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

FORM 10-Q

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

FOR THE QUARTERLY PERIOD ENDED DECEMBER 31, 2004

000-15701
(Commission file number)

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

Delaware
(State of incorporation)

84-1007839
(IRS Employer Identification No.)

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

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

Indicate by check mark whether Natural Alternatives International, Inc. (NAI) (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that NAI was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether NAI is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act). Yes No

As of February 14, 2005, 5,956,387 shares of NAI's common stock were outstanding, net of 61,000 treasury shares.

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SPECIAL NOTE ABOUT FORWARD-LOOKING STATEMENTS

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

- future financial and operating results, including projections of net sales, revenues, income, net income per share, profit margins, expenditures, liquidity and other financial items;
- inventories and the adequacy and intended use of our 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;
- development of new products, brands and marketing strategies;
- distribution channels and product sales and performance;
- growth, expansion and acquisition strategies;
- the outcome of regulatory and litigation matters;
- our ability to develop relationships with new customers and maintain or improve existing customer relationships;
- the impact of accounting pronouncements;
- 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 and caution should be taken not to place undue reliance on any such forward-looking statements. Forward-looking statements are subject to certain events, risks, and uncertainties that may be outside of our control. When considering forward-looking statements, you should carefully review the risks, uncertainties and other cautionary statements in this report as they identify certain important factors that could cause actual results to differ materially from those expressed in or implied by the forward-looking statements. These factors include, among others, the risks described under 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) and our other wholly owned subsidiaries.

PART I – FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

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

	December 31, 2004	June 30, 2004
	(Unaudited)	
Assets		
Current assets:		
Cash and cash equivalents	\$ 4,638	\$ 7,495
Accounts receivable - less allowance for doubtful accounts of \$187 at December 31, 2004 and \$132 at June 30, 2004	7,562	8,889
Inventories, net	13,185	12,863
Deferred income taxes	951	1,010
Other current assets	1,168	633
	<u>27,504</u>	<u>30,890</u>
Property and equipment, net	15,423	11,380
Other assets, net	185	198
	<u>43,112</u>	<u>\$42,468</u>
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	\$ 7,138	\$ 7,567
Accrued liabilities	3,485	2,078
Accrued compensation and employee benefits	1,094	2,626
Income taxes payable	51	320
Current portion of long-term debt	846	831
	<u>12,614</u>	<u>13,422</u>
Long-term debt, less current portion	3,424	3,841
Deferred income taxes	717	717
Deferred rent	292	220
Long-term pension liability	161	140
	<u>17,208</u>	<u>18,340</u>
Stockholders' equity:		
Preferred stock; \$.01 par value; 500,000 shares authorized; none issued or outstanding	—	—
Common stock; \$.01 par value; 20,000,000 shares authorized at December 31, 2004 and 8,000,000 at June 30, 2004; issued and outstanding 6,009,387 at December 31, 2004 and 5,970,992 at June 30, 2004	60	60
Additional paid-in capital	11,128	10,864
Accumulated other comprehensive loss	(221)	(96)
Retained earnings	15,230	13,593
Treasury stock, at cost, 61,000 shares at December 31, 2004 and June 30, 2004	(293)	(293)
	<u>25,904</u>	<u>24,128</u>
Total liabilities and stockholders' equity	<u>\$ 43,112</u>	<u>\$42,468</u>

See accompanying notes to condensed consolidated financial statements.

NATURAL ALTERNATIVES INTERNATIONAL, INC.
Condensed Consolidated Statements Of Income And Comprehensive Income
(Dollars in thousands, except share and per share data)
(Unaudited)

	Three months ended December 31,		Six months ended December 31,	
	2004	2003	2004	2003
Net sales	\$ 21,545	\$ 17,195	\$ 44,272	\$ 33,916
Cost of goods sold	16,953	13,300	34,362	25,875
Gross profit	4,592	3,895	9,910	8,041
Selling, general & administrative expenses	3,710	3,346	7,634	6,862
Income from operations	882	549	2,276	1,179
Other income (expense):				
Interest income	6	9	10	18
Interest expense	(54)	(51)	(105)	(94)
Foreign exchange gain	168	130	166	145
Other, net	25	(25)	24	(47)
	145	63	95	22
Income before income taxes	1,027	612	2,371	1,201
Provision for income taxes	242	36	734	58
Net income	\$ 785	\$ 576	\$ 1,637	\$ 1,143
Unrealized loss resulting from change in fair value of derivative instruments, net of tax	(75)	—	(125)	—
Comprehensive income	\$ 710	\$ 576	\$ 1,512	\$ 1,143
Net income per common share:				
Basic	\$ 0.13	\$ 0.10	\$ 0.28	\$ 0.20
Diluted	\$ 0.12	\$ 0.09	\$ 0.25	\$ 0.19
Weighted average common shares outstanding:				
Basic	5,928,766	5,821,973	5,928,521	5,821,341
Diluted	6,571,995	6,161,851	6,512,099	6,134,798

See accompanying notes to condensed consolidated financial statements.

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

	Six Months Ended December 31,	
	2004	2003
Cash flows from operating activities		
Net income	\$ 1,637	\$ 1,143
Adjustments to reconcile net income to net cash used in (provided by) operating activities:		
Provision for uncollectible accounts receivable	55	28
Depreciation and amortization	1,178	1,338
Deferred income taxes	59	—
Stock based compensation	40	15
Pension expense, net of contributions	21	70
Loss on disposal of asset	17	15
Changes in operating assets and liabilities:		
Accounts receivable	1,272	622
Inventories, net	(322)	(4,462)
Other assets	(597)	(659)
Accounts payable and accrued liabilities	718	744
Accrued compensation and employee benefits	(1,532)	168
Net cash used in (provided by) operating activities	2,546	(978)
Cash flows from investing activities		
Capital expenditures	(5,238)	(1,443)
Repayment of notes receivable	13	—
Net cash used in investing activities	(5,225)	(1,443)
Cash flows from financing activities		
Net borrowings on line of credit	—	85
Payments on long-term debt	(402)	(284)
Proceeds from issuance of common stock	224	24
Net cash used in financing activities	(178)	(175)
Net decrease in cash and cash equivalents	(2,857)	(2,596)
Cash and cash equivalents at beginning of period	7,495	5,482
Cash and cash equivalents at end of period	\$ 4,638	\$ 2,886
Supplemental disclosures of cash flow information		
Cash paid during the period for:		
Interest	\$ 105	\$ 94
Taxes	\$ 814	\$ —

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 U.S. generally accepted accounting principles have been condensed or omitted pursuant to such rules and regulations. In management's opinion, all adjustments necessary for a fair presentation of the financial position, results of operations and cash flows have been included and are of a normal, recurring nature. The results of operations for the three and six months ended December 31, 2004 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, 2004 ("2004 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 2004 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 nonqualified and incentive stock options to employees, non-employee directors and consultants. We also have an employee stock purchase plan. We account for stock-based awards to employees, including shares issued pursuant to the employee stock purchase plan, 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 Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation" (SFAS 123), as amended by SFAS No. 148, "Accounting for Stock-Based Compensation – Transition and Disclosure" (SFAS 148).

Pro forma information regarding net income and net income per 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. We estimated the fair value of the stock option awards at the date of grant and employee stock purchase plan shares at the beginning of the offering period using the Black-Scholes option valuation model. The Black-Scholes option valuation model was developed for use in estimating the fair value of traded options that have no vesting restrictions and are fully transferable. Option valuation models require the input of highly subjective assumptions, 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.

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

	Three Months Ended December 31,		Six Months Ended December 31,	
	2004	2003	2004	2003
	<i>(Dollars in thousands, except per share data)</i>			
Net income - as reported	\$ 785	\$ 576	\$ 1,637	\$ 1,143
Plus: Reported stock-based compensation	20	7	40	15
Less: Fair value stock-based compensation	(309)	(116)	(615)	(197)
Net income - pro forma	\$ 496	\$ 467	\$ 1,062	\$ 961
Reported basic net income per common share	\$ 0.13	\$ 0.10	\$ 0.28	\$ 0.20
Pro forma basic net income per common share	\$ 0.08	\$ 0.08	\$ 0.18	\$ 0.16
Reported diluted net income per common share	\$ 0.12	\$ 0.09	\$ 0.25	\$ 0.19
Pro forma diluted net income per common share	\$ 0.08	\$ 0.08	\$ 0.16	\$ 0.16

On December 16, 2004, the Financial Accounting Standards Board (FASB) finalized SFAS No. 123R, "Share Based Payment" (SFAS 123R), which will be effective for interim or annual reporting periods beginning after June 15, 2005. SFAS 123R will require that we expense stock options and employee stock purchase plan shares using a binomial lattice valuation model that the FASB believes is capable of more fully reflecting certain characteristics of employee stock options. The effect of expensing stock options and employee stock purchase plan shares on our reported results of operations will likely differ from the pro forma information reflected in the table above, which is based on the Black-Scholes model.

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 common shares outstanding during the period, and diluted net 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 December 31,		Six Months Ended December 31,	
	2004	2003	2004	2003
	<i>(Amounts in thousands, except per share data)</i>			
Numerator				
Net income	\$ 785	\$ 576	\$ 1,637	\$ 1,143
Denominator				
Basic weighted average common shares outstanding	5,929	5,822	5,929	5,821
Dilutive effect of stock options	643	340	583	314
Diluted weighted average common shares outstanding	6,572	6,162	6,512	6,135
Basic net income per common share	\$ 0.13	\$ 0.10	\$ 0.28	\$ 0.20
Diluted net income per common share	\$ 0.12	\$ 0.09	\$ 0.25	\$ 0.19

Shares related to stock options of 15,000 for the three months ended December 31, 2004, and 99,000 for the six months ended December 31, 2004, were excluded from the calculation of diluted net income per common share, as the effect of their inclusion would be anti-dilutive.

Shares related to stock options of 20,000 for the three months ended December 31, 2003, and 95,000 for the six months ended December 31, 2003, were excluded from the calculation of diluted net income per common share, as the effect of their inclusion would be anti-dilutive.

B. Inventories

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

	December 31, 2004	June 30, 2004
Raw materials	\$ 6,768	\$ 7,915
Work in progress	3,892	3,066
Finished goods	2,525	1,882
	<u>\$ 13,185</u>	<u>\$ 12,863</u>

C. Property and Equipment

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

	Depreciable Life In Years	December 31, 2004	June 30, 2004
Land	NA	\$ 393	\$ 393
Building and building improvements	7 – 39	3,095	3,235
Machinery and equipment	3 – 12	17,465	17,345
Office equipment and furniture	3 - 5	3,034	4,038
Vehicles	3	204	204
Leasehold improvements	1 – 15	8,623	4,954
Total property and equipment		<u>32,814</u>	<u>30,169</u>
Less: accumulated depreciation and amortization		(17,391)	(18,789)
Property and equipment, net		<u>\$ 15,423</u>	<u>\$ 11,380</u>

D. Debt

We have a \$12.0 million credit facility with a bank. The facility is comprised of an \$8.0 million working capital line of credit and \$4.0 million in term loans. The working capital line of credit has a 2.5-year term, is secured by our accounts receivable and other rights to payment, general intangibles, inventory and equipment, has an interest rate of LIBOR plus 1.75% and borrowings are subject to eligibility requirements for current accounts receivable and inventory balances. The term loans consist of a \$700,000 ten year term loan with a twenty year amortization, secured by our San Marcos building, at an interest rate of LIBOR plus 2.25%; a \$1.8 million four year term loan, secured by our accounts receivable and other rights to payment, general intangibles, inventory and equipment, at an interest rate of LIBOR plus 2.10%; and a \$1.5 million five year term loan, secured by equipment, at an interest rate of LIBOR plus 2.10%. Monthly payments on the term loans are approximately \$62,000 plus interest. As of December 31, 2004, the amount outstanding on the term loans was \$3.6 million and we did not have an outstanding balance on the working capital line of credit. As of December 31, 2004, we had \$7.1 million available under the line of credit, net of a \$440,000 outstanding letter of credit issued to our landlord.

On February 1, 2005, we amended our credit facility with the bank to increase the limitation on our capital expenditures for the fiscal year ended June 30, 2005 from \$6.5 million to \$8.0 million. All other terms and conditions of our credit facility remain in full force and effect.

Additionally, we have a term loan agreement for \$1.1 million, secured by our San Marcos 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. As of December 31, 2004, the amount outstanding on the term loan was \$641,000.

The composite interest rate on all of our outstanding debt was 4.58% at December 31, 2004, and 5.90% at December 31, 2003.

E. Defined Benefit Pension Plan

We sponsor a defined benefit pension plan, which provides retirement benefits to employees based generally on years of service and compensation during the last five years before retirement. Effective June 21, 1999, we adopted an amendment to the plan to freeze benefit accruals to the plan's participants. We contribute an amount not less than the minimum funding requirements of the Employee Retirement Income Security Act of 1974 nor more than the maximum tax-deductible amount.

The components included in the net periodic benefit cost for the periods ended December 31 were as follows (dollars in thousands):

	Three Months Ended December 31,		Six Months Ended December 31,	
	2004	2003	2004	2003
Interest cost	\$ 17	\$ 17	\$ 34	\$ 34
Expected return on plan assets	(18)	(16)	(36)	(32)
Net periodic benefit cost (income)	\$ (1)	\$ 1	\$ (2)	\$ 2

F. Economic Dependency

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

	Three Months Ended December 31,				Six Months Ended December 31,			
	2004		2003		2004		2003	
	Net Sales by Customer	% of Total Net Sales	Net Sales by Customer	% of Total Net Sales	Net Sales by Customer	% of Total Net Sales	Net Sales by Customer	% of Total Net Sales
Customer 1	\$ 9,681	45%	\$ 7,741	45%	\$ 17,954	41%	\$ 14,669	43%
Customer 2	6,746	31%	4,124	24%	15,834	36%	8,682	26%
	\$ 16,427	76%	\$ 11,865	69%	\$ 33,788	76%	\$ 23,351	69%

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

	Three Months Ended December 31,				Six Months Ended December 31,			
	2004		2003		2004		2003	
	Raw Material Purchases by Supplier	% of Total Raw Material Purchases	Raw Material Purchases by Supplier	% of Total Raw Material Purchases	Raw Material Purchases by Supplier	% of Total Raw Material Purchases	Raw Material Purchases by Supplier	% of Total Raw Material Purchases
Supplier 1	\$ 1,968	24%	\$ 1,980	24%	\$ 6,156	30%	\$ 5,131	17%
Supplier 2	874	11%	891	11%	2,041	10%	(a)	(a)
Supplier 3	(a)	(a)	861	11%	(a)	(a)	(a)	(a)
	\$ 2,842	35%	\$ 3,732	46%	\$ 8,197	40%	\$ 5,131	17%

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

G. Segment Information

Our business consists of one segment, the development, manufacturing, marketing and distribution of nutritional supplements. Our products are sold both in the United States and in markets outside the United States, including Europe, Australia and Japan. Our primary market outside the United States is Europe.

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

	Three Months Ended December 31,		Six Months Ended December 31,	
	2004	2003	2004	2003
Net Sales				
United States	\$16,779	\$12,611	\$32,830	\$24,810
Markets Outside the United States	4,766	4,584	11,442	9,106
Total Net Sales	\$21,545	\$17,195	\$44,272	\$33,916

Products manufactured by NAIE accounted for 55% of net sales in markets outside the United States for the three months ended December 31, 2004 and 49% for the three months ended December 31, 2003. NAIE accounted for 48% of net sales in markets outside the United States for the six months ended December 31, 2004 and 46% for the six months ended December 31, 2003.

No products manufactured by NAIE were sold in the United States during the six months ended December 31, 2004 and 2003.

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

	Long-Lived Assets		Total Assets		Capital Expenditures	
					Six Months Ended	
	December 31, 2004	June 30, 2004	December 31, 2004	June 30, 2004	December 31, 2004	December 31, 2003
United States	\$ 14,925	\$10,833	\$ 38,656	\$38,625	\$ 5,191	\$ 1,342
Europe	972	1,135	4,456	3,843	47	101
	\$ 15,897	\$11,968	\$ 43,112	\$42,468	\$ 5,238	\$ 1,443

H. Contingencies

From time to time, we become involved in various investigations, claims and legal proceedings that arise in the ordinary course of our business. These matters may relate to product liability, employment, intellectual property, tax, regulation, contract or other matters. The resolution of these matters as they arise will be subject to various uncertainties. 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.

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 six months ended December 31, 2004. You should read the following discussion and analysis together with our unaudited consolidated financial statements and the notes to the consolidated financial statements included under Item 1 in this report, as well as the information included in our 2004 Annual Report. Our future financial condition and results of operations will vary from our historical financial condition and results of operations as described below.

Executive Overview

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

Major business developments for the six months ended December 31, 2004 included the following:

- Achieved a 5.1% operating margin, while incurring increased regulatory costs of \$392,000 related to the Therapeutic Goods Administration of Australia (TGA) certification review of our U.S.-based manufacturing facilities and \$210,000 related to public company compliance matters under the Sarbanes-Oxley Act of 2002.
- Our two largest customers comprised 76% of our net sales.
- Contract manufacturing sales grew 41% over the comparable period last year. Sales to our second largest customer grew 82% over the comparable period last year.
- Funded \$5.2 million of capital expenditures from available cash on hand. The capital expenditures were invested primarily in the build out of our Vista, California facility, which included the acquisition of additional manufacturing equipment.

We completed our 46,000 square-foot production facility build-out in Vista, California in January 2005.

Our focus for the remainder of fiscal 2005 includes the following:

- Grow and diversify net sales and customer base;
- Improve operational efficiency, and manage costs and business risks to improve profitability;
- Invest heavily in our facility expansion and manufacturing equipment to support our growth and profit improvement initiatives;
- Strengthen our customized services including product formulation, regulatory assistance, product registration, product testing and evaluation, label design and clinical study design and management; and
- Identify and evaluate acquisition opportunities that could increase product lines, enhance manufacturing capabilities or reduce risks associated with a variety of factors.

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 2004 Annual Report. There have been no significant changes to these policies during the six months ended December 31, 2004, with the exception of our policies on derivative financial instruments described below.

Derivative Financial Instruments

We use derivative financial instruments in the management of our foreign currency exchange risk inherent in our forecasted transactions denominated in Euros. We may hedge our foreign currency exposures by entering into offsetting forward exchange contracts and currency options. We account for derivative financial instruments using the deferral method under FAS 133, "Accounting for Derivatives and Related Hedging Activity," when such instruments are intended to hedge identifiable, firm foreign currency commitments or anticipated transactions and are designated as, and effective as, hedges. Foreign exchange exposures arising from certain transactions that do not meet the criteria for the deferral method are marked-to-market.

We recognize any deferred gains and losses associated with derivative instruments in income in the period in which the underlying hedged transaction is recognized. In the event the derivative instrument is deemed ineffective or sold prior to maturity, we would recognize the resultant gain or loss in income.

Results of Operations

The results of our operations for the periods ended December 31 were as follows (dollars in thousands, except per share amounts):

	Three Months Ended December 31,			Six Months Ended December 31,		
	2004	2003	% Change	2004	2003	% Change
Private label contract manufacturing	\$19,580	\$14,731	33%	\$40,176	\$28,449	41%
Direct-to-consumer marketing program	1,965	2,464	(20)%	4,096	5,467	(25)%
Total net sales	21,545	17,195	25 %	44,272	33,916	31%
Cost of goods sold	16,953	13,300	27%	34,362	25,875	33%
Gross profit	4,592	3,895	18%	9,910	8,041	23%
Gross profit %	21.3%	22.7%		22.4%	23.7%	
Selling, general & administrative expenses	3,710	3,346	11%	7,634	6,862	11%
% of net sales	17.2%	19.5%		17.2%	20.2%	
Other income, net	145	63	130%	95	22	332%
Income before taxes	1,027	612	68%	2,371	1,201	97%
% of net sales	4.8%	3.6%		5.4%	3.5%	
Net income	\$ 785	\$ 576	36%	\$ 1,637	\$ 1,143	43%
% of net sales	3.6%	3.3%		3.7%	3.4%	
Diluted net income per common share	\$ 0.12	\$ 0.09	33%	\$ 0.25	\$ 0.19	32%

Consolidated private label contract manufacturing net sales increased \$4.8 million, or 33%, over the comparable quarter last year, and increased \$11.7 million, or 41%, over the comparable year-to-date period last year. Changes in currency exchange rates, namely the strengthening of the Euro, contributed \$222,000, or 2%, of the comparable quarter growth and \$392,000, or 1%, of the comparable year-to-date growth. Excluding the impact of changes in currency exchange rates, the remaining increase over the comparable quarter and year-to-date periods was due primarily to higher volumes of established products in existing markets to our two largest customers of \$4.3 million, or 37%, over the comparable quarter and \$10.0 million, or 43%, over the comparable year-to-date period. The remaining increase in quarterly and year-to-date net sales was from growth in sales to new customers, partially offset by decreased volumes with existing customers. Looking forward, we expect relatively steady net sales for the remainder of fiscal 2005. We anticipate that we will be discontinuing our relationships with two of our newer private label contract manufacturing customers and intend in the future to focus on larger, higher quality customers. In January 2005, we initiated negotiations with our largest customer, NSA International, Inc., to renew our manufacturing agreement.

The Dr. Cherry Pathway to Healing™ product line comprised 99% of our direct-to-consumer net sales. Direct-to-consumer net sales for the three months ended December 31, 2004 decreased 20% from the comparable quarter last year, and decreased 25% from the comparable year-to-date period last year due to a reduction in our media spending investment in new television markets for the Dr. Cherry Pathway to Healing™ product line, as the investment did not produce what we considered to be adequate results. Additionally, we experienced a reduction in new customer acquisitions from our primary television market, while the average order value remained consistent. We have identified opportunities to improve the content and style of the television programs and anticipate introducing the upgraded television programming at the end of the third quarter of fiscal 2005. Additionally, the Chopra Center Essentials™ product line will be marketed on a test basis through direct mail at the beginning of the fourth quarter of fiscal 2005. The brand development costs for our direct-to-consumer product lines of approximately \$350,000 are not expected to provide an immediate return.

Gross profit margin decreased to 21.3% for the three months ended December 31, 2004 from 22.7% in the comparable quarter last year. For the first six months of fiscal 2005, our gross profit margin decreased to 22.4% from 23.7% in the comparable year-to-date period last year. The decrease in gross profit margin was due to an increase in material cost as a percentage of net sales of 5.3 percentage points over the comparable quarter last year and 4.0 percentage points over the comparable year-to-date period, offset partially by a decrease in labor and overhead as a percentage of net sales of 3.9 percentage points from the comparable quarter last year and 2.7 percentage points from the comparable year-to-date period.

Our material cost as a percentage of net sales increased to 57.6% for the three months ended December 31, 2004, from 52.3% in the comparable quarter last year. For the first six months of fiscal 2005, our material cost as a percentage of net sales increased to 57.2% from 53.2% in the comparable year-to-date period last year. The increase in material cost for the quarter and year-to-date periods was primarily due to a shift in our sales mix to higher volume, lower margin products. This shift in sales mix resulted in approximately 5.6 percentage points of the material cost increase over the comparable quarter last year, and 5.1 percentage points over the comparable year-to-date period, partially offset by reductions in inventory reserve charges.

Our labor and overhead expenses as a percentage of net sales decreased to 21.1% for the three months ended December 31, 2004, from 25.0% in the comparable quarter last year. For the first six months of fiscal 2005, our labor and overhead expenses as a percentage of net sales decreased to 20.4% from 23.1% in the comparable year-to-date period last year. The decrease in labor and overhead was primarily due to improved leverage of fixed costs on higher net sales.

In June 2004, we began the build out of tenant improvements for approximately 46,000 square feet at our Vista, California facility. The build out of the facility was completed in January 2005. We anticipate being able to initiate production activities in the third quarter of fiscal 2005. If we are unable to complete the transition of our operating activities as planned, we could experience a disruption in our manufacturing capabilities and incur additional costs to fulfill customer orders.

Selling, general and administrative expenses as a percentage of net sales decreased to 17.2% for the three months ended December 31, 2004, from 19.5% in the comparable quarter last year. For the first six months of fiscal 2005, our selling, general and administrative expenses as a percentage of net sales decreased to 17.2% from 20.2% in the comparable year-to-date period last year. However, in dollars, selling, general and administrative expenses increased \$364,000, or 11%,

over the comparable quarter last year, and increased \$772,000, or 11%, over the comparable year-to-date period last year. The quarter and year-to-date increases were primarily attributable to Sarbanes-Oxley compliance work of \$95,000 and \$210,000, respectively, and research and development initiatives of \$681,000 and \$932,000, respectively, partially offset by a reduction of \$156,000 and \$334,000 in our media spending investment in new television markets for the Dr. Cherry Pathway to Healing™ product line and the related reduction in fulfillment costs associated with the reduced net sales of \$123,000 and \$353,000, respectively.

During the quarter and year-to-date periods ended December 31, 2004, we continued to make significant investments in our research and development initiatives primarily in the areas of regulatory assistance, clinical studies and personnel. We incurred incremental regulatory costs over the comparable quarter and year-to-date periods last year of \$392,000 due to increased regulatory certification requirements to improve service to our customers selling products in international markets. Clinical studies increased \$156,000 over the comparable quarter last year and \$237,000 over the comparable year-to-date period last year primarily for our commitment to participate in our customers' ongoing and future clinical studies. Personnel costs increased \$133,000 over the comparable quarter last year and \$281,000 over the comparable year-to-date period last year due to additional personnel hired in the second half of fiscal 2004 to strengthen our team in the areas of quality assurance, regulatory compliance and product formulation.

Other income, net, increased to \$145,000 for the three months ended December 31, 2004 from \$63,000 in the comparable quarter last year. For the first six months of fiscal 2005, other income, net, increased to \$95,000 from \$22,000 in the comparable year-to-date period last year. The primary component of other income, net, was the net foreign exchange gain on the translation of Euro denominated cash and receivables of \$168,000 for the second quarter and \$166,000 for the first six months of fiscal 2005. The net foreign exchange gain increased \$38,000 over the comparable quarter last year and \$21,000 over the comparable year-to-date period last year. The remaining increase primarily related to a \$47,000 gain on the sale of a previously written-off investment during the three months ended December 31, 2004.

In the second quarter of fiscal 2005, we adjusted our annual effective tax rate to 31% partially due to a shift in taxable income between taxable jurisdictions and anticipated reduced levels of profitability for the remainder of fiscal 2005. NAIE operates under a five-year Swiss federal and cantonal income tax holiday that ends June 30, 2005. Following the expiration of our tax holiday, we anticipate NAIE's effective tax rate for Swiss federal, cantonal and communal taxes will be approximately 23% compared to our current effective rate of approximately 5%.

Our effective tax rate was not affected by the American Jobs Creation Act, which was signed into law on October 22, 2004. The new act creates a temporary incentive for United States multinational corporations to repatriate accumulated income earned outside the United States by providing an 85% dividend received deduction for certain dividends from controlled foreign corporations. Whether we will ultimately take advantage of this incentive depends on a number of factors including potentially forthcoming congressional actions, treasury regulations, NAIE's future cash requirements and the possible development of a qualified reinvestment plan. At this time, NAIE's retained earnings remain indefinitely reinvested offshore.

While we effectively managed our selling, general and administrative expenses in the second quarter of fiscal 2005 to improve profitability over the comparable quarter last year, we incurred significantly higher regulatory costs, which we expect to continue during the remainder of fiscal 2005. As discussed above, the increased costs are related, in part, to the scheduled TGA certification review of our U.S.-based manufacturing facilities and the planned introduction of our upgraded marketing programs for our direct-to-consumer product lines, for which we do not expect an immediate return. These increased operating expenses, combined with anticipated relatively steady net sales for the remainder of fiscal 2005, will reduce our net income. Nonetheless, we expect to remain profitable, although at reduced levels, for the remainder of fiscal 2005.

Liquidity and Capital Resources

Our primary sources of liquidity and capital resources are cash flows provided by operating activities and the availability of borrowings under our credit facility. During the six months ended December 31, 2004, cash provided by operating activities was \$2.5 million.

Accounts receivable, net, as of December 31, 2004 decreased \$1.3 million from June 30, 2004. The decrease was primarily due to the timing of shipments at the end of the quarter ended June 30, 2004. Days sales outstanding were 33 days for the six months ended December 31, 2004 and the fiscal year ended June 30, 2004. Accounts payable as of December 31, 2004 decreased \$429,000 from June 30, 2004 primarily due to the timing of inventory receipts and disbursements to vendors. Accounts payable as a percentage of inventory was 54% at December 31, 2004 compared to 59% at June 30, 2004. Additionally, in September 2004 we made compensation payments of \$1.6 million under our fiscal 2004 Management Cash Incentive Plan.

During the first six months of fiscal 2005, we invested \$5.2 million in the expansion of our Vista, California production facility, which included the acquisition of additional manufacturing equipment. The expanded facility should help us improve operational efficiency, increase manufacturing capacity and reduce business risk. On February 1, 2005, we amended our credit facility to increase the limitation on our capital expenditures for the fiscal year ended June 30, 2005 from \$6.5 million to \$8.0 million. All other terms and conditions of our credit facility remain in full force and effect. The limitation on our capital expenditures was increased in anticipation of expanding our manufacturing facilities in Lugano, Switzerland.

Our consolidated debt decreased to \$4.3 million at December 31, 2004 from \$4.7 million at June 30, 2004. Our \$12.0 million credit facility is comprised of an \$8.0 million working capital line of credit and \$4.0 million in term loans. The working capital line of credit has a 2.5-year term, is secured by our accounts receivable and other rights to payment, general intangibles, inventory and equipment, has an interest rate of LIBOR plus 1.75% and borrowings are subject to eligibility requirements for current accounts receivable and inventory balances. The term loans consist of a \$700,000 ten year term loan with a twenty year amortization, secured by our San Marcos building, at an interest rate of LIBOR plus 2.25%; a \$1.8 million four year term loan, secured by our accounts receivable and other rights to payment, general intangibles, inventory and equipment, at an interest rate of LIBOR plus 2.10%; and a \$1.5 million five year term loan, secured by equipment, at an interest rate of LIBOR plus 2.10%. Monthly payments on the term loans are approximately \$62,000 plus interest. As of December 31, 2004, the amount outstanding on the term loans was \$3.6 million and we did not have an outstanding balance on the working capital line of credit. As of December 31, 2004, we had \$7.1 million available under the working capital line of credit, net of a \$440,000 outstanding letter of credit issued to our landlord. Under our credit facility, we may not create, incur or assume additional indebtedness without the approval of our lender.

On January 6, 2004, we purchased twelve 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 \$8.3 million, a weighted average strike price of \$1.15 and a purchase price of \$55,000. The premium associated with each option contract was marked-to-market and realized gains or losses were recognized on the settlement date in cost of goods sold. The risk of loss associated with the options was limited to premium amounts paid for the option contracts. For the six months ended December 31, 2004, approximately \$18,000 had been charged to cost of goods sold for the option contracts.

On August 9, 2004, we purchased ten monthly participating forward contracts designated and effective as cash flow hedges against the foreign currency exchange risk inherent in our forecasted transactions denominated in Euros. The participating forwards consist of ten put options providing protection when the exchange rate of the United States dollar to the Euro decreases below our contracted strike price of \$1.1892, and ten call options that offset the initial cost of the purchased put options. The call options obligate us to give up 50% of the foreign currency gain related to the forecasted transactions when the United States dollar/Euro exchange rate increases above our contracted strike price. The participating forward contracts had an initial notional amount of \$1.5 million. As of December 31, 2004, the unrealized loss for the remaining six monthly participating forward contracts of \$125,000 was included in our condensed consolidated balance sheets under "Accumulated Other Comprehensive Loss."

As of December 31, 2004, we had \$4.6 million in cash and cash equivalents. We plan on funding our current working capital needs, capital expenditures and debt payments using available cash, cash flow from operations and our credit facility.

Off-Balance Sheet Arrangements

We do not have any off-balance sheet debt nor do we have any transactions, arrangements, obligations (including contingent obligations) or other relationships with any unconsolidated entities or other persons that may have a material current or future effect on financial condition, changes in financial condition, results of operations, liquidity, capital expenditures, capital resources, or significant components of revenue or expenses.

Recent Accounting Pronouncements

In November 2004, the FASB issued Statement of Financial Accounting Standards No. 151, "Inventory Costs, an amendment of APB No. 43, Chapter 4" (SFAS 151). SFAS 151 clarifies that abnormal inventory costs such as costs of idle facilities, excess freight and handling costs, and wasted materials (spoilage) are required to be recognized as current period charges. The provisions of SFAS 151 are effective for our fiscal year beginning July 1, 2006. We do not expect that the adoption of SFAS 151 will have a material impact on our consolidated financial position or results of operations.

On December 16, 2004, the FASB finalized SFAS 123R, "Share Based Payment" (SFAS 123R), which will be effective for interim or annual reporting periods beginning after June 15, 2005. SFAS 123R will require that we expense stock options and employee stock purchase plan shares using a binomial lattice valuation model that the FASB believes is capable of more fully reflecting certain characteristics of employee stock options. The effect of expensing stock options and employee stock purchase plan shares on our reported results of operations using the Black-Scholes model is presented in the notes to our condensed consolidated financial statements under Item 1 of this report.

Additional recent accounting pronouncements are discussed under Item 7 of our 2004 Annual Report. As of December 31, 2004, other than the pronouncements described above and the pronouncements discussed in our 2004 Annual Report, we are not aware of any other pronouncements that materially affect our financial position or results of operations.

Risks

You should carefully consider the risks described under Item 7 of our 2004 Annual Report, as well as the other information in our 2004 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 December 31, 2004, we had fixed rate debt of \$641,000 and variable rate debt of approximately \$3.6 million. The interest rates on our variable rate debt range from LIBOR plus 1.75% to LIBOR plus 2.25%. As of December 31, 2004, the weighted average effective interest rate on our variable rate debt was 4.1%. An immediate one hundred basis point (1.0%) increase in the interest rate on our variable rate debt, holding other variables constant, would increase our interest expense by \$19,000 for the six months ended December 31, 2004. 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 January 6, 2004, we purchased twelve 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 \$8.3 million, a weighted average strike price of \$1.15 and a purchase price of \$55,000. The risk of loss associated with the options was limited to premium amounts paid for the option contracts. As of December 31, 2004, all of the options had expired.

On August 9, 2004, we purchased ten monthly participating forward contracts designated and effective as cash flow hedges against the foreign currency exchange risk inherent in our forecasted transactions denominated in Euros. The participating forward consists of ten put options providing protection when the exchange rate of the United States dollar to the Euro decreases below our contracted strike price of \$1.1892, and ten call options that offset the initial cost of the purchased put option. The call options obligate us to give up 50% of the foreign currency gain related to the forecasted transaction when the United States dollar/Euro exchange rate increases above our contracted strike price. The participating forward contracts had an initial notional amount of \$1.5 million and a weighted average strike price of \$1.1892. As of December 31, 2004, we had exercised four participating forward contracts.

On December 31, 2004, the Swiss Franc closed at 1.13 to 1.00 United States dollar and the Euro closed at 0.73 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, holding other variables constant, would have decreased our net income for the six months ended December 31, 2004 by \$348,000.

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.

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 December 31, 2004. 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 December 31, 2004 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 February 14, 2005, neither NAI nor its subsidiaries were a party to any material pending legal proceeding nor was any of their property the subject of any material pending legal proceeding.

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

None.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

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

Our annual meeting of stockholders was held on December 3, 2004. The following table sets forth the matters voted upon at the meeting and the results of the voting on each matter voted upon:

<u>Matter Voted Upon</u>	<u>Votes For</u>	<u>Withheld</u>	<u>Votes Against</u>	<u>Abstentions</u>	<u>Broker Non-Votes</u>
Election of two Class II directors to serve until the next annual meeting of stockholders held to elect Class II directors and until their successors are elected and qualified:					
Lee G. Weldon	5,141,638	371,066	—	—	—
Alan G. Dunn	5,185,375	327,329	—	—	—
Approval of an amendment to our Certificate of Incorporation to increase the number of our authorized shares from 8,500,000 (8,000,000 of common stock and 500,000 of preferred stock) to 20,500,000 (20,000,000 of common stock and 500,000 of preferred stock)	2,597,291	—	249,289	2,304	2,663,820
Approval of an amendment to our 1999 Omnibus Equity Incentive Plan, including an increase of 500,000 shares authorized for issuance under the plan	1,729,259	—	1,115,627	3,998	2,663,820
Ratification of the selection of Emst & Young LLP as our independent auditors for the fiscal year ending June 30, 2005	5,506,044	—	2,275	4,385	—

In accordance with the terms set forth in the proxy statement related to the solicitation of proxies for use at the annual meeting, an abstention from voting was used for the purpose of establishing a quorum, and was considered a vote "against" a proposal. A broker non-vote was also used for the purpose of establishing a quorum, but was not otherwise counted in the voting process. Each of the above directors and matters was approved by the stockholders at the annual meeting.

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS

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

EXHIBIT INDEX

Exhibit Number	Description	Incorporated By Reference To
3(i)	Amended and Restated Certificate of Incorporation of Natural Alternatives International, Inc. filed with the Delaware Secretary of State on January 14, 2005	Filed herewith
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, amended effective January 30, 2004, and further amended effective December 3, 2004	Filed herewith
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 Cash Incentive Plan	Exhibit 10.3 of NAI's Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2003, filed with the commission on November 5, 2003
10.4	Amended and Restated Employment Agreement dated as of January 30, 2004, by and between NAI and Mark Zimmerman	Exhibit 10.4 of NAI's Annual Report on Form 10-K for the fiscal year ended June 30, 2004, filed with the commission on September 14, 2004
10.5	Amended and Restated Employment Agreement dated as of January 30, 2004, by and between NAI and Randell Weaver	Exhibit 10.5 of NAI's Annual Report on Form 10-K for the fiscal year ended June 30, 2004, filed with the commission on September 14, 2004
10.6	Amended and Restated Employment Agreement dated as of January 30, 2004, by and between NAI and Mark A. LeDoux	Exhibit 10.6 of NAI's Annual Report on Form 10-K for the fiscal year ended June 30, 2004, filed with the commission on September 14, 2004
10.7	Amended and Restated Employment Agreement dated as of January 30, 2004, by and between NAI and John Wise	Exhibit 10.7 of NAI's Annual Report on Form 10-K for the fiscal year ended June 30, 2004, filed with the commission on September 14, 2004
10.8	Amended and Restated Employment Agreement dated as of January 30, 2004, by and between NAI and John Reaves	Exhibit 10.8 of NAI's Annual Report on Form 10-K for the fiscal year ended June 30, 2004, filed with the commission on September 14, 2004

10.9	Amended and Restated Employment Agreement dated as of January 30, 2004, by and between NAI and Timothy E. Belanger	Exhibit 10.9 of NAI's Annual Report on Form 10-K for the fiscal year ended June 30, 2004, filed with the commission on September 14, 2004
10.10	Employment Agreement dated as of March 29, 2004, by and between NAI and Robert A. Kay	Exhibit 10.10 of NAI's Annual Report on Form 10-K for the fiscal year ended June 30, 2004, filed with the commission on September 14, 2004
10.11	Amended and Restated Exclusive License Agreement effective as of September 1, 2004 by and among NAI and Dr. Reginald B. Cherry	Exhibit 10.11 of NAI's Annual Report on Form 10-K for the fiscal year ended June 30, 2004, filed with the commission on September 14, 2004
10.12	Exclusive License Agreement effective as of September 1, 2004 by and among NAI and Reginald B. Cherry Ministries, Inc.	Exhibit 10.12 of NAI's Annual Report on Form 10-K for the fiscal year ended June 30, 2004, filed with the commission on September 14, 2004
10.13	First Amendment to Exclusive License Agreement effective as of December 10, 2004 by and among NAI and Reginald B. Cherry Ministries, Inc.	Filed herewith
10.14	Lease of Facilities in Vista, California between NAI and Calwest Industrial Properties, LLC, a California limited liability company dated October 27, 2003	Exhibit 10.10 of NAI's Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2003, filed with the commission on November 5, 2003
10.15	Credit Agreement dated as of May 1, 2004 by and between NAI and Wells Fargo Bank, National Association	Exhibit 10.11 of NAI's Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2004, filed with the commission on May 17, 2004
10.16	First Amendment to Credit Agreement dated as of February 1, 2005 by and between NAI and Wells Fargo Bank, National Association	Exhibit 10.1 of NAI's Current Report on Form 8-K dated February 1, 2005, filed with the commission on February 7, 2005
10.17	Form of Indemnification Agreement entered into between NAI and each of its directors	Exhibit 10.15 of NAI's Annual Report on Form 10-K for the fiscal year ended June 30, 2004, filed with the commission on September 14, 2004
10.18	Amended and Restated Exclusive License Agreement effective as of February 5, 2003, by and among NAI, Chopra Enterprises, LLC, Deepak Chopra, M.D., and David Simon, M.D.	Exhibit 10.16 of NAI's Annual Report on Form 10-K for the fiscal year ended June 30, 2004, filed with the commission on September 14, 2004
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

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: February 14, 2005

NATURAL ALTERNATIVES INTERNATIONAL, INC.

By: /s/ John R. Reaves

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.

**Amended and Restated
Certificate of Incorporation of
Natural Alternatives International, Inc.**

Natural Alternatives International, Inc., a corporation organized and existing under the laws of the State of Delaware, hereby certifies as follows:

1. The name of the corporation is Natural Alternatives International, Inc. (“Corporation”).

2. The original Certificate of Incorporation was filed with the Secretary of State of the State of Delaware on October 26, 1989, a Certificate of Amendment was filed with the Secretary of State of the State of Delaware on April 5, 1991, and a Restated Certificate of Incorporation was filed with the Secretary of the State of Delaware on July 31, 1996 (“Restated Certificate”).

3. This Amended and Restated Certificate of Incorporation has been duly proposed by resolutions adopted and declared advisable by the Board of Directors of the Corporation, duly adopted by the stockholders of the Corporation at a meeting duly called, and duly executed and acknowledged by the officers of the Corporation in accordance with the provisions of Sections 103, 242 and 245 of the General Corporation Law of the State of Delaware and, restates, integrates and further amends the provisions of the Restated Certificate and, upon filing with the Secretary of State in accordance with Section 103, shall thenceforth supersede the Restated Certificate and shall, as it may thereafter be amended in accordance with its terms and applicable law, be the Amended and Restated Certificate of the Corporation.

4. The text of the Restated Certificate is hereby amended and restated to read in its entirety as follows:

FIRST: The name of the Corporation is Natural Alternatives International, Inc.

SECOND: For the purpose of this Amended and Restated Certificate of Incorporation:

A. “Affiliate” and “Associate” have the meanings set forth in Rule 12b-2 under the Securities Exchange Act of 1934 as in effect on the date of filing of this Amended and Restated Certificate.

B. “Beneficial Owner,” “Beneficial Ownership” and “Beneficially Owns” have the meanings set forth in Rule 13d-3 under the Securities Exchange Act of 1934 as in effect on the date of filing of this Amended and Restated Certificate.

C. “Continuing Director” means, as to any Related Person, a member of the Board of Directors of the Corporation (the “Board”) who (1) is unaffiliated with and is not the Related Person and (2) was a member of the Board of Directors of Natural Alternatives International, Inc., a Colorado corporation, prior to October 22, 1989 or thereafter became a member of the Board prior to the time that the Related Person became a Related Person, and any successor of a Continuing Director who is recommended to succeed a Continuing Director by a majority of Continuing Directors then on the Board.

D. “Disinterested Shares” means, as to any Related Person, shares of Voting Stock held by stockholders other than a Related Person.

E. “Related Person” means and includes any individual, corporation, partnership or other person or entity, or any group of two or more of the foregoing that have agreed to act together, which, together with its Affiliates and Associates, Beneficially Owns, in the aggregate, ten percent (10%) or more of the outstanding Voting Stock, and any Affiliate or Associates of any such individual, corporation, partnership or other person, entity or group.

F. "Voting Stock" means all outstanding shares of capital stock of the Corporation entitled to vote generally in the election of directors of the Corporation, and each reference to a percentage or portion of shares of Voting Stock shall refer to such percentage or portion of the votes entitled to be cast by such shares.

THIRD: The address of the registered office of the Corporation in the State of Delaware is 1209 Orange Street in the City of Wilmington, County of New Castle, State of Delaware, 19801. The name of its registered agent at such address is The Corporation Trust Company.

FOURTH: The purpose of the Corporation is to engage in any lawful act or activity for which a corporation may now or hereafter be organized under the General Corporation Law of the State of Delaware ("GCL").

FIFTH: The total authorized number of shares of the Corporation shall be 20,500,000 shares, consisting of 20,000,000 shares designated as Common Stock, \$.01 par value, and 500,000 shares designated as Preferred Stock, \$.01 par value.

Shares of the Preferred Stock may be issued from time to time in one or more series. The Board of the Corporation is hereby expressly authorized to establish and designate one or more series of the Preferred Stock, to fix the number of shares constituting each series, and to fix the designations and the powers, rights, preferences, qualifications, limitations, and restrictions of the shares of each series and the variations of the relative powers, rights, preferences, qualifications, limitations and restrictions as between series, and to increase and to decrease (but not below the number of shares of such series then outstanding) the number of shares constituting each series. Such determinations may be fixed by a resolution or resolutions adopted by the Board.

SIXTH: Elections of directors at an annual or special meeting of the stockholders may be by written ballot unless the Bylaws of the Corporation shall otherwise provide.

SEVENTH: Any action required or permitted to be taken at any annual or special meeting of stockholders may be taken only upon the vote of the stockholders at an annual or special meeting duly noticed and called, as provided in the Bylaws of the Corporation, and may not be taken by a written consent of the stockholders pursuant to the GCL.

EIGHTH: Special meetings of stockholders of the Corporation for any purpose or purposes may be called at any time by the Board, or by a majority of members of the Board; provided, however, that where a proposal requiring stockholder approval is made by or on behalf of a Related Person or director affiliated with a Related Person, or where a Related Person otherwise seeks action requiring stockholder approval, then the affirmative vote of a majority of the Continuing Directors shall also be required to call a special meeting of stockholders for the purpose of considering such proposal or obtaining such approval. Special meetings of stockholders of the Corporation may not be called by any other person or persons or in any other manner.

NINTH: A. The Corporation may indemnify, to the full extent authorized or permitted by law, any person made, or threatened to be made, a defendant or witness to any action, suit or proceeding (whether civil or criminal or otherwise) by reason of the fact that he, his testator or intestate, is or was director or officer of the Corporation or by reason of the fact that such director or officer, at the request of the Corporation, is or was serving any other corporation, partnership, joint venture, employee benefit plan or other enterprise, in any capacity. Nothing contained herein shall affect any rights to indemnification to which employees other than directors or officers may be entitled by law. No amendment or repeal of this Section A of Article Ninth shall apply to or have any effect on any right to indemnification provided hereunder with respect to any acts or omissions occurring prior to such amendment or repeal.

B. No director of the Corporation shall be personally liable to the Corporation or its stockholders for monetary damages for any breach of fiduciary duty by such a director as a director. Notwithstanding the foregoing sentence, a director shall be liable to the extent provided by applicable law (i) for any breach of the director's duty of loyalty to the Corporation or its stockholders, (ii) for acts or omissions not in good faith or which involve intentional misconduct or a knowing violation of law, (ii) pursuant to Section 174 of the GCL, or (iv) for any transaction from which such director derived an improper personal benefit. No amendment to

or repeal of this Section B of this Article Ninth shall apply to or have any effect on the liability or alleged liability of any director of the Corporation for or with respect to any acts or omissions of such director occurring prior to such amendment or repeal.

C. In furtherance and not in limitation of the powers conferred by statute:

(i) the Corporation may purchase and maintain insurance on behalf of any person who is or was a director, officer, employee or agent of the Corporation, or is serving at the request of the Corporation as a director, officer, employee or agent of any corporation, partnership, joint venture, trust, employee benefit plan or other enterprise against any liability asserted against him and incurred by him in any such capacity, or arising out of his status as such, whether or not the Corporation would have the power to indemnify him against such liability under the provisions of the law; and

(ii) the Corporation may create a trust fund, grant a security interest and/or use other means (including, without limitation, letters of credit, surety bonds and/or other similar arrangements), as well as enter into contracts providing indemnification to the full extent authorized or permitted by law and including as part thereof provisions with respect to any or all of the foregoing to ensure the payment of such amounts as may become necessary to effect indemnification as provided therein, or elsewhere.

TENTH: The provisions set forth in this Article Tenth and in Article Ninth herein may not be repealed or amended in any respect, unless such action is approved by the affirmative vote of the holders of not less than 66.67% of the outstanding shares of Voting Stock of the Corporation.

ELEVENTH: Subject to the provisions in this Amended and Restated Certificate, the Corporation reserves the right to repeal, alter, amend, or rescind any provision contained in this Amended and Restated Certificate, in the manner now or hereafter prescribed by statute, and all rights conferred on stockholders herein are granted subject to this reservation.

TWELFTH: The Board shall be divided as nearly equal in number as possible into three classes, designated Class I, Class II and Class III. The term of office of directors of one class shall expire at each regularly scheduled annual meeting of stockholders held for the purpose of electing directors of that class, and in all cases as to each director until his or her successor shall be elected and shall qualify or until his or her earlier resignation, removal from office, death or incapacity. Additional directorships resulting from an increase in the number of directors shall be apportioned among the classes as equally as possible. The initial term of office of directors of all classes shall begin at the first regularly scheduled meeting of stockholders held on May 10, 1996; that of Class I shall expire at the first regularly scheduled meeting of stockholders occurring in 1997 or thereafter; that of Class II shall expire at the first regularly scheduled meeting of stockholders occurring in 1998 or thereafter; and that of Class III shall expire at the first regularly scheduled meeting of stockholders occurring in 1999 or thereafter, and in all cases each Director shall continue until his or her successor shall be elected and shall qualify, or until his or her earlier resignation, removal from office, death or incapacity. After the initial term of directors described herein, at each regularly scheduled annual meeting of stockholders held for the purpose of electing directors of that class, the number of directors equal to the number of directors of the class whose terms expires at the time of such meeting (or, if less, the number of directors properly nominated and qualified for election) shall be elected to hold office until the third succeeding annual meeting of stockholders held for the purpose of electing directors of that class, after their election.

THIRTEENTH: Newly created directorships resulting from any increase in the number of directors, or vacancies in any existing directorships resulting from death, resignation, disqualification, removal or other cause shall be filled solely by the affirmative vote of a majority of the remaining directors then in office, even though less than a quorum, or by the sole remaining director. Any director elected in accordance with the preceding sentence shall hold office for the remainder of the full term of the Class of Directors in which the new directorship was created as determined in the same manner as the identity of the directors, or the vacancy occurred, and until such director's successor shall have been elected and qualified. No decrease in the number of directors constituting the Board shall shorten the term of any incumbent director.

FOURTEENTH: No director of the Corporation may be removed except for cause, and the vote of the holders of seventy percent (70%) of the outstanding shares of all classes of capital stock of the Corporation entitled to vote generally in the election of directors, considered for this purpose as one class, shall be required to remove a director for cause. Cause for removal shall be deemed to exist only if the director whose removal is proposed has been convicted in a court of competent jurisdiction of a felony or has been adjudged by a court of competent jurisdiction to be liable for gross negligence, breach of fiduciary duty, or misconduct in the performance of the director's obligations to the Corporation, and such conviction or adjudication has become final and nonappealable.

FIFTEENTH: At any regularly scheduled meeting of stockholders, only such business shall be conducted, and only such proposals shall be acted upon, as shall have been brought before the meeting (a) by, or at the direction of, the Board, or (b) by any stockholder of the Corporation who complies with the notice procedures set forth in this Article Fifteenth. For a proposal to be properly brought before a meeting by a stockholder, the stockholder must have given timely notice thereof in writing to the Secretary of the Corporation. To be timely, a stockholder's notice must be delivered to, or mailed and received at, the principal executive office of the Corporation no less than 60 days prior to the scheduled meeting, regardless of any postponements, deferrals or adjournments of that meeting to a later date; provided, however, that if less than 70 days' notice or prior public disclosure of the date of the scheduled meeting is given or made, notice by the stockholder, to be timely, must be so delivered or received not later than the close of business on the tenth day of the following the earlier of the day on which such notice of the date of the scheduled meeting was mailed, or the day on which such public disclosure was made. A stockholder's notice to the Secretary shall set forth as to each matter the stockholder proposes to bring before the meeting: (a) a brief description of the proposal desired to be brought before the meeting and the reasons for conducting such business at the meeting; (b) the name and address, as they appear on the Corporation's books, of the stockholder proposing such business and any other stockholder known by such stockholder to be supporting such proposal; (c) the class and number of shares of the Corporation's stock which are beneficially owned by the stockholder on the date of such stockholder's notice and by any other stockholder known by such stockholder to be supporting such proposal, on the date of such stockholder notice; and (d) any financial interest in any aspect of the proposal of the stockholder making the proposal or any other stockholder known by such stockholder to be supporting the proposal.

The presiding officer of the meeting shall determine and declare at or before the meeting whether the stockholder proposal was made in accordance with the terms of this Article Fifteenth. If the presiding officer determines that a stockholder proposal was not made in accordance with the terms of this Article Fifteenth, he or she shall so declare at the meeting and any such proposal shall not be acted upon at the meeting.

This provision shall not prevent the consideration and approval or disapproval at the meeting of reports of officers, directors and committees of the Board, but, in connection with such reports, no new business shall be acted upon at such meeting state, filed and received as herein provided.

SIXTEENTH: Only persons who are nominated in accordance with the following procedures shall be eligible for election as directors. Nominations of persons for election to the Board of Directors of the Corporation may be made at a meeting of stockholders called for the purpose of electing directors, by or at the direction of the Board of Directors, by any nominating committee or person appointed by the Board of Directors, or by any stockholder of the Corporation entitled to vote for the election of directors at the meeting so long as the stockholder complies with the notice procedures set forth in this Article Sixteenth. Such nominations, other than those made by or at the direction of the Board of Directors, or by any nominating committee or person appointed by the Board of Directors, shall be made pursuant to timely notice in writing to the Secretary of the Corporation. To be timely, a stockholder's notice must be delivered to, or mailed and received at, the principal executive office of the Corporation not less than 60 days prior to the scheduled meeting, regardless of any postponements, deferrals or adjournments of that meeting to a later date; provided, however, that if less than 70 days' notice or prior public disclosure is given or made, notice by the stockholder, to be timely, must be delivered or received not later than the close of business on the tenth day following the earlier of the day on which such notice of the date of the scheduled meeting was mailed or the day on which such public disclosure was made. A stockholder's notice to the Secretary shall set forth (a) as to each person whom the stockholder proposes to nominate for election or reelection as a director (i) the name, age, business address and residence address of the person, (ii) the principal occupation or employment of the person, (iii) the class and number of shares of capital stock of the Corporation which are beneficially owned by the person and (iv) any other information relating to the person that is required to be disclosed

in solicitations for proxies for election of directors pursuant to Rule 14a under the Securities Exchange Act of 1934, as amended; and (b) as to the stockholder giving notice (i) the name and address, as they appear on the Corporation's books, of the stockholder and (ii) the class and number of shares of the Corporation's stock which are beneficially owned by the stockholder on the date of such stockholder notice. The Corporation may require any proposed nominee to furnish such other information as may be required by the Corporation in its reasonable discretion, in order to determine the eligibility of such proposed nominee to serve as a director of the Corporation.

SEVENTEENTH: A. In addition to any affirmative vote required or permitted by law or this Amended and Restated Certificate or the Bylaws of the Corporation, and except as otherwise expressly provided in Sections A(i) and A(ii) of this Article Seventeenth, the Corporation shall not effect, directly or indirectly, any Stock Repurchase from an Interested Stockholder unless said Stock Repurchase is authorized by the affirmative vote of the Voting Stock, voting together as a single class, which shares are Beneficially Owned by Persons other than such Interested Stockholder.

The preceding provisions of this Article Seventeenth shall not be applicable to any Stock Repurchase from an Interested Stockholder if such Stock Repurchase is effected by the Corporation pursuant to:

(i) a tender offer or exchange offer by the Corporation for some or all of the outstanding shares of any or all classes of stock of the Corporation made on the same terms to all holders of such shares; or

(ii) an open market stock purchase program approved by a majority of those members of the Board who were duly elected and acting members of the Board prior to the time such person became an Interested Stockholder.

B. For purposes of this Article Seventeenth, the following terms shall be defined by reference to the Securities Exchange Act of 1934 and the rules in effect thereunder on the date of this Amended and Restated Certificate:

(i) "Subsidiary" shall have the meaning set forth in Rule 12b-2 under the Securities Exchange Act of 1934;

(ii) An "Interested Stockholder" shall mean a Person (other than any Subsidiary of the Corporation, any profit-sharing, employee stock ownership or other employee benefit plan of the Corporation or any Subsidiary of the Corporation, or any trustee of or a fiduciary with respect to any such plan when acting in such capacity) who: (a) has been a Beneficial Owner for a period of less than two years immediately prior to the Determination Date of five percent or more of the issued and outstanding shares of Voting Stock (including any Voting Stock which such Person or any of its Affiliates or Associates has (1) the right to acquire (whether such right is exercisable immediately or only after the passage of time), pursuant to any agreement, arrangement or understanding or upon the exercise of conversion rights, exchange rights, warrants or options, or otherwise, or (2) the right to vote pursuant to any agreement, arrangement, or understanding); or (b) is an Affiliate of the Corporation who became the Beneficial Owner of five percent or more of the issued and outstanding shares of Voting Stock at any time within the two-year period immediately prior to the Determination Date; or (c) is an assignee of or has otherwise succeeded to any shares of Voting Stock which were Beneficially Owned by any Interested Stockholder at any time within the two-year period immediately prior to the Determination Date, if such assignment or succession shall have occurred in the course of a transaction or series of transactions not involving a public offering within the meaning of the Securities Act of 1933, as amended.

(iii) The term "Stock Repurchase" shall mean any direct or indirect purchase by the Corporation or any Subsidiary of the Corporation of any shares of the stock of the Corporation at a price greater than the Market Price of such shares, or any direct or indirect purchase of such shares for any consideration other than cash.

(iv) "Market Price" shall mean the closing sale price on the trading day immediately preceding the Determination Date of a share of the Corporation's stock on the Composite Tape for American Stock Exchange-Listed stocks, or, if such stock is not listed on such Exchange, on the principal United States securities exchange on which such stock is listed, or, if such stock is not listed on any such exchange, the closing bid quotation with respect to a share of such stock on the last trading day immediately preceding the Determination Date on the National Association of Securities Dealers, Inc. automated quotations system or any similar system then in use, or if no such quotations are available, the fair market value on the Determination Date of a share of such stock as determined in good faith by a majority of the Board.

(v) “Determination Date” shall mean the date upon which the determination of Market Price is made by the Board.

(vi) The term “Person” shall mean any individual, firm, corporation or other entity and shall include any group comprising any person and any other person with whom such person or any Affiliate or Associate of such person has any agreement, arrangement or understanding, directly or indirectly, for the purpose of acquiring, holding, voting or disposing of stock.

C. Nothing contained in this Article Seventeenth shall be construed to relieve any Interested Stockholder from any fiduciary obligation imposed by law.

D. The Board shall have the power and duty to determine for the purposes of this Article Seventeenth on the basis of information known to its members after reasonable inquiry, (i) whether a Person is, and if so, when such Person became, an Interested Stockholder, (ii) the number of shares of stock of the Corporation or other securities of which any Person is a Beneficial Owner and the number of votes entitled to be cast by such person, (iii) whether a Person is an Affiliate or Associate or another, and (iv) whether the price proposed to be paid for any shares of stock of the Corporation is in excess of the Market Price of such shares. Any such determination made in good faith shall be binding on and conclusive for all parties.

For the purposes of determining whether a Person is an Interested Stockholder pursuant to Section B(ii) of this Article Seventeenth, the shares of the stock of the Corporation deemed to be outstanding shall include shares deemed Beneficially Owned by such Person through application of Section B(i) of this Article Seventeenth, but shall not include any other shares of stock of the Corporation that may be issuable pursuant to any agreement, arrangement or understanding, or upon exercise of conversion rights, warrants or options, or otherwise.

EIGHTEENTH: The affirmative vote of the holders of not less than two-thirds of the outstanding shares of the Corporation’s common stock (other than the shares beneficially owned by an Acquiring Person) shall be required for the approval or authorization of any Business Combination of the Corporation or any subsidiary of the Corporation with any Acquiring Person, notwithstanding the fact that no vote may be required, or that a lesser percentage may be specified by law or otherwise; provided, however, that the two-thirds outstanding common stock requirement shall not be applicable and such Business Combination shall require only such affirmative vote as is required by law or otherwise if: (i) the Board of the Corporation by at least a 75% vote has expressly approved such Business Combination either in advance of or subsequent to such Acquiring Person becoming an Acquiring Person; or (ii) as of the date of the consummation of a Business Combination, the holders of a particular class or series of capital stock, as the case may be, of the Corporation receive a Fair Price as such term is defined in subsection (c) below.

For the purpose of this Article Eighteenth:

- (a) The term “Business Combination” shall mean any (i) merger or consolidation of the Corporation or a subsidiary of the Corporation with an Acquiring Person or any other Corporation which is or after such merger or consolidation would be an “Affiliate” or “Associate” of an Acquiring Person; (ii) sale, lease or transfer (in one transaction or a series of transaction) with any Acquiring Person or any Affiliate of any Acquiring Person, of all or substantially all of the assets of the Corporation or a subsidiary of the Corporation to an Acquiring Person or any Affiliate or Associate of any Acquiring Person; (iii) adoption of any plan or proposal for the liquidation or dissolution of the Corporation proposed by or on behalf of an Acquiring Person or any Affiliate or Associate of any Acquiring Person; (iv) reclassification of securities (including any reverse stock split) or recapitalization of the Corporation or any other transaction that would have the effect, either directly or indirectly, of increasing the proportionate ownership of any class of equity or convertible securities of the Corporation or any subsidiary of the Corporation which is directly or indirectly beneficially owned by an Acquiring Person or any Affiliate or Associate of any Acquiring Person; and (v) an agreement, contract or other arrangement providing for any of the transactions described in this definition of Business Combination.

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- (b) The term “Fair Market Value” shall mean (i) in the case of shares, if such shares are listed on an exchange, the highest closing bid quotation with respect to the shares during the 30-day calendar period preceding the date in question, the highest closing sale price quoted during the 30-day calendar period immediately preceding the consummation of the Business Combination on the National Association of Securities Dealers, Inc. automated quotations system or any similar system then in general use, or, if no such quotations are available, the fair market value of a share on the date in question as determined by 75% of the Board; and (ii) in the case of property other than cash or shares, the fair market value of such property on the date in question as determined by 75% of the Board.
 - (c) The term “Fair Price” shall mean that the aggregate amount of cash and the Fair Market Value of consideration other than cash to be received per share are at least equal to the highest of the following: (i) if applicable, the highest per share price, including any brokerage commissions, transfer taxes, and soliciting dealers’ fees, paid by the Acquiring Person for any shares acquired by it within the two year period immediately preceding the consummation of the Business Combination or the transaction in which it became an Acquiring Person, whichever is higher; or (ii) the Fair Market Value per share.
 - (d) The term “Person” shall mean any individual, firm, corporation or other entity and shall include any group comprised of any Person and any other Person with whom such person or any Affiliate or Associate of such Person has any agreement, arrangement or understanding, directly or indirectly, for the purpose of acquiring, holding, voting or disposing of voting stock of the Corporation.
 - (e) The term “Acquiring Person” shall mean any Person (other than the Corporation, or any subsidiary or any profit-sharing, employee stock ownership or other employee benefit plan of the Corporation or any subsidiary or any trustee of or fiduciary with respect to any such plan when acting in such capacity) who or which: (i) is the Beneficial Owner (as hereinafter defined for purposes of this section only) of 15% or more of the outstanding common stock of the Corporation; (ii) is an Affiliate or Associate of the Corporation and at any time within the two year period immediately prior to the date in question was the Beneficial Owner of 15% or more of the outstanding common stock of the Corporation; or (iii) is at such time an assignee of or has otherwise succeeded to the beneficial ownership of any shares of outstanding common stock of the Corporation which were at any time within the two year period immediately prior to such time beneficially owned by any Acquiring Person, if such assignment or succession shall have occurred in the course of a transaction or series of transactions not involving a public offering within the meaning of the Securities Act of 1933, as amended.
 - (f) A Person shall be a Beneficial Owner of any common stock: (i) which such Person or any of its Affiliates or Associates beneficially owns, directly or indirectly, (a) the right to acquire whether such right is exercisable immediately or not, pursuant to any agreement, arrangement or understanding or upon the exercise of conversion rights, exchange rights, warrants or options, or otherwise, or (b) the right to vote pursuant to any agreement, arrangement or understanding;
 - (g) An Acquiring Person shall be deemed to have acquired a share of the common stock of the Corporation at the time when such Acquiring Person became the Beneficial Owner thereof.

NINETEENTH: The Corporation expressly elects not to be governed by Section 203 of the Delaware General Corporation Law, as amended from time to time, which relates to business combinations with interested stockholders.

TWENTIETH: Notwithstanding any other provision of this Amended and Restated Certificate, the affirmative vote of the holders of at least seventy percent (70%) of the voting power of all of the then outstanding

shares of the stock of the Corporation entitled to vote generally in the election of Directors, voting together as a single class, shall be required to amend in any respect or repeal this Article Twentieth, or Articles Second, Seventh, Eighth, Twelfth, Thirteenth, Fourteenth, Fifteenth, Sixteenth, Seventeenth, Eighteenth, and Nineteenth.

IN WITNESS WHEREOF, this Amended and Restated Certificate of Incorporation has been signed as of December 3, 2004.

Natural Alternatives International, Inc.

By: /s/ Mark A. LeDoux, CEO

Mark A. LeDoux, Chief Executive Officer

ATTEST:

/s/ Randell Weaver

Randell Weaver, Secretary

NATURAL ALTERNATIVES
INTERNATIONAL, INC.

1999 OMNIBUS
EQUITY INCENTIVE PLAN

AS ADOPTED EFFECTIVE
MAY 10, 1999,

AMENDED EFFECTIVE
JANUARY 30, 2004,

AND

FURTHER AMENDED EFFECTIVE
DECEMBER 3, 2004

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NATURAL ALTERNATIVES INTERNATIONAL, INC.

1999 OMNIBUS EQUITY INCENTIVE PLAN

ARTICLE 1. INTRODUCTION.

This Plan was originally adopted by the Board effective May 10, 1999. The purpose of the Plan is to promote the long-term success of the Company and the creation of stockholder value by (a) encouraging Employees, Outside Directors and Consultants to focus on critical long-range objectives, (b) encouraging the attraction and retention of Employees, Outside Directors and Consultants with exceptional qualifications, and (c) linking Employees, Outside Directors and Consultants directly to stockholder interests through increased stock ownership. The Plan seeks to achieve this purpose by providing for Awards in the form of Restricted Shares, Stock Units, Options (which may constitute incentive stock options or nonstatutory stock options) and Stock Appreciation Rights. Terms defined herein shall have the meanings set forth in "Article 21 — Definitions."

The Plan shall be governed by, and construed in accordance with, the laws of the State of Delaware (except their choice-of-law provisions).

ARTICLE 2. DEFINITIONS.

2.1. "Affiliate" means any entity other than a Subsidiary, if the Company and/or one or more Subsidiaries own not less than 50% of such entity.

2.2. "Award" means any award of an Option, an SAR, a Restricted Share or a Stock Unit under the Plan.

2.3. "Board" means the Company's Board of Directors, as constituted from time to time.

2.4. "Change in Control" shall mean:

(a) The consummation of a merger or consolidation of the Company with or into another entity or any other corporate reorganization, if more than 50% of the combined voting power of the continuing or surviving entity's securities outstanding immediately after such merger, consolidation or other reorganization is owned by persons who were not stockholders of the Company immediately prior to such merger, consolidation or other reorganization;

(b) The sale, transfer or other disposition of all or substantially all of the Company's assets;

(c) A change in the composition of the Board, as a result of which fewer than 50% of the incumbent directors are directors who either (i) had been directors of the Company on the date 24 months prior to the date of the event that may constitute a Change in Control (the "original directors") or (ii) were elected, or nominated for election, to the Board with the affirmative votes of at least a majority of the aggregate of the original directors who were still in office at the time of the election or nomination and the directors whose election or nomination was previously so approved; or

(d) Any transaction as a result of which any person is the “beneficial owner” (as defined in Rule 13d-3 under the Exchange Act), directly or indirectly, of securities of the Company representing at least 20% of the total voting power represented by the Company’s then outstanding voting securities. For purposes of this Paragraph (d), the term “person” shall have the same meaning as when used in sections 13(d) and 14(d) of the Exchange Act but shall exclude (i) a trustee or other fiduciary holding securities under an employee benefit plan of the Company or of a Parent or Subsidiary and (ii) a corporation owned directly or indirectly by the stockholders of the Company in substantially the same proportions as their ownership of the common stock of the Company.

A transaction shall not constitute a Change in Control if its sole purpose is to change the state of the Company’s incorporation or to create a holding company that will be owned in substantially the same proportions by the persons who held the Company’s securities immediately before such transaction.

2.5. “**Code**” means the Internal Revenue Code of 1986, as amended.

2.6. “**Committee**” means a committee of the Board, as described in Article 21.

2.7. “**Common Share**” means one share of the common stock of the Company.

2.8. “**Company**” means Natural Alternatives International, Inc., a Delaware corporation.

2.9. “**Consultant**” means a consultant or adviser who provides bona fide services to the Company, a Parent, a Subsidiary or an Affiliate as an independent contractor. Service as a Consultant shall be considered employment for all purposes of the Plan, except as provided in Section 4.1.

2.10. “**Employee**” means a common-law employee of the Company, a Parent, a Subsidiary or an Affiliate.

2.11. “**Exchange Act**” means the Securities Exchange Act of 1934, as amended.

2.12. “**Exercise Price**,” in the case of an Option, means the amount for which one Common Share may be purchased upon exercise of such Option, as specified in the applicable Stock Option Agreement. “**Exercise Price**,” in the case of an SAR, means an amount, as specified in the applicable SAR Agreement, which is subtracted from the Fair Market Value of one Common Share in determining the amount payable upon exercise of such SAR.

2.13. “**Fair Market Value**” means with respect to each Common Share the last reported sale price of the Company’s Common Shares sold on the principal national securities exchanges on which the Common Shares are at the time admitted to trading or listed, or, if there have been no sales of any such exchange on such day, the average of the highest bid and lowest ask price on such day as reported by the Nasdaq system, or any similar organization if the

Nasdaq is no longer reporting such information, either (i) on the date which the notice of exercise is deemed to have been sent to the Company (the “Notice Date”) or (ii) over a period of five (5) trading days preceding the Notice Date, whichever of (i) or (ii) is greater. If on the date for which the current fair market value is to be determined, the Common Shares are not listed on any securities exchange or quoted on the Nasdaq system or the over-the-counter market, the current fair market value of Common Shares shall be the highest price per share which the Company could then obtain from a willing buyer (not a current employee or director) for Common Shares sold by the Company, from authorized but unissued shares, as determined in good faith by the Board of the Company, unless prior to such date the Company has become subject to a binding agreement for a merger, acquisition or other consolidation pursuant to which the Company is not the surviving party, in which case the current fair market value of the Common Shares shall be deemed to be the value to be received by the holders of the Company’s Common Shares for each share thereof pursuant to the Company’s acquisition. Such determination shall be conclusive and binding on all persons.

2.14. “**ISO**” means an incentive stock option described in Section 422(b) of the Code.

2.15. “**NSO**” means a stock option not described in Sections 422 or 423 of the Code.

2.16. “**Option**” means an ISO or NSO granted under the Plan and entitling the holder to purchase Common Shares.

2.17. “**Optionee**” means an individual or estate who holds an Option or SAR.

2.18. “**Outside Director**” shall mean a member of the Board who is not an Employee. Service as an Outside Director shall be considered employment for all purposes of the Plan, except as provided in Section 4.1.

2.19. “**Parent**” means any corporation (other than the Company) in an unbroken chain of corporations ending with the Company, if each of the corporations other than the Company owns stock possessing 50% or more of the total combined voting power of all classes of stock in one of the other corporations in such chain. A corporation that attains the status of a Parent on a date after the adoption of the Plan shall be considered a Parent commencing as of such date.

2.20. “**Participant**” means an individual or estate who holds an Award.

2.21. “**Plan**” means this Natural Alternatives International, Inc. 1999 Omnibus Equity Incentive Plan, as amended from time to time.

2.22. “**Restricted Share**” means a Common Share awarded under the Plan.

2.23. “**Restricted Stock Agreement**” means the agreement between the Company and the recipient of a Restricted Share which contains the terms, conditions and restrictions pertaining to such Restricted Share.

2.24. “**SAR**” means a stock appreciation right granted under the Plan.

2.25. “**SAR Agreement**” means the agreement between the Company and an Optionee which contains the terms, conditions and restrictions pertaining to his or her SAR.

2.26. “**Stock Option Agreement**” means the agreement between the Company and an Optionee that contains the terms, conditions and restrictions pertaining to his or her Option.

2.27. “**Stock Unit**” means a bookkeeping entry representing the equivalent of one Common Share, as awarded under the Plan.

2.28. “**Stock Unit Agreement**” means the agreement between the Company and the recipient of a Stock Unit which contains the terms, conditions and restrictions pertaining to such Stock Unit.

2.29. “**Subsidiary**” means any corporation (other than the Company) in an unbroken chain of corporations beginning with the Company, if each of the corporations other than the last corporation in the unbroken chain owns stock possessing 50% or more of the total combined voting power of all classes of stock in one of the other corporations in such chain. A corporation that attains the status of a Subsidiary on a date after the adoption of the Plan shall be considered a Subsidiary commencing as of such date.

ARTICLE 3. SHARES AVAILABLE FOR GRANTS.

3.1. **Basic Limitation.** Common Shares issued pursuant to the Plan may be authorized but unissued shares or treasury shares. The aggregate number of Options, SARs, Stock Units and Restricted Shares awarded under the Plan shall not exceed (a) 2,000,000 plus (b) the additional Common Shares described in Sections 3.2 and 3.3. The limitation of this Section 3.1 shall be subject to adjustment pursuant to Article 11.

3.2. **Annual Increase in Shares.** As of January 1 of each year, commencing with the year 2005, the aggregate number of Options, SARs, Stock Units and Restricted Shares that may be awarded under the Plan shall automatically increase by a number equal to the lesser of (a) 2.5% of the total number of Common Shares then outstanding or (b) 100,000 Shares.

3.3. **Additional Shares.** If Restricted Shares or Common Shares issued upon the exercise of Options are forfeited, then such Common Shares shall again become available for Awards under the Plan. If Stock Units, Options or SARs are forfeited or terminate for any other reason before being exercised, then the corresponding Common Shares shall again become available for Awards under the Plan. If Stock Units are settled, then only the number of Common Shares (if any) actually issued in settlement of such Stock Units shall reduce the number available under Section 3.1 and the balance shall again become available for Awards under the Plan. If SARs are exercised, then only the number of Common Shares (if any) actually issued in settlement of such SARs shall reduce the number available under Section 3.1 and the balance shall again become available for Awards under the Plan. The foregoing notwithstanding, the aggregate number of Common Shares that may be issued under the Plan upon the exercise of ISOs shall not be increased when Restricted Shares or other Common Shares are forfeited.

3.4. **Dividend Equivalents.** Any dividend equivalents paid or credited under the Plan shall not be applied against the number of Restricted Shares, Stock Units, Options or SARs available for Awards, whether or not such dividend equivalents are converted into Stock Units.

ARTICLE 4. ELIGIBILITY.

4.1. **Incentive Stock Options.** Only Employees who are common-law employees of the Company, a Parent or a Subsidiary shall be eligible for the grant of ISOs. In addition, an Employee who owns more than 10% of the total combined voting power of all classes of outstanding stock of the Company or any of its Parents or Subsidiaries shall not be eligible for the grant of an ISO only when the requirements set forth in section 422(c)(6) of the Code are satisfied.

4.2. **Other Grants.** Only Employees, Outside Directors and Consultants shall be eligible for the grant of Restricted Shares, Stock Units, NSOs or SARs under the Plan.

ARTICLE 5. OPTIONS.

5.1. **Stock Option Agreement.** Each grant of an Option under the Plan shall be evidenced by a Stock Option Agreement between the Optionee and the Company. Such Option shall be subject to all applicable terms of the Plan and may be subject to any other terms that are not inconsistent with the Plan. The Stock Option Agreement shall specify whether the Option is an ISO or an NSO. The provisions of the various Stock Option Agreements entered into under the Plan need not be identical. Options may be granted in consideration of a reduction in the Optionee's other compensation. A Stock Option Agreement may provide that a new Option will be granted automatically to the Optionee when he or she exercises a prior Option and pays the Exercise Price in the form described in Section 6.2.

5.2. **Number of Shares.** Each Stock Option Agreement shall specify the number of Common Shares subject to the Option and shall provide for the adjustment of such number in accordance with Article 11. Options granted to any Optionee in a single fiscal year of the Company shall not cover more than 150,000 Common Shares, except that Options granted to a new Employee in the fiscal year of the Company in which his or her service as an Employee first commences may cover up to 175,000 Common Shares. The limitations set forth in the preceding sentence shall be subject to adjustment in accordance with Article 11.

5.3. **Exercise Price.** Each Stock Option Agreement shall specify the Exercise Price; provided that the Exercise Price under an ISO shall in no event be less than 100% of the Fair Market Value of a Common Share on the date of grant and the Exercise Price under an NSO shall in no event be less than 85% of the Fair Market Value of a Common Share on the date of grant.

5.4. **Exercisability and Term.** Each Stock Option Agreement shall specify the date or event when all or any installment of the Option is to become exercisable, which may include vesting requirements and/or performance criteria with respect to the Company and/or the Optionee, provided, however, that an Option granted to a non-officer Employee shall vest at least 20% of the Common Shares per year. The Stock Option Agreement shall also specify the term of the Option; provided that the term of an ISO shall in no event exceed 10 years from the date of

grant. A Stock Option Agreement may provide for accelerated exercisability in the event of the Optionee's death, disability or retirement or other events and may provide for expiration prior to the end of its term in the event of the termination of the Optionee's service. Options may be awarded in combination with SARs, and such an Award may provide that the Options will not be exercisable unless the related SARs are forfeited.

5.5. Manner of Exercise. An Option shall be deemed exercised when the Company receives: (i) notice of exercise (in accordance with the Stock Option Agreement) from the person entitled to exercise the Option, and (ii) full payment for the Common Shares with respect to which the Option is exercised. Full payment may consist of any consideration and method of payment authorized by the Committee and permitted by the Stock Option Agreement. Common Shares issued upon exercise of an Option shall be issued in the name of the Optionee or, if requested by the Optionee, in the name of the Optionee and his or her spouse. Until the Common Shares are issued (as evidenced by the appropriate entry on the books of the Company or of a duly authorized transfer agent of the Company), no right to vote or receive dividends or any other rights as a stockholder shall exist with respect to the Common Shares subject to the Option, notwithstanding the exercise of the Option. The Company shall issue (or cause to be issued) such Common Shares promptly after the Option is exercised. No adjustment will be made for a dividend or other right for which the record date is prior to the date the Common Shares are issued, except as provided in Article 11 of the Plan.

Exercising an Option in any manner shall decrease the number of Common Shares thereafter available, both for purposes of the Plan and for sale under the Option, by the number of Common Shares as to which the Option is exercised.

5.6. Effect of Change in Control. The Committee may determine, at the time of granting an Option or thereafter, that such Option shall become exercisable as to all or part of the Common Shares subject to such Option in the event that a Change in Control occurs with respect to the Company, subject to the following limitations:

(a) In the case of an ISO, the acceleration of exercisability shall not occur without the Optionee's written consent.

(b) If the Company and the other party to the transaction constituting a Change in Control agree that such transaction is to be treated as a "pooling of interests" for financial reporting purposes, and if such transaction in fact is so treated, then the acceleration of exercisability shall not occur to the extent that the Company's independent accountants and such other party's independent accountants separately determine in good faith that such acceleration would preclude the use of "pooling of interests" accounting.

5.7. Modification or Assumption of Options. Within the limitations of the Plan, the Committee may modify, extend or assume outstanding options or may accept the cancellation of outstanding options (whether granted by the Company or by another issuer) in return for the grant of new options for the same or a different number of shares and at the same or a different exercise price. The foregoing notwithstanding, no modification of an Option shall, without the consent of the Optionee, alter or impair his or her rights or obligations determined pursuant to the Option Agreement representing such Option.

5.8. **Buyout Provisions.** The Committee may at any time (a) offer to buy out for a payment in cash or cash equivalents an Option previously granted or (b) authorize an Optionee to elect to cash out an Option previously granted, in either case at such time and based upon such terms and conditions as the Committee shall establish.

ARTICLE 6. PAYMENT FOR OPTION SHARES.

6.1. **General Rule.** The entire Exercise Price of Common Shares issued upon exercise of Options shall be payable in cash or cash equivalents at the time when such Common Shares are purchased, except as follows:

(a) In the case of an ISO granted under the Plan, payment shall be made only pursuant to the express provisions of the applicable Stock Option Agreement. The Stock Option Agreement may specify that payment may be made in any form(s) described in this Article 6.

(b) In the case of an NSO, the Committee may at any time accept payment in any form(s) described in this Article 6.

6.2. **Surrender of Stock.** To the extent that this Section 6.2 is applicable, all or any part of the Exercise Price may be paid by surrendering, or attesting to the ownership of, Common Shares that are already owned by the Optionee. Such Common Shares shall be valued at their Fair Market Value on the date when the new Common Shares are purchased under the Plan. The Optionee shall not surrender, or attest to the ownership of, Common Shares in payment of the Exercise Price if such action would cause the Company to recognize compensation expense (or additional compensation expense) with respect to the Option for financial reporting purposes.

6.3. **Net Exercise.** Instead of exercising the Option by paying the Exercise Price in cash, check or other appropriate consideration, the Optionee may elect to exercise the Option in whole or in part by receiving Common Shares equal to the value (as determined below) of the Option, or any part hereof, upon surrender of the Option at the principal office of the Company together with the notice of exercise annexed to the Stock Option Agreement in which event the Company shall issue to the Optionee a number of Common Shares computed using the following formula:

$$X = \frac{Y(A-B)}{A}$$

- Where X= the number of Common Shares to be issued to Holder;
Y= the number of Common Shares underlying the Option to be exercised;
A= the current fair market value of one Common Share; and
B= the Exercise Price of the Option.

As used herein, current fair market value of Common Share shall mean with respect to each Common Share the last reported sale price of the Company's Common Shares sold on the principal national securities exchanges on which the Common Shares are at the time admitted to

trading or listed, or, if there have been no sales of any such exchange on such day, the average of the highest bid and lowest ask price on such day as reported by the National Association of Securities Dealers Automated Quotation system ("Nasdaq"), or any similar organization if the Nasdaq is no longer reporting such information, either (i) on the date which the notice of exercise is deemed to have been sent to the Company (the "Notice Date") or (ii) over a period of five (5) trading days preceding the Notice Date, whichever of (i) or (ii) is greater. If on the date for which the current fair market value is to be determined, the Common Shares are not listed on any securities exchange or quoted on the Nasdaq system or the over-the-counter market, the current fair market value of Common Shares shall be the highest price per share which the Company could then obtain from a willing buyer (not a current employee or director) for Common Shares sold by the Company, from authorized but unissued shares, as determined in good faith by the Board of the Company, unless prior to such date the Company has become subject to a binding agreement for a merger, acquisition or other consolidation pursuant to which the Company is not the surviving party, in which case the current fair market value of the Common Shares shall be deemed to be the value to be received by the holders of the Company's Common Shares for each share thereof pursuant to the Company's acquisition.

6.4. **Exercise/Sale.** To the extent that this Section 6.4 is applicable, all or any part of the Exercise Price and any withholding taxes may be paid by delivering (on a form prescribed by the Company) an irrevocable direction to a securities broker approved by the Company to sell all or part of the Common Shares being purchased under the Plan and to deliver all or part of the sales proceeds to the Company.

6.5. **Exercise/Pledge.** To the extent that this Section 6.5 is applicable, all or any part of the Exercise Price and any withholding taxes may be paid by delivering (on a form prescribed by the Company) an irrevocable direction to pledge all or part of the Common Shares being purchased under the Plan to a securities broker or lender approved by the Company, as security for a loan, and to deliver all or part of the loan proceeds to the Company.

6.6. **Promissory Note.** To the extent that this Section 6.6 is applicable, all or any part of the Exercise Price and any withholding taxes may be paid by delivering (on a form prescribed by the Company) a full-recourse promissory note. However, the par value of the Common Shares being purchased under the Plan, if newly issued, shall be paid in cash or cash equivalents.

6.7. **Other Forms of Payment.** To the extent that this Section 6.7 is applicable, all or any part of the Exercise Price and any withholding taxes may be paid in any other form that is consistent with applicable laws, regulations and rules.

ARTICLE 7. OPTION GRANTS TO OUTSIDE DIRECTORS.

[Intentionally Omitted.]

ARTICLE 8. STOCK APPRECIATION RIGHTS.

8.1. **SAR Agreement.** Each grant of an SAR under the Plan shall be evidenced by an SAR Agreement between the Optionee and the Company. Such SAR shall be subject to all applicable terms of the Plan and may be subject to any other terms that are not inconsistent with the Plan. The provisions of the various SAR Agreements entered into under the Plan need not be identical. SARs may be granted in consideration of a reduction in the Optionee's other compensation.

8.2. **Number of Shares.** Each SAR Agreement shall specify the number of Common Shares to which the SAR pertains and shall provide for the adjustment of such number in accordance with Article 11. SARs granted to any Optionee in a single calendar year shall in no event pertain to more than 50,000 Common Shares, except that SARs granted to a new Employee in the fiscal year of the Company in which his or her service as an Employee first commences shall not pertain to more than 75,000 Common Shares. The limitations set forth in the preceding sentence shall be subject to adjustment in accordance with Article 11.

8.3. **Exercise Price.** Each SAR Agreement shall specify the Exercise Price. An SAR Agreement may specify an Exercise Price that varies in accordance with a predetermined formula while the SAR is outstanding.

8.4. **Exercisability and Term.** Each SAR Agreement shall specify the date when all or any installment of the SAR is to become exercisable. The SAR Agreement shall also specify the term of the SAR. An SAR Agreement may provide for accelerated exercisability in the event of the Optionee's death, disability or retirement or other events and may provide for expiration prior to the end of its term in the event of the termination of the Optionee's service. SARs may be awarded in combination with Options, and such an Award may provide that the SARs will not be exercisable unless the related Options are forfeited. An SAR may be included in an ISO only at the time of grant but may be included in an NSO at the time of grant or thereafter. An SAR granted under the Plan may provide that it will be exercisable only in the event of a Change in Control.

8.5. **Effect of Change in Control.** The Committee may determine, at the time of granting an SAR or thereafter, that such SAR shall become fully exercisable as to all Common Shares subject to such SAR in the event that a Change in Control occurs with respect to the Company, subject to the following sentence. If the Company and the other party to the transaction constituting a Change in Control agree that such transaction is to be treated as a "pooling of interests" for financial reporting purposes, and if such transaction in fact is so treated, then the acceleration of exercisability shall not occur to the extent that the Company's independent accountants and such other party's independent accountants separately determine in good faith that such acceleration would preclude the use of "pooling of interests" accounting.

8.6. **Exercise of SARs.** Upon exercise of an SAR, the Optionee (or any person having the right to exercise the SAR after his or her death) shall receive from the Company (a) Common Shares, (b) cash or (c) a combination of Common Shares and cash, as the Committee shall determine. The amount of cash and/or the Fair Market Value of Common Shares received upon exercise of SARs shall, in the aggregate, be equal to the amount by which the Fair Market Value (on the date of surrender) of the Common Shares subject to the SARs exceeds the Exercise Price. If, on the date when an SAR expires, the Exercise Price under such SAR is less than the Fair Market Value on such date but any portion of such SAR has not been exercised or surrendered, then such SAR shall automatically be deemed to be exercised as of such date with respect to such portion.

8.7. **Modification or Assumption of SARs.** Within the limitations of the Plan, the Committee may modify, extend or assume outstanding SARs or may accept the cancellation of outstanding SARs (whether granted by the Company or by another issuer) in return for the grant of new SARs for the same or a different number of shares and at the same or a different exercise price. The foregoing notwithstanding, no modification of an SAR shall, without the consent of the Optionee, alter or impair his or her rights or obligations under such SAR.

ARTICLE 9. RESTRICTED SHARES.

9.1. **Restricted Stock Agreement.** Each grant of Restricted Shares under the Plan shall be evidenced by a Restricted Stock Agreement between the recipient and the Company. Such Restricted Shares shall be subject to all applicable terms of the Plan and may be subject to any other terms that are not inconsistent with the Plan. The provisions of the various Restricted Stock Agreements entered into under the Plan need not be identical.

9.2. **Payment for Awards.** Subject to the following sentence, Restricted Shares may be sold or awarded under the Plan for such consideration as the Committee may determine, including (without limitation) cash, cash equivalents, full-recourse promissory notes, past services and future services. To the extent that an Award consists of newly issued Restricted Shares, the Award recipient shall furnish consideration with a value not less than the par value of such Restricted Shares in the form of cash, cash equivalents or past services rendered to the Company (or a Parent or Subsidiary), as the Committee may determine.

9.3. **Vesting Conditions.** Each Award of Restricted Shares may or may not be subject to vesting. Vesting shall occur, in full or in installments, upon satisfaction of the conditions specified in the Restricted Stock Agreement. A Restricted Stock Agreement may provide for accelerated vesting in the event of the Participant's death, disability or retirement or other events. The Committee may determine, at the time of granting Restricted Shares or thereafter, that all or part of such Restricted Shares shall become vested in the event that a Change in Control occurs with respect to the Company, except as provided in the next following sentence. If the Company and the other party to the transaction constituting a Change in Control agree that such transaction is to be treated as a "pooling of interests" for financial reporting purposes, and if such transaction in fact is so treated, then the acceleration of vesting shall not occur to the extent that the Company's independent accountants and such other party's independent accountants separately determine in good faith that such acceleration would preclude the use of "pooling of interests" accounting.

9.4. **Voting and Dividend Rights.** The holders of Restricted Shares awarded under the Plan shall have the same voting, dividend and other rights as the Company's other stockholders. A Restricted Stock Agreement, however, may require that the holders of Restricted Shares invest any cash dividends received in additional Restricted Shares. Such additional Restricted Shares shall be subject to the same conditions and restrictions as the Award with respect to which the dividends were paid.

9.5. **Repurchase Option.** Unless the Committee determines otherwise, the Restricted Stock Agreement shall grant the Company a repurchase option exercisable upon the voluntary or involuntary termination of the purchaser's employment with the Company for any reason

(including death or disability). The purchase price for Common Shares repurchased pursuant to the Restricted Stock Agreement shall be the original purchase price paid by the purchaser and may be paid by cancellation of any indebtedness of the purchaser to the Company. The repurchase option shall lapse at such rate as the Committee may determine, but at a minimum rate of 20% per year.

ARTICLE 10. STOCK UNITS.

10.1. **Stock Unit Agreement.** Each grant of Stock Units under the Plan shall be evidenced by a Stock Unit Agreement between the recipient and the Company. Such Stock Units shall be subject to all applicable terms of the Plan and may be subject to any other terms that are not inconsistent with the Plan. The provisions of the various Stock Unit Agreements entered into under the Plan need not be identical. Stock Units may be granted in consideration of a reduction in the recipient's other compensation.

10.2. **Payment for Awards.** To the extent that an Award is granted in the form of Stock Units, no cash consideration shall be required of the Award recipients.

10.3. **Vesting Conditions.** Each Award of Stock Units may or may not be subject to vesting. Vesting shall occur, in full or in installments, upon satisfaction of the conditions specified in the Stock Unit Agreement. A Stock Unit Agreement may provide for accelerated vesting in the event of the Participant's death, disability or retirement or other events. The Committee may determine, at the time of granting Stock Units or thereafter, that all or part of such Stock Units shall become vested in the event that a Change in Control occurs with respect to the Company, except as provided in the next following sentence. If the Company and the other party to the transaction constituting a Change in Control agree that such transaction is to be treated as a "pooling of interests" for financial reporting purposes, and if such transaction in fact is so treated, then the acceleration of vesting shall not occur to the extent that the Company's independent accountants and such other party's independent accountants separately determine in good faith that such acceleration would preclude the use of "pooling of interests" accounting.

10.4. **Voting and Dividend Rights.** The holders of Stock Units shall have no voting rights. Prior to settlement or forfeiture, any Stock Unit awarded under the Plan may, at the Committee's discretion, carry with it a right to dividend equivalents. Such right entitles the holder to be credited with an amount equal to all cash dividends paid on one Common Share while the Stock Unit is outstanding. Dividend equivalents may be converted into additional Stock Units. Settlement of dividend equivalents may be made in the form of cash, in the form of Common Shares, or in a combination of both. Prior to distribution, any dividend equivalents which are not paid shall be subject to the same conditions and restrictions as the Stock Units to which they attach.

10.5. **Form and Time of Settlement of Stock Units.** Settlement of vested Stock Units may be made in the form of (a) cash, (b) Common Shares or (c) any combination of both, as determined by the Committee. The actual number of Stock Units eligible for settlement may be larger or smaller than the number included in the original Award, based on predetermined performance factors. Methods of converting Stock Units into cash may include (without limitation) a method based on the average Fair Market Value of Common Shares over a series of

trading days. Vested Stock Units may be settled in a lump sum or in installments. The distribution may occur or commence when all vesting conditions applicable to the Stock Units have been satisfied or have lapsed, or it may be deferred to any later date. The amount of a deferred distribution may be increased by an interest factor or by dividend equivalents. Until an Award of Stock Units is settled, the number of such Stock Units shall be subject to adjustment pursuant to Article 11.

10.6. Death of Recipient. Any Stock Units Award that becomes payable after the recipient's death shall be distributed to the recipient's beneficiary or beneficiaries. Each recipient of a Stock Units Award under the Plan shall designate one or more beneficiaries for this purpose by filing the prescribed form with the Company. A beneficiary designation may be changed by filing the prescribed form with the Company at any time before the Award recipient's death. If no beneficiary was designated or if no designated beneficiary survives the Award recipient, then any Stock Units Award that becomes payable after the recipient's death shall be distributed to the recipient's estate.

10.7. Creditors' Rights. A holder of Stock Units shall have no rights other than those of a general creditor of the Company. Stock Units represent an unfunded and unsecured obligation of the Company, subject to the terms and conditions of the applicable Stock Unit Agreement.

ARTICLE 11. PROTECTION AGAINST DILUTION.

11.1. Adjustments. In the event of a subdivision of the outstanding Common Shares, a declaration of a dividend payable in Common Shares, a declaration of a dividend payable in a form other than Common Shares in an amount that has a material effect on the price of Common Shares, a combination or consolidation of the outstanding Common Shares (by reclassification or otherwise) into a lesser number of Common Shares, a recapitalization, a spin-off or a similar occurrence, the Committee shall make such adjustments as it, in its sole discretion, deems appropriate in one or more of:

- (a) The number of Options, SARs, Restricted Shares and Stock Units available for future Awards under Article 3;
- (b) The limitations set forth in Sections 5.2 and 8.2;
- (c) The number of Common Shares covered by each outstanding Option and SAR;
- (d) The Exercise Price under each outstanding Option and SAR; or
- (e) The number of Stock Units included in any prior Award which has not yet been settled.

Except as provided in this Article 11, a Participant shall have no rights by reason of any issue by the Company of stock of any class or securities convertible into stock of any class, any subdivision or consolidation of shares of stock of any class, the payment of any stock dividend or any other increase or decrease in the number of shares of stock of any class.

11.2. **Dissolution or Liquidation.** To the extent not previously exercised or settled, Options, SARs and Stock Units shall terminate immediately prior to the dissolution or liquidation of the Company.

11.3. **Reorganizations.** In the event that the Company is a party to a merger or other reorganization, outstanding Awards shall be subject to the agreement of merger or reorganization. Such agreement shall provide for:

- (a) The continuation of the outstanding Awards by the Company, if the Company is a surviving corporation;
- (b) The assumption of the outstanding Awards by the surviving corporation or its parent or subsidiary;
- (c) The substitution by the surviving corporation or its parent or subsidiary of its own awards for the outstanding Awards;
- (d) Full exercisability or vesting and accelerated expiration of the outstanding Awards; or
- (e) Settlement of the full value of the outstanding Awards in cash or cash equivalents followed by cancellation of such Awards.

ARTICLE 12. DEFERRAL OF AWARDS.

The Committee (in its sole discretion) may permit or require a Participant to:

- (a) Have cash that otherwise would be paid to such Participant as a result of the exercise of an SAR or the settlement of Stock Units credited to a deferred compensation account established for such Participant by the Committee as an entry on the Company's books;
- (b) Have Common Shares that otherwise would be delivered to such Participant as a result of the exercise of an Option or SAR converted into an equal number of Stock Units; or
- (c) Have Common Shares that otherwise would be delivered to such Participant as a result of the exercise of an Option or SAR or the settlement of Stock Units converted into amounts credited to a deferred compensation account established for such Participant by the Committee as an entry on the Company's books. Such amounts shall be determined by reference to the Fair Market Value of such Common Shares as of the date when they otherwise would have been delivered to such Participant.

A deferred compensation account established under this Article 12 may be credited with interest or other forms of investment return, as determined by the Committee. A Participant for whom such an account is established shall have no rights other than those of a general creditor of the Company. Such an account shall represent an unfunded and unsecured obligation of the Company and shall be subject to the terms and conditions of the applicable agreement between such Participant and the Company. If the deferral or conversion of Awards is permitted or

required, the Committee (in its sole discretion) may establish rules, procedures and forms pertaining to such Awards, including (without limitation) the settlement of deferred compensation accounts established under this Article 12.

ARTICLE 13. AWARDS UNDER OTHER PLANS.

The Company may grant awards under other plans or programs. Such awards may be settled in the form of Common Shares issued under this Plan. Such Common Shares shall be treated for all purposes under the Plan like Common Shares issued in settlement of Stock Units and shall, when issued, reduce the number of Common Shares available under Article 3.

ARTICLE 14. PAYMENT OF DIRECTOR'S FEES IN SECURITIES.

14.1. **Effective Date.** No provision of this Article 14 shall be effective unless and until the Board has determined to implement such provision.

14.2. **Elections to Receive NSOs, Restricted Shares or Stock Units.** An Outside Director may elect to receive his or her annual retainer payments and/or meeting fees from the Company in the form of cash, NSOs, Restricted Shares or Stock Units, or a combination thereof, as determined by the Board. Such NSOs, Restricted Shares and Stock Units shall be issued under the Plan. An election under this Article 14 shall be filed with the Company on the prescribed form.

14.3. **Number and Terms of NSOs, Restricted Shares or Stock Units.** The number of NSOs, Restricted Shares or Stock Units to be granted to Outside Directors in lieu of annual retainers and meeting fees that would otherwise be paid in cash shall be calculated in a manner determined by the Board. The terms of such NSOs, Restricted Shares or Stock Units shall also be determined by the Board.

ARTICLE 15. LIMITATION ON RIGHTS.

15.1. **Retention Rights.** Neither the Plan nor any Award granted under the Plan shall be deemed to give any individual a right to remain an Employee, Outside Director or Consultant. The Company and its Parents, Subsidiaries and Affiliates reserve the right to terminate the service of any Employee, Outside Director or Consultant at any time, with or without cause, subject to applicable laws, the Company's certificate of incorporation and by-laws and a written employment agreement (if any).

15.2. **Stockholders' Rights.** A Participant shall have no dividend rights, voting rights or other rights as a stockholder with respect to any Common Shares covered by his or her Award prior to the time when a stock certificate for such Common Shares is issued or, if applicable, the time when he or she becomes entitled to receive such Common Shares by filing any required notice of exercise and paying any required Exercise Price. No adjustment shall be made for cash dividends or other rights for which the record date is prior to such time, except as expressly provided in the Plan.

15.3. Conditions Upon Issuance of Common Shares.

(a) **Legal Compliance.** Common Shares shall not be issued pursuant to the exercise of an Award unless the exercise of such Award and the issuance and delivery of such Common Shares shall comply with all relevant provisions of law, including, without limitation, the Securities Act, as amended, the Exchange Act, the securities laws of applicable states, the rules and regulations promulgated thereunder, applicable laws, and the requirements of any stock exchange or quotation system upon which the Common Shares may then be listed or quoted, and shall be further subject to the approval of counsel for the Company with respect to such compliance.

(b) **Investment Representations Re: Federal Securities Laws.** The Common Shares underlying the Awards, as of the date the Plan was approved by the Board, have not been registered under the Securities Act. The Participant shall be required to represent that if Awards are exercised in whole or in part at a time when there is not in effect, under the Securities Act, a registration statement applicable to the Common Shares issuable upon exercise, then the purchase of such Common Shares shall be subject to obtaining such representation, warranties and covenants from the Participants as the Committee shall determine, including:

(i) **Investment Intent.** Participant is acquiring the Common Shares for its own account, not as a nominee or agent, and not with a view to their resale or distribution and is prepared to hold the Common Shares for an indefinite period and has no present intention to sell, distribute, or grant any participating interests in the Common Shares. Participant acknowledges the Common Shares have not been registered under the Securities Act or the securities laws of any other state, province or country (collectively, with the 1933 Act, the "Securities Laws"), and that the Company is issuing the Common Shares to it in reliance on such representations.

(ii) **Restricted Securities.** Participant confirms it has been informed that the Common Shares may not be resold or transferred unless such Common Shares are first registered under the applicable Securities Laws or unless an exemption from such registration is available.

(iii) **Investment Experience.** In connection with the investment representations made, Participant represents that it is able to fend for itself in the transactions contemplated by the Plan, has such knowledge and experience in financial and business matters as to be capable of evaluating the merits and risks of its investment, has the ability to bear the economic risks of its investment, and has been furnished with and has had access to such information as is normally made available in the form of a registration statement, together with such additional information as is necessary to verify the accuracy of the information supplied and to have all questions answered by the Company.

(iv) **Disposition of Shares.** Participant shall make no disposition of the Common Shares, unless and until:

(1) Participant shall have complied with all requirements of the Plan and any stock exchange on which such Common Shares (or any substituted securities) may be listed;

(2) Participant shall have notified the Company of the proposed disposition and furnished it with a written summary of the terms and conditions of the proposed disposition; and

(3) Participant shall have provided an opinion to the Company's counsel (at its expense), in form and substance reasonably satisfactory to the Company, that (i) the proposed disposition does not require registration of the Common Shares under the applicable Securities Laws or (ii) all appropriate action necessary for compliance with the registration requirements of the applicable Securities Laws or of any exemption from registration available under the applicable Securities Laws has been taken.

ARTICLE 16. WITHHOLDING TAXES.

16.1. **General.** To the extent required by applicable federal, state, local or foreign law, a Participant or his or her successor shall make arrangements satisfactory to the Company for the satisfaction of any withholding tax obligations that arise in connection with the Plan. The Company shall not be required to issue any Common Shares or make any cash payment under the Plan until such obligations are satisfied.

16.2. **Share Withholding.** The Committee may permit a Participant to satisfy all or part of his or her withholding or income tax obligations by having the Company withhold all or a portion of any Common Shares that otherwise would be issued to him or her or by surrendering all or a portion of any Common Shares that he or she previously acquired. Such Common Shares shall be valued at their Fair Market Value on the date when taxes otherwise would be withheld in cash.

ARTICLE 17. FUTURE OF THE PLAN.

17.1. **Term of the Plan.** The Plan, as set forth herein, shall become effective on May 10, 1999. The Plan shall remain in effect until it is terminated under Section 17.2, except that no ISOs shall be granted on or after the 10th anniversary of the later of (a) the date when the Board adopted the Plan or (b) the date when the Board adopted the most recent increase in the number of Common Shares available under Article 3 which was approved by the Company's stockholders.

17.2. **Amendment or Termination.** The Board may at any time amend, alter, suspend or terminate the Plan for any reason.

17.3. **Stockholder Approval.** The Company shall obtain stockholder approval of any Plan amendment to the extent requested by applicable law, rule or regulation, including the requirements of any exchange or quotation system on which the Common Shares are listed or quoted. Such stockholder approval, if required shall be obtained in such a manner and to such a degree as is required by the applicable laws, rules or regulations.

17.4. **Effect of Amendment or Termination.** No amendment, alteration, suspension or termination of the Plan shall impair the rights of any Optionee, unless mutually agreed otherwise between the Optionee and the Board, which agreement must be in writing and signed by the Optionee and the Company unless such amendment, alteration, suspension or termination is required to enable an Option designated as an Incentive Stock Option to qualify as a Nonqualified Stock Option or is necessary to comply with any applicable laws or government regulations.

ARTICLE 18. LIMITATION ON PARACHUTE PAYMENTS.

18.1. **Scope of Limitation.** This Article 18 shall apply to an Award unless the Committee, at the time of making an Award under the Plan or at any time thereafter, specifies in writing that such Award shall not be subject to this Article 18. If this Article 18 applies to an Award, it shall supersede any contrary provision of the Plan or of any Award granted under the Plan.

18.2. **Basic Rule.** In the event that the independent auditors most recently selected by the Board (the "Auditors") determine that any payment or transfer by the Company under the Plan to or for the benefit of a Participant (a "Payment") would be nondeductible by the Company for federal income tax purposes because of the provisions concerning "excess parachute payments" in Section 280G of the Code, then the aggregate present value of all Payments shall be reduced (but not below zero) to the Reduced Amount. For purposes of this Article 18, the "Reduced Amount" shall be the amount, expressed as a present value, which maximizes the aggregate present value of the Payments without causing any Payment to be nondeductible by the Company because of Section 280G of the Code.

18.3. **Reduction of Payments.** If the Auditors determine that any Payment would be nondeductible by the Company because of Section 280G of the Code, then the Company shall promptly give the Participant notice to that effect and a copy of the detailed calculation thereof and of the Reduced Amount, and the Participant may then elect, in his or her sole discretion, which and how much of the Payments shall be eliminated or reduced (as long as after such election the aggregate present value of the Payments equals the Reduced Amount) and shall advise the Company in writing of his or her election within 10 days of receipt of notice. If no such election is made by the Participant within such 10-day period, then the Company may elect which and how much of the Payments shall be eliminated or reduced (as long as after such election the aggregate present value of the Payments equals the Reduced Amount) and shall notify the Participant promptly of such election. For purposes of this Article 18, present value shall be determined in accordance with Section 280G(d)(4) of the Code. All determinations made by the Auditors under this Article 18 shall be binding upon the Company and the Participant and shall be made within 60 days of the date when a Payment becomes payable or transferable. As promptly as practicable following such determination and the elections hereunder, the Company shall pay or transfer to or for the benefit of the Participant such amounts as are then due to him or her under the Plan and shall promptly pay or transfer to or for the benefit of the Participant in the future such amounts as become due to him or her under the Plan.

18.4. **Overpayments and Underpayments.** As a result of uncertainty in the application of Section 280G of the Code at the time of an initial determination by the Auditors

hereunder, it is possible that Payments will have been made by the Company that should not have been made (an "Overpayment") or that additional Payments that will not have been made by the Company could have been made (an "Underpayment"), consistent in each case with the calculation of the Reduced Amount hereunder. In the event that the Auditors, based upon the assertion of a deficiency by the Internal Revenue Service against the Company or the Participant that the Auditors believe has a high probability of success, determine that an Overpayment has been made, such Overpayment shall be treated for all purposes as a loan to the Participant which he or she shall repay to the Company, together with interest at the applicable federal rate provided in Section 7872(f)(2) of the Code; provided, however, that no amount shall be payable by the Participant to the Company if and to the extent that such payment would not reduce the amount subject to taxation under Section 4999 of the Code. In the event that the Auditors determine that an Underpayment has occurred, such Underpayment shall promptly be paid or transferred by the Company to or for the benefit of the Participant, together with interest at the applicable federal rate provided in Section 7872(f)(2) of the Code.

18.5. **Related Corporations.** For purposes of this Article 18, the term "Company" shall include affiliated corporations to the extent determined by the Auditors in accordance with Section 280G(d)(5) of the Code.

ARTICLE 19. INDEMNIFICATION.

In addition to such other rights of indemnification as they may have as members of the Board or officers or employees of the Company and any Parent or Subsidiary, members of the Committee and any officers or employees of the Company and any Parent or Subsidiary to whom authority to act for the Board is delegated shall be indemnified by the Company against all reasonable expenses, including attorneys' fees, actually and necessarily incurred in connection with the defense of any action, suit or proceeding, or in connection with any appeal therein, to which they or any of them may be a party by reason of any action taken or failure to act under or in connection with the Plan, or any right granted hereunder, and against all amounts paid by them in settlement thereof (provided such settlement is approved by independent legal counsel selected by the Company) or paid by them in satisfaction of a judgment in any such action, suit or proceeding, except in relation to matters as to which it shall be adjudged in such action, suit or proceeding that such person is liable for gross negligence, bad faith or intentional misconduct in duties; provided, however, that within sixty (60) days after the institution of such action, suit or proceeding, such person shall offer to the Company, in writing, the opportunity at its own expense to handle and defend the same.

ARTICLE 20. PROVISION OF INFORMATION.

At least annually, copies of the Company's annual report or Form 10-K for the just-completed fiscal year shall be made available to each Participant and purchaser of Common Shares upon exercise of an Award. The Company shall not be required to provide such information to key employees whose duties in connection with the Company assure them access to equivalent information.

ARTICLE 21. ADMINISTRATION.

21.1. **Committee Composition.** The Plan shall be administered by the Committee. The Committee shall consist exclusively of two or more directors of the Company, who shall be appointed by the Board. In addition, the composition of the Committee shall satisfy:

(a) Such requirements as the Securities and Exchange Commission may establish for administrators acting under plans intended to qualify for exemption under Rule 16b-3 (or its successor) under the Exchange Act; and

(b) Such requirements as the Internal Revenue Service may establish for outside directors acting under plans intended to qualify for exemption under section 162(m)(4)(C) of the Code.

21.2. **Powers of the Committee.** Subject to the provisions of the Plan, and, subject to the specific duties delegated by the Board to such Committee, the Committee shall have the authority, in its discretion:

(a) to determine the Fair Market Value of the Common Stock, in accordance with Section 2 of the Plan;

(b) to select the Consultants and Employees to whom Awards may be granted hereunder;

(c) to determine whether and to what extent Awards or any combination thereof are granted hereunder;

(d) to determine the number of Common Shares to be covered by each Award granted hereunder;

(e) to approve forms of agreement for use under the Plan;

(f) to determine the terms and conditions, not inconsistent with the terms of the Plan, of any Award granted hereunder. Such terms and conditions include, but are not limited to, the exercise price, the time or times when Awards may be exercised (which may be based on performance criteria), any vesting, acceleration or waiver of forfeiture restrictions, and any restriction or limitation regarding any Awards or the Common Shares relating thereto, based in each case on such factors as the Committee, in its sole discretion, shall determine;

(g) to construe and interpret the terms of the Plan;

(h) to prescribe, amend and rescind rules and regulations relating to the Plan;

(i) to determine whether and under what circumstances an Award may be settled in cash instead of Common Shares or Common Shares instead of cash;

(j) to reduce the exercise price of any Award;

(k) to modify or amend each Award (subject to Section 17 of the Plan);

(l) to authorize any person to execute on behalf of the Company any instrument required to effect the grant of an Award previously granted by the Board;

(m) to determine the terms and restrictions applicable to Awards and any Restricted Stock; and

(n) to make all other determinations deemed necessary or advisable for administering the Plan.

21.3. **Committee for Non-Officer Grants.** The Board may also appoint a secondary committee of the Board, which shall be composed of one or more directors of the Company who need not satisfy the requirements of Section 21.1. Such secondary committee may administer the Plan with respect to Employees and Consultants who are not considered officers or directors of the Company under section 16 of the Exchange Act, may grant Awards under the Plan to such Employees and Consultants and may determine all features and conditions of such Awards. Within the limitations of this Section 21.3, any reference in the Plan to the Committee shall include such secondary committee.

ARTICLE 22. EXECUTION.

To record the adoption of the Plan, as amended, by the Board, the Company has caused its duly authorized officer to execute this document in the name of the Company.

NATURAL ALTERNATIVES INTERNATIONAL, INC.,
a Delaware corporation

By: /s/ Mark A. LeDoux

Mark LeDoux, Chief Executive Officer

**FIRST AMENDMENT TO
EXCLUSIVE LICENSE AGREEMENT**

This **FIRST AMENDMENT TO EXCLUSIVE LICENSE AGREEMENT** ("First Amendment") is made effective as of December 10, 2004, by and among Natural Alternatives International, Inc., a Delaware corporation ("NAI") with its principal offices at 1185 Linda Vista Drive, San Marcos, California 92078, and Reginald B. Cherry Ministries, Inc. a Texas non-profit corporation ("Ministries"), with its principal address at 8323 Southwest Freeway, Suite 440, Houston, Texas 77074.

AGREEMENT

The parties entered into an Exclusive License Agreement ("Exclusive License Agreement") effective as of September 1, 2004, in which Ministries agreed to utilize the services of NAI to design, research, formulate, develop, manufacture, package, sell, distribute and market nutritional Products in furtherance of the Exempt Purposes (as defined in the Exclusive License Agreement) of Ministries. The parties agree the Exclusive License Agreement is amended as follows:

SECTION 2.1.3: Royalty Payments. The following language shall be added at the end of Section 2.1.3:

Notwithstanding the preceding, NAI shall make additional monthly royalty payments in the amount of Thirty Two Thousand Seven Hundred Fifty Dollars (\$32,750) for the period beginning December 10, 2004, and ending March 10, 2005, in addition to the Royalties set forth in Section 2.1.

EFFECT: Except as amended hereby, the Exclusive License Agreement remains in full force and effect as of the date of this First Amendment.

The parties have caused this First Amendment to be executed by their respective duly authorized representatives, as of the day and year first above written.

NATURAL ALTERNATIVES
INTERNATIONAL, INC.
a Delaware corporation

REGINALD B. CHERRY MINISTRIES, INC.
A Texas non-profit corporation

By: /s/ Randell Weaver

By: /s/ Reginald B. Cherry, M.D.

Randell Weaver, President

Reginald B. Cherry, M.D., President

**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: February 14, 2005

/s/ Mark A. LeDoux

Mark A. LeDoux, Chief Executive Officer

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

I, 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: February 14, 2005

/s/ John R. Reaves

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 December 31, 2004 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: February 14, 2005

/s/ Mark A. LeDoux

Mark A. LeDoux, Chief Executive Officer

Date: February 14, 2005

/s/ John R. Reaves

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.