be paid within 10 days of termination and the balance shall be paid on a bi-weekly basis over the severance period of from one to six months.

b. **With Cause, No Severance Benefit.** NAI may terminate Employee with cause, which shall be limited to the occurrence of one or more of the following events: (i) the Employee's commission of any fraud against NAI; (ii) Employee's intentional appropriation for his or her personal use or benefit the funds of the Company not authorized by the Board of Directors; (iii) Employee's conviction of any crime involving moral turpitude; (iv) Employee's conviction of a violation of any state or federal law which could result in a material adverse impact upon the business of NAI; (v) the Employee engaging in any other professional employment or consulting or directly or indirectly participating in or assisting any business which is a current or potential supplier, customer or competitor of NAI without prior written approval from the Board of Directors of NAI, (vi) the Employee accepting or encouraging the offering of gifts or gratuities from any customer, vendor, supplier, or other person doing business with NAI, or (vii) when Employee has been disabled and is unable to perform the essential functions of the position for any reason notwithstanding reasonable accommodation and has received from NAI compensation in an amount equivalent to his or her severance benefit payment. No severance benefit shall be due to Employee if Employee is terminated for cause.

c. **Resignation or Retirement, No Severance Pay.** No severance pay shall be due to Employee if Employee resigns or retires from employment.

7. **Termination Obligations.**

a. **Return of NAI Company Property.** Employee shall take all reasonable steps to make sure all NAI Company Property (as defined in Attachment 2) is returned to NAI promptly but in no event later than two (2) business days following termination of employment.

b. **Employee Cooperation.** Following any termination of the employment, Employee shall cooperate fully with NAI in all matters relating to completing pending work on behalf of NAI and the orderly transfer of work to other employees of NAI. Employee shall also cooperate in the defense of any action brought by any third party against NAI that relates in any way to Employee's acts or omissions while employed by NAI.

c. **Survival of Obligations.** Employee's obligations under this Section shall survive the termination of employment and the expiration or termination of this Agreement.

8. **Change in Control.** In the event of any Change in Control, the following provisions will apply. Any of the following shall constitute a "Change in Control" for the purposes of this Section 8:

a. A "person" (meaning an individual, a partnership, or other group or association as defined in sections 13(d) and 14(d) of the Securities Exchange Act of 1934) acquires fifty percent (50%) or more of the combined voting power of the outstanding securities of NAI having a right to vote in elections of directors; or

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b. The members of the Board of Directors of the Company who were members of the Board of Directors on the commencement date hereof, shall for any reason cease to constitute a majority of the Board of Directors of the Company; or

c. All or substantially all of the business of NAI is disposed of by NAI to a party or parties other than a subsidiary or other affiliate of NAI, in which NAI owns less than a majority of the equity, pursuant to a partial or complete liquidation of NAI, sale of assets (including stock of a subsidiary of NAI) or otherwise.

d. In the event of any such Change in Control, this Agreement shall continue in effect unless Employee at his or her sole option, and within sixty (60) days of a Change in Control taking place, elects voluntarily to terminate this Agreement. In such case, NAI shall pay Employee as severance pay or liquidated damages, or both, a lump sum payment (“Change in Control Severance Payment”) in an amount equal to six (6) months’ compensation plus an additional one months’ compensation for each completed year of service up to a maximum severance benefit of twelve (12) months’ compensation or such greater amount as the Board of Directors determines from time to time pursuant to terms which may not be revoked or reduced thereafter.

e. In the event Employee is terminated following a Change in Control by NAI and/or the surviving or resulting corporation without cause, Employee shall be entitled to a Change in Control Severance Payment in an amount equal to six (6) months’ compensation plus an additional one months’ compensation for each completed year of service up to a maximum severance benefit of twelve (12) months’ compensation or such greater amount as the Board of Directors determines from time to time pursuant to terms which may not be revoked or reduced thereafter.

f. Any Change in Control Severance Payment shall be made not later than the fifteenth (15th) day following the effective date of the voluntary or involuntary termination of this Agreement in connection with a Change in Control; provided, however, that if the amount of such payments cannot be finally determined on or before such date, NAI shall pay to Employee on such date a good faith estimate of the minimum amount of such payments, and shall pay the remainder of such payments (together with interest at the rate provided in Internal Revenue Code Section 1274(b)(2)(B) of the Code), as soon as the amount thereof can be determined, but in no event later than the thirtieth (30th) day after the applicable termination date. In the event the amount of the estimated payments exceeds the amount subsequently determined to have been due, such excess shall constitute a loan by NAI payable on the fifteenth (15th) day after receipt by Employee of a written demand for payment from NAI (together with interest calculated as above). The total of any payment pursuant to this Section 8 shall be limited to the extent necessary, in the opinion of legal counsel acceptable to Employee and NAI, to avoid the payment of an “excess parachute” payment within the meaning of Internal Revenue Code Section 280 G or any similar successor provision.

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g. In the event of termination of employment either by the Employee under Section 8d. or by NAI under Section 8e., NAI shall cause each stock option heretofore granted by NAI to the Employee to become fully exercisable and to remain exercisable for the term of the option.

9. **Arbitration.** Employee and NAI hereby agree to the Mutual Agreement to Arbitrate attached hereto and made a part hereof as Attachment #1. Employee's obligations under this Section shall survive the termination of employment and the expiration or termination of this Agreement.

10. **Confidential Information and Inventions.** Employee and NAI hereby agree to the Confidential Information and Assignment Agreement, Covenant of Exclusivity and Covenant Not to Compete attached hereto and made a part hereof as Attachment #2. Employee's obligations under this Section shall survive the termination of employment and the expiration or termination of this Agreement.

11. **Competitive Activity.** Employee covenants, warrants and represents that during the period of his or her employment with NAI, Employee shall not engage anywhere directly or indirectly in (as a principal, shareholder, partner, director, officer, agent, employee, consultant or otherwise) or be financially interested in any business which is involved in business activities which are the same as, similar to, or in competition with business activities carried on by NAI or any business that is a current or potential supplier, customer or competitor of NAI without prior written approval from the Board of Directors of NAI.

12. **Employee Conduct.** Employee covenants, warrants and represents that during the period of his or her employment with NAI, Employee shall not accept or encourage the offering of gifts or gratuities from any customer, vendor, supplier, or other person doing business with NAI. Employee represents and understands that acceptance or encouragement of any gift or gratuity may create a perceived financial obligation and/or conflict of interest for NAI and shall not be permitted as a means to influence business decisions, transactions or service. In this situation, as in all other areas of employment, Employee is expected to conduct himself or herself using the highest ethical standard.

13. **Entire Agreement.** This Agreement and any attachments and/or exhibits contains the entire agreement between the parties. It supersedes any and all other agreements, either oral or in writing, between the parties hereto with respect to Employee's employment by NAI. Each party to this Agreement acknowledges that no representations, inducements, promises or agreements, oral or otherwise, have been made by any party, or anyone acting on behalf of any party, which are not embodied herein and acknowledges that no other agreement, statement or promise not contained in this Agreement shall be valid or binding. This Agreement may not be modified or amended by oral agreement or course of conduct, but only by an agreement in writing signed by the Board of Directors of NAI and Employee. To the extent the practices, policies or procedures of NAI, now or in the future, are inconsistent with the terms of this Agreement, the provisions of this Agreement shall control.

14. **Governing Law.** This Executive Employment Agreement shall be construed and enforced in accordance with the laws of the State of California.

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15. **Provisions Separable.** Should any part or provision of this Executive Employment Agreement be held unenforceable or in conflict with the law of any jurisdiction, the validity of the remaining parts shall not be affected by such holding.

16. **Attorney's Fees.** Should any party institute any action, arbitration or proceeding to enforce, interpret or apply any provision of this Executive Employment Agreement, the parties agree that the prevailing party shall be entitled to reimbursement by the non-prevailing party of all recoverable costs and expenses, including, but not limited to, reasonable attorney fees.

17. **Interpretation.** This Agreement shall be construed as a whole, according to its fair meaning, and not in favor of or against any party. By way of example and not in limitation, this Agreement shall not be construed in favor of the party receiving a benefit nor against the party responsible for any particular language in this Agreement.

18. **Legal Representation; Independent Counsel.** The law firm of Fisher Thurber LLP has prepared this Executive Employment Agreement on behalf of NAI based on its instructions. Fisher Thurber LLP does not represent any other party to this Executive Employment Agreement. In executing this Executive Employment Agreement, Employee represents that he has neither requested nor been given legal advice or counsel by Fisher Thurber LLP or any of its attorneys. Employee is aware of his right to obtain separate legal counsel with respect to the negotiation and execution of this Executive Employment Agreement and acknowledges that Fisher Thurber LLP has recommended that Employee retain his own counsel for such purpose. Employee further acknowledges that he (i) has read this Executive Employment Agreement and its exhibits and attachments; (ii) has had the opportunity to retain separate counsel in connection with the negotiation and execution of this Executive Employment Agreement; and (iii) has relied on the advice of separate counsel with respect to this Executive Employment Agreement or made the conscious decision not to retain counsel in connection with the negotiation and execution of this Executive Employment Agreement.

“EMPLOYEE”

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Mark Zimmerman

NATURAL ALTERNATIVES INTERNATIONAL, INC.  
a Delaware corporation

By: \_\_\_\_\_

Randell Weaver, President

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**ATTACHMENT #1**

**MUTUAL AGREEMENT TO MEDIATE AND ARBITRATE CLAIMS**

This Mutual Agreement to Mediate and Arbitrate Claims ("Agreement") is entered into between Mark Zimmerman ("Employee") and Natural Alternatives International, Inc. ("NAI"), together with its affiliates and subsidiaries.

In consideration of Employee's prospective and continued employment relationship with NAI, Employee's employment rights under Employee's Executive Employment Agreement, Employee's participation in stock option plans, Employee's participation in bonus compensation programs, Employee's access to and receipt of confidential information of NAI, and other good and valuable consideration, all of which Employee considers to have been negotiated at arm's length, Employee agrees to the following:

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

a. To the fullest extent permitted by law, all claims and disputes between Employee (and his attorneys, successors and assigns) and NAI (as defined below) relating in any manner whatsoever to the employment or termination of Employee, including without limitation all claims and disputes arising under this Agreement, shall be resolved by arbitration. All persons and entities specified in the preceding sentence (other than NAI and Employee) shall be considered third-party beneficiaries of the rights and obligations created by this Agreement on arbitration. Claims and disputes covered by this Agreement include without limitation those arising under:

- (i) Any federal, state or local laws, regulations or statutes prohibiting employment discrimination (such as, without limitation: race, sex, national origin, age, disability, religion, sexual orientation) and harassment.
- (ii) Any alleged or actual agreement or covenant (oral, written or implied) between Employee and NAI.
- (iii) Any company policy, compensation, wage or related claim or benefit plan, unless the decision in question was made by an entity other than NAI.
- (iv) Any public policy.
- (v) Any other claim for personal, emotional, physical or economic injury.

b. The only disputes between Employee and NAI which are not included within this Mutual Agreement to Arbitrate Claims are:

- (i) Any claim by Employee for workers' compensation or unemployment compensation benefits.
- (ii) Any claim by Employee for benefits under a company plan which provides for its own arbitration procedure.

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

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

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

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

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

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

a. If NAI and Employee are unable to resolve a dispute relating to this Agreement through mediation, they shall submit any such dispute or claims relating to Employee's employment with NAI or the termination of that employment including but not limited to claims arising under common law or under any statute, rule, regulation, or law, whether federal, state or local including without limitation, any claims under the California Fair Employment and Housing Act, the California Labor Code, Title VII of the Civil Rights Act of 1964, the Age Discrimination in Employment Act, the Americans with Disabilities Act, the Rehabilitation Act of 1973, the Family Medical Leave Act the Employee Retirement Income Security Act of 1974, or Section 1981 or Title 42 of the United States Code to binding arbitration, in accordance with California Code of Civil Procedure §§1280 through 1294.2. Either party may enforce the award of the arbitrator under Code of Civil Procedure §1285 by any competent court of law. Employee and NAI understand that they are waiving their rights to a jury trial.

b. The party demanding arbitration shall submit a written claim to the other party, setting out the basis of the claim and proposing the name of an arbitrator from JAMS, the mutually agreed to ADR organization. The responding party shall have ten (10) business days in which to respond to this demand in a written answer. If this response is not timely made, or if the responding party agrees with the person proposed as the arbitrator, then the person named by the demanding party shall serve as the arbitrator. If the responding party submits a written answer rejecting the proposed arbitrator then, on the request of either party, JAMS shall appoint an arbitrator other than the mediator. The Employee and NAI agree to apply AAA rules for the

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resolution of employment disputes to the arbitration even though the ADR is one other than AAA. No one who has ever had any business, financial, family, or social relationship with any party to this Agreement shall serve as an arbitrator unless the related party informs the other party of the relationship and the other party consents in writing to the use of that arbitrator.

c. The arbitration shall take place in the greater San Diego, California area, at a time and place selected by the arbitrator. A pre-arbitration hearing shall be held within ten (10) business days after the arbitrator's selection. The arbitration shall be held within sixty (60) calendar days after the pre-arbitration hearing. The arbitrator shall establish all discovery and other deadlines necessary to accomplish this goal.

d. Each party shall be entitled to discovery of essential documents and witnesses, as determined by the arbitrator in accordance with the then-applicable rules of discovery for the resolution of employment disputes and the time frame set forth in this Agreement. The arbitrator may resolve any disputes over any discovery matters as they would be resolved in civil litigation.

e. The arbitrator shall have the following powers:

(i) to issue subpoenas for the attendance of witnesses and subpoenas duces tecum for the production of books, records, documents, and other evidence;

(ii) to order depositions to be used as evidence;

(iii) subject to the limitations on discovery enumerated above, to enforce the rights, remedies, procedures, duties, liabilities, and obligations of discovery as if the arbitration were a civil action before a California superior court;

(iv) to conduct a hearing on the arbitrable issues;

(v) to administer oaths to parties and witnesses.

f. Within fifteen (15 days) after completion of the arbitration, the arbitrator shall submit a tentative decision in writing, specifying the reasoning for the decision and any calculations necessary to explain the award. Each party shall have fifteen (15 days) in which to submit written comments to the tentative decision. Within ten (10) days after the deadline for written comments, the arbitrator shall announce the final award.

g. NAI shall pay the arbitrator's expenses and fees, all meeting room charges, and any other expenses that would not have been incurred if the case were litigated in the judicial forum having jurisdiction over it. Unless otherwise ordered by the arbitrator, each party shall pay its own attorney fees, witness fees, and other expenses incurred by the party for his or her own benefit. Regardless of any statute, procedure, rule or law, the prevailing party in arbitration shall be entitled to recover from the non-prevailing party reasonable attorney fees incurred as a result of arbitration.

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**4. Miscellaneous Provisions.**

a. The term “company” means NAI, and all related entities, all officers, employees, directors, agents, shareholders, partners, benefit plan sponsors, fiduciaries, administrators or affiliates of any of the above, and all successors and assignees of any of the above.

b. If either party pursues a covered claim against the other by any action, method or legal proceeding other than mediation or arbitration as provided herein, the responding party shall be entitled to dismissal or injunctive relief regarding such action and recovery of all costs, losses and attorneys’ fees related to such other action or proceeding.

c. The parties to this Agreement acknowledge and agree that they are waiving their right to a jury trial on the issues covered by this Agreement.

d. This is the complete agreement of the parties on the subject of mediation and the arbitration of disputes and claims. This Agreement supersedes any prior or contemporaneous oral, written or implied understanding on the subject, shall survive the termination of Employee’s employment and can only be revoked or modified by a written agreement signed by Employee and the Board of Directors of NAI that specifically states an intent to revoke or modify this Agreement. If any provision of this Agreement is adjudicated to be void or otherwise unenforceable in whole or in part, such adjudication shall not affect the validity of the remainder of the Agreement, which shall remain in full force and effect.

e. The law firm of Fisher Thurber LLP has prepared this Agreement on behalf of NAI based on its instructions. Fisher Thurber LLP does not represent any other party to this Agreement. In executing this Agreement, Employee represents that he has neither requested nor been given legal advice or counsel by Fisher Thurber LLP or any of its attorneys. Employee is aware of his right to obtain separate legal counsel with respect to the negotiation and execution of this Agreement and acknowledges that Fisher Thurber LLP has recommended that Employee retain his own counsel for such purpose. Employee further acknowledges that he (i) has read this Agreement and its exhibits and attachments; (ii) has had the opportunity to retain separate counsel in connection with the negotiation and execution of this Agreement; and (iii) has relied on the advice of separate counsel with respect to this Agreement or made the conscious decision not to retain counsel in connection with the negotiation and execution of this Agreement.

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

“EMPLOYEE”

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Mark Zimmerman

NATURAL ALTERNATIVES INTERNATIONAL, INC.  
a Delaware corporation

By:

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Randell Weaver, President



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ATTACHMENT #2

**CONFIDENTIAL INFORMATION AND INVENTION ASSIGNMENT AGREEMENT,  
COVENANT OF EXCLUSIVITY AND COVENANT NOT TO COMPETE**

This Confidential Information and Invention Assignment Agreement (“Agreement”) is made between Natural Alternatives International, Inc., a Delaware corporation (“Company”) and the undersigned Employee.

In consideration of and as a condition of my prospective and continued employment relationship with the Company (which for purposes of this Agreement shall be deemed to include any subsidiaries or affiliates of the Company where “affiliate” shall mean any person or entity that directly or indirectly controls, is controlled by, or is under common control with the Company), the receipt of confidential information while associated with the Company, and other good and valuable consideration, I agree to the following, and I agree the following shall be in addition to the terms and conditions of any Confidential Information and Invention Assignment Agreement executed by employees of the Company generally, and which I may execute in addition hereto:

**1. Inventions.**

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

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

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

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

iv. To facilitate the complete and accurate disclosures described above, I shall maintain complete written records of all Inventions and all work,

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study and investigation done by me during my employment, which records shall be the Company's property.

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

b. Assignment. I hereby assign to the Company without royalty or any other further consideration my entire right, title and interest in and to each and every Invention I am required to disclose under Section 1a. other than an Invention that (i) I have or shall have developed entirely on my own time without using the Company's equipment, supplies, facilities or trade secret information, (ii) does not relate at the time of conception or reduction to practice of the Invention to the Company's business, or actual or demonstrably anticipated research or development of the Company and (iii) does not result from any work performed by me for the Company. I acknowledge that the Company has notified me that the assignment provided for in this Section 1b. does not apply to any Invention to which the assignment may not lawfully apply under the provisions of Section §2870 of the California Labor Code, a copy of which is attached as Exhibit "A" hereto. I shall bear the full burden of proving to the Company that an invention qualifies fully under Section §2870.

c. Additional Assistance and Documents. I will assist the Company in obtaining, maintaining and enforcing patents, copyrights, trade secrets, trademarks, service marks, trade names and other proprietary rights in connection with any Invention I have assigned to the Company under Section 1b., and I further agree that my obligations under this Section 1c. shall continue beyond the termination of my employment with the Company. Among other things, for the foregoing purposes I will (i) testify at the request of the Company in any interference, litigation or other legal proceeding that may arise during or after my employment, and (ii) execute, verify, acknowledge and deliver any proper document and, if, because of my mental or physical incapacity or for any other reason whatsoever, the Company is unable to obtain my signature to apply for or to pursue any application for any United States or foreign patent or copyright covering Inventions assigned to the Company by me, I hereby irrevocably designate and appoint each of the Company and its duly authorized officers and agents as my agent and attorney in fact to act for me and in my behalf and stead to execute and file any such applications and to do all other lawfully permitted acts to further the prosecution and issuance of any United States or foreign patent or copyright thereon with the same legal force and effect as if executed by me. I shall be entitled to reimbursement of any out-of-pocket expenses incurred by me in rendering such assistance and, if I am required to render such assistance after the termination of my employment, the Company shall pay me a reasonable rate of compensation for time spent by me in rendering such assistance to the extent permitted by law (provided, I understand that no compensation shall be paid for my time in connection with preparing for or rendering any testimony or statement under oath in any judicial proceeding, arbitration or similar proceeding).

d. Prior Contracts and Inventions; Rights of Third Parties. I represent to the Company that, except as set forth on Exhibit "B" hereto, there are no other contracts to assign Inventions now in existence between me and any other person or entity (and if no Exhibit "B" is

attached hereto or there is no such contract(s) described thereon, then it means that by signing this Agreement, I represent to the Company that there is no such other contract(s)). In addition, I represent to the Company that I have no other employments or undertaking which do or would restrict or impair my performance of this Agreement. I further represent to the Company that Exhibit "C" hereto sets forth a brief description of all Inventions made or conceived by me prior to my employment with the Company which I desire to be excluded from this Agreement (and if no Exhibit "C" is attached hereto or there is no such description set forth thereon, then it means that by signing this Agreement I represent to the Company that there is no such Invention made or conceived by me prior to my employment with the Company). In connection with my employment with the Company, I promise not to use or disclose to the Company any patent, copyright, confidential trade secret or other proprietary information of any previous employer or other person that I am not lawfully entitled so to use or disclose. If in the course of my employment with the Company I incorporate into an Invention or any product process or service of the Company any Invention made or conceived by me prior to my employment with the Company, I hereby grant to the Company a royalty-free, irrevocable, worldwide nonexclusive license to make, have made, use and sell that Invention without restriction as to the extent of my ownership or interest.

## **2. Confidential Information.**

a. **Company Confidential Information.** I will not use or disclose Confidential Information, whether before, during or after the period of my employment except to perform my duties as an employee of the Company based on my reasonable judgment as an Officer of the Company, or in accordance with instruction or authorization of the Company, without prior written consent of the Company or pursuant to process or requirements of law after I have disclosed such process or requirements to the Company so as to afford it the opportunity to seek appropriate relief therefrom. "Confidential Information" means any Invention of any person in which the Company has an interest and in addition means any financial, client, customer, supplier, marketing, distribution and other information of a confidential or private nature connected with the business of the Company or any person with whom it deals, provided by the Company to me or to which I have access during or in the course of any employment. Confidential Information is to be broadly defined, and includes all information that has or could have commercial value or other utility in the business in which the Company is engaged or contemplates engaging, and all information of which the unauthorized disclosure could be detrimental to the interests of the Company, whether or not such information is identified as Confidential Information by the Company.

b. **Third Party Information.** I acknowledge that during my employment with the Company I may have access to patent, copyright, confidential, trade secret or other proprietary information of third parties subject to restrictions on the use or disclosure thereof by the Company. During the period of my employment and thereafter I will not use or disclose any such information other than consistent with the restrictions and my duties as an employee of the Company.

3. **Property of the Company.** All equipment and all tangible and intangible information relating to NAI, its employees and its customers or vendors furnished to, obtained by or prepared by Employee or any other person during the course of or incident to employment by NAI are and shall remain the sole property of NAI ("NAI Company Property"). NAI Company Property shall include, but not be limited to, computer equipment, books, manuals, records,

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reports, notes, correspondence, contracts, customer lists, business cards, advertising, sales, financial, personnel, operations, and manufacturing materials and information, data processing reports, computer programs, software, customer information and records, business records, price lists or information, and samples, and in each case shall include all copies thereof in any medium, including paper, electronic and magnetic media and all other forms of information storage. All tangible NAI Company Property shall be returned promptly to NAI upon termination of employment, but in no event later than two (2) business days following termination of employment.

4. **No Solicitation of Company Employees.** While employed by the Company and for a period of one year after termination of my employment with the Company, I agree not to induce or attempt to influence directly or indirectly any employee of the Company to terminate employment with the Company or to work for me or any other person or entity.

5. **Covenant of Exclusivity and Not to Compete.** During the period of my employment with the Company, I will not engage in any other professional employment or consulting or directly or indirectly participate in or assist any business which is a current or potential supplier, customer or competitor of the Company without prior written approval from the Board of Directors of the Company.

6. **General.**

a. **Assignments, Successors and Assignees.** All representations, warranties, covenants and agreements of the parties shall bind their respective heirs, executors, personal representatives, successors and assignees (“transferees”) and shall inure to the benefit of their respective permitted transferees. The Company shall have the right to assign any or all of its rights and to delegate any or all of its obligations hereunder. The undersigned employee shall not have the right to assign any rights or delegate any obligations hereunder without the prior written consent of the Company or its transferee.

b. **Number and Gender, Headings.** Each number and gender shall be deemed to include each other number and gender as the context may require. The headings and captions contained in this Agreement shall not constitute a part thereof and shall not be used in its construction or interpretation.

c. **Severability.** If any provision of this Agreement is found by any court or arbitral tribunal of competent jurisdiction to be invalid or unenforceable, the invalidity of such provision shall not affect the other provisions of this Agreement and all provisions not affected by the invalidity shall remain in full force and effect.

d. **Amendment and Modification.** This Agreement may be amended or modified only by a writing executed by each party.

e. **Government Law.** The laws of California shall govern the construction, interpretation and performance of this Agreement and all transactions under it.

f. **Remedies.** I acknowledge that my failure to carry out any obligation under this Agreement, or a breach by me of any provision herein, will constitute immediate and irreparable damage to the Company, which cannot be fully and adequately compensated in

money damages and which will warrant preliminary and other injunctive relief, an order for specific performance, and other equitable relief. I further agree that no bond or other security shall be required in obtaining such equitable relief and I hereby consent to the issuance of such injunction and to the ordering of specific performance. I also understand that other action may be taken and remedies enforced against me.

g. Mediation and Arbitration. This Agreement is subject to the Mutual Agreement to Mediate and Arbitrate Claims attached to the Executive Employment Agreement between me and the Company, incorporated into this Agreement by this reference.

h. Attorneys' Fees. Should either I or the Company, or any heir, personal representative, successor or permitted assign of either party, resort to arbitration or legal proceedings to enforce this Agreement, the prevailing party (as defined in California statutory law) in such proceeding shall be awarded, in addition to such other relief as may be granted, attorneys' fees and costs incurred in connection with such proceeding.

i. No Effect on Other Terms or Conditions of Employment. I acknowledge that this Agreement does not affect any term or condition of my employment except as expressly provided in this Agreement, and that this Agreement does not give rise to any right or entitlement on my part to employment or continued employment with the Company. I further acknowledge that this Agreement does not affect in any way the right of the Company to terminate my employment.

j. Legal Representation; Advice of Counsel. The law firm of Fisher Thurber LLP has prepared this Agreement on behalf of NAI based on its instructions. Fisher Thurber LLP does not represent any other party to this Agreement. In executing this Agreement, Employee represents that he has neither requested nor been given legal advice or counsel by Fisher Thurber LLP or any of its attorneys. Employee is aware of his right to obtain separate legal counsel with respect to the negotiation and execution of this Agreement and acknowledges that Fisher Thurber LLP has recommended that Employee retain his own counsel for such purpose. Employee further acknowledges that he (i) has read this Agreement and its exhibits and attachments; (ii) has had the opportunity to retain separate counsel in connection with the negotiation and execution of this Agreement; and (iii) has relied on the advice of separate counsel with respect to this Agreement or made the conscious decision not to retain counsel in connection with the negotiation and execution of this Agreement.

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

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Mark Zimmerman

ACCEPTED:

NATURAL ALTERNATIVES INTERNATIONAL, INC.  
a Delaware corporation

By:

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Randell Weaver, President

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**EXHIBIT "A"**

California Labor Code

§ 2870. Invention on Own Time-Exemption from Agreement.

(a) Any provision in an employment agreement which provides that an employee shall assign, or offer to assign, any of his or her rights in an invention to his or her employer shall not apply to an invention that the employee developed entirely on his or her own time without using the employer's equipment, supplies, facilities or trade secret information except for those inventions that either:

- (1) Relate at the time of conception or reduction to practice of the invention to the employer's business, or actual or demonstrably anticipated research or development of the employer.
- (2) Result from any work performed by the employee for the employer.

(b) To the extent a provision in an employment agreement purports to require an employee to assign an invention otherwise excluded from being required to be assigned under subdivision (a), the provision is against the public policy of this state and is unenforceable.

§ 2871. Restrictions on Employer for Condition of Employment.

No employer shall require a provision made void or unenforceable by Section 2870 as a condition of employment or continued employment. Nothing in this article shall be construed to forbid or restrict the right of an employer to provide in contracts of employment for disclosure, provided that any such disclosures be received in confidence, of all of the employee's inventions made solely or jointly with others during the period of his or her employment, a review process by the employer to determine such issues as may arise, and for full title to certain patents and inventions to be in the United States, as required by contracts between the employer and the United States or any of its agencies.

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**EXHIBIT "B"**

Except as set forth below, Employee represents to the Company that there are no other contracts to assign Inventions now in existence between Employee and any other person or entity (see Section Id. of the Agreement):

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**EXHIBIT "C"**

Set forth below is a brief description of all Inventions made or conceived by Employee prior to Employee's employment with the Company which Employee desires to be excluded from this Agreement (see Section 1d. of the Agreement):



## EXECUTIVE EMPLOYMENT AGREEMENT

Randell Weaver ("Employee") hereby accepts the offer of Natural Alternatives International, Inc. ("NAI" or the "Company") for employment as President beginning September 13, 2003. Collectively, NAI and Employee will be referred to herein as the "Parties."

1. **Employment.** Notwithstanding the rights of the Parties to terminate the relationship described below, the Parties anticipate that Employee will be employed through June 30, 2004. Employee's employment will be at-will and may be terminated by either Employee or NAI at any time for any reason or no reason, with or without cause upon written notice to the other, or without any notice upon the death of Employee. The at-will status of the employment relationship may not be modified except in writing authorized in advance by the Board of Directors of NAI and signed by the Board of Directors of NAI and Employee.

2. **Employee Handbook.** Employee and NAI further understand and agree that nothing in the NAI Employee Handbook is intended to be, and nothing in it should be construed to be, a limitation of NAI's right to terminate, transfer, demote, suspend and administer discipline at any time for any reason. Employee and NAI understand and agree nothing in the Handbook is intended to, and nothing in the Handbook should be construed to, create an implied or express contract of employment contrary to this Agreement.

3. **Position and Responsibilities.** During employment, Employee shall have such responsibilities, duties and authority as NAI through its Board of Directors may from time to time assign to Employee, and that are normal and customary duties of a President of a publicly held corporation. Employee's initial title shall be President.

4. **Term.** If Employee continues working for NAI past June 30, 2004, and if NAI still desires Employee's services, then the following terms and conditions will apply:

a. **At-will.** Employee shall be an at-will employee and NAI or Employee will be entitled to terminate the employment relationship for any reason or for no reason, with or without cause and with or without notice;

b. **Compensation.** Employee will be compensated at the rate set forth in Section 5 below unless another rate is mutually agreed upon; and

c. **Benefits.** As to benefits and other terms of employment, Employee shall be subject to the same policies and procedures as other employees of NAI in similar positions.

5. **Compensation.** While Employee is employed by NAI as President, Employee's rate of compensation will be at a rate of \$242,190 per year, payable no less frequently than monthly. The compensation set forth in this Section 5 will be Employee's only compensation except standard employee benefits available to other level one executives of NAI or any other written compensation arrangement approved by the Board of Directors of NAI. Employee will be entitled to participate in any bonus compensation in a manner and at a level consistent with other level one executives of NAI.

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6. **Termination.** In the event of termination or resignation, the following terms and conditions will apply:

a. **Without Cause, Severance Benefit.** In the event Employee is terminated by NAI without cause, Employee shall be entitled to receive a severance benefit, including standard employee benefits available to other level one executives of NAI, in an amount equal to one months' compensation for each completed year of service up to a maximum severance benefit of six (6) months' compensation. One half of any severance benefit owing hereunder shall be paid within 10 days of termination and the balance shall be paid on a bi-weekly basis over the severance period of from one to six months.

b. **With Cause, No Severance Benefit.** NAI may terminate Employee with cause, which shall be limited to the occurrence of one or more of the following events: (i) the Employee's commission of any fraud against NAI; (ii) Employee's intentional appropriation for his or her personal use or benefit the funds of the Company not authorized by the Board of Directors; (iii) Employee's conviction of any crime involving moral turpitude; (iv) Employee's conviction of a violation of any state or federal law which could result in a material adverse impact upon the business of NAI; (v) the Employee engaging in any other professional employment or consulting or directly or indirectly participating in or assisting any business which is a current or potential supplier, customer or competitor of NAI without prior written approval from the Board of Directors of NAI, (vi) the Employee accepting or encouraging the offering of gifts or gratuities from any customer, vendor, supplier, or other person doing business with NAI, or (vii) when Employee has been disabled and is unable to perform the essential functions of the position for any reason notwithstanding reasonable accommodation and has received from NAI compensation in an amount equivalent to his or her severance benefit payment. No severance benefit shall be due to Employee if Employee is terminated for cause.

c. **Resignation or Retirement, No Severance Pay.** No severance pay shall be due to Employee if Employee resigns or retires from employment.

7. **Termination Obligations.**

a. **Return of NAI Company Property.** Employee shall take all reasonable steps to make sure all NAI Company Property (as defined in Attachment 2) is returned to NAI promptly but in no event later than two (2) business days following termination of employment.

b. **Employee Cooperation.** Following any termination of the employment, Employee shall cooperate fully with NAI in all matters relating to completing pending work on behalf of NAI and the orderly transfer of work to other employees of NAI. Employee shall also cooperate in the defense of any action brought by any third party against NAI that relates in any way to Employee's acts or omissions while employed by NAI.

c. **Survival of Obligations.** Employee's obligations under this Section shall survive the termination of employment and the expiration or termination of this Agreement.

8. **Change in Control.** In the event of any Change in Control, the following provisions will apply. Any of the following shall constitute a "Change in Control" for the purposes of this Section 8:

a. A "person" (meaning an individual, a partnership, or other group or association as defined in sections 13(d) and 14(d) of the Securities Exchange Act of 1934)

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acquires fifty percent (50%) or more of the combined voting power of the outstanding securities of NAI having a right to vote in elections of directors; or

b. The members of the Board of Directors of the Company who were members of the Board of Directors on the commencement date hereof, shall for any reason cease to constitute a majority of the Board of Directors of the Company; or

c. All or substantially all of the business of NAI is disposed of by NAI to a party or parties other than a subsidiary or other affiliate of NAI, in which NAI owns less than a majority of the equity, pursuant to a partial or complete liquidation of NAI, sale of assets (including stock of a subsidiary of NAI) or otherwise.

d. In the event of any such Change in Control, this Agreement shall continue in effect unless Employee at his or her sole option, and within sixty (60) days of a Change in Control taking place, elects voluntarily to terminate this Agreement. In such case, NAI shall pay Employee as severance pay or liquidated damages, or both, a lump sum payment ("Change in Control Severance Payment") in an amount equal to twelve (12) months' compensation or such greater amount as the Board of Directors determines from time to time pursuant to terms which may not be revoked or reduced thereafter.

e. In the event Employee is terminated following a Change in Control by NAI and/or the surviving or resulting corporation without cause, Employee shall be entitled to a Change in Control Severance Payment in an amount equal to twelve (12) months' compensation or such greater amount as the Board of Directors determines from time to time pursuant to terms which may not be revoked or reduced thereafter.

f. Any Change in Control Severance Payment shall be made not later than the fifteenth (15th) day following the effective date of the voluntary or involuntary termination of this Agreement in connection with a Change in Control; provided, however, that if the amount of such payments cannot be finally determined on or before such date, NAI shall pay to Employee on such date a good faith estimate of the minimum amount of such payments, and shall pay the remainder of such payments (together with interest at the rate provided in Internal Revenue Code Section 1274(b)(2)(B) of the Code), as soon as the amount thereof can be determined, but in no event later than the thirtieth (30th) day after the applicable termination date. In the event the amount of the estimated payments exceeds the amount subsequently determined to have been due, such excess shall constitute a loan by NAI payable on the fifteenth (15th) day after receipt by Employee of a written demand for payment from NAI (together with interest calculated as above). The total of any payment pursuant to this Section 8 shall be limited to the extent necessary, in the opinion of legal counsel acceptable to Employee and NAI, to avoid the payment of an "excess parachute" payment within the meaning of Internal Revenue Code Section 280 G or any similar successor provision.

g. In the event of termination of employment either by the Employee under Section 8d. or by NAI under Section 8e., NAI shall cause each stock option heretofore granted by NAI to the Employee to become fully exercisable and to remain exercisable for the term of the option.

9. **Arbitration.** Employee and NAI hereby agree to the Mutual Agreement to Arbitrate attached hereto and made a part hereof as Attachment #1. Employee's obligations

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under this Section shall survive the termination of employment and the expiration or termination of this Agreement.

10. **Confidential Information and Inventions.** Employee and NAI hereby agree to the Confidential Information and Assignment Agreement, Covenant of Exclusivity and Covenant Not to Compete attached hereto and made a part hereof as Attachment #2. Employee's obligations under this Section shall survive the termination of employment and the expiration or termination of this Agreement.

11. **Competitive Activity.** Employee covenants, warrants and represents that during the period of his or her employment with NAI, Employee shall not engage anywhere directly or indirectly in (as a principal, shareholder, partner, director, officer, agent, employee, consultant or otherwise) or be financially interested in any business which is involved in business activities which are the same as, similar to, or in competition with business activities carried on by NAI or any business that is a current or potential supplier, customer or competitor of NAI without prior written approval from the Board of Directors of NAI.

12. **Employee Conduct.** Employee covenants, warrants and represents that during the period of his or her employment with NAI, Employee shall not accept or encourage the offering of gifts or gratuities from any customer, vendor, supplier, or other person doing business with NAI. Employee represents and understands that acceptance or encouragement of any gift or gratuity may create a perceived financial obligation and/or conflict of interest for NAI and shall not be permitted as a means to influence business decisions, transactions or service. In this situation, as in all other areas of employment, Employee is expected to conduct himself or herself using the highest ethical standard.

13. **Entire Agreement.** This Agreement and any attachments and/or exhibits contains the entire agreement between the parties. It supersedes any and all other agreements, either oral or in writing, between the parties hereto with respect to Employee's employment by NAI. Each party to this Agreement acknowledges that no representations, inducements, promises or agreements, oral or otherwise, have been made by any party, or anyone acting on behalf of any party, which are not embodied herein and acknowledges that no other agreement, statement or promise not contained in this Agreement shall be valid or binding. This Agreement may not be modified or amended by oral agreement or course of conduct, but only by an agreement in writing signed by the Board of Directors of NAI and Employee. To the extent the practices, policies or procedures of NAI, now or in the future, are inconsistent with the terms of this Agreement, the provisions of this Agreement shall control.

14. **Governing Law.** This Executive Employment Agreement shall be construed and enforced in accordance with the laws of the State of California.

15. **Provisions Separable.** Should any part or provision of this Executive Employment Agreement be held unenforceable or in conflict with the law of any jurisdiction, the validity of the remaining parts shall not be affected by such holding.

16. **Attorney's Fees.** Should any party institute any action, arbitration or proceeding to enforce, interpret or apply any provision of this Executive Employment Agreement, the parties agree that the prevailing party shall be entitled to reimbursement by the non-prevailing party of all recoverable costs and expenses, including, but not limited to, reasonable attorney fees.

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17. **Interpretation.** This Agreement shall be construed as a whole, according to its fair meaning, and not in favor of or against any party. By way of example and not in limitation, this Agreement shall not be construed in favor of the party receiving a benefit nor against the party responsible for any particular language in this Agreement.

18. **Legal Representation; Independent Counsel.** The law firm of Fisher Thurber LLP has prepared this Executive Employment Agreement on behalf of NAI based on its instructions. Fisher Thurber LLP does not represent any other party to this Executive Employment Agreement. In executing this Executive Employment Agreement, Employee represents that he has neither requested nor been given legal advice or counsel by Fisher Thurber LLP or any of its attorneys. Employee is aware of his right to obtain separate legal counsel with respect to the negotiation and execution of this Executive Employment Agreement and acknowledges that Fisher Thurber LLP has recommended that Employee retain his own counsel for such purpose. Employee further acknowledges that he (i) has read this Executive Employment Agreement and its exhibits and attachments; (ii) has had the opportunity to retain separate counsel in connection with the negotiation and execution of this Executive Employment Agreement; and (iii) has relied on the advice of separate counsel with respect to this Executive Employment Agreement or made the conscious decision not to retain counsel in connection with the negotiation and execution of this Executive Employment Agreement.

“EMPLOYEE”

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Randell Weaver

NATURAL ALTERNATIVES INTERNATIONAL, INC.  
a Delaware corporation

By:

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Mark A. LeDoux, Chief Executive Officer

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**ATTACHMENT #1**

**MUTUAL AGREEMENT TO MEDIATE AND ARBITRATE CLAIMS**

This Mutual Agreement to Mediate and Arbitrate Claims ("Agreement") is entered into between Randell Weaver ("Employee") and Natural Alternatives International, Inc. ("NAI"), together with its affiliates and subsidiaries.

In consideration of Employee's prospective and continued employment relationship with NAI, Employee's employment rights under Employee's Executive Employment Agreement, Employee's participation in stock option plans, Employee's participation in bonus compensation programs, Employee's access to and receipt of confidential information of NAI, and other good and valuable consideration, all of which Employee considers to have been negotiated at arm's length, Employee agrees to the following:

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

a. To the fullest extent permitted by law, all claims and disputes between Employee (and his attorneys, successors and assigns) and NAI (as defined below) relating in any manner whatsoever to the employment or termination of Employee, including without limitation all claims and disputes arising under this Agreement, shall be resolved by arbitration. All persons and entities specified in the preceding sentence (other than NAI and Employee) shall be considered third-party beneficiaries of the rights and obligations created by this Agreement on arbitration. Claims and disputes covered by this Agreement include without limitation those arising under:

- (i) Any federal, state or local laws, regulations or statutes prohibiting employment discrimination (such as, without limitation: race, sex, national origin, age, disability, religion, sexual orientation) and harassment.
- (ii) Any alleged or actual agreement or covenant (oral, written or implied) between Employee and NAI.
- (iii) Any company policy, compensation, wage or related claim or benefit plan, unless the decision in question was made by an entity other than NAI.
- (iv) Any public policy.
- (v) Any other claim for personal, emotional, physical or economic injury.

b. The only disputes between Employee and NAI which are not included within this Mutual Agreement to Arbitrate Claims are:

- (i) Any claim by Employee for workers' compensation or unemployment compensation benefits.
- (ii) Any claim by Employee for benefits under a company plan which provides for its own arbitration procedure.

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

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

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

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

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

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

a. If NAI and Employee are unable to resolve a dispute relating to this Agreement through mediation, they shall submit any such dispute or claims relating to Employee's employment with NAI or the termination of that employment including but not limited to claims arising under common law or under any statute, rule, regulation, or law, whether federal, state or local including without limitation, any claims under the California Fair Employment and Housing Act, the California Labor Code, Title VII of the Civil Rights Act of 1964, the Age Discrimination in Employment Act, the Americans with Disabilities Act, the Rehabilitation Act of 1973, the Family Medical Leave Act the Employee Retirement Income Security Act of 1974, or Section 1981 or Title 42 of the United States Code to binding arbitration, in accordance with California Code of Civil Procedure §§1280 through 1294.2. Either party may enforce the award of the arbitrator under Code of Civil Procedure §1285 by any competent court of law. Employee and NAI understand that they are waiving their rights to a jury trial.

b. The party demanding arbitration shall submit a written claim to the other party, setting out the basis of the claim and proposing the name of an arbitrator from JAMS, the mutually agreed to ADR organization. The responding party shall have ten (10) business days in which to respond to this demand in a written answer. If this response is not timely made, or if the responding party agrees with the person proposed as the arbitrator, then the person named by the demanding party shall serve as the arbitrator. If the responding party submits a written answer rejecting the proposed arbitrator then, on the request of either party, JAMS shall appoint an arbitrator other than the mediator. The Employee and NAI agree to apply AAA rules for the

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resolution of employment disputes to the arbitration even though the ADR is one other than AAA. No one who has ever had any business, financial, family, or social relationship with any party to this Agreement shall serve as an arbitrator unless the related party informs the other party of the relationship and the other party consents in writing to the use of that arbitrator.

c. The arbitration shall take place in the greater San Diego, California area, at a time and place selected by the arbitrator. A pre-arbitration hearing shall be held within ten (10) business days after the arbitrator's selection. The arbitration shall be held within sixty (60) calendar days after the pre-arbitration hearing. The arbitrator shall establish all discovery and other deadlines necessary to accomplish this goal.

d. Each party shall be entitled to discovery of essential documents and witnesses, as determined by the arbitrator in accordance with the then-applicable rules of discovery for the resolution of employment disputes and the time frame set forth in this Agreement. The arbitrator may resolve any disputes over any discovery matters as they would be resolved in civil litigation.

e. The arbitrator shall have the following powers:

(i) to issue subpoenas for the attendance of witnesses and subpoenas duces tecum for the production of books, records, documents, and other evidence;

(ii) to order depositions to be used as evidence;

(iii) subject to the limitations on discovery enumerated above, to enforce the rights, remedies, procedures, duties, liabilities, and obligations of discovery as if the arbitration were a civil action before a California superior court;

(iv) to conduct a hearing on the arbitrable issues;

(v) to administer oaths to parties and witnesses.

f. Within fifteen (15 days) after completion of the arbitration, the arbitrator shall submit a tentative decision in writing, specifying the reasoning for the decision and any calculations necessary to explain the award. Each party shall have fifteen (15 days) in which to submit written comments to the tentative decision. Within ten (10) days after the deadline for written comments, the arbitrator shall announce the final award.

g. NAI shall pay the arbitrator's expenses and fees, all meeting room charges, and any other expenses that would not have been incurred if the case were litigated in the judicial forum having jurisdiction over it. Unless otherwise ordered by the arbitrator, each party shall pay its own attorney fees, witness fees, and other expenses incurred by the party for his or her own benefit. Regardless of any statute, procedure, rule or law, the prevailing party in arbitration shall be entitled to recover from the non-prevailing party reasonable attorney fees incurred as a result of arbitration.



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**4. Miscellaneous Provisions.**

a. The term “company” means NAI, and all related entities, all officers, employees, directors, agents, shareholders, partners, benefit plan sponsors, fiduciaries, administrators or affiliates of any of the above, and all successors and assignees of any of the above.

b. If either party pursues a covered claim against the other by any action, method or legal proceeding other than mediation or arbitration as provided herein, the responding party shall be entitled to dismissal or injunctive relief regarding such action and recovery of all costs, losses and attorneys’ fees related to such other action or proceeding.

c. The parties to this Agreement acknowledge and agree that they are waiving their right to a jury trial on the issues covered by this Agreement.

d. This is the complete agreement of the parties on the subject of mediation and the arbitration of disputes and claims. This Agreement supersedes any prior or contemporaneous oral, written or implied understanding on the subject, shall survive the termination of Employee’s employment and can only be revoked or modified by a written agreement signed by Employee and the Board of Directors of NAI that specifically states an intent to revoke or modify this Agreement. If any provision of this Agreement is adjudicated to be void or otherwise unenforceable in whole or in part, such adjudication shall not affect the validity of the remainder of the Agreement, which shall remain in full force and effect.

e. The law firm of Fisher Thurber LLP has prepared this Agreement on behalf of NAI based on its instructions. Fisher Thurber LLP does not represent any other party to this Agreement. In executing this Agreement, Employee represents that he has neither requested nor been given legal advice or counsel by Fisher Thurber LLP or any of its attorneys. Employee is aware of his right to obtain separate legal counsel with respect to the negotiation and execution of this Agreement and acknowledges that Fisher Thurber LLP has recommended that Employee retain his own counsel for such purpose. Employee further acknowledges that he (i) has read this Agreement and its exhibits and attachments; (ii) has had the opportunity to retain separate counsel in connection with the negotiation and execution of this Agreement; and (iii) has relied on the advice of separate counsel with respect to this Agreement or made the conscious decision not to retain counsel in connection with the negotiation and execution of this Agreement.

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

“EMPLOYEE”

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Randell Weaver

NATURAL ALTERNATIVES INTERNATIONAL, INC.  
a Delaware corporation

By:

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Mark A. LeDoux, Chief Executive Officer

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ATTACHMENT #2

**CONFIDENTIAL INFORMATION AND INVENTION ASSIGNMENT AGREEMENT,  
COVENANT OF EXCLUSIVITY AND COVENANT NOT TO COMPETE**

This Confidential Information and Invention Assignment Agreement (“Agreement”) is made between Natural Alternatives International, Inc., a Delaware corporation (“Company”) and the undersigned Employee.

In consideration of and as a condition of my prospective and continued employment relationship with the Company (which for purposes of this Agreement shall be deemed to include any subsidiaries or affiliates of the Company where “affiliate” shall mean any person or entity that directly or indirectly controls, is controlled by, or is under common control with the Company), the receipt of confidential information while associated with the Company, and other good and valuable consideration, I agree to the following, and I agree the following shall be in addition to the terms and conditions of any Confidential Information and Invention Assignment Agreement executed by employees of the Company generally, and which I may execute in addition hereto:

**1. Inventions.**

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

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

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

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

iv. To facilitate the complete and accurate disclosures described above, I shall maintain complete written records of all Inventions and all work,

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study and investigation done by me during my employment, which records shall be the Company's property.

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

b. Assignment. I hereby assign to the Company without royalty or any other further consideration my entire right, title and interest in and to each and every Invention I am required to disclose under Section 1a. other than an Invention that (i) I have or shall have developed entirely on my own time without using the Company's equipment, supplies, facilities or trade secret information, (ii) does not relate at the time of conception or reduction to practice of the Invention to the Company's business, or actual or demonstrably anticipated research or development of the Company and (iii) does not result from any work performed by me for the Company. I acknowledge that the Company has notified me that the assignment provided for in this Section 1 b. does not apply to any Invention to which the assignment may not lawfully apply under the provisions of Section §2870 of the California Labor Code, a copy of which is attached as Exhibit "A" hereto. I shall bear the full burden of proving to the Company that an invention qualifies fully under Section §2870.

c. Additional Assistance and Documents. I will assist the Company in obtaining, maintaining and enforcing patents, copyrights, trade secrets, trademarks, service marks, trade names and other proprietary rights in connection with any Invention I have assigned to the Company under Section 1 b., and I further agree that my obligations under this Section 1 c. shall continue beyond the termination of my employment with the Company. Among other things, for the foregoing purposes I will (i) testify at the request of the Company in any interference, litigation or other legal proceeding that may arise during or after my employment, and (ii) execute, verify, acknowledge and deliver any proper document and, if, because of my mental or physical incapacity or for any other reason whatsoever, the Company is unable to obtain my signature to apply for or to pursue any application for any United States or foreign patent or copyright covering Inventions assigned to the Company by me, I hereby irrevocably designate and appoint each of the Company and its duly authorized officers and agents as my agent and attorney in fact to act for me and in my behalf and stead to execute and file any such applications and to do all other lawfully permitted acts to further the prosecution and issuance of any United States or foreign patent or copyright thereon with the same legal force and effect as if executed by me. I shall be entitled to reimbursement of any out-of-pocket expenses incurred by me in rendering such assistance and, if I am required to render such assistance after the termination of my employment, the Company shall pay me a reasonable rate of compensation for time spent by me in rendering such assistance to the extent permitted by law (provided, I understand that no compensation shall be paid for my time in connection with preparing for or rendering any testimony or statement under oath in any judicial proceeding, arbitration or similar proceeding).

d. Prior Contracts and Inventions; Rights of Third Parties. I represent to the Company that, except as set forth on Exhibit "B" hereto, there are no other contracts to assign Inventions now in existence between me and any other person or entity (and if no Exhibit "B" is

attached hereto or there is no such contract(s) described thereon, then it means that by signing this Agreement, I represent to the Company that there is no such other contract(s)). In addition, I represent to the Company that I have no other employments or undertaking which do or would restrict or impair my performance of this Agreement. I further represent to the Company that Exhibit "C" hereto sets forth a brief description of all Inventions made or conceived by me prior to my employment with the Company which I desire to be excluded from this Agreement (and if no Exhibit "C" is attached hereto or there is no such description set forth thereon, then it means that by signing this Agreement I represent to the Company that there is no such Invention made or conceived by me prior to my employment with the Company). In connection with my employment with the Company, I promise not to use or disclose to the Company any patent, copyright, confidential trade secret or other proprietary information of any previous employer or other person that I am not lawfully entitled so to use or disclose. If in the course of my employment with the Company I incorporate into an Invention or any product process or service of the Company any Invention made or conceived by me prior to my employment with the Company, I hereby grant to the Company a royalty-free, irrevocable, worldwide nonexclusive license to make, have made, use and sell that Invention without restriction as to the extent of my ownership or interest.

## **2. Confidential Information.**

a. **Company Confidential Information.** I will not use or disclose Confidential Information, whether before, during or after the period of my employment except to perform my duties as an employee of the Company based on my reasonable judgment as an Officer of the Company, or in accordance with instruction or authorization of the Company, without prior written consent of the Company or pursuant to process or requirements of law after I have disclosed such process or requirements to the Company so as to afford it the opportunity to seek appropriate relief therefrom. "Confidential Information" means any Invention of any person in which the Company has an interest and in addition means any financial, client, customer, supplier, marketing, distribution and other information of a confidential or private nature connected with the business of the Company or any person with whom it deals, provided by the Company to me or to which I have access during or in the course of any employment. Confidential Information is to be broadly defined, and includes all information that has or could have commercial value or other utility in the business in which the Company is engaged or contemplates engaging, and all information of which the unauthorized disclosure could be detrimental to the interests of the Company, whether or not such information is identified as Confidential Information by the Company.

b. **Third Party Information.** I acknowledge that during my employment with the Company I may have access to patent, copyright, confidential, trade secret or other proprietary information of third parties subject to restrictions on the use or disclosure thereof by the Company. During the period of my employment and thereafter I will not use or disclose any such information other than consistent with the restrictions and my duties as an employee of the Company.

3. **Property of the Company.** All equipment and all tangible and intangible information relating to NAI, its employees and its customers or vendors furnished to, obtained by or prepared by Employee or any other person during the course of or incident to employment by NAI are and shall remain the sole property of NAI ("NAI Company Property"). NAI Company Property shall include, but not be limited to, computer equipment, books, manuals, records,

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reports, notes, correspondence, contracts, customer lists, business cards, advertising, sales, financial, personnel, operations, and manufacturing materials and information, data processing reports, computer programs, software, customer information and records, business records, price lists or information, and samples, and in each case shall include all copies thereof in any medium, including paper, electronic and magnetic media and all other forms of information storage. All tangible NAI Company Property shall be returned promptly to NAI upon termination of employment, but in no event later than two (2) business days following termination of employment.

4. **No Solicitation of Company Employees.** While employed by the Company and for a period of one year after termination of my employment with the Company, I agree not to induce or attempt to influence directly or indirectly any employee of the Company to terminate employment with the Company or to work for me or any other person or entity.

5. **Covenant of Exclusivity and Not to Compete.** During the period of my employment with the Company, I will not engage in any other professional employment or consulting or directly or indirectly participate in or assist any business which is a current or potential supplier, customer or competitor of the Company without prior written approval from the Board of Directors of the Company.

6. **General.**

a. **Assignments, Successors and Assignees.** All representations, warranties, covenants and agreements of the parties shall bind their respective heirs, executors, personal representatives, successors and assignees (“transferees”) and shall inure to the benefit of their respective permitted transferees. The Company shall have the right to assign any or all of its rights and to delegate any or all of its obligations hereunder. The undersigned employee shall not have the right to assign any rights or delegate any obligations hereunder without the prior written consent of the Company or its transferee.

b. **Number and Gender, Headings.** Each number and gender shall be deemed to include each other number and gender as the context may require. The headings and captions contained in this Agreement shall not constitute a part thereof and shall not be used in its construction or interpretation.

c. **Severability.** If any provision of this Agreement is found by any court or arbitral tribunal of competent jurisdiction to be invalid or unenforceable, the invalidity of such provision shall not affect the other provisions of this Agreement and all provisions not affected by the invalidity shall remain in full force and effect.

d. **Amendment and Modification.** This Agreement may be amended or modified only by a writing executed by each party.

e. **Government Law.** The laws of California shall govern the construction, interpretation and performance of this Agreement and all transactions under it.

f. **Remedies.** I acknowledge that my failure to carry out any obligation under this Agreement, or a breach by me of any provision herein, will constitute immediate and irreparable damage to the Company, which cannot be fully and adequately compensated in

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money damages and which will warrant preliminary and other injunctive relief, an order for specific performance, and other equitable relief. I further agree that no bond or other security shall be required in obtaining such equitable relief and I hereby consent to the issuance of such injunction and to the ordering of specific performance. I also understand that other action may be taken and remedies enforced against me.

g. Mediation and Arbitration. This Agreement is subject to the Mutual Agreement to Mediate and Arbitrate Claims attached to the Executive Employment Agreement between me and the Company, incorporated into this Agreement by this reference.

h. Attorneys' Fees. Should either I or the Company, or any heir, personal representative, successor or permitted assign of either party, resort to arbitration or legal proceedings to enforce this Agreement, the prevailing party (as defined in California statutory law) in such proceeding shall be awarded, in addition to such other relief as may be granted, attorneys' fees and costs incurred in connection with such proceeding.

i. No Effect on Other Terms or Conditions of Employment. I acknowledge that this Agreement does not affect any term or condition of my employment except as expressly provided in this Agreement, and that this Agreement does not give rise to any right or entitlement on my part to employment or continued employment with the Company. I further acknowledge that this Agreement does not affect in any way the right of the Company to terminate my employment.

j. Legal Representation; Advice of Counsel. The law firm of Fisher Thurber LLP has prepared this Agreement on behalf of NAI based on its instructions. Fisher Thurber LLP does not represent any other party to this Agreement. In executing this Agreement, Employee represents that he has neither requested nor been given legal advice or counsel by Fisher Thurber LLP or any of its attorneys. Employee is aware of his right to obtain separate legal counsel with respect to the negotiation and execution of this Agreement and acknowledges that Fisher Thurber LLP has recommended that Employee retain his own counsel for such purpose. Employee further acknowledges that he (i) has read this Agreement and its exhibits and attachments; (ii) has had the opportunity to retain separate counsel in connection with the negotiation and execution of this Agreement; and (iii) has relied on the advice of separate counsel with respect to this Agreement or made the conscious decision not to retain counsel in connection with the negotiation and execution of this Agreement.

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

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Randell Weaver

ACCEPTED:  
NATURAL ALTERNATIVES INTERNATIONAL, INC.  
a Delaware corporation

By:

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Mark A. LeDoux, Chief Executive Officer

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**EXHIBIT "A"**

California Labor Code

§ 2870. Invention on Own Time-Exemption from Agreement.

(a) Any provision in an employment agreement which provides that an employee shall assign, or offer to assign, any of his or her rights in an invention to his or her employer shall not apply to an invention that the employee developed entirely on his or her own time without using the employer's equipment, supplies, facilities or trade secret information except for those inventions that either:

(1) Relate at the time of conception or reduction to practice of the invention to the employer's business, or actual or demonstrably anticipated research or development of the employer.

(2) Result from any work performed by the employee for the employer.

(b) To the extent a provision in an employment agreement purports to require an employee to assign an invention otherwise excluded from being required to be assigned under subdivision (a), the provision is against the public policy of this state and is unenforceable.

§ 2871. Restrictions on Employer for Condition of Employment.

No employer shall require a provision made void or unenforceable by Section 2870 as a condition of employment or continued employment. Nothing in this article shall be construed to forbid or restrict the right of an employer to provide in contracts of employment for disclosure, provided that any such disclosures be received in confidence, of all of the employee's inventions made solely or jointly with others during the period of his or her employment, a review process by the employer to determine such issues as may arise, and for full title to certain patents and inventions to be in the United States, as required by contracts between the employer and the United States or any of its agencies.

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**EXHIBIT "B"**

Except as set forth below, Employee represents to the Company that there are no other contracts to assign Inventions now in existence between Employee and any other person or entity (see Section 1 d. of the Agreement):



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**EXHIBIT "C"**

Set forth below is a brief description of all Inventions made or conceived by Employee prior to Employee's employment with the Company which Employee desires to be excluded from this Agreement (see Section 1 d. of the Agreement):

## EXECUTIVE EMPLOYMENT AGREEMENT

Mark A. LeDoux ("Employee") hereby accepts the offer of Natural Alternatives International, Inc. ("NAI" or the "Company") for employment as Chief Executive Officer beginning September 13, 2003. Collectively, NAI and Employee will be referred to herein as the "Parties."

1. **Employment.** Notwithstanding the rights of the Parties to terminate the relationship described below, the Parties anticipate that Employee will be employed through June 30, 2004. Employee's employment will be at-will and may be terminated by either Employee or NAI at any time for any reason or no reason, with or without cause upon written notice to the other, or without any notice upon the death of Employee. The at-will status of the employment relationship may not be modified except in writing authorized in advance by the Board of Directors of NAI and signed by the Board of Directors of NAI and Employee.

2. **Employee Handbook.** Employee and NAI further understand and agree that nothing in the NAI Employee Handbook is intended to be, and nothing in it should be construed to be, a limitation of NAI's right to terminate, transfer, demote, suspend and administer discipline at any time for any reason. Employee and NAI understand and agree nothing in the Handbook is intended to, and nothing in the Handbook should be construed to, create an implied or express contract of employment contrary to this Agreement.

3. **Position and Responsibilities.** During employment, Employee shall have such responsibilities, duties and authority as NAI through its Board of Directors may from time to time assign to Employee, and that are normal and customary duties of a Chief Executive Officer of a publicly held corporation. Employee's initial title shall be Chief Executive Officer.

4. **Term.** If Employee continues working for NAI past June 30, 2004, and if NAI still desires Employee's services, then the following terms and conditions will apply:

a. **At-will.** Employee shall be an at-will employee and NAI or Employee will be entitled to terminate the employment relationship for any reason or for no reason, with or without cause and with or without notice;

b. **Compensation.** Employee will be compensated at the rate set forth in Section 5 below unless another rate is mutually agreed upon; and

c. **Benefits.** As to benefits and other terms of employment, Employee shall be subject to the same policies and procedures as other employees of NAI in similar positions.

5. **Compensation.** While Employee is employed by NAI as Chief Executive Officer, Employee's rate of compensation will be at a rate of \$242,190 per year, payable no less frequently than monthly. The compensation set forth in this Section 5 will be Employee's only compensation except standard employee benefits available to other level one executives of NAI or any other written compensation arrangement approved by the Board of Directors of NAI. Employee will be entitled to participate in any bonus compensation in a manner and at a level consistent with other level one executives of NAI.

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6. **Termination.** In the event of termination or resignation, the following terms and conditions will apply:

a. **Without Cause, Severance Benefit.** In the event Employee is terminated by NAI without cause, Employee shall be entitled to receive a severance benefit, including standard employee benefits available to other level one executives of NAI, in an amount equal to twelve (12) months' compensation. One half of any severance benefit owing hereunder shall be paid within 10 days of termination and the balance shall be paid on a bi-weekly basis over the severance period of from one to twelve months.

b. **With Cause, No Severance Benefit.** NAI may terminate Employee with cause, which shall be limited to the occurrence of one or more of the following events: (i) the Employee's commission of any fraud against NAI; (ii) Employee's intentional appropriation for his or her personal use or benefit the funds of the Company not authorized by the Board of Directors; (iii) Employee's conviction of any crime involving moral turpitude; (iv) Employee's conviction of a violation of any state or federal law which could result in a material adverse impact upon the business of NAI; (v) the Employee engaging in any other professional employment or consulting or directly or indirectly participating in or assisting any business which is a current or potential supplier, customer or competitor of NAI without prior written approval from the Board of Directors of NAI, (vi) the Employee accepting or encouraging the offering of gifts or gratuities from any customer, vendor, supplier, or other person doing business with NAI, or (vii) when Employee has been disabled and is unable to perform the essential functions of the position for any reason notwithstanding reasonable accommodation and has received from NAI compensation in an amount equivalent to his or her severance benefit payment. No severance benefit shall be due to Employee if Employee is terminated for cause.

c. **Resignation or Retirement, No Severance Pay.** No severance pay shall be due to Employee if Employee resigns or retires from employment.

**7. Termination Obligations.**

a. **Return of NAI Company Property.** Employee shall take all reasonable steps to make sure all NAI Company Property (as defined in Attachment 2) is returned to NAI promptly but in no event later than two (2) business days following termination of employment.

b. **Employee Cooperation.** Following any termination of the employment, Employee shall cooperate fully with NAI in all matters relating to completing pending work on behalf of NAI and the orderly transfer of work to other employees of NAI. Employee shall also cooperate in the defense of any action brought by any third party against NAI that relates in any way to Employee's acts or omissions while employed by NAI.

c. **Survival of Obligations.** Employee's obligations under this Section shall survive the termination of employment and the expiration or termination of this Agreement.

8. **Change in Control.** In the event of any Change in Control, the following provisions will apply. Any of the following shall constitute a "Change in Control" for the purposes of this Section 8:

a. A "person" (meaning an individual, a partnership, or other group or association as defined in sections 13(d) and 14(d) of the Securities Exchange Act of 1934) acquires fifty percent (50%) or more of the combined voting power of the outstanding securities of NAI having a right to vote in elections of directors; or

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b. The members of the Board of Directors of the Company who were members of the Board of Directors on the commencement date hereof, shall for any reason cease to constitute a majority of the Board of Directors of the Company; or

c. All or substantially all of the business of NAI is disposed of by NAI to a party or parties other than a subsidiary or other affiliate of NAI, in which NAI owns less than a majority of the equity, pursuant to a partial or complete liquidation of NAI, sale of assets (including stock of a subsidiary of NAI) or otherwise.

d. In the event of any such Change in Control, this Agreement shall continue in effect unless Employee at his or her sole option, and within sixty (60) days of a Change in Control taking place, elects voluntarily to terminate this Agreement. In such case, NAI shall pay Employee as severance pay or liquidated damages, or both, a lump sum payment (“Change in Control Severance Payment”) equal to the severance period specified in Section 6(a) above or such greater amount as the Board of Directors determines from time to time pursuant to terms which may not be revoked or reduced thereafter.

e. In the event Employee is terminated following a Change in Control by NAI and/or the surviving or resulting corporation without cause, Employee shall be entitled to a Change in Control Severance Payment equal to the severance period specified in Section 6(a) or such greater amount as the Board of Directors determines from time to time pursuant to terms which may not be revoked or reduced thereafter.

f. Any Change in Control Severance Payment shall be made not later than the fifteenth (15th) day following the effective date of the voluntary or involuntary termination of this Agreement in connection with a Change in Control; provided, however, that if the amount of such payments cannot be finally determined on or before such date, NAI shall pay to Employee on such date a good faith estimate of the minimum amount of such payments, and shall pay the remainder of such payments (together with interest at the rate provided in Internal Revenue Code Section 1274(b)(2)(B) of the Code), as soon as the amount thereof can be determined, but in no event later than the thirtieth (30th) day after the applicable termination date. In the event the amount of the estimated payments exceeds the amount subsequently determined to have been due, such excess shall constitute a loan by NAI payable on the fifteenth (15th) day after receipt by Employee of a written demand for payment from NAI (together with interest calculated as above). The total of any payment pursuant to this Section 8 shall be limited to the extent necessary, in the opinion of legal counsel acceptable to Employee and NAI, to avoid the payment of an “excess parachute” payment within the meaning of Internal Revenue Code Section 280 G or any similar successor provision.

g. In the event of termination of employment either by the Employee under Section 8d. or by NAI under Section 8e., NAI shall cause each stock option heretofore granted by NAI to the Employee to become fully exercisable and to remain exercisable for the term of the option.

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9. **Arbitration.** Employee and NAI hereby agree to the Mutual Agreement to Arbitrate attached hereto and made a part hereof as Attachment #1. Employee's obligations under this Section shall survive the termination of employment and the expiration or termination of this Agreement.

10. **Confidential Information and Inventions.** Employee and NAI hereby agree to the Confidential Information and Assignment Agreement, Covenant of Exclusivity and Covenant Not to Compete attached hereto and made a part hereof as Attachment #2. Employee's obligations under this Section shall survive the termination of employment and the expiration or termination of this Agreement.

11. **Competitive Activity.** Employee covenants, warrants and represents that during the period of his or her employment with NAI, Employee shall not engage anywhere directly or indirectly in (as a principal, shareholder, partner, director, officer, agent, employee, consultant or otherwise) or be financially interested in any business which is involved in business activities which are the same as, similar to, or in competition with business activities carried on by NAI or any business that is a current or potential supplier, customer or competitor of NAI without prior written approval from the Board of Directors of NAI.

12. **Employee Conduct.** Employee covenants, warrants and represents that during the period of his or her employment with NAI, Employee shall not accept or encourage the offering of gifts or gratuities from any customer, vendor, supplier, or other person doing business with NAI. Employee represents and understands that acceptance or encouragement of any gift or gratuity may create a perceived financial obligation and/or conflict of interest for NAI and shall not be permitted as a means to influence business decisions, transactions or service. In this situation, as in all other areas of employment, Employee is expected to conduct himself or herself using the highest ethical standard.

13. **Entire Agreement.** This Agreement and any attachments and/or exhibits contains the entire agreement between the parties. It supersedes any and all other agreements, either oral or in writing, between the parties hereto with respect to Employee's employment by NAI. Each party to this Agreement acknowledges that no representations, inducements, promises or agreements, oral or otherwise, have been made by any party, or anyone acting on behalf of any party, which are not embodied herein and acknowledges that no other agreement, statement or promise not contained in this Agreement shall be valid or binding. This Agreement may not be modified or amended by oral agreement or course of conduct, but only by an agreement in writing signed by the Board of Directors of NAI and Employee. To the extent the practices, policies or procedures of NAI, now or in the future, are inconsistent with the terms of this Agreement, the provisions of this Agreement shall control.

14. **Governing Law.** This Executive Employment Agreement shall be construed and enforced in accordance with the laws of the State of California.

15. **Provisions Separable.** Should any part or provision of this Executive Employment Agreement be held unenforceable or in conflict with the law of any jurisdiction, the validity of the remaining parts shall not be affected by such holding.

16. **Attorney's Fees.** Should any party institute any action, arbitration or proceeding to enforce, interpret or apply any provision of this Executive Employment Agreement, the parties

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agree that the prevailing party shall be entitled to reimbursement by the non-prevailing party of all recoverable costs and expenses, including, but not limited to, reasonable attorney fees.

17. **Interpretation.** This Agreement shall be construed as a whole, according to its fair meaning, and not in favor of or against any party. By way of example and not in limitation, this Agreement shall not be construed in favor of the party receiving a benefit nor against the party responsible for any particular language in this Agreement.

18. **Legal Representation; Independent Counsel.** The law firm of Fisher Thurber LLP has prepared this Executive Employment Agreement on behalf of NAI based on its instructions. Fisher Thurber LLP does not represent any other party to this Executive Employment Agreement. In executing this Executive Employment Agreement, Employee represents that he has neither requested nor been given legal advice or counsel by Fisher Thurber LLP or any of its attorneys. Employee is aware of his right to obtain separate legal counsel with respect to the negotiation and execution of this Executive Employment Agreement and acknowledges that Fisher Thurber LLP has recommended that Employee retain his own counsel for such purpose. Employee further acknowledges that he (i) has read this Executive Employment Agreement and its exhibits and attachments; (ii) has had the opportunity to retain separate counsel in connection with the negotiation and execution of this Executive Employment Agreement; and (iii) has relied on the advice of separate counsel with respect to this Executive Employment Agreement or made the conscious decision not to retain counsel in connection with the negotiation and execution of this Executive Employment Agreement.

“EMPLOYEE”

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Mark A. LeDoux

NATURAL ALTERNATIVES INTERNATIONAL, INC.  
a Delaware corporation

By: \_\_\_\_\_

Randell Weaver, President

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**ATTACHMENT #1**

**MUTUAL AGREEMENT TO MEDIATE AND ARBITRATE CLAIMS**

This Mutual Agreement to Mediate and Arbitrate Claims ("Agreement") is entered into between Mark A. LeDoux ("Employee") and Natural Alternatives International, Inc. ("NAI"), together with its affiliates and subsidiaries.

In consideration of Employee's prospective and continued employment relationship with NAI, Employee's employment rights under Employee's Executive Employment Agreement, Employee's participation in stock option plans, Employee's participation in bonus compensation programs, Employee's access to and receipt of confidential information of NAI, and other good and valuable consideration, all of which Employee considers to have been negotiated at arm's length, Employee agrees to the following:

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

a. To the fullest extent permitted by law, all claims and disputes between Employee (and his attorneys, successors and assigns) and NAI (as defined below) relating in any manner whatsoever to the employment or termination of Employee, including without limitation all claims and disputes arising under this Agreement, shall be resolved by arbitration. All persons and entities specified in the preceding sentence (other than NAI and Employee) shall be considered third-party beneficiaries of the rights and obligations created by this Agreement on arbitration. Claims and disputes covered by this Agreement include without limitation those arising under:

- (i) Any federal, state or local laws, regulations or statutes prohibiting employment discrimination (such as, without limitation: race, sex, national origin, age, disability, religion, sexual orientation) and harassment.
- (ii) Any alleged or actual agreement or covenant (oral, written or implied) between Employee and NAI.
- (iii) Any company policy, compensation, wage or related claim or benefit plan, unless the decision in question was made by an entity other than NAI.
- (iv) Any public policy.
- (v) Any other claim for personal, emotional, physical or economic injury.

b. The only disputes between Employee and NAI which are not included within this Mutual Agreement to Arbitrate Claims are:

- (i) Any claim by Employee for workers' compensation or unemployment compensation benefits.
- (ii) Any claim by Employee for benefits under a company plan which provides for its own arbitration procedure.

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

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

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

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

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

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

a. If NAI and Employee are unable to resolve a dispute relating to this Agreement through mediation, they shall submit any such dispute or claims relating to Employee's employment with NAI or the termination of that employment including but not limited to claims arising under common law or under any statute, rule, regulation, or law, whether federal, state or local including without limitation, any claims under the California Fair Employment and Housing Act, the California Labor Code, Title VII of the Civil Rights Act of 1964, the Age Discrimination in Employment Act, the Americans with Disabilities Act, the Rehabilitation Act of 1973, the Family Medical Leave Act the Employee Retirement Income Security Act of 1974, or Section 1981 or Title 42 of the United States Code to binding arbitration, in accordance with California Code of Civil Procedure §§1280 through 1294.2. Either party may enforce the award of the arbitrator under Code of Civil Procedure §1285 by any competent court of law. Employee and NAI understand that they are waiving their rights to a jury trial.

b. The party demanding arbitration shall submit a written claim to the other party, setting out the basis of the claim and proposing the name of an arbitrator from JAMS, the mutually agreed to ADR organization. The responding party shall have ten (10) business days in which to respond to this demand in a written answer. If this response is not timely made, or if the responding party agrees with the person proposed as the arbitrator, then the person named by the demanding party shall serve as the arbitrator. If the responding party submits a written answer rejecting the proposed arbitrator then, on the request of either party, JAMS shall appoint an arbitrator other than the mediator. The Employee and NAI agree to apply AAA rules for the



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resolution of employment disputes to the arbitration even though the ADR is one other than AAA. No one who has ever had any business, financial, family, or social relationship with any party to this Agreement shall serve as an arbitrator unless the related party informs the other party of the relationship and the other party consents in writing to the use of that arbitrator.

c. The arbitration shall take place in the greater San Diego, California area, at a time and place selected by the arbitrator. A pre-arbitration hearing shall be held within ten (10) business days after the arbitrator's selection. The arbitration shall be held within sixty (60) calendar days after the pre-arbitration hearing. The arbitrator shall establish all discovery and other deadlines necessary to accomplish this goal.

d. Each party shall be entitled to discovery of essential documents and witnesses, as determined by the arbitrator in accordance with the then-applicable rules of discovery for the resolution of employment disputes and the time frame set forth in this Agreement. The arbitrator may resolve any disputes over any discovery matters as they would be resolved in civil litigation.

e. The arbitrator shall have the following powers:

(i) to issue subpoenas for the attendance of witnesses and subpoenas duces tecum for the production of books, records, documents, and other evidence;

(ii) to order depositions to be used as evidence;

(iii) subject to the limitations on discovery enumerated above, to enforce the rights, remedies, procedures, duties, liabilities, and obligations of discovery as if the arbitration were a civil action before a California superior court;

(iv) to conduct a hearing on the arbitrable issues;

(v) to administer oaths to parties and witnesses.

f. Within fifteen (15 days) after completion of the arbitration, the arbitrator shall submit a tentative decision in writing, specifying the reasoning for the decision and any calculations necessary to explain the award. Each party shall have fifteen (15 days) in which to submit written comments to the tentative decision. Within ten (10) days after the deadline for written comments, the arbitrator shall announce the final award.

g. NAI shall pay the arbitrator's expenses and fees, all meeting room charges, and any other expenses that would not have been incurred if the case were litigated in the judicial forum having jurisdiction over it. Unless otherwise ordered by the arbitrator, each party shall pay its own attorney fees, witness fees, and other expenses incurred by the party for his or her own benefit. Regardless of any statute, procedure, rule or law, the prevailing party in arbitration shall be entitled to recover from the non-prevailing party reasonable attorney fees incurred as a result of arbitration.

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**4. Miscellaneous Provisions.**

a. The term “company” means NAI, and all related entities, all officers, employees, directors, agents, shareholders, partners, benefit plan sponsors, fiduciaries, administrators or affiliates of any of the above, and all successors and assignees of any of the above.

b. If either party pursues a covered claim against the other by any action, method or legal proceeding other than mediation or arbitration as provided herein, the responding party shall be entitled to dismissal or injunctive relief regarding such action and recovery of all costs, losses and attorneys’ fees related to such other action or proceeding.

c. The parties to this Agreement acknowledge and agree that they are waiving their right to a jury trial on the issues covered by this Agreement.

d. This is the complete agreement of the parties on the subject of mediation and the arbitration of disputes and claims. This Agreement supersedes any prior or contemporaneous oral, written or implied understanding on the subject, shall survive the termination of Employee’s employment and can only be revoked or modified by a written agreement signed by Employee and the Board of Directors of NAI that specifically states an intent to revoke or modify this Agreement. If any provision of this Agreement is adjudicated to be void or otherwise unenforceable in whole or in part, such adjudication shall not affect the validity of the remainder of the Agreement, which shall remain in full force and effect.

e. The law firm of Fisher Thurber LLP has prepared this Agreement on behalf of NAI based on its instructions. Fisher Thurber LLP does not represent any other party to this Agreement. In executing this Agreement, Employee represents that he has neither requested nor been given legal advice or counsel by Fisher Thurber LLP or any of its attorneys. Employee is aware of his right to obtain separate legal counsel with respect to the negotiation and execution of this Agreement and acknowledges that Fisher Thurber LLP has recommended that Employee retain his own counsel for such purpose. Employee further acknowledges that he (i) has read this Agreement and its exhibits and attachments; (ii) has had the opportunity to retain separate counsel in connection with the negotiation and execution of this Agreement; and (iii) has relied on the advice of separate counsel with respect to this Agreement or made the conscious decision not to retain counsel in connection with the negotiation and execution of this Agreement.

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

“EMPLOYEE”

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Mark A. LeDoux

NATURAL ALTERNATIVES INTERNATIONAL, INC.  
a Delaware corporation

By:

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Randell Weaver, President

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ATTACHMENT #2

**CONFIDENTIAL INFORMATION AND INVENTION ASSIGNMENT AGREEMENT,  
COVENANT OF EXCLUSIVITY AND COVENANT NOT TO COMPETE**

This Confidential Information and Invention Assignment Agreement (“Agreement”) is made between Natural Alternatives International, Inc., a Delaware corporation (“Company”) and the undersigned Employee.

In consideration of and as a condition of my prospective and continued employment relationship with the Company (which for purposes of this Agreement shall be deemed to include any subsidiaries or affiliates of the Company where “affiliate” shall mean any person or entity that directly or indirectly controls, is controlled by, or is under common control with the Company), the receipt of confidential information while associated with the Company, and other good and valuable consideration, I agree to the following, and I agree the following shall be in addition to the terms and conditions of any Confidential Information and Invention Assignment Agreement executed by employees of the Company generally, and which I may execute in addition hereto:

**1. Inventions.**

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

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

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

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

iv. To facilitate the complete and accurate disclosures described above, I shall maintain complete written records of all Inventions and all work,

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study and investigation done by me during my employment, which records shall be the Company's property.

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

b. Assignment. I hereby assign to the Company without royalty or any other further consideration my entire right, title and interest in and to each and every Invention I am required to disclose under Section 1a. other than an Invention that (i) I have or shall have developed entirely on my own time without using the Company's equipment, supplies, facilities or trade secret information, (ii) does not relate at the time of conception or reduction to practice of the Invention to the Company's business, or actual or demonstrably anticipated research or development of the Company and (iii) does not result from any work performed by me for the Company. I acknowledge that the Company has notified me that the assignment provided for in this Section 1 b. does not apply to any Invention to which the assignment may not lawfully apply under the provisions of Section §2870 of the California Labor Code, a copy of which is attached as Exhibit "A" hereto. I shall bear the full burden of proving to the Company that an invention qualifies fully under Section §2870.

c. Additional Assistance and Documents. I will assist the Company in obtaining, maintaining and enforcing patents, copyrights, trade secrets, trademarks, service marks, trade names and other proprietary rights in connection with any Invention I have assigned to the Company under Section 1 b., and I further agree that my obligations under this Section 1 c. shall continue beyond the termination of my employment with the Company. Among other things, for the foregoing purposes I will (i) testify at the request of the Company in any interference, litigation or other legal proceeding that may arise during or after my employment, and (ii) execute, verify, acknowledge and deliver any proper document and, if, because of my mental or physical incapacity or for any other reason whatsoever, the Company is unable to obtain my signature to apply for or to pursue any application for any United States or foreign patent or copyright covering Inventions assigned to the Company by me, I hereby irrevocably designate and appoint each of the Company and its duly authorized officers and agents as my agent and attorney in fact to act for me and in my behalf and stead to execute and file any such applications and to do all other lawfully permitted acts to further the prosecution and issuance of any United States or foreign patent or copyright thereon with the same legal force and effect as if executed by me. I shall be entitled to reimbursement of any out-of-pocket expenses incurred by me in rendering such assistance and, if I am required to render such assistance after the termination of my employment, the Company shall pay me a reasonable rate of compensation for time spent by me in rendering such assistance to the extent permitted by law (provided, I understand that no compensation shall be paid for my time in connection with preparing for or rendering any testimony or statement under oath in any judicial proceeding, arbitration or similar proceeding).

d. Prior Contracts and Inventions; Rights of Third Parties. I represent to the Company that, except as set forth on Exhibit "B" hereto, there are no other contracts to assign Inventions now in existence between me and any other person or entity (and if no Exhibit "B" is

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attached hereto or there is no such contract(s) described thereon, then it means that by signing this Agreement, I represent to the Company that there is no such other contract(s)). In addition, I represent to the Company that I have no other employments or undertaking which do or would restrict or impair my performance of this Agreement. I further represent to the Company that Exhibit "C" hereto sets forth a brief description of all Inventions made or conceived by me prior to my employment with the Company which I desire to be excluded from this Agreement (and if no Exhibit "C" is attached hereto or there is no such description set forth thereon, then it means that by signing this Agreement I represent to the Company that there is no such Invention made or conceived by me prior to my employment with the Company). In connection with my employment with the Company, I promise not to use or disclose to the Company any patent, copyright, confidential trade secret or other proprietary information of any previous employer or other person that I am not lawfully entitled so to use or disclose. If in the course of my employment with the Company I incorporate into an Invention or any product process or service of the Company any Invention made or conceived by me prior to my employment with the Company, I hereby grant to the Company a royalty-free, irrevocable, worldwide nonexclusive license to make, have made, use and sell that Invention without restriction as to the extent of my ownership or interest.

## **2. Confidential Information.**

a. **Company Confidential Information.** I will not use or disclose Confidential Information, whether before, during or after the period of my employment except to perform my duties as an employee of the Company based on my reasonable judgment as an Officer of the Company, or in accordance with instruction or authorization of the Company, without prior written consent of the Company or pursuant to process or requirements of law after I have disclosed such process or requirements to the Company so as to afford it the opportunity to seek appropriate relief therefrom. "Confidential Information" means any Invention of any person in which the Company has an interest and in addition means any financial, client, customer, supplier, marketing, distribution and other information of a confidential or private nature connected with the business of the Company or any person with whom it deals, provided by the Company to me or to which I have access during or in the course of any employment. Confidential Information is to be broadly defined, and includes all information that has or could have commercial value or other utility in the business in which the Company is engaged or contemplates engaging, and all information of which the unauthorized disclosure could be detrimental to the interests of the Company, whether or not such information is identified as Confidential Information by the Company.

b. **Third Party Information.** I acknowledge that during my employment with the Company I may have access to patent, copyright, confidential, trade secret or other proprietary information of third parties subject to restrictions on the use or disclosure thereof by the Company. During the period of my employment and thereafter I will not use or disclose any such information other than consistent with the restrictions and my duties as an employee of the Company.

3. **Property of the Company.** All equipment and all tangible and intangible information relating to NAI, its employees and its customers or vendors furnished to, obtained by or prepared by Employee or any other person during the course of or incident to employment by NAI are and shall remain the sole property of NAI ("NAI Company Property"). NAI Company Property shall include, but not be limited to, computer equipment, books, manuals, records,

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reports, notes, correspondence, contracts, customer lists, business cards, advertising, sales, financial, personnel, operations, and manufacturing materials and information, data processing reports, computer programs, software, customer information and records, business records, price lists or information, and samples, and in each case shall include all copies thereof in any medium, including paper, electronic and magnetic media and all other forms of information storage. All tangible NAI Company Property shall be returned promptly to NAI upon termination of employment, but in no event later than two (2) business days following termination of employment.

4. **No Solicitation of Company Employees.** While employed by the Company and for a period of one year after termination of my employment with the Company, I agree not to induce or attempt to influence directly or indirectly any employee of the Company to terminate employment with the Company or to work for me or any other person or entity.

5. **Covenant of Exclusivity and Not to Compete.** During the period of my employment with the Company, I will not engage in any other professional employment or consulting or directly or indirectly participate in or assist any business which is a current or potential supplier, customer or competitor of the Company without prior written approval from the Board of Directors of the Company.

6. **General.**

a. **Assignments, Successors and Assignees.** All representations, warranties, covenants and agreements of the parties shall bind their respective heirs, executors, personal representatives, successors and assignees (“transferees”) and shall inure to the benefit of their respective permitted transferees. The Company shall have the right to assign any or all of its rights and to delegate any or all of its obligations hereunder. The undersigned employee shall not have the right to assign any rights or delegate any obligations hereunder without the prior written consent of the Company or its transferee.

b. **Number and Gender, Headings.** Each number and gender shall be deemed to include each other number and gender as the context may require. The headings and captions contained in this Agreement shall not constitute a part thereof and shall not be used in its construction or interpretation.

c. **Severability.** If any provision of this Agreement is found by any court or arbitral tribunal of competent jurisdiction to be invalid or unenforceable, the invalidity of such provision shall not affect the other provisions of this Agreement and all provisions not affected by the invalidity shall remain in full force and effect.

d. **Amendment and Modification.** This Agreement may be amended or modified only by a writing executed by each party.

e. **Government Law.** The laws of California shall govern the construction, interpretation and performance of this Agreement and all transactions under it.

f. **Remedies.** I acknowledge that my failure to carry out any obligation under this Agreement, or a breach by me of any provision herein, will constitute immediate and irreparable damage to the Company, which cannot be fully and adequately compensated in

money damages and which will warrant preliminary and other injunctive relief, an order for specific performance, and other equitable relief. I further agree that no bond or other security shall be required in obtaining such equitable relief and I hereby consent to the issuance of such injunction and to the ordering of specific performance. I also understand that other action may be taken and remedies enforced against me.

g. Mediation and Arbitration. This Agreement is subject to the Mutual Agreement to Mediate and Arbitrate Claims attached to the Executive Employment Agreement between me and the Company, incorporated into this Agreement by this reference.

h. Attorneys' Fees. Should either I or the Company, or any heir, personal representative, successor or permitted assign of either party, resort to arbitration or legal proceedings to enforce this Agreement, the prevailing party (as defined in California statutory law) in such proceeding shall be awarded, in addition to such other relief as may be granted, attorneys' fees and costs incurred in connection with such proceeding.

i. No Effect on Other Terms or Conditions of Employment. I acknowledge that this Agreement does not affect any term or condition of my employment except as expressly provided in this Agreement, and that this Agreement does not give rise to any right or entitlement on my part to employment or continued employment with the Company. I further acknowledge that this Agreement does not affect in any way the right of the Company to terminate my employment.

j. Legal Representation; Advice of Counsel. The law firm of Fisher Thurber LLP has prepared this Agreement on behalf of NAI based on its instructions. Fisher Thurber LLP does not represent any other party to this Agreement. In executing this Agreement, Employee represents that he has neither requested nor been given legal advice or counsel by Fisher Thurber LLP or any of its attorneys. Employee is aware of his right to obtain separate legal counsel with respect to the negotiation and execution of this Agreement and acknowledges that Fisher Thurber LLP has recommended that Employee retain his own counsel for such purpose. Employee further acknowledges that he (i) has read this Agreement and its exhibits and attachments; (ii) has had the opportunity to retain separate counsel in connection with the negotiation and execution of this Agreement; and (iii) has relied on the advice of separate counsel with respect to this Agreement or made the conscious decision not to retain counsel in connection with the negotiation and execution of this Agreement.

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

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Mark A. LeDoux

ACCEPTED:  
NATURAL ALTERNATIVES INTERNATIONAL, INC.  
a Delaware corporation

By:

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Randell Weaver, President

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**EXHIBIT "A"**

California Labor Code

§ 2870. Invention on Own Time-Exemption from Agreement.

(a) Any provision in an employment agreement which provides that an employee shall assign, or offer to assign, any of his or her rights in an invention to his or her employer shall not apply to an invention that the employee developed entirely on his or her own time without using the employer's equipment, supplies, facilities or trade secret information expect for those inventions that either:

(1) Relate at the time of conception or reduction to practice of the invention to the employer's business, or actual or demonstrably anticipated research or development of the employer.

(2) Result from any work performed by the employee for the employer.

(b) To the extent a provision in an employment agreement purports to require an employee to assign an invention otherwise excluded from being required to be assigned under subdivision (a), the provision is against the public policy of this state and is unenforceable.

§ 2871. Restrictions on Employer for Condition of Employment.

No employer shall require a provision made void or unenforceable by Section 2870 as a condition of employment or continued employment. Nothing in this article shall be construed to forbid or restrict the right of an employer to provide in contracts of employment for disclosure, provided that any such disclosures be received in confidence, of all of the employee's inventions made solely or jointly with others during the period of his or her employment, a review process by the employer to determine such issues as may arise, and for full title to certain patents and inventions to be in the United States, as required by contracts between the employer and the United States or any of its agencies.



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**EXHIBIT "B"**

Except as set forth below, Employee represents to the Company that there are no other contracts to assign Inventions now in existence between Employee and any other person or entity (see Section 1 d. of the Agreement):

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**EXHIBIT "C"**

Set forth below is a brief description of all Inventions made or conceived by Employee prior to Employee's employment with the Company which Employee desires to be excluded from this Agreement (see Section 1 d. of the Agreement):

## EXECUTIVE EMPLOYMENT AGREEMENT

John Wise ("Employee") hereby accepts the offer of Natural Alternatives International, Inc. ("NAI" or the "Company") for employment as Chief Scientific Officer beginning September 13, 2003. Collectively, NAI and Employee will be referred to herein as the "Parties."

1. **Employment.** Notwithstanding the rights of the Parties to terminate the relationship described below, the Parties anticipate that Employee will be employed through June 30, 2004. Employee's employment will be at-will and may be terminated by either Employee or NAI at any time for any reason or no reason, with or without cause upon written notice to the other, or without any notice upon the death of Employee. The at-will status of the employment relationship may not be modified except in writing authorized in advance by the Board of Directors of NAI and signed by the Board of Directors of NAI and Employee.

2. **Employee Handbook.** Employee and NAI further understand and agree that nothing in the NAI Employee Handbook is intended to be, and nothing in it should be construed to be, a limitation of NAI's right to terminate, transfer, demote, suspend and administer discipline at any time for any reason. Employee and NAI understand and agree nothing in the Handbook is intended to, and nothing in the Handbook should be construed to, create an implied or express contract of employment contrary to this Agreement.

3. **Position and Responsibilities.** During employment, Employee shall have such responsibilities, duties and authority as NAI through its Board of Directors may from time to time assign to Employee, and that are normal and customary duties of a Chief Scientific Officer of a publicly held corporation. Employee's initial title shall be Chief Scientific Officer.

4. **Term.** If Employee continues working for NAI past June 30, 2004, and if NAI still desires Employee's services, then the following terms and conditions will apply:

a. **At-will.** Employee shall be an at-will employee and NAI or Employee will be entitled to terminate the employment relationship for any reason or for no reason, with or without cause and with or without notice;

b. **Compensation.** Employee will be compensated at the rate set forth in Section 5 below unless another rate is mutually agreed upon; and

c. **Benefits.** As to benefits and other terms of employment, Employee shall be subject to the same policies and procedures as other employees of NAI in similar positions.

5. **Compensation.** While Employee is employed by NAI as Chief Scientific Officer, Employee's rate of compensation will be at a rate of \$193,752 per year, payable no less frequently than monthly. The compensation set forth in this Section 5 will be Employee's only compensation except standard employee benefits available to other level one executives of NAI or any other written compensation arrangement approved by the Board of Directors of NAI. Employee will be entitled to participate in any bonus compensation in a manner and at a level consistent with other level one executives of NAI.

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6. **Termination.** In the event of termination or resignation, the following terms and conditions will apply:

a. **Without Cause, Severance Benefit.** In the event Employee is terminated by NAI without cause, Employee shall be entitled to receive a severance benefit, including standard employee benefits available to other level one executives of NAI, in an amount equal to twelve months' compensation. One half of any severance benefit owing hereunder shall be paid within 10 days of termination and the balance shall be paid on a bi-weekly basis over the severance period of from one to twelve months.

b. **With Cause, No Severance Benefit.** NAI may terminate Employee with cause, which shall be limited to the occurrence of one or more of the following events: (i) the Employee's commission of any fraud against NAI; (ii) Employee's intentional appropriation for his or her personal use or benefit the funds of the Company not authorized by the Board of Directors; (iii) Employee's conviction of any crime involving moral turpitude; (iv) Employee's conviction of a violation of any state or federal law which could result in a material adverse impact upon the business of NAI; (v) the Employee engaging in any other professional employment or consulting or directly or indirectly participating in or assisting any business which is a current or potential supplier, customer or competitor of NAI without prior written approval from the Board of Directors of NAI, (vi) the Employee accepting or encouraging the offering of gifts or gratuities from any customer, vendor, supplier, or other person doing business with NAI, or (vii) when Employee has been disabled and is unable to perform the essential functions of the position for any reason notwithstanding reasonable accommodation and has received from NAI compensation in an amount equivalent to his or her severance benefit payment. No severance benefit shall be due to Employee if Employee is terminated for cause.

c. **Resignation or Retirement, No Severance Pay.** No severance pay shall be due to Employee if Employee resigns or retires from employment.

**7. Termination Obligations.**

a. **Return of NAI Company Property.** Employee shall take all reasonable steps to make sure all NAI Company Property (as defined in Attachment 2) is returned to NAI promptly but in no event later than two (2) business days following termination of employment.

b. **Employee Cooperation.** Following any termination of the employment, Employee shall cooperate fully with NAI in all matters relating to completing pending work on behalf of NAI and the orderly transfer of work to other employees of NAI. Employee shall also cooperate in the defense of any action brought by any third party against NAI that relates in any way to Employee's acts or omissions while employed by NAI.

c. **Survival of Obligations.** Employee's obligations under this Section shall survive the termination of employment and the expiration or termination of this Agreement.

8. **Change in Control.** In the event of any Change in Control, the following provisions will apply. Any of the following shall constitute a "Change in Control" for the purposes of this Section 8:

a. A "person" (meaning an individual, a partnership, or other group or association as defined in sections 13(d) and 14(d) of the Securities Exchange Act of 1934) acquires fifty percent (50%) or more of the combined voting power of the outstanding securities of NAI having a right to vote in elections of directors; or

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b. The members of the Board of Directors of the Company who were members of the Board of Directors on the commencement date hereof, shall for any reason cease to constitute a majority of the Board of Directors of the Company; or

c. All or substantially all of the business of NAI is disposed of by NAI to a party or parties other than a subsidiary or other affiliate of NAI, in which NAI owns less than a majority of the equity, pursuant to a partial or complete liquidation of NAI, sale of assets (including stock of a subsidiary of NAI) or otherwise.

d. In the event of any such Change in Control, this Agreement shall continue in effect unless Employee at his or her sole option, and within sixty (60) days of a Change in Control taking place, elects voluntarily to terminate this Agreement. In such case, NAI shall pay Employee as severance pay or liquidated damages, or both, a lump sum payment ("Change in Control Severance Payment") equal to the severance period specified in Section 6(a) above or such greater amount as the Board of Directors determines from time to time pursuant to terms which may not be revoked or reduced thereafter.

e. In the event Employee is terminated following a Change in Control by NAI and/or the surviving or resulting corporation without cause, Employee shall be entitled to a Change in Control Severance Payment equal to the severance period specified in Section 6(a) or such greater amount as the Board of Directors determines from time to time pursuant to terms which may not be revoked or reduced thereafter.

f. Any Change in Control Severance Payment shall be made not later than the fifteenth (15th) day following the effective date of the voluntary or involuntary termination of this Agreement in connection with a Change in Control; provided, however, that if the amount of such payments cannot be finally determined on or before such date, NAI shall pay to Employee on such date a good faith estimate of the minimum amount of such payments, and shall pay the remainder of such payments (together with interest at the rate provided in Internal Revenue Code Section 1274(b)(2)(B) of the Code), as soon as the amount thereof can be determined, but in no event later than the thirtieth (30th) day after the applicable termination date. In the event the amount of the estimated payments exceeds the amount subsequently determined to have been due, such excess shall constitute a loan by NAI payable on the fifteenth (15th) day after receipt by Employee of a written demand for payment from NAI (together with interest calculated as above). The total of any payment pursuant to this Section 7 shall be limited to the extent necessary, in the opinion of legal counsel acceptable to Employee and NAI, to avoid the payment of an "excess parachute" payment within the meaning of Internal Revenue Code Section 280 G or any similar successor provision.

g. In the event of termination of employment either by the Employee under Section 8d. or by NAI under Section 8e., NAI shall cause each stock option heretofore granted by NAI to the Employee to become fully exercisable and to remain exercisable for the term of the option.

9. **Arbitration.** Employee and NAI hereby agree to the Mutual Agreement to Arbitrate attached hereto and made a part hereof as Attachment #1. Employee's obligations under this Section shall survive the termination of employment and the expiration or termination of this Agreement.

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10. **Confidential Information and Inventions.** Employee and NAI hereby agree to the Confidential Information and Assignment Agreement, Covenant of Exclusivity and Covenant Not to Compete attached hereto and made a part hereof as Attachment #2. Employee's obligations under this Section shall survive the termination of employment and the expiration or termination of this Agreement.

11. **Competitive Activity.** Employee covenants, warrants and represents that during the period of his or her employment with NAI, Employee shall not engage anywhere directly or indirectly in (as a principal, shareholder, partner, director, officer, agent, employee, consultant or otherwise) or be financially interested in any business which is involved in business activities which are the same as, similar to, or in competition with business activities carried on by NAI or any business that is a current or potential supplier, customer or competitor of NAI without prior written approval from the Board of Directors of NAI.

12. **Employee Conduct.** Employee covenants, warrants and represents that during the period of his or her employment with NAI, Employee shall not accept or encourage the offering of gifts or gratuities from any customer, vendor, supplier, or other person doing business with NAI. Employee represents and understands that acceptance or encouragement of any gift or gratuity may create a perceived financial obligation and/or conflict of interest for NAI and shall not be permitted as a means to influence business decisions, transactions or service. In this situation, as in all other areas of employment, Employee is expected to conduct himself or herself using the highest ethical standard.

13. **Entire Agreement.** This Agreement and any attachments and/or exhibits contains the entire agreement between the parties. It supersedes any and all other agreements, either oral or in writing, between the parties hereto with respect to Employee's employment by NAI. Each party to this Agreement acknowledges that no representations, inducements, promises or agreements, oral or otherwise, have been made by any party, or anyone acting on behalf of any party, which are not embodied herein and acknowledges that no other agreement, statement or promise not contained in this Agreement shall be valid or binding. This Agreement may not be modified or amended by oral agreement or course of conduct, but only by an agreement in writing signed by the Board of Directors of NAI and Employee. To the extent the practices, policies or procedures of NAI, now or in the future, are inconsistent with the terms of this Agreement, the provisions of this Agreement shall control.

14. **Governing Law.** This Executive Employment Agreement shall be construed and enforced in accordance with the laws of the State of California.

15. **Provisions Separable.** Should any part or provision of this Executive Employment Agreement be held unenforceable or in conflict with the law of any jurisdiction, the validity of the remaining parts shall not be affected by such holding.

16. **Attorney's Fees.** Should any party institute any action, arbitration or proceeding to enforce, interpret or apply any provision of this Executive Employment Agreement, the parties agree that the prevailing party shall be entitled to reimbursement by the non-prevailing party of all recoverable costs and expenses, including, but not limited to, reasonable attorney fees.

17. **Interpretation.** This Agreement shall be construed as a whole, according to its fair meaning, and not in favor of or against any party. By way of example and not in limitation,

this Agreement shall not be construed in favor of the party receiving a benefit nor against the party responsible for any particular language in this Agreement.

18. **Legal Representation; Independent Counsel.** The law firm of Fisher Thurber LLP has prepared this Executive Employment Agreement on behalf of NAI based on its instructions. Fisher Thurber LLP does not represent any other party to this Executive Employment Agreement. In executing this Executive Employment Agreement, Employee represents that he has neither requested nor been given legal advice or counsel by Fisher Thurber LLP or any of its attorneys. Employee is aware of his right to obtain separate legal counsel with respect to the negotiation and execution of this Executive Employment Agreement and acknowledges that Fisher Thurber LLP has recommended that Employee retain his own counsel for such purpose. Employee further acknowledges that he (i) has read this Executive Employment Agreement and its exhibits and attachments; (ii) has had the opportunity to retain separate counsel in connection with the negotiation and execution of this Executive Employment Agreement; and (iii) has relied on the advice of separate counsel with respect to this Executive Employment Agreement or made the conscious decision not to retain counsel in connection with the negotiation and execution of this Executive Employment Agreement.

“EMPLOYEE”

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John Wise

NATURAL ALTERNATIVES INTERNATIONAL, INC.  
a Delaware corporation

By:

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Randell Weaver, President

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**ATTACHMENT #1**

**MUTUAL AGREEMENT TO MEDIATE AND ARBITRATE CLAIMS**

This Mutual Agreement to Mediate and Arbitrate Claims ("Agreement") is entered into between John Wise ("Employee") and Natural Alternatives International, Inc. ("NAI"), together with its affiliates and subsidiaries.

In consideration of Employee's prospective and continued employment relationship with NAI, Employee's employment rights under Employee's Executive Employment Agreement, Employee's participation in stock option plans, Employee's participation in bonus compensation programs, Employee's access to and receipt of confidential information of NAI, and other good and valuable consideration, all of which Employee considers to have been negotiated at arm's length, Employee agrees to the following:

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

a. To the fullest extent permitted by law, all claims and disputes between Employee (and his attorneys, successors and assigns) and NAI (as defined below) relating in any manner whatsoever to the employment or termination of Employee, including without limitation all claims and disputes arising under this Agreement, shall be resolved by arbitration. All persons and entities specified in the preceding sentence (other than NAI and Employee) shall be considered third-party beneficiaries of the rights and obligations created by this Agreement on arbitration. Claims and disputes covered by this Agreement include without limitation those arising under:

- (i) Any federal, state or local laws, regulations or statutes prohibiting employment discrimination (such as, without limitation: race, sex, national origin, age, disability, religion, sexual orientation) and harassment.
- (ii) Any alleged or actual agreement or covenant (oral, written or implied) between Employee and NAI.
- (iii) Any company policy, compensation, wage or related claim or benefit plan, unless the decision in question was made by an entity other than NAI.
- (iv) Any public policy.
- (v) Any other claim for personal, emotional, physical or economic injury.

b. The only disputes between Employee and NAI which are not included within this Mutual Agreement to Arbitrate Claims are:

- (i) Any claim by Employee for workers' compensation or unemployment compensation benefits.
- (ii) Any claim by Employee for benefits under a company plan which provides for its own arbitration procedure.



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

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

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

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

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

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

a. If NAI and Employee are unable to resolve a dispute relating to this Agreement through mediation, they shall submit any such dispute or claims relating to Employee's employment with NAI or the termination of that employment including but not limited to claims arising under common law or under any statute, rule, regulation, or law, whether federal, state or local including without limitation, any claims under the California Fair Employment and Housing Act, the California Labor Code, Title VII of the Civil Rights Act of 1964, the Age Discrimination in Employment Act, the Americans with Disabilities Act, the Rehabilitation Act of 1973, the Family Medical Leave Act the Employee Retirement Income Security Act of 1974, or Section 1981 or Title 42 of the United States Code to binding arbitration, in accordance with California Code of Civil Procedure §§1280 through 1294.2. Either party may enforce the award of the arbitrator under Code of Civil Procedure §1285 by any competent court of law. Employee and NAI understand that they are waiving their rights to a jury trial.

b. The party demanding arbitration shall submit a written claim to the other party, setting out the basis of the claim and proposing the name of an arbitrator from JAMS, the mutually agreed to ADR organization. The responding party shall have ten (10) business days in which to respond to this demand in a written answer. If this response is not timely made, or if the responding party agrees with the person proposed as the arbitrator, then the person named by the demanding party shall serve as the arbitrator. If the responding party submits a written answer rejecting the proposed arbitrator then, on the request of either party, JAMS shall appoint an arbitrator other than the mediator. The Employee and NAI agree to apply AAA rules for the

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resolution of employment disputes to the arbitration even though the ADR is one other than AAA. No one who has ever had any business, financial, family, or social relationship with any party to this Agreement shall serve as an arbitrator unless the related party informs the other party of the relationship and the other party consents in writing to the use of that arbitrator.

c. The arbitration shall take place in the greater San Diego, California area, at a time and place selected by the arbitrator. A pre-arbitration hearing shall be held within ten (10) business days after the arbitrator's selection. The arbitration shall be held within sixty (60) calendar days after the pre-arbitration hearing. The arbitrator shall establish all discovery and other deadlines necessary to accomplish this goal.

d. Each party shall be entitled to discovery of essential documents and witnesses, as determined by the arbitrator in accordance with the then-applicable rules of discovery for the resolution of employment disputes and the time frame set forth in this Agreement. The arbitrator may resolve any disputes over any discovery matters as they would be resolved in civil litigation.

e. The arbitrator shall have the following powers:

(i) to issue subpoenas for the attendance of witnesses and subpoenas duces tecum for the production of books, records, documents, and other evidence;

(ii) to order depositions to be used as evidence;

(iii) subject to the limitations on discovery enumerated above, to enforce the rights, remedies, procedures, duties, liabilities, and obligations of discovery as if the arbitration were a civil action before a California superior court;

(iv) to conduct a hearing on the arbitrable issues;

(v) to administer oaths to parties and witnesses.

f. Within fifteen (15 days) after completion of the arbitration, the arbitrator shall submit a tentative decision in writing, specifying the reasoning for the decision and any calculations necessary to explain the award. Each party shall have fifteen (15 days) in which to submit written comments to the tentative decision. Within ten (10) days after the deadline for written comments, the arbitrator shall announce the final award.

g. NAI shall pay the arbitrator's expenses and fees, all meeting room charges, and any other expenses that would not have been incurred if the case were litigated in the judicial forum having jurisdiction over it. Unless otherwise ordered by the arbitrator, each party shall pay its own attorney fees, witness fees, and other expenses incurred by the party for his or her own benefit. Regardless of any statute, procedure, rule or law, the prevailing party in arbitration shall be entitled to recover from the non-prevailing party reasonable attorney fees incurred as a result of arbitration.

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**4. Miscellaneous Provisions.**

a. The term “company” means NAI, and all related entities, all officers, employees, directors, agents, shareholders, partners, benefit plan sponsors, fiduciaries, administrators or affiliates of any of the above, and all successors and assignees of any of the above.

b. If either party pursues a covered claim against the other by any action, method or legal proceeding other than mediation or arbitration as provided herein, the responding party shall be entitled to dismissal or injunctive relief regarding such action and recovery of all costs, losses and attorneys’ fees related to such other action or proceeding.

c. The parties to this Agreement acknowledge and agree that they are waiving their right to a jury trial on the issues covered by this Agreement.

d. This is the complete agreement of the parties on the subject of mediation and the arbitration of disputes and claims. This Agreement supersedes any prior or contemporaneous oral, written or implied understanding on the subject, shall survive the termination of Employee’s employment and can only be revoked or modified by a written agreement signed by Employee and the Board of Directors of NAI that specifically states an intent to revoke or modify this Agreement. If any provision of this Agreement is adjudicated to be void or otherwise unenforceable in whole or in part, such adjudication shall not affect the validity of the remainder of the Agreement, which shall remain in full force and effect.

e. The law firm of Fisher Thurber LLP has prepared this Agreement on behalf of NAI based on its instructions. Fisher Thurber LLP does not represent any other party to this Agreement. In executing this Agreement, Employee represents that he has neither requested nor been given legal advice or counsel by Fisher Thurber LLP or any of its attorneys. Employee is aware of his right to obtain separate legal counsel with respect to the negotiation and execution of this Agreement and acknowledges that Fisher Thurber LLP has recommended that Employee retain his own counsel for such purpose. Employee further acknowledges that he (i) has read this Agreement and its exhibits and attachments; (ii) has had the opportunity to retain separate counsel in connection with the negotiation and execution of this Agreement; and (iii) has relied on the advice of separate counsel with respect to this Agreement or made the conscious decision not to retain counsel in connection with the negotiation and execution of this Agreement.

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

“EMPLOYEE”

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John Wise

NATURAL ALTERNATIVES INTERNATIONAL, INC.  
a Delaware corporation

By:

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Randell Weaver, President

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ATTACHMENT #2

**CONFIDENTIAL INFORMATION AND INVENTION ASSIGNMENT AGREEMENT,  
COVENANT OF EXCLUSIVITY AND COVENANT NOT TO COMPETE**

This Confidential Information and Invention Assignment Agreement (“Agreement”) is made between Natural Alternatives International, Inc., a Delaware corporation (“Company”) and the undersigned Employee.

In consideration of and as a condition of my prospective and continued employment relationship with the Company (which for purposes of this Agreement shall be deemed to include any subsidiaries or affiliates of the Company where “affiliate” shall mean any person or entity that directly or indirectly controls, is controlled by, or is under common control with the Company), the receipt of confidential information while associated with the Company, and other good and valuable consideration, I agree to the following, and I agree the following shall be in addition to the terms and conditions of any Confidential Information and Invention Assignment Agreement executed by employees of the Company generally, and which I may execute in addition hereto:

**1. Inventions.**

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

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

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

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

iv. To facilitate the complete and accurate disclosures described above, I shall maintain complete written records of all Inventions and all work,

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study and investigation done by me during my employment, which records shall be the Company's property.

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

b. Assignment. I hereby assign to the Company without royalty or any other further consideration my entire right, title and interest in and to each and every Invention I am required to disclose under Section 1a. other than an Invention that (i) I have or shall have developed entirely on my own time without using the Company's equipment, supplies, facilities or trade secret information, (ii) does not relate at the time of conception or reduction to practice of the Invention to the Company's business, or actual or demonstrably anticipated research or development of the Company and (iii) does not result from any work performed by me for the Company. I acknowledge that the Company has notified me that the assignment provided for in this Section 1 b. does not apply to any Invention to which the assignment may not lawfully apply under the provisions of Section §2870 of the California Labor Code, a copy of which is attached as Exhibit "A" hereto. I shall bear the full burden of proving to the Company that an invention qualifies fully under Section §2870.

c. Additional Assistance and Documents. I will assist the Company in obtaining, maintaining and enforcing patents, copyrights, trade secrets, trademarks, service marks, trade names and other proprietary rights in connection with any Invention I have assigned to the Company under Section 1 b., and I further agree that my obligations under this Section 1 c. shall continue beyond the termination of my employment with the Company. Among other things, for the foregoing purposes I will (i) testify at the request of the Company in any interference, litigation or other legal proceeding that may arise during or after my employment, and (ii) execute, verify, acknowledge and deliver any proper document and, if, because of my mental or physical incapacity or for any other reason whatsoever, the Company is unable to obtain my signature to apply for or to pursue any application for any United States or foreign patent or copyright covering Inventions assigned to the Company by me, I hereby irrevocably designate and appoint each of the Company and its duly authorized officers and agents as my agent and attorney in fact to act for me and in my behalf and stead to execute and file any such applications and to do all other lawfully permitted acts to further the prosecution and issuance of any United States or foreign patent or copyright thereon with the same legal force and effect as if executed by me. I shall be entitled to reimbursement of any out-of-pocket expenses incurred by me in rendering such assistance and, if I am required to render such assistance after the termination of my employment, the Company shall pay me a reasonable rate of compensation for time spent by me in rendering such assistance to the extent permitted by law (provided, I understand that no compensation shall be paid for my time in connection with preparing for or rendering any testimony or statement under oath in any judicial proceeding, arbitration or similar proceeding).

d. Prior Contracts and Inventions; Rights of Third Parties. I represent to the Company that, except as set forth on Exhibit "B" hereto, there are no other contracts to assign Inventions now in existence between me and any other person or entity (and if no Exhibit "B" is

attached hereto or there is no such contract(s) described thereon, then it means that by signing this Agreement, I represent to the Company that there is no such other contract(s)). In addition, I represent to the Company that I have no other employments or undertaking which do or would restrict or impair my performance of this Agreement. I further represent to the Company that Exhibit "C" hereto sets forth a brief description of all Inventions made or conceived by me prior to my employment with the Company which I desire to be excluded from this Agreement (and if no Exhibit "C" is attached hereto or there is no such description set forth thereon, then it means that by signing this Agreement I represent to the Company that there is no such Invention made or conceived by me prior to my employment with the Company). In connection with my employment with the Company, I promise not to use or disclose to the Company any patent, copyright, confidential trade secret or other proprietary information of any previous employer or other person that I am not lawfully entitled so to use or disclose. If in the course of my employment with the Company I incorporate into an Invention or any product process or service of the Company any Invention made or conceived by me prior to my employment with the Company, I hereby grant to the Company a royalty-free, irrevocable, worldwide nonexclusive license to make, have made, use and sell that Invention without restriction as to the extent of my ownership or interest.

## **2. Confidential Information.**

a. **Company Confidential Information.** I will not use or disclose Confidential Information, whether before, during or after the period of my employment except to perform my duties as an employee of the Company based on my reasonable judgment as an Officer of the Company, or in accordance with instruction or authorization of the Company, without prior written consent of the Company or pursuant to process or requirements of law after I have disclosed such process or requirements to the Company so as to afford it the opportunity to seek appropriate relief therefrom. "Confidential Information" means any Invention of any person in which the Company has an interest and in addition means any financial, client, customer, supplier, marketing, distribution and other information of a confidential or private nature connected with the business of the Company or any person with whom it deals, provided by the Company to me or to which I have access during or in the course of any employment. Confidential Information is to be broadly defined, and includes all information that has or could have commercial value or other utility in the business in which the Company is engaged or contemplates engaging, and all information of which the unauthorized disclosure could be detrimental to the interests of the Company, whether or not such information is identified as Confidential Information by the Company.

b. **Third Party Information.** I acknowledge that during my employment with the Company I may have access to patent, copyright, confidential, trade secret or other proprietary information of third parties subject to restrictions on the use or disclosure thereof by the Company. During the period of my employment and thereafter I will not use or disclose any such information other than consistent with the restrictions and my duties as an employee of the Company.

3. **Property of the Company.** All equipment and all tangible and intangible information relating to NAI, its employees and its customers or vendors furnished to, obtained by or prepared by Employee or any other person during the course of or incident to employment by NAI are and shall remain the sole property of NAI ("NAI Company Property"). NAI Company Property shall include, but not be limited to, computer equipment, books, manuals, records,

reports, notes, correspondence, contracts, customer lists, business cards, advertising, sales, financial, personnel, operations, and manufacturing materials and information, data processing reports, computer programs, software, customer information and records, business records, price lists or information, and samples, and in each case shall include all copies thereof in any medium, including paper, electronic and magnetic media and all other forms of information storage. All tangible NAI Company Property shall be returned promptly to NAI upon termination of employment, but in no event later than two (2) business days following termination of employment.

4. **No Solicitation of Company Employees.** While employed by the Company and for a period of one year after termination of my employment with the Company, I agree not to induce or attempt to influence directly or indirectly any employee of the Company to terminate employment with the Company or to work for me or any other person or entity.

5. **Covenant of Exclusivity and Not to Compete.** During the period of my employment with the Company, I will not engage in any other professional employment or consulting or directly or indirectly participate in or assist any business which is a current or potential supplier, customer or competitor of the Company without prior written approval from the Board of Directors of the Company.

6. **General.**

a. **Assignments, Successors and Assignees.** All representations, warranties, covenants and agreements of the parties shall bind their respective heirs, executors, personal representatives, successors and assignees (“transferees”) and shall inure to the benefit of their respective permitted transferees. The Company shall have the right to assign any or all of its rights and to delegate any or all of its obligations hereunder. The undersigned employee shall not have the right to assign any rights or delegate any obligations hereunder without the prior written consent of the Company or its transferee.

b. **Number and Gender, Headings.** Each number and gender shall be deemed to include each other number and gender as the context may require. The headings and captions contained in this Agreement shall not constitute a part thereof and shall not be used in its construction or interpretation.

c. **Severability.** If any provision of this Agreement is found by any court or arbitral tribunal of competent jurisdiction to be invalid or unenforceable, the invalidity of such provision shall not affect the other provisions of this Agreement and all provisions not affected by the invalidity shall remain in full force and effect.

d. **Amendment and Modification.** This Agreement may be amended or modified only by a writing executed by each party.

e. **Government Law.** The laws of California shall govern the construction, interpretation and performance of this Agreement and all transactions under it.

f. **Remedies.** I acknowledge that my failure to carry out any obligation under this Agreement, or a breach by me of any provision herein, will constitute immediate and irreparable damage to the Company, which cannot be fully and adequately compensated in

money damages and which will warrant preliminary and other injunctive relief, an order for specific performance, and other equitable relief. I further agree that no bond or other security shall be required in obtaining such equitable relief and I hereby consent to the issuance of such injunction and to the ordering of specific performance. I also understand that other action may be taken and remedies enforced against me.

g. Mediation and Arbitration. This Agreement is subject to the Mutual Agreement to Mediate and Arbitrate Claims attached to the Executive Employment Agreement between me and the Company, incorporated into this Agreement by this reference.

h. Attorneys' Fees. Should either I or the Company, or any heir, personal representative, successor or permitted assign of either party, resort to arbitration or legal proceedings to enforce this Agreement, the prevailing party (as defined in California statutory law) in such proceeding shall be awarded, in addition to such other relief as may be granted, attorneys' fees and costs incurred in connection with such proceeding.

i. No Effect on Other Terms or Conditions of Employment. I acknowledge that this Agreement does not affect any term or condition of my employment except as expressly provided in this Agreement, and that this Agreement does not give rise to any right or entitlement on my part to employment or continued employment with the Company. I further acknowledge that this Agreement does not affect in any way the right of the Company to terminate my employment.

j. Legal Representation; Advice of Counsel. The law firm of Fisher Thurber LLP has prepared this Agreement on behalf of NAI based on its instructions. Fisher Thurber LLP does not represent any other party to this Agreement. In executing this Agreement, Employee represents that he has neither requested nor been given legal advice or counsel by Fisher Thurber LLP or any of its attorneys. Employee is aware of his right to obtain separate legal counsel with respect to the negotiation and execution of this Agreement and acknowledges that Fisher Thurber LLP has recommended that Employee retain his own counsel for such purpose. Employee further acknowledges that he (i) has read this Agreement and its exhibits and attachments; (ii) has had the opportunity to retain separate counsel in connection with the negotiation and execution of this Agreement; and (iii) has relied on the advice of separate counsel with respect to this Agreement or made the conscious decision not to retain counsel in connection with the negotiation and execution of this Agreement.

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

---

John Wise

ACCEPTED:  
NATURAL ALTERNATIVES INTERNATIONAL, INC.  
a Delaware corporation

By:

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Randell Weaver, President



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**EXHIBIT "A"**

California Labor Code

§ 2870. Invention on Own Time-Exemption from Agreement.

(a) Any provision in an employment agreement which provides that an employee shall assign, or offer to assign, any of his or her rights in an invention to his or her employer shall not apply to an invention that the employee developed entirely on his or her own time without using the employer's equipment, supplies, facilities or trade secret information except for those inventions that either:

(1) Relate at the time of conception or reduction to practice of the invention to the employer's business, or actual or demonstrably anticipated research or development of the employer.

(2) Result from any work performed by the employee for the employer.

(b) To the extent a provision in an employment agreement purports to require an employee to assign an invention otherwise excluded from being required to be assigned under subdivision (a), the provision is against the public policy of this state and is unenforceable.

§ 2871. Restrictions on Employer for Condition of Employment.

No employer shall require a provision made void or unenforceable by Section 2870 as a condition of employment or continued employment. Nothing in this article shall be construed to forbid or restrict the right of an employer to provide in contracts of employment for disclosure, provided that any such disclosures be received in confidence, of all of the employee's inventions made solely or jointly with others during the period of his or her employment, a review process by the employer to determine such issues as may arise, and for full title to certain patents and inventions to be in the United States, as required by contracts between the employer and the United States or any of its agencies.

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**EXHIBIT "B"**

Except as set forth below, Employee represents to the Company that there are no other contracts to assign Inventions now in existence between Employee and any other person or entity (see Section 1 d. of the Agreement):

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**EXHIBIT "C"**

Set forth below is a brief description of all Inventions made or conceived by Employee prior to Employee's employment with the Company which Employee desires to be excluded from this Agreement (see Section 1 d. of the Agreement):

## EXECUTIVE EMPLOYMENT AGREEMENT

John Reaves ("Employee") hereby accepts the offer of Natural Alternatives International, Inc. ("NAI" or the "Company") for employment as Chief Financial Officer beginning September 13, 2003. Collectively, NAI and Employee will be referred to herein as the "Parties."

1. **Employment.** Notwithstanding the rights of the Parties to terminate the relationship described below, the Parties anticipate that Employee will be employed through June 30, 2004. Employee's employment will be at-will and may be terminated by either Employee or NAI at any time for any reason or no reason, with or without cause upon written notice to the other, or without any notice upon the death of Employee. The at-will status of the employment relationship may not be modified except in writing authorized in advance by the Board of Directors of NAI and signed by the Board of Directors of NAI and Employee.

2. **Employee Handbook.** Employee and NAI further understand and agree that nothing in the NAI Employee Handbook is intended to be, and nothing in it should be construed to be, a limitation of NAI's right to terminate, transfer, demote, suspend and administer discipline at any time for any reason. Employee and NAI understand and agree nothing in the Handbook is intended to, and nothing in the Handbook should be construed to, create an implied or express contract of employment contrary to this Agreement.

3. **Position and Responsibilities.** During employment, Employee shall have such responsibilities, duties and authority as NAI through its Board of Directors may from time to time assign to Employee, and that are normal and customary duties of a Chief Financial Officer of a publicly held corporation. Employee's initial title shall be Chief Financial Officer.

4. **Term.** If Employee continues working for NAI past June 30, 2004, and if NAI still desires Employee's services, then the following terms and conditions will apply:

a. **At-will.** Employee shall be an at-will employee and NAI or Employee will be entitled to terminate the employment relationship for any reason or for no reason, with or without cause and with or without notice;

b. **Compensation.** Employee will be compensated at the rate set forth in Section 5 below unless another rate is mutually agreed upon; and

c. **Benefits.** As to benefits and other terms of employment, Employee shall be subject to the same policies and procedures as other employees of NAI in similar positions.

5. **Compensation.** While Employee is employed by NAI as Chief Financial Officer, Employee's rate of compensation will be at a rate of \$176,800 per year, payable no less frequently than monthly. The compensation set forth in this Section 5 will be Employee's only compensation except standard employee benefits available to other level one executives of NAI or any other written compensation arrangement approved by the Board of Directors of NAI. Employee will be entitled to participate in any bonus compensation in a manner and at a level consistent with other level one executives of NAI.

6. **Termination.** In the event of termination or resignation, the following terms and conditions will apply:

a. **Without Cause, Severance Benefit.** In the event Employee is terminated by NAI without cause, Employee shall be entitled to receive a severance benefit, including standard employee benefits available to other level one executives of NAI, in an amount equal to one months' compensation for each completed year of service up to a maximum severance benefit of six (6) months' compensation. One half of any severance benefit owing hereunder shall be paid within 10 days of termination and the balance shall be paid on a bi-weekly basis over the severance period of from one to six months.

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b. With Cause, No Severance Benefit. NAI may terminate Employee with cause, which shall be limited to the occurrence of one or more of the following events: (i) the Employee's commission of any fraud against NAI; (ii) Employee's intentional appropriation for his or her personal use or benefit the funds of the Company not authorized by the Board of Directors; (iii) Employee's conviction of any crime involving moral turpitude; (iv) Employee's conviction of a violation of any state or federal law which could result in a material adverse impact upon the business of NAI; (v) the Employee engaging in any other professional employment or consulting or directly or indirectly participating in or assisting any business which is a current or potential supplier, customer or competitor of NAI without prior written approval from the Board of Directors of NAI, (vi) the Employee accepting or encouraging the offering of gifts or gratuities from any customer, vendor, supplier, or other person doing business with NAI, or (vii) when Employee has been disabled and is unable to perform the essential functions of the position for any reason notwithstanding reasonable accommodation and has received from NAI compensation in an amount equivalent to his or her severance benefit payment. No severance benefit shall be due to Employee if Employee is terminated for cause.

c. Resignation or Retirement, No Severance Pay. No severance pay shall be due to Employee if Employee resigns or retires from employment.

#### **7. Termination Obligations.**

a. Return of NAI Company Property. Employee shall take all reasonable steps to make sure all NAI Company Property (as defined in Attachment 2) is returned to NAI promptly but in no event later than two (2) business days following termination of employment.

b. Employee Cooperation. Following any termination of the employment, Employee shall cooperate fully with NAI in all matters relating to completing pending work on behalf of NAI and the orderly transfer of work to other employees of NAI. Employee shall also cooperate in the defense of any action brought by any third party against NAI that relates in any way to Employee's acts or omissions while employed by NAI.

c. Survival of Obligations. Employee's obligations under this Section shall survive the termination of employment and the expiration or termination of this Agreement.

8. Change in Control. In the event of any Change in Control, the following provisions will apply. Any of the following shall constitute a "Change in Control" for the purposes of this Section 8:

a. A "person" (meaning an individual, a partnership, or other group or association as defined in sections 13(d) and 14(d) of the Securities Exchange Act of 1934)

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acquires fifty percent (50%) or more of the combined voting power of the outstanding securities of NAI having a right to vote in elections of directors; or

b. The members of the Board of Directors of the Company who were members of the Board of Directors on the commencement date hereof, shall for any reason cease to constitute a majority of the Board of Directors of the Company; or

c. All or substantially all of the business of NAI is disposed of by NAI to a party or parties other than a subsidiary or other affiliate of NAI, in which NAI owns less than a majority of the equity, pursuant to a partial or complete liquidation of NAI, sale of assets (including stock of a subsidiary of NAI) or otherwise.

d. In the event of any such Change in Control, this Agreement shall continue in effect unless Employee at his or her sole option, and within sixty (60) days of a Change in Control taking place, elects voluntarily to terminate this Agreement. In such case, NAI shall pay Employee as severance pay or liquidated damages, or both, a lump sum payment ("Change in Control Severance Payment") in an amount equal to six (6) months' compensation plus an additional one months' compensation for each completed year of service up to a maximum severance benefit of twelve (12) months' compensation or such greater amount as the Board of Directors determines from time to time pursuant to terms which may not be revoked or reduced thereafter.

e. In the event Employee is terminated following a Change in Control by NAI and/or the surviving or resulting corporation without cause, Employee shall be entitled to a Change in Control Severance Payment in an amount equal to six (6) months' compensation plus an additional one months' compensation for each completed year of service up to a maximum severance benefit of twelve (12) months' compensation or such greater amount as the Board of Directors determines from time to time pursuant to terms which may not be revoked or reduced thereafter.

f. Any Change in Control Severance Payment shall be made not later than the fifteenth (15th) day following the effective date of the voluntary or involuntary termination of this Agreement in connection with a Change in Control; provided, however, that if the amount of such payments cannot be finally determined on or before such date, NAI shall pay to Employee on such date a good faith estimate of the minimum amount of such payments, and shall pay the remainder of such payments (together with interest at the rate provided in Internal Revenue Code Section 1274(b)(2)(B) of the Code), as soon as the amount thereof can be determined, but in no event later than the thirtieth (30th) day after the applicable termination date. In the event the amount of the estimated payments exceeds the amount subsequently determined to have been due, such excess shall constitute a loan by NAI payable on the fifteenth (15th) day after receipt by Employee of a written demand for payment from NAI (together with interest calculated as above). The total of any payment pursuant to this Section 8 shall be limited to the extent necessary, in the opinion of legal counsel acceptable to Employee and NAI, to avoid the payment of an "excess parachute" payment within the meaning of Internal Revenue Code Section 280 G or any similar successor provision.

g. In the event of termination of employment either by the Employee under Section 8d. or by NAI under Section 8e., NAI shall cause each stock option heretofore granted

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by NAI to the Employee to become fully exercisable and to remain exercisable for the term of the option.

9. **Arbitration.** Employee and NAI hereby agree to the Mutual Agreement to Arbitrate attached hereto and made a part hereof as Attachment #1. Employee's obligations under this Section shall survive the termination of employment and the expiration or termination of this Agreement.

10. **Confidential Information and Inventions.** Employee and NAI hereby agree to the Confidential Information and Assignment Agreement, Covenant of Exclusivity and Covenant Not to Compete attached hereto and made a part hereof as Attachment #2. Employee's obligations under this Section shall survive the termination of employment and the expiration or termination of this Agreement.

11. **Competitive Activity.** Employee covenants, warrants and represents that during the period of his or her employment with NAI, Employee shall not engage anywhere directly or indirectly in (as a principal, shareholder, partner, director, officer, agent, employee, consultant or otherwise) or be financially interested in any business which is involved in business activities which are the same as, similar to, or in competition with business activities carried on by NAI or any business that is a current or potential supplier, customer or competitor of NAI without prior written approval from the Board of Directors of NAI.

12. **Employee Conduct.** Employee covenants, warrants and represents that during the period of his or her employment with NAI, Employee shall not accept or encourage the offering of gifts or gratuities from any customer, vendor, supplier, or other person doing business with NAI. Employee represents and understands that acceptance or encouragement of any gift or gratuity may create a perceived financial obligation and/or conflict of interest for NAI and shall not be permitted as a means to influence business decisions, transactions or service. In this situation, as in all other areas of employment, Employee is expected to conduct himself or herself using the highest ethical standard.

13. **Entire Agreement.** This Agreement and any attachments and/or exhibits contains the entire agreement between the parties. It supersedes any and all other agreements, either oral or in writing, between the parties hereto with respect to Employee's employment by NAI. Each party to this Agreement acknowledges that no representations, inducements, promises or agreements, oral or otherwise, have been made by any party, or anyone acting on behalf of any party, which are not embodied herein and acknowledges that no other agreement, statement or promise not contained in this Agreement shall be valid or binding. This Agreement may not be modified or amended by oral agreement or course of conduct, but only by an agreement in writing signed by the Board of Directors of NAI and Employee. To the extent the practices, policies or procedures of NAI, now or in the future, are inconsistent with the terms of this Agreement, the provisions of this Agreement shall control.

14. **Governing Law.** This Executive Employment Agreement shall be construed and enforced in accordance with the laws of the State of California.

15. **Provisions Separable.** Should any part or provision of this Executive Employment Agreement be held unenforceable or in conflict with the law of any jurisdiction, the validity of the remaining parts shall not be affected by such holding.

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16. **Attorney's Fees.** Should any party institute any action, arbitration or proceeding to enforce, interpret or apply any provision of this Executive Employment Agreement, the parties agree that the prevailing party shall be entitled to reimbursement by the non-prevailing party of all recoverable costs and expenses, including, but not limited to, reasonable attorney fees.

17. **Interpretation.** This Agreement shall be construed as a whole, according to its fair meaning, and not in favor of or against any party. By way of example and not in limitation, this Agreement shall not be construed in favor of the party receiving a benefit nor against the party responsible for any particular language in this Agreement.

18. **Legal Representation; Independent Counsel.** The law firm of Fisher Thurber LLP has prepared this Executive Employment Agreement on behalf of NAI based on its instructions. Fisher Thurber LLP does not represent any other party to this Executive Employment Agreement. In executing this Executive Employment Agreement, Employee represents that he has neither requested nor been given legal advice or counsel by Fisher Thurber LLP or any of its attorneys. Employee is aware of his right to obtain separate legal counsel with respect to the negotiation and execution of this Executive Employment Agreement and acknowledges that Fisher Thurber LLP has recommended that Employee retain his own counsel for such purpose. Employee further acknowledges that he (i) has read this Executive Employment Agreement and its exhibits and attachments; (ii) has had the opportunity to retain separate counsel in connection with the negotiation and execution of this Executive Employment Agreement; and (iii) has relied on the advice of separate counsel with respect to this Executive Employment Agreement or made the conscious decision not to retain counsel in connection with the negotiation and execution of this Executive Employment Agreement.

“EMPLOYEE”

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John Reaves

NATURAL ALTERNATIVES INTERNATIONAL, INC.  
a Delaware corporation

By:

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Randell Weaver, President



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**ATTACHMENT #1**

**MUTUAL AGREEMENT TO MEDIATE AND ARBITRATE CLAIMS**

This Mutual Agreement to Mediate and Arbitrate Claims ("Agreement") is entered into between John Reaves ("Employee") and Natural Alternatives International, Inc. ("NAI"), together with its affiliates and subsidiaries.

In consideration of Employee's prospective and continued employment relationship with NAI, Employee's employment rights under Employee's Executive Employment Agreement, Employee's participation in stock option plans, Employee's participation in bonus compensation programs, Employee's access to and receipt of confidential information of NAI, and other good and valuable consideration, all of which Employee considers to have been negotiated at arm's length, Employee agrees to the following:

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

a. To the fullest extent permitted by law, all claims and disputes between Employee (and his attorneys, successors and assigns) and NAI (as defined below) relating in any manner whatsoever to the employment or termination of Employee, including without limitation all claims and disputes arising under this Agreement, shall be resolved by arbitration. All persons and entities specified in the preceding sentence (other than NAI and Employee) shall be considered third-party beneficiaries of the rights and obligations created by this Agreement on arbitration. Claims and disputes covered by this Agreement include without limitation those arising under:

- (i) Any federal, state or local laws, regulations or statutes prohibiting employment discrimination (such as, without limitation: race, sex, national origin, age, disability, religion, sexual orientation) and harassment.
- (ii) Any alleged or actual agreement or covenant (oral, written or implied) between Employee and NAI.
- (iii) Any company policy, compensation, wage or related claim or benefit plan, unless the decision in question was made by an entity other than NAI.
- (iv) Any public policy.
- (v) Any other claim for personal, emotional, physical or economic injury.

b. The only disputes between Employee and NAI which are not included within this Mutual Agreement to Arbitrate Claims are:

- (i) Any claim by Employee for workers' compensation or unemployment compensation benefits.
- (ii) Any claim by Employee for benefits under a company plan which provides for its own arbitration procedure.

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

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

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

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

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

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

a. If NAI and Employee are unable to resolve a dispute relating to this Agreement through mediation, they shall submit any such dispute or claims relating to Employee's employment with NAI or the termination of that employment including but not limited to claims arising under common law or under any statute, rule, regulation, or law, whether federal, state or local including without limitation, any claims under the California Fair Employment and Housing Act, the California Labor Code, Title VII of the Civil Rights Act of 1964, the Age Discrimination in Employment Act, the Americans with Disabilities Act, the Rehabilitation Act of 1973, the Family Medical Leave Act the Employee Retirement Income Security Act of 1974, or Section 1981 or Title 42 of the United States Code to binding arbitration, in accordance with California Code of Civil Procedure §§1280 through 1294.2. Either party may enforce the award of the arbitrator under Code of Civil Procedure §1285 by any competent court of law. Employee and NAI understand that they are waiving their rights to a jury trial.

b. The party demanding arbitration shall submit a written claim to the other party, setting out the basis of the claim and proposing the name of an arbitrator from JAMS, the mutually agreed to ADR organization. The responding party shall have ten (10) business days in which to respond to this demand in a written answer. If this response is not timely made, or if the responding party agrees with the person proposed as the arbitrator, then the person named by the demanding party shall serve as the arbitrator. If the responding party submits a written answer rejecting the proposed arbitrator then, on the request of either party, JAMS shall appoint an arbitrator other than the mediator. The Employee and NAI agree to apply AAA rules for the

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resolution of employment disputes to the arbitration even though the ADR is one other than AAA. No one who has ever had any business, financial, family, or social relationship with any party to this Agreement shall serve as an arbitrator unless the related party informs the other party of the relationship and the other party consents in writing to the use of that arbitrator.

c. The arbitration shall take place in the greater San Diego, California area, at a time and place selected by the arbitrator. A pre-arbitration hearing shall be held within ten (10) business days after the arbitrator's selection. The arbitration shall be held within sixty (60) calendar days after the pre-arbitration hearing. The arbitrator shall establish all discovery and other deadlines necessary to accomplish this goal.

d. Each party shall be entitled to discovery of essential documents and witnesses, as determined by the arbitrator in accordance with the then-applicable rules of discovery for the resolution of employment disputes and the time frame set forth in this Agreement. The arbitrator may resolve any disputes over any discovery matters as they would be resolved in civil litigation.

e. The arbitrator shall have the following powers:

(i) to issue subpoenas for the attendance of witnesses and subpoenas duces tecum for the production of books, records, documents, and other evidence;

(ii) to order depositions to be used as evidence;

(iii) subject to the limitations on discovery enumerated above, to enforce the rights, remedies, procedures, duties, liabilities, and obligations of discovery as if the arbitration were a civil action before a California superior court;

(iv) to conduct a hearing on the arbitrable issues;

(v) to administer oaths to parties and witnesses.

f. Within fifteen (15 days) after completion of the arbitration, the arbitrator shall submit a tentative decision in writing, specifying the reasoning for the decision and any calculations necessary to explain the award. Each party shall have fifteen (15 days) in which to submit written comments to the tentative decision. Within ten (10) days after the deadline for written comments, the arbitrator shall announce the final award.

g. NAI shall pay the arbitrator's expenses and fees, all meeting room charges, and any other expenses that would not have been incurred if the case were litigated in the judicial forum having jurisdiction over it. Unless otherwise ordered by the arbitrator, each party shall pay its own attorney fees, witness fees, and other expenses incurred by the party for his or her own benefit. Regardless of any statute, procedure, rule or law, the prevailing party in arbitration shall be entitled to recover from the non-prevailing party reasonable attorney fees incurred as a result of arbitration.

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**4. Miscellaneous Provisions.**

a. The term “company” means NAI, and all related entities, all officers, employees, directors, agents, shareholders, partners, benefit plan sponsors, fiduciaries, administrators or affiliates of any of the above, and all successors and assignees of any of the above.

b. If either party pursues a covered claim against the other by any action, method or legal proceeding other than mediation or arbitration as provided herein, the responding party shall be entitled to dismissal or injunctive relief regarding such action and recovery of all costs, losses and attorneys’ fees related to such other action or proceeding.

c. The parties to this Agreement acknowledge and agree that they are waiving their right to a jury trial on the issues covered by this Agreement.

d. This is the complete agreement of the parties on the subject of mediation and the arbitration of disputes and claims. This Agreement supersedes any prior or contemporaneous oral, written or implied understanding on the subject, shall survive the termination of Employee’s employment and can only be revoked or modified by a written agreement signed by Employee and the Board of Directors of NAI that specifically states an intent to revoke or modify this Agreement. If any provision of this Agreement is adjudicated to be void or otherwise unenforceable in whole or in part, such adjudication shall not affect the validity of the remainder of the Agreement, which shall remain in full force and effect.

e. The law firm of Fisher Thurber LLP has prepared this Agreement on behalf of NAI based on its instructions. Fisher Thurber LLP does not represent any other party to this Agreement. In executing this Agreement, Employee represents that he has neither requested nor been given legal advice or counsel by Fisher Thurber LLP or any of its attorneys. Employee is aware of his right to obtain separate legal counsel with respect to the negotiation and execution of this Agreement and acknowledges that Fisher Thurber LLP has recommended that Employee retain his own counsel for such purpose. Employee further acknowledges that he (i) has read this Agreement and its exhibits and attachments; (ii) has had the opportunity to retain separate counsel in connection with the negotiation and execution of this Agreement; and (iii) has relied on the advice of separate counsel with respect to this Agreement or made the conscious decision not to retain counsel in connection with the negotiation and execution of this Agreement.

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

“EMPLOYEE”

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John Reaves

NATURAL ALTERNATIVES INTERNATIONAL, INC.  
a Delaware corporation

By:

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Randell Weaver, President

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ATTACHMENT #2

**CONFIDENTIAL INFORMATION AND INVENTION ASSIGNMENT AGREEMENT, COVENANT OF EXCLUSIVITY AND COVENANT NOT TO COMPETE**

This Confidential Information and Invention Assignment Agreement (“Agreement”) is made between Natural Alternatives International, Inc., a Delaware corporation (“Company”) and the undersigned Employee.

In consideration of and as a condition of my prospective and continued employment relationship with the Company (which for purposes of this Agreement shall be deemed to include any subsidiaries or affiliates of the Company where “affiliate” shall mean any person or entity that directly or indirectly controls, is controlled by, or is under common control with the Company), the receipt of confidential information while associated with the Company, and other good and valuable consideration, I agree to the following, and I agree the following shall be in addition to the terms and conditions of any Confidential Information and Invention Assignment Agreement executed by employees of the Company generally, and which I may execute in addition hereto:

**1. Inventions.**

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

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

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

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

iv. To facilitate the complete and accurate disclosures described above, I shall maintain complete written records of all Inventions and all work,

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study and investigation done by me during my employment, which records shall be the Company's property.

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

b. Assignment. I hereby assign to the Company without royalty or any other further consideration my entire right, title and interest in and to each and every Invention I am required to disclose under Section 1a. other than an Invention that (i) I have or shall have developed entirely on my own time without using the Company's equipment, supplies, facilities or trade secret information, (ii) does not relate at the time of conception or reduction to practice of the Invention to the Company's business, or actual or demonstrably anticipated research or development of the Company and (iii) does not result from any work performed by me for the Company. I acknowledge that the Company has notified me that the assignment provided for in this Section 1b. does not apply to any Invention to which the assignment may not lawfully apply under the provisions of Section §2870 of the California Labor Code, a copy of which is attached as Exhibit "A" hereto. I shall bear the full burden of proving to the Company that an invention qualifies fully under Section §2870.

c. Additional Assistance and Documents. I will assist the Company in obtaining, maintaining and enforcing patents, copyrights, trade secrets, trademarks, service marks, trade names and other proprietary rights in connection with any Invention I have assigned to the Company under Section 1b., and I further agree that my obligations under this Section 1c. shall continue beyond the termination of my employment with the Company. Among other things, for the foregoing purposes I will (i) testify at the request of the Company in any interference, litigation or other legal proceeding that may arise during or after my employment, and (ii) execute, verify, acknowledge and deliver any proper document and, if, because of my mental or physical incapacity or for any other reason whatsoever, the Company is unable to obtain my signature to apply for or to pursue any application for any United States or foreign patent or copyright covering Inventions assigned to the Company by me, I hereby irrevocably designate and appoint each of the Company and its duly authorized officers and agents as my agent and attorney in fact to act for me and in my behalf and stead to execute and file any such applications and to do all other lawfully permitted acts to further the prosecution and issuance of any United States or foreign patent or copyright thereon with the same legal force and effect as if executed by me. I shall be entitled to reimbursement of any out-of-pocket expenses incurred by me in rendering such assistance and, if I am required to render such assistance after the termination of my employment, the Company shall pay me a reasonable rate of compensation for time spent by me in rendering such assistance to the extent permitted by law (provided, I understand that no compensation shall be paid for my time in connection with preparing for or rendering any testimony or statement under oath in any judicial proceeding, arbitration or similar proceeding).

d. Prior Contracts and Inventions; Rights of Third Parties. I represent to the Company that, except as set forth on Exhibit "B" hereto, there are no other contracts to assign Inventions now in existence between me and any other person or entity (and if no Exhibit "B" is

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attached hereto or there is no such contract(s) described thereon, then it means that by signing this Agreement, I represent to the Company that there is no such other contract(s)). In addition, I represent to the Company that I have no other employments or undertaking which do or would restrict or impair my performance of this Agreement. I further represent to the Company that Exhibit "C" hereto sets forth a brief description of all Inventions made or conceived by me prior to my employment with the Company which I desire to be excluded from this Agreement (and if no Exhibit "C" is attached hereto or there is no such description set forth thereon, then it means that by signing this Agreement I represent to the Company that there is no such Invention made or conceived by me prior to my employment with the Company). In connection with my employment with the Company, I promise not to use or disclose to the Company any patent, copyright, confidential trade secret or other proprietary information of any previous employer or other person that I am not lawfully entitled so to use or disclose. If in the course of my employment with the Company I incorporate into an Invention or any product process or service of the Company any Invention made or conceived by me prior to my employment with the Company, I hereby grant to the Company a royalty-free, irrevocable, worldwide nonexclusive license to make, have made, use and sell that Invention without restriction as to the extent of my ownership or interest.

## **2. Confidential Information.**

a. **Company Confidential Information.** I will not use or disclose Confidential Information, whether before, during or after the period of my employment except to perform my duties as an employee of the Company based on my reasonable judgment as an Officer of the Company, or in accordance with instruction or authorization of the Company, without prior written consent of the Company or pursuant to process or requirements of law after I have disclosed such process or requirements to the Company so as to afford it the opportunity to seek appropriate relief therefrom. "Confidential Information" means any Invention of any person in which the Company has an interest and in addition means any financial, client, customer, supplier, marketing, distribution and other information of a confidential or private nature connected with the business of the Company or any person with whom it deals, provided by the Company to me or to which I have access during or in the course of any employment. Confidential Information is to be broadly defined, and includes all information that has or could have commercial value or other utility in the business in which the Company is engaged or contemplates engaging, and all information of which the unauthorized disclosure could be detrimental to the interests of the Company, whether or not such information is identified as Confidential Information by the Company.

b. **Third Party Information.** I acknowledge that during my employment with the Company I may have access to patent, copyright, confidential, trade secret or other proprietary information of third parties subject to restrictions on the use or disclosure thereof by the Company. During the period of my employment and thereafter I will not use or disclose any such information other than consistent with the restrictions and my duties as an employee of the Company.

3. **Property of the Company.** All equipment and all tangible and intangible information relating to NAI, its employees and its customers or vendors furnished to, obtained by or prepared by Employee or any other person during the course of or incident to employment by NAI are and shall remain the sole property of NAI ("NAI Company Property"). NAI Company Property shall include, but not be limited to, computer equipment, books, manuals, records,

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reports, notes, correspondence, contracts, customer lists, business cards, advertising, sales, financial, personnel, operations, and manufacturing materials and information, data processing reports, computer programs, software, customer information and records, business records, price lists or information, and samples, and in each case shall include all copies thereof in any medium, including paper, electronic and magnetic media and all other forms of information storage. All tangible NAI Company Property shall be returned promptly to NAI upon termination of employment, but in no event later than two (2) business days following termination of employment.

4. **No Solicitation of Company Employees.** While employed by the Company and for a period of one year after termination of my employment with the Company, I agree not to induce or attempt to influence directly or indirectly any employee of the Company to terminate employment with the Company or to work for me or any other person or entity.

5. **Covenant of Exclusivity and Not to Compete.** During the period of my employment with the Company, I will not engage in any other professional employment or consulting or directly or indirectly participate in or assist any business which is a current or potential supplier, customer or competitor of the Company without prior written approval from the Board of Directors of the Company.

6. **General.**

a. **Assignments, Successors and Assignees.** All representations, warranties, covenants and agreements of the parties shall bind their respective heirs, executors, personal representatives, successors and assignees (“transferees”) and shall inure to the benefit of their respective permitted transferees. The Company shall have the right to assign any or all of its rights and to delegate any or all of its obligations hereunder. The undersigned employee shall not have the right to assign any rights or delegate any obligations hereunder without the prior written consent of the Company or its transferee.

b. **Number and Gender, Headings.** Each number and gender shall be deemed to include each other number and gender as the context may require. The headings and captions contained in this Agreement shall not constitute a part thereof and shall not be used in its construction or interpretation.

c. **Severability.** If any provision of this Agreement is found by any court or arbitral tribunal of competent jurisdiction to be invalid or unenforceable, the invalidity of such provision shall not affect the other provisions of this Agreement and all provisions not affected by the invalidity shall remain in full force and effect.

d. **Amendment and Modification.** This Agreement may be amended or modified only by a writing executed by each party.

e. **Government Law.** The laws of California shall govern the construction, interpretation and performance of this Agreement and all transactions under it.

f. **Remedies.** I acknowledge that my failure to carry out any obligation under this Agreement, or a breach by me of any provision herein, will constitute immediate and irreparable damage to the Company, which cannot be fully and adequately compensated in



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money damages and which will warrant preliminary and other injunctive relief, an order for specific performance, and other equitable relief. I further agree that no bond or other security shall be required in obtaining such equitable relief and I hereby consent to the issuance of such injunction and to the ordering of specific performance. I also understand that other action may be taken and remedies enforced against me.

g. Mediation and Arbitration. This Agreement is subject to the Mutual Agreement to Mediate and Arbitrate Claims attached to the Executive Employment Agreement between me and the Company, incorporated into this Agreement by this reference.

h. Attorneys' Fees. Should either I or the Company, or any heir, personal representative, successor or permitted assign of either party, resort to arbitration or legal proceedings to enforce this Agreement, the prevailing party (as defined in California statutory law) in such proceeding shall be awarded, in addition to such other relief as may be granted, attorneys' fees and costs incurred in connection with such proceeding.

i. No Effect on Other Terms or Conditions of Employment. I acknowledge that this Agreement does not affect any term or condition of my employment except as expressly provided in this Agreement, and that this Agreement does not give rise to any right or entitlement on my part to employment or continued employment with the Company. I further acknowledge that this Agreement does not affect in any way the right of the Company to terminate my employment.

j. Legal Representation; Advice of Counsel. The law firm of Fisher Thurber LLP has prepared this Agreement on behalf of NAI based on its instructions. Fisher Thurber LLP does not represent any other party to this Agreement. In executing this Agreement, Employee represents that he has neither requested nor been given legal advice or counsel by Fisher Thurber LLP or any of its attorneys. Employee is aware of his right to obtain separate legal counsel with respect to the negotiation and execution of this Agreement and acknowledges that Fisher Thurber LLP has recommended that Employee retain his own counsel for such purpose. Employee further acknowledges that he (i) has read this Agreement and its exhibits and attachments; (ii) has had the opportunity to retain separate counsel in connection with the negotiation and execution of this Agreement; and (iii) has relied on the advice of separate counsel with respect to this Agreement or made the conscious decision not to retain counsel in connection with the negotiation and execution of this Agreement.

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

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John Reaves

ACCEPTED:  
NATURAL ALTERNATIVES INTERNATIONAL, INC.  
a Delaware corporation

By: \_\_\_\_\_

Randell Weaver, President

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**EXHIBIT "A"**

California Labor Code

§ 2870. Invention on Own Time-Exemption from Agreement.

(a) Any provision in an employment agreement which provides that an employee shall assign, or offer to assign, any of his or her rights in an invention to his or her employer shall not apply to an invention that the employee developed entirely on his or her own time without using the employer's equipment, supplies, facilities or trade secret information except for those inventions that either:

(1) Relate at the time of conception or reduction to practice of the invention to the employer's business, or actual or demonstrably anticipated research or development of the employer.

(2) Result from any work performed by the employee for the employer.

(b) To the extent a provision in an employment agreement purports to require an employee to assign an invention otherwise excluded from being required to be assigned under subdivision (a), the provision is against the public policy of this state and is unenforceable.

§ 2871. Restrictions on Employer for Condition of Employment.

No employer shall require a provision made void or unenforceable by Section 2870 as a condition of employment or continued employment. Nothing in this article shall be construed to forbid or restrict the right of an employer to provide in contracts of employment for disclosure, provided that any such disclosures be received in confidence, of all of the employee's inventions made solely or jointly with others during the period of his or her employment, a review process by the employer to determine such issues as may arise, and for full title to certain patents and inventions to be in the United States, as required by contracts between the employer and the United States or any of its agencies.

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**EXHIBIT "B"**

Except as set forth below, Employee represents to the Company that there are no other contracts to assign Inventions now in existence between Employee and any other person or entity (see Section 1d. of the Agreement):

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**EXHIBIT "C"**

Set forth below is a brief description of all Inventions made or conceived by Employee prior to Employee's employment with the Company which Employee desires to be excluded from this Agreement (see Section 1d. of the Agreement):

## EXECUTIVE EMPLOYMENT AGREEMENT

Timothy E. Belanger ("Employee") hereby accepts the offer of Natural Alternatives International, Inc. ("NAI" or the "Company") for employment as Senior Vice President Marketing and Sales beginning September 13, 2003. Collectively, NAI and Employee will be referred to herein as the "Parties."

1. **Employment.** Notwithstanding the rights of the Parties to terminate the relationship described below, the Parties anticipate that Employee will be employed through June 30, 2004. Employee's employment will be at-will and may be terminated by either Employee or NAI at any time for any reason or no reason, with or without cause upon written notice to the other, or without any notice upon the death of Employee. The at-will status of the employment relationship may not be modified except in writing authorized in advance by the Board of Directors of NAI and signed by the Board of Directors of NAI and Employee.

2. **Employee Handbook.** Employee and NAI further understand and agree that nothing in the NAI Employee Handbook is intended to be, and nothing in it should be construed to be, a limitation of NAI's right to terminate, transfer, demote, suspend and administer discipline at any time for any reason. Employee and NAI understand and agree nothing in the Handbook is intended to, and nothing in the Handbook should be construed to, create an implied or express contract of employment contrary to this Agreement.

3. **Position and Responsibilities.** During employment, Employee shall have such responsibilities, duties and authority as NAI through its Board of Directors may from time to time assign to Employee, and that are normal and customary duties of Senior Vice President Marketing and Sales of a publicly held corporation. Employee's initial title shall be Senior Vice President Marketing and Sales.

4. **Term.** If Employee continues working for NAI past June 30, 2004, and if NAI still desires Employee's services, then the following terms and conditions will apply:

a. **At-will.** Employee shall be an at-will employee and NAI or Employee will be entitled to terminate the employment relationship for any reason or for no reason, with or without cause and with or without notice;

b. **Compensation.** Employee will be compensated at the rate set forth in Section 5 below unless another rate is mutually agreed upon; and

c. **Benefits.** As to benefits and other terms of employment, Employee shall be subject to the same policies and procedures as other employees of NAI in similar positions.

5. **Compensation.** While Employee is employed by NAI as Senior Vice President Marketing and Sales, Employee's rate of compensation will be at a rate of \$182,000 per year, payable no less frequently than monthly. The compensation set forth in this Section 5 will be Employee's only compensation except standard employee benefits available to other level one executives of NAI or any other written compensation arrangement approved by the Board of Directors of NAI. Employee will be entitled to participate in any bonus compensation in a manner and at a level consistent with other level one executives of NAI.

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6. **Termination.** In the event of termination or resignation, the following terms and conditions will apply:

a. **Without Cause, Severance Benefit.** In the event Employee is terminated by NAI without cause, Employee shall be entitled to receive a severance benefit, including standard employee benefits available to other level one executives of NAI, in an amount equal to one months' compensation for each completed year of service up to a maximum severance benefit of six (6) months' compensation. One half of any severance benefit owing hereunder shall be paid within 10 days of termination and the balance shall be paid on a bi-weekly basis over the severance period of from one to six months.

b. **With Cause, No Severance Benefit.** NAI may terminate Employee with cause, which shall be limited to the occurrence of one or more of the following events: (i) the Employee's commission of any fraud against NAI; (ii) Employee's intentional appropriation for his or her personal use or benefit the funds of the Company not authorized by the Board of Directors; (iii) Employee's conviction of any crime involving moral turpitude; (iv) Employee's conviction of a violation of any state or federal law which could result in a material adverse impact upon the business of NAI; (v) the Employee engaging in any other professional employment or consulting or directly or indirectly participating in or assisting any business which is a current or potential supplier, customer or competitor of NAI without prior written approval from the Board of Directors of NAI, (vi) the Employee accepting or encouraging the offering of gifts or gratuities from any customer, vendor, supplier, or other person doing business with NAI, or (vii) when Employee has been disabled and is unable to perform the essential functions of the position for any reason notwithstanding reasonable accommodation and has received from NAI compensation in an amount equivalent to his or her severance benefit payment. No severance benefit shall be due to Employee if Employee is terminated for cause.

c. **Resignation or Retirement, No Severance Pay.** No severance pay shall be due to Employee if Employee resigns or retires from employment.

7. **Termination Obligations.**

a. **Return of NAI Company Property.** Employee shall take all reasonable steps to make sure all NAI Company Property (as defined in Attachment 2) is returned to NAI promptly but in no event later than two (2) business days following termination of employment.

b. **Employee Cooperation.** Following any termination of the employment, Employee shall cooperate fully with NAI in all matters relating to completing pending work on behalf of NAI and the orderly transfer of work to other employees of NAI. Employee shall also cooperate in the defense of any action brought by any third party against NAI that relates in any way to Employee's acts or omissions while employed by NAI.

c. **Survival of Obligations.** Employee's obligations under this Section shall survive the termination of employment and the expiration or termination of this Agreement.

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8. **Change in Control.** In the event of any Change in Control, the following provisions will apply. Any of the following shall constitute a “Change in Control” for the purposes of this Section 8:

a. A “person” (meaning an individual, a partnership, or other group or association as defined in sections 13(d) and 14(d) of the Securities Exchange Act of 1934) acquires fifty percent (50%) or more of the combined voting power of the outstanding securities of NAI having a right to vote in elections of directors; or

b. The members of the Board of Directors of the Company who were members of the Board of Directors on the commencement date hereof, shall for any reason cease to constitute a majority of the Board of Directors of the Company; or

c. All or substantially all of the business of NAI is disposed of by NAI to a party or parties other than a subsidiary or other affiliate of NAI, in which NAI owns less than a majority of the equity, pursuant to a partial or complete liquidation of NAI, sale of assets (including stock of a subsidiary of NAI) or otherwise.

d. In the event of any such Change in Control, this Agreement shall continue in effect unless Employee at his or her sole option, and within sixty (60) days of a Change in Control taking place, elects voluntarily to terminate this Agreement. In such case, NAI shall pay Employee as severance pay or liquidated damages, or both, a lump sum payment (“Change in Control Severance Payment”) in an amount equal to six (6) months’ compensation plus an additional one months’ compensation for each completed year of service up to a maximum severance benefit of twelve (12) months’ compensation or such greater amount as the Board of Directors determines from time to time pursuant to terms which may not be revoked or reduced thereafter.

e. In the event Employee is terminated following a Change in Control by NAI and/or the surviving or resulting corporation without cause, Employee shall be entitled to a Change in Control Severance Payment in an amount equal to six (6) months’ compensation plus an additional one months’ compensation for each completed year of service up to a maximum severance benefit of twelve (12) months’ compensation or such greater amount as the Board of Directors determines from time to time pursuant to terms which may not be revoked or reduced thereafter.

f. Any Change in Control Severance Payment shall be made not later than the fifteenth (15th) day following the effective date of the voluntary or involuntary termination of this Agreement in connection with a Change in Control; provided, however, that if the amount of such payments cannot be finally determined on or before such date, NAI shall pay to Employee on such date a good faith estimate of the minimum amount of such payments, and shall pay the remainder of such payments (together with interest at the rate provided in Internal Revenue Code Section 1274(b)(2)(B) of the Code), as soon as the amount thereof can be determined, but in no event later than the thirtieth (30th) day after the applicable termination date. In the event the amount of the estimated payments exceeds the amount subsequently determined to have been due, such excess shall constitute a loan by NAI payable on the fifteenth (15th) day after receipt by Employee of a written demand for payment from NAI (together with interest calculated as above). The total of any payment pursuant to this Section 8 shall be limited to the extent necessary, in the opinion of legal counsel acceptable to Employee and NAI, to avoid the payment of an “excess parachute” payment within the meaning of Internal Revenue Code Section 280 G or any similar successor provision.

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g. In the event of termination of employment either by the Employee under Section 8d. or by NAI under Section 8e., NAI shall cause each stock option heretofore granted by NAI to the Employee to become fully exercisable and to remain exercisable for the term of the option.

9. **Arbitration.** Employee and NAI hereby agree to the Mutual Agreement to Arbitrate attached hereto and made a part hereof as Attachment #1. Employee's obligations under this Section shall survive the termination of employment and the expiration or termination of this Agreement.

10. **Confidential Information and Inventions.** Employee and NAI hereby agree to the Confidential Information and Assignment Agreement, Covenant of Exclusivity and Covenant Not to Compete attached hereto and made a part hereof as Attachment #2. Employee's obligations under this Section shall survive the termination of employment and the expiration or termination of this Agreement.

11. **Competitive Activity.** Employee covenants, warrants and represents that during the period of his or her employment with NAI, Employee shall not engage anywhere directly or indirectly in (as a principal, shareholder, partner, director, officer, agent, employee, consultant or otherwise) or be financially interested in any business which is involved in business activities which are the same as, similar to, or in competition with business activities carried on by NAI or any business that is a current or potential supplier, customer or competitor of NAI without prior written approval from the Board of Directors of NAI.

12. **Employee Conduct.** Employee covenants, warrants and represents that during the period of his or her employment with NAI, Employee shall not accept or encourage the offering of gifts or gratuities from any customer, vendor, supplier, or other person doing business with NAI. Employee represents and understands that acceptance or encouragement of any gift or gratuity may create a perceived financial obligation and/or conflict of interest for NAI and shall not be permitted as a means to influence business decisions, transactions or service. In this situation, as in all other areas of employment, Employee is expected to conduct himself or herself using the highest ethical standard.

13. **Entire Agreement.** This Agreement and any attachments and/or exhibits contains the entire agreement between the parties. It supersedes any and all other agreements, either oral or in writing, between the parties hereto with respect to Employee's employment by NAI. Each party to this Agreement acknowledges that no representations, inducements, promises or agreements, oral or otherwise, have been made by any party, or anyone acting on behalf of any party, which are not embodied herein and acknowledges that no other agreement, statement or promise not contained in this Agreement shall be valid or binding. This Agreement may not be modified or amended by oral agreement or course of conduct, but only by an agreement in writing signed by the Board of Directors of NAI and Employee. To the extent the practices, policies or procedures of NAI, now or in the future, are inconsistent with the terms of this Agreement, the provisions of this Agreement shall control.

14. **Governing Law.** This Executive Employment Agreement shall be construed and enforced in accordance with the laws of the State of California.



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15. **Provisions Separable.** Should any part or provision of this Executive Employment Agreement be held unenforceable or in conflict with the law of any jurisdiction, the validity of the remaining parts shall not be affected by such holding.

16. **Attorney's Fees.** Should any party institute any action, arbitration or proceeding to enforce, interpret or apply any provision of this Executive Employment Agreement, the parties agree that the prevailing party shall be entitled to reimbursement by the non-prevailing party of all recoverable costs and expenses, including, but not limited to, reasonable attorney fees.

17. **Interpretation.** This Agreement shall be construed as a whole, according to its fair meaning, and not in favor of or against any party. By way of example and not in limitation, this Agreement shall not be construed in favor of the party receiving a benefit nor against the party responsible for any particular language in this Agreement.

18. **Legal Representation; Independent Counsel.** The law firm of Fisher Thurber LLP has prepared this Executive Employment Agreement on behalf of NAI based on its instructions. Fisher Thurber LLP does not represent any other party to this Executive Employment Agreement. In executing this Executive Employment Agreement, Employee represents that he has neither requested nor been given legal advice or counsel by Fisher Thurber LLP or any of its attorneys. Employee is aware of his right to obtain separate legal counsel with respect to the negotiation and execution of this Executive Employment Agreement and acknowledges that Fisher Thurber LLP has recommended that Employee retain his own counsel for such purpose. Employee further acknowledges that he (i) has read this Executive Employment Agreement and its exhibits and attachments; (ii) has had the opportunity to retain separate counsel in connection with the negotiation and execution of this Executive Employment Agreement; and (iii) has relied on the advice of separate counsel with respect to this Executive Employment Agreement or made the conscious decision not to retain counsel in connection with the negotiation and execution of this Executive Employment Agreement.

“EMPLOYEE”

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Timothy E. Belanger

NATURAL ALTERNATIVES INTERNATIONAL, INC.  
a Delaware corporation

By:

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Randell Weaver, President

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**ATTACHMENT #1**

**MUTUAL AGREEMENT TO MEDIATE AND ARBITRATE CLAIMS**

This Mutual Agreement to Mediate and Arbitrate Claims ("Agreement") is entered into between Timothy E. Belanger ("Employee") and Natural Alternatives International, Inc. ("NAI"), together with its affiliates and subsidiaries.

In consideration of Employee's prospective and continued employment relationship with NAI, Employee's employment rights under Employee's Executive Employment Agreement, Employee's participation in stock option plans, Employee's participation in bonus compensation programs, Employee's access to and receipt of confidential information of NAI, and other good and valuable consideration, all of which Employee considers to have been negotiated at arm's length, Employee agrees to the following:

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

a. To the fullest extent permitted by law, all claims and disputes between Employee (and his attorneys, successors and assigns) and NAI (as defined below) relating in any manner whatsoever to the employment or termination of Employee, including without limitation all claims and disputes arising under this Agreement, shall be resolved by arbitration. All persons and entities specified in the preceding sentence (other than NAI and Employee) shall be considered third-party beneficiaries of the rights and obligations created by this Agreement on arbitration. Claims and disputes covered by this Agreement include without limitation those arising under:

- (i) Any federal, state or local laws, regulations or statutes prohibiting employment discrimination (such as, without limitation: race, sex, national origin, age, disability, religion, sexual orientation) and harassment.
- (ii) Any alleged or actual agreement or covenant (oral, written or implied) between Employee and NAI.
- (iii) Any company policy, compensation, wage or related claim or benefit plan, unless the decision in question was made by an entity other than NAI.
- (iv) Any public policy.
- (v) Any other claim for personal, emotional, physical or economic injury.

b. The only disputes between Employee and NAI which are not included within this Mutual Agreement to Arbitrate Claims are:

- (i) Any claim by Employee for workers' compensation or unemployment compensation benefits.
- (ii) Any claim by Employee for benefits under a company plan which provides for its own arbitration procedure.

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

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

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

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

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

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

a. If NAI and Employee are unable to resolve a dispute relating to this Agreement through mediation, they shall submit any such dispute or claims relating to Employee's employment with NAI or the termination of that employment including but not limited to claims arising under common law or under any statute, rule, regulation, or law, whether federal, state or local including without limitation, any claims under the California Fair Employment and Housing Act, the California Labor Code, Title VII of the Civil Rights Act of 1964, the Age Discrimination in Employment Act, the Americans with Disabilities Act, the Rehabilitation Act of 1973, the Family Medical Leave Act the Employee Retirement Income Security Act of 1974, or Section 1981 or Title 42 of the United States Code to binding arbitration, in accordance with California Code of Civil Procedure §§1280 through 1294.2. Either party may enforce the award of the arbitrator under Code of Civil Procedure §1285 by any competent court of law. Employee and NAI understand that they are waiving their rights to a jury trial.

b. The party demanding arbitration shall submit a written claim to the other party, setting out the basis of the claim and proposing the name of an arbitrator from JAMS, the mutually agreed to ADR organization. The responding party shall have ten (10) business days in which to respond to this demand in a written answer. If this response is not timely made, or if the responding party agrees with the person proposed as the arbitrator, then the person named by the demanding party shall serve as the arbitrator. If the responding party submits a written answer rejecting the proposed arbitrator then, on the request of either party, JAMS shall appoint an arbitrator other than the mediator. The Employee and NAI agree to apply AAA rules for the

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resolution of employment disputes to the arbitration even though the ADR is one other than AAA. No one who has ever had any business, financial, family, or social relationship with any party to this Agreement shall serve as an arbitrator unless the related party informs the other party of the relationship and the other party consents in writing to the use of that arbitrator.

c. The arbitration shall take place in the greater San Diego, California area, at a time and place selected by the arbitrator. A pre-arbitration hearing shall be held within ten (10) business days after the arbitrator's selection. The arbitration shall be held within sixty (60) calendar days after the pre-arbitration hearing. The arbitrator shall establish all discovery and other deadlines necessary to accomplish this goal.

d. Each party shall be entitled to discovery of essential documents and witnesses, as determined by the arbitrator in accordance with the then-applicable rules of discovery for the resolution of employment disputes and the time frame set forth in this Agreement. The arbitrator may resolve any disputes over any discovery matters as they would be resolved in civil litigation.

e. The arbitrator shall have the following powers:

(i) to issue subpoenas for the attendance of witnesses and subpoenas duces tecum for the production of books, records, documents, and other evidence;

(ii) to order depositions to be used as evidence;

(iii) subject to the limitations on discovery enumerated above, to enforce the rights, remedies, procedures, duties, liabilities, and obligations of discovery as if the arbitration were a civil action before a California superior court;

(iv) to conduct a hearing on the arbitrable issues;

(v) to administer oaths to parties and witnesses.

f. Within fifteen (15 days) after completion of the arbitration, the arbitrator shall submit a tentative decision in writing, specifying the reasoning for the decision and any calculations necessary to explain the award. Each party shall have fifteen (15 days) in which to submit written comments to the tentative decision. Within ten (10) days after the deadline for written comments, the arbitrator shall announce the final award.

g. NAI shall pay the arbitrator's expenses and fees, all meeting room charges, and any other expenses that would not have been incurred if the case were litigated in the judicial forum having jurisdiction over it. Unless otherwise ordered by the arbitrator, each party shall pay its own attorney fees, witness fees, and other expenses incurred by the party for his or her own benefit. Regardless of any statute, procedure, rule or law, the prevailing party in arbitration shall be entitled to recover from the non-prevailing party reasonable attorney fees incurred as a result of arbitration.

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**4. Miscellaneous Provisions.**

a. The term “company” means NAI, and all related entities, all officers, employees, directors, agents, shareholders, partners, benefit plan sponsors, fiduciaries, administrators or affiliates of any of the above, and all successors and assignees of any of the above.

b. If either party pursues a covered claim against the other by any action, method or legal proceeding other than mediation or arbitration as provided herein, the responding party shall be entitled to dismissal or injunctive relief regarding such action and recovery of all costs, losses and attorneys’ fees related to such other action or proceeding.

c. The parties to this Agreement acknowledge and agree that they are waiving their right to a jury trial on the issues covered by this Agreement.

d. This is the complete agreement of the parties on the subject of mediation and the arbitration of disputes and claims. This Agreement supersedes any prior or contemporaneous oral, written or implied understanding on the subject, shall survive the termination of Employee’s employment and can only be revoked or modified by a written agreement signed by Employee and the Board of Directors of NAI that specifically states an intent to revoke or modify this Agreement. If any provision of this Agreement is adjudicated to be void or otherwise unenforceable in whole or in part, such adjudication shall not affect the validity of the remainder of the Agreement, which shall remain in full force and effect.

e. The law firm of Fisher Thurber LLP has prepared this Agreement on behalf of NAI based on its instructions. Fisher Thurber LLP does not represent any other party to this Agreement. In executing this Agreement, Employee represents that he has neither requested nor been given legal advice or counsel by Fisher Thurber LLP or any of its attorneys. Employee is aware of his right to obtain separate legal counsel with respect to the negotiation and execution of this Agreement and acknowledges that Fisher Thurber LLP has recommended that Employee retain his own counsel for such purpose. Employee further acknowledges that he (i) has read this Agreement and its exhibits and attachments; (ii) has had the opportunity to retain separate counsel in connection with the negotiation and execution of this Agreement; and (iii) has relied on the advice of separate counsel with respect to this Agreement or made the conscious decision not to retain counsel in connection with the negotiation and execution of this Agreement.

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

“EMPLOYEE”

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Timothy E. Belanger

NATURAL ALTERNATIVES INTERNATIONAL, INC.  
a Delaware corporation

By:

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Randell Weaver, President

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ATTACHMENT #2

**CONFIDENTIAL INFORMATION AND INVENTION ASSIGNMENT AGREEMENT,  
COVENANT OF EXCLUSIVITY AND COVENANT NOT TO COMPETE**

This Confidential Information and Invention Assignment Agreement (“Agreement”) is made between Natural Alternatives International, Inc., a Delaware corporation (“Company”) and the undersigned Employee.

In consideration of and as a condition of my prospective and continued employment relationship with the Company (which for purposes of this Agreement shall be deemed to include any subsidiaries or affiliates of the Company where “affiliate” shall mean any person or entity that directly or indirectly controls, is controlled by, or is under common control with the Company), the receipt of confidential information while associated with the Company, and other good and valuable consideration, I agree to the following, and I agree the following shall be in addition to the terms and conditions of any Confidential Information and Invention Assignment Agreement executed by employees of the Company generally, and which I may execute in addition hereto:

**1. Inventions.**

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

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

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

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

iv. To facilitate the complete and accurate disclosures described above, I shall maintain complete written records of all Inventions and all work,

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study and investigation done by me during my employment, which records shall be the Company's property.

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

b. Assignment. I hereby assign to the Company without royalty or any other further consideration my entire right, title and interest in and to each and every Invention I am required to disclose under Section 1a. other than an Invention that (i) I have or shall have developed entirely on my own time without using the Company's equipment, supplies, facilities or trade secret information, (ii) does not relate at the time of conception or reduction to practice of the Invention to the Company's business, or actual or demonstrably anticipated research or development of the Company and (iii) does not result from any work performed by me for the Company. I acknowledge that the Company has notified me that the assignment provided for in this Section 1 b. does not apply to any Invention to which the assignment may not lawfully apply under the provisions of Section §2870 of the California Labor Code, a copy of which is attached as Exhibit "A" hereto. I shall bear the full burden of proving to the Company that an invention qualifies fully under Section §2870.

c. Additional Assistance and Documents. I will assist the Company in obtaining, maintaining and enforcing patents, copyrights, trade secrets, trademarks, service marks, trade names and other proprietary rights in connection with any Invention I have assigned to the Company under Section 1 b., and I further agree that my obligations under this Section 1 c. shall continue beyond the termination of my employment with the Company. Among other things, for the foregoing purposes I will (i) testify at the request of the Company in any interference, litigation or other legal proceeding that may arise during or after my employment, and (ii) execute, verify, acknowledge and deliver any proper document and, if, because of my mental or physical incapacity or for any other reason whatsoever, the Company is unable to obtain my signature to apply for or to pursue any application for any United States or foreign patent or copyright covering Inventions assigned to the Company by me, I hereby irrevocably designate and appoint each of the Company and its duly authorized officers and agents as my agent and attorney in fact to act for me and in my behalf and stead to execute and file any such applications and to do all other lawfully permitted acts to further the prosecution and issuance of any United States or foreign patent or copyright thereon with the same legal force and effect as if executed by me. I shall be entitled to reimbursement of any out-of-pocket expenses incurred by me in rendering such assistance and, if I am required to render such assistance after the termination of my employment, the Company shall pay me a reasonable rate of compensation for time spent by me in rendering such assistance to the extent permitted by law (provided, I understand that no compensation shall be paid for my time in connection with preparing for or rendering any testimony or statement under oath in any judicial proceeding, arbitration or similar proceeding).

d. Prior Contracts and Inventions; Rights of Third Parties. I represent to the Company that, except as set forth on Exhibit "B" hereto, there are no other contracts to assign Inventions now in existence between me and any other person or entity (and if no Exhibit "B" is

attached hereto or there is no such contract(s) described thereon, then it means that by signing this Agreement, I represent to the Company that there is no such other contract(s)). In addition, I represent to the Company that I have no other employments or undertaking which do or would restrict or impair my performance of this Agreement. I further represent to the Company that Exhibit "C" hereto sets forth a brief description of all Inventions made or conceived by me prior to my employment with the Company which I desire to be excluded from this Agreement (and if no Exhibit "C" is attached hereto or there is no such description set forth thereon, then it means that by signing this Agreement I represent to the Company that there is no such Invention made or conceived by me prior to my employment with the Company). In connection with my employment with the Company, I promise not to use or disclose to the Company any patent, copyright, confidential trade secret or other proprietary information of any previous employer or other person that I am not lawfully entitled so to use or disclose. If in the course of my employment with the Company I incorporate into an Invention or any product process or service of the Company any Invention made or conceived by me prior to my employment with the Company, I hereby grant to the Company a royalty-free, irrevocable, worldwide nonexclusive license to make, have made, use and sell that Invention without restriction as to the extent of my ownership or interest.

## **2. Confidential Information.**

a. **Company Confidential Information.** I will not use or disclose Confidential Information, whether before, during or after the period of my employment except to perform my duties as an employee of the Company based on my reasonable judgment as an Officer of the Company, or in accordance with instruction or authorization of the Company, without prior written consent of the Company or pursuant to process or requirements of law after I have disclosed such process or requirements to the Company so as to afford it the opportunity to seek appropriate relief therefrom. "Confidential Information" means any Invention of any person in which the Company has an interest and in addition means any financial, client, customer, supplier, marketing, distribution and other information of a confidential or private nature connected with the business of the Company or any person with whom it deals, provided by the Company to me or to which I have access during or in the course of any employment. Confidential Information is to be broadly defined, and includes all information that has or could have commercial value or other utility in the business in which the Company is engaged or contemplates engaging, and all information of which the unauthorized disclosure could be detrimental to the interests of the Company, whether or not such information is identified as Confidential Information by the Company.

b. **Third Party Information.** I acknowledge that during my employment with the Company I may have access to patent, copyright, confidential, trade secret or other proprietary information of third parties subject to restrictions on the use or disclosure thereof by the Company. During the period of my employment and thereafter I will not use or disclose any such information other than consistent with the restrictions and my duties as an employee of the Company.

3. **Property of the Company.** All equipment and all tangible and intangible information relating to NAI, its employees and its customers or vendors furnished to, obtained by or prepared by Employee or any other person during the course of or incident to employment by NAI are and shall remain the sole property of NAI ("NAI Company Property"). NAI Company Property shall include, but not be limited to, computer equipment, books, manuals, records,



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reports, notes, correspondence, contracts, customer lists, business cards, advertising, sales, financial, personnel, operations, and manufacturing materials and information, data processing reports, computer programs, software, customer information and records, business records, price lists or information, and samples, and in each case shall include all copies thereof in any medium, including paper, electronic and magnetic media and all other forms of information storage. All tangible NAI Company Property shall be returned promptly to NAI upon termination of employment, but in no event later than two (2) business days following termination of employment.

4. **No Solicitation of Company Employees.** While employed by the Company and for a period of one year after termination of my employment with the Company, I agree not to induce or attempt to influence directly or indirectly any employee of the Company to terminate employment with the Company or to work for me or any other person or entity.

5. **Covenant of Exclusivity and Not to Compete.** During the period of my employment with the Company, I will not engage in any other professional employment or consulting or directly or indirectly participate in or assist any business which is a current or potential supplier, customer or competitor of the Company without prior written approval from the Board of Directors of the Company.

6. **General.**

a. **Assignments, Successors and Assignees.** All representations, warranties, covenants and agreements of the parties shall bind their respective heirs, executors, personal representatives, successors and assignees (“transferees”) and shall inure to the benefit of their respective permitted transferees. The Company shall have the right to assign any or all of its rights and to delegate any or all of its obligations hereunder. The undersigned employee shall not have the right to assign any rights or delegate any obligations hereunder without the prior written consent of the Company or its transferee.

b. **Number and Gender, Headings.** Each number and gender shall be deemed to include each other number and gender as the context may require. The headings and captions contained in this Agreement shall not constitute a part thereof and shall not be used in its construction or interpretation.

c. **Severability.** If any provision of this Agreement is found by any court or arbitral tribunal of competent jurisdiction to be invalid or unenforceable, the invalidity of such provision shall not affect the other provisions of this Agreement and all provisions not affected by the invalidity shall remain in full force and effect.

d. **Amendment and Modification.** This Agreement may be amended or modified only by a writing executed by each party.

e. **Government Law.** The laws of California shall govern the construction, interpretation and performance of this Agreement and all transactions under it.

f. **Remedies.** I acknowledge that my failure to carry out any obligation under this Agreement, or a breach by me of any provision herein, will constitute immediate and irreparable damage to the Company, which cannot be fully and adequately compensated in

money damages and which will warrant preliminary and other injunctive relief, an order for specific performance, and other equitable relief. I further agree that no bond or other security shall be required in obtaining such equitable relief and I hereby consent to the issuance of such injunction and to the ordering of specific performance. I also understand that other action may be taken and remedies enforced against me.

g. Mediation and Arbitration. This Agreement is subject to the Mutual Agreement to Mediate and Arbitrate Claims attached to the Executive Employment Agreement between me and the Company, incorporated into this Agreement by this reference.

h. Attorneys' Fees. Should either I or the Company, or any heir, personal representative, successor or permitted assign of either party, resort to arbitration or legal proceedings to enforce this Agreement, the prevailing party (as defined in California statutory law) in such proceeding shall be awarded, in addition to such other relief as may be granted, attorneys' fees and costs incurred in connection with such proceeding.

i. No Effect on Other Terms or Conditions of Employment. I acknowledge that this Agreement does not affect any term or condition of my employment except as expressly provided in this Agreement, and that this Agreement does not give rise to any right or entitlement on my part to employment or continued employment with the Company. I further acknowledge that this Agreement does not affect in any way the right of the Company to terminate my employment.

j. Legal Representation; Advice of Counsel. The law firm of Fisher Thurber LLP has prepared this Agreement on behalf of NAI based on its instructions. Fisher Thurber LLP does not represent any other party to this Agreement. In executing this Agreement, Employee represents that he has neither requested nor been given legal advice or counsel by Fisher Thurber LLP or any of its attorneys. Employee is aware of his right to obtain separate legal counsel with respect to the negotiation and execution of this Agreement and acknowledges that Fisher Thurber LLP has recommended that Employee retain his own counsel for such purpose. Employee further acknowledges that he (i) has read this Agreement and its exhibits and attachments; (ii) has had the opportunity to retain separate counsel in connection with the negotiation and execution of this Agreement; and (iii) has relied on the advice of separate counsel with respect to this Agreement or made the conscious decision not to retain counsel in connection with the negotiation and execution of this Agreement.

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

---

Timothy E. Belanger

ACCEPTED:  
NATURAL ALTERNATIVES INTERNATIONAL, INC.  
a Delaware corporation

By:

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Randell Weaver, President

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**EXHIBIT "A"**

California Labor Code

§ 2870. Invention on Own Time-Exemption from Agreement.

(a) Any provision in an employment agreement which provides that an employee shall assign, or offer to assign, any of his or her rights in an invention to his or her employer shall not apply to an invention that the employee developed entirely on his or her own time without using the employer's equipment, supplies, facilities or trade secret information except for those inventions that either:

(1) Relate at the time of conception or reduction to practice of the invention to the employer's business, or actual or demonstrably anticipated research or development of the employer.

(2) Result from any work performed by the employee for the employer.

(b) To the extent a provision in an employment agreement purports to require an employee to assign an invention otherwise excluded from being required to be assigned under subdivision (a), the provision is against the public policy of this state and is unenforceable.

§ 2871. Restrictions on Employer for Condition of Employment.

No employer shall require a provision made void or unenforceable by Section 2870 as a condition of employment or continued employment. Nothing in this article shall be construed to forbid or restrict the right of an employer to provide in contracts of employment for disclosure, provided that any such disclosures be received in confidence, of all of the employee's inventions made solely or jointly with others during the period of his or her employment, a review process by the employer to determine such issues as may arise, and for full title to certain patents and inventions to be in the United States, as required by contracts between the employer and the United States or any of its agencies.

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**EXHIBIT "B"**

Except as set forth below, Employee represents to the Company that there are no other contracts to assign Inventions now in existence between Employee and any other person or entity (see Section 1 d. of the Agreement):

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**EXHIBIT "C"**

Set forth below is a brief description of all Inventions made or conceived by Employee prior to Employee's employment with the Company which Employee desires to be excluded from this Agreement (see Section 1 d. of the Agreement):

LEASE

CALWEST INDUSTRIAL PROPERTIES, LLC,  
a California limited liability company

Landlord

and

NATURAL ALTERNATIVES INTERNATIONAL, INC.,  
a Delaware corporation

Tenant

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MULTI-TENANT INDUSTRIAL NET LEASE

REFERENCE PAGES

BUILDING: *VISTA DISTRIBUTION CENTER, 1205 – 1225 Park Center Drive*

LANDLORD: CALWEST INDUSTRIAL PROPERTIES, LLC,  
a California limited liability company

LANDLORD'S ADDRESS: *2131 Palomar Airport Road, Suite 100*  
Carlsbad, Ca 92009

WIRE INSTRUCTIONS AND/OR ADDRESS FOR RENT PAYMENT: Calwest Industrial Properties, LLC  
File 30172  
P.O. Box 6000  
San Francisco, Ca 94160

LEASE REFERENCE DATE: June 12, 2003

TENANT: NATURAL ALTERNATIVES INTERNATIONAL, INC.,  
a Delaware corporation

TENANT'S NOTICE ADDRESS:  
(a) As of beginning of Term: 1215 Park Center Drive  
Vista, Ca 92083  
(b) Prior to beginning of Term (if different): 185 Linda Vista Drive  
San Marcos, Ca 92069

PREMISES ADDRESS: 1211C & 1215 Park Center Drive  
Vista, Ca 92083

PREMISES RENTABLE AREA: approximately 120,000 sq. ft. (for outline of Premises see Exhibit A)

USE: Manufacturing, warehouse, laboratory operations, blending, packaging and distribution of vitamin products and general office.

SCHEDULED COMMENCEMENT DATE: April 1, 2004, or ninety (90) days from the date Tenant is granted access to begin construction and fixture installation.

TERM OF LEASE: Approximately ten (10) years beginning on the Commencement Date and ending on the Termination Date.

TERMINATION DATE: March 31, 2014

/s/ RLW      /s/ JES

\_\_\_\_\_  
Initials

ANNUAL RENT and MONTHLY INSTALLMENT OF RENT (Article 3)(Subject to possible change based on terms of Addendum to Lease):

Period		Annual Rent	Monthly Installment of Annual Rent
from	through		
4/1/2004	4/30/2004	\$ 835,200.00	\$ 69,600.00
5/1/2004	6/30/2004	\$ 0.00	\$ 0.00
7/1/2004	3/31/2005	\$ 860,256.00	\$ 71,688.00
4/1/2005	3/31/2006	\$ 886,063.68	\$ 73,838.64
4/1/2006	3/31/2007	\$ 912,645.59	\$ 76,053.80
4/1/2007	3/31/2008	\$ 940,024.96	\$ 78,335.41
4/1/2008	3/31/2009	\$ 968,225.71	\$ 80,685.48
4/1/2009	3/31/2010	\$ 997,272.48	\$ 83,106.04
4/1/2010	3/31/2011	\$ 1,027,190.65	\$ 85,599.22
4/1/2011	3/31/2012	\$ 1,058,006.37	\$ 88,167.20
4/1/2012	3/31/2013	\$ 1,089,746.56	\$ 90,812.21
4/1/2013	3/31/2014	\$ 1,122,438.96	\$ 93,536.58

INITIAL ESTIMATED MONTHLY INSTALLMENT OF RENT ADJUSTMENTS (Article 4) (Subject to possible change based on terms of Addendum to Lease):

\$14,591.00

TENANT'S PROPORTIONATE SHARE (Subject to possible change based on terms of Addendum to Lease):

33.63%

SECURITY DEPOSIT (Subject to possible change based on terms of Addendum to Lease):

\$80,000.00 increased annually as necessary so as to equal at least 105% of the current Monthly Installment of Annual Rent (in the first 4 years of the Lease, the initial Security Deposit of \$80,000 will meet this requirement).

ASSIGNMENT/SUBLETTING FEE:

\$500.00

REAL ESTATE BROKER DUE COMMISSION:

BRE Commercial (represents both Landlord and Tenant)

TENANT'S SIC CODE:

4225 (general warehousing and storage)

LETTER OF CREDIT (Subject to possible change based on terms of Addendum to Lease):

\$330,000.00

/s/ RLW      /s/ JES

Initials

The Reference Pages information is incorporated into and made a part of the Lease. In the event of any conflict between any Reference Pages information and the Lease, the Lease shall control. This Lease includes the Addendum to Lease and Exhibits A through E, all of which are made a part of this Lease.

**LANDLORD**

CALWEST INDUSTRIAL PROPERTIES, LLC,  
a California limited liability company

By: RREEF Management Company, a Delaware  
corporation, its Property Manager

By: /s/ Jill E. Shanahan

\_\_\_\_\_  
Name: JILL E. SHANAHAN

Title: Vice President

Date: Oct 30, 2003

**TENANT**

NATURAL ALTERNATIVES INTERNATIONAL, INC.,  
a Delaware corporation

By: /s/ Mark A. LeDoux

\_\_\_\_\_  
Mark A. LeDoux

Title: Chairman and Chief Executive Officer

Date: \_\_\_\_\_

By: /s/ Randy L. Weaver

\_\_\_\_\_  
Randell Weaver

Title: President

Date: 10.27.03

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## LEASE

By this Lease Landlord leases to Tenant and Tenant leases from Landlord the Premises in the Building as set forth and described on the Reference Pages. The Premises are depicted on the floor plan attached hereto as Exhibit A, and the Building is depicted on the site plan attached hereto as Exhibit A-1. The Reference Pages, including all terms defined thereon, are incorporated as part of this Lease.

### 1. USE, RESTRICTIONS ON USE AND CONDITION OF PREMISES.

1.1 The Premises are to be used solely for the purposes set forth on the Reference Pages. Tenant shall not do or permit anything to be done in or about the Premises which will in any way obstruct or interfere with the rights of other tenants or occupants of the Building or injure, annoy, or disturb them, or allow the Premises to be used for any improper, immoral, unlawful, or objectionable purpose, or commit any waste. Tenant shall not do, permit or suffer in, on, or about the Premises the sale of any alcoholic liquor without the written consent of Landlord first obtained. Tenant shall comply with all governmental laws, ordinances and regulations applicable to the use of the Premises and its occupancy and shall promptly comply with all governmental orders and directions for the correction, prevention and abatement of any violations in the Building or appurtenant land, caused or permitted by, or resulting from the specific use by, Tenant, or in or upon, or in connection with, the Premises, all at Tenant's sole expense. Tenant shall not do or permit anything to be done on or about the Premises or bring or keep anything into the Premises which will in any way increase the rate of, invalidate or prevent the procuring of any insurance protecting against loss or damage to the Building or any of its contents by fire or other casualty or against liability for damage to property or injury to persons in or about the Building or any part thereof.

Notwithstanding anything to the contrary in this Lease, Tenant shall not be required to make any capital improvements to the Premises in order to comply with any governmental laws, regulations or ordinances unless triggered by Tenant's specific use of or modification to the Premises. In such event, if such capital improvement relates to Tenant's specific and exclusive use or modification, Tenant shall be responsible for the entire cost of such capital improvement. If another tenant's use or modification also requires such capital improvement, the cost of such capital improvement shall be allocated ratably between Tenant and such other tenant.

1.2 Tenant shall not, and shall not direct, suffer or permit any of its agents, contractors, employees, licensees or invitees (collectively, the "**Tenant Entities**") to at any time handle, use, manufacture, store or dispose of in or about the Premises or the Building any (collectively "**Hazardous Materials**") flammables, explosives, radioactive materials, hazardous wastes or materials, toxic wastes or materials, or other similar substances, petroleum products or derivatives or any substance subject to regulation by or under any federal, state and local laws and ordinances relating to the protection of the environment or the keeping, use or disposition of environmentally hazardous materials, substances, or wastes, presently in effect or hereafter adopted, all amendments to any of them, and all rules and regulations issued pursuant to any of such laws or ordinances (collectively "**Environmental Laws**"), nor shall Tenant suffer or permit any Hazardous Materials to be used in any manner not fully in compliance with all Environmental Laws, in the Premises or the Building and appurtenant land or allow the environment to become contaminated with any Hazardous Materials. Notwithstanding the foregoing, Tenant may handle, store, use or dispose of products containing small quantities of Hazardous Materials (such as aerosol cans containing insecticides, toner for copiers, paints, paint remover and the like) to the extent customary and necessary for the use of the Premises for general office purposes; provided that Tenant shall always handle, store, use, and dispose of any such Hazardous Materials in a safe and lawful manner and never allow such Hazardous Materials to contaminate the Premises, Building and appurtenant land or the environment. Tenant shall protect, defend, indemnify and hold each and all of the Landlord Entities (as defined in Article 30) harmless from and against any and all loss, claims, liability or costs (including court costs and attorney's fees) incurred by reason of any actual or asserted failure of Tenant to fully comply with all applicable Environmental Laws, or the presence, handling, use or disposition in or from the Premises of any Hazardous Materials by Tenant or any Tenant Entity (even though permissible under all applicable Environmental Laws or the provisions of this Lease), or by reason of any actual or asserted failure of Tenant to keep, observe, or perform any provision of this Section 1.2.

1.3 Tenant and the Tenant Entities will be entitled to the non-exclusive use of the common areas of the Building as they exist from time to time during the Term, including the parking facilities, subject to Landlord's rules and regulations regarding such use. However, in no event will Tenant or the Tenant Entities park more vehicles in the parking facilities than Tenant's Proportionate Share of the total parking spaces available for common use. The foregoing shall not be deemed to provide Tenant with an exclusive right to any parking spaces or any guaranty of the availability of any particular parking spaces or any specific number of parking spaces.

1.4 Landlord has no actual knowledge that the Premises are unsuitable for Tenant's intended use. Except for the foregoing sentence, Tenant acknowledges that neither Landlord nor any agent of Landlord has made any representation as to the condition of the Premises or the suitability of the Premises for Tenant's intended use. Tenant hereby acknowledges: (i) that it has satisfied itself with respect to the condition of the Premises (including, but not limited to, the electrical and fire sprinkler systems, security, environmental aspects, seismic and earthquake requirements), and compliance with the Americans with Disabilities Act (the "ADA") and applicable zoning, municipal, county, state and federal laws, ordinances and regulations and any covenants or restrictions of record and the present and future suitability of the Premises for Tenant's intended use, (ii) that it has made such investigations as it deems necessary with reference to such matters, is satisfied with reference thereto, and assumes all responsibility therefor as the same relate to Tenant's occupancy of the Premises and/or the provisions of this Lease and (iii) that it accepts the Premises in its "as-is" condition. This Lease is not contingent upon Tenant's ability to obtain any approvals and permits for its use of the Premises and/or Tenant's Work from any other applicable governmental entities or owners association. Landlord shall cooperate with Tenant in connection with Tenant seeking such permits and approvals, but at no cost to Landlord. Tenant acknowledges that it is obligated under this Lease even if all or part of its permitted use is not permitted at the Premises.

Notwithstanding anything to the contrary above, for a period of time commencing on the date that Tenant is granted access to the portion of the Premises which it currently does not occupy and ending thirty (30) days thereafter, Tenant shall have the right (one time) to give Landlord a single list of any mechanical, electrical, plumbing or structural defects in such portion of the Premises. Such defects shall not entitle Tenant to terminate this Lease, but in such event, Landlord shall, as Landlord's sole obligation with respect to such matter, rectify same at Landlord's expense within thirty (30) days after receipt of Tenant's notice concerning such defects, provided, however, if rectifying such defect reasonably takes more than thirty (30) days, then Landlord shall have such additional time as is reasonably necessary to rectify such defects, so long as Landlord diligently prosecutes such cure to completion. If Tenant does not give Landlord the required notice within the above thirty (30) day time period, correction of any such defects shall be the obligation of Tenant at Tenant's sole cost and expense (subject to Section 7.1 of this Lease).

## **2. TERM.**

2.1 The Term of this Lease shall begin on the date ("**Commencement Date**") which shall be the later of the Scheduled Commencement Date as shown on the Reference Pages and the date that Landlord shall tender possession of the Premises to Tenant, and shall terminate on the date as shown on the Reference Pages ("**Termination Date**"), unless sooner terminated by the provisions of this Lease. Landlord shall tender possession of the Premises in its current as-is condition vacated by any other occupants or tenants. Tenant acknowledges that it currently occupies a portion of the Premises. Tenant shall deliver a punch list of items not completed within thirty (30) days after Landlord tenders possession of the Premises and Landlord agrees to proceed with due diligence to perform its obligations regarding such items. Tenant shall, at Landlord's request, execute and deliver a memorandum agreement provided by Landlord in the form of Exhibit C attached hereto, setting forth the actual Commencement Date, Termination Date, Letter of Credit amount, Security Deposit, rent schedule, Proportionate Share and Initial Estimated Monthly Installment of Rent Adjustments.

2.2 Tenant agrees that in the event of the inability of Landlord to deliver possession of the Premises on the Scheduled Commencement Date for any reason, Landlord shall not be liable for any damage resulting from such inability, but Tenant shall not be liable for any rent or other monetary obligations until the time when Landlord can, after notice to Tenant, deliver possession of the Premises to Tenant. No such failure to give possession on the Scheduled Commencement Date shall affect the non-monetary obligations of Tenant under this Lease, except that if Landlord is unable to deliver possession of the Premises within ninety (90) days after the Scheduled Commencement Date, Tenant shall have the option to terminate this Lease. The parties acknowledge and agree that the Letter of Credit required pursuant to the Addendum to this Lease constitutes a non-monetary obligation of Tenant.

2.3 In the event Landlord permits Tenant, or any agent, employee or contractor of Tenant, to enter, use or occupy the Premises prior to the Commencement Date, such entry, use or occupancy shall be subject to all the provisions of this Lease other than the payment of rent, including, without limitation, Tenant's compliance with the insurance requirements of Article 11. Said early possession shall not advance the Termination Date.

## **3. RENT.**

3.1 Tenant agrees to pay to Landlord the Annual Rent in effect from time to time by paying the Monthly Installment of Rent then in effect on or before the first day of each full calendar month during the Term, except that the first full month's rent shall be paid upon the execution of this Lease. The Monthly Installment of Rent in effect at any time shall be one-twelfth (1/12) of the Annual Rent in effect at such time. Rent for any period during the Term which is less than a full

month shall be a prorated portion of the Monthly Installment of Rent based upon the number of days in such month. Said rent shall be paid to Landlord, without deduction or offset and without notice or demand, at the Rent Payment Address, as set forth on the Reference Pages, or to such other person or at such other place as Landlord may from time to time designate in writing. If an Event of Default occurs, Landlord may require by notice to Tenant that all subsequent rent payments be made by an automatic payment from Tenant's bank account to Landlord's account, without cost to Landlord. Tenant must implement such automatic payment system prior to the next scheduled rent payment or within ten (10) days after Landlord's notice, whichever is later. Unless specified in this Lease to the contrary, all amounts and sums payable by Tenant to Landlord pursuant to this Lease shall be deemed additional rent.

3.2 Tenant recognizes that late payment of any rent or other sum due under this Lease will result in administrative expense to Landlord, the extent of which additional expense is extremely difficult and economically impractical to ascertain. Tenant therefore agrees that if rent or any other sum is not paid when due and payable pursuant to this Lease, a late charge shall be imposed in an amount equal to the greater of: (a) Fifty Dollars (\$50.00), or (b) six percent (6%) of the unpaid rent or other payment. The amount of the late charge to be paid by Tenant shall be reassessed and added to Tenant's obligation for each successive month until paid. The provisions of this Section 3.2 in no way relieve Tenant of the obligation to pay rent or other payments on or before the date on which they are due, nor do the terms of this Section 3.2 in any way affect Landlord's remedies pursuant to Article 19 of this Lease in the event said rent or other payment is unpaid after date due.

3.3 All monetary obligations of Tenant under this Lease are deemed to be rent.

#### 4. RENT ADJUSTMENTS.

4.1 For the purpose of this Article 4, the following terms are defined as follows:

4.1.1 **Lease Year:** Each fiscal year (as determined by Landlord from time to time) falling partly or wholly within the Term.

4.1.2 **Expenses:** All costs of operation, replacement of non-capital items, maintenance, repair, and management of the Building (including the amount of any credits which Landlord may grant to particular tenants of the Building in lieu of providing any standard services or paying any standard costs described in this Section 4.1.2 for similar tenants), as determined in accordance with generally accepted accounting principles, including the following costs by way of illustration, but not limitation: water and sewer charges; insurance charges of or relating to all insurance policies and endorsements deemed by Landlord to be commercially reasonably necessary or desirable and relating in any manner to the protection, preservation, or operation of the Building or any part thereof; utility costs, including, but not limited to, the cost of heat, light, power, steam, gas; waste disposal; the cost of janitorial services; the cost of security and alarm services (including any central station signaling system); costs of cleaning, replacing non-capital items, repairing, and maintaining the common areas, including parking and landscaping, window cleaning costs; labor costs; costs and expenses of managing the Building including management and/or administrative fees; air conditioning maintenance costs; elevator maintenance fees and supplies; material costs; equipment costs including the cost of maintenance, repair and service agreements and rental and leasing costs; purchase costs of equipment; current rental and leasing costs of items which would be capital items if purchased; tool costs; licenses, permits and inspection fees; wages and salaries; employee benefits and payroll taxes; accounting and legal fees; any sales, use or service taxes incurred in connection therewith. Expenses shall not include: (i) capital expenditures unless reasonably calculated to reduce operating expenses, but the costs such capital expenditures shall be amortized over the reasonable life of such expenditures in accordance with such reasonable life and amortization schedules as shall be determined by Landlord in accordance with generally accepted accounting principles, with interest on the unamortized amount at one percent (1%) in excess of the Wall Street Journal prime lending rate announced from time to time, (ii) depreciation or amortization of the Building or equipment in the Building except as provided herein, (iii) loan principal payments, (iv) costs of alterations of tenants' premises, (v) leasing commissions, (vi) interest expenses on long-term borrowings or (vii) advertising costs.

4.1.3 **Taxes:** Real estate taxes and any other taxes, charges and assessments which are levied with respect to the Building or the land appurtenant to the Building, or with respect to any improvements, fixtures and equipment or other property of Landlord, real or personal, located in the Building and used in connection with the operation of the Building and said land, any payments to any ground lessor in reimbursement of tax payments made by such lessor; and all fees, expenses and costs incurred by Landlord in investigating, protesting, contesting or in any way seeking to reduce or avoid increase in any assessments, levies or the tax rate pertaining to any Taxes to be paid by Landlord in any Lease Year. Taxes shall not include any tax imposed on the revenues or income of Landlord, any corporate or other franchise, or estate or

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inheritance tax, or tax imposed upon any transfer by Landlord of its interest in this Lease or the Building or any taxes to be paid by Tenant pursuant to Article 28.

4.2 Tenant shall pay as additional rent for each Lease Year Tenant's Proportionate Share of Expenses and Taxes incurred for such Lease Year.

4.3 The annual determination of Expenses shall be made by Landlord and shall be binding upon Landlord and Tenant, subject to the provisions of this Section 4.3. During the Term, Tenant may review, at Tenant's sole cost and expense, the books and records supporting such determination in an office of Landlord, or Landlord's agent, during normal business hours, upon giving Landlord five (5) days advance written notice within sixty (60) days after receipt of such determination, but in no event more often than once in any one (1) year period, subject to execution of a confidentiality agreement acceptable to Landlord, and provided that if Tenant utilizes an independent accountant to perform such review it shall be subject to such confidentiality agreement. If Tenant fails to object to Landlord's determination of Expenses within ninety (90) days after receipt, or if any such objection fails to state with specificity the reason for the objection, Tenant shall be deemed to have approved such determination and shall have no further right to object to or contest such determination.

4.4 Prior to the actual determination thereof for a Lease Year, Landlord may from time to time estimate Tenant's liability for Expenses and/or Taxes under Section 4.2, Article 6 and Article 28 for the Lease Year or portion thereof. Landlord will give Tenant written notification of the amount of such estimate and Tenant agrees that it will pay, by increase of its Monthly Installments of Rent due in such Lease Year, additional rent in the amount of such estimate. Any such increased rate of Monthly Installments of Rent pursuant to this Section 4.4 shall remain in effect until further written notification to Tenant pursuant hereto.

4.5 When the above mentioned actual determination of Tenant's liability for Expenses and/or Taxes is made for any Lease Year and when Tenant is so notified in writing, then:

4.5.1 If the total additional rent Tenant actually paid pursuant to Section 4.3 on account of Expenses and/or Taxes for the Lease Year is less than Tenant's liability for Expenses and/or Taxes, then Tenant shall pay such deficiency to Landlord as additional rent in one lump sum within thirty (30) days of receipt of Landlord's bill therefor; and

4.5.2 If the total additional rent Tenant actually paid pursuant to Section 4.3 on account of Expenses and/or Taxes for the Lease Year is more than Tenant's liability for Expenses and/or Taxes, then Landlord shall credit the difference against the then, next due payments to be made by Tenant under this Article 4, or, if the Lease has terminated, refund the difference in cash.

4.6 If the Commencement Date is other than January 1 or if the Termination Date is other than December 31, Tenant's liability for Expenses and Taxes for the Lease Year in which said Date occurs shall be prorated based upon a three hundred sixty-five (365) day year.

**5. SECURITY DEPOSIT.** Tenant shall deposit the Security Deposit with Landlord upon the execution of this Lease. Said sum shall be held by Landlord as security for the faithful performance by Tenant of all the terms, covenants and conditions of this Lease to be kept and performed by Tenant and not as an advance rental deposit or as a measure of Landlord's damage in case of Tenant's default. If Tenant defaults with respect to any provision of this Lease, Landlord may use any part of the Security Deposit for the payment of any rent or any other sum in default, or for the payment of any amount which Landlord may spend or become obligated to spend by reason of Tenant's default, or to compensate Landlord for any other loss or damage which Landlord may suffer by reason of Tenant's default. If any portion is so used, Tenant shall within five (5) days after written demand therefor, deposit with Landlord an amount sufficient to restore the Security Deposit to its original amount and Tenant's failure to do so shall be a material breach of this Lease. Except to such extent, if any, as shall be required by law, Landlord shall not be required to keep the Security Deposit separate from its general funds, and Tenant shall not be entitled to interest on such deposit. If Tenant shall fully and faithfully perform every provision of this Lease to be performed by it, the Security Deposit or any balance thereof shall be returned to Tenant at such time after termination of this Lease when Landlord shall have determined that all of Tenant's obligations under this Lease have been fulfilled.

## **6. ALTERATIONS.**

6.1 Except for those, if any, specifically provided for in Exhibit B to this Lease, Tenant shall not make or suffer to be made any alterations, additions, or improvements, including, but not limited to, the attachment of any fixtures or

equipment in, on, or to the Premises or any part thereof or the making of any improvements as required by Article 7, without the prior written consent of Landlord, which consent shall not be unreasonably withheld. When applying for such consent, Tenant shall, if requested by Landlord, furnish complete plans and specifications for such alterations, additions and improvements. Landlord's consent shall not be unreasonably withheld with respect to alterations which (i) are not structural in nature, (ii) are not visible from the exterior of the Building, (iii) do not affect or require modification of the Building's electrical, mechanical, plumbing, HVAC or other systems, and (iv) in aggregate do not cost more than \$5.00 per rentable square foot of that portion of the Premises affected by the alterations in question.

6.2 In the event Landlord consents to the making of any such alteration, addition or improvement by Tenant, the same shall be made by using either Landlord's contractor or a contractor reasonably approved by Landlord, in either event at Tenant's sole cost and expense. If Tenant shall employ any contractor other than Landlord's contractor and such other contractor or any subcontractor of such other contractor shall employ any non-union labor or supplier, Tenant shall be responsible for and hold Landlord harmless from any and all delays, damages and extra costs suffered by Landlord as a result of any dispute with any labor unions concerning the wage, hours, terms or conditions of the employment of any such labor. In any event Landlord may charge Tenant a construction management fee not to exceed five percent (5%) of the cost of such work to cover its overhead as it relates to such proposed work, plus third-party costs actually incurred by Landlord in connection with the proposed work and the design thereof, with all such amounts being due five (5) days after Landlord's demand.

6.3 All alterations, additions or improvements proposed by Tenant shall be constructed in accordance with all government laws, ordinances, rules and regulations, using Building standard materials where applicable, and Tenant shall, prior to construction, provide the additional insurance required under Article 11 in such case, and also all such assurances to Landlord as Landlord shall reasonably require to assure payment of the costs thereof, including but not limited to, notices of non-responsibility, waivers of lien, surety company performance bonds and funded construction escrows and to protect Landlord and the Building and appurtenant land against any loss from any mechanic's, materialmen's or other liens. Tenant shall pay in addition to any sums due pursuant to Article 4, any increase in real estate taxes attributable to any such alteration, addition or improvement for so long, during the Term, as such increase is ascertainable; at Landlord's election said sums shall be paid in the same way as sums due under Article 4. Landlord may, as a condition to its consent to any particular alterations or improvements, require Tenant to deposit with Landlord the amount reasonably estimated by Landlord as sufficient to cover the cost of removing such alterations or improvements and restoring the Premises, to the extent required under Section 26.2.

## **7. REPAIR.**

7.1 Landlord shall have no obligation to alter, remodel, improve, repair, decorate or paint the Premises, except as specified in Exhibit B if attached to this Lease and except that Landlord shall repair and maintain the structural portions of the roof, foundation and walls of the Building. By taking possession of the Premises, Tenant accepts them as being in good order, condition and repair and in the condition in which Landlord is obligated to deliver them, except as set forth in the punch list to be delivered pursuant to Section 2.1. It is hereby understood and agreed that no representations respecting the condition of the Premises or the Building have been made by Landlord to Tenant, except as specifically set forth in this Lease. Landlord shall not be liable for any failure to make any repairs or to perform any maintenance unless such failure shall persist for an unreasonable time after written notice of the need of such repairs or maintenance is given to Landlord by Tenant.

7.2 Tenant shall at its own cost and expense keep and maintain all parts of the Premises and such portion of the Building and improvements as are within the exclusive control of Tenant in good condition, promptly making all necessary repairs and replacements, whether ordinary or extraordinary, with materials and workmanship of the same character, kind and quality as the original (including, but not limited to, repair and replacement of all fixtures installed by Tenant, water heaters serving the Premises, windows, glass and plate glass, doors, exterior stairs, skylights, any special office entries, interior walls and finish work, floors and floor coverings, heating and air conditioning systems serving the Premises, electrical systems and fixtures, sprinkler systems, dock boards, truck doors, dock bumpers, plumbing work and fixtures, and performance of regular removal of trash and debris). Tenant as part of its obligations hereunder shall keep the Premises in a clean and sanitary condition. Tenant will, as far as possible keep all such parts of the Premises from deterioration due to ordinary wear and from falling temporarily out of repair, and upon termination of this Lease in any way Tenant will yield up the Premises to Landlord in good condition and repair, loss by fire or other casualty excepted (but not excepting any damage to glass). Tenant shall, at its own cost and expense, repair any damage to the Premises or the Building resulting from and/or caused in whole or in part by the negligence or misconduct of Tenant, its agents, employees, contractors, invitees, or any other person entering upon the Premises as a result of Tenant's business activities or caused by Tenant's default hereunder.



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7.3 Except as provided in Article 22, there shall be no abatement of rent and no liability of Landlord by reason of any injury to or interference with Tenant's business arising from the making of any repairs, alterations or improvements in or to any portion of the Building or the Premises or to fixtures, appurtenances and equipment in the Building. Tenant hereby waives any and all rights under and benefits of subsection 1 of Section 1932 and Sections 1941 and 1942 of the California Civil Code, or any similar or successor Regulations or other laws now or hereinafter in effect.

7.4 Tenant shall, at its own cost and expense, enter into a regularly scheduled preventive maintenance/service contract with a maintenance contractor approved by Landlord for servicing all heating and air conditioning systems and equipment serving the Premises (and a copy thereof shall be furnished to Landlord). The service contract must include all services suggested by the equipment manufacturer in the operation/maintenance manual and must become effective within thirty (30) days of the date Tenant takes possession of the Premises. Should Tenant fail to do so, Landlord may, upon notice to Tenant, enter into such a maintenance/ service contract on behalf of Tenant or perform the work and in either case, charge Tenant the cost thereof along with a reasonable amount for Landlord's overhead.

7.5 Landlord shall coordinate any repairs and other maintenance of any railroad tracks serving the Building and, if Tenant uses such rail tracks, Tenant shall reimburse Landlord or the railroad company from time to time upon demand, as additional rent, for its share of the costs of such repair and maintenance and for any other sums specified in any agreement to which Landlord or Tenant is a party respecting such tracks, such costs to be borne proportionately by all tenants in the Building using such rail tracks, based upon the actual number of rail cars shipped and received by such tenant during each calendar year during the Term.

**8. LIENS.** Tenant shall keep the Premises, the Building and appurtenant land and Tenant's leasehold interest in the Premises free from any liens arising out of any services, work or materials performed, furnished, or contracted for by Tenant, or obligations incurred by Tenant. In the event that Tenant fails, within ten (10) days following the imposition of any such lien, to either cause the same to be released of record or provide Landlord with insurance against the same issued by a major title insurance company or such other protection against the same as Landlord shall accept (such failure to constitute an Event of Default), Landlord shall have the right to cause the same to be released by such means as it shall deem proper, including payment of the claim giving rise to such lien. All such sums paid by Landlord and all expenses incurred by it in connection therewith shall be payable to it by Tenant within five (5) days Landlord's demand.

## **9. ASSIGNMENT AND SUBLETTING.**

9.1 Tenant shall not have the right to assign or pledge this Lease or to sublet the whole or any part of the Premises whether voluntarily or by operation of law, or permit the use or occupancy of the Premises by anyone other than Tenant, and shall not make, suffer or permit such assignment, subleasing or occupancy without the prior written consent of Landlord, such consent not to be unreasonably withheld, and said restrictions shall be binding upon any and all assignees of the Lease and subtenants of the Premises. In the event Tenant desires to sublet, or permit such occupancy of, the Premises, or any portion thereof, or assign this Lease, Tenant shall give written notice thereof to Landlord at least sixty (60) days but no more than one hundred twenty (120) days prior to the proposed commencement date of such subletting or assignment, which notice shall set forth the name of the proposed subtenant or assignee, the relevant terms of any sublease or assignment and copies of financial reports and other relevant financial information of the proposed subtenant or assignee.

9.2 Notwithstanding any assignment or subletting, permitted or otherwise, Tenant shall at all times remain directly, primarily and fully responsible and liable for the payment of the rent specified in this Lease and for compliance with all of its other obligations under the terms, provisions and covenants of this Lease. Upon the occurrence of an Event of Default, if the Premises or any part of them are then assigned or sublet, Landlord, in addition to any other remedies provided in this Lease or provided by law, may, at its option, collect directly from such assignee or subtenant all rents due and becoming due to Tenant under such assignment or sublease and apply such rent against any sums due to Landlord from Tenant under this Lease, and no such collection shall be construed to constitute a novation or release of Tenant from the further performance of Tenant's obligations under this Lease.

9.3 In addition to Landlord's right to approve of any subtenant or assignee, Landlord shall have the option, in its sole discretion, in the event of any proposed subletting or assignment, to terminate this Lease, or in the case of a proposed subletting of less than the entire Premises, to recapture the portion of the Premises to be sublet, as of the date the subletting or assignment is to be effective. The option shall be exercised, if at all, by Landlord giving Tenant written notice given by Landlord to Tenant within thirty (30) days following Landlord's receipt of Tenant's written notice as required above. However, if Tenant notifies Landlord, within five (5) days after receipt of Landlord's termination notice, that Tenant is rescinding its proposed assignment or sublease, the termination notice shall be void and the Lease shall continue in full force and effect. If this Lease shall be terminated with respect to the entire Premises pursuant to this Section, the Term of this

Lease shall end on the date stated in Tenant's notice as the effective date of the sublease or assignment as if that date had been originally fixed in this Lease for the expiration of the Term. If Landlord recaptures under this Section only a portion of the Premises, the rent to be paid from time to time during the unexpired Term shall abate proportionately based on the proportion by which the approximate square footage of the remaining portion of the Premises shall be less than that of the Premises as of the date immediately prior to such recapture. Tenant shall, at Tenant's own cost and expense, discharge in full any outstanding commission obligation which may be due and owing as a result of any proposed assignment or subletting, whether or not the Premises are recaptured pursuant to this Section 9.3 and rented by Landlord to the proposed tenant or any other tenant.

9.4 In the event that Tenant sells, sublets, assigns or transfers this Lease, Tenant shall pay to Landlord as additional rent an amount equal to one hundred percent (100%) of any Increased Rent (as defined below), less the Costs Component (as defined below), when and as such Increased Rent is received by Tenant. As used in this Section, "**Increased Rent**" shall mean the excess of (i) all rent and other consideration which Tenant is entitled to receive by reason of any sale, sublease, assignment or other transfer of this Lease, over (ii) the rent otherwise payable by Tenant under this Lease at such time. For purposes of the foregoing, any consideration received by Tenant in form other than cash shall be valued at its fair market value as determined by Landlord in good faith. The "**Costs Component**" is that amount which, if paid monthly, would fully amortize on a straight-line basis, over the entire period for which Tenant is to receive Increased Rent, the reasonable costs incurred by Tenant for leasing commissions and tenant improvements in connection with such sublease, assignment or other transfer.

9.5 Notwithstanding any other provision hereof, it shall be considered reasonable for Landlord to withhold its consent to any assignment of this Lease or sublease of any portion of the Premises if at the time of either Tenant's notice of the proposed assignment or sublease or the proposed commencement date thereof, there shall exist any uncured material default of Tenant or matter which will become a material default of Tenant with passage of time unless cured, or if the proposed assignee or sublessee is an entity: (a) with which Landlord is already in negotiation; (b) is already an occupant of the Building unless Landlord is unable to provide the amount of space required by such occupant; (c) is a governmental agency; (d) is incompatible with the character of occupancy of the Building; (e) with which the payment for the sublease or assignment is determined in whole or in part based upon its net income or profits; or (f) would subject the Premises to a use which would: (i) involve increased personnel or wear upon the Building; (ii) violate any exclusive right granted to another tenant of the Building; (iii) require any addition to or modification of the Premises or the Building in order to comply with building code or other governmental requirements; or, (iv) involve a violation of Section 1.2. Tenant expressly agrees that for the purposes of any statutory or other requirement of reasonableness on the part of Landlord, Landlord's refusal to consent to any assignment or sublease for any of the reasons described in this Section 9.5 shall be conclusively deemed to be reasonable.

9.6 Upon any request to assign or sublet, Tenant will pay to Landlord the Assignment/Subletting Fee plus, on demand, a sum equal to all of Landlord's costs, including reasonable attorney's fees, reasonably incurred in investigating and considering any proposed or purported assignment or pledge of this Lease or sublease of any of the Premises, regardless of whether Landlord shall consent to, refuse consent, or determine that Landlord's consent is not required for, such assignment, pledge or sublease. Any purported sale, assignment, mortgage, transfer of this Lease or subletting which does not comply with the provisions of this Article 9 shall be void.

9.7 If Tenant is a corporation, limited liability company, partnership or trust, any transfer or transfers of or change or changes within any twelve (12) month period in the number of the outstanding voting shares of the corporation or limited liability company, the general partnership interests in the partnership or the identity of the persons or entities controlling the activities of such partnership or trust resulting in the persons or entities owning or controlling a majority of such shares, partnership interests or activities of such partnership or trust at the beginning of such period no longer having such ownership or control shall be regarded as equivalent to an assignment of this Lease to the persons or entities acquiring such ownership or control and shall be subject to all the provisions of this Article 9 to the same extent and for all intents and purposes as though such an assignment.

**10. INDEMNIFICATION.** None of the Landlord Entities shall be liable and Tenant hereby waives all claims against them for any damage to any property or any injury to any person in or about the Premises or the Building by or from any cause whatsoever (including without limiting the foregoing, rain or water leakage of any character from the roof, windows, walls, basement, pipes, plumbing works or appliances, the Building not being in good condition or repair, gas, fire, oil, electricity or theft), except to the extent caused by or arising from the gross negligence or willful misconduct of Landlord or its agents, employees or contractors. Tenant shall protect, indemnify and hold the Landlord Entities harmless from and against any and all loss, claims, liability or costs (including court costs and attorney's fees) incurred by reason of (a) any damage to any property (including but not limited to property of any Landlord Entity) or any injury (including but not limited

to death) to any person occurring in, on or about the Premises or the Building to the extent that such injury or damage shall be caused by or arise from any actual or alleged act, neglect, fault, or omission by or of Tenant or any Tenant Entity to meet any standards imposed by any duty with respect to the injury or damage; (b) the conduct or management of any work or thing whatsoever done by the Tenant in or about the Premises or from transactions of the Tenant concerning the Premises; (c) Tenant's failure to comply with any and all governmental laws, ordinances and regulations applicable to the condition or use of the Premises or its occupancy; or (d) any breach or default on the part of Tenant in the performance of any covenant or agreement on the part of the Tenant to be performed pursuant to this Lease. The provisions of this Article shall survive the termination of this Lease with respect to any claims or liability accruing prior to such termination.

## **11. INSURANCE.**

11.1 Tenant shall keep in force throughout the Term: (a) a Commercial General Liability insurance policy or policies to protect the Landlord Entities against any liability to the public or to any invitee of Tenant or a Landlord Entity incidental to the use of or resulting from any accident occurring in or upon the Premises with a limit of not less than \$1,000,000 per occurrence and not less than \$2,000,000 in the annual aggregate, or such larger amount as Landlord may prudently require from time to time, covering bodily injury and property damage liability and \$1,000,000 products/completed operations aggregate; (b) Business Auto Liability covering owned, non-owned and hired vehicles with a limit of not less than \$1,000,000 per accident; (c) insurance protecting against liability under Worker's Compensation Laws with limits at least as required by statute; (d) Employers Liability with limits of \$1,000,000 each accident, \$1,000,000 disease policy limit, \$1,000,000 disease – each employee; (e) All Risk or Special Form coverage protecting Tenant against loss of or damage to Tenant's alterations, additions, improvements, carpeting, floor coverings, panelings, decorations, fixtures, inventory and other business personal property situated in or about the Premises to the full replacement value of the property so insured, (f) Business Interruption Insurance for 100% of the 12 months actual loss sustained, and (g) Excess Liability in the amount of \$5,000,000.

11.2 The aforesaid policies shall (a) be provided at Tenant's expense; (b) name the Landlord Entities as additional insureds (General Liability) and loss payee (Property – Special Form); (c) be issued by an insurance company with a minimum Best's rating of "A:VII" during the Term; and (d) provide that said insurance shall not be canceled unless thirty (30) days prior written notice (ten days for non-payment of premium) shall have been given to Landlord; a certificate of Liability insurance on ACORD Form 25 and a certificate of Property insurance on ACORD Form 27 shall be delivered to Landlord by Tenant upon the Commencement Date and at least thirty (30) days prior to each renewal of said insurance.

11.3 Whenever Tenant shall undertake any alterations, additions or improvements in, to or about the Premises ("**Work**") the aforesaid insurance protection must extend to and include injuries to persons and damage to property arising in connection with such Work, without limitation including liability under any applicable structural work act, and such other insurance as Landlord shall require; and the policies of or certificates evidencing such insurance must be delivered to Landlord prior to the commencement of any such Work.

**12. WAIVER OF SUBROGATION.** So long as their respective insurers so permit, Tenant and Landlord hereby mutually waive their respective rights of recovery against each other for any loss insured by fire, extended coverage, All Risks or other insurance now or hereafter existing for the benefit of the respective party, but only to the extent of the net insurance proceeds payable under such policies. Each party shall obtain any special endorsements required by their insurer to evidence compliance with the aforementioned waiver. Tenant agrees to notify its insurer of this Section 12 and to use reasonable efforts to obtain such insurer's consent to the aforementioned waiver.

**13. SERVICES AND UTILITIES.** Tenant shall pay for all water, gas, heat, light, power, telephone, sewer, sprinkler system charges and other utilities and services used on or from the Premises, together with any taxes, penalties, and surcharges or the like pertaining thereto and any maintenance charges for utilities. Tenant shall furnish all electric light bulbs, tubes and ballasts, battery packs for emergency lighting and fire extinguishers. If any such services are not separately metered to Tenant, Tenant shall pay such proportion of all charges jointly metered with other premises as determined by Landlord, in its sole discretion, to be reasonable. Any such charges paid by Landlord and assessed against Tenant shall be immediately payable to Landlord on demand and shall be additional rent hereunder. Tenant will not, without the written consent of Landlord, contract with a utility provider to service the Premises with any utility, including, but not limited to, telecommunications, electricity, water, sewer or gas, which is not previously providing such service to other tenants in the Building. Landlord shall in no event be liable for any interruption or failure of utility services on or to the Premises.

**14. HOLDING OVER.** Tenant shall pay Landlord for each day Tenant retains possession of the Premises or part of them after termination of this Lease by lapse of time or otherwise at the rate ("**Holdover Rate**") which shall be One Hundred Fifty Percent (150%) of the greater of (a) the amount of the Annual Rent for the last period prior to the date of such

termination plus all Rent Adjustments under Article 4; and (b) the then market rental value of the Premises as determined by Landlord assuming a new lease of the Premises of the then usual duration and other terms, in either case, prorated on a daily basis, and also pay all damages sustained by Landlord by reason of such retention. Unless Landlord elects by written notice to Tenant to treat such holding over as a tenancy at sufferance, such holding over shall constitute renewal of this Lease for a period from month to month at the Holdover Rate. In any event, no provision of this Article 14 shall be deemed to waive Landlord's right of reentry or any other right under this Lease or at law.

**15. SUBORDINATION.** Without the necessity of any additional document being executed by Tenant for the purpose of effecting a subordination, this Lease shall be subject and subordinate at all times to ground or underlying leases and to the lien of any mortgages or deeds of trust now or hereafter placed on, against or affecting the Building, Landlord's interest or estate in the Building, or any ground or underlying lease; provided, however, that if the lessor, mortgagee, trustee, or holder of any such mortgage or deed of trust elects to have Tenant's interest in this Lease be superior to any such instrument, then, by notice to Tenant, this Lease shall be deemed superior, whether this Lease was executed before or after said instrument. Notwithstanding the foregoing, Tenant covenants and agrees to execute and deliver within ten (10) days of Landlord's request such further instruments evidencing such subordination or superiority of this Lease as may be required by Landlord.

**16. RULES AND REGULATIONS.** Tenant shall faithfully observe and comply with all the rules and regulations as set forth in Exhibit D to this Lease and all reasonable and non-discriminatory modifications of and additions to them from time to time put into effect by Landlord. Landlord shall not be responsible to Tenant for the non-performance by any other tenant or occupant of the Building of any such rules and regulations.

**17. REENTRY BY LANDLORD.**

17.1 Landlord reserves and shall at all times have the right to re-enter the Premises upon advance notice to Tenant of not less than one (1) business day (except no notice shall be required in emergency situations), to inspect the same, to show said Premises to prospective purchasers, mortgagees or tenants, and to improve or repair the Premises and any portion of the Building, without abatement of rent, and may for that purpose erect, use and maintain scaffolding, pipes, conduits and other necessary structures and open any wall, ceiling or floor in and through the Building and Premises where reasonably required by the character of the work to be performed, provided entrance to the Premises shall not be blocked thereby, and further provided that the business of Tenant shall not be interfered with unreasonably. Landlord shall have the right at any time to change the arrangement and/or locations of entrances, or passageways, doors and doorways, and corridors, windows, elevators, stairs, toilets or other public parts of the Building and to change the name, number or designation by which the Building is commonly known; provided, that any change in the arrangement or location of any features or facilities located in any public part of the Building which would or would be likely to have a material negative effect on the utility, use or enjoyment of the Premises shall require Tenant's written consent, which consent shall not be unreasonably withheld. In the event that Landlord damages any portion of any wall or wall covering, ceiling, or floor or floor covering within the Premises, Landlord shall repair or replace the damaged portion to match the original as nearly as commercially reasonable but shall not be required to repair or replace more than the portion actually damaged.

17.2 For each of the aforesaid purposes, Landlord shall at all times have and retain a key with which to unlock all of the doors in the Premises, excluding Tenant's vaults and safes or special security areas (designated in advance), and Landlord shall have the right to use any and all means which Landlord may deem proper to open said doors in an emergency to obtain entry to any portion of the Premises. As to any portion to which access cannot be had by means of a key or keys in Landlord's possession, Landlord is authorized to gain access by such means as Landlord shall elect and the cost of repairing any damage occurring in doing so shall be borne by Tenant and paid to Landlord within five (5) days of Landlord's demand.

**18. DEFAULT.**

18.1 Except as otherwise provided in Article 20, the following events shall be deemed to be Events of Default under this Lease:

18.1.1 Tenant shall fail to pay when due any sum of money becoming due to be paid to Landlord under this Lease, whether such sum be any installment of the rent reserved by this Lease, any other amount treated as additional rent under this Lease, or any other payment or reimbursement to Landlord required by this Lease, whether or not treated as additional rent under this Lease, and such failure shall continue for a period of: (i) five (5) days after written notice that such payment was not made when due plus (ii) the requisite time period after any statutory notice required under California Code of Civil Procedure Section 1161 or any similar or successor statute. Notwithstanding the foregoing, if any such notice shall be given, for the twelve (12) month period commencing with the date of such notice, the failure to pay within five (5) days after due any additional sum of money becoming due to be paid to Landlord under this Lease during such period shall be an

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Event of Default, without notice other than any statutory notice required under California Code of Civil Procedure Section 1161 or any similar or successor statute.

18.1.2 Tenant shall fail to comply with any term, provision or covenant of this Lease which is not provided for in another Section of this Article and shall not cure such failure within twenty (20) days (forthwith, if the failure involves a hazardous condition) after written notice of such failure to Tenant provided, however, that such failure shall not be an event of default if such failure could not reasonably be cured during such twenty (20) day period, Tenant has commenced the cure within such twenty (20) day period and thereafter is diligently pursuing such cure to completion, but the total aggregate cure period shall not exceed ninety (90) days.

18.1.3 Tenant shall fail to vacate the Premises immediately upon termination of this Lease, by lapse of time or otherwise, or upon termination of Tenant's right to possession only.

18.1.4 Tenant shall become insolvent, admit in writing its inability to pay its debts generally as they become due, file a petition in bankruptcy or a petition to take advantage of any insolvency statute, make an assignment for the benefit of creditors, make a transfer in fraud of creditors, apply for or consent to the appointment of a receiver of itself or of the whole or any substantial part of its property, or file a petition or answer seeking reorganization or arrangement under the federal bankruptcy laws, as now in effect or hereafter amended, or any other applicable law or statute of the United States or any state thereof.

18.1.5 A court of competent jurisdiction shall enter an order, judgment or decree adjudicating Tenant bankrupt, or appointing a receiver of Tenant, or of the whole or any substantial part of its property, without the consent of Tenant, or approving a petition filed against Tenant seeking reorganization or arrangement of Tenant under the bankruptcy laws of the United States, as now in effect or hereafter amended, or any state thereof, and such order, judgment or decree shall not be vacated or set aside or stayed within sixty (60) days from the date of entry thereof.

## 19. REMEDIES.

19.1 Upon the occurrence of any Event or Events of Default under this Lease, whether enumerated in Article 18 or not, Landlord shall have the option to pursue any one or more of the following remedies without any notice (except as expressly prescribed herein) or demand whatsoever (and without limiting the generality of the foregoing, Tenant hereby specifically waives notice and demand for payment of rent or other obligations and waives any and all other notices or demand requirements imposed by applicable law):

19.1.1 Terminate this Lease and Tenant's right to possession of the Premises and recover from Tenant an award of damages equal to the sum of the following:

19.1.1.1 The Worth at the Time of Award of the unpaid rent which had been earned at the time of termination;

19.1.1.2 The Worth at the Time of Award of the amount by which the unpaid rent which would have been earned after termination until the time of award exceeds the amount of such rent loss that Tenant affirmatively proves could have been reasonably avoided;

19.1.1.3 The Worth at the Time of Award of the amount by which the unpaid rent for the balance of the Term after the time of award exceeds the amount of such rent loss that Tenant affirmatively proves could be reasonably avoided;

19.1.1.4 Any other amount necessary to compensate Landlord for all the detriment either proximately caused by Tenant's failure to perform Tenant's obligations under this Lease; and

19.1.1.5 All such other amounts in addition to or in lieu of the foregoing as may be permitted from time to time under applicable law.

The "**Worth at the Time of Award**" of the amounts referred to in parts 19.1.1.1 and 19.1.1.2 above, shall be computed by allowing interest at the lesser of a per annum rate equal to: (i) the greatest per annum rate of interest permitted from time to time under applicable law, or (ii) the Prime Rate plus 5%. For purposes hereof, the "**Prime Rate**" shall be the per annum interest rate publicly announced as its prime or base rate by a federally insured bank selected by Landlord in the State of

California. The "Worth at the Time of Award" of the amount referred to in part 19.1.1.3, above, shall be computed by discounting such amount at the discount rate of the Federal Reserve Bank of San Francisco at the time of award plus 1%;

19.1.2 Employ the remedy described in California Civil Code § 1951.4 (Landlord may continue this Lease in effect after Tenant's breach and abandonment and recover rent as it becomes due, if Tenant has the right to sublet or assign, subject only to reasonable limitations); or

19.1.3 Notwithstanding Landlord's exercise of the remedy described in California Civil Code § 1951.4 in respect of an Event or Events of Default, at such time thereafter as Landlord may elect in writing, to terminate this Lease and Tenant's right to possession of the Premises and recover an award of damages as provided above in Section 19.1.1.

19.2 The subsequent acceptance of rent hereunder by Landlord shall not be deemed to be a waiver of any preceding breach by Tenant of any term, covenant or condition of this Lease, other than the failure of Tenant to pay the particular rent so accepted, regardless of Landlord's knowledge of such preceding breach at the time of acceptance of such rent. No waiver by Landlord of any breach hereof shall be effective unless such waiver is in writing and signed by Landlord.

19.3 In lieu of Tenant waiving its rights conferred by Section 3275 of the California Civil Code and Sections 1174(c) and 1179 of the California Code of Civil Procedure, Tenant agrees that upon the occurrence of any Event or Events of Default under Section 18.1.1 above, Tenant shall reinstate or increase the Letter of Credit required under Section 7 of the Addendum to Lease to the full amount of \$330,000 (or such other amounts specified pursuant to Sections 14 or 15 of the Addendum to Lease, if applicable), or in the alternative Tenant may elect to provide Landlord with an additional cash security deposit in an amount equal to the increased or reinstated amount of such Letter of Credit, and such reinstated or increased Letter of Credit or additional cash security deposit shall remain in effect and/or be retained by Landlord for the remainder of the Lease term with no reduction.

19.4 No right or remedy herein conferred upon or reserved to Landlord is intended to be exclusive of any other right or remedy, and each and every right and remedy shall be cumulative and in addition to any other right or remedy given hereunder or now or hereafter existing by agreement, applicable law or in equity. In addition to other remedies provided in this Lease, Landlord shall be entitled, to the extent permitted by applicable law, to injunctive relief, or to a decree compelling performance of any of the covenants, agreements, conditions or provisions of this Lease, or to any other remedy allowed to Landlord at law or in equity. Forbearance by Landlord to enforce one or more of the remedies herein provided upon an Event of Default shall not be deemed or construed to constitute a waiver of such Default.

19.5 This Article 19 shall be enforceable to the maximum extent such enforcement is not prohibited by applicable law, and the unenforceability of any portion thereof shall not thereby render unenforceable any other portion.

19.6 If more than one (1) Event of Default occurs during the Term or any renewal thereof, Tenant's renewal options, expansion options, purchase options and rights of first offer and/or refusal, if any are provided for in this Lease, shall be null and void.

## **20. TENANT'S BANKRUPTCY OR INSOLVENCY.**

20.1 If at any time and for so long as Tenant shall be subjected to the provisions of the United States Bankruptcy Code or other law of the United States or any state thereof for the protection of debtors as in effect at such time (each a "**Debtor's Law**"):

20.1.1 Tenant, Tenant as debtor-in-possession, and any trustee or receiver of Tenant's assets (each a "**Tenant's Representative**") shall have no greater right to assume or assign this Lease or any interest in this Lease, or to sublease any of the Premises than accorded to Tenant in Article 9, except to the extent Landlord shall be required to permit such assumption, assignment or sublease by the provisions of such Debtor's Law. Without limitation of the generality of the foregoing, any right of any Tenant's Representative to assume or assign this Lease or to sublease any of the Premises shall be subject to the conditions that:

20.1.1.1 Such Debtor's Law shall provide to Tenant's Representative a right of assumption of this Lease which Tenant's Representative shall have timely exercised and Tenant's Representative shall have fully cured any default of Tenant under this Lease.

20.1.1.2 Tenant's Representative or the proposed assignee, as the case shall be, shall have deposited with Landlord as security for the timely payment of rent an amount equal to the larger of: (a) three (3) months' rent

and other monetary charges accruing under this Lease; and (b) any sum specified in Article 5; and shall have provided Landlord with adequate other assurance of the future performance of the obligations of the Tenant under this Lease. Without limitation, such assurances shall include, at least, in the case of assumption of this Lease, demonstration to the satisfaction of the Landlord that Tenant's Representative has and will continue to have sufficient unencumbered assets after the payment of all secured obligations and administrative expenses to assure Landlord that Tenant's Representative will have sufficient funds to fulfill the obligations of Tenant under this Lease; and, in the case of assignment, submission of current financial statements of the proposed assignee, audited by an independent certified public accountant reasonably acceptable to Landlord and showing a net worth and working capital in amounts determined by Landlord to be sufficient to assure the future performance by such assignee of all of the Tenant's obligations under this Lease.

20.1.1.3 The assumption or any contemplated assignment of this Lease or subleasing any part of the Premises, as shall be the case, will not breach any provision in any other lease, mortgage, financing agreement or other agreement by which Landlord is bound.

20.1.1.4 Landlord shall have, or would have had absent the Debtor's Law, no right under Article 9 to refuse consent to the proposed assignment or sublease by reason of the identity or nature of the proposed assignee or sublessee or the proposed use of the Premises concerned.

**21. QUIET ENJOYMENT.** Landlord represents and warrants that it has full right and authority to enter into this Lease and that Tenant, while paying the rental and performing its other covenants and agreements contained in this Lease, shall peaceably and quietly have, hold and enjoy the Premises for the Term without hindrance or molestation from Landlord subject to the terms and provisions of this Lease. Landlord shall not be liable for any interference or disturbance by other tenants or third persons, nor shall Tenant be released from any of the obligations of this Lease because of such interference or disturbance.

## **22. CASUALTY.**

22.1 In the event the Premises or the Building are damaged by fire or other cause and in the reasonable estimation of Landlord and Tenant such damage can be materially restored within one hundred eighty (180) days, Landlord shall forthwith repair the same and this Lease shall remain in full force and effect, except that Tenant shall be entitled to a proportionate abatement in rent from the date of such damage. Such abatement of rent shall be made pro rata in accordance with the extent to which the damage and the making of such repairs shall interfere with the use and occupancy by Tenant of the Premises from time to time. Within forty-five (45) days from the date of such damage, Landlord and Tenant, in writing, shall jointly estimate the length of time within which material restoration can be made, and such determination shall be binding upon the parties. For purposes of this Lease, the Building or Premises shall be deemed "**materially restored**" if they are in such condition as would not prevent or materially interfere with Tenant's use of the Premises for the purpose for which it was being used immediately before such damage.

22.2 If such repairs cannot, in Landlord's and Tenant's joint estimation, be made within one hundred eighty (180) days, Landlord and Tenant shall each have the option of giving the other, at any time within ninety (90) days after such damage, notice terminating this Lease as of the date of such damage. In the event of the giving of such notice, this Lease shall expire and all interest of the Tenant in the Premises shall terminate as of the date of such damage as if such date had been originally fixed in this Lease for the expiration of the Term. In the event that neither Landlord nor Tenant exercises its option to terminate this Lease, then Landlord shall repair or restore such damage, this Lease continuing in full force and effect, and the rent hereunder shall be proportionately abated as provided in Section 22.1.

22.3 Landlord shall not be required to repair or replace any damage or loss by or from fire or other cause to any panelings, decorations, partitions, additions, railings, ceilings, floor coverings, office fixtures or any other property or improvements installed on the Premises by, or belonging to, Tenant. Any insurance which may be carried by Landlord or Tenant against loss or damage to the Building or Premises shall be for the sole benefit of the party carrying such insurance and under its sole control.

22.4 In the event that Landlord should fail to complete such repairs and material restoration within sixty (60) days after the date estimated by Landlord and Tenant therefor as extended by this Section 22.3, Tenant may at its option and as its sole remedy terminate this Lease by delivering written notice to Landlord, within fifteen (15) days after the expiration of said period of time, whereupon the Lease shall end on the date of such notice or such later date fixed in such notice as if the date of such notice was the date originally fixed in this Lease for the expiration of the Term; provided, however, that if construction is delayed because of changes, deletions or additions in construction requested by Tenant, strikes, lockouts, casualties, Acts of God, war, material or labor shortages, government regulation or control or other causes beyond the

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reasonable control of Landlord, the period for restoration, repair or rebuilding shall be extended for the amount of time Landlord is so delayed.

22.5 Notwithstanding anything to the contrary contained in this Article: (a) Landlord shall not have any obligation whatsoever to repair, reconstruct, or restore the Premises when the damages resulting from any casualty covered by the provisions of this Article 22 occur during the last twelve (12) months of the Term or any extension thereof, but if Landlord determines not to repair such damages Landlord shall notify Tenant and if such damages shall render any material portion of the Premises untenantable Tenant shall have the right to terminate this Lease by notice to Landlord within fifteen (15) days after receipt of Landlord's notice; and (b) in the event the holder of any indebtedness secured by a mortgage or deed of trust covering the Premises or Building requires that any insurance proceeds be applied to such indebtedness, then Landlord shall have the right to terminate this Lease by delivering written notice of termination to Tenant within fifteen (15) days after such requirement is made by any such holder, whereupon this Lease shall end on the date of such damage as if the date of such damage were the date originally fixed in this Lease for the expiration of the Term.

22.6 In the event of any damage or destruction to the Building or Premises by any peril covered by the provisions of this Article 22, it shall be Tenant's responsibility to properly secure the Premises and upon notice from Landlord to remove forthwith, at its sole cost and expense, such portion of all of the property belonging to Tenant or its licensees from such portion or all of the Building or Premises as Landlord shall request.

22.7 Tenant hereby waives any and all rights under and benefits of Sections 1932(2) and 1933(4) of the California Civil Code, or any similar or successor Regulations or other laws now or hereinafter in effect.

**23. EMINENT DOMAIN.** If all or any substantial part of the Premises shall be taken or appropriated by any public or quasi-public authority under the power of eminent domain, or conveyance in lieu of such appropriation, either party to this Lease shall have the right, at its option, of giving the other, at any time within thirty (30) days after such taking, notice terminating this Lease, except that Tenant may only terminate this Lease by reason of taking or appropriation, if such taking or appropriation shall be so substantial as to materially interfere with Tenant's use and occupancy of the Premises. If neither party to this Lease shall so elect to terminate this Lease, the rental thereafter to be paid shall be adjusted on a fair and equitable basis under the circumstances. Landlord shall be entitled to any award which may be paid or made to it in connection with any such eminent domain or appropriation by any public or quasi-public authority. Tenant shall be entitled to any award which may be paid or made to it in connection with any such eminent domain or appropriation by any public or quasi-public authority. Neither Tenant nor Landlord shall make any claim against the other arising out of any such award to either party.

**24. SALE BY LANDLORD.** In event of a sale or conveyance by Landlord of the Building, the same shall operate to release Landlord from any future liability upon any of the covenants or conditions, expressed or implied, contained in this Lease in favor of Tenant, and in such event Tenant agrees to look solely to the responsibility of the successor in interest of Landlord in and to this Lease. Except as set forth in this Article 24, this Lease shall not be affected by any such sale and Tenant agrees to attorn to the purchaser or assignee. If any security has been given by Tenant to secure the faithful performance of any of the covenants of this Lease, Landlord may transfer or deliver said security, as such, to Landlord's successor in interest and thereupon Landlord shall be discharged from any further liability with regard to said security.

**25. ESTOPPEL CERTIFICATES.** Within ten (10) days following any written request which Landlord may make from time to time, Tenant shall execute and deliver to Landlord or mortgagee or prospective mortgagee a sworn statement certifying: (a) the date of commencement of this Lease; (b) the fact that this Lease is unmodified and in full force and effect (or, if there have been modifications to this Lease, that this lease is in full force and effect, as modified, and stating the date and nature of such modifications); (c) the date to which the rent and other sums payable under this Lease have been paid; (d) the fact that there are no current defaults under this Lease by either Landlord or Tenant except as specified in Tenant's statement; and (e) such other matters as may be requested by Landlord. Landlord and Tenant intend that any statement delivered pursuant to this Article 25 may be relied upon by any mortgagee, beneficiary or purchaser, and Tenant shall be liable for all loss, cost or expense resulting from the failure of any sale or funding of any loan caused by any material misstatement contained in such estoppel certificate. Tenant irrevocably agrees that if Tenant fails to execute and deliver such certificate within such ten (10) day period Landlord or Landlord's beneficiary or agent may execute and deliver such certificate on Tenant's behalf, and that such certificate shall be fully binding on Tenant.

## **26. SURRENDER OF PREMISES.**

26.1 Tenant shall arrange to meet Landlord for two (2) joint inspections of the Premises, the first to occur at least thirty (30) days (but no more than sixty (60) days) before the last day of the Term, and the second to occur not later than



forty-eight (48) hours after Tenant has vacated the Premises. In the event of Tenant's failure to arrange such joint inspections and/or participate in either such inspection. Landlord's inspection at or after Tenant's vacating the Premises shall be conclusively deemed correct for purposes of determining Tenant's responsibility for repairs and restoration.

26.2 All alterations, additions, and improvements in, on, or to the Premises made or installed by or for Tenant, including carpeting (collectively, "**Alterations**"), shall be and remain the property of Tenant during the Term. Upon the expiration or sooner termination of the Term, all Alterations shall become a part of the realty and shall belong to Landlord without compensation, and title shall pass to Landlord under this Lease as by a bill of sale. At the end of the Term or any renewal of the Term or other sooner termination of this Lease, Tenant will peaceably deliver up to Landlord possession of the Premises, together with all Alterations by whomsoever made, in the same conditions received or first installed, broom clean and free of all debris, excepting only ordinary wear and tear and damage by fire or other casualty. Notwithstanding the foregoing, if Landlord elects by notice given to Tenant at least ten (10) days prior to expiration of the Term, Tenant shall, at Tenant's sole cost, remove any Alterations, including carpeting, so designated by Landlord's notice, and repair any damage caused by such removal. Tenant must, at Tenant's sole cost, remove upon termination of this Lease, any and all of Tenant's furniture, furnishings, movable partitions of less than full height from floor to ceiling and other trade fixtures and personal property (collectively, "**Personalty**"). Personalty not so removed shall be deemed abandoned by the Tenant and title to the same shall thereupon pass to Landlord under this Lease as by a bill of sale, but Tenant shall remain responsible for the cost of removal and disposal of such Personalty, as well as any damage caused by such removal. In lieu of requiring Tenant to remove Alterations and Personalty and repair the Premises as aforesaid, Landlord may, by written notice to Tenant delivered at least thirty (30) days before the Termination Date, require Tenant to pay to Landlord, as additional rent hereunder, the cost of such removal and repair in an amount reasonably estimated by Landlord.

26.3 All obligations of Tenant under this Lease not fully performed as of the expiration or earlier termination of the Term shall survive the expiration or earlier termination of the Term. Upon the expiration or earlier termination of the Term, Tenant shall pay to Landlord the amount, as estimated by Landlord, necessary to repair and restore the Premises as provided in this Lease and/or to discharge Tenant's obligation for unpaid amounts due or to become due to Landlord. All such amounts shall be used and held by Landlord for payment of such obligations of Tenant, with Tenant being liable for any additional costs upon demand by Landlord, or with any excess to be returned to Tenant after all such obligations have been determined and satisfied. Any otherwise unused Security Deposit shall be credited against the amount payable by Tenant under this Lease.

**27. NOTICES.** Any notice or document required or permitted to be delivered under this Lease shall be addressed to the intended recipient, by fully prepaid registered or certified United States Mail return receipt requested, or by reputable independent contract delivery service furnishing a written record of attempted or actual delivery, and shall be deemed to be delivered when tendered for delivery to the addressee at its address set forth on the Reference Pages, or at such other address as it has then last specified by written notice delivered in accordance with this Article 27, or if to Tenant at either its aforesaid address or its last known registered office or home of a general partner or individual owner, whether or not actually accepted or received by the addressee. Any such notice or document may also be personally delivered if a receipt is signed by and received from, the individual, if any, named in Tenant's Notice Address.

**28. TAXES PAYABLE BY TENANT.** In addition to rent and other charges to be paid by Tenant under this Lease, Tenant shall reimburse to Landlord, upon demand, any and all taxes payable by Landlord (other than taxes calculated on the revenues or income of Landlord) whether or not now customary or within the contemplation of the parties to this Lease; (a) upon, allocable to, or measured by or on the gross or net rent payable under this Lease, including without limitation any excise tax levied by the State, any political subdivision thereof, or the Federal Government with respect to the receipt of such rent; (b) upon or with respect to the possession, leasing, operation, management, maintenance, alteration, repair, use or occupancy of the Premises or any portion thereof, including any sales, use or service tax imposed as a result thereof; (c) upon or measured by the Tenant's gross receipts or payroll or the value of Tenant's equipment, furniture, fixtures and other personal property of Tenant or leasehold improvements, alterations or additions located in the Premises; or (d) upon this transaction or any document to which Tenant is a party creating or transferring any interest of Tenant in this Lease or the Premises. In addition to the foregoing, Tenant agrees to pay, before delinquency, any and all taxes levied or assessed against Tenant and which become payable during the term hereof upon Tenant's equipment, furniture, fixtures and other personal property of Tenant located in the Premises.

**29. RELOCATION OF TENANT.** Intentionally Omitted.

**30. DEFINED TERMS AND HEADINGS.** The Article headings shown in this Lease are for convenience of reference and shall in no way define, increase, limit or describe the scope or intent of any provision of this Lease. Any indemnification or insurance of Landlord shall apply to and inure to the benefit of all the following "**Landlord Entities**", being Landlord,

Landlord's investment manager, and the trustees, boards of directors, officers, general partners, beneficiaries, stockholders, employees and agents of each of them. Any option granted to Landlord shall also include or be exercisable by Landlord's trustee, beneficiary, agents and employees, as the case may be. In any case where this Lease is signed by more than one person, the obligations under this Lease shall be joint and several. The terms "**Tenant**" and "**Landlord**" or any pronoun used in place thereof shall indicate and include the masculine or feminine, the singular or plural number, individuals, firms or corporations, and their and each of their respective successors, executors, administrators and permitted assigns, according to the context hereof. The term "**rentable area**" shall mean the rentable area of the Premises or the Building as calculated by the Landlord on the basis of the plans and specifications of the Building including a proportionate share of any common areas. Tenant hereby accepts and agrees to be bound by the figures for the rentable square footage of the Premises and Tenant's Proportionate Share shown on the Reference Pages; however, Landlord may adjust either or both figures if there is manifest error, addition or subtraction to the Building or any business park or complex of which the Building is a part, remeasurement or other circumstance reasonably justifying adjustment. The term "**Building**" refers to the structure in which the Premises are located and the common areas (parking lots, sidewalks, landscaping, etc.) appurtenant thereto. If the Building is part of a larger complex of structures, the term "Building" may include the entire complex, where appropriate (such as shared Expenses or Taxes) and subject to Landlord's reasonable discretion.

**31. TENANT'S AUTHORITY.** If Tenant assigns as a corporation, partnership, trust or other legal entity each of the persons executing this Lease on behalf of Tenant represents and warrants that Tenant has been and is qualified to do business in the state in which the Building is located, that the entity has full right and authority to enter into this Lease, and that all persons signing on behalf of the entity were authorized to do so by appropriate actions. Tenant agrees to deliver to Landlord, simultaneously with the delivery of this Lease, a corporate resolution, proof of due authorization by partners, opinion of counsel or other appropriate documentation reasonably acceptable to Landlord evidencing the due authorization of Tenant to enter into this Lease.

**32. FINANCIAL STATEMENTS AND CREDIT REPORTS.** At Landlord's request, Tenant shall deliver to Landlord a copy, certified by an officer of Tenant as being a true and correct copy, of Tenant's most recent audited financial statement, or, if unaudited, certified by Tenant's chief financial officer as being true, complete and correct in all material respects. Tenant hereby authorizes Landlord to obtain one or more credit reports on Tenant at any time, and shall execute such further authorizations as Landlord may reasonably require in order to obtain a credit report.

**33. COMMISSIONS.** Each of the parties represents and warrants to the other that it has not dealt with any broker or finder in connection with this Lease, except as described on the Reference Pages.

**34. TIME AND APPLICABLE LAW.** Time is of the essence of this Lease and all of its provisions. This Lease shall in all respects be governed by the laws of the state in which the Building is located, without reference to the choice of laws and conflicts of law rules and principles of such State.

**35. SUCCESSORS AND ASSIGNS.** Subject to the provisions of Article 9, the terms, covenants and conditions contained in this Lease shall be binding upon and inure to the benefit of the heirs, successors, executors, administrators and assigns of the parties to this Lease.

**36. ENTIRE AGREEMENT.** This Lease, together with its exhibits, contains all agreements of the parties to this Lease and supersedes any previous negotiations. There have been no representations made by the Landlord or any of its representatives or understandings made between the parties other than those set forth in this Lease and its exhibits. This Lease may not be modified except by a written instrument duly executed by the parties to this Lease.

**37. EXAMINATION NOT OPTION.** Submission of this Lease shall not be deemed to be a reservation of the Premises. Landlord shall not be bound by this Lease until it has received a copy of this Lease duly executed by Tenant and has delivered to Tenant a copy of this Lease duly executed by Landlord, and until such delivery Landlord reserves the right to exhibit and lease the Premises to other prospective tenants. Notwithstanding anything contained in this Lease to the contrary, Landlord may withhold delivery of possession of the Premises from Tenant until such time as Tenant has paid to Landlord any security deposit required by Article 5, the first month's rent as set forth in Article 3 and any sum owed pursuant to this Lease.

**38. RECORDATION.** Tenant shall not record or register this Lease or a short form memorandum hereof without the prior written consent of Landlord, and then shall pay all charges and taxes incident such recording or registration.

**39. LIMITATION OF LANDLORD'S LIABILITY.** Redress for any claim against Landlord under this Lease shall be limited to and enforceable only against and to the extent of Landlord's interest in the Premises at the time of this Lease,

which is mutually agreed to be Seven Million Five Hundred Thousand Dollars (\$7,500,000). The obligations of Landlord under this Lease are not intended to be and shall not be personally binding on, nor shall any resort be had to the private properties of, any of its or its investment manager's trustees, directors, officers, partners, beneficiaries, members, stockholders, employees, or agents, and in no case (except for Landlord's gross negligence or willful misconduct) shall Landlord be liable to Tenant hereunder for any lost profits, damage to business, or any form of special, indirect or consequential damages.

**LANDLORD**

CALWEST INDUSTRIAL PROPERTIES, LLC,  
a California limited liability company

By: RREEF Management Company, a Delaware  
corporation, its Property Manager

By: /s/ Jill E. Shanahan

\_\_\_\_\_  
Jill E. Shanahan

Title: Vice President

Date: Oct 30, 2003

**TENANT**

NATURAL ALTERNATIVES INTERNATIONAL, INC.,  
a Delaware corporation

By: /s/ Mark A. LeDoux

\_\_\_\_\_  
Mark A. LeDoux

Title: Chairman and Chief Executive Officer

Date: \_\_\_\_\_

By: /s/ Randy L. Weaver

\_\_\_\_\_  
Randell Weaver

Title: President

Date: 10.27.03

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**ADDENDUM TO LEASE**

**attached to and made a part of Lease bearing the  
Lease Reference Date of June 12, 2003, between  
CALWEST INDUSTRIAL PROPERTIES, a California limited liability company, as Landlord and  
NATURAL ALTERNATIVES INTERNATIONAL, INC., a Delaware corporation, as Tenant**

In the event of any conflict between the terms of this Addendum to Lease and the Lease, the terms of this Addendum to Lease shall control.

**1. SCHEDULE OF RENTS.**

No Annual Rent shall be payable for the following period (the "**Abatement Period**"): May 1, 2004 to June 30, 2004. The Annual Rent otherwise due and payable for the Abatement Period shall become due and payable upon the occurrence of an Event of Default by Tenant. All additional rent shall be payable from the Commencement Date of the Lease including, but not limited to, Insurance, Expenses, Taxes, etc. as defined as in the Lease.

**2. TENANT'S PROPORTIONATE SHARE.**

Tenant's Proportionate Share is defined as the percentage obtained by dividing the Premises Rentable Area by the total number of rentable square feet in the applicable portion of the Building. In the event that the number of rentable square feet in either the Premises or the Building is modified, at Landlord's option, Tenant's Proportionate Share shall be adjusted.

Landlord will provide a breakdown of actual operating expenses for 2002 and projected 2003 operating expenses. There shall be a maximum charge of three percent (3%) of the Rent as a Landlord charged property management fee.

**3. MAINTENANCE OF AIR CONDITIONING AND HEATING UNITS.**

Landlord may, at its option, contract for and provide a service and maintenance program for all heating and air conditioning units supplied with the Premises. The cost of this service, if implemented, shall be paid by the Landlord and reimbursed by Tenant as part of Expenses; provided, however, Tenant shall pay 100% of the cost of this service to any heating and air conditioning units exclusively servicing all or a portion of the Premises.

**4. ROOF MAINTENANCE.**

Notwithstanding anything in the Lease to the contrary, Landlord shall maintain and repair the roof. The cost of such maintenance and repair shall be paid by Landlord and reimbursed by Tenant as part of Expenses.

**5. PARKING.**

During the term of the Lease and any agreed upon extension thereof, Tenant, its authorized representatives and its invitees shall have the non-exclusive right to use the parking facilities located at the Building, jointly and in common with all others entitled to the use thereof. Tenant agrees not to overburden the parking facilities located at the Building and agrees to cooperate with Landlord and other tenants at the Building in the use of said parking facilities. Landlord reserves the right, in the exercise of its sole and absolute discretion, to determine whether Landlord's parking facilities at the Building are becoming overcrowded and, in such event, to allocate parking spaces among the various tenants in the Building or to designate a specific area or areas within which Tenant, its authorized representatives and its invitees must park. Tenant shall be entitled to use One Hundred and Thirty Two (132) unreserved "In Common" parking spaces at the Building. Tenant, with

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Initials

Landlord's reasonable approval, shall have the right to expand the parking area and increase the parking available to Tenant to meet city codes for Tenant's use. There shall be no charge for parking during the Initial Term.

Tenant expressly agrees and understands that the parking spaces are not reserved and that Landlord, in the exercise of its sole and absolute discretion, may designate the area or areas of the parking facilities located at the Building where said in common parking spaces are to be located. Landlord shall have the right at any time to make changes to the location of driveways, entrances, exits, parking spaces, parking areas, or the direction of the flow of traffic. All responsibility for damage and theft to vehicles is assumed by Tenant and Tenant's employees, visitors and customers. Tenant shall repair or cause to be repaired, at Tenant's sole cost and expense, any and all damage to the Premises, common areas and Building caused by the use of such parking areas by Tenant, or Tenant's employees, visitors or customers,

#### **6. SECURITY DEPOSIT.**

Landlord currently holds Thirty-Four Thousand Eight Hundred Three Dollars and No Cents (\$34,803.00) as security deposit for the Premises under a lease dated for reference purposes only July 17, 1998 and a lease dated for reference purposes only March 3, 1999. Upon execution of this Lease, Tenant shall transfer said security deposit to this Lease and deposit with Landlord an additional Forty-Five Thousand One Hundred Ninety Seven Dollars and No Cents (\$45,197.00) for a total Security Deposit held under this Lease of Eighty Thousand Dollars and No Cents (\$80,000.00), to be increased annually so as to equal 105% of the current Monthly Installment of Annual Rent.

#### **7. LETTER OF CREDIT.**

In addition to the Security Deposit, Tenant agrees to deliver to Landlord on or before January 5, 2004, as collateral for the full performance of its obligations under the Lease, an irrevocable letter of credit (the "**Letter of Credit**"), in a form and substance acceptable to Landlord, payable in the City of San Diego, California running in favor of Landlord issued by a solvent nationally recognized bank with a long term rating of BBB or higher (the "**Issuer**") in the amount of Three Hundred Thirty Thousand Dollars (\$330,000.00)(subject to Sections 14 and 15 of this Addendum). Subject to Section 19.3 of the Lease above, the amount of the Letter of Credit will automatically reduce by Thirty-Three and 1/3 Percent (33.3%) of the original Letter of Credit per year, unless Landlord has delivered to Tenant and the Issuer written notice that Tenant is in default of Lease. The Letter of Credit shall provide that to the extent an Event of Default by Tenant occurs under this Lease, (a) Landlord may draw down on the Letter of Credit in an amount sufficient to cure the Event of Default by Tenant and (b) require Tenant, within ten (10) business days following such draw by Landlord, to deposit with Landlord an additional Letter of Credit issued by a bank meeting the same criteria as Issuer in the amount of the appropriate draw down ("**Additional Letter of Credit**"). Such bank issuing an Additional Letter of Credit shall also be referred to herein as "Issuer". If Tenant timely submits the Additional Letter of Credit, the Event of Default shall be deemed cured. If Tenant does not timely submit the Additional Letter of Credit, the Event of Default shall be deemed incurable. The Letter of Credit shall remain in effect until thirty (30) days after the expiration of the Term of the Lease. If the Letter of Credit will expire prior to such time, Tenant shall deliver to Landlord at least thirty (30) days prior to the expiration of the Letter of Credit, either an amendment to the Letter of Credit extending its term or a replacement Letter of Credit in form and substance satisfactory to Landlord. Failure by Tenant to provide the amendment to the Letter of Credit or the replacement Letter of Credit to Landlord at least thirty (30) days before the Letter of Credit shall expire shall constitute an Event of Default under the Lease. Among other things, any Letter of Credit and/or Additional Letter of Credit shall provide: (i) all charges (including, without limitation, issuance, transfer, renewal and drawing charges) are to be paid for by the applicant (Tenant), (ii) partial drawings are allowed, (iii) the Letter of Credit is transferable by beneficiary and (iv) in the event that the Letter of Credit is lost, destroyed or stolen, beneficiary may still draw on the Letter of Credit by providing a reasonably satisfactory indemnification to the Issuer.

#### **8. EXPANSION/ RIGHT OF FIRST OFFER.**

During the Term, Tenant shall have the right of first offer on any space in the 1211 Park Center Drive building. Upon Landlord being notified that space will be coming available in the 1211 Park Center Drive building (the "**Available Space**"), Landlord agrees to notify Tenant first, giving Tenant the first right to negotiate on the Available Space for a period of fourteen (14) days. If within such fourteen (14) days. Tenant declines to lease the Available Space on terms satisfactory to Landlord in Landlord's sole and absolute discretion, or if negotiations are discontinued for the Available Space, then Landlord's obligation to Tenant concerning the Available Space will expire, and Landlord will be free to negotiate with other potential tenants without further notice to Tenant.

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## 9. OPTION TO RENEW.

Provided the Lease is in full force and effect and Tenant is not in material default under any of the terms and conditions of the Lease at the time of notification or commencement, Tenant shall have one (1) option to renew this Lease for a term of five (5) years, for the portion of the Premises being leased by Tenant as of the date the renewal term is to commence, on the same terms and conditions set forth in the Lease, except as modified by the terms, covenants and conditions as set forth below:

a. If the Tenant elects to exercise said option, then, Tenant shall provide Landlord with written notice no earlier than the date which is two hundred seventy (270) days prior to the expiration of the then-current term of this Lease but no later than the date which is one hundred eighty days (180) prior to the expiration of the then-current term of this Lease.

b. The Annual Rent and Monthly Installment of Annual Rent in effect at the expiration of the then current term of the Lease shall be modified to reflect the current fair market rental for comparable manufacturing/distribution buildings in the Vista industrial market with approximately 10% office build-out in the same rental market as of the date the renewal term is to commence with Landlord providing Tenant a renewal tenant improvement allowance of \$1.50/sf and prevailing market concessions, if any, taking into account the specific provisions of the Lease which will remain constant. Landlord shall advise Tenant of the new Annual Rent and Monthly Installment of Annual Rent for the Premises no later than thirty (30) days after receipt of Tenant's written request therefor. Said request shall be made no earlier than thirty (30) days prior to the first date in which Tenant may exercise its option under this Paragraph. Said notification of the new Annual Rent may include a provision for its escalation to provide for a change in fair market rental between the time of notification and the commencement of the renewal term. If Tenant and Landlord are unable to agree on a mutually acceptable rental rate not later than sixty (60) days prior to the expiration of the then current term, then Landlord and Tenant shall each appoint a qualified MAI appraiser doing business in the area. In turn those two MAI appraisers shall appoint a third MAI appraiser and the majority of such appraisers shall decide upon the fair market rental for the Premises as of the expiration of the then current term. Landlord and Tenant shall equally share in the expense of this appraisal.

c. This option is not transferable; the parties hereto acknowledge and agree that they intend that the aforesaid option to renew this Lease shall be "personal" to Tenant as set forth above and that in no event will any assignee or sublessee have any rights to exercise the aforesaid option to renew. Notwithstanding the foregoing, the option is transferable to an assignee, pursuant to Section 9 above.

## 10. HAZARDOUS MATERIALS.

a. In connection with Tenant's permitted use of the Premises, Tenant may use the following Hazardous Materials: acetone (not to exceed 20 liters), pyridine (not to exceed 4 liters), acetonitrile (not to exceed 30 liters), ethyl acetate (not to exceed 6 liters), butyl alcohol (not to exceed 6 liters), 2-propanol (not to exceed 40 gallons), tetrahydrofuran (not to exceed 16 liters), heptane (not to exceed 6 liters), ether (not to exceed 6 liters), triethylamine (not to exceed 6 liters), phenolphthalein (not to exceed 1 liter), dimethoxypropane (not to exceed 6 liters), ethyl alcohol (not to exceed 6 liters), isopropinol (not to exceed 40 gallons), methanol (not to exceed 30 liters), hexanes (not to exceed 30 liters), methylene chloride (not to exceed 6 liters), chloroform (not to exceed 8 liters), dimethyl sulfoxide (DMSO) (not to exceed 6 liters), hydrogen peroxide (not to exceed 1 liter), ammonium hydroxide (not to exceed 4 liters), perchloric acid (not to exceed 1 liter), formic acid (not to exceed 1/2 liter), acetic acid – glacial (not to exceed 6 liters), nitric acid (not to exceed 6 liters), sulfuric acid (not to exceed 6 liters), isopropyl alcohol (not to exceed 10 gallons) and bleach (not to exceed 6 gallons) (or any of such Hazardous Material's substantive equivalent), provided Tenant always handles, stores, uses and disposes of such Hazardous Materials in compliance with all applicable Laws and Environmental Laws and never allows such Hazardous Materials to contaminate the Premises, the Building and appurtenant land or allow the environment to become contaminated with any Hazardous Materials. The parties acknowledge that biological materials may in some cases constitute a Hazardous Material as defined in this Lease, and in such case, provisions of this Lease relating to Hazardous Materials apply to any and all such Hazardous Materials, including but not limited to biological materials, whether or not such provision makes specific mention to biological materials.

b. Any increase in the premiums for necessary insurance on the Property which arises from Tenant's use and/or storage of Hazardous Materials shall be solely at Tenant's expense. Tenant shall procure and maintain at its sole expense such additional insurance as may be necessary to comply with any requirement of any Federal, State or local governmental agency with jurisdiction.

c. Tenant shall notify Landlord in writing immediately upon becoming aware of: (i) any enforcement, cleanup, remediation or other action threatened, instituted or completed by any governmental or regulatory agency or private person with respect to the Premises relating to Hazardous Materials; (ii) any claim threatened or made by any person against Tenant or the Premises for personal injury, property damage, other losses, contribution, cost recovery, compensation or any other matter with respect to the Premises relating to Hazardous Materials; (iii) any reports made by or to any governmental or regulatory agency with respect to the Premises relating to Hazardous Materials, including without limitation any complaints, notices or asserted violations in connection therewith; and (iv) any other information with respect to the Premises relating to Hazardous Materials. Further, Tenant shall also supply to Landlord as promptly as possible, and in any event within five (5) days after Tenant first receives or sends the same, copies of all claims, reports, complaints, notices, warnings, asserted violations or other documents relating in any way to the foregoing.

d. Tenant shall provide Landlord with copies of any Material Safety Data Sheets (as required by the Occupational Safety and Health Act) relating to any Hazardous Materials to be used, kept, or stored at or on the Premises, at least 30 days prior to the first use, placement, or storage of such Hazardous Materials on the Premises. Landlord shall have 10 days following delivery of such Material Safety Data Sheets to approve or forbid, in its sole and absolute discretion subject to the limitation contained in Paragraph (a) above, such use, placement or storage of a Hazardous Materials in, on or about the Premises.

e. Tenant shall not store hazardous wastes on the Premises; "hazardous waste" has the meaning given it by the Resource Conservation and Recovery Act of 1976, as amended. Tenant shall not install any underground or above ground storage tanks on the Premises. Tenant shall not dispose of any Hazardous Material or solid waste on the Premises. In performing any alterations of the Premises permitted by the Lease, Tenant shall not install any Hazardous Materials in the Premises without the specific consent of Landlord.

f. If Landlord, in its sole discretion, believes that the Premises or the environment have become contaminated with Hazardous Materials that must be removed under the laws of the state where the Premises are located, in breach of the provisions of this Lease, Landlord, in addition to its other rights under this Lease, may enter upon the Premises and obtain samples from the Premises, including without limitation the soil and groundwater under the Premises, for the purposes of analyzing the same to determine whether and to what extent the Premises or the environment have become so contaminated. Tenant shall reimburse Landlord for the costs of any inspection, sampling and analysis that discloses contamination for which Tenant is liable under the terms of this Paragraph. Tenant may not perform any sampling, testing or drilling to locate any Hazardous Materials on the Premises without Landlord's prior written consent.

#### **11. SIGNAGE.**

Tenant shall not install any signage on or about the Premises without Landlord's prior written consent, which consent shall not be unreasonably withheld. Any such signage shall be in accordance with all applicable governmental laws, ordinances and regulations.

#### **12. OPTION TO EXPAND.**

a. **Exercise of Option.** Subject to the earlier termination of this Lease in accordance with the provisions of this Lease, Tenant shall have the option (the "**Expansion Option**") to expand the Premises to include the space at the building located at 1211 Park Center Drive, Suite B, Vista, comprising approximately 42,000 square feet ("**Expansion Space**") as shown on Exhibit E to this Lease attached hereto. Tenant shall notify Landlord of Tenant's intention to exercise the Expansion Option by notice delivered to Landlord no later than October 15, 2003. The Expansion Option is subject to the rights of existing tenants as reflected in existing written agreements with such existing tenants. The Expansion Space is currently occupied by a tenant whose lease is scheduled to expire on January 31, 2004. Landlord agrees to use commercially reasonable efforts to obtain legal possession of the Expansion Space. In the event that Tenant exercises the Expansion Option, Tenant's leasing of the Expansion Space shall be on the terms and conditions set forth in the Lease, except as otherwise provided in this Section 14 of the Addendum to Lease, and references in the Lease to the Premises shall be deemed to include the Expansion Space. In the event that Tenant does not exercise the Expansion Option, the Expansion Space shall be subject to the right of first offer set forth in Section 8 of this Addendum to Lease.

b. **Rent, etc.** In the event the Premises are expanded based upon the Expansion Option, the Lease shall continue to be governed by the terms and conditions hereof; provided, however, that the Annual Rent, Monthly Installment of Annual Rent, the Initial Estimated Monthly Installment of Rent Adjustments, the initial Security Deposit payable under the Lease and the Letter of Credit shall be increased from that set forth on the Reference Pages of the Lease to the amounts set forth below:

ANNUAL RENT and MONTHLY INSTALLMENT OF ANNUAL RENT (Article 3):

Period		Annual Rent	Monthly Installment of Annual Rent
from	through		
4/1/04	4/30/04	\$ 1,107,360.00	\$ 92,280.00
5/1/04	6/30/04	\$ 0.00	\$ 0.00
7/1/04	3/31/05	\$ 1,140,580.80	\$ 95,048.40
4/1/05	3/31/06	\$ 1,174,798.22	\$ 97,899.85
4/1/06	3/31/07	\$ 1,210,042.17	\$ 100,836.85
4/1/07	3/31/08	\$ 1,246,343.44	\$ 103,861.95
4/1/08	3/31/09	\$ 1,283,733.74	\$ 106,977.81
4/1/09	3/31/10	\$ 1,322,245.75	\$ 110,187.15
4/1/10	3/31/11	\$ 1,361,913.12	\$ 113,492.76
4/1/11	3/31/12	\$ 1,402,770.51	\$ 116,897.54
4/1/12	3/31/13	\$ 1,444,853.63	\$ 120,404.47
4/1/13	3/31/14	\$ 1,488,199.24	\$ 124,016.60

INITIAL ESTIMATED MONTHLY INSTALLMENT OF RENT ADJUSTMENTS (Article 4):

\$19,764.00

SECURITY DEPOSIT:

\$106,069.00 increased annually as necessary so as to equal at least 105% of the current Monthly Installment of Annual Rent.

LETTER OF CREDIT:

\$402,187.50

c. **Expenses.** In the event the Premises are expanded based upon the Expansion Option to include Expansion Space, Tenant's Proportionate Share shall be 45.4%.

d. **Tenant Improvement Allowance.** Provided that: (i) the Tenant's Work concerning the Expansion Space is completed in accordance with this Exhibit B on or before December 31, 2004, (ii) on the Commencement Date if there is no Event of Default at that time and (iii) the Lease is in full force and effect, Landlord shall reimburse Tenant for Tenant's actual construction costs up to a maximum of Two Hundred Ten Thousand Dollars (\$210,000.00) (the "**Expansion Space Tenant Improvement Allowance**"). The Expansion Space Tenant Improvement Allowance shall be paid by Landlord, and Tenant shall construct the tenant improvements for the Expansion Space, in accordance with Exhibit B to the Lease (Tenant Improvements to the Premises) and Article 6 of the Lease. The Expansion Space Tenant Improvement Allowance shall be paid directly to Tenant in three (3) equal progress payments equal to 30% of the applicable Expansion Space Tenant Improvement Allowance. The first progress payment shall be paid after it has been mutually agreed that one third of the Tenant's Work for the Expansion Space has been satisfactorily completed as reasonably determined by the parties; the second progress payment shall be paid after it has been mutually agreed that two thirds of the Tenant's Work for the expansion space has been satisfactorily completed as reasonably determined by the parties; and the third progress payment shall be paid after it has been mutually agreed that 100% of the Tenant's Work for the Expansion Space has been satisfactorily completed as reasonably determined by the parties. Landlord shall pay each progress payment within thirty (30) days after receipt from Tenant of a request for payment, together with copies of submitted invoices, certification from Tenant's architect concerning the appropriate percentage of work completed and all unconditional waiver and release upon progress payment for material and labor from Tenant's contractor, subcontractors and suppliers, subject to Landlord's reasonable verification concerning satisfaction of quality and the percentage of work completed as reasonably determined by the parties. The remaining 10% of the Expansion Space Tenant Improvement Allowance shall be paid within sixty (60) days following proper recordation of a



Notice of Completion for the Tenant's Work relating to such expansion space, upon commencement of Tenant's business within the expanded Premises, and subject to satisfaction of the following conditions:

- (i) Tenant must have completed the Tenant's Work for the Expansion Space in accordance with the Landlord approved final Plans and specifications.
- (ii) Tenant has submitted a complete set of "as built" plans and specifications for the Expansion Space to Landlord.
- (iii) Tenant has provided to Landlord copies of all insurance certificates required under this Lease.
- (iv) A final, unconditional certificate of occupancy for the Premises has been issued by the appropriate governmental agency, and a copy thereof provided to Landlord.
- (v) Tenant has provided Landlord with properly executed mechanics lien releases in compliance with California Civil Code Section 3262(d)(4) from Tenant's Contractor, subcontractors and suppliers performing work in the Expansion Space.
- (vi) Tenant has provided Landlord all construction warranties and guarantees in connection with the construction of the Tenant's Work in the Expansion Space to the extent obtained.
- (vii) Landlord has inspected and approved the Tenant's Work in the Expansion Space and is reasonably satisfied that the Tenant's Work in the Expansion Space has been performed in a good and workmanlike manner in accordance with the approved Plans; provided, however, no such inspection shall impose any liability upon Landlord, nor absolve Tenant or Tenant's Contractor from liability for any defect or failure to comply with the requirements hereof.

e. **Default.** Tenant shall have no right to exercise the Expansion Option: (i) during the period of time commencing on the day after a monetary obligation to Landlord is due from Tenant (without any necessity for notice thereof to Tenant) continuing until the obligation is paid or (ii) at any time after an Event of Default described in Section 18.1.4 or 18.1.5 of the Lease (without any necessity for notice thereof to Tenant).

f. **Time Period to Exercise Option.** The period of time within which the Expansion Option may be exercised shall not be extended or enlarged by reason of Tenant's inability to exercise the Expansion Option because of the provisions of Section 14(e) of this Addendum to the Lease above.

### **13. TENANT IMPROVEMENT ALLOWANCE REDUCTION OPTION.**

a. **Exercise of Option.** Tenant shall have the option (the "**TI Allowance Reduction Option**") to reduce its Tenant Improvement Allowance allotted pursuant to Section 5 of Exhibit B of the Lease from Nine Hundred Sixty Thousand Dollars (\$960,000.00) to Six Hundred Thousand Dollars (\$600,000.00) and thereby reduce its Rent and certain related obligations as set forth below. Tenant shall notify Landlord of Tenant's intention to exercise the TI Allowance Reduction Option by notice delivered to Landlord no later than November 30, 2003.

b. **Rent; etc.** In the event that Tenant exercises the TI Allowance Reduction Option, the Lease shall continue to be governed by the terms and conditions hereof; provided, however, that the Annual Rent, Monthly Installment of Annual Rent, the initial Security Deposit payable under the Lease and the Letter of Credit shall be changed from that set forth on the Reference Pages of the Lease (or Section 14 of this Addendum, if applicable) to one of the alternate amounts set forth below depending upon whether Tenant exercises the Expansion Option:

ANNUAL RENT and MONTHLY INSTALLMENT OF ANNUAL RENT (Article 3):

Period		Annual Rent without Expansion Option	Monthly Installment of Annual Rent without Expansion Option	Annual Rent with Expansion Option	Monthly Installment of Annual Rent with Expansion Option
from	through				
4/1/2004	4/30/2004	\$ 777,600.00	\$ 64,800.00	\$ 1,049,760.00	\$ 87,480.00
5/1/2004	6/30/2004	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00
7/1/2004	3/31/2005	\$ 800,928.00	\$ 66,744.00	\$ 1,081,252.80	\$ 90,104.40
4/1/2005	3/31/2006	\$ 824,955.84	\$ 68,746.32	\$ 1,113,690.36	\$ 92,807.53
4/1/2006	3/31/2007	\$ 849,704.52	\$ 70,808.71	\$ 1,147,101.12	\$ 95,591.76
4/1/2007	3/31/2008	\$ 875,195.64	\$ 72,932.97	\$ 1,181,514.12	\$ 98,459.51
4/1/2008	3/31/2009	\$ 901,451.52	\$ 75,120.96	\$ 1,216,959.60	\$ 101,413.30
4/1/2009	3/31/2010	\$ 928,495.08	\$ 77,374.59	\$ 1,253,468.40	\$ 104,455.70
4/1/2010	3/31/2011	\$ 956,349.96	\$ 79,695.83	\$ 1,291,072.44	\$ 107,589.37
4/1/2011	3/31/2012	\$ 985,040.40	\$ 82,086.70	\$ 1,329,804.60	\$ 110,817.05
4/1/2012	3/31/2013	\$ 1,014,591.60	\$ 84,549.30	\$ 1,369,698.72	\$ 114,141.56
4/1/2013	3/31/2014	\$ 1,045,029.36	\$ 87,085.78	\$ 1,410,789.72	\$ 117,565.81

SECURITY DEPOSIT WITH EXPANSION OPTION:	\$100,602.00 increased annually as necessary so as to equal at least 105% of the current Monthly Installment of Annual Rent.
SECURITY DEPOSIT WITHOUT EXPANSION OPTION:	\$74,520.00 increased annually as necessary so as to equal at least 105% of the current Monthly Installment of Annual Rent.
LETTER OF CREDIT WITH EXPANSION OPTION:	\$278,437.50
LETTER OF CREDIT WITHOUT EXPANSION OPTION:	\$206,250.00

c. **Default.** Tenant shall have no right to exercise the TI Allowance Reduction Option: (i) during the period of time commencing on the day after a monetary obligation to Landlord is due from Tenant (without any necessity for notice thereof to Tenant) continuing until the obligation is paid or (ii) at any time after an Event of Default described in Section 18.1.4 or 18.1.5 of the Lease (without any necessity for notice thereof to Tenant).

d. **Time Period to Exercise Option.** The period of time within which the TI Allowance Reduction Option may be exercised shall not be extended or enlarged by reason of Tenant's inability to exercise the TI Allowance Reduction Option because of the provisions of Section 15(c) of this Addendum to the Lease above.

**LANDLORD**

CALWEST INDUSTRIAL PROPERTIES, LLC,  
a California limited liability company

By: RREEF Management Company, a Delaware  
corporation, its Property Manager

By: /s/ Jill E. Shanahan

Name: Jill E. Shanahan

Title: Vice President

Date: Oct 30, 2003

**TENANT**

NATURAL ALTERNATIVES INTERNATIONAL, INC.,  
a Delaware corporation

By: /s/ Mark A. LeDoux

Mark A. LeDoux

Title: Chairman and Chief Executive Officer

Date: \_\_\_\_\_

By: /s/ Randy L. Weaver

Randell Weaver

Title: President

Date: 10.27.03

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**EXHIBIT A – FLOOR PLAN DEPICTING THE PREMISES**

**attached to and made a part of Lease bearing the  
Lease Reference Date of June 12, 2003, between  
CALWEST INDUSTRIAL PROPERTIES, a California limited liability company, as Landlord and  
NATURAL ALTERNATIVES INTERNATIONAL, INC., a Delaware corporation, as Tenant**

Exhibits A and A-1 are intended only to show the general layout of the Premises as of the beginning of the Term of this Lease. They do not in any way supersede any of Landlord's rights set forth in Article 17 with respect to arrangements and/or locations of public parts of the Building and changes in such arrangements and/or locations. It is not to be scaled; any measurements or distances shown should be taken as approximate.

[Floor Plan of Premises]

/s/ RLW      /s/ JES

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Initials

A-1

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**EXHIBIT A-1 – SITE PLAN**

**attached to and made a part of Lease bearing the  
Lease Reference Date of June 12, 2003, between  
CALWEST INDUSTRIAL PROPERTIES, a California limited liability company, as Landlord and  
NATURAL ALTERNATIVES INTERNATIONAL, INC., a Delaware corporation, as Tenant**

Exhibit A-1 is intended only to show the general layout of the Premises as of the beginning of the Term of this Lease. It does not in any way supersede any of Landlord's rights set forth in Article 17 with respect to arrangements and/or locations of public parts of the Building and changes in such arrangements and/or locations. It is not to be scaled; any measurements or distances shown should be taken as approximate.

**VISTA DISTRIBUTION CENTER**

[Floor Plan of Premises]

/s/ RLW      /s/ JES

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Initials

**EXHIBIT B – INITIAL ALTERATIONS**

**attached to and made a part of Lease bearing the  
Lease Reference Date of June 12, 2003, between  
CALWEST INDUSTRIAL PROPERTIES, a California limited liability company, as Landlord and  
NATURAL ALTERNATIVES INTERNATIONAL, INC., a Delaware corporation, as Tenant**

**TENANT IMPROVEMENTS TO THE PREMISES**

1. **Tenant's Plan Approval.** Tenant shall cause detailed plans and specifications (the "**Plans**") to be prepared and delivered to Landlord. The Plans shall reflect the work to be performed within the Premises by Tenant to suitably prepare the Premises for Tenant's use (the "**Tenant's Work**"). Landlord shall, within five (5) business days following its receipt of the Plans, either approve such Plans or provide Tenant with the reasons that Landlord is withholding such consent. Landlord may by written notice to Tenant, prior to the expiration of such five (5) business day period, extend Landlord's review period by an additional five (5) business days. If Landlord does not approve the Plans, Tenant shall cause the Plans to be revised, consistent with Landlord's comments, and then resubmit the Plans to Landlord for review. Landlord and Tenant shall thereafter work cooperatively and in good faith to reach agreement on mutually acceptable Plans. Tenant shall undertake no work until Landlord has finally approved the Plans. Performance of the Tenant's Work shall strictly conform to the approved Plans and any deviation will require Landlord's prior approval, which approval will not be unreasonably withheld, conditioned or delayed.

2. **Power Upgrade; Utilities.** Tenant shall be solely responsible for upgrading power in the Premises to its required specifications. Landlord shall have no liability to Tenant regarding power for the Premises.

3. **Construction of Tenant Improvements by Tenant's Contractor.** Following Landlord's approval of the Plans, Tenant shall cause Tenant's Work to be completed in strict accordance with all applicable laws and industry standard construction practices, and in a manner consistent with this Exhibit B. After the Plans for the Tenant's Work have been approved by Landlord, Tenant, and the local governing agencies, Tenant shall submit to Landlord the name, address, license number, evidence of insurance and any other information reasonably required by Landlord of Tenant's proposed contractor(s) (the "**Contractor**") for Landlord's review and approval, which approval will not be unreasonably withheld, conditioned or delayed. If Landlord deems, in Landlord's reasonable discretion, that Tenant's proposed Contractor is unacceptable, Tenant shall resubmit information on a replacement contractor until a mutually approved Contractor is selected. Violations of Landlord's rules, regulations and requirements as set forth in this Lease or as otherwise reasonably established by Landlord shall constitute a default of this Lease if not corrected by Tenant and/or Tenant's Contractor within the time period set forth in the Lease. Landlord shall have the right to post a notice of non-responsibility at a prominent location at the Premises, the cost of which shall be Tenant's expense.

It shall be the responsibility of Tenant to enforce the following requirements of Tenant's Contractor, and all subcontractors of Tenant's Contractor, at every level:

3.1 Any damage to the Premises or the Building caused by Tenant's Contractor shall be repaired at the sole cost and expense of Tenant.

3.2 Tenant's Contractor shall be responsible for the repair, replacement and clean up of any damage by Contractor to the Premises and the Building, including but not limited to access ways to the Premises, which may be concurrently used by others.

3.3 Tenant's Contractor shall accept the Premises prior to starting any trenching operations. Any rework of sub-base or compaction required after Tenant's Contractor's initial acceptance of the Premises shall be done by Tenant's Contractor, which shall include the removal from the Premises of any excess soil or debris. All work shall be done in strict accordance with all applicable laws and industry standard construction practices and, as required, in compliance with specifications of a soils engineer or consultant as approved by Landlord, which approval will not be unreasonably withheld, conditioned or delayed.

/s/ RLW      /s/ JES

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Initials

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3.4 Tenant's Contractor shall store Contractor's materials, tools and supplies within the Premises. Tenant's Contractor shall park construction vehicles in areas reasonably designated by Landlord.

3.5 All trash and surplus construction materials shall be stored within the Premises and shall be promptly removed from the Premises.

3.6 Tenant's Contractor shall provide temporary utilities, portable toilet facilities and potable drinking water as required for the completion of Tenant's Work.

3.7 Noise shall be kept to a minimum at all times.

3.8 Tenant and Tenant's Contractor are responsible for compliance with all applicable codes and regulations of duly constituted authorities having jurisdiction as far as the performance of the Tenant's Work is concerned and for all applicable safety regulations established by the Landlord, OSHA or other regulatory agencies. Prior to commencement of construction, Tenant shall submit to Landlord evidence of insurance as required by this Lease and evidence of insurance for Tenant's Contractor.

3.9 Tenant's Contractor shall not post signs on any part of the Premises, without Landlord's prior written approval, which may be withheld in Landlord's sole and absolute discretion.

3.10 Tenant shall be responsible for and shall obtain and record a Notice of Completion promptly following completion of Tenant's Work.

3.11 Intentionally Omitted.

3.12 Tenant shall provide to Landlord a copy of the fully executed construction contract, including all addenda and a line item breakdown by trade thereto, between Tenant and its Contractor for the Tenant's Work (the "**Construction Contract**").

3.13 The Construction Contract shall contain a representation and warranty by the Contractor that it is familiar with the project site, that it has inspected the location of Tenant's Work and has satisfied itself as to the condition thereof, including without limitation, all structural, surface and subsurface conditions.

3.14 All required permits and approvals, including but not limited to Planning, Building, Fire, and Health department permits, must be obtained and all necessary calculations, including, but not limited to, those required under Title 24, must be submitted to the local governing agencies for all work to be performed by Tenant or Tenant's Contractor in the Premises.

3.15 Any modifications to the Premises exterior shall be subject to Landlord's prior approval. No romex wiring shall be allowed. All equipment placed upon the roof as a result of the Tenant's Work, and all roof penetrations, shall be approved by Landlord prior to the commencement of work.

3.16 Landlord, at Landlord's reasonable discretion, may from time to time establish such other rules and regulations for protection of property and the general safety of occupants and invitees of the Premises. Such rules and regulations shall apply to Tenant and Tenant's Contractor as though established upon the execution of this Exhibit B.

4. **No Landlord Liability.** Unless caused by or resulting from the gross negligence or willful misconduct of Landlord, its agents, employees or contractors, Landlord and Landlord Entities shall not be liable for any loss, cost, damage or expense incurred or claimed by Tenant or any other person or party on account of the construction or installation of the Tenant's Work or any other person or party on account of the construction or installation of the Tenant's Work or any other

/s/ RLW      /s/ JES

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Initials

improvements to the Premises made by Tenant. Tenant hereby acknowledges and agrees that the compliance of the Tenant's Work, or other alterations, additions or improvements made to the Premises by Tenant and any plans therefore, with all applicable governmental laws, codes and regulations shall be solely Tenant's responsibility. Landlord and Landlord Entities assume no liability or responsibility resulting from the failure of the Tenant to comply with all applicable governmental laws, codes and regulations or for any defect in any of the Tenant's Work or other alterations, additions or improvements to the Premises made by Tenant. Tenant further agrees to indemnify, defend and hold harmless Landlord and Landlord Entities from any loss, cost, damage or expense incurred, claimed, asserted or arising in connection with any of Tenant's Work unless caused by or resulting from the gross negligence or willful misconduct of Landlord, its agents, employees or contractors.

5. **Tenant Improvement Allowance.** Provided that: (i) the Tenant's Work is completed in accordance with this Exhibit B on or before December 31, 2004, (ii) on the Commencement Date if there is no Event of Default at that time and (iii) the Lease is in full force and effect, Landlord shall reimburse Tenant for Tenant's actual construction costs up to a maximum of Nine Hundred Sixty Thousand Dollars (\$960,000.00) for Tenant's Work (the "**Tenant Improvement Allowance**"). Such Tenant Improvement Allowance shall be paid directly to Tenant in three (3) equal progress payments of Two Hundred Eighty-eight Thousand Dollars (\$288,000.00). The first progress payment shall be paid after it has been mutually agreed that one third of the Tenant's Work has been satisfactorily completed as reasonably determined by the parties; the second progress payment shall be paid after it has been mutually agreed that two thirds of the Tenant's Work has been satisfactorily completed as reasonably determined by the parties; and the third progress payment shall be paid after it has been mutually agreed that one hundred percent of the Tenant's Work has been satisfactorily completed as reasonably determined by the parties. Subject to the first sentence of this Section 5, and provided there is no Event of Default in effect at that time, Landlord shall pay each progress payment within thirty (30) days after receipt from Tenant of a request for payment, provided that the request is submitted together with a copy of the invoice from the contractor showing percentage of completion, a notarized Application and Certificate for Payment (AIA G702) and all conditional waivers and lien releases upon progress payment for material and labor from Tenant's contractor, subcontractors and supplies, subject to Landlord's reasonable verification concerning satisfaction of quality and the percentage of work completed as reasonably determined by the parties. The remaining Ninety-six Thousand Dollars (\$96,000.00) shall be paid within sixty (60) days following proper recordation of a Notice of Completion for the Tenant's Work, upon commencement of Tenant's business within the Premises, and subject to satisfaction of the following conditions:

5.1 Tenant must have completed the Tenant's Work in accordance with the Landlord approved final Plans and specifications.

5.2 Tenant has submitted a complete set of "as built" plans and specifications to Landlord.

5.3 Tenant has provided to Landlord copies of all insurance certificates required under this Lease.

5.4 A final, unconditional certificate of occupancy for the Premises has been issued by the appropriate governmental agency, and a copy thereof has been provided to Landlord.

5.5 Tenant has provided Landlord with properly executed mechanics lien releases in compliance with California Civil Code Section 3262(d)(4) from Tenant's Contractor, subcontractors and suppliers performing work in the Premises.

5.6 Tenant has provided Landlord all construction warranties and guarantees in connection with the construction of the Tenant's Work to the extent obtained.

5.7 Landlord has inspected and approved the Tenant's Work and is reasonably satisfied that the Tenant's Work has been performed in a good and workmanlike manner in accordance with the approved Plans; provided, however, no such inspection shall impose any liability upon Landlord, nor absolve Tenant or Tenant's Contractor from liability for any defect or failure to comply with the requirements hereof.

6. **Use of Landlord's Tenant Improvement Allowance.**

6.1 The Tenant Improvement Allowance that Landlord agrees to contribute toward the cost of Tenant's Work shall in no event be applied toward Tenant's furniture, fixtures, furnishings, personal property, signs or any monetary

/s/ RLW      /s/ JES

\_\_\_\_\_  
Initials



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obligations of Tenant under this Lease, Such funds shall be used only to pay the cost of the installation or construction of improvements that shall, subject to Article 6 of this Lease, become the property of Landlord and remain upon and be surrendered with the Premises, as a part thereof, at the end of the Term of this Lease, including space planning and design, construction fees, permits, engineering, accommodations under the Americans with Disabilities Act (“ADA”) and heating, air conditioning and ventilating systems.

6.2 All ADA accommodations, fees, permits or assessments associated with the construction of Tenant’s Work are Tenant’s responsibility to pay, but may be paid from the Tenant Improvement Allowance. Tenant shall not be responsible for Landlord’s own costs related to review, construction management or supervision fees, costs or expenses related to the Plans or Tenant’s Work.

**7. Future Improvements by Tenant to the Premises.** In the event that Tenant shall desire to perform future improvements to the Premises during the term of this Lease or any extension thereof. Tenant shall construct such improvements in accordance with the terms and conditions of the Lease and this Exhibit B, except that no Tenant Improvement Allowance shall be granted by Landlord to Tenant for said future improvements. All costs arising from said future improvements shall be the sole and exclusive responsibility of Tenant to pay, in a prompt and timely fashion as said costs become due. Regarding any future improvements to the Premises besides Tenant’s Work. Tenant shall be responsible for Landlord’s reasonable costs related to review of construction management and supervision fees, including the cost of reports from engineering, roof or other consultants.

**8. Removal of Specified Improvements.** Upon expiration of Tenant’s lease, or any extensions thereto, Tenant is required to remove those specific improvements within the premises used for the production of capsules and tablets and the related coating operations.

/s/ RLW      /s/ JES

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Initials

**EXHIBIT C – COMMENCEMENT DATE AND BASIC DEAL POINTS MEMORANDUM**

**attached to and made a part of Lease bearing the  
Lease Reference Date of June 12, 2003, between  
CALWEST INDUSTRIAL PROPERTIES, LLC, as Landlord, and  
NATURAL ALTERNATIVES INTERNATIONAL, INC., as Tenant**

**COMMENCEMENT DATE AND BASIC DEAL POINTS MEMORANDUM**

THIS MEMORANDUM, made as of \_\_\_\_\_, 2004 by and between CALWEST INDUSTRIAL PROPERTIES, LLC (“**Landlord**”) and NATURAL ALTERNATIVES INTERNATIONAL, INC. (“**Tenant**”).

**Recitals:**

- A. Landlord and Tenant are parties to that certain Lease, dated for reference June 12, 2003 (the “**Lease**”) for certain premises (the “**Premises**”) consisting of approximately 120,000 square feet at the buildings commonly known as VISTA DISTRIBUTION CENTER, 1211C and 1215 Park Center Drive.
- B. Tenant is in possession of the Premises and the Term of the Lease has commenced.
- C. Landlord and Tenant desire to enter into this Memorandum confirming the Commencement Date, the Termination Date and other matters under the Lease.

NOW, THEREFORE, Landlord and Tenant agree as follows:

- 1. The actual Commencement Date is \_\_\_\_\_, 2004.
- 2. The actual Termination Date is March 31, 2014.
- 3. ANNUAL RENT and MONTHLY INSTALLMENT OF RENT (Article 3):

Period		Annual Rent	Monthly Installment of Annual Rent
from	through		
4/1/2004	4/30/2004	\$	\$
5/1/2004	6/30/2004	\$ 0.00	\$ 0.00
7/1/2004	3/31/2005	\$	\$
4/1/2005	3/31/2006	\$	\$
4/1/2006	3/31/2007	\$	\$
4/1/2007	3/31/2008	\$	\$
4/1/2008	3/31/2009	\$	\$
4/1/2009	3/31/2010	\$	\$
4/1/2010	3/31/2011	\$	\$
4/1/2011	3/31/2012	\$	\$
4/1/2012	3/31/2013	\$	\$
4/1/2013	3/31/2014	\$	\$

- 4. INITIAL ESTIMATED MONTHLY INSTALLMENT OF RENT ADJUSTMENTS (Article 4): \$ \_\_\_\_\_
- 5. TENANT’S PROPORTIONATE SHARE: \_\_\_\_\_ %

\_\_\_\_\_  
Initials

6. SECURITY DEPOSIT: \$\_\_\_\_\_ increased annually as necessary so as to equal at least 105% of the current Monthly Installment of Annual Rent.

Capitalized terms not defined herein shall have the same meaning as set forth in the Lease.

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

**LANDLORD**

CALWEST INDUSTRIAL PROPERTIES, LLC,  
a California limited liability company

By: RREEF Management Company, a Delaware  
corporation, its Property Manager

By: /s/ Jill E. Shanahan  
\_\_\_\_\_

Name: Jill E. Shanahan

Title: Vice President

Date: Oct 30, 2003

**TENANT**

NATURAL ALTERNATIVES INTERNATIONAL, INC.,  
a Delaware corporation

By: /s/ Mark A. LeDoux  
\_\_\_\_\_

Mark A. LeDoux

Title: Chairman and Chief Executive Officer

Date: \_\_\_\_\_

By: \_\_\_\_\_

Randell Weaver

Title: President

Date: \_\_\_\_\_

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**EXHIBIT D – RULES AND REGULATIONS**

**attached to and made a part of Lease bearing the  
Lease Reference Date of June 12, 2003, between  
CALWEST INDUSTRIAL PROPERTIES, a California limited liability company, as Landlord and  
NATURAL ALTERNATIVES INTERNATIONAL, INC., a Delaware corporation, as Tenant**

1. No sign, placard, picture, advertisement, name or notice (collectively referred to as “Signs”) shall be installed or displayed on any part of the outside of the Building without the prior written consent of the Landlord which consent shall be in Landlord’s sole discretion. All approved Signs shall be printed, painted, affixed or inscribed at Tenant’s expense by a person or vendor approved by Landlord and shall be removed by Tenant at Tenant’s expense upon vacating the Premises. Landlord shall have the right to remove any Sign installed or displayed in violation of this rule at Tenant’s expense and without notice.
2. If Landlord objects in writing to any curtains, blinds, shades or screens attached to or hung in or used in connection with any window or door of the Premises or Building, Tenant shall immediately discontinue such use. No awning shall be permitted on any part of the Premises. Tenant shall not place anything or allow anything to be placed against or near any glass partitions or doors or windows which may appear unsightly, in the opinion of Landlord, from outside the Premises.
3. Tenant shall not alter any lock or other access device or install a new or additional lock or access device or bolt on any door of its Premises without the prior written consent of Landlord. Tenant, upon the termination of its tenancy, shall deliver to Landlord the keys or other means of access to all doors.
4. If Tenant requires telephone, data, burglar alarm or similar service, the cost of purchasing, installing and maintaining such service shall be borne solely by Tenant. No boring or cutting for wires will be allowed without the prior written consent of Landlord. Landlord shall direct electricians as to where and how telephone, data, and electrical wires are to be introduced or installed. The location of burglar alarms, telephones, call boxes or other office equipment affixed to the Premises shall be subject to the prior written approval of Landlord.
5. Tenant shall not place a load upon any floor of its Premises, including mezzanine area, if any, which exceeds the load per square foot that such floor was designed to carry and that is allowed by law. Heavy objects shall stand on such platforms as determined by Landlord to be necessary to properly distribute the weight. Landlord will not be responsible for loss of or damage to any such equipment or other property from any cause, and all damage done to the Building by maintaining or moving such equipment or other property shall be repaired at the expense of Tenant.
6. Tenant shall not install any radio or television antenna, satellite dish, loudspeaker or other device on the roof or exterior walls of the Building without Landlord’s prior written consent which consent shall be in Landlord’s sole discretion.
7. Tenant shall not mark, drive nails, screw or drill into the partitions, woodwork, plaster or drywall (except for pictures and general office uses) or in any way deface the Premises or any part thereof. Tenant shall not affix any floor covering to the floor of the Premises or paint or seal any floors in any manner except as approved by Landlord. Tenant shall repair any damage resulting from noncompliance with this rule.
8. No cooking shall be done or permitted on the Premises, except that Underwriters’ Laboratory (“UL”) approved microwave ovens, and other commonly used kitchen items or equipment for brewing coffee, tea, hot chocolate and similar beverages shall be permitted, provided that such equipment and use is in accordance with all applicable federal, state and city laws, codes, ordinances, rules and regulations.
9. Tenant shall not use any hand trucks except those equipped with the rubber tires, and may use such other material-handling equipment as Landlord may approve. Tenant shall not bring any other vehicles of any kind into the Building. Forklifts which operate on asphalt areas shall only use tires that do not damage the asphalt.

/s/ RLW      /s/ JES

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Initials

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10. Tenant shall not use the name of the Building or any photograph or other likeness of the Building in connection with or in promoting or advertising Tenant's business except that Tenant may include the Building name in Tenant's address. Landlord shall have the right, exercisable without notice and without liability to any tenant, to change the name and address of the Building.
  11. All trash and refuse shall be contained in suitable receptacles at locations approved by Landlord. Tenant shall not place in the trash receptacles any personal trash or material that cannot be disposed of in the ordinary and customary manner of removing such trash without violation of any law or ordinance governing such disposal.
  12. Tenant shall comply with all safety, fire protection and evacuation procedures and regulations established by Landlord or any governing authority.
  13. Tenant assumes all responsibility for securing and protecting its Premises and its contents including keeping doors locked and other means of entry to the Premises closed.
  14. Tenant shall not use any method of heating or air conditioning other than that supplied by Landlord without Landlord's prior written consent.
  15. No person shall go on the roof without Landlord's permission.
  16. Tenant shall not permit any animals, other than seeing-eye dogs, to be brought or kept in or about the Premises or any common area of the property.
  17. Tenant shall not permit any motor vehicles to be washed or mechanical work or maintenance of motor vehicles to be performed on any portion of the Premises or parking lot.
  18. These Rules and Regulations are in addition to, and shall not be construed to in any way modify or amend, in whole or in part, the terms, covenants, agreements and conditions of any lease of any premises in the Building. Landlord may waive any one or more of these Rules and Regulations for the benefit of any tenant or tenants, and any such waiver by Landlord shall not be construed as a waiver of such Rules and Regulations for any or all tenants.
  19. Landlord reserves the right to make such other and reasonable rules and regulations as in its judgment may from time to time be needed for safety and security, for care and cleanliness of the Building and for the preservation of good order in and about the Building. Tenant agrees to abide by all such rules and regulations herein stated and any additional rules and regulations which are adopted. Tenant shall be responsible for the observance of all of the foregoing rules by Tenant's employees, agents, clients, customers, invitees and guests.
  20. Any toilet rooms, toilets, urinals, wash bowls and other apparatus shall not be used for any purpose other than that for which they were constructed and no foreign substance of any kind whatsoever shall be thrown into them. The expense of any breakage, stoppage or damage resulting from the violation of this rule shall be borne by the Tenant who, or whose employees or invitees, shall have caused it.
  21. Tenant shall not permit smoking or carrying of lighted cigarettes or cigars in areas reasonably designated by Landlord or any applicable governmental agencies as non-smoking areas.
  22. Any directory of the Building or project of which the Building is a part ("**Project Area**"), if provided, will be exclusively for the display of the name and location of tenants only and Landlord reserves the right to charge for the use thereof and to exclude any other names.
  23. Canvassing, soliciting, distribution of handbills or any other written material in the Building or Project Area is prohibited and each tenant shall cooperate to prevent the same. No tenant shall solicit business from other tenants or permit the sale of any goods or merchandise in the Building or Project Area without the written consent of Landlord.

/s/ RLW      /s/ JES

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Initials

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24. Any equipment belonging to Tenant which causes noise or vibration that may be transmitted to the structure of the Building or to any space therein to such a degree as to be objectionable to Landlord or to any tenants in the Building shall be placed and maintained by Tenant, at Tenant's expense, on vibration eliminators or other devices sufficient to eliminate the noise or vibration.

25. Driveways, sidewalks, halls, passages, exits, entrances and stairways ("Access Areas") shall not be obstructed by tenants or used by tenants for any purpose other than for ingress to and egress from their respective premises. Access areas are not for the use of the general public and Landlord shall in all cases retain the right to control and prevent access thereto by all persons whose presence, in the judgment of Landlord, shall be prejudicial to the safety, character, reputation and interests of the Building or its tenants.

26. Landlord reserves the right to designate the use of parking areas and spaces. Tenant shall not park in visitor, reserved, or unauthorized parking areas. Tenant and Tenant's guests shall park between designated parking lines only and shall not park motor vehicles in those areas designated by Landlord for loading and unloading. Vehicles in violation of the above shall be subject to being towed at the vehicle owner's expense. Vehicles parked overnight without prior written consent of the Landlord shall be deemed abandoned and shall be subject to being towed at vehicle owner's expense. Tenant will from time to time, upon the request of Landlord, supply Landlord with a list of license plate numbers of vehicles owned or operated by its employees or agents.

27. No trucks, tractors or similar vehicles can be parked anywhere other than in Tenant's own truck dock area. Tractor-trailers which must be unhooked or parked with dolly wheels beyond the concrete loading areas must use steel plates or wood blocks under the dolly wheels to prevent damage to the asphalt paving surfaces. No parking or storing of such trailers will be permitted in the parking areas or on streets adjacent thereto.

28. During periods of loading and unloading, Tenant shall not unreasonably interfere with traffic flow and loading and unloading areas of other tenants. All products, materials or goods must be stored within the Tenant's Premises and not in any exterior areas, including, but not limited to, exterior dock platforms, against the exterior of the Building, parking areas and driveway areas. Tenant agrees to keep the exterior of the Premises clean and free of nails, wood, pallets, packing materials, barrels and any other debris produced from their operation.

/s/ RLW      /s/ JES

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Initials

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**EXHIBIT E – FLOOR PLAN DEPICTING THE EXPANSION SPACE**

**attached to and made a part of Lease bearing the  
Lease Reference Date of June 12, 2003, between  
CALWEST INDUSTRIAL PROPERTIES, a California limited liability company, as Landlord and  
NATURAL ALTERNATIVES INTERNATIONAL, INC., a Delaware corporation, as Tenant**

Exhibits E is intended only to show the general layout of the Expansion Space as of the beginning of the Term of this Lease. They do not in any way supersede any of Landlord's rights set forth in Article 17 with respect to arrangements and/or locations of public parts of the Building and changes in such arrangements and/or locations. It is not to be scaled; any measurements or distances shown should be taken as approximate.

**VISTA DISTRIBUTION CENTER**

[Floor Plan of Premises]

/s/ RLW      /s/ JES

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Initials

**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)) 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) 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
  - c) 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;
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: November 4, 2003

/s/ Mark A. LeDoux

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Mark A. LeDoux, Chief Executive Officer



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

I, John R. Reaves, 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)) 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) 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
  - c) 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;
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: November 4, 2003

/s/ John R. Reaves

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John R. Reaves, 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 September 30, 2003 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: November 4, 2003

/s/ Mark A. LeDoux

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Mark A. LeDoux, Chief Executive Officer

Date: November 4, 2003

/s/ John R. Reaves

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John R. Reaves, 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.