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

FORM 10-Q

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

For the quarterly period ended March 31, 1999

OR

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

Commission file number 0-15701

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

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

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

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

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

Yes [X] No [ ]

6,002,375

(Number of shares of common stock of the registrant
outstanding as of April 30,1999)





NATURAL ALTERNATIVES INTERNATIONAL, INC.
PART I - FINANCIAL INFORMATION

BALANCE SHEETS

ASSETS

| | March 31 1999 (unaudited) | June 30 1998 |
|---|---|---|
| Current Assets: | | |

| | | |
|---|---|---|
| Cash and cash equivalents | $2,683,394 | $4,714,212 |
| Accounts receivable - less allowance for doubtful accounts of $665,000 at March 31, 1999 and $1,073,000 at June 30, 1998 | 5,726,961 | 12,558,731 |
| Inventories | 6,624,282 | 11,504,936 |
| Tax refund receivable | 388,260 | -- |
| Notes receivable - current portion | 385,202 | 399,307 |
| Prepaid expenses | 719,813 | 594,054 |
| Deferred income taxes | 854,000 | 854,000 |
| Deposits | 888,336 | 641,573 |
| Other current assets | 313,950 | 229,308 |
| Total Current Assets | 18,584,198 | 31,496,121 |
| Property and equipment, net | 11,277,714 | 10,531,865 |
| Other Assets: | | |
| Investments | 202,215 | 61,971 |
| Notes receivable, less current portion | 187,203 | 160,273 |
| Deferred income taxes | 2,667,000 | -- |
| Other noncurrent assets, net | 980,840 | 737,049 |
| Total Other Assets | 4,037,258 | 959,293 |
| TOTAL ASSETS | $33,899,170 | $42,987,279 |



(continued)



NATURAL ALTERNATIVES INTERNATIONAL, INC.
PART I - FINANCIAL INFORMATION

BALANCE SHEETS (continued)

LIABILITIES AND STOCKHOLDERS' EQUITY

| | March 31 1999 | June 30 1998 |
|---|---|---|
| | (unaudited) | |
| Current Liabilities: | | |
| Accounts payable | $2,687,643 | $12,301,859 |
| Current installments of long-term debt | 49,460 | 46,501 |
| Current installments of capital lease obligation | 1,954 | 23,542 |
| Income taxes payable | -- | 378,055 |
| Accrued compensation and employee benefits | 369,977 | 438,242 |
| Total Current Liabilities | 3,109,034 | 13,188,199 |
| Deferred income taxes | 500,000 | 500,000 |
| Long-term debt, less current installments | 939,870 | 977,375 |
| Accrual for lease termination and other | 2,742,000 | -- |
| Long-term pension liability | 662,564 | 662,564 |
| Total Liabilities | 7,953,468 | 15,328,138 |

| | | |
|---|---|---|
| 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 6,002,375 at March 31, 1999 and 5,768,209 at June 30, 1998 | 60,024 | 57,682 |
| Additional paid-in capital | 11,301,812 | 9,756,822 |
| Retained earnings | 15,474,416 | 17,892,778 |
| Common stock in treasury, 137,500 shares at March 31, 1999, at cost | (836,562) | -- |
| Accumulated other comprehensive loss | (53,988) | (48,141) |
| Total Stockholders' Equity | 25,945,702 | 27,659,141 |
| TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY | $33,899,170 | $42,987,279 |

See accompanying notes to unaudited financial statements.





NATURAL ALTERNATIVES INTERNATIONAL, INC.
PART I - FINANCIAL INFORMATION

STATEMENTS OF OPERATIONS
(Unaudited)

| | For the Three Months Ended March 31 | | For the Nine Months Ended March 31 | |
|---|---|---|---|---|
| | 1999 | 1998 | 1999 | 1998 |
| Net sales | $ 13,122,768 | $ 18,960,255 | $ 47,425,699 | $ 47,290,172 |
| Cost of goods sold | 11,231,951 | 13,737,005 | 37,615,354 | 34,463,007 |
| GROSS PROFIT | 1,890,817 | 5,223,250 | 9,810,345 | 12,827,165 |
| Selling, general & administrative expenses | 9,143,478 | 2,246,932 | 13,958,347 | 6,638,910 |
| INCOME (LOSS) FROM OPERATIONS | (7,252,661) | 2,976,318 | (4,148,002) | 6,188,255 |
| Other income (expense): | | | | |
| Interest income | 50,995 | 50,625 | 148,671 | 141,693 |
| Interest expense | (20,735) | (26,961) | (64,670) | (85,347) |
| Other, net | 17,639 | 7,747 | 17,639 | (44,429) |
| | 47,899 | 31,411 | 101,640 | 11,917 |
| EARNINGS (LOSS) BEFORE INCOME TAXES | (7,204,762) | 3,007,729 | (4,046,362) | 6,200,172 |
| Income tax (benefit) expense | (2,884,000) | 1,184,000 | (1,628,000) | 2,415,000 |
| NET EARNINGS (LOSS) | ($ 4,320,762) | $ 1,823,729 | ($ 2,418,362) | $ 3,785,172 |
| NET EARNINGS (LOSS) PER COMMON SHARE: | | | | |
| Basic | $ (0.73) | $ 0.33 | $ (0.41) | $ 0.69 |
| Diluted | $ (0.73) | $ 0.31 | $ (0.41) | $ 0.66 |

See accompanying notes to unaudited financial statements.





NATURAL ALTERNATIVES INTERNATIONAL, INC.
PART I - FINANCIAL INFORMATION

STATEMENTS OF CASH FLOWS
(Unaudited)

| | For the Nine Months Ended March 31 | |
|---|---|---|
| | 1999 | 1998 |
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Net earnings (loss) | ($2,418,362) | $ 3,785,172 |
| Adjustments to reconcile net earnings (loss) to net cash provided by operating activities: | | |
| Bad debt provision | 454,089 | 270,000 |
| Tax benefit on option exercise | 439,314 | 1,240,500 |
| Depreciation and amortization | 1,214,721 | 1,117,273 |
| Deferred income taxes | (2,667,000) | (821,000) |
| Gain on disposal of assets | -- | 52,177 |
| Accrual for lease termination and other | 2,742,000 | -- |
| Other | (20,943) | -- |
| Changes in operating assets and liabilities: | | |
| (Increase) decrease in: | | |
| Accounts receivable | 6,377,681 | (3,289,953) |
| Inventories | 4,880,654 | (3,033,985) |
| Tax refund receivable | (388,260) | 842,209 |
| Prepaid expenses | (125,759) | (195,096) |
| Deposits | (246,763) | 48,898 |
| Other assets | (198,799) | -- |
| (Decrease) increase in: | | |
| Accounts payable | (9,598,710) | 1,325,245 |
| Income taxes payable | (378,055) | 323,749 |
| Accrued compensation and employee benefits | (68,265) | (4,691) |
| Net Cash Provided by Operating Activities | $ 217,285 | $ 1,440,756 |

(continued)





NATURAL ALTERNATIVES INTERNATIONAL, INC.
PART I - FINANCIAL INFORMATION

STATEMENTS OF CASH FLOWS (continued)
(Unaudited)

| For the Nine Months Ended March 31 | |
|---|---|
| 1999 | 1998 |

| | | |
|---|---|---|
| CASH FLOWS FROM INVESTING ACTIVITIES: | | |
| Proceeds from sale of property and equipment | $ -- | $ 65,000 |
| Capital expenditures | (1,960,570) | (2,819,355) |
| Issuance of notes receivable | (334,799) | (4,625) |
| Repayment of notes receivable | 306,468 | 55,942 |
| Other assets | (474,524) | 4,879 |
| Net Cash Used in Investing Activities | (2,463,425) | (2,698,159) |
| CASH FLOWS FROM FINANCING ACTIVITIES: | | |
| Payments on long-term debt and capital leases | (56,134) | (248,225) |
| Issuance of common stock | 1,108,018 | 1,435,249 |
| Payments to acquire treasury stock | (836,562) | -- |
| Net Cash Provided by Financing Activities | 215,322 | 1,187,024 |
| Net Decrease in Cash and Cash Equivalents | (2,030,818) | (70,379) |
| Cash and Cash Equivalents at Beginning of Period | 4,714,212 | 3,469,739 |
| Cash and Cash Equivalents at End of Period | $ 2,683,394 | $ 3,399,360 |
| SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION: | | |
| Cash paid during the nine months for: | | |
| Interest | 62,636 | 65,343 |
| Income Taxes | 1,196,000 | 1,194,000 |

See accompanying notes to unaudited financial statements.





NATURAL ALTERNATIVES INTERNATIONAL, INC.
PART I - FINANCIAL INFORMATION

NOTES TO CONDENSED FINANCIAL STATEMENTS

NOTE 1 - BASIS OF PRESENTATION

The unaudited consolidated financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments, consisting of a normal recurring nature considered necessary for a fair presentation, have been included. It is suggested that these consolidated financial statements be read in conjunction with the financial statements and notes thereto included in the Company's annual report on Form 10-K for the year ended June 30, 1998. The results of operations for the period ended March 31, 1999 are not necessarily indicative of the operating results for the full year.

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

NOTE 2 - INVENTORIES

Inventories are comprised of the following:

| | March 31 1999 | June 30 1998 |
|---|---|---|
| Raw materials | $ 3,034,666 | $ 7,049,954 |
| Work in progress | 2,726,625 | 3,971,315 |
| Finished goods | 862,991 | 483,667 |
| | $ 6,624,282 | $11,504,936 |

NOTE 3 - Comprehensive Net Income

The Company adopted Statement of Financial Accounting Standards No. 130, "Reporting Comprehensive Income " (SFAS 130) in the first quarter of fiscal year 1999. SFAS 130 establishes new standards for the reporting and presentation of comprehensive income and its components. Comprehensive income presented below includes net unrealized gains (losses) on investments.

| | For the three months ended March 31 | | For the nine months ended March 31 | |
|---|---|---|---|---|
| | 1999 | 1998 | 1999 | 1998 |
| Net Earnings (Loss) | (4,320,762) | 1,823,729 | (2,418,362) | 3,785,172 |
| Unrealized gain (loss) on investments | - | - | (5,847) | - |
| Comprehensive income | (4,320,762) | 1,823,729 | (2,424,209) | 3,785,172 |





NATURAL ALTERNATIVES INTERNATIONAL, INC.
PART I - FINANCIAL INFORMATION

NOTES TO CONDENSED FINANCIAL STATEMENTS

NOTE 4 - NET EARNINGS PER SHARE

Basic earnings (loss) per share is computed using the weighted average number of shares outstanding during the period, and diluted earnings (loss) per share is computed using the additional dilutive effect of all dilutive securities. The dilutive impact of stock options and warrants account for the additional weighted average shares of common stock outstanding for the Company's diluted earnings per share computation. Basic and diluted earnings (loss) per share have been calculated as follows:

| | For the three months ended March 31 | | For the nine months ended March 31 | |
|---|---|---|---|---|
| | 1999 | 1998 | 1999 | 1998 |
| NUMERATOR: | | | | |
| Net earnings (loss) - Numerator for basic and diluted earnings (loss) per share - - income available to common shareholders | $ (4,320,762) | $1,823,729 | $ (2,418,362) | $3,785,172 |
| DENOMINATOR: | | | | |
| Denominator for basic earnings (loss) per share - weighted average shares | 5,931,764 | 5,566,956 | 5,884,973 | 5,481,539 |

| | | | | |
|---|---|---|---|---|
| Effect of dilutive securities - employee stock options | -- | 352,963 | -- | 270,877 |
| Denominator for diluted earnings (loss) per share - adjusted weighted average shares and assumed conversions | 5,931,764 | 5,919,919 | 5,884,973 | 5,752,416 |
| Basic earnings (loss) per share | $ (0.73) | $ 0.33 | $ (0.41) | $ 0.69 |
| Diluted earnings (loss) per share | $ (0.73) | $ 0.31 | $ (0.41) | $ 0.66 |

Options and warrants totaling 364,333 and 449,038 shares were excluded from the calculation of diluted earnings (loss) per share for the three and nine month periods ended March 31, 1999, respectively, since the effect of their inclusion would be anti-dilutive.





NATURAL ALTERNATIVES INTERNATIONAL, INC.
PART I - FINANCIAL INFORMATION

NOTES TO CONDENSED FINANCIAL STATEMENTS

NOTE 5 - MAJOR CUSTOMERS

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

| | Three Months Ended March 31, 1999 | | Three Months Ended March 31, 1998 | |
|---|---|---|---|---|
| Industry Segment | Sales by Customer | %(a) | Sales by Customer | %(a) |
| Multi-level Distribution: | | | | |
| Customer 1 | $ 4,100,060 | 31% | $ 7,667,015 | 40% |
| Customer 2 | 3,645,632 | 28% | 2,575,031 | 14% |
| | 7,745,692 | 59% | 10,242,046 | 54% |
| Retail Distribution: | | | | |
| Customer 3 | 1,648,946 | 13% | 2,127,283 | 11% |
| | $ 9,394,638 | 72% | $12,369,329 | 65% |

| | Nine Months Ended March 31, 1999 | | Nine Months Ended March 31, 1998 | |
|---|---|---|---|---|
| Industry Segment | Sales by Customer | %(a) | Sales by Customer | %(a) |
| Multi-level Distribution: | | | | |

| | | | | |
|---|---|---|---|---|
| Customer 1 | $15,415,893 | 33% | $18,634,260 | 39% |
| Customer 2 | 9,831,994 | 21% | 8,001,753 | 17% |
| | 25,247,887 | 54% | 26,636,013 | 56% |
| Retail Distribution: | | | | |
| Customer 3 | 9,226,431 | 19% | (b) | |
| | $34,474,318 | 73% | $26,636,013 | 56% |

(a) Percent of total net sales.
(b) Net sales for the period were less than





NATURAL ALTERNATIVES INTERNATIONAL, INC.
PART I - FINANCIAL INFORMATION

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

Information provided in this Report on Form 10-Q may contain forward-looking statements within the meaning of Section 21E of the Securities Exchange Act of 1934 that are not historical facts and information. These statements represent the Company's expectations and beliefs concerning future events, including, among other things, expectations and beliefs with respect to future financial and operating results, anticipated growth in revenues and profit margins, improvements in management personnel, the impact of European operations, and the utilization of inventories and facilities. The Company wishes to caution and advise readers that these statements involve risks and uncertainties that could cause actual results and outcomes for future periods to differ materially from any forward-looking statement or views expressed herein. The Company's financial performance and the forward-looking statements contained herein are further qualified by other risks including those set forth from time to time in the documents filed by the Company with the Securities and Exchange Commission, including the Company's most recent Form 10-K.

RESULTS OF OPERATIONS

THIRD QUARTER OF FISCAL 1999 AND 1998

Net sales decreased 30.8%, or approximately $5.8 million, to approximately $13.1 million for the quarter ended March 31, 1999, from approximately $19.0 million for the quarter ended March 31, 1998. The majority of the decrease was attributed to weakened market demand for products, in particular diminished demand for herbal products.

Sales of products into international markets increased 38.6% to approximately $3.7 million for the quarter ended March 31, 1999, from approximately $2.6 million for the quarter ended March 31, 1998. The increase reflects the continued expansion into Asian and European markets by the Company's existing customers.

Gross profit margins were 14.4% for the quarter ended March 31, 1999, compared to 27.5% for the quarter ended March 31, 1998. The decrease in margins was due primarily to the following: reduced industry demand, which resulted in depressed market prices and profit margins; liquidation of inventories of slow moving items at or below cost; and inventory write-downs to net realizable value.

Selling, general and administrative expenses increased as a percentage of sales to 69.7% for the quarter ended March 31, 1999 from 11.9% for the quarter ended March 31, 1998. The increase is due primarily to current period charges of approximately $5.6 million, related to the following: approximately $5.0 million for estimated costs attributed to the Company's decision to sublease, and not occupy, its proposed new facility in Carlsbad, California; and approximately $0.6 million for severance expenses related to management restructuring. In addition, selling, general and administrative expenses increased for the three months ended March 31, 1999 due to costs associated with upgrading the Company's financial and manufacturing information systems.

The elements discussed above combined to result in an operating loss of approximately $7.3 million for the quarter ended March 31, 1999, compared to operating income of approximately $3.0 million for the quarter ended March 31, 1998. The Company incurred a diluted loss per share for the quarter ended March 31, 1999 of ($.73) compared to diluted earnings per share of $.31 for the quarter ended March 31, 1998.





MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (CONTINUED)

NINE MONTHS ENDED DECEMBER 31, 1999 AND 1998

Net sales remained relatively constant at approximately $47.4 million for the nine months ended March 31, 1999, compared to approximately $47.3 million for the nine months ended March 31, 1998. The Company experienced increased sales due to the addition of several new customers subsequent to the first quarter of fiscal 1998. However, increased sales to these customers was offset by weakened market demand for products, in particular diminished demand for herbal products, which resulted in reduced sales to certain existing customers during the quarter ended March 31, 1999.

Sales of products into international markets increased 34.0% to approximately $14.2 million for the nine months ended March 31, 1999, from approximately $10.6 million for the nine months ended March 31, 1998. The increase reflects the continued expansion into Asian and European markets by the Company's existing customers.

Gross profit margins were 20.7% for the nine months ended March 31, 1999, compared to 27.1% for the nine months ended March 31, 1998. The decrease in margins was due primarily to the following: reduced industry demand, which resulted in depressed market prices and profit margins; honoring pricing structures with materials that exceeded original cost parameters; liquidation of excess inventories of slow moving items at or below cost; and inventory write-downs to net realizable value.

Selling, general and administrative expenses increased as a percentage of sales to 29.4% for the nine months ended March 31, 1999 from 14.0% for the nine months ended March 31, 1998. The increase is due primarily to charges recognized during the quarter ended March 31, 1999 of approximately $5.6 million, related to the following: approximately $5.0 million for estimated costs attributed to the Company's decision to sublease, and not occupy, its proposed new facility in Carlsbad, California; and approximately $0.6 million for severance expenses related to management restructuring. In addition, selling, general and administrative expenses increased for the nine months ended March 31, 1999 due to costs associated with upgrading the Company's financial and manufacturing information systems.

The elements discussed above combined to result in an operating loss of approximately $4.1 million for the nine months ended March 31, 1999, compared to operating income of approximately $6.2 million for the nine months ended March 31, 1998. The Company incurred a diluted loss per share for the nine months ended March 31, 1999 of ($.41) compared to diluted earnings per share of $.66 for the nine months ended March 31, 1998.

YEAR 2000 ISSUES

The year 2000 issue ("Year 2000 Issue") is the result of computer programs being written using two digits rather than four digits to represent the year and affects both information technology (IT) and non-IT systems. Thus, computer software may recognize a date using "00" as the year 1900 rather than the year 2000. This could result in system failures or miscalculations causing disruptions of operations, including among others, a temporary inability to process certain data or engage in similar normal business activities.

PLAN AND STATUS. The Company's plan to resolve the Year 2000 Issue involves four phases: assessment, remediation, testing and implementation. The Company has completed its assessment of its IT systems. The Company expects to implement its new computer systems during the fourth quarter of its 1999 fiscal year which is represented by the manufacturer as Year 2000 compliant. The Company is





completing its assessment of non-IT systems, most of which are equipment used in production. Systems identified as not being Year 2000 compliant will be brought into compliance by upgrading either the software or hardware. The Company expects to begin remediation, testing and to be fully implemented by the end of the first quarter of its 2000 fiscal year.

While the Company has queried its significant suppliers, vendors and other outside parties and will continue to monitor their Year 2000 compliance status, the Company has no means of ensuring that suppliers, vendors and other outside parties will be Year 2000 ready. The inability of suppliers, vendors and other outside parties (including the government) to complete their Year 2000 resolution process in a timely fashion could materially impact the Company. The effect of non-compliance by suppliers, vendors and outside parties is not determinable.

COSTS: The Company estimates that it will have incurred approximately $1 million in costs, of which approximately $100,000 will be charged directly to expense, by the end of its 1999 fiscal year to replace its financial and manufacturing software systems and to remediate or replace embedded microprocessors in its production equipment. The Company anticipates that it will be able to fund its costs from current funds available for operations. If, however, the costs are higher than anticipated, this could have a material adverse effect on the Company's business, results of operations and financial condition.

RISKS. While management of the Company believes it has an effective program in place to resolve the Year 2000 Issue in a timely manner, as noted above, the Company has not completed all necessary phases of the Year 2000 program for compliance. In addition, disruptions in the economy generally resulting from Year 2000 Issues could also materially adversely effect the Company. The Company is unable to estimate if it has any potential liability or potential lost revenue at this time. There can be no assurance that the Company will not discover Year 2000 compliance issues that will have a material adverse effect on the Company's business, results of operations and financial condition.

LIQUIDITY AND CAPITAL RESOURCES

At March 31, 1999, the Company had working capital of approximately $15.5 million and borrowings available under revolving lines of credit of $3.0 million. As of March 31, 1999, there were no borrowings under these lines.

For the nine months ended March 31, 1999, net cash provided by operating activities was approximately $0.2 million compared to net cash provided by operating activities of approximately $1.4 million for the nine months ended March 31, 1998. This decrease of approximately $1.2 million was due primarily to the net loss for the quarter and the decrease in accounts payable. This decrease was partially offset by decreases in accounts receivable and inventories. Current maturities of long-term debt and capital leases at March 31, 1999 amounted to approximately $51,000 which the Company expects to pay out of working capital.

The Company has revolving line of credit agreements permitting borrowings up to $3.0 million, which are secured by the Company's receivables, inventory, equipment, and vehicles and bear interest at the bank's prime rate. The present loan agreement with the bank contains financial covenants concerning limitations on maintenance of debt, certain financial ratio's and other matters, for all of which the Company is in full compliance as of March 31, 1999. The lines of credit expire on January 19, 2000; management expects such lines to be renewed in the normal course of business.

Capital expenditures for the nine months ended March 31, 1999 amounted to approximately $2.0 million.





MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (CONTINUED)

These costs were charged to expense during the quarter ended March 31, 1999 as the Company decided to sublease, and not occupy, this facility. Additional expenditures relate to building improvements for the Company's new warehouse and blending facility, and the purchase of encapsulation and other production equipment to expand the Company's output capacity. The Company anticipates capital expenditures of approximately $6.0 million during fiscal 1999. These expenditures are expected to be paid from a combination of cash

holdings, net cash provided by operating activities in fiscal 1999, borrowings under the Company's lines of credit with its bank, and anticipated long term debt or equity financing. If these financing alternatives become unavailable, the Company may be required to defer or restrict certain commercial activities or delay or eliminate expenditures for certain of its potential products and/or markets.

NEW ACCOUNTING PRONOUNCEMENTS

In June 1998, the FASB issued SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities, which establishes accounting and reporting standards for derivative instruments and hedging activities. SFAS No. 133 requires that an entity recognize all derivatives as either assets or liabilities in the statement of financial position and measure those instruments at fair value. This Statement is effective for all fiscal years beginning after June 15, 1999. SFAS No. 133 is effective for the Company's fiscal year ending June 30, 2000 and is not expected to have a material effect on the Company's financial position or results of operations.

In February 1998, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards No. 132, "Employers' Disclosures about Pensions and Other Postretirement Benefits." This Statement standardizes the disclosure requirements for pensions and other postretirement benefits, requires additional information on changes in the benefit obligations and fair values of plan assets and eliminates certain disclosures. Restatement of disclosures for earlier periods is required. The Company will adopt this Statement in its financial statements for the year ending June 30, 1999.

In June 1997, the FASB issued Statement of Financial Accounting Standards No. 131, "Disclosures about Segments of an Enterprise and Related Information" ("SFAS 131"). SFAS 131 establishes standards for the manner in which public business enterprises report information about operating segments and also establishes standards for related disclosures about products and services, geographic areas, and major customers. These statements are effective for years beginning after December 15, 1997. The Company does not expect that the adoption of SFAS Nos. 131 and 132 will result in disclosures that will be materially different from those presently included in its financial statements.

QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The Company is exposed to risks relating to changes in interest rates and stock market fluctuations.

At March 31, 1999, the Company maintains a portion of its cash and cash equivalents in financial instruments with original maturities of three months or less. These financial instruments, principally comprised of government backed money market funds, are subject to interest rate risk and will decline in value if interest rates increase. The Company also maintains an investment portfolio containing common stocks that are subject to market risk. The Company has not used derivative financial instruments in its investment portfolio.

The Company's only long-term debt at March 31, 1999 is comprised of a note payable to a bank, secured by the Company's corporate office building, with a total balance of approximately $1.0 million. Due to the fixed rate nature of this note, an immediate 10% change in interest rates would not have a material impact on the Company's financial position or the results of its operations.





NATURAL ALTERNATIVES INTERNATIONAL, INC.
PART II - OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

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

ITEM 2. CHANGES IN SECURITIES

During the quarter ending March 31, 1999, 100,000 common shares were issued pursuant to stock option exercises by an outside third party and 124,500 shares were repurchased by the Company as Treasury Stock.

ITEM 3. DEFAULTS BY THE COMPANY ON ITS SENIOR SECURITIES

None.

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

None.

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

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

27.0. Financial Data Schedule

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





SIGNATURES

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

NATURAL ALTERNATIVES INTERNATIONAL, INC.

MARK A. LE DOUX Date: May 13 , 1999
- -----------------

Mark A. Le Doux
Chief Executive Officer
Assistant Treasurer

<ARTICLE> 5
<MULTIPLIER> 1

| | |
|---|---|
| <PERIOD-TYPE> | 3-MOS |
| <FISCAL-YEAR-END> | JUN-30-1999 |
| <PERIOD-START> | JUL-01-1998 |
| <PERIOD-END> | MAR-31-1999 |
| <CASH> | 2,683,394 |
| <SECURITIES> | 202,215 |
| <RECEIVABLES> | 6,391,961 |
| <ALLOWANCES> | 665,000 |
| <INVENTORY> | 6,624,282 |
| <CURRENT-ASSETS> | 18,584,198 |
| <PP&E> | 19,708,566 |
| <DEPRECIATION> | 8,430,852 |
| <TOTAL-ASSETS> | 33,899,170 |
| <CURRENT-LIABILITIES> | 3,109,034 |
| <BONDS> | 939,870 |
| <PREFERRED-MANDATORY> | 0 |
| <PREFERRED> | 0 |
| <COMMON> | 60,024 |
| <OTHER-SE> | 25,885,678 |
| <TOTAL-LIABILITY-AND-EQUITY> | 33,899,170 |
| <SALES> | 47,425,699 |
| <TOTAL-REVENUES> | 47,425,699 |
| <CGS> | 37,615,354 |
| <TOTAL-COSTS> | 51,573,701 |
| <OTHER-EXPENSES> | 0 |
| <LOSS-PROVISION> | 454,089 |
| <INTEREST-EXPENSE> | 64,670 |
| <INCOME-PRETAX> | (4,046,362) |
| <INCOME-TAX> | (1,628,000) |
| <INCOME-CONTINUING> | (2,418,362) |
| <DISCONTINUED> | 0 |
| <EXTRAORDINARY> | 0 |
| <CHANGES> | 0 |
| <NET-INCOME> | (2,418,362) |
| <EPS-PRIMARY> | (0.41) |
| <EPS-DILUTED> | (0.41) |