

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, 2009

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 has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that NAI was required to submit and post such files).

Yes No

Indicate by check mark whether NAI is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company.

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company

Indicate by check mark whether NAI is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes No

As of February 16, 2010, 7,078,793 shares of NAI's common stock were outstanding, net of 180,941 treasury shares.

TABLE OF CONTENTS

	<u>Page</u>
SPECIAL NOTE ABOUT FORWARD-LOOKING STATEMENTS	1
PART I FINANCIAL INFORMATION	2
Item 1. Financial Statements	2
Condensed Consolidated Balance Sheets	2
Condensed Consolidated Statements of Operations and Comprehensive Income (Loss)	3
Condensed Consolidated Statements of Cash Flows	4
Notes to Condensed Consolidated Financial Statements	5
Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations	14
Item 4. Controls and Procedures	18
PART II OTHER INFORMATION	20
Item 1. Legal Proceedings	20
Item 1A. Risk Factors	20
Item 2. Unregistered Sales of Equity Securities and Use of Proceeds	20
Item 3. Defaults Upon Senior Securities	20
Item 4. Submission of Matters to a Vote of Security Holders	20
Item 5. Other Information	21
Item 6. Exhibits	21
SIGNATURES	25

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, intentions, plans, goals, 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, revenue, income or loss, net income or loss per share, profit margins, expenditures, liquidity, goodwill valuation and other financial items;
- our ability to develop relationships with new customers and maintain or improve existing customer relationships;
- future levels of our revenue concentration risk;
- development of new products, brands and marketing strategies;
- the effect of the discontinuance of Dr. Cherry’s television program and our ability to develop a new marketing plan for, and to sustain, our Pathway to Healing® product line;
- distribution channels, product sales and performance, and timing of product shipments;
- inventories and the adequacy and intended use of our facilities;
- current or future customer orders;
- the impact on our business and results of operations and variations in quarterly net sales from cost reduction programs, seasonal and other factors;
- management’s goals and plans for future operations;
- our ability to improve operational efficiencies, manage costs and business risks and improve or maintain profitability;
- growth, expansion, diversification, acquisition, divestment and consolidation strategies, the success of such strategies, and the benefits we believe can be derived from such strategies;
- personnel;
- the outcome of regulatory, tax and litigation matters;
- our ability to operate within the standards set by the Food and Drug Administration’s Good Manufacturing Practices;
- sources and availability of raw materials;
- operations outside the United States (U.S.);
- the adequacy of reserves and allowances;
- overall industry and market performance;
- competition and competitive advantages resulting from our quality commitment;
- current and future economic and political conditions;
- the impact of accounting pronouncements; 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 Item 1A of Part II and elsewhere in this report, as well as in other reports and documents we file with the United States Securities and Exchange Commission (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
(In thousands, except share and per share data)

	December 31, 2009 (Unaudited)	June 30, 2009
Assets		
Current assets:		
Cash and cash equivalents	\$ 4,553	\$ 3,995
Certificate of deposit	699	699
Accounts receivable - less allowance for doubtful accounts of \$8 at December 31, 2009 and \$27 at June 30, 2009	5,614	5,685
Inventories, net	8,599	9,320
Deferred income taxes	368	—
Prepays and other current assets	1,398	1,261
Assets of discontinued operations	171	1,187
Total current assets	<u>21,402</u>	<u>22,147</u>
Property and equipment, net	14,113	14,133
Other noncurrent assets, net	159	159
Total assets	<u>\$ 35,674</u>	<u>\$36,439</u>
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	\$ 2,915	\$ 4,327
Accrued liabilities	934	1,001
Accrued compensation and employee benefits	570	1,164
Income taxes payable	836	490
Current portion of long-term debt	155	669
Liabilities of discontinued operations	100	599
Total current liabilities	5,510	8,250
Long-term debt, less current portion	520	598
Deferred rent	985	1,054
Long-term pension liability	480	505
Total liabilities	<u>7,495</u>	<u>10,407</u>
Commitments and contingencies		
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; issued and outstanding 7,259,734 at December 31, 2009 and 7,249,734 June 30, 2009	71	71
Additional paid-in capital	19,031	18,899
Accumulated other comprehensive loss	(565)	(565)
Retained earnings	10,741	8,726
Treasury stock, at cost, 180,941 shares at December 31, 2009 and June 30, 2009	(1,099)	(1,099)
Total stockholders' equity	<u>28,179</u>	<u>26,032</u>
Total liabilities and stockholders' equity	<u>\$ 35,674</u>	<u>\$36,439</u>

See accompanying notes to condensed consolidated financial statements.

[Table of Contents](#)

NATURAL ALTERNATIVES INTERNATIONAL, INC.
Condensed Consolidated Statements of Operations and Comprehensive Income (Loss)
(In thousands, except share and per share data)
(Unaudited)

	Three Months Ended December 31,		Six Months Ended December 31,	
	2009	2008	2009	2008
Net sales	\$ 17,249	\$ 17,616	\$ 34,210	\$ 37,142
Cost of goods sold	14,779	16,844	28,585	33,970
Gross profit	2,470	772	5,625	3,172
Selling, general & administrative expenses	1,734	2,838	3,482	5,456
Operating income (loss) from continuing operations	736	(2,066)	2,143	(2,284)
Other (expense) income:				
Interest income	2	—	7	5
Interest expense	(24)	(79)	(66)	(122)
Foreign exchange loss	(25)	(45)	(2)	(344)
Other, net	19	4	44	28
	(28)	(120)	(17)	(433)
Income (loss) from continuing operations before income taxes	708	(2,186)	2,126	(2,717)
Provision for income taxes	94	362	266	180
Income (loss) from continuing operations	614	(2,548)	1,860	(2,897)
Income (loss) from discontinued operations, net of tax	60	(756)	155	(1,804)
Net income (loss) and comprehensive income (loss)	<u>\$ 674</u>	<u>\$ (3,304)</u>	<u>\$ 2,015</u>	<u>\$ (4,701)</u>
Net income (loss) per common share:				
Basic:				
Continuing operations	\$ 0.09	\$ (0.36)	\$ 0.26	\$ (0.41)
Discontinued operations	0.01	(0.11)	0.02	(0.26)
Net income (loss)	<u>\$ 0.10</u>	<u>\$ (0.47)</u>	<u>\$ 0.28</u>	<u>\$ (0.67)</u>
Diluted:				
Continuing operations	\$ 0.09	\$ (0.36)	\$ 0.26	\$ (0.41)
Discontinued operations	0.01	(0.11)	0.02	(0.26)
Net income (loss)	<u>\$ 0.10</u>	<u>\$ (0.47)</u>	<u>\$ 0.28</u>	<u>\$ (0.67)</u>
Weighted average common shares outstanding:				
Basic	7,071,076	7,057,614	7,069,934	7,045,413
Diluted	7,096,823	7,057,614	7,103,816	7,045,413

See accompanying notes to condensed consolidated financial statements.

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

	Six Months Ended December 31,	
	2009	2008
Cash flows from operating activities		
Income (loss) before discontinued operations	\$ 1,860	\$(2,897)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Reduction of uncollectible accounts receivable	(19)	(9)
Depreciation and amortization	1,605	1,547
Non-cash compensation	112	181
Tax benefit from exercise of stock options	—	(88)
Deferred income taxes	(368)	(61)
Pension expense, net of contributions	(25)	25
Loss on disposal of assets	16	8
Changes in operating assets and liabilities:		
Accounts receivable	90	1,772
Inventories, net	721	522
Other assets	(137)	250
Accounts payable and accrued liabilities	(1,548)	(1,237)
Income taxes payable	346	168
Accrued compensation and employee benefits	(594)	(58)
Net cash provided by operating activities from continuing operations	2,059	123
Net cash provided by (used in) operating activities from discontinued operations	172	(1,866)
Net cash provided by (used in) operating activities	<u>2,231</u>	<u>(1,743)</u>
Cash flows from investing activities		
Capital expenditures	(1,601)	(2,771)
Purchase of certificate of deposit	—	(699)
Net cash used by investing activities from continuing operations	(1,601)	(3,470)
Net cash provided by investing activities from discontinued operations, including proceeds from the sale of the legacy RHL business assets and As We Change®	500	2,155
Net cash used by investing activities	<u>(1,101)</u>	<u>(1,315)</u>
Cash flows from financing activities		
Net borrowings on line of credit	—	3,538
Payments on long-term debt	(592)	(736)
Tax benefit from exercise of stock options	—	88
Net activity from issuance of common stock	20	(13)
Net cash (used in) provided by financing activities	<u>(572)</u>	<u>2,877</u>
Net increase (decrease) in cash and cash equivalents	558	(181)
Cash and cash equivalents at beginning of period	3,995	3,518
Cash and cash equivalents at end of period	<u>\$ 4,553</u>	<u>\$ 3,337</u>
Supplemental disclosures of cash flow information		
Cash paid during the period for:		
Interest	\$ 56	\$ 140
Taxes	<u>\$ 320</u>	<u>\$ 60</u>

See accompanying notes to condensed consolidated financial statements.

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

A. Basis of Presentation and Summary of 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, 2009 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, 2009 ("2009 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 2009 Annual Report unless otherwise noted below.

Subsequent Events Evaluation

The Company evaluated all events or transactions that occurred after December 31, 2009 and through February 16, 2010, the date these financial statements were filed with the SEC as part of this report.

Net Income (Loss) per Common Share

We compute net 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 (in thousands, except per share data):

	<u>Three Months Ended</u> <u>December 31,</u>		<u>Six Months Ended</u> <u>December 31,</u>	
	<u>2009</u>	<u>2008</u>	<u>2009</u>	<u>2008</u>
Numerator				
Net income (loss)	\$ 674	\$ (3,304)	\$2,015	\$(4,701)
Denominator				
Basic weighted average common shares outstanding	7,071	7,058	7,070	7,045
Dilutive effect of stock options	26	—	34	—
Diluted weighted average common shares outstanding	<u>7,097</u>	<u>7,058</u>	<u>7,104</u>	<u>7,045</u>
Basic net income (loss) per common share	<u>\$ 0.10</u>	<u>\$ (0.47)</u>	<u>\$ 0.28</u>	<u>\$ (0.67)</u>
Diluted net income (loss) per common share	<u>\$ 0.10</u>	<u>\$ (0.47)</u>	<u>\$ 0.28</u>	<u>\$ (0.67)</u>

Shares related to stock options representing the right to acquire 415,354 shares of common stock for the three months ended December 31, 2009, and 487,815 shares for the six months ended December 31, 2009, were excluded from the calculation of diluted net income (loss) per common share, as the effect of their inclusion would have been anti-dilutive.

Shares related to stock options representing the right to acquire 879,492 shares of common stock for the three months ended December 31, 2008, and 973,096 shares for the six months ended December 31, 2008, were excluded from the calculation of diluted net (loss) income per common share, as the effect of their inclusion would have been anti-dilutive.

Stock-Based Compensation

We have a new omnibus incentive plan that was approved by our Board of Directors effective as of October 15, 2009 and approved by our stockholders at the Annual Meeting of Stockholders held on November 30, 2009. Under the plan, we may grant nonqualified and incentive stock options and other stock-based awards to employees, non-employee directors and consultants. As of December 31, 2009, no awards had been granted under the plan. Our prior equity incentive plan was terminated effective as of November 30, 2009. We also had an employee stock purchase plan that was terminated effective as of June 30, 2009.

[Table of Contents](#)

We estimate the fair value of stock option awards at the date of grant and estimated 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. Black-Scholes uses assumptions related to volatility, the risk-free interest rate, the dividend yield (which we assume to be zero, as we have not paid any cash dividends) and employee exercise behavior. Expected volatilities used in the model are based mainly on the historical volatility of our stock price. The risk-free interest rate is derived from the U.S. Treasury yield curve in effect in the period of grant. The expected life of stock option grants is derived from historical experience.

Our net income included stock based compensation expense of approximately \$69,000 for the three months ended December 31, 2009 and approximately \$112,000 for the six months ended December 31, 2009. Our net loss included stock based compensation expense of approximately \$112,000 for the three months ended December 31, 2008 and approximately \$181,000 for the six months ended December 31, 2008.

Fair Value of Financial Instruments

Our financial statements include the following financial instruments: cash and cash equivalents, short-term investments, accounts payable, and accrued expenses. We believe the carrying amounts of these assets and liabilities in the financial statements approximate the fair values of these financial instruments at December 31, 2009 and June 30, 2009. Fair value is defined as the exchange price that would be received to sell an asset or paid to transfer a liability (i.e., the “exit price”) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants at the measurement date.

We use a three-level hierarchy for inputs used in measuring fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that observable inputs be used when available. Observable inputs are inputs that market participants would use in pricing the asset or liability based on market data obtained from independent sources. Unobservable inputs are inputs that reflect our assumptions about the inputs that market participants would use in pricing the asset or liability and are developed based on the best information available under the circumstances.

The fair value hierarchy is broken down into three levels based on the source of inputs. In general, fair values determined by Level 1 inputs use quoted prices (unadjusted) in active markets for identical assets or liabilities that the Company has the ability to access. We classify cash, cash equivalents, and marketable securities balances as Level 1 assets. Fair values determined by Level 2 inputs are based on quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active and models for which all significant inputs are observable or can be corroborated, either directly or indirectly by observable market data. Level 3 inputs are unobservable inputs for the asset or liability, and include situations where there is little, if any, market activity for the asset or liability. These include certain pricing models, discounted cash flow methodologies and similar techniques that use significant unobservable inputs. As of December 31, 2009 and June 30, 2009, we did not have any financial assets or liabilities classified as Level 2 or 3.

Adoption of New Accounting Standards

During the first quarter of 2010, we adopted the new Accounting Standards Codification (ASC) as issued by the Financial Accounting Standards Board (FASB). The ASC has become the source of authoritative United States generally accepted accounting principles (GAAP) recognized by the FASB to be applied by nongovernmental entities. The ASC is not intended to change or alter existing GAAP. The adoption of the ASC did not have a material impact on our consolidated financial statements.

B. Discontinued Operations

In an effort to enhance stockholder value, improve working capital and enable us to focus on our core contract manufacturing business, during the fourth quarter of fiscal 2008 we undertook a careful review of our branded products portfolio and operations. As a result, we decided to narrow our branded products focus and portfolio and developed a plan to do so, which included a decision to sell the legacy business of Real Health Laboratories (RHL). On August 4, 2008, RHL sold certain assets related to its catalog and internet business conducted under the name “As We Change®” to Miles Kimball Company for a cash purchase price of \$2.3 million. We recorded a loss of \$226,000 as a result of this sale and recognized \$221,000 in severance and related payroll costs during fiscal 2009.

On July 29, 2009, we entered into an Asset Purchase Agreement with PharmaCare US Inc. and PharmaCare Laboratories Pty Ltd. for the sale of substantially all of the remaining assets of RHL related to its wholesale and direct-to-consumer business. The sale closed on July 31, 2009 for a cash purchase price of \$500,000. NAI provided a guarantee of RHL’s indemnity obligations under the Asset Purchase Agreement, which potential liability is capped at the amount of the purchase price paid by the buyers to RHL. We recorded a loss of \$6,000 as a result of this sale during the first quarter of fiscal 2010. RHL has agreed to provide certain transition services and support to the buyers for a period of up to six months and will receive an amount equal to \$9,000 per month for such services. Following the sale of substantially all of the assets of RHL, we changed the name of RHL to Disposition Company, Inc.

[Table of Contents](#)

As part of the original Asset Purchase Agreement, we had the potential to receive up to an additional \$500,000 from the buyers as a conditional earn-out if the RHL business acquired by the buyers met or exceeded certain budgeted profitability criteria during the period August 1, 2009 through July 31, 2010. Effective as of February 12, 2010, based on the loss of one or more customers, the results of operation of the RHL business since the closing date of the sale, the anticipated results of operation of the RHL business through July 31, 2010, and the corresponding anticipated reduction and or elimination in the conditional earn-out amount, and in an effort to avoid the time and expense associated with the procedures required in connection with the earn-out, including, without limitation, the time and expense associated with the preparation of the required reports and a review of the books and records of PharmaCare US and PharmaCare Australia, we amended the Asset Purchase Agreement to eliminate the potential earn-out compensation.

As a result of our decision to sell the legacy RHL business, we initiated an operational consolidation program during the first quarter of fiscal 2009 that transitioned the remaining branded products business operations to our corporate offices. We substantially completed this operational consolidation program as of September 30, 2008. The program resulted in a charge to discontinued operations of \$820,000 in severance and other business related exit costs during the six months ended December 31, 2008.

As the plan to dispose of the legacy RHL business met the criteria of accounting for the impairment or disposal of long-lived assets, the current and prior periods presented in this report have been reclassified to reflect the legacy RHL business as discontinued operations.

During the third quarter of fiscal 2009, RHL's wholesale operation experienced a decline in sales activity from one of its largest customers as a result of the discontinuance of certain RHL product lines. Historically these product sales represented a significant portion of RHL's overall annual sales to this customer. Additionally, during this same period we received feedback from multiple parties related to their preliminary interest in acquiring the then remaining RHL operations. Due in part to the expected decline in future RHL sales as noted above and the current depressed worldwide economic conditions, the preliminary purchase price valuations provided by these third parties provided us with an indication that an impairment of the RHL net asset carrying values may exist.

We performed an analysis that compared the fair value of RHL's net assets as indicated by the third party purchase price valuations noted above to the current carrying amounts to determine if an impairment of value was evident. As a result of this analysis, we determined that as of the related measurement date the book value of RHL's net assets exceeded the fair value by approximately \$1.8 million and recorded an impairment charge for this amount to discontinued operations during the third quarter of fiscal 2009.

The following table presents the activity and the reserve balances related to these restructuring programs for the six months ended December 31, 2009 (in thousands):

	<u>Balance at June 30, 2009</u>	<u>Charges to Expense</u>	<u>Cash Payments</u>	<u>Balance at December 31, 2009</u>
Employee termination costs	\$ 19	\$ 1	\$ (17)	\$ 3
Lease liabilities and related facility closure costs	15	1	(16)	—
Total	<u>\$ 34</u>	<u>\$ 2</u>	<u>\$ (33)</u>	<u>\$ 3</u>
Accrued restructuring charges:				
Current portion – continuing operations				\$ 3
Discontinued operations				—
Total				<u>\$ 3</u>

Table of Contents

The following table summarizes the results of the legacy RHL business, classified as discontinued operations, for the periods ended December 31 (in thousands):

	Three Months Ended December 31,		Six Months Ended December 31,	
	2009	2008	2009	2008
Net sales	\$ —	\$ 800	\$323	\$ 2,174
Cost of goods sold and operating expense	(63)	724	125	2,691
Restructuring expenses	(3)	199	(2)	1,050
Loss on the sale of As We Change®	—	—	—	226
Loss on the sale of remaining legacy RHL assets	—	—	6	—
Other expense	—	12	7	11
Income (loss) before income taxes	66	(135)	187	(1,804)
Income tax provision	6	621	32	—
Income (loss) from discontinued operations	<u>\$ 60</u>	<u>\$ (756)</u>	<u>\$155</u>	<u>\$ (1,804)</u>

Assets and liabilities of the legacy RHL business included in the Condensed Consolidated Balance Sheets are summarized as follows (in thousands):

	December 31, 2009	June 30, 2009
Assets		
Cash	\$ 165	\$ 144
Accounts receivable, net	—	510
Inventory, net	—	286
Other current assets	6	39
Goodwill and intangible assets	—	208
Total assets	<u>\$ 171</u>	<u>\$1,187</u>
Liabilities		
Accrued liabilities	100	599
Total liabilities	<u>100</u>	<u>599</u>
Net assets of discontinued operations	<u>\$ 71</u>	<u>\$ 588</u>

C. Inventories

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

	December 31, 2009	June 30, 2009
Raw materials	\$ 6,296	\$6,368
Work in progress	1,618	1,445
Finished goods	1,657	2,287
Reserves	(972)	(780)
	<u>\$ 8,599</u>	<u>\$9,320</u>

D. Property and Equipment

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

	Depreciable Life In Years	December 31, 2009	June 30, 2009
Land	N/A	\$ 393	\$ 393
Building and building improvements	7 – 39	2,752	2,679
Machinery and equipment	3 – 12	25,067	23,681
Office equipment and furniture	3 – 5	3,396	3,419
Vehicles	3	204	204
Leasehold improvements	1 – 15	10,112	10,067
Total property and equipment		<u>41,924</u>	<u>40,443</u>
Less: accumulated depreciation and amortization		<u>(27,811)</u>	<u>(26,310)</u>
Property and equipment, net		<u>\$ 14,113</u>	<u>\$ 14,133</u>

[Table of Contents](#)**E. Debt**

We have a bank credit facility of \$8.2 million as of December 31, 2009, comprised of a \$7.5 million working capital line of credit and \$675,000 in outstanding term loans. The working capital line of credit has a maturity date of November 1, 2010 and is secured by our accounts receivable and other rights to payment, general intangibles, inventory and equipment, has a fluctuating or fixed interest rate as elected by NAI from time to time and borrowings are subject to eligibility requirements for current accounts receivable and inventory balances. As of December 31, 2009, the outstanding balances on the term loans consisted of a \$170,000, 15 year term loan due June 2011, secured by our San Marcos building, at an interest rate of 8.25%; and a \$505,000, 10 year term loan due May 2014 with a twenty year amortization, secured by our San Marcos building, at an interest rate of LIBOR plus 2.25%. Monthly payments on the term loans are approximately \$98,000 plus interest. As of December 31, 2009 and June 30, 2009, our working capital line of credit balance was zero.

On December 31, 2009, we were in compliance with all of the financial and other covenants required under our facility.

On September 22, 2006, NAIE, our wholly owned subsidiary, entered into a credit facility to provide it with a credit line of up to CHF 1.3 million, or approximately \$1.3 million, which is the initial maximum aggregate amount that can be outstanding at any one time under the credit facility. This maximum amount was reduced by CHF 160,000, or approximately \$154,000, as of December 31, 2007, and was reduced an additional CHF 160,000, or approximately \$154,000, as of December 31, 2008, and will be reduced by an additional CHF 160,000 at the end of each succeeding calendar year. On February 19, 2007, NAIE amended its credit facility to provide that the maximum aggregate amount that may be outstanding under the facility cannot be reduced below CHF 500,000, or approximately \$482,000. As of December 31, 2009, there was no outstanding balance under the credit facility.

Under its credit facility, NAIE may draw amounts either as current account loan credits to its current or future bank accounts or as fixed loans with a maximum term of 24 months. Current account loans will bear interest at the rate of 5% per annum. Fixed loans will bear interest at a rate determined by the parties based on current market conditions and must be repaid pursuant to a repayment schedule established by the parties at the time of the loan. If a fixed loan is repaid early at NAIE's election or in connection with the termination of the credit facility, NAIE will be charged a pre-payment penalty equal to 0.1% of the principal amount of the fixed loan or CHF 1,000 (approximately \$964), whichever is greater. The bank reserves the right to refuse individual requests for an advance under the credit facility, although its exercise of such right will not have the effect of terminating the credit facility as a whole.

The composite interest rate on all of our outstanding debt was 13.69% at December 31, 2009 and 6.70% at December 31, 2008. The composite interest rate includes interest from our term debt, interest from the use of our working capital line of credit, amortization of annual loan fees and loan modification fees, as applicable, divided by the average balance of our outstanding borrowings during the period.

F. Defined Benefit Pension Plan

We sponsor a defined benefit pension plan that provides retirement benefits to employees based generally on years of service and compensation during the last five years before retirement. Effective June 20, 1999, our Board of Directors amended the plan to freeze the accrued benefit of each plan member at its then current amount and to no longer allow inactive plan members or other employees to become active members of the plan. 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 expense for the periods ended December 31 were as follows (in thousands):

	Three Months Ended December 31,		Six Months Ended December 31,	
	2009	2008	2009	2008
Interest cost	\$ 21	\$ 20	\$ 42	\$ 40
Expected return on plan assets	(13)	(7)	(26)	(14)
Net periodic expense	<u>\$ 8</u>	<u>\$ 13</u>	<u>\$ 16</u>	<u>\$ 26</u>

[Table of Contents](#)

G. 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 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,			
	2009		2008		2009		2008	
	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	\$ 7,819	45%	\$ 9,034	51%	\$ 16,276	48%	\$ 18,907	51%
Customer 2	6,715	39	4,132	23	12,478	36	9,533	26
Customer 3	(a)	(a)	1,959	11	(a)	(a)	(a)	(a)
	<u>\$ 14,534</u>	<u>84%</u>	<u>\$ 15,125</u>	<u>85%</u>	<u>\$ 28,754</u>	<u>84%</u>	<u>\$ 28,440</u>	<u>77%</u>

(a) Net sales were less than 10% of the period's total net sales.

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,			
	2009		2008		2009		2008	
	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	\$ 1,667	20%	\$ 1,222	14%	2,611	16%	2,301	13%
Supplier 2	(a)	(a)	1,233	14	1,965	12	2,048	11
Supplier 3	\$ 1,002	12	(a)	(a)	\$ 1,709	11	(a)	(a)
	<u>\$ 2,669</u>	<u>32%</u>	<u>\$ 2,455</u>	<u>28%</u>	<u>\$ 6,285</u>	<u>39%</u>	<u>\$ 4,349</u>	<u>24%</u>

(a) Purchases were less than 10% of the respective period's total raw material purchases.

H. Segment Information

Our business consists of two segments, identified as private label contract manufacturing, which primarily provides private label contract manufacturing services to companies that market and distribute nutritional supplements and other health care products, and branded products, which markets and distributes branded nutritional supplements.

In an effort to enhance stockholder value, improve working capital and enable us to focus on our core contract manufacturing business, during the fourth quarter of fiscal 2008 we developed a plan to narrow our branded products focus and portfolio and to sell our legacy RHL business. On August 4, 2008, RHL sold certain assets related to its catalog and internet business conducted under the name "As We Change®" to Miles Kimball Company for a cash purchase price of \$2.3 million. We recorded a loss of \$226,000 as a result of this sale and recognized \$221,000 in severance and related payroll costs during fiscal 2009.

On July 31, 2009, we sold substantially all of the remaining assets of RHL related to its wholesale and direct-to-consumer business to PharmaCare US Inc. and PharmaCare Laboratories Pty Ltd. for a cash purchase price of \$500,000. The financial information presented in this report has been reclassified to reflect the legacy RHL business as discontinued operations. We recorded a loss of \$6,000 as a result of this sale.

Following the completion of the sale of substantially all of the assets of RHL, our branded products segment consists primarily of the products sold under our Pathway to Healing product line.

We evaluate performance based on a number of factors. The primary performance measures for each segment are net sales and income or loss from operations before corporate allocations. Operating income or loss for each segment does not include corporate general and administrative expenses, interest expense and other miscellaneous income and expense items. Corporate general and administrative expenses include, but are not limited to: human resources, legal, finance, information technology, and other corporate level related expenses, which are not allocated to either segment. The accounting policies of our segments are the same as those described in Note A above and in the consolidated financial statements included in our 2009 Annual Report.

[Table of Contents](#)

Our operating results from continuing operations by business segment were as follows (in thousands):

	Three Months Ended December 31,		Six Months Ended December 31,	
	2009	2008	2009	2008
Net Sales				
Private label contract manufacturing	\$16,675	\$16,978	\$33,048	\$35,720
Branded products	574	638	1,162	1,422
	<u>\$17,249</u>	<u>\$17,616</u>	<u>\$34,210</u>	<u>\$37,142</u>
	Three Months Ended December 31,		Six Months Ended December 31,	
	2009	2008	2009	2008
Income (Loss) from Operations				
Private label contract manufacturing	\$ 1,836	\$ (70)	\$ 4,350	\$ 1,399
Branded products	122	70	230	118
Income from operations of reportable segments	1,958	—	4,580	1,517
Corporate expenses not allocated to segments	(1,222)	(2,066)	(2,437)	(3,801)
	<u>\$ 736</u>	<u>\$ (2,066)</u>	<u>\$ 2,143</u>	<u>\$ (2,284)</u>
			December 31,	June 30,
			2009	2009
Total Assets				
Private label contract manufacturing			\$ 35,200	\$34,774
Branded products			303	478
			<u>\$ 35,503</u>	<u>\$35,252</u>

Our private label contract manufacturing 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. Our branded products are sold only in the United States.

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

	Three Months Ended December 31,		Six Months Ended December 31,	
	2009	2008	2009	2008
United States	\$10,828	\$11,669	\$21,949	\$24,863
Markets outside the United States	6,421	5,947	12,261	12,279
Total net sales	<u>\$17,249</u>	<u>\$17,616</u>	<u>\$34,210</u>	<u>\$37,142</u>

Products manufactured by NAIE accounted for approximately 48% of net sales in markets outside the United States for the three months ended December 31, 2009, and 52% for the three months ended December 31, 2008. NAIE accounted for 51% of net sales in markets outside the United States for the six months ended December 31, 2009, and 54% for the six months ended December 31, 2008. No products manufactured by NAIE were sold in the United States during the six months ended December 31, 2009 and 2008.

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 follows (in thousands):

	Long-Lived Assets		Total Assets		Capital Expenditures	
	December 31,	June 30,	December 31,	June 30,	December 31,	December 31,
	2009	2009	2009	2009	2009	2008
United States	\$ 11,916	\$11,991	\$ 27,234	\$27,106	\$ 1,300	\$ 2,364
Europe	2,356	2,301	8,269	8,146	301	407
	<u>\$ 14,272</u>	<u>\$14,292</u>	<u>\$ 35,503</u>	<u>\$35,252</u>	<u>\$ 1,601</u>	<u>\$ 2,771</u>

[Table of Contents](#)**I. Restructuring Costs**

During the first six months of fiscal 2009, the continued decline in economic conditions in the United States and the various foreign markets we service negatively impacted our customers' businesses and our operations. As a result, during the second quarter of fiscal 2009 we implemented a cost reduction program that resulted in the elimination of certain personnel and business activities. The cost reduction program is expected to reduce the financial impact of the anticipated reduction in future sales. This program resulted in a charge to our operations of \$558,000 in severance from a reduction in force during the second quarter of fiscal 2009. All payments related to this cost reduction program were completed by December 31, 2009.

The following table presents the activity and the reserve balance related to this restructuring program for the six months ended December 31, 2009 (in thousands):

	Balance at June 30, 2009	Charges to Expense	Cash Payments	Balance at December 31, 2009
Employee termination costs recorded to cost of goods sold	\$ —	\$ —	\$ —	\$ —
Employee termination costs recorded to selling, general and administrative expenses	76	—	(76)	—
Total	<u>\$ 76</u>	<u>\$ —</u>	<u>\$ (76)</u>	<u>\$ —</u>

J. Income Taxes

We account for income taxes using the asset and liability method. Under this method, deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates, for each of the jurisdictions in which we operate, expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in operations in the period that includes the enactment date.

During fiscal 2009, we recorded a valuation allowance against deferred income tax assets of \$1.8 million, representing the amount of our deferred income tax assets in excess of our deferred income tax liabilities. We recorded the valuation allowance because management was unable to conclude, in light of the cumulative loss we realized related to our US-based operations for the three year period ended June 30, 2009, that realization of the net deferred income tax asset was more likely than not. The valuation allowance recorded during fiscal 2009 primarily related to fiscal 2009 net operating loss carry forwards and changes in other deferred tax items recognized during fiscal 2009. During the six months ended December 31, 2009 we recorded U.S.-based federal tax expense of \$382,000, which was fully offset by a release of a portion of our deferred tax asset valuation allowance during the six month period. In addition, during the six months ended December 31, 2009 we recorded US-based state tax expense from continuing operations of \$142,000 as a result of our inability to use our state net operating loss carryforwards due to the suspension of loss carryforward deductions by the state of California during fiscal 2010.

As a result of the recognition of these valuation adjustments, we had a \$2.0 million gross deferred tax asset offset by a deferred tax liability of \$272,000 and a valuation allowance of \$1.4 million resulting in a net deferred tax asset of \$368,000 as of December 31, 2009. This valuation allowance did not have any affect on the tax expense and related liability recorded for operating income recognized by our foreign subsidiary during the three and six months ended December 31, 2009.

We account for uncertain tax positions using the more-likely-than-not recognition threshold. Our practice is to recognize interest and/or penalties related to income tax matters in income tax expense. As of December 31, 2009 and June 30, 2009, we had not recorded any tax liabilities for uncertain tax positions.

We are subject to taxation in the United States, Switzerland and various state jurisdictions. Our tax years for the fiscal years ended June 30, 2006 and forward are subject to examination by the United States and state tax authorities and our tax years for the fiscal years ended June 30, 2007 and forward are subject to examination by the Switzerland tax authorities.

We do not record U.S. income tax expense for NAIE's retained earnings that are declared as indefinitely reinvested offshore, thus reducing our overall income tax expense. The amount of earnings designated as indefinitely reinvested in NAIE is based on the actual deployment of such earnings in NAIE's assets and our expectations of the future cash needs of our U.S. and foreign entities. Income tax laws are also a factor in determining the amount of foreign earnings to be indefinitely reinvested offshore.

It is our policy to establish reserves based on management's assessment of exposure for certain positions taken in previously filed tax returns that may become payable upon audit by tax authorities. The tax reserves are analyzed at least annually, generally in the fourth quarter of each year, and adjustments are made as events occur that warrant adjustments to the reserve.

[Table of Contents](#)

On November 6, 2009, the President signed into law the Worker, Homeownership, and Business Assistance Act of 2009. This law amended Section 172 of the Internal Revenue Code to allow net operating losses realized in either tax year 2008 or 2009 to be carried back up to five years (previously limited to a two-year carryback). We are assessing the impact this new law may have on our financial statements.

K. 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 and, even if such claims are without merit, could result in the expenditure of significant financial and managerial resources. While unfavorable outcomes are possible, based on available information, we generally do not believe the resolution of these matters will result in a material adverse effect on our business, consolidated financial condition, or results of operations. However, a settlement payment or unfavorable outcome could adversely impact our results of operations. Our evaluation of the likely impact of these actions could change in the future and we could have unfavorable outcomes that we do not expect.

As of February 16, 2010, 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.

On July 31, 2009 RHL sold substantially all of the remaining assets of RHL related to its wholesale and direct-to-consumer business to PharmaCare US Inc. and PharmaCare Laboratories Pty Ltd. for a cash purchase price of \$500,000. NAI provided a guarantee of RHL's indemnity obligations under the asset purchase agreement, which potential liability is capped at the amount of the purchase price paid by the buyers to RHL.

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

The following discussion and analysis is intended to help you understand our financial condition and results of operations for the three and six months ended December 31, 2009. You should read the following discussion and analysis together with our unaudited condensed consolidated financial statements and the notes to the condensed consolidated financial statements included under Item 1 in this report, as well as the risk factors and other information included in our 2009 Annual Report and other reports and documents we file with the SEC. Our future financial condition and results of operations will vary from our historical financial condition and results of operations described below based on a variety of factors.

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.

Our primary business activity is providing private label contract manufacturing services to companies that market and distribute vitamins, minerals, herbs and other nutritional supplements, as well as other health care products, to consumers both within and outside the United States. Historically, our revenue has been largely dependent on sales to one or two private label contract manufacturing customers and subject to variations in the timing of such customers' orders, which in turn is impacted by such customers' internal marketing programs, supply chain management, entry into new markets, new product introductions and general industry and economic conditions.

A cornerstone of our business strategy is to achieve long-term growth and profitability and to diversify our sales base. We have sought and expect to continue to seek to diversify our sales by developing relationships with additional, quality-oriented, private label contract manufacturing customers, developing and growing our own line of branded products and commercializing our licensed patent estate through contract manufacturing, royalty and sub-license agreements.

In an effort to enhance stockholder value, improve working capital and enable us to focus on our core contract manufacturing business, during the fourth quarter of fiscal 2008 we developed a plan to narrow our branded products focus and portfolio and to sell our legacy RHL business. On August 4, 2008, we sold certain assets related to RHL's catalog and internet business conducted under the name "As We Change®" to Miles Kimball Company for a cash purchase price of \$2.3 million. We recorded a loss of \$226,000 as a result of this sale and recognized \$221,000 in severance and related payroll costs during fiscal 2009.

On July 31, 2009, we sold substantially all of the remaining assets of RHL related to its wholesale and direct-to-consumer business to PharmaCare US Inc. and PharmaCare Laboratories Pty Ltd. for a cash purchase price of \$500,000. We had the potential to receive up to an additional \$500,000 from the buyers as a conditional earn-out if the RHL business acquired by the buyers met or exceeded certain budgeted profitability criteria during the period August 1, 2009 through July 31, 2010. Effective as of February 12, 2010, based on the loss of one or more customers, the results of operation of the RHL business since the closing date of the sale, the anticipated results of operation of the RHL business through July 31, 2010, and the corresponding anticipated reduction and or elimination in the conditional earn-out amount, and in an effort to avoid the time and expense associated with the procedures required in connection with the earn-out, including, without limitation, the time and expense associated with the preparation of the required reports and a review of the books and records of PharmaCare US and PharmaCare Australia, we entered into an agreement with PharmaCare to eliminate the potential earn-out compensation. The financial information presented in this report has been reclassified to reflect the legacy RHL business as discontinued operations. We recorded a loss of \$6,000 as a result of this sale.

As a result of our decision to sell the legacy RHL business, we initiated an operational consolidation program during the first quarter of fiscal 2009 that transitioned the remaining branded products business operations to our corporate offices. We substantially completed this operational consolidation program as of September 30, 2008. The program resulted in a charge to discontinued operations of \$823,000 in severance and other business related exit costs during fiscal 2009.

During the first six months of fiscal 2010, our net sales from continuing operations were 7.9% lower than in the first six months of fiscal 2009. Private label contract manufacturing sales declined 7.5% due primarily to lower volumes of existing products in existing markets sold to a couple of our largest customers and the discontinuance of a relationship with one of our smaller customers. This decline was partially offset by increased sales to one of our largest customers and income related to our sub-license agreement for the distribution of Beta-Alanine. Net sales from our branded products declined 18.3% in the first six months of fiscal 2010 as compared to the first six months of fiscal 2009 due to the continued softening of our Pathway to Healing® product line. During fiscal 2010 we intend to further increase our Dr. Cherry marketing and advertising efforts and plan to re-launch the product line in late fiscal 2010 with new formulations, labeling and packaging in an effort to expand our future sales opportunities.

Our revenue concentration risk for our two largest customers increased to 84% as a percentage of our total sales from continuing operations for the first six months of fiscal 2010 compared to 77% in the first six months of fiscal 2009. We expect our contract manufacturing revenue concentration percentage for our two largest customers to remain relatively consistent for the remainder of fiscal 2010.

[Table of Contents](#)

Beginning in fiscal 2008 and continuing through fiscal 2009, we invested substantial time and incurred substantial costs associated with hiring and training new quality assurance and other manufacturing support personnel, increased testing activity, and documentation and validation processes related to our Good Manufacturing Practices (GMPs) compliance programs. These additional expenses negatively impacted our operating income from continuing operations during fiscal 2008 and fiscal 2009. Although the cost of GMP compliance is significant, we believe the majority of our implementation investment costs have been incurred. Going forward, our commitment to quality and our steadfast support of the Food and Drug Administration's (FDA) mandated GMPs makes us well positioned to operate within the higher standards of such GMPs and we believe differentiates us from our competitors.

During fiscal 2009, the continued decline in economic conditions in the United States and the various foreign markets we service negatively impacted our customers' businesses and our operations. As a result, during the second quarter of fiscal 2009 we implemented a cost reduction program that resulted in the elimination of certain personnel and business activities. This program resulted in a charge to our continuing operations of \$558,000 during the second quarter of fiscal 2009. During the second half of fiscal 2009, our cost reduction program resulted in a savings of \$3.0 million compared to the cost structure in the comparable prior year period. This cost reduction program reduced our operating overhead costs during the first six months of fiscal 2010 by approximately \$2.5 million and we expect it will further reduce our remaining fiscal 2010 operating overhead by approximately \$600,000 as compared to fiscal 2009.

Following the completion of the sale of substantially all of the assets of RHL, our branded products segment consists primarily of the products sold under our Pathway to Healing® product line. Beginning in April 2007, Dr. Cherry ceased airing his weekly television program, which had served as the primary customer acquisition vehicle in marketing the Pathway to Healing® product line. While sales of the product line have been primarily generated by continuity orders from long-standing repeat customers, the loss of the television program has had a negative impact on our ability to acquire new customers and retain existing customers. During fiscal 2009, we revamped our Dr. Cherry website and increased our direct-to-consumer marketing and advertising efforts. These activities helped reduce the decline in our Dr. Cherry sales volumes during the second half of fiscal 2009. During the remainder of fiscal 2010, we intend to further increase our Dr. Cherry marketing and advertising efforts and continue working with Dr. Cherry to evaluate alternative sales growth initiatives to support the product line.

During the remainder of fiscal 2010, we plan to continue to focus on:

- Leveraging our state of the art, certified facilities to increase the value of the goods and services we provide to our highly valued private label contract manufacturing customers, and assist us in developing relationships with additional quality oriented customers;
- Implementing focused initiatives to grow our Pathway to Healing® product line;
- Commercializing our licensed patent estate through contract manufacturing, royalties and sublicense agreements and protecting our proprietary rights; and
- Improving operational efficiencies and managing costs and business risks to improve profitability.

Looking forward, as a result of continued uncertain near-term economic conditions, anticipated reduced sales volumes combined with lower pricing programs from our largest customers we expect net sales and net operating income from continuing operations during the third quarter of fiscal 2010 to be lower than the comparable prior year period.

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 2009 Annual Report. There have been no significant changes to these policies during the six months ended December 31, 2009.

[Table of Contents](#)

Results of Operations

The results of our operations for the periods ended December 31 were as follows (in thousands):

	Three Months Ended December 31,			Six Months Ended December 31,		
	2009	2008	% Change	2009	2008	% Change
Private label contract manufacturing	\$16,675	\$16,978	(2)	\$33,048	\$35,720	(7)
Branded products	574	638	(10)	1,162	1,422	(18)
Total net sales	17,249	17,616	(2)	34,210	37,142	(8)
Cost of goods sold	14,779	16,844	(12)	28,585	33,970	(16)
Gross profit	2,470	772	220	5,625	3,172	77
Gross profit %	14.3%	4.4%		16.4%	8.5%	
Selling, general & administrative expenses	1,734	2,838	(39)	3,482	5,456	(36)
% of net sales	10.1%	16.1%		10.2%	14.7%	
Operating income (loss) from continuing operations	736	(2,066)	136	2,143	(2,284)	194
% of net sales	4.3%	(11.7)%		6.3%	(6.1)%	
Other expense, net	28	120	(77)	17	433	(96)
Income (loss) from continuing operations before income taxes	708	(2,186)	132	2,126	(2,717)	178
% of net sales	4.1%	(12.4)%		6.2%	(7.3)%	
Income tax expense	94	362	(74)	266	180	48
Income (loss) from continuing operations	614	(2,548)	124	1,860	(2,897)	164
Income (loss) from discontinued operations, net of tax	60	(756)	108	155	(1,804)	109
Net income (loss)	\$ 674	\$ (3,304)	120	\$ 2,015	\$ (4,701)	(143)
% of net sales	3.9%	(18.8)%		5.9%	(12.7)%	

The percentage decrease in contract manufacturing net sales was primarily attributed to the following for the periods ended December 31, 2009:

	Three Months Ended	Six Months Ended
Mannatech, Incorporated ⁽¹⁾	15	8
NSA International, Inc. ⁽²⁾	(7)	(7)
Other customers ⁽³⁾	(10)	(8)
Total	(2)%	(7)%

- 1 Net sales to Mannatech, Incorporated increased primarily as a result of higher volumes of established and new products in existing markets along with a shift in sales mix to higher priced products.
- 2 The decrease in net sales to NSA International, Inc. (NSA) for the three months ended December 31, 2009 included a decrease in international sales of 1.7% and a decline in domestic sales of 19.6%. The decrease in net sales to NSA International, Inc. for the six months ended December 31, 2009 included a decrease in international sales of 6.9% and a decline in domestic sales of 17.6%. These sales declines were due to lower demand by NSA's consumers, lower average sales prices, and NSA's inventory management program.
- 3 The decrease in net sales to other customers was primarily related to the discontinuance of a customer relationship and timing of shipments during the first half of fiscal 2010 as compared to the prior year period offset by royalty income related to our sub-license agreement for the distribution of Beta-Alanine.

Net sales from our branded products segment decreased 10% from the comparable quarter in fiscal 2009 and 18% from the comparable six month period last year due primarily to the continuing impact of the cessation of the Dr. Cherry weekly television program in April 2007, which had served as the primary acquisition vehicle in marketing the Pathway to Healing® product line.

Table of Contents

Gross profit margin increased 9.9 percentage points from the comparable quarter in fiscal 2009 and 7.9 percentage points from the comparable six month period last year. The change in gross profit margin was primarily due to the following for the periods ended December 31, 2009:

	Three Months Ended	Six Months Ended
Branded products operations	(0.4)%	(0.5)%
Contract manufacturing:		
Shift in sales and material mix	3.2	2.5
Reduced overhead expenses	2.6	1.9
Reduced direct and indirect labor	3.4	3.5
Cost reduction program	1.1	0.5
Total	9.9%	7.9%

Selling, general and administrative expenses from continuing operations decreased \$1.1 million, or 38.9%, from the comparable quarter last year and decreased \$2.0 million, or 36.2%, from the comparable six month period last year primarily due to a reduction in compensation and severance associated with reduced headcount, decreased outside services expenses and reduced direct-to-consumer operating costs primarily associated with lower marketing and advertising expenses, employee compensation costs and call center and fulfillment expenses as a result of the sale of substantially all of the assets of RHL.

Other expense, net decreased \$92,000 from the comparable quarter last year and \$416,000 from the comparable six month period last year due primarily to reduced interest expense and lower foreign currency exchange losses associated with changes in the Euro and the related impact on the translation of Euro denominated cash and receivables.

Our income tax expense from continuing operations decreased \$268,000, or 74.0%, from the comparable quarter last year primarily due to the full valuation of our net deferred tax asset during the prior year comparable quarter while the fiscal 2010 provision was based on income from operations. As a result, the tax expense from continuing operations for the fiscal quarter ended December 31, 2009 included expense from our foreign subsidiary at a statutory tax rate of 20% and state tax expense from our U.S.-based income from operations. No net federal tax expense was recognized in the fiscal quarter ended December 31, 2009 for our U.S.-based income from operations as it was offset by a release of our net deferred tax asset valuation allowance.

Our income tax expense from continuing operations increased \$86,000, or 47.8%, during the first six months of fiscal 2010 as compared to the same period in the prior fiscal year primarily due to the corresponding increase in our income from continuing operations. As a result, the tax expense from continuing operations for the first six months of fiscal 2010 included expense from our foreign subsidiary at a statutory tax rate of 20% and state tax expense from our U.S.-based income from operations. No net federal tax expense was recognized during the first six months of fiscal 2010 for our U.S.-based income from operations as it was offset by a release of our net deferred tax asset valuation allowance.

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. Net cash provided by operating activities was \$2.2 million for the six months ended December 31, 2009 compared to net cash used in operating activities of \$1.7 million in the comparable period in the prior year.

Income before discontinued operations increased to \$1.9 million during the first six months of fiscal 2010 as compared to a loss before discontinued operations of \$2.9 million in the comparable period in the prior fiscal year. At December 31, 2009, changes in accounts receivable, consisting primarily of amounts due from our private label contract manufacturing customers, provided \$90,000 in cash during the six months ended December 31, 2009 compared to providing \$1.8 million in the comparable period in the prior year. The decrease in cash provided by accounts receivable during the six months ended December 31, 2009 was the result of lower sales and increased days sales outstanding as compared to the comparable prior year period. Days sales outstanding was 30 days as of December 31, 2009 compared to 27 days as of December 31, 2008.

Approximately \$1.4 million of our operating cash flow was generated by NAIE in the six months ended December 31, 2009. As of December 31, 2009, NAIE's undistributed retained earnings were considered indefinitely reinvested.

Capital expenditures were \$1.6 million during the six months ended December 31, 2009 compared to \$2.8 million in the comparable period in the prior year. Capital expenditures during the six months ended December 31, 2009 and December 31, 2008 were primarily for manufacturing equipment in our Vista, California and Manno, Switzerland facilities. Additionally, during the six months ended December 31, 2009, we received \$500,000 in proceeds related to the sale of the remaining assets of the legacy RHL business as compared to \$2.2 million in proceeds related to the sale of our As We Change business in the comparable quarter last year. We also invested \$699,000 in a six month certificate of deposit during the six months ended December 31, 2008.

[Table of Contents](#)

Our consolidated debt decreased to \$675,000 at December 31, 2009 from \$1.3 million at June 30, 2009 primarily due to payments on our term loans.

We have a bank credit facility of \$8.2 million as of December 31, 2009, comprised of a \$7.5 million working capital line of credit and \$675,000 in outstanding term loans. The working capital line of credit has a maturity date of November 1, 2010 and is secured by our accounts receivable and other rights to payment, general intangibles, inventory and equipment, has a fluctuating or fixed interest rate as elected by NAI from time to time and borrowings are subject to eligibility requirements for current accounts receivable and inventory balances. As of December 31, 2009, the outstanding balances on the term loans consisted of a \$170,000, 15 year term loan due June 2011, secured by our San Marcos building, at an interest rate of 8.25%; and a \$505,000, 10 year term loan due May 2014 with a twenty year amortization, secured by our San Marcos building, at an interest rate of LIBOR plus 2.25%. Monthly payments on the term loans are approximately \$98,000 plus interest. As of December 31, 2009 and June 30, 2009, our working capital line of credit balance was zero.

On December 31, 2009, we were in compliance with all of the financial and other covenants required under our credit facility.

On September 22, 2006, NAIE, our wholly owned subsidiary, entered into a credit facility to provide it with a credit line of up to CHF 1.3 million, or approximately \$1.3 million, which is the initial maximum aggregate amount that can be outstanding at any one time under the credit facility. This maximum amount was reduced by CHF 160,000, or approximately \$154,000, as of December 31, 2007, and was reduced an additional CHF 160,000, or approximately \$154,000, as of December 31, 2008, and will be reduced by an additional CHF 160,000 at the end of each succeeding calendar year. On February 19, 2007, NAIE amended its credit facility to provide that the maximum aggregate amount that may be outstanding under the facility cannot be reduced below CHF 500,000, or approximately \$482,000. As of December 31, 2009, there was no outstanding balance under the credit facility.

Under its credit facility, NAIE may draw amounts either as current account loan credits to its current or future bank accounts or as fixed loans with a maximum term of 24 months. Current account loans will bear interest at the rate of 5% per annum. Fixed loans will bear interest at a rate determined by the parties based on current market conditions and must be repaid pursuant to a repayment schedule established by the parties at the time of the loan. If a fixed loan is repaid early at NAIE's election or in connection with the termination of the credit facility, NAIE will be charged a pre-payment penalty equal to 0.1% of the principal amount of the fixed loan or CHF 1,000 (approximately \$964), whichever is greater. The bank reserves the right to refuse individual requests for an advance under the credit facility, although its exercise of such right will not have the effect of terminating the credit facility as a whole.

As of December 31, 2009, we had \$4.6 million in cash and cash equivalents, a \$699,000 certificate of deposit and \$3.8 million available under our working capital line of credit. We believe our available cash, cash equivalents and potential cash flows from operations will be sufficient to fund our current working capital needs, capital expenditures and debt payments through at least the next 12 months.

Off-Balance Sheet Arrangements

As of December 31, 2009, we did not have any significant off-balance sheet debt nor did we have any transactions, arrangements, obligations (including contingent obligations) or other relationships with any unconsolidated entities or other persons that have or are reasonably likely to have a material current or future effect on our financial condition, changes in financial condition, results of operations, liquidity, capital expenditures, capital resources, or significant components of revenue or expenses material to investors.

Recent Accounting Pronouncements

Recent accounting pronouncements are discussed in the notes to our consolidated financial statements included under Item 8 of our 2009 Annual Report. During the first quarter of fiscal 2010, we adopted the Accounting Standards Codification (ASC) as issued by the Financial Accounting Standards Board (FASB). The ASC has become the source of authoritative GAAP recognized by the FASB to be applied by nongovernmental entities. The ASC is not intended to change or alter existing GAAP. The adoption of the ASC did not have a material impact on our consolidated financial statements. Other than the pronouncements discussed in our 2009 Annual Report and above, we are not aware of any other pronouncements that materially affect our financial position or results of operations.

ITEM 4. CONTROLS AND PROCEDURES

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

[Table of Contents](#)

specified by the SEC. Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of the design and operation of our disclosure controls and procedures as of December 31, 2009. Based on such evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective for their intended purpose described above as of December 31, 2009.

There were no changes to our internal control over financial reporting during the quarterly period ended December 31, 2009 that have materially affected, or that are reasonably likely to materially affect, our internal control over financial reporting.

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 and, even if such claims are without merit, could result in the expenditure of significant financial and managerial resources. While unfavorable outcomes are possible, based on available information, we generally do not believe the resolution of these matters will result in a material adverse effect on our business, consolidated financial condition, or results of operations. However, a settlement payment or unfavorable outcome could adversely impact our results of operations. Our evaluation of the likely impact of these actions could change in the future and we could have unfavorable outcomes that we do not expect.

As of February 16, 2009, 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 1A. RISK FACTORS

You should carefully consider the risks described under Item 1A of our 2009 Annual Report, as well as the other information in our 2009 Annual Report, this report and other reports and documents we file with the SEC, 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 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 November 30, 2009. 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 I directors to serve until the next annual meeting of stockholders held to elect Class I directors and until their respective successor is elected and qualified:					
Joe E. Davis	3,545,923	154,015	—	—	—
Mark A. LeDoux	3,620,760	79,178	—	—	—
Approval of our 2009 Omnibus Incentive Plan	2,766,801	—	669,315	1,067	—
Ratification of the selection of Ernst & Young LLP as our independent registered public accounting firm for the fiscal year ending June 30, 2010	3,696,088	—	2,000	1,850	—

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. The named directors and the other above matters were each approved by the stockholders at the annual meeting.

[Table of Contents](#)

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	Exhibit 3(i) of NAI's Quarterly Report on Form 10-Q for the quarterly period ended December 31, 2004, filed with the commission on February 14, 2005
3(ii)	Amended and Restated By-laws of Natural Alternatives International, Inc. dated as of February 9, 2009	Exhibit 3(ii) of NAI's Current Report on Form 8-K dated February 9, 2009, filed with the commission on February 13, 2009
4(i)	Form of NAI's Common Stock Certificate	Exhibit 4(i) of NAI's Annual Report on Form 10-K for the fiscal year ended June 30, 2005, filed with the commission on September 8, 2005
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*	Exhibit 10.1 of NAI's Quarterly Report on Form 10-Q for the quarterly period ended December 31, 2004, filed with the commission on February 14, 2005
10.2	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
10.3	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
10.4	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
10.5	First Amendment to Exclusive License Agreement effective as of December 10, 2004 by and among NAI and Reginald B. Cherry Ministries, Inc.	Exhibit 10.3 of NAI's Quarterly Report on Form 10-Q for the quarterly period ended December 31, 2004, filed with the commission on February 14, 2005
10.6	Lease of Facilities in Vista, California between NAI and Calwest Industrial Properties, LLC, a California limited liability company (lease reference date June 12, 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
10.7	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
10.8	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
10.9	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
10.10	Lease of Facilities in Manno, Switzerland between NAIE and Mr. Silvio Tarchini dated May 9, 2005 (English translation)	Exhibit 10.19 of NAI's Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2005, filed with the commission on May 13, 2005

[Table of Contents](#)

<u>Exhibit Number</u>	<u>Description</u>	<u>Incorporated By Reference To</u>
10.11	Lease of Facilities in Manno, Switzerland between NAIE and Mr. Silvio Tarchini dated July 25, 2003 (English translation)	Exhibit 10.19 of NAI's Annual Report on Form 10-K for the fiscal year ended June 30, 2005, filed with the commission on September 8, 2005
10.12	Lease of Facilities in Manno, Switzerland between NAIE and Mr. Silvio Tarchini dated June 8, 2004 (English translation)	Exhibit 10.20 of NAI's Annual Report on Form 10-K for the fiscal year ended June 30, 2005, filed with the commission on September 8, 2005
10.13	Lease of Facilities in Manno, Switzerland between NAIE and Mr. Silvio Tarchini dated February 7, 2005 (English translation)	Exhibit 10.21 of NAI's Annual Report on Form 10-K for the fiscal year ended June 30, 2005, filed with the commission on September 8, 2005
10.14	License Agreement effective as of April 28, 1997 by and among Roger Harris, Mark Dunnett and NAI	Exhibit 10.22 of NAI's Annual Report on Form 10-K for the fiscal year ended June 30, 2005, filed with the commission on September 8, 2005
10.15	Amendment to License Agreement effective as of March 17, 2001 by and among Roger Harris, Mark Dunnett and NAI	Exhibit 10.23 of NAI's Annual Report on Form 10-K for the fiscal year ended June 30, 2005, filed with the commission on September 8, 2005
10.16	Amendment effective as of September 15, 2005 to Lease of Facilities in Manno, Switzerland between NAIE and Mr. Silvio Tarchini dated May 9, 2005 (English translation)	Exhibit 10.24 of NAI's Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2005, filed with the commission on November 4, 2005
10.17	Promissory Note made by NAI for the benefit of Wells Fargo Equipment Finance, Inc. in the amount of \$3,800,000	Exhibit 10.5 of NAI's Current Report on Form 8-K dated December 5, 2005, filed with the commission on December 9, 2005
10.18	Second Amendment to Credit Agreement dated as of December 1, 2005 by and between NAI and Wells Fargo Bank, National Association	Exhibit 10.30 of NAI's Quarterly Report on Form 10-Q for the quarterly period ended December 31, 2005, filed with the commission on February 14, 2006
10.19	Exclusive License Agreement by and between NAI and Richard Linchitz, M.D. effective as of August 23, 2005	Exhibit 10.32 of NAI's Quarterly Report on Form 10-Q for the quarterly period ended December 31, 2005, filed with the commission on February 14, 2006
10.20	First Amendment to Lease of Facilities in Vista, California between NAI and Calwest Industrial Properties, LLC, a California limited liability company, effective December 21, 2004	Exhibit 10.34 of NAI's Quarterly Report on Form 10-Q for the quarterly period ended December 31, 2005, filed with the commission on February 14, 2006
10.21	Second Amendment to Lease of Facilities in Vista, California between NAI and Calwest Industrial Properties, LLC, a California limited liability company, effective January 13, 2006	Exhibit 10.35 of NAI's Quarterly Report on Form 10-Q for the quarterly period ended December 31, 2005, filed with the commission on February 14, 2006
10.22	Third Amendment to Credit Agreement dated as of March 15, 2006 by and between NAI and Wells Fargo Bank, National Association	Exhibit 10.35 of NAI's Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2006, filed with the commission on May 9, 2006
10.23	Loan Agreement between NAIE and Credit Suisse dated as of September 22, 2006, including general conditions (portions of the Loan Agreement have been omitted pursuant to a request for confidential treatment)	Exhibit 10.36 of NAI's Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2006, filed with the commission on November 1, 2006
10.24	Fourth Amendment to Credit Agreement dated as of November 1, 2006, and entered into on January 24, 2007, by and between NAI and Wells Fargo Bank, National Association	Exhibit 10.37 of NAI's Quarterly Report on Form 10-Q for the quarterly period ended December 31, 2006, filed with the commission on January 30, 2007

Table of Contents

<u>Exhibit Number</u>	<u>Description</u>	<u>Incorporated By Reference To</u>
10.25	Sublease Contract for facilities in Manno, Switzerland, between NAIE and Vertime SA effective as of April 1, 2007 (portions of the Sublease Contract have been omitted pursuant to a request for confidential treatment) (English translation)	Exhibit 10.39 of NAI's Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2006, filed with the commission on May 14, 2007
10.26	Second Amendment to License Agreement Amending The First Amendment Dated March 17, 2001 to License Agreement Dated April 28, 1997 by and among Roger Harris, Mark Dunnett and NAI dated as of March 26, 2007	Exhibit 10.40 of NAI's Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2007, filed with the commission on May 14, 2007
10.27	First Amendment to Loan Agreement between NAIE and Credit Suisse dated as of February 19, 2007	Exhibit 10.41 of NAI's Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2007, filed with the commission on May 14, 2007
10.28	Fifth Amendment to Credit Agreement dated as of November 1, 2007, and entered into on December 18, 2007, by and between NAI and Wells Fargo Bank, National Association	Exhibit 10.40 of NAI's Quarterly Report on Form 10-Q for the quarterly period ended December 31, 2007, filed with the commission on February 8, 2008
10.29	Employment Agreement effective as of February 11, 2008, by and between NAI and Kenneth Wolf*	Exhibit 10.1 of NAI's Current Report on Form 8-K dated February 11, 2008, filed with the commission on February 14, 2008
10.30	Asset Purchase Agreement by and between RHL and Miles Kimball Company dated August 4, 2008	Exhibit 10.1 of NAI's Current Report on Form 8-K dated August 4, 2008, filed with the commission on August 8, 2008
10.31	Revolving Line of Credit Note made by NAI for the benefit of Wells Fargo Bank, National Association in the amount of \$7,500,000 (with Addendum)	Exhibit 10.40 of NAI's Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2009, filed with the commission on May 13, 2009
10.32	Sixth Amendment to Credit Agreement dated as of November 1, 2008, by and between NAI and Wells Fargo Bank, National Association	Exhibit 10.41 of NAI's Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2009, filed with the commission on May 13, 2009
10.33	Separation Agreement and General Release of Claims by and between Disposition Company, Inc. (fka Real Health Laboratories, Inc.) and John Dullea effective as of December 26, 2008	Exhibit 10.42 of NAI's Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2009, filed with the commission on May 13, 2009
10.34	Separation Agreement and General Release of Claims by and between NAI and Randell Weaver effective as of March 13, 2009	Exhibit 10.43 of NAI's Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2009, filed with the commission on May 13, 2009
10.35	Agreement to Sublicense by and between NAI and Compound Solutions, Inc. dated as of March 3, 2009	Exhibit 10.44 of NAI's Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2009, filed with the commission on May 13, 2009
10.36	Separation Agreement and General Release of Claims by and between NAI and Alvin McCurdy effective as of July 9, 2009	Exhibit 10.37 of NAI's Annual Report on Form 10-K for the fiscal year ended June 30, 2009, filed with the commission on September 28, 2009.
10.37	Seventh Amendment to Credit Agreement dated as of June 1, 2009, by and between NAI and Wells Fargo Bank, National Association	Exhibit 10.38 of NAI's Annual Report on Form 10-K for the fiscal year ended June 30, 2009, filed with the commission on September 28, 2009.
10.38	First Modification to Promissory Note dated as of June 1, 2009, by and between NAI and Wells Fargo Bank, National Association (with Amended and Restated Addendum)	Exhibit 10.39 of NAI's Annual Report on Form 10-K for the fiscal year ended June 30, 2009, filed with the commission on September 28, 2009.

Table of Contents

<u>Exhibit Number</u>	<u>Description</u>	<u>Incorporated By Reference To</u>
10.39	Third Amendment to License Agreement by and among Roger Harris, Mark Dunnett, Kenny Johansson and NAI effective as of March 3, 2009	Exhibit 10.40 of NAI's Annual Report on Form 10-K for the fiscal year ended June 30, 2009, filed with the commission on September 28, 2009.
10.40	Asset Purchase Agreement by and among NAI, Disposition Company, Inc. (fka Real Health Laboratories, Inc.), PharmaCare US Inc. and PharmaCare Laboratories Pty Ltd. dated July 29, 2009	Exhibit 10.1 of NAI's Current Report on Form 8-K dated July 29, 2009, filed with the commission on August 4, 2009
10.41	2009 Omnibus Incentive Plan*	Exhibit D of NAI's definitive Proxy Statement filed with the commission on October 16, 2009
10.42	First Amendment to Asset Purchase Agreement by and among NAI, Disposition Company, Inc. (fka Real Health Laboratories, Inc.), PharmaCare US Inc. and PharmaCare Laboratories Pty Ltd. dated effective as of February 12, 2010	Filed herewith
10.43	Manufacturing Agreement by and between NSA, Inc. and NAI dated April 1, 2005	Filed herewith
10.44	Manufacturing Agreement by and between Mannatech, Inc. and NAI dated April 22, 1998	Filed herewith
10.45	First Amendment to Manufacturing Agreement by and between Mannatech, Incorporated and NAI dated May 23, 2003	Filed herewith
10.46	Second Amendment to Manufacturing Agreement by and between Mannatech, Incorporated and NAI dated July 1, 2003	Filed herewith
10.47	Third Amendment to Manufacturing Agreement by and between Mannatech, Incorporated and NAI dated July 1, 2004	Filed herewith
10.48	Fourth Amendment to Manufacturing Agreement by and among Mannatech, Incorporated, Mannatech Swiss International GmbH and NAI dated January 1, 2008	Filed herewith
10.49	Manufacturing Sales Agreement by and between Mannatech, Incorporated and NAI dated November 19, 2004	Filed herewith
10.50	Amendment to Manufacturing Sales Agreement by and among Mannatech, Incorporated, Mannatech Swiss International GmbH and NAI dated January 1, 2008	Filed herewith
10.51	Exclusive Manufacturing Agreement by and between NSA, Inc., NAI and NAIE dated as of April 1, 2005	Filed herewith
31.1	Rule 13a-14(a)/15d-14(a) Certification of Chief Executive Officer	Filed herewith
31.2	Rule 13a-14(a)/15d-14(a) Certification of Chief Financial Officer	Filed herewith
32	Section 1350 Certification	Filed herewith

* Indicates management contract or compensatory plan or arrangement.

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 16, 2009

NATURAL ALTERNATIVES INTERNATIONAL, INC.

By: /s/ Kenneth E. Wolf

Kenneth E. Wolf, Chief Financial Officer

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

**FIRST AMENDMENT TO
ASSET PURCHASE AGREEMENT**

This First Amendment (“Amendment”) to the Asset Purchase Agreement by and among PharmaCare US Inc., a Delaware corporation (“PharmaCare US”), PharmaCare Laboratories Pty Ltd., an Australian company (“PharmaCare Australia”), Disposition Company, Inc. (formerly known as Real Health Laboratories, Inc.), a California corporation, and Natural Alternatives International, Inc., a Delaware corporation (“NAI”), dated as of July 29, 2009 (“Agreement”), is made and entered into effective as of February 12, 2010 (“Effective Date”). Unless otherwise defined herein, capitalized terms shall have the meanings given them in the Agreement.

WHEREAS, based on the loss of one or more customers, the results of operation of the Business since the Closing Date, the anticipated results of operation of the Business through July 31, 2010, and the corresponding anticipated reduction and or elimination in the conditional earn-out amount, and in an effort to avoid the time and expense associated with the procedures set forth in Section 2(c)(iii) of the Agreement, including, without limitation, the time and expense associated with the preparation of the reports required thereunder and a review of the books and records of PharmaCare US and PharmaCare Australia by Disposition Company, Inc., the parties have discussed and agreed to an amendment to the Agreement to eliminate the additional compensation that may otherwise be due under Section 2(c)(iii) of the Agreement; and

WHEREAS, the parties now desire to enter into this Amendment to effect the foregoing.

NOW, THEREFORE, incorporating the above recitals and for good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties agree as follows:

1. Section 2(c)(iii) of the Agreement is hereby deleted in its entirety.
2. In accordance with Section 9(a) of the Agreement, PharmaCare US and PharmaCare Australia are hereby advised by Disposition Company, Inc. and NAI and acknowledge that on or prior to February 16, 2010, NAI will file a Quarterly Report on Form 10-Q with the United States Securities and Exchange Commission exhibiting this Amendment and disclosing its contents and such other information as NAI believes in good faith is required by applicable law to be disclosed in such report.
3. Except as set forth herein, all other terms and conditions of the Agreement shall remain in full force and effect.

[Signatures on following page.]

IN WITNESS WHEREOF, the undersigned have executed this Amendment as of the Effective Date.

PHARMACARE US INC.

By: /s/ Toby Browne
Toby Browne, Chief Executive Officer

PHARMACARE LABORATORIES PTY LTD.

By: /s/ Toby Browne
Toby Browne, Managing Director

DISPOSITION COMPANY, INC.

By: /s/ Mark LeDoux
Mark LeDoux, Chief Executive Officer

NATURAL ALTERNATIVES INTERNATIONAL, INC.

By: /s/ Mark LeDoux
Mark LeDoux, Chief Executive Officer

MANUFACTURING AGREEMENT

THIS MANUFACTURING AGREEMENT (the "Agreement") dated as of the 1st day of April, 2005, by and between **NSA, INC.**, a Tennessee corporation having a place of business at 4260 East Raines Road, Memphis, Tennessee 38118 ("NSA") and **NATURAL ALTERNATIVES INTERNATIONAL, INC.**, a Delaware corporation ("Seller") having a place of business at 1185 Linda Vista Drive, San Marcos, California 92078 (each a "Party" and collectively the "Parties").

WITNESSETH:

WHEREAS, NSA is the owner and/or exclusive licensee of the specifications and formulations of certain nutritional products currently marketed under the trademark "Juice Plus+®";

WHEREAS, Seller desires to be a manufacturer and supplier of certain nutritional products for and on behalf of NSA for resale domestically through NSA's independent distributors or internationally through international licensees of NSA known as master distributors, ("Master Distributors");

WHEREAS, NSA desires that Seller be a manufacturer and supplier of certain nutritional products for and on behalf of NSA for resale domestically through its independent distributors or internationally through its Master Distributors.

WHEREAS, in addition to the manufacturing services provided to NSA by Seller, NSA desires that Seller provide certain consulting and other services more specifically detailed herein; and

WHEREAS, Seller desires to provide such consulting and other services to NSA.

NOW, THEREFORE, in consideration of the premises and the mutual covenants and agreements set forth herein and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the Parties hereby agree as follows:

1. **Manufacturing.** Subject to the terms and conditions of this Agreement, Seller shall be and become a manufacturer and supplier of certain nutritional products (the "Products") to NSA. Seller shall develop, manufacture, produce and package for NSA the Products initially the subject of this Agreement and any new Product subsequently determined by the Parties to be added to this Agreement. All Products and new Products shall be listed on subsequent written memorandums signed by the Parties and expressly referring to this Agreement along with the detailed formulations and specifications for the manufacturing, producing and packaging of all Products and new Products (the "Standards"). The Parties may, from time to time, amend any subsequent written memorandums by mutual written agreement.

(a) **Compliance with Standards and Warranties.** Seller shall produce the Products in accordance with the Standards. Seller shall conduct in-process

inspections, final inspection and perform testing as mutually agreed upon by the Parties to insure that all Products are manufactured in compliance with the Standards. Seller shall not make any changes in the specifications or formulations without the prior written consent of NSA. All Products manufactured for NSA by Seller shall be manufactured and delivered in accordance with the warranties contained in Section 6. In order to insure compliance with this Agreement, Seller shall maintain a retained sample of each batch and lot of Products produced by Seller for a period of five (5) years from the production date.

- (b) **Parts, Labor and Materials.** Seller shall provide all parts, labor, and materials necessary to perform Seller's obligations under the terms of this Agreement. Seller shall maintain, at no cost to NSA, an inventory of raw materials used in the manufacture of the Products reasonably sufficient to meet NSA's forecast of anticipated monthly Purchase Orders (defined in Section 5). Seller shall maintain such inventory on a FIFO basis.
- (c) **Inspection Rights.** NSA or its representatives may review Seller's performance of the work under this Agreement including development, formulation, production and tests of the Products, the design of the manufacturing process used to produce them, and their operation. To review the work, NSA or its representatives may visit the sites where Seller and/or Seller's subcontractors and agents perform the process, or NSA or its representatives may review any and all documentation related to Seller's performance of the work hereunder. NSA may review such documentation at Seller's site or request Seller to provide copies for review. NSA shall visit the sites during normal business hours and shall have access to documentation with reasonable notice to Seller.
- (d) **Quality Control and Product Information.** Upon receipt of a request for information relating to formulation, sources of ingredients, suppliers, subcontractors or other information relating to the Products from NSA's Vice President of Product and Research or International Product Manager (or their written designee), as soon as reasonably possible (but, in any event, not to exceed fourteen days), Seller shall provide all requested information and cooperate fully and to the extent reasonably requested with the party requesting such information.
- (e) **Packaging and Labeling.** Seller shall label and package the Products in accordance with the Standards. Seller shall be solely responsible for insuring that all individual Product labeling comply in all respects with all applicable laws, rules and regulations of the intended market place. Seller shall consult with NSA regarding such labeling, and NSA shall approve all Product labeling in writing. Additional costs incurred as a result of future modifications to the packaging of the Products requested by NSA shall be reimbursed by NSA, provided Seller provides an accounting of those additional costs. Seller shall be responsible for procurement of materials, any testing required and obtaining NSA's approval of all packaging. Seller shall be solely responsible for insuring that all packaging

materials comply with the requirements of the intended market place. Standard external packaging for each Product, which generally consists of a recommended four-month supply, will contain the bar coded information specified in the Standards. Seller is not responsible for (i) any claims made by NSA in its marketing and/or selling literature, including package inserts, (ii) any claims made by NSA's Master Distributors, distributors or any other representative or agent of NSA, or (iii) any alterations to the labeling and/or packaging for the Products made by NSA, its Master Distributors, distributors or any other representative or agent of NSA after the Products are delivered by Seller in accordance with the Standards.

- (f) **Subcontractors and Suppliers.** Seller currently utilizes certain subcontractors and suppliers in order to perform its obligations hereunder whose names are listed on a written memorandum signed by the Parties and expressly referring to this Agreement. Seller shall not utilize any subcontractors or suppliers other than those listed in such written memorandum in the manufacturing process without obtaining the prior written consent of NSA to such additional or replacement subcontractors or suppliers. Seller shall not be required to obtain the consent of NSA before changing subcontractors or suppliers involved solely in the labeling or shipping portion of the manufacturing process.
- (g) **Batch and Lot Codes.** Each Product manufactured by Seller under this Agreement shall be identified by a lot number that is linked to the manufacturing Batch Number of the Product and location, time and shift of final packaging. The term "Batch Number" shall mean a number which is assigned to a single production run of a Product manufactured by Seller.
- (h) **Certificates of Analysis.** Seller shall ensure that an appropriate certificate of analysis accompanies each shipment of Products to NSA. If, at NSA's request pursuant to Section 7, Products are shipped to a third-party distributor of NSA, Seller shall provide to both NSA and the entity receiving the shipment a certificate of analysis. In either case, the certificate shall, at a minimum, provide an analysis of the Products contained in that shipment, as well as the input amounts of all components of the Products with label claims, and the results of all assays performed) and the bar coded information in the form set forth in the Standards. NSA or any recipient of a shipment shall have the right to reject any shipment of Products if such shipment is received by NSA or other recipient without a certificate of analysis, provided however that Seller shall be given notice of any missing certificate of analysis and three (3) business days to deliver the missing certificate to NSA or such third party before any such rejection can occur. Seller is also responsible to maintain certificates of analysis from all suppliers of materials blended into the Products, and to insure that these conform to NSA's and Seller's agreed upon specifications for the Products.
- (i) **Expiration Date.** Each Product manufactured by Seller under this Agreement shall display an expiration date consisting of month and year on the label.

The failure by Seller to adhere to any of the terms of this Section 1 shall be a material breach of this Agreement.

2. **Consulting and Other Services.** In consideration for NSA utilizing Seller's manufacturing services, in addition to the manufacturing services described above, Seller will also provide the following services to NSA:

- (a) **Labeling and Regulatory Approval.** With respect to the Products, Seller shall (i) subject to Section 1(f) of this Agreement, engage subcontractors necessary to produce the aforementioned Products, (ii) prepare label copy and packaging for the Products, and (iii) as mutually agreed upon by the Parties pursuant to Section 22 of this Agreement, procure any necessary governmental registrations or approvals of the aforementioned Products in any geographic area in which NSA intends to sell or distribute the Products or cooperate with NSA in the procurement of such registrations or approvals.
- (b) **Third Party Manufacturing.** With respect to the products purchased by NSA from third party manufacturers to whom Seller provides specified pre-blended raw materials, Seller shall (i) consult with NSA to locate a primary manufacturing facility to produce the aforementioned products (if such primary manufacturing facility has not already been located), (ii) consult with the primary manufacturer with regard to label copy and packaging for the aforementioned products, (iii) provide specified pre-blended raw materials in conformity with the formulas and specifications for the aforementioned products at the prices listed on subsequent memorandums signed by the Parties, and (iv) as mutually agreed by the Parties pursuant to Section 22 of this Agreement, procure any necessary governmental registrations or approvals required for the aforementioned products in any geographic area in which NSA intends to sell or distribute the aforementioned products or cooperate with NSA in the procurement of such registrations or approvals.
- (c) **Clinical Trials.** Seller agrees to provide consulting services in the development and execution of clinical trials, such as the review of proposed protocols prior to IRB submission and review of draft manuscripts prior to submission to a journal, as requested by NSA for Products and products which have the potential to become new Products under this Agreement.
- (d) **Certifications and Good Manufacturing Practices.** Seller shall maintain the appropriate manufacturing certifications, to be mutually agreed on between Seller and NSA, including licensure by the Therapeutic Goods Administrations of Australia, and registration and/or licensure by a reputable organization evidencing compliance with Current Good Manufacturing Practices in the United States.

- (e) **Emergency Action Plan.** Seller shall maintain an Emergency Action Plan (“EAP”) reasonably agreeable to NSA that enables Seller to respond to NSA forecast volume requirements in the event of a business disruption at Seller’s San Marcos and Vista locations by utilizing production capacity at Seller’s facility in Lugano, Switzerland. Seller shall maintain offsite backup copies of all Standards, documentation, formulas, specifications, vendor listings and any other data necessary to begin manufacturing Products in Seller’s Lugano, Switzerland facility as soon as practical after a business disruption and in accordance with the EAP. Seller shall also enter into any necessary agreements with ingredient, raw material and packaging suppliers to ensure that the terms of the mutually agreeable EAP can be met within timeframes specified in the EAP.
- (f) **Product Enhancement and New Product Development.** Seller shall provide all reasonable assistance necessary to NSA to enhance existing products including consulting on raw material processes and proposed formula changes as well as assisting in evaluating potential changes to ingredients or raw materials. Seller shall also assist in the development of new products or the expansion of existing products to new markets including, but not limited to, regulatory consulting.
- (g) **Marketing Support.** Seller shall provide reasonable support to NSA’s marketing efforts including, but not limited to, providing scientists and/or other executives knowledgeable about the product to be available to speak at functions organized by NSA.
- (h) **Management Support.** Seller shall provide reasonable management support to assist in the resolution of international or domestic issues that may arise from time to time with respect to product questions, registrations, ingredients, disputes with international or domestic agencies, import or export agencies and any other entities as may be requested from time to time by NSA.
- (i) **Developing Markets.** Seller shall provide reasonable support to NSA to develop new international markets including regulatory consulting, product formulation consulting, clinical study consulting and any marketing experiences Seller may have.
- (j) **Facility Tours – Monthly, Annual and Special.** Seller shall cooperate with NSA to provide tours of Seller’s receiving, production, packaging and laboratory facilities to NSA distributors, Master Distributors and other personnel requested by NSA. On a monthly basis, Seller and NSA will coordinate no more than two days per month to be designated for tours of the production facility by distributors in reasonable size groups of approximately twenty-five people. If it is mutually agreeable to Seller and NSA, multiple tours may be conducted on the same day to accommodate interested distributors. On a basis no more often than annually, and in connection with one of NSA’s semi-annual conferences, Seller and NSA will coordinate “Conference Tours” for all interested distributors,

Master Distributors and other personnel requested by NSA subject to reasonable size limitations to be agreed upon between Seller and NSA. Generally, Conference Tours will accommodate groups of approximately fifty people on each tour with multiple tours each day. The limitations on the number of tours each day and the number of days for Conference Tours will be mutually and reasonably agreed on by Seller and NSA. Special tours will be arranged from time to time for special events or personnel requested by NSA and reasonably agreed to by Seller including “boot camps” and other tours reasonably requested by NSA from time to time. With respect to all tours, NSA shall be responsible for approving the group, coordinating distributor signups and advising Seller of the general size of the group. Seller shall be responsible for providing adequately trained guides for each tour, any direct costs related to the tour on Seller’s premises and ensuring Seller’s facilities are adequately prepared for each tour. To the extent practical, Seller will attempt to schedule production in such a way that participants in the tour will see Products covered by this Agreement being produced and packaged. Should any distributor, Master Distributor or other NSA personnel contact Seller directly to arrange any tour, Seller will refer them to NSA and/or will contact NSA to notify them of the request.

3. **Purchase Price.** The purchase price to be paid by NSA for each Product shall be listed on subsequent written memorandums signed by the Parties and expressly referring to this Agreement. Any change in the purchase price is subject to the following:

- (a) **Price Increases.** In the event that manufacturing and other Product related costs increase materially as a result of labor costs, material costs, rent, custom charges, state taxes, import or export fees, freight costs, utility rates, or other costs, Seller shall provide NSA documentation supporting such cost increases in a form reasonably satisfactory to NSA. Upon NSA’s reasonable satisfaction and confirmation of the increased manufacturing and other Product related costs, the increased costs shall be reflected in an increased purchase price of the Products paid by NSA to Seller on a per Product basis to be determined by NSA and Seller. In such an event the purchase price of the Products shall increase by a percentage equal to the percentage of the increase in Seller’s manufacturing and other Product related costs. Any increase in purchase price shall become effective ninety (90) days after such increase is determined by NSA and Seller. Seller agrees to take all customary and reasonable steps to maintain manufacturing costs at levels consistent with or below such costs as of the date of this Agreement. For purposes of this Section 3(a), manufacturing and other Product related costs shall be examined annually, with the first such examination to occur on the first business day after April 1, 2006.
- (b) **Price Decreases.** In the event manufacturing costs and other Product related costs decrease materially, Seller shall inform NSA of such decrease and negotiate with NSA, in good faith, a reduction in the purchase price of each Product. The decreased costs shall be “passed through” to NSA on a per Product basis to be determined by NSA and Seller, with such decrease to reflect a direct pass through

of such decreased manufacturing costs. Any decrease in purchase price shall become effective ninety (90) days after such decrease is determined by NSA and Seller. For purposes of this Section 3(b), manufacturing costs shall be examined annually, with the first such examination to occur on the first business day after April 1, 2006.

4. **Payment Terms.** Seller shall submit invoices to NSA with each shipment of Products. Terms of payment for each invoice shall be as follows: (i) for each invoiced shipment of Product received by NSA in Memphis, Tennessee, on Monday through Thursday of any week, and for each invoiced proof of shipment of Product sent directly to a Master Distributor received in Memphis, Tennessee, on Monday through Thursday of any week, NSA shall receive a two percent (2%) discount for all payments wire transferred to Seller on or before Friday of the following week and (ii) for each shipment of Product received by NSA in Memphis, Tennessee, on a Friday of any week, and for each invoiced proof of shipment of Product sent directly to a Master Distributor received in Memphis, Tennessee, on Friday of any week, NSA shall receive a two percent (2%) discount for all payments wire transferred to Seller on or before the second Friday following the date the shipment is received by NSA. All payments are otherwise due in full within thirty (30) days after receipt by NSA of a shipment invoice. NSA's payment of the purchase price shall be subject to its rights under Section 9 of this Agreement. All wire transfer payments shall be made on the next following business day if Seller's banking institution is not open for business on a Friday of a particular week during the term of this Agreement.

5. **Purchase Orders.** Seller's authorization to perform work under this Agreement will be given by NSA in the form of a Purchase Order executed by an officer of NSA or their written designee ("Purchase Order"). NSA will not pay Seller for Products or charges for Products unless the Products are produced, and the charges were incurred, to fill an authorized Purchase Order previously submitted to Seller by NSA, except as provided in Section 17. The Purchase Orders shall set forth a quantity of Products which NSA requires from Seller and the delivery requirements. The Purchase Order is the authorization by NSA to order materials, allocate labor or equipment, or enter into any other commitments for the assembly of the Products. NSA shall issue Purchase Orders for delivery of Products at NSA's discretion. Upon receipt of a Purchase Order, Seller shall send NSA within 48 hours written confirmation of such receipt and shall confirm the delivery date for such Products. Except as provided in Section 17, NSA shall not be responsible for work performed, material purchased or other commitments or expenses incurred by Seller other than as stated in the Purchase Order provided by NSA unless otherwise agreed to in writing by both Parties. Seller will ship Product on the date set forth in each Purchase Order provided that: (i) such date cannot be less than the number of days agreed upon in subsequent written memorandums signed by the Parties and expressly referring to this Agreement; and (ii) NSA may, prior to shipment, request that Seller delay the shipment date subject to the Parties' agreement to the payment by NSA for any additional storage charges. The Parties agree to set minimum order sizes for all Purchase Orders under this Agreement in subsequent written memorandums signed by the Parties and expressly referring to this Agreement. NSA shall provide Seller monthly during the term of this Agreement with a good faith rolling forecast of its Product needs for the following twelve (12) month period. Except as provided in Section 17, such forecasts provided by NSA shall be only for Seller's production planning and capacity

planning purposes and negotiations with materials vendors, and shall not constitute Purchase Orders by NSA and shall in no way obligate NSA to issue Purchase Orders based thereon.

6 . **Representations, Warranties, and Covenants.** Seller expressly represents, warrants, and covenants to NSA that it is Seller's continuing responsibility to insure that:

- (a) **Manufacturing.** Products manufactured by Seller (i) shall be manufactured in conformity with the Standards and comply in all respects to all applicable laws of the intended marketplace, (ii) will have a shelf life equal to or in excess of the shelf life specified in the Standards, and (iii) Seller, except as set forth in Section 6(b), shall not change any formulation or specification for the Products without the prior written consent of NSA, which consent may be withheld in NSA's sole and absolute discretion. All Products sold hereunder shall be of merchantable quality, free from defects, fully acceptable, fit for their intended use and manufactured in conformity with the Standards and comply in all respects to all applicable laws, regulations, statutes and orders of the intended marketplace and any intended marketplace in which (i) NSA advised Seller prior to manufacture and delivery, in writing, the Products are to be sold and in which (ii) Seller participated in or reviewed the procurement of any necessary governmental registrations or approvals. Each Product shall be delivered free and clear of all liens, security interests, and/or encumbrances of any type or nature;
- (b) **Legal Requirements.** Should applicable law requirements specify defect limits or other requirements that are more stringent than those, if any, contained in the Standards, the more stringent requirements shall prevail and apply and the Standards shall be automatically modified without the requirement of action by either Party. Notwithstanding the foregoing, Seller shall not change any Standards as a result of the preceding sentence without the prior written consent of NSA. In the event Seller and NSA fail to agree on any modification that Seller deems required under this Section 6(b), Seller shall not be obligated to manufacture any Product in accordance with any Standard that Seller deems to be non-conforming, and the Parties shall negotiate in good faith to resolve the issue;
- (c) **Labeling.** All packaging and labeling provided by Seller for Products manufactured by Seller under this Agreement shall be in conformity with the Standards and comply in all respects to all applicable laws, regulations, statutes and orders of the intended marketplace and any intended marketplace in which (i) NSA advised Seller prior to manufacture and delivery, in writing, the Products are to be sold and in which (ii) Seller participated in or reviewed the procurement of any necessary governmental registrations or approvals. No Product contained in any shipment now or hereafter made to NSA will, at the time of such shipment or delivery, be adulterated, mis-labeled or misbranded within the meaning of any applicable law, ordinance, rule or regulation, in existence at the time of shipment or delivery; and

- (d) **Continuing Effect.** The representations, warranties, and covenants contained herein shall be continuing representations, warranties, and covenants and shall be binding upon Seller with respect to all Products that Seller ships or delivers to NSA or its designee. The warranties set forth in this Section shall not extend to provide a warranty claim to NSA in connection with any liability for which NSA has an obligation to indemnify Seller pursuant to Section 31, below, and shall not extend to NSA's customers or their customers, if any.

The failure by Seller to adhere to any of the terms of this Section 6 shall be a material breach of this Agreement.

7. **Delivery of Products.** All Products are delivered F.O.B. Seller's manufacturing facility in San Marcos, California and/or Vista, California. Seller shall not change the manufacturing location for the Products without the prior written consent of NSA, which consent shall not be unreasonably withheld. Seller shall provide Products to the NSA location that is set forth in the Purchase Order. In the event Seller is requested to ship Products on NSA's behalf, Seller shall deliver the Products to the party and the final destination set forth in the Purchase Order. It is the responsibility of Seller to schedule production and delivery of all Products ordered under this Agreement.

8. **Title and Risk of Loss.** The title to and all risk of loss of the Products shall remain with Seller until loaded onto the designated shipper.

9. **Acceptance and Rejections.** Seller shall provide and maintain an inspection procedure and quality assurance program for the Products and their production processes. All inspection records maintained by Seller shall be made available to NSA, at a reasonable time, upon request. NSA and any Master Distributor to whom Products are shipped by Seller shall have fifteen (15) calendar days from the date of delivery to inspect and test all Products and may refuse to accept Products which do not conform to the Standards. If NSA or such Master Distributor has not timely notified Seller of rejection, then the Products shall be deemed to have been accepted by NSA. The act of payment for Products shall not of itself signify acceptance. Notwithstanding the above, Seller shall, at NSA's option, replace (F.O.B. NSA's point of destination) or issue a credit or refund to NSA for any Products discovered by NSA after the Products have been delivered to NSA or its customers that do not conform to the Standards, provided, however, that NSA furnishes to Seller written notice, in reasonable detail, of the nonconformity of the Products prior to the expiration date set forth on the Products, and provides Seller with a reasonable opportunity to inspect such goods and offers to return such goods to Seller at Seller's cost. NSA or any Master Distributor to whom Products are shipped by Seller shall have the right to reject any Products delivered to NSA or such Master Distributor which are not accompanied by or preceded by a certificate of analysis, as described in Section 1(h). If the returned Products are not in breach of Seller's warranties, NSA or a Master Distributor to whom Products have been shipped shall bear the cost of shipping the returned Products back to Seller's point of shipment. These rights granted to NSA and any Master Distributor to whom Products are shipped are in addition to and shall not be construed as a limitation of the warranties set forth in Section 6 of this Agreement. NSA, its Master Distributors, distributors or any other representative or agent of NSA shall store all shipped Products in clean space suitable for storage

of food and protection of its contents with respect to integrity and quality, in compliance with good commercial practice, the Standards and all applicable laws, rules and regulations of the intended marketplace.

10. Confidential Information.

- (a) **Seller's Access to Confidential Information.** The Parties agree and acknowledge that as a result of this Agreement, each party shall receive and have access to information, including, without limitation, information regarding the Product specifications and formulations, costs of manufacture, pricing, and information regarding customers, which is proprietary to and a trade secret of the other party and which is governed by this Section 10(a), all of which shall be considered "Confidential Information." Each party covenants and warrants to the other party that it shall not disclose or divulge Confidential Information except to the extent: (i) required by law, (ii) to protect its interests in any dispute or litigation, (iii) necessary to perform its obligations under this Agreement, or (iv) if such information becomes publicly available without breach of this Section 10. The Parties' obligations under this Section 10(a) shall survive any termination or expiration of this Agreement.
- (b) **Injunctive Relief.** The Parties hereby acknowledge that breach of the covenants contained in Section 10(a) will cause irreparable harm to the nonbreaching party. Notwithstanding any other provision of this Agreement, a party may enforce the above-described covenants and warranties by injunction, both preliminary and permanent, it being agreed that the posting of an injunction bond of no more than \$5,000 shall be sufficient to indemnify the other party against costs or damages which might be incurred by virtue of any temporary injunction. Nothing herein shall be construed as prohibiting a party from pursuing any other legal or equitable remedy available due to the breach of the provisions of this Section 10.

The failure by Seller or NSA to adhere to any of the terms of this Section 10 shall be a material breach of this Agreement.

11. Intellectual Property, Formulations and Suppliers. NSA hereby warrants that it is the owner or exclusive licensee of the formulations for the Products that are the subject of this Agreement and that it has the right to manufacture or have manufactured such Products, and Seller acknowledges NSA's rights in the Products. Seller shall not be permitted to use the formulations for the Products in any way except as necessary to perform its obligations under this Agreement. Furthermore, Seller agrees that it shall not, during the term of this Agreement and any extensions hereof and for a period of three (3) years hereafter, utilize NSA's proprietary juice powder ingredients from any existing supplier of such ingredients for the Products in the manufacture and/or distribution of any products for Seller or any other customers of Seller without the prior written approval from NSA. For purposes of this Section, NSA's proprietary juice powder ingredients used in the Products shall be defined in the Standards or on an attached memorandum signed by the Parties expressly referring to this Agreement. Seller acknowledges

NSA's exclusive ownership of the trademarks affixed to and any patents embodied in the Products and will do nothing at any time, during or after the term of this Agreement, which could adversely affect their validity or enforceability, including any modification or obliteration of the trademark or patent markings on the Products as sold. This Agreement shall not give Seller any right to use the "NSA" or "Juice Plus+®" name, logo, and marks, or any other trademarks of NSA, except as specifically authorized by NSA. Promptly following the termination of this Agreement for any reason, Seller agrees to discontinue use of the "NSA" and "Juice Plus+®" marks, and any other NSA names and trademarks and to remove, or dispose of, as NSA shall direct, any signs or other indicia relating to NSA's name and trademarks. Following termination of this Agreement, Seller shall not be permitted to use the "NSA" or "Juice Plus+®" name, logo or marks on any other NSA name or trademark in connection with any product. Seller shall not have any right to register any trademarks identical with or similar to NSA's trademarks. All use of NSA's trademarks by Seller in connection with this Agreement shall be subject to NSA's control and shall inure to the benefit of NSA. NSA hereby licenses to Seller during the term of this Agreement the use of the "NSA" and "Juice Plus+®" trademarks and other intellectual property rights solely for Seller's use in the manufacture and sale of the Products to NSA. Any and all improvements, modifications, inventions or discoveries by Seller or its employees relating to the Products and formulations shall be the sole and exclusive property of NSA. Seller's obligations under this Section 11 shall survive any termination or expiration of this Agreement. The failure by Seller to adhere to any of the terms of this Section 11 shall be a material breach of this Agreement.

12. **Term.** Subject to Section 14 of this Agreement, the term of this Agreement shall commence on the date first written hereinabove and shall expire at the end of the business day occurring seven (7) years thereafter.

13. **Minimum Purchases.** In consideration of all of Seller's services, NSA agrees to provide Seller Purchase Orders for certain portions and/or percentages ("Minimum Purchases") of its requirements for Juice Plus+® Orchard Blend and Garden Blend Capsules manufactured for distribution in the United States (referred to as "domestic") as follows:

- (a) **Calendar Year 2005.** For the period running from the date of the Agreement through December 31, 2005, NSA agrees to purchase no more than 12,500 units (as used herein, "units" shall mean NSA's standard consumer packages/boxes of the Product) of its monthly domestic requirements for Juice Plus+® Orchard Blend and Garden Blend Capsules from manufacturers other than Seller.
- (b) **Calendar Year 2006.** For the period running from January 1, 2006, through December 31, 2006, NSA agrees to purchase no more than 25,000 units of its monthly domestic requirements for Juice Plus+® Orchard Blend and Garden Blend Capsules from manufacturers other than Seller.
- (c) **Balance of Term.** For the period running from January 1, 2007, through the end of the term of this Agreement, NSA agrees to purchase at least seventy five percent (75%) of its monthly domestic requirements for Juice Plus+®

Orchard Blend and Garden Blend Capsules from Seller. For purposes of compliance with this Section, each calendar year is to be measured separately.

- (d) **Non-Compliance.** In the event that the Minimum Purchases are not met, NSA shall have the option to comply with the Minimum Purchases within ninety (90) days by issuing additional Purchase Orders to meet the Minimum Purchases or by paying to Seller 25% of the dollar amount of the Minimum Purchase shortage. If NSA does not comply with the Minimum Purchases within ninety (90) days, Seller shall have the option to: (i) waive the non-compliance; (ii) renegotiate in good faith the terms of this Agreement, or (iii) terminate this Agreement.
- (e) **Right to Audit.** NSA shall keep accurate and correct records of all domestic Purchase Orders and domestic Products purchased (“Records”) during the term of this Agreement. Such Records shall be retained by NSA for at least three (3) years following the minimum purchase periods described above (“MPP”). All MPP Records shall be available during normal business hours for inspection upon ten (10) days prior notice by a Certified Public Accountant selected by Seller for the purpose of verifying MPP Records. Except as provided below all costs and expenses of any such inspection or audit shall be paid by Seller. The selected Certified Public Accountant shall not disclose to Seller any information other than information relating to the accuracy of MPP Records under this Agreement. In the event any such inspection shows Minimum Purchases are not met for any MPP, the provisions of Section 13(d) shall apply. In addition, if Minimum Purchases are not met during any MPP and the shortfall is greater than 10% of Minimum Purchases, then NSA shall pay the reasonable cost of the audit in addition to the remedies available under Section 13(d).

14. **Termination.** This Agreement may be terminated upon the occurrence of the following:

- (a) **Default of Seller.** If NSA delivers to Seller a written notice specifying the nature of Seller’s default and Seller fails to cure such default within thirty (30) days following the delivery of such notice, then and only then shall NSA have the right to terminate or cancel this Agreement. A “default” with respect to Seller shall mean that Seller, or Seller’s Affiliate, as applicable:
 - (i) becomes insolvent or has a petition in bankruptcy, reorganization or similar action filed by or against it;
 - (ii) is unable to produce the Products in sufficient volume as required by this Agreement or maintain the quality control levels specified pursuant to this Agreement;
 - (iii) has all or a substantial portion of its capital stock or assets expropriated or attached by any government entity;

- (iv) is dissolved or liquidated or has a petition for dissolution or liquidation filed with respect to it;
 - (v) is subject to property attachment, court injunction, or court order materially affecting its operations under this Agreement;
 - (vi) breaches any representation, warranty, covenant, obligation, commitment or other agreement contained in this Agreement; provided, however, that, notwithstanding anything else to the contrary contained herein, in the event of a material breach by Seller of its obligations under Sections 11 or 23, if NSA delivers to Seller a written notice specifying the nature of Seller's default and Seller fails to cure such default within three (3) business days following the delivery of such notice, then and only then shall NSA have the right to terminate or cancel this Agreement without further opportunity to cure; or
 - (vii) shall be in default in the full and prompt payment or performance of any representation, warranty, covenant, obligation, commitment, condition or undertaking on Seller's or Seller's Affiliate's part to be paid, met, kept, observed or performed pursuant to the provisions of any other written agreements between Seller or Seller's Affiliate and NSA. "Seller's Affiliate" shall mean any individual or entity that directly or indirectly controls, is controlled by, or is under common control with Seller.
- (b) **Default by NSA.** If Seller delivers to NSA a written notice specifying the nature of NSA's default and NSA fails to cure such default within thirty (30) days following the delivery of such notice, then and only then shall Seller have the right to terminate or cancel this Agreement. A "default" with respect to NSA shall mean that NSA:
- (i) becomes insolvent or has a petition in bankruptcy, reorganization or similar action filed by or against it;
 - (ii) has all or a substantial portion of its capital stock or assets expropriated or attached by any government entity;
 - (iii) is dissolved or liquidated or has a petition for dissolution or liquidation filed with respect to it;
 - (iv) is subject to property attachment, court injunction, or court order materially affecting its operations under this Agreement; or
 - (v) fails to pay any amount due pursuant to the terms of this Agreement, provided, however, that if NSA is in good faith contesting any amount owed to Seller as a result of this Agreement through appropriate proceedings, such failure to pay shall not be considered an event of default under this Agreement.
- (c) **Election to Continue.** In the event of a default and the lapse of any applicable cure period, the non-defaulting party may agree to continue the Agreement rather than terminating it. To do so, that party shall send a notice to

the defaulting party specifying the conditions under which the non-defaulting party will agree to continue the Agreement. By agreeing to continue the Agreement in this manner, the non-defaulting party does not waive its right to later terminate the Agreement for default based on the event of default that is the subject of the notice.

- (d) **Result of Termination by NSA.** Upon termination of this Agreement, Seller shall deliver to NSA all documents, information, and work in process produced in performance of this Agreement pursuant to Section 17.

15. **Force Majeure.** Neither party shall be in default nor liable to the other for any failure to perform directly caused by events beyond that party's reasonable control, such as acts of nature, labor strikes, war, insurrections, riots, acts of governments, embargoes and unusually severe weather provided the affected party notifies the other party within ten (10) days of the occurrence. Such an event is an Excusable Delay. THE PARTY AFFECTED BY AN EXCUSABLE DELAY SHALL TAKE ALL REASONABLE STEPS TO PERFORM DESPITE THE DELAY. If the party is unable to perform within a reasonable period, this Agreement shall end without any further obligation of the unaffected party.

16. **Reserved.**

17. **Return of Materials.** If NSA terminates this Agreement, Seller shall complete all work in process in a timely fashion and deliver the same to NSA as provided herein against payment as provided herein. To the extent that after such work in progress has been completed, Seller has inventory of raw materials and packaging materials on hand that were purchased in good faith reliance upon the rolling forecasts, then NSA shall be liable for, and required to purchase such inventory from Seller within thirty (30) days from the date that Seller furnishes to NSA a written reconciliation showing the amount of such inventory; provided that such inventory is in compliance with the Standards. With the approval of NSA, Seller may try to use all or any part of such inventory for other customers or sell all or any part of it to third parties. The Parties shall cooperate and utilize their reasonable best efforts to prepare such final reconciliations of Products and inventory and any other amounts to be provided as between them in connection with such termination. Upon payment of all amounts owed to Seller, Seller shall return to NSA all materials containing the Confidential Information, documents produced in the performance of this Agreement, work-in-process, parts, tools and test equipment paid for, owned or supplied by NSA.

18. **Acts of Employees.** Each party is solely responsible for the acts of its respective employees and agents, including any negligent acts. Each party shall hold harmless, defend and indemnify the other against all claims based on acts of its respective employees or agents.

19. **Insurance.** Seller will, at Seller's expense, maintain in full force and effect, products liability insurance coverage with a policy limit of at least Ten Million Dollars (\$10,000,000) per occurrence and Ten Million Dollars (\$10,000,000) in the aggregate, consisting of at least Two Million Dollars (\$2,000,000) in primary coverage and the remaining Eight Million Dollars (\$8,000,000) in an umbrella form for excess liability coverage. Such policy

referred to in this Section 19 shall (a) name NSA and any Master Distributor or affiliated company designated by NSA as additional insured parties thereunder (without any representation or warranty by or obligation upon NSA) as respects distribution or sale of Seller's products, (b) provide that at least thirty (30) days prior written notice of cancellation, amendment, or lapse of coverage shall be given to NSA by the insurer, (c) provide worldwide coverage for occurrences; and (d) provide coverage for occurrences during the term of this Agreement which will continue for such occurrences after the term of this Agreement. Seller will deliver to NSA original or duplicate policies of such insurance, or satisfactory certificates of insurance.

20. **Seller's Agreement with its Employees.** Seller shall have an appropriate agreement with each of its employees, or others whose service Seller may require, sufficient to enable it to comply with all of the terms of this Agreement.

21. **Relationship with Employees.** Neither party's employees shall be considered employees or agents of the other party. Each party shall be solely responsible for paying, supervising, and directing the manner of work of its employees.

22. **Foreign Registrations.** In the event NSA intends to sell Products in a new geographic area, NSA and Seller agree to cooperate and use their best commercially reasonable efforts to obtain and maintain any necessary approvals or registrations by or with any governmental or regulatory agency in any country or political subdivision in which the Products are to be sold. NSA and Seller shall mutually agree as to which party shall be primarily responsible for obtaining such approvals or registrations on a case-by-case basis. In the event Seller shall be responsible for obtaining such foreign registrations, Seller shall obtain such approvals or registrations and/or file all applications on behalf of and under the name of NSA. Payment for all costs incurred in obtaining such foreign registrations shall be made as listed on subsequent written memorandums signed by the Parties and expressly referring to this Agreement. Regardless of which Party shall be responsible for obtaining such foreign registrations, the responsible Party will provide copies of all registration documents for the other Party's review prior to submission for approval of such registration documents. The reviewing Party will have ten (10) business days following receipt of such registration documents to provide comments to the responsible Party on any such matters following submission to it. All such approvals, registrations and applications under this Section shall inure solely to the benefit of NSA and Seller shall have no rights in any such approvals, registrations, or applications. All costs, including consulting and legal fees, associated with obtaining and maintaining approvals or registrations for products not manufactured by Seller shall be borne completely by NSA.

23. **Restriction on Manufacture or Distribution of Competing Products.** During the term of this Agreement and any extensions hereof and for a period of three (3) years hereafter, Seller agrees that Seller shall not manufacture or otherwise distribute any products substantially similar to the Products. For purposes of this Section 23, a product will be considered to be substantially similar to the Products if it is an encapsulated whole food based nutrition product containing blended fruit, berry and/or vegetable juice powders. The failure of Seller to comply with the provision of this Section 23 shall constitute a material breach of this Agreement.

24. **Amendments.** This Agreement may only be changed or supplemented by a written amendment, signed by authorized representatives of each party.

25. **Assignment.** Neither party may assign its rights or delegate its obligations under this Agreement without the prior written approval of the other party. Any attempted assignment or delegation without such an approval shall be void. Provided, however, that NSA may assign this Agreement to any Affiliate of NSA, without being released from its obligations hereunder. "Affiliate" shall mean any individual or entity that directly or indirectly controls, is controlled by, or is under common control with NSA.

26. **Governing Law and Forum.** This Agreement shall be governed by the laws of the State of Tennessee without regard to any provision (including conflicts of law provisions) which would require the application of the law of any state other than the State of Tennessee. All disputes arising under or in connection with this Agreement shall be determined by actions filed in the courts within the State of Tennessee.

27. **Severability.** If any provision of this Agreement is held to be illegal, invalid or unenforceable by a court of competent jurisdiction, the remaining provisions shall not be affected.

28. **Effect of Title and Headings.** The title of the Agreement and the headings of its Sections are included for convenience, and shall not affect the meaning of the Agreement or the Section.

29. **Notice.** All notices, consents, waivers and other communications under this Agreement must be in writing and will be deemed to have been duly given upon (a) delivery by hand (with written confirmation of receipt), (b) one business day after deposit with a nationally recognized overnight delivery service (receipt requested, delivery prepaid), or (c) three (3) business days after deposit if sent by registered or certified mail, return receipt requested, postage prepaid and addressed to the intended recipient. Notices shall be sent in each case to the appropriate addresses indicated for each party below, or to such other addresses as a party may designate in writing by notice to the other party. If a specific contact person is designated in a provision, notice concerning the subject matter of such provision shall be directed to such person. The address or the name of any party or contact person or other number may be changed by sending notice in the manner set forth below:

If to the Seller:

Natural Alternatives International, Inc.
1185 Linda Vista Drive
San Marcos, California 92078
Attention: Chief Executive Officer

Copies to:

Natural Alternatives International, Inc.
1185 Linda Vista Drive
San Marcos, California 92078
Attention: Chief Financial Officer

Fisher Thurber LLP
4225 Executive Square, Suite 1600
La Jolla, California 92037
Attn: David A. Fisher, Esq.

If to the NSA:

Charles R. Evans, Jr.
Executive Vice President
NSA, Inc.
4260 East Raines Road
Memphis, Tennessee 38118

Copies to:

John J. Blair
Vice President of Product Development
NSA, Inc.
4260 East Raines Road
Memphis, Tennessee 38118

G. Robert Morris, Esq.
Butler, Snow, O'Mara, Stevens &
Cannada, PLLC
6075 Poplar Avenue, Suite 500
Memphis, Tennessee 38119

30. **Waiver.** Failure of either party to insist in any strict conformance to any term herein, or in Purchase Orders issued hereunder, or failure by either party to act in the event of a breach or default shall not be construed as a consent to or waiver of that breach or default or any subsequent breach or default of the same or any other term contained herein.

31. **Indemnification by NSA and Seller.**

(a) **Indemnification by Seller.** Seller shall indemnify and hold harmless NSA, its Master Distributors, affiliated and/or controlled companies, as well as each of their respective officers, directors, shareholders, agents, and employees, from and against all loss, liability, damages, claims for damages, settlements, judgments or executions, including costs, expenses and reasonable attorneys' fees and costs (collectively, "Losses") incurred by NSA and/or such persons or entities as a result of any third party demands, actions, suits, prosecutions or other such claims arising on and after the date of this Agreement ("Third Party Claims") based on: (i) any injury to or death of any person, or damage to property caused in any way by a Product provided by Seller under this Agreement; (ii) any claims that a Product infringes any patent, copyright, trade mark right, trade secret, mask work right or other proprietary right of any third party, unless such claim is attributable to Seller's incorporation of formulations, specifications or materials provided by NSA into the Products; or (iii) any alleged breach of Seller's representations and warranties contained herein.

(b) **Indemnification by NSA.** NSA shall indemnify and hold harmless Seller, its subsidiaries, affiliated and/or controlled companies, as well as each of their respective officers, directors, agents, and employees, from and against all Losses incurred by Seller and/or such persons or entities as a result of Third Party Claims based on: (i) any alleged breach of NSA's warranties contained herein; or (ii) any claims that a Product infringes any patent, copyright, trade mark right, trade secret, mask work right or other proprietary right of any third party to the extent that such claim is attributable to Seller's incorporation of formulations, specifications or materials provided by NSA into the Products. For purposes of this Section, all formulations, specifications or materials provided by NSA into the Products shall be described in

the Standards or on an attached memorandum signed by the Parties expressly referring to this Agreement.

(c) **Indemnification Procedure.** The party entitled to indemnification under this Section (the “Indemnified Party”) will provide the party obligated to provide indemnification under this Section (the “Indemnifying Party”) with prompt notice of any Third Party Claim for which it seeks indemnification under this Section, provided that the failure to do so will not excuse the Indemnifying Party of its obligations under this Section 31 except to the extent prejudiced by such failure or delay. The Indemnifying Party shall not be liable for any settlement effected without the Indemnified Party’s consent, which consent shall not be unreasonably withheld. The Parties shall cooperate in defending any Third Party Claim.

32. Inspection Events, Returns and Recalls, Regulatory Action.

(a) **Inspection Events.** Seller shall immediately notify NSA by the most expeditious means practicable, but in no event later than the next business day, if and when it is informed of an impending audit, inspection and/or onsite visit (“Inspection Event”) concerning the manufacture of any Product by Seller under this Agreement by a governmental agency or any licensing unit thereof. NSA, at its sole discretion and expense may elect to send an employee or designee to observe the Inspection Event. In the event that Seller should not have prior notice of an Inspection Event, then Seller shall immediately, but in no event later than the next business day after such Inspection Event, give written notice of the same to NSA, and shall further provide to NSA any written documentation supplied to Seller on account of such Inspection Event. In the event of any action described in this Section, the Parties shall cooperate in determining the response, if any, to be made to such action.

(b) **Returns and Recalls.** Seller shall immediately provide NSA with notification of any event or occurrence that could necessitate the need to recall or withdraw Products together with such information as may be available to Seller concerning the degree to which the reasons may have application to any Products shipped to or on behalf of NSA. In the event of such event or occurrence, Seller may request the return of any such Products in the possession of NSA or its Master Distributors. NSA shall manage all recall decisions with respect to Products sold or shipped by it to its Master Distributors and/or customers.

(c) **Regulatory Action.** If the FDA or any other domestic or foreign federal, state or local government agency makes, with respect to any Product manufactured by Seller for NSA under this Agreement, (i) an inquiry, or (ii) gives notice of or makes an inspection at any party’s premises, or (iii) seizes any such Product or requests a recall, or (iv) directs any party to take or cease taking any action, the other party shall be notified immediately but in no event later than the next business day. Seller will investigate the inquiry or complaint and provide NSA with a written report within three (3) business days after the notification. Duplicates of any samples of Product taken by such agency shall be sent to the other party promptly. In the event of any action described in this Section, the Parties shall cooperate in determining, and will mutually agree upon, the response, if any, to be made to such action and each party agrees to cooperate with the other in responding to any communication or inquiry and/or attempting to resolve any such action.

33. **Agency.** Nothing contained herein shall be deemed to authorize or empower Seller or its subsidiaries to act as an agent for NSA or to conduct business in the name of NSA.

34. **Entire Agreement.** This Agreement, including its Exhibits and Purchase Orders issued under it, is the complete statement of the Parties' agreement, and supersedes all previous and contemporaneous written and oral communication about its subject.

35. **Counterparts.** This Agreement may be executed in one or more counterparts, each of which will be deemed an original but all of which together will constitute one and the same document.

36. **Compliance.** Each Party will comply with all laws relating to the performance of this Agreement including federal and state laws, rules and regulations and represents and warrants that execution of this Agreement and performance of its obligations under this Agreement does not and will not breach any other agreement to which it is or will be a party, including but not limited to any agreements with its customers.

37. **Authority.** The Parties represent that they have full capacity and authority to grant all rights and assume all obligations they have granted and assumed under this Agreement.

38. **Publicity of Agreement.** The Parties agree that no press release or public announcement of this Agreement or concerning the activities and transactions contemplated herein shall be issued without the prior written consent of both Parties to the content of such release or public announcement, which consent shall not be unreasonably withheld.

39. **Further Assurances.** The Parties agree to furnish upon request to each other such further information, to execute and deliver to each other such other documents, and to do such other acts and things, all as the other party may reasonably request for the purpose of carrying out the intent of this Agreement and the documents referred to in this Agreement.

40. **Arbitration.** Any dispute, controversy or claim arising from, out of or in connection with, or relating to, this Agreement, or any breach or alleged breach of this Agreement, except allegations of violations of Federal or State securities laws, will upon the request of any party involved be submitted to any private arbitration service utilizing former judges as mediators and approved by the Parties. The dispute once submitted shall be settled by binding arbitration conducted in Memphis, Tennessee (or at any other place or under any other form of arbitration mutually acceptable to Parties involved), provided, however, that in the event of any such controversy or claim, (i) neither party will initiate arbitration within the first thirty (30) days after the aggrieved party first notifies the other party of the controversy or claim and (ii) during such thirty (30) day period, the chief executive officers of both Parties convene at least once in a mutually agreed to location to endeavor in good faith to amicably resolve the controversy or claim. The single arbitrator shall follow and apply the federal rules of evidence and the applicable local federal rules of governing discovery in the arbitration. Any award rendered shall be final, binding and conclusive upon the Parties and shall be non-appealable, and a judgment thereon may be entered in the highest State or Federal court of the forum, having

jurisdiction. The expenses of the arbitration shall be borne equally by the Parties to the arbitration, provided that each party shall pay for and bear the cost of its own experts, evidence and attorneys' fees, except that in the discretion of the arbitrator, any award may include the costs, fees and expenses of a party's attorneys.

41. **Attorneys Fees.** If any arbitration or legal proceeding is brought for the enforcement of this Agreement, or because of an alleged breach, default or misrepresentation in connection with any provision of this Agreement or other dispute concerning this Agreement, the successful or prevailing party shall be entitled to recover reasonable attorneys fees incurred in connection with such arbitration or legal proceeding. The term "prevailing party" shall mean the party that is entitled to recover its costs in the proceeding under applicable law, or the party designated as such by the court or the arbitrator.

42. **Damages.** Seller shall be liable to NSA for any incidental or consequential damages incurred by NSA as a result of a breach of this Agreement by Seller; provided, however, the maximum aggregate liability of Seller with respect to or arising from any claims for such damages shall not exceed Two Million Dollars (\$2,000,000) during the first three (3) years of the Agreement or Three Million Dollars (\$3,000,000) for the remaining term of the Agreement.

43. **Business Day.** Shall mean Monday through Friday, inclusive, during posted business hours, except for federal or state holidays.

[signature page follows]

IN WITNESS WHEREOF, the Parties hereto have executed this Agreement on the date first written above.

NATURAL ALTERNATIVES INTERNATIONAL, INC.
a Delaware corporation

By: /s/ Mark A. LeDoux, CEO
Mark A. LeDoux, Chief Executive Officer

NSA, INC.
a Tennessee corporation

By: /s/ Jay Martin, Pres
Jay Martin, President



MANUFACTURING AGREEMENT

Agreement made as of this 22nd day of April, 1998 between Mannatech, a Texas corporation, with its principal place of business at 600 S. Royal Lane, #200, Coppell, TX 75019 (the "Buyer") and NATURAL ALTERNATIVES INTERNATIONAL, INC., a Delaware corporation, with its principal place of business located at 1185 Linda Vista Drive, San Marcos, California 92069 (the "Seller").

1. Specifications and Development

(a) **Manufacturing Specifications.** Seller shall manufacture, produce and bulk package for Buyer the nutritional products described on Exhibit A which is attached hereto and incorporated herein (the "Products"). The detailed formulations and specifications for the manufacturing, producing and packaging of the Products are described on Exhibit B attached hereto and incorporated herein ("the Standards"). The parties may, from time to time amend Exhibits A and B to modify or change same by mutual agreement.

2. Seller's Representation, Warranties and Covenants.

(a) Seller expressly warrants that all Products sold hereunder shall be of merchantable quality, free from defects in material and workmanship, fully acceptable, fit for their intended use, and to the extent legally required, approved by the Federal Food and Drug Administration, United States Department of Agriculture, or any other federal, state, or local governmental agency having jurisdiction over the Products and fit for their intended use; that all Products will be manufactured in accordance with applicable federal, state, and local laws, regulations and orders, and applicable industry standards; and that the Products shall be manufactured in conformity with the Standards. Should federal, state, local regulatory, or applicable industry requirements specify defect limits or other requirements that are more stringent than those, if any, contained in the Standards, the more stringent requirements shall prevail and apply. No Product contained in any shipment now or hereafter made to Buyer will, at the time of such shipment or delivery, be adulterated, misbranded or mislabeled within the meaning of any applicable federal, state or municipal law as such exist at the time of shipment or delivery. This warranty shall be a continuing warranty and shall be binding upon Seller with respect to all Products that Seller ships or delivers to Buyer (including Products in transit).

(b) Seller shall furnish Buyer duly executed by an officer of Seller, certificates of compliance with (i) all applicable laws, orders and regulations of the federal or any state or municipal government or agency thereof, which apply to this Agreement, (ii) the written formulations and specifications for Products on attached Exhibits A and B, and (iii) all laws and regulations which may relate to the processing and manufacturing facilities of Seller which are or will be used in the manufacture of the Products.

(c) All Products manufactured by Seller shall be manufactured, packaged, produced and labeled, and delivered in accordance with the Product Standards. Seller shall not change any Standards without Buyer's written consent, except as in response to request by federal, state or local agencies having appropriate jurisdiction in which even Seller shall promptly notify Buyer of such change. Seller shall not alter the finished

Product packaged without obtaining the written consent of Buyer prior to any alteration which consent Buyer has no obligation to give.

(d) Seller shall maintain in full force and effect products liability insurance coverage with a policy limit of Ten Million Dollars (\$10,000,000) per occurrence and Twenty Million Dollars (\$20,000,000) in the aggregate consisting of at least One Million Dollars (\$1,000,000) in primary coverage and the remaining Nineteen Million Dollars (\$19,000,000) in an umbrella form for excess liability coverage. Deductibles are to be satisfactory to Buyer. Coverage to be on an occurrence form. Said coverage shall apply to all Products manufactured by Seller but shall not extend to or provide coverage for claims arising from any misuse of or tampering with said Products. Such insurance shall be issued by companies which are reasonably acceptable to Buyer and licensed to do business in California.

(e) Seller shall carry and maintain comprehensive general public liability insurance, including comprehensive general liability, bodily injury and property damage, worker's compensation in statutory limits, employer's liability and occupational disease insurance with general coverage in a form satisfactory to Buyer with a minimum policy limit of Ten Million Dollars (\$10,000,000) per occurrence and Twenty Million Dollars (\$20,000,000) in the aggregate.

(f) Seller shall deliver to Buyer evidence satisfactory to Buyer that Buyer has been named as an additional insured on each of the insurance policies (other than worker's compensation) required by the terms hereof. Seller shall deliver to Buyer certificates of such insurance which stipulate that no less than thirty (30) days written notice will be given to Buyer prior to the termination or reduction of limits of coverage, except for non-payment of premium, in which case a ten (10) day notice of cancellation shall be given.

(g) It is expressly recognized and agreed that Buyer is relying on the representations and warranties of Seller contained herein and as such representations and warranties shall survive the execution and/or termination of this Agreement.

(h) Seller shall abide by the Foreign Corrupt Practices Act in respect of all of its business dealings effectuated outside of the territorial boundaries of the United States of America, whether in pursuit of the business of the Buyer or otherwise. Seller indemnifies and holds Buyer harmless from any claims made against the Buyer in any court of competent jurisdiction based upon any claim or allegation that Buyer's liability is derivative of Seller's violation of the Foreign Corrupt Practices Act.

3. Price; Price Increase; Billing and Payment.

(a) The price for Products, including all federal, state, and local taxes which may be imposed on the sale or manufacture of the Products, shall be in accordance with the prices set forth on Exhibit A, as amended from time to time, in accordance with the procedures set forth below. The prices set forth in Exhibit A are inclusive of shipping and handling costs to the destination within the United States specified by Buyer.

(b) Seller will maintain the price of products as set forth in Exhibit A herein for a period of one (1) year from the date of execution of this Agreement. Thereafter, Seller may increase the price of Products semi-annually, on the first of January or the first of July, of any calendar year. For any price increase to be effective, the notice of such increase shall be given by Seller to Buyer in writing at least one hundred twenty (120) days prior to the date of the intended increase, and a written accounting of any increase or decrease in Seller's cost to produce any Product shall be given by Seller to Buyer at least sixty (60) days prior to the date of the intended increase.

(c) Seller shall invoice Buyer upon shipment of Products, and Buyer shall pay the invoice price for such Products within thirty (30) days of receipt of such invoice by Buyer, except for any Products rejected by Buyer for failure to conform with the terms of the Agreement, as set forth in paragraphs 6 and 8 below. In the event any Products are required to be recalled or upon a credit by Buyer to a customer pursuant to Section 13 below, a credit for such Products, in addition to a credit for any transportation costs or other costs related thereto, shall be given to Buyer. Further, Buyer shall receive a one percent (1%) discount for payments made on or before the tenth (10th) day after receipt of such invoice by Buyer.

4. **Delivery; Inspection on Arrival at Buyer's Location.** Seller shall deliver all Products to Buyer at the location designated by Buyer, and upon delivery Buyer shall bear the risk of any loss, deterioration or damage, provided, however, that Buyer shall have fifteen (15) days after receipt of the Products to give written notice to Seller of any claim, arising out of an observable patent defect, that the Products do not conform with the terms of the Agreement. Notwithstanding the foregoing, the failure to inspect shall not be deemed a waiver of any of Buyer's rights hereunder at law or equity, and nothing contained herein shall limit Buyer's rights to reject all or a portion of the products shipped if said Products are not in the condition required by the terms of this Agreement.

5. **Storage Facilities.** Identification of the Products to the Agreement shall occur when Seller places the Products in its storage facilities. All such stored Products shall be held for delivery to Buyer in accordance with the Agreement. To the extent that Seller pledges its inventory or assets in connection with any financing arrangement that Seller may enter into, or otherwise, such financing arrangements shall provide that the Products shall be held exclusively for the benefit of Buyer pursuant to the terms of this Agreement and shall be delivered to Buyer in accordance with the Agreement free of any and all liens and encumbrances.

6. **Nondelivery; Rejection of Products; Partial Acceptance.** If Seller fails to make timely delivery or if Buyer, for reasons set forth and specified herein, rejects all or any portion of the Products ordered and shipped, Buyer may cancel the order and recover the price paid for said rejected Products. On a rejection pursuant to this Agreement, Seller grants to Buyer a security interest in Products in its possession or control for any payments made on their price and any expenses reasonably incurred in their inspection receipt, transportation, care, and custody. If Buyer rejects any portion of any shipment of Products, the portion rejected shall be returned within forty-five (45) days.

7. **Seller's Breach; Indemnity.**

(a) Buyer shall give Seller written notice of any breach of representation warranty, covenant, or agreement promptly after Buyer's discovery thereof.

(b) Seller shall defend, indemnify and hold Buyer, its officers, directors, employees, agents, representatives, successors and assigns, harmless from and against (i) any and all claims howsoever arising, whether sounding in tort, contract, warranty, or otherwise, and all losses, liabilities, damages and all reasonable expenses, including without limitation attorney's fees and court costs, arising after the date hereof and resulting from or arising out of the manufacture, production, bottling or packaging of Products delivered hereunder or arising out of or resulting from an individual's ingestion of any Product manufactured, produced, bottled or packaged by Seller or in connection with Seller's performance hereunder or resulting from an alleged breach by Seller of any representation, warranty or covenant set forth in this Agreement and (ii) the actual withdrawal and recall costs and expenses and any incidental and consequential damages incurred by Buyer either due to Seller's manufacture, production, packaging, or bottling of Products, or if a recall of manufactured Products is ordered, recommended or agreed upon by a court of competent jurisdiction or governmental agency, or due to any statement or representation on the Product packaging (whether true or untrue).

8. **Representations of Quality of Essence of Agreement.** The Seller's representations and warranties of the quality and conformity of all Products to the Standards shall be an essential condition of the Agreement, and any noncompliance therewith shall give Buyer, in addition to any other rights and remedies of Buyer, and not in lieu thereof, the right to reject any of the Products and/or to repudiate and terminate the Agreement.

9. **Assignment.** Seller may not assign its rights or delegate its obligations under this Agreement without the prior written consent of Buyer. Buyer shall have the right to assign its rights and/or to delegate its obligations under this Agreement.

10. **Time is of the Essence.** All of the provisions hereof regarding the time within which Seller must deliver the Products to Buyer are of the essence.

11. **Term; Termination.**

(a) The term of this Agreement shall be for a period of two (2) years, commencing the date of execution hereof, and ending two years thereafter and shall automatically be extended for successive one (1) year periods thereafter unless earlier terminated pursuant to the terms and conditions of this Agreement or by either party on written notice at least sixty (60) days prior to the expiration of the then current term.

(b) Either party shall have the right to terminate this Agreement at any time for "Cause", by giving written notice to the other party not less than twenty (20) days prior to the effective date of such termination. On and after the effective date of such termination, neither party shall, except as otherwise set forth in this Agreement, have any further obligation with respect to the Products.

(c) In the event of the expiration or termination of this Agreement, Seller shall, unless instructed to the contrary by Buyer, continue to manufacture, produce, package and deliver to Buyer all Products which are the subject of an order received by Seller prior to the effective termination date. Buyer shall pay the purchase price for any such Products under the terms and conditions hereof in addition to any amounts owed for previously accepted Products under the Terms and Conditions hereof.

(d) "Cause" shall include the following:

- i) a breach of any of the representations, warranties or covenants or agreements of a party under this Agreement;
- ii) if a party (A) shall file, or consent by answer or otherwise to the filing against it of, a petition for relief or reorganization or arrangement of any other petition in bankruptcy, for liquidation or to take advantage of any bankruptcy or insolvency law of any jurisdiction, as now constituted or hereafter amended which shall remain in effect undischarged for more than ninety (90) days after filing, (B) shall make an assignment for the benefit of its creditors, or (C) shall consent to the appointment of a custodian, receiver, trustee, or other officer with similar powers over it or any substantial part of its property.

12. **Seller's Good-Faith Money Back Guarantee.** Seller shall provide credit for Buyer's Product Cost (invoice cost from Seller to Buyer) for any returned Products under Buyer's 100% Satisfaction Guaranteed Provision. Said credit will be issued immediately upon receipt by Seller of suitable Buyer's evidence of credit to its customer.

13. **Miscellaneous Provisions.** This agreement constitutes the sole and entire Agreement between the parties hereto with regard to the subject matter hereof. All notices and other communications under this Agreement shall be in writing, and shall be deemed to have been both given and received when delivered to the party in person or, if mailed, three (3) business days after being deposited in the U.S. Mails, by certified mail, postage prepaid, with return receipt requested, or with a nationally recognized overnight delivery service, to the party, by notice to the other, may designate from time to time. This Agreement shall be construed and enforced in accordance with the internal laws of the State of California without regard to principles of conflicts of laws. If any legal action or other proceeding is brought for the enforcement of this Agreement, or because of an alleged dispute, breach, default or misrepresentation in connection with any provisions of this Agreement, the prevailing party or parties shall be entitled to recover reasonable attorney's fees, court costs and all expenses incurred in that action or proceeding, in addition to any other relief to which such party or parties may be entitled. Each and every modification and amendment of this Agreement must be in writing and signed by all of the parties hereto. Each and every waiver of any covenant, representation, warranty or other provision of this Agreement must be in writing and signed by each party whose interests are adversely affected by such waiver. No waiver granted in any one instance shall be construed as a continuing waiver applicable in any other instance. All remedies conferred herein, and all remedies now or hereafter

available at law or equity, shall be deemed to be cumulative and not alternative, and may be enforced concurrently or successively.

14. Formulas.

(a) Seller acknowledges and agrees that the specifications and formulae for the Products are proprietary and confidential information owned by Buyer, and Seller disclaims any and all interest in such specifications and formulae, including without limitation, any modifications or improvements made by Seller thereto (the "Confidential Information"). Seller shall not during the term of this Agreement, or subsequent to the expiration or termination (for any reason) of this Agreement, use or disclose, other than in performing Seller's obligations pursuant to this Agreement, any Confidential Information to any person not authorized by Buyer to receive such Confidential Information, without the prior written consent of Buyer.

(b) Inspections - Buyer and its agents shall have the right to inspect Seller's manufacturing, production, bottling and packaging operations at any time during normal business hours and upon reasonable notice. Seller will cooperate in any such inspection and will make available information and assistance as may be requested by Buyer.

(c) Representations and Warranties - Seller represents and warrants that the manufacture, production, bottling and packaging of the Products meet the requirements of all federal and state laws and regulations, and Seller agrees to save Buyer harmless from and indemnify it against any losses, claims, damages, expenses and costs incurred by Buyer arising from or related to a breach of the foregoing representation and warranty, including Buyer's reasonable attorneys fees.

Recognizing the confidentiality of the information relating to the Products which will be exchanged by Buyer and Seller, the parties have duly executed this Agreement with the express statement that all formulations remain confidential by Seller.

Notices to Mannatech, Inc. ("Buyer") shall be sent as follows:

Mannatech, Inc.
Attention: Charles E. Fioretti
600 S. Royal Lane, Suite 200
Coppell TX 75019

Notices to Natural Alternatives International ("Seller") shall be sent as follows:

Natural Alternatives International
Attention: William P. Spencer, President
1185 Linda Vista Drive
San Marcos CA 92069

In WITNESS WHEREOF, the parties hereto have caused this Agreement to be executed by their duly authorized representatives as of the date first written above.

NATURAL ALTERNATIVES INTERNATIONAL, INC.

By: /s/ Will Spencer
Its: President

MANNATECH, INC

By: /s/ Anthony E. Carale
Its: COO

**FIRST AMENDMENT TO
MANUFACTURING AGREEMENT**

This **FIRST AMENDMENT TO MANUFACTURING AGREEMENT** ("First Amendment") is made May effective May 23, 2003, by and among Mannetech, Inc., a Texas corporation with its principal place of business at 600 S. Royal Lane #200, Coppel Texas ("Mannetech") and Natural Alternatives International, Inc., a Delaware corporation with its principal place of business located at 1185 Linda Vista Drive, San Marcos, California ("NAI").

RECITALS

- A. The parties entered into a Manufacturing Agreement dated April 22, 1998 ("Manufacturing Agreement"), in which NAI agreed to become a manufacturer and supplier of certain nutritional products to Mannetech. All capitalized terms used in this First Amendment not otherwise defined herein shall have the meanings ascribed to such terms in the Manufacturing Agreement dated April 22, 1998.
- B. Mannetech and NAI wish to amend the Manufacturing Agreement to permit purchase orders fulfilled by NAI to be held in storage for a prescribed period of time for Mannetech's benefit with no additional handling or storage charges to Mannetech.

Incorporating the above recitals as if set forth fully below and in consideration of the obligations contained herein and other good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, the parties agree as follows:

AGREEMENT

The Manufacturing Agreement dated April 22, 1998, is amended as follows:

SECTION 3(c): Price; Price Increase; Billing and Payment. The reference to "Section 13" in the second complete sentence shall be deleted and replaced with "Section 12".

SECTION 5: Storage Facilities. The entire paragraph shall be deleted and replaced with the following:

Storage and Shipping. "Buyer shall provide purchase orders setting forth a quantity of Products which Buyer requires from Seller and Buyer's delivery requirements. Buyer shall issue purchase orders for delivery of Products at its discretion. In order to assist Buyer in controlling its inventory, Seller shall provide suitable storage and warehousing space for all Products for the time and to the extent required by Buyer, including storage of all Products for up to thirty (30) days after the originally scheduled shipping date set forth in the applicable

purchase order. No additional charges for such storage and warehousing of Products will be paid charged to Buyer. If Buyer requires Seller to provide storage for any Products for a period longer than thirty (30) days after the originally scheduled shipping date set forth in the applicable purchase order for the Products, then Buyer shall in addition pay Seller a reasonable charge for such longer storage requirements. All Products will be stored in clean space suitable for storage of food and protection of its contents with respect to integrity and quality, in compliance with good commercial practice and all applicable laws, rules and regulations, including, without limitation, FDCA regulations.

SECTION 11(c) Term; Termination. Section 11(c) shall be deleted in its entirety and replaced with the following:

Notwithstanding this or any other Section of this Agreement, upon termination of this Agreement, Buyer shall, within thirty (30) calendar days of the date of notice of termination, forward payment to Seller for all purchase orders accepted by Seller prior to the effective termination date in addition to any amounts owed Seller for previously accepted Products under this Agreement. Upon receipt of such payment, Seller shall timely deliver all Products due under any outstanding purchase orders. To the extent that after termination Seller has inventory of raw materials and packaging materials on hand that were purchased and inventory of finished goods that were produced in good faith reliance on Buyer's purchase orders, then Buyer shall be liable for, and required to purchase, such inventory from Seller within thirty (30) days from the date Seller furnishes to Buyer a written reconciliation showing the amount of such inventory. Seller shall use commercially reasonable efforts to utilize such inventory for other customers or sell it to third parties. The Parties shall cooperate and utilize their commercially reasonable efforts to prepare such final reconciliations of Products and inventory and any other amounts to be provided as between them in connection with such termination.

SECTION 14 (c): Formulas. The second line of "Notices to Natural Alternatives International" shall be deleted in its entirety and replaced with the following: "Mr. Randell Weaver, President."

EFFECT: Except as amended hereby, the Manufacturing Agreement dated April 22, 1998, 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

By: /s/ Randy Weaver
Randell Weaver, President

MANNETECH, INC.
a Texas corporation

By: /s/ Terry Persinger
Terry Persinger, President

**SECOND AMENDMENT TO
MANUFACTURING AGREEMENT**

This **SECOND AMENDMENT TO MANUFACTURING AGREEMENT** ("Second Amendment") is made effective July 1, 2003, by and among Mannatech, Inc., a Texas corporation with its principal place of business at 600 S. Royal Lane #200, Coppell Texas ("Mannatech") and Natural Alternatives International, Inc., a Delaware corporation with its principal place of business located at 1185 Linda Vista Drive, San Marcos, California ("NAI").

RECITALS

- A. The parties entered into a Manufacturing Agreement dated April 22, 1998, in which NAI agreed to become a manufacturer and supplier of certain nutritional products to Mannatech. The Manufacturing Agreement was first amended by Mannatech and NAI effective May 23, 2003 ("First Amendment"). The Manufacturing Agreement as amended by the First Amendment and this Second Amendment is hereinafter referred to as the "Manufacturing Agreement." All capitalized terms used in this Second Amendment not otherwise defined herein shall have the meanings ascribed to such terms in the Manufacturing Agreement or the First Amendment as the case may be.
- B. Mannatech and NAI wish to amend the Manufacturing Agreement with respect to NAI's insurance requirements.

Incorporating the above recitals as if set forth fully below and in consideration of the obligations contained herein and other good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, the parties agree as follows:

AGREEMENT

The Manufacturing Agreement is amended as follows:

SECTIONS 2(d), (e) and (f): Seller's Representation, Warranties and Covenants. Sections 2(d), (e) and (f) shall be deleted in their entirety and replaced with the following:

Section 2(d): Seller shall carry for the entire term of this Agreement, with companies reasonably satisfactory to Buyer: (i) Workers' Compensation and Employees' Liability Insurance; (ii) Standard Form Fire and Extended Coverage Insurance for the full replacement value of any of the Products or any packaging materials, and (iii) Public Liability Insurance including Contractual Liability and Products Liability Coverage with a combined single limit of not less than Fifteen Million Dollars (\$15,000,000). The insurance policies shall be occurrence based and name Buyer as an additional insured party and provide that at least thirty (30)

days prior written notice of cancellation, amendment, or lapse of coverage shall be given to Buyer by the insurer. Seller will submit policies and/or certificates of insurance evidencing the above coverage to Buyer upon Buyer's written request therefore.

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

The parties have caused this Second 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

By: /s/ Randy Weaver
Randell Weaver, President

MANNATECH, INC.
a Texas corporation

By: /s/ Terry Persinger
Terry Persinger, President and Chief Executive Officer

**THIRD AMENDMENT TO
MANUFACTURING AGREEMENT**

This **THIRD AMENDMENT TO MANUFACTURING AGREEMENT** ("Third Amendment") is made effective July 1, 2004, by and among Mannatech, Inc., a Texas corporation with its principal place of business at 600 S. Royal Lane #200, Coppell Texas ("Mannatech") and Natural Alternatives International, Inc., a Delaware corporation with its principal place of business located at 1185 Linda Vista Drive, San Marcos, California ("NAI").

RECITALS

- A. The parties entered into a Manufacturing Agreement dated April 22, 1998, in which NAI agreed to become a manufacturer and supplier of certain nutritional products to Mannatech. The Manufacturing Agreement was first amended by Mannatech and NAI effective May 23, 2003 ("First Amendment"). The Manufacturing Agreement was amended a second time by Mannatech and NAI effective July 1, 2003 ("Second Amendment"). The Manufacturing Agreement as amended by the First Amendment, Second Amendment and this Third Amendment is hereinafter referred to as the "Manufacturing Agreement." All capitalized terms used in this Third Amendment not otherwise defined herein shall have the meanings ascribed to such terms in the Manufacturing Agreement, First Amendment or the Second Amendment as the case may be.
- B. Mannatech and NAI wish to amend the Manufacturing Agreement with respect to NAI's insurance requirements.

Incorporating the above recitals as if set forth fully below and in consideration of the obligations contained herein and other good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, the parties agree as follows:

AGREEMENT

The Manufacturing Agreement is amended as follows:

SECTIONS 2(d), (e) and (f): Seller's Representation, Warranties and Covenants. Sections 2(d), (e) and (f) shall be deleted in their entirety and replaced with the following:

Section 2(d): Seller shall carry for the entire term of this Agreement, with companies reasonably satisfactory to Buyer: (i) Workers' Compensation and Employer's Liability Insurance; (ii) Standard Form Fire and Extended Coverage Insurance for the full replacement value of any of the Products or any packaging materials, and (iii) Public Liability Insurance including Contractual Liability and

Products Liability Coverage with a combined single limit of not less than Fifteen Million Dollars (\$15,000,000). The insurance policies shall be claims-made based and name Buyer as an additional insured party and provide that at least thirty (30) days prior written notice of cancellation, amendment, or lapse of coverage shall be given to Buyer by the insurer. Seller will submit policies and/or certificates of insurance evidencing the above coverage to Buyer upon Buyer's written request therefore.

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

The parties have caused this Third 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

By: /s/ Randy Weaver
Randell Weaver, President

MANNATECH, INC.
a Texas corporation

By: /s/ Terry Persinger
Terry Persinger, President and Chief Operating Officer

FOURTH AMENDMENT TO MANUFACTURING AGREEMENT

THIS FOURTH AMENDMENT TO MANUFACTURING AGREEMENT (this "Amendment") is effective as of January 1, 2008, by and between NATURAL ALTERNATIVES INTERNATIONAL, INC. ("NAI"), MANNATECH, INCORPORATED ("MANNATECH US"), and MANNATECH SWISS INTERNATIONAL GmbH ("MANNATECH SWISS").

- A. MANNATECH US and NAI are the current parties to a Manufacturing Agreement dated April 22, 1998 (as amended to date, the "Manufacturing Agreement");
- B. MANNATECH SWISS is an affiliate of MANNATECH US; MANNATECH US is implementing a global restructuring project to optimize its operations and the restructuring includes adding MANNATECH SWISS as a party to certain supply and purchasing agreements; and
- C. The parties, therefore, desire to amend and revise the Manufacturing Agreement for the purpose of adding MANNATECH SWISS as an additional party. Any capitalized terms used in the Amendment shall, unless otherwise specified herein, have the same meaning ascribed to such terms as set forth in the Manufacturing Agreement.

NOW, THEREFORE, the undersigned parties agree as follows:

1. Amendment to Manufacturing Agreement. The Manufacturing Agreement is amended to provide that MANNATECH SWISS is added as a party to the Manufacturing Agreement. Thus, collectively and individually MANNATECH US and MANNATECH SWISS are entitled to receive all rights and benefits of Buyer under the Manufacturing Agreement and shall be responsible for all duties and obligations of Buyer under the Manufacturing Agreement. Except as contemplated under this Amendment, all other terms, conditions, provisions contained in the Manufacturing Agreement remain unchanged and in full force and effect.
2. Integration; Modification. This Amendment contains the entire understanding between NAI on the one hand, and MANNATECH US and MANNATECH SWISS on the other hand, with respect to the subject matter of this Amendment and this Amendment supersedes all prior or contemporaneous oral or written agreements, conditions, or representations. This Amendment may not be amended, canceled, or superseded, nor will any provision of this Amendment be deemed waived, except by a written instrument executed by each of the parties to be charged.
3. Binding Effect. This Amendment will be binding upon, and inure to the benefit of, the parties and their respective heirs, legatees, personal representatives, successors and assigns.
4. Counterparts. This Amendment may be executed in one or more counterparts, each of which will be deemed an original, but all of which, when taken together, will constitute one and the same instrument.

IN WITNESS WHEREOF, the parties have executed this instrument as of the date first above written.

[Signatures on Next Page]

**NATURAL ALTERNATIVES
INTERNATIONAL, INC.**

By: /s/ Randy Weaver
Name: RANDELL WEAVER
Title: PRESIDENT

MANNATECH, INCORPORATED

By: /s/ Terry L. Persinger
Name: Terry L. Persinger
Title: Pres & CEO

MANNATECH SWISS INTERNATIONAL GmbH

By: /s/ Ronald D. Norman
Name: RONALD D. NORMAN
Title: Director

MANUFACTURING SALES AGREEMENT

This Agreement made and entered into this 19 day of November, 2004 (the "Effective Date") by and between Mannatech™ Incorporated ("Buyer") with its principle place of business at 600 S. Royal Lane, Suite 200, Coppell, Texas 75019 and Natural Alternatives Inc. ("Seller") with its principle place of business located at 1185 Linda Vista Drive, San Marcos, CA 92078 referred to as the "Parties".

RECITALS

WHEREAS, Buyer develops and sells proprietary nutritional supplements and topical products through a network marketing system throughout the United States, Canada, Australia, New Zealand, the United Kingdom and Japan by distributors referred to as Independent Associates ("Associates");

WHEREAS, Seller is engaged in the development, manufacture and sale of functional foods and nutritional supplements and possesses particular technology and know-how and has previously been provided product formulations of all of Buyer's Products developed for Buyer under the terms of a separately executed and incorporated Confidentiality and Non-Disclosure Agreement (dated February 26, 1997) to determine the formulation change requirements of the Products;

WHEREAS, Buyer desires to expand its sales territory to include Germany and Denmark (the "Territory") and desires to utilize Seller exclusively to make changes to the Product formulas and to manufacture and deliver the Product in accordance with the terms of this Agreement;

WHEREAS, Seller desires to make changes to the Product formulas and to manufacture and deliver the Product exclusively for Buyer within the Territory during the term of this Agreement in accordance with the terms of this Agreement; and,

WHEREAS, Seller represents that it presently has the ability to make changes to the Product formulas and to manufacture and deliver the Product in conformance with applicable laws of the Territory in accordance with the terms of this Agreement.

NOW THEREFORE, incorporating the above recitals herein, and in consideration of the covenants and obligations contained herein and other good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, the Parties agree as follows:

1. Definitions.

As used in this Agreement, the following terms shall have the meanings set forth below:

1.1 "Product" or "Products" means Ambrotose®, Phyt•Aloe®, Catalyst and Plus Tablets and other Products as may be requested from time-to-time.

1.2 "Territory" means: (1) Germany and (2) Denmark

1.3 "Secondary Term" shall refer to a 365 day period commencing on, and on each anniversary of the Effective Date.

2. Specifications and Development

Seller shall develop, manufacture, produce and package for Buyer the nutritional Products initially the subject of this Agreement and any new Product subsequently determined by the Parties to be added to this Agreement. All Products and new Products shall be listed on subsequent written memorandums signed by the Parties and expressly referring to this Agreement. The detailed formulations and specifications for the manufacturing, producing and packaging of the Products shall be listed on subsequent written memorandums signed by the Parties and expressly referring to this Agreement (the "Standards"). The Parties may, from time to time amend the subsequent written memorandums by mutual written agreement.

3. Term.

3.1 Primary Term. Unless earlier terminated by either Party this Agreement shall be effective for a period of five (5) years (the "Initial Term") commencing on the Effective Date of this Agreement. Within sixty (60) days of the termination date of the Initial Term, either Party may provide notice to the other than it does not intend to extend the Agreement into the Secondary Term. If such sixty (60) day notice does not occur, this Agreement may automatically extend for successive twelve (12) month terms (collectively, the "Secondary Term"). In the event the Agreement extends to any Secondary Term thereafter, either Party may terminate the Agreement, upon sixty (60) days notice prior to the end of the then Secondary Term.

3.2 If such sixty (60) day notice does not occur prior to the end of the Initial Term or any Secondary Term, then Seller and Buyer shall immediately commence good faith negotiations to determine and agree upon such quantity and price for such Secondary Term. At least thirty (30) days prior to the end of the Initial Term or any Secondary Term, Buyer and Seller shall mutually agree in writing on the quantity and price of the Products to be sold by Seller to Buyer during such Secondary Term. If Buyer and Seller are unable to agree in writing on such quantity and price, this Agreement shall terminate effective at the end of the Initial Term or the then Secondary Term.

3.2.1 Nothing contained in this Section shall be deemed to obligate Buyer and Seller to agree upon such quantity and price;

3.2.2 Nothing contained in this Section shall be deemed to obligate either Party to negotiate with the other Party regarding such quantity and price if such other Party is then in breach of or in default under this Agreement, or

3.2.3 Nothing contained in this Section shall be deemed to limit the rights of Buyer and Seller under Section 12 (Indemnification).

3.3 At the termination of this Agreement, Buyer shall have the right and ability to make Products, particularly using its proprietary information and formulae.

3.4 Failed Conditions. In connection with the Products referenced herein, if following diligent investigation, inquiry and conference with Seller, Buyer in good faith does not believe Seller satisfies any one or more of the conditions contained herein or any Products are not being manufactured within Standards, Buyer shall give Seller written notice of such determination. Such notice shall state in detail the conditions Seller does not satisfy, the reasons Buyer believes Seller does not satisfy the stated conditions, and a detailed statement of facts that would have to exist for Seller to satisfy the failed conditions. Seller shall have sixty (60) days following receipt of the written notice referenced in this Section to cure any inability or failure to satisfy any conditions listed in a notice from Buyer. In the event such failure cannot be reasonably cured within sixty (60) days, Seller shall have whatever longer period is reasonably required, as agreed to by the Parties, provided Seller commences such cure within sixty (60) days of receipt of a notice from Buyer and thereafter diligently pursues the cure to completion.

3.5 Effect of Failed Condition. In the event Seller does not cure its inability to satisfy the conditions contained in a notice received from Buyer pursuant to Section 3.4 within the time periods set forth, then Buyer may for a period of thirty (30) days after the earlier to occur of: (i) expiration of such time periods; or (ii) receipt of Seller's written notice it will not cure such conditions, elect to terminate this Agreement in accordance with Section 14.2.3.

4. Products.

4.1 Product Development. Buyer shall develop formulations for the Products both legally compliant with the applicable laws of the Territory and acceptable by Buyer. In connection with Product development, Seller shall:

4.1.1 Review existing Buyer Product formulations as requested by Buyer and ingredients and excipients used in Buyer Product formulations;

4.1.2 Cross-reference applicable published Territory regulations where necessary;

4.1.3 Recommend formulations including the removal/replacement of non-permitted Product ingredients based on regulatory guidelines for the Territory;

4.1.4 Provide scientific data on the composition and/or physiological function of ingredients used in Buyer Product formulations and provide nutritional information and nutritional values for nutritional supplements used in Buyer Products;

4.1.5 NAI will provide Mannatech structure/function claims to be made in conjunction with the Products together with scientific substantiation for such structure/function claims;

4.1.6 Prepare master formula and processing instructions for all Products and submit to Buyer for approval;

4.1.7 Register Products with applicable governmental agencies within the Territory and maintain such registrations to ensure Products conform at the time of delivery with applicable laws, rules and regulations in the Territory; Seller will provide copies of the registration documents to Buyer for review and approval prior to submission and approval by Buyer of such registration documents shall not be unreasonably withheld; Buyer will approve or disapprove any such matter within five (5) business days following submission to it for approval; Buyer's failure to timely provide the approval requested or the reasons for any refusal to consent shall constitute approval for purposes of this Section; Seller will provide to Buyer copies of the final documents submitted and correspondence from the applicable agencies;

4.1.8 Participate in responding to governmental regulators concerning Product related issues pre and post marketing of the Products and provide Buyer copies of correspondence with such regulators; Seller will provide copies of any changes requested by such government regulators to Buyer for its review and approval;

4.1.9 Supply, sample and approve for manufacture raw materials/components, containers and closures and shipping labels and shippers; specifications for raw materials/components, containers and closures and shipping labels and shippers will be drafted by Seller and approved by Buyer, and

4.2 Product Packaging and Labels. Buyer will be solely responsible for development of all packaging and labeling with respect to the Products provided that Seller will be responsible for providing any information regarding ingredients and makeup of the Products required to be disclosed to comply with applicable laws, rules and regulations in the Territory. Buyer will be solely responsible for the development and regulatory approval of all non-label claims included by Buyer on any packaging, labels, inserts or promotional materials. Seller is not responsible for any claims made by Buyer in its marketing and/or selling literature, or claims made by Buyer's distributors or sales team or any other representative or agent of Buyer. The initial packaging requirements for the Products shall be listed on subsequent written memorandums signed by the Parties and expressly referring to this Agreement. Such requirements may be changed from time to time as agreed to by Buyer and Seller and shall be listed on subsequent written memorandums signed by the Parties and expressly referring to this Agreement.

4.3 Proprietary Components. Seller may seek in its own name and at its own expense, and if obtained, shall maintain appropriate patent, trademark, copyright or registration protection for any element or component proprietary to Seller that is included in any Product or any part thereof, and Seller shall retain ownership of such elements or components. During the term of this Agreement, Seller grants Buyer a nonexclusive license to the foregoing solely to the extent necessary to exercise Buyer's rights provided for in this Agreement. Nothing in this Agreement will be deemed a transfer of ownership in any intellectual property rights of either Party to the other under this Agreement, whether such intellectual property rights existed before the Effective Date or are created after.

5. Quality Control.

5.1 Seller shall manufacture and package Products at its Plant in quantities ordered by Buyer in accordance with the terms and conditions set forth in this Agreement. Seller may develop for its own use in manufacturing the Products such specifications and quality control parameters and utilize at Seller's expense such subcontractors as Seller may deem appropriate, provided all production is in compliance with the Standards. The Parties agree Seller may supplement or otherwise modify Standards at any time and from time to time, subject to Buyer's prior written approval which shall be provided or declined within ten (10) business days of a request therefore, and which shall not be unreasonably withheld. For purposes of this Agreement, "Plant" means Seller's production facilities wherever located.

5.2 Seller warrants and represents that it has established procedures for the manufacture and supply of the Products. Seller agrees that all Products manufactured, packaged, labeled, supplied and delivered to Buyer (or its designee), will be manufactured in a professional, clean, safe and sanitary manner, in accordance with good manufacturing practices and the specifications and Standards established and agreed to by Buyer and Seller.

5.3 Buyer shall have reasonable access to Seller's Plants at all reasonable times upon reasonable notice (not to exceed two business days) while Product is in process for the purpose of conducting inspection and testing of such Product and for purposes of quality control audits. Seller shall be notified in advance of the names of all visiting personnel or agents and their intended dates of arrival. Buyer at its sole cost and expense shall perform inspections and tests for quality assurance in a manner that will not unduly delay or interrupt production or manufacture of any Product.

5.4 Seller shall perform all in-process and finished manufacturing checks necessary to assure Product quality. A Product shall not be released for shipment unless it complies with all specifications and all applicable laws, rules and regulations. Seller shall place any noncomplying Products on hold. Products that do not comply shall be put on hold and may be released only with the prior approval of Buyer. All Products that do not comply with the specifications for that Product, will be disposed of by Seller at its

expense and in a manner consistent with the law. Deviations or out of specifications results will be investigated by Seller with the results of the investigation submitted to Buyer for review.

5.5 Seller is solely responsible for compiling all original records of manufacture, packaging and testing. All records of manufacture, packaging and testing maintained by Seller with respect to the Product shall be available at all reasonable times for inspection and verification by Buyer or any of its designated agents or representatives. All such master manufacturing and test records shall be documented and summarized by Seller and copies provided to Buyer at Buyer's request. Buyer reserves the right, at any reasonable time, to examine Seller's records of manufacture, packaging and testing related to the Product, at Buyer's sole expense, and Seller shall cooperate with any person making such examination on behalf of Buyer. Seller shall be notified in advance of the names of all visiting personnel or agents and their intended dates of arrival.

5.6 Buyer shall be solely responsible for determining shelf life of the Products. Seller agrees to cooperate and provide assistance to Buyer in Buyer's investigation and response to consumer complaints related to the Products, but in no circumstance shall Seller be compelled to respond to any consumer complaint.

5.7 Seller shall retain samples of starting materials and finished products in accordance with its general practices for similar products.

6. Inspection Events, Production Codes, Regulatory Action.

6.1 Inspection Events. Seller shall immediately notify Buyer by the most expeditious means practicable, but in no event later than the next business day, if and when it is informed of an impending audit, inspection and/or onsite visit ("Inspection Event") concerning the manufacture of any Product by Seller under this Agreement by a governmental agency or any licensing unit thereof. Buyer, at its sole discretion and expense may elect to send an employee or designee to observe the Inspection Event. In the event that Seller should not have prior notice of an Inspection Event, then Seller shall, within three (3) business days after such Inspection Event, give written notice of the same to Buyer, and shall further provide to Buyer any written documentation supplied to Seller on account of such Inspection Event. In the event of any action described in this Section, the Parties shall cooperate in determining the response, if any, to be made to such action and each Party agrees to cooperate with, assist and allow Seller to be the primary spokesperson in responding to any communication or inquiry, and/or attempting to resolve any such action, and to refrain from any activity with respect to such action which is not previously approved by Seller, unless otherwise required by law.

6.2 Codes. Production codes for Products will be maintained in accordance with Seller's existing policies as of the date hereof. Seller shall maintain detailed records on raw and packaging materials usage, finished Product production by code date and shipping of Product, so that Product can be traced in case of a recall. Unless necessary to prevent serious injury or death, Seller cannot initiate a recall or withdrawal of Products

ordered by or shipped to Buyer without the consent of Buyer which cannot be unreasonably withheld. If a recall or withdrawal must be initiated before consent of Buyer can be obtained, in order to prevent serious injury or death, notice to Buyer must be provided as soon as is reasonably feasible. Seller shall retain complete control of all recall decisions with respect to Products sold or shipped by it to Buyer and Buyer shall have no rights in connection therewith, except that Seller shall provide Buyer with notification of any such recall within a reasonable time thereafter, together with the reasons for the recall and such information as may be available to Seller concerning the degree to which the reasons may have application to any Products shipped to or on behalf of Buyer.

6.3 Regulatory Action. If the FDA or any other domestic or foreign federal, state or local government agency makes, with respect to any Product manufactured by Seller for Buyer under this Agreement, (i) an inquiry, or (ii) gives notice of or makes an inspection at any Party's premises, or (iii) seizes any such Product or requests a recall, or (iv) directs any Party to take or cease taking any action, the other Party shall be notified immediately but in no event later than the next business day. Seller will investigate the inquiry or complaint and provide Buyer with a written report within 2 weeks after the notification. Duplicates of any samples of Product taken by such agency shall be sent to the other Party promptly. In the event of any action described in this Section, the Parties shall cooperate in determining, and will mutually agree upon, the response, if any, to be made to such action and each Party agrees to cooperate with, assist and allow Seller to be the primary spokesperson in responding to any communication or inquiry, and/or attempting to resolve any such action, and to refrain from any activity with respect to such action which is not previously approved by Seller, unless otherwise required by law.

7. Purchase Orders & Shipping.

7.1 Purchase Orders. All purchase orders shall constitute authorization to Seller by Buyer to order materials, allocate labor or equipment, or enter into other commitments for the assembly and manufacture of the Products required by such purchase order. Such purchase orders shall be firm and binding upon Buyer, and shall be filled by Seller in accordance with this Agreement. Notwithstanding the foregoing, Buyer may cancel a purchase order at any time prior to delivery. Seller shall complete all work in process in a timely fashion and deliver the same to Buyer as provided herein against payment as provided herein. Buyer shall reimburse Seller for any out-of-pocket expenditure for raw materials, ingredients and packaging materials that Seller incurs that cannot be canceled or allocated to other uses and Seller will provide those materials to Buyer against payment as provided herein. Seller will ship Product by the date set forth in each purchase order, or sooner, provided that: (i) such date cannot be less than 90 days after the purchase order date without Seller's approval; and (ii) Buyer may, prior to shipment, request that Seller delay the shipment date subject to the Parties' agreement to the payment by Buyer for any additional storage charges. The Parties agree to set minimum order sizes for all purchase orders under this Agreement after Product formulations are approved for the Products and after all Products are pilot tested.

7.2 Shipping. Seller shall load Products onto such carriers as may be determined by the Parties. All Products are delivered F.O.B. Seller's dock and all risk of loss of the Products shall remain with Seller until loaded onto such carriers unless Buyer and Seller shall otherwise mutually agree in writing. The carrier selection, shipment and payment procedures and bill of lading requirements shall be in accordance with any reasonable instructions issued by Buyer, and otherwise shall be subject to Buyer's approval which approval shall not be unreasonably withheld. Products are to be shipped via clean trucks and containers suitable for transportation of food and protection of its contents with respect to integrity and quality, and shall be in compliance with good commercial practice and all applicable laws, rules and regulations. All costs of shipping shall be paid by Seller at the time of shipping and billed to Buyer by separate shipping invoice. Payment in full for all costs of shipping shall be due from Buyer to Seller within thirty (30) days after Buyer's receipt of the shipping invoice.

8. Compensation, Payment & Invoices.

8.1 Compensation. As full and complete compensation for all services performed and goods sold hereunder by Seller, Buyer shall pay Seller the price set forth for each Product listed on subsequent written memorandums signed by the Parties and expressly referring to this Agreement plus the cost of shipping all Products, plus any reasonable charge for excess periods of storage required by Buyer as set forth in Section 7.1. The compensation due Seller for each Product price shall also include: (i) all federal, state and local taxes that may be imposed upon Seller's manufacture and sale of each Product, (ii) reimbursement of Seller's reasonable costs incurred on behalf of Buyer in obtaining and maintaining required governmental authorizations for the import and sale of Products into the Territory, and (iii) reimbursement of Seller's reasonable costs incurred on behalf of Buyer in obtaining and maintaining required governmental authorizations and registrations with all regulatory agencies in the Territory for the sale of Products, including without limitation all reasonable costs associated with the hiring of industry consultants, advisors, toxicologists, translators and other personnel or services required by Seller to obtain and maintain required governmental authorizations and registrations with all regulatory agencies in the Territory for the sale of Products.

8.2 Price Increases/Decreases. In the event costs increase or decrease by ten percent (10%) or more as a result of a change in the Standards, labor costs, material costs, rent, custom charges, taxes, import or export duties, freight costs or utility rates, Seller shall provide Buyer documentation supporting such cost increases or decreases in a form reasonably satisfactory to Buyer. Upon Buyer's reasonable satisfaction and confirmation of the increased or decreased costs, the increased or decreased costs shall be reflected in a subsequent written memorandum signed by the Parties and expressly referring to this Agreement. Any increase or decrease in purchase price shall become effective thirty (30) days after Buyer and Seller determine such increase or decrease. Neither Party may exercise this provision more than once in any six (6) month period. In any such review, Seller will disclose the prior (e.g., as of the Effective Date or as of the last evaluation) values of all of the above variables as well as the current values of all of the above

variables. Buyer reserves the right to reject any proposed purchase price adjustment. Notwithstanding any other provision in this Agreement to the contrary, if Buyer rejects any proposed purchase price adjustment, Seller may terminate this Agreement at any time following any rejection upon giving Buyer thirty (30) days notice.

8.3 Invoices. Seller shall submit invoices to Buyer for payment in full for all Products when quantities of the Products are available for shipment to Buyer. Seller's invoices are due on receipt by Buyer (net 30) and must be paid in USD. Payments not made within thirty (30) days from the date of Seller's invoice will bear interest at one and one half (1 1/2%) per month.

9. Exclusivity & Ownership.

9.1 The Products that are the subject of this Agreement will at all times be solely owned by Buyer. Seller shall not directly or indirectly develop, manufacture or market an "equivalent or derivative product" for any other multi-level marketing company or any other form of retail distribution using Buyer's formulas. For the purpose of this Agreement, "equivalent or derivative product" means any product formulated by Seller which substantially replicates the Product as to the combination of specific ingredients, nutrients, and functional features with Buyer's proprietary ingredients and/or formulations. All proprietary ingredients and/or formulations for each Product formula claimed by Buyer and sought to be protected by Buyer under this Section shall be listed on subsequent written memorandums signed by the Parties and expressly referring to this Agreement. The foregoing notwithstanding, nothing in this Agreement is deemed to preclude Seller from developing, manufacturing or marketing any other type of product in any channel of distribution worldwide.

10. Trademarks and Tradenames.

10.1 The Parties recognize that the corporate name and respective trademarks or tradenames of the other are valuable and that all goodwill associated with use of such names and marks shall inure to the benefit of the other. Either Party shall have the right to terminate this Agreement immediately in the event that the other Party acts in a manner which would negatively impact the reputation of such Party and/or of its name or marks and/or would infringe or dilute the value of the other Party's name or marks or which is not in compliance with applicable law in the United States or any other country in which either Party conducts business as the case may be. Each Party shall be solely responsible for the registration and maintenance of its trademarks and tradenames in the Territory.

10.2 Buyer shall be the sole owner and shall have perpetual use and control of all promotional materials produced for Buyer bearing its trade name and/or trademarks ("Buyer Marks") related to the Product. Buyer shall be free to dispose of and treat in any way all promotional materials under this Agreement, including but not limited to selling, advertising, distributing, and permitting their use in other mediums, whether for profit or otherwise. Except as provided in Section 4.3, Seller has no right or license to use any of

the trademarks or tradenames owned by, licensed to or associated with the Buyer Marks during the term of this Agreement without prior approval and express permission from Buyer, such approval and permission is within the sole discretion of Buyer and may be withheld at any time.

10.3 Seller acknowledges and agrees that all Product formulas are proprietary to and owned exclusively by Buyer (“Buyer Intellectual Property”) and Seller disclaims all interest in such Buyer Intellectual Property including without limitation any modifications or improvements made by Seller to such Buyer Intellectual Property during the term of this Agreement. Buyer acknowledges and agrees that any new product formula provided by Seller that is declined by Buyer for use under this Agreement shall be proprietary to and owned exclusively by Seller; provided it does not include Buyer’s proprietary formulations.

11. Confidential Information.

11.1 Seller recognizes and acknowledges that Buyer’s trade name(s), trademarks, copyrights, patents, marketing plans, identity of and related information regarding its Associates, product formulations and other proprietary product information and any information relating to the management/operations of Buyer are valuable assets belonging to Buyer and as such are the sole property and may constitute trade secrets of Buyer. Prior to and during the performance of this Agreement, Seller may have or had access to certain confidential information pertaining to Buyer. Seller specifically agrees Seller will not at any time, during or after the performance of this Agreement, in any manner, either directly or indirectly, use, divulge, disclose, or communicate to any person, firm or corporation, any confidential information of any kind, nature, or description concerning any matters affecting or relating to the business of Buyer (hereinafter referred to as “Buyer Confidential Information”). Buyer Confidential Information includes but is not limited to: Buyer genealogies (being the information held by Buyer in connection with any current or former Associate of Buyer) related to its Associates including without limitation its relationship with each of its Associates, the Associate’s name, upline and downline, charts, data reports, proprietary product information which may from time-to-time be made known to Seller, the names or practices of any of Buyer’s customers or Associates; Buyer’s marketing methods and related data; the names of Buyer’s vendors or suppliers; costs of materials; costs of its products generally, the prices Buyer obtains or has obtained or at which it sells or has sold its products or services; manufacturing and sales costs; lists or other written records used in Buyer’s business; compensation paid to its Associates, details of training methods, new products or new uses for old products, merchandising or sales techniques, contracts and licenses, business systems, computer programs, or any other confidential information of, about, or concerning the business of Buyer; its manner of operation or other confidential data of any kind, nature or description.

11.2 Seller agrees to use the Buyer Confidential Information only for Buyer business, and shall not use such Confidential Information in any other marketing endeavor (whether for profit or otherwise) and shall return copies of any written Buyer

Confidential Information in Seller' possession to Buyer forthwith upon written demand and upon termination of the Sale and License Agreements for whatever reason.

11.3 Notwithstanding anything to the contrary contained in this Agreement:

11.3.1 Seller shall have no obligation to maintain in confidence or return to Buyer any information (i) that was known to Seller prior to its disclosure to Seller by Buyer or any of its current or former Associates and that did not become known to Seller through disclosure by a person who was then known actually by Seller to have obtained such information or made such disclosure in violation of any obligation to Buyer, (ii) that is now in or hereafter enters the public domain other than due to a breach by Seller of this Section, (iii) that is disclosed to Seller by a third party who is not actually known by Seller to have obtained or disclosed such information in violation of any obligation to Buyer, or (iv) that is independently developed by Seller without the aid, application or use of any Buyer Confidential information disclosed to Seller; and

11.3.2 Seller may make any disclosure of Buyer Confidential Information (i) that it is necessary or appropriate to make in order to carry out its obligations under any written agreement with Buyer, (ii) that it is required or permitted to make pursuant to any written consent of or written agreement with Buyer or (iii) that it is required by law to make.

11.4 Buyer recognizes and acknowledges that Seller' trade name(s), trademarks, copyrights, patents, marketing plans, product formulations, know-how, compounds, products, processes, designs, production methods and techniques and other proprietary product information and any information relating to the management/operations of Seller are valuable assets and confidential information belonging to Seller and as such are the sole property of Seller and may constitute trade secrets of Seller. Prior to and during the performance of this Agreement, Buyer may have or had access to certain confidential information pertaining to Seller. Buyer specifically agrees it will not at any time, during or after the performance of this Agreement, in any manner, either directly or indirectly, use, divulge, disclose, or communicate to any person, firm or corporation, any confidential information of any kind, nature, or description concerning any matters affecting or relating to the business of Seller (hereinafter referred to as "Seller Confidential Information"). Seller Confidential Information includes but is not limited to: the names or practices of any of Seller's customers; Seller's marketing methods and related data; the names of Seller's vendors or suppliers; costs of materials; costs of its products generally, the prices Seller obtains or has obtained or at which it sells or has sold its products or services; manufacturing and sales costs; lists or other written records used in Seller's business; details of training methods, new products or new uses for old products, merchandising or sales techniques, contracts and licenses, business systems, computer programs, or any other confidential information of, about, or concerning the business of Seller, its manner of operation or other confidential data of any kind, nature or description.

11.5 Buyer agrees to use the Seller Confidential Information only for Seller business and shall return copies of any written Seller Confidential Information in its possession to Seller forthwith upon written demand and upon termination of this Agreement for whatever reason.

11.6 Notwithstanding anything to the contrary contained in this Agreement:

11.6.1 Buyer shall have no obligation to maintain in confidence or return to Seller any information (i) that was known to Buyer prior to its disclosure to Buyer by Seller that did not become known to Buyer through disclosure by a person who was then known actually by Buyer to have obtained such information or made such disclosure in violation of any obligation to Seller, (ii) that is now in or hereafter enters the public domain other than due to a breach by Buyer of this Section, (iii) that is disclosed to Buyer by a third party who is not actually known by Buyer to have obtained or disclosed such information in violation of any obligation to Seller, or (iv) that is independently developed by Buyer without the aid, application or use of any Seller Confidential information disclosed to Buyer; and

11.6.2 Buyer may make any disclosure of Seller Confidential Information (i) that it is necessary or appropriate to make in order to carry out its obligations under any written agreement with Seller, (ii) that it is required or permitted to make pursuant to any written consent of or written agreement with Seller or (iii) that it is required by law to make.

11.6.3 It is agreed by the Parties that the foregoing covenants are appropriate and reasonable in light of the nature and extent of the business conducted by the Parties and their respective relationships. If is further agreed that the covenants set forth herein are divisible in the event they are held to be invalid, unreasonable, arbitrary or against public policy. Further, it is agreed by the Parties that if any court of competent jurisdiction makes such a determination, the court may determine what time period and geographical area are reasonably necessary to protect the Parties' legitimate business interests.

11.7 The Parties agree the information arising, created, compiled or developed in connection with inspections and audits permitted pursuant to certain Sections of this Agreement are proprietary and confidential, and the information revealed therein is furnished only for the purpose of confirming compliance with the terms of this Agreement. Any other use of the information revealed by such inspections or audits is understood and agreed by the Parties to constitute a material breach of this Agreement that cannot be cured.

11.8 This Section shall survive the termination of this Agreement.

12. Indemnification by Buyer and Seller.

12.1 Indemnification by Seller. Seller shall indemnify and save Buyer, its subsidiaries, affiliated and/or controlled companies, as well as each of their respective officers, directors, agents, and employees, harmless from and against all loss, liability, damages, claims for damages, settlements, judgments or executions, including costs, expenses and reasonable attorneys' fees and costs (collectively, "Losses") to the extent arising from sales of Products manufactured and supplied by Seller to Buyer on and after the Effective Date, and defend such persons or entities from any third party demands, actions, suits, prosecutions or other such claims arising from sales of such Products on and after the Effective Date ("Third Party Claims") based on, (i) actual or alleged injury to person or property or death occurring to any person whatsoever arising out of any obligation of Seller under this Agreement, out of possession, use of, or consumption by, any person of the Product supplied by Seller to Buyer under this Agreement, (ii) any actual or alleged injury to person or property or death occurring to any of Seller's employees, agents or any individual on Seller's premises, (iii) the Product (including the manufacture or distribution thereof) infringes upon the intellectual property rights of any other person or entity (including patents, trademarks, copyrights or trade secrets), (iv) any alleged breach of Seller's representations and warranties contained herein, (v) the content or manner of any nutritional ingredient labeling information provided by Seller in connection with the Product, and (vi) provided, however, as to (iii) and (v), that Seller will have no liability to the extent such claim arises out of the incorporation of designs, raw materials, packaging or labeling provided and approved by Buyer for the Products.

12.2 Indemnification by Buyer. Buyer shall indemnify and hold harmless Seller, its subsidiaries, affiliated and/or controlled companies and all sublicensees, as well as each of their respective officers, directors, agents, and employees, from and against all Losses to the extent arising from, and defend such persons or entities from Third Party Claims or other such claims arising from sales of Products by Buyer based on: (i) any alleged breach of Buyer's warranties contained herein; (ii) any claims arising from the content or manner of Buyer's handling, marketing, promotion or recommended or proposed use of the Products; (iii) any claims arising from any designs, raw materials, packaging or labeling provided and approved by Buyer for the Products, or (iv) any claims that the Products infringe any patent, copyright, trade mark right, trade secret, mask work right or other proprietary right of any third party to the extent that such claim is attributable to Seller's incorporation of designs or materials provided by Buyer into the Products.

12.3 Indemnification Procedure. The party entitled to indemnification under this Section 12 (the "Indemnified Party") will provide the party obligated to provide indemnification under this Section 12 (the "Indemnifying Party") with prompt notice of any Third Party Claim for which it seeks indemnification under this Section 12, provided that the failure to do so will not excuse the Indemnifying Party of its obligations under this Section 12 except to the extent prejudiced by such failure or delay. The Indemnifying Party will have the sole right to control the defense and settlement of the Third Party Claim, provided that the Indemnifying Party may not, without the

Indemnified Party's consent, enter into any settlement which admits guilt, liability or culpability on the part of the Indemnified Party. The Indemnified Party will provide reasonable cooperation to the Indemnifying Party in defending any Third Party Claim.

12.4 NO CONSEQUENTIAL DAMAGES. EXCEPT WITH RESPECT TO EACH PARTY'S INDEMNIFICATION OBLIGATIONS UNDER THIS AGREEMENT, UNDER NO CIRCUMSTANCES SHALL EITHER PARTY OR THEIR AFFILIATES HAVE ANY LIABILITY WHATSOEVER TO THE OTHER PARTY FOR INCIDENTAL OR CONSEQUENTIAL DAMAGES, SUCH AS, BUT NOT LIMITED TO, LOSS OF PROFIT OR REVENUE; LOSS OF USE OF THE PRODUCTS; COST OF CAPITAL; OR CLAIMS RESULTING FROM CONTRACTS BETWEEN BUYER, ITS CUSTOMERS AND/OR SUPPLIERS.

13. Seller's Representations and Warranties.

13.1 Seller expressly warrants that at the time of delivery; (i) all Products sold hereunder shall be of merchantable quality, free from defects in material and workmanship as agreed to in the Standards, fully acceptable, fit for their intended use, and to the extent legally required, approved by the regulating authorities in the Territory respecting the Products or any other governmental agency having authority over the Products and (ii) all Products will be manufactured in accordance with applicable laws, regulations and orders, and applicable industry standards; and that the Products shall be manufactured in conformity with the Standards. Should applicable law or industry requirements specify defect limits or other requirements that are more stringent than those, if any, contained in the Standards, the more stringent requirements shall prevail and apply. No Product contained in any shipment now or hereafter made to Buyer will, at the time of such shipment or delivery, be adulterated, misbranded or mislabeled within the meaning of any applicable federal, state or municipal law as such exist at the time of shipment or delivery. This warranty shall be a continuing warranty and shall be binding upon Seller with respect to the Products that Seller ships or delivers to Buyer in accordance with the terms and conditions of this Agreement.

13.2 Seller shall furnish Buyer duly executed by an officer of Seller, certificates of compliance with (i) all applicable laws, orders and regulation of the federal or any state or municipal government or agency thereof, which apply to this Agreement, (ii) the Standards and written formulations for Products, and (iii) all laws and regulations which may relate to the processing and manufacturing Plants of Seller which are used in the manufacture of the Products.

13.3 All Products manufactured by Seller shall be manufactured, packaged, produced and labeled, and delivered in accordance with the Product Standards. Seller shall not change any Standards without Buyer's written consent, except as in response to request by federal, state or local agencies having appropriate jurisdiction in which event Seller shall promptly notify Buyer of such change. Seller shall not alter the finished Product package without obtaining the written consent of Buyer prior to any alteration which consent Buyer has no obligation to give.

13.4 Seller shall carry for the entire term of this Agreement, with companies reasonably satisfactory to Buyer: (i) Workers' Compensation and Employees' Liability Insurance; (ii) Standard Form Fire and Extended Coverage Insurance for the full replacement value of any of the Products or any packaging materials, and (iii) Public Liability Insurance including Contractual Liability and Products Liability Coverage with a combined single limit of not less than Fifteen Million Dollars (\$15,000,000). The insurance policies shall be claims based and name Buyer as an additional insured party and provide that at least thirty (30) days prior written notice of cancellation, amendment, or lapse of coverage shall be given to Buyer by the insurer. Seller will submit policies and/or certificates of insurance evidencing the above coverage to Buyer upon Buyer's written request.

13.5 It is expressly recognized and agreed that Buyer is relying on the representations and warranties of Seller contained herein and such representations and warranties shall survive the execution and/or termination of this Agreement.

13.6 Organization. Seller is a corporation duly organized, validly existing and in good standing under the laws of its state of incorporation as to the United States and as to the region in which it does business and has full power and authority to carry on its business as now being conducted.

13.7 Authorization and Agreement. The execution, delivery and performance of this Agreement by Seller has been authorized by all necessary corporate action on its part. The consummation of the transactions contemplated by this Agreement will not result in the breach of, or constitute a default under, any indenture, mortgage, note, agreement or other financing agreement to which Seller is a party or to which it or its properties or rights are subject and will not be in violation of the rights of any other party.

13.8 No Consent. No consent of any party and no consent, license, approval or authorization of, or exemption by, or registration or declaration with, any governmental authority, bureau or agency is required in connection with the execution, delivery, validity or enforceability of this Agreement with respect to Seller and the consummation of the transactions contemplated hereby.

13.9 Validity and Enforceability. This Agreement is valid and enforceable against Seller in accordance with its terms, except as enforcement may be limited by applicable bankruptcy, insolvency or other laws affecting the rights of creditors generally. The execution, delivery and performance of this Agreement by Seller does not violate any law or rule or regulation or give rise to a cause of action in favor of any person which will result in any liability to any of the Parties.

13.10 No Breach. Neither the execution and delivery of this Agreement nor the consummation of the transactions contemplated hereby will (i) violate any provision of the Articles of Incorporation or By-Laws of Seller (ii) violate, conflict with or result in the breach or termination of, or otherwise give any other contracting party the right to

terminate or constitute a default (by way of substitution, novation or otherwise) under the terms of any mortgage, lease, bond, indenture, agreement, franchise or other instrument or obligation to which Seller is a party or by which it may be bound or by which any of the property or assets of Seller may be bound or materially affected, (iii) result in the creation of any lien, charge or encumbrance upon the assets or properties of Seller as it relates to its business or the pending business of Buyer, (iv) violate any judgment, order, injunction, decree or award of any court, arbitrator, administrative agency or governmental body against, or binding upon Seller or upon the property, assets or business of Seller or (v) constitute a violation by Seller of any law or regulation of any jurisdiction as such law or regulation relates to it or to the property or business of Seller.

13.11 Compliance with Laws. The business and operations of Seller and any of its other affiliates and subsidiaries, if any, have not been, and are not, conducted in violation of any applicable judgment, order, injunction, award, tariff or decree. Seller has not received notice of, nor does Seller have any knowledge of or any reasonable grounds to know after due inquiry that the business and its operations have not been and are not, conducted in violation of any Federal, state or local law, ordinance, regulations, or any other requirement of any governmental body, court or arbitrator applicable to Seller or pursuant to which they conduct their business and operations. Seller has all permits, licenses, orders, authorizations or approvals of any Federal, state, local or foreign governmental or regulatory body to carry on its business in the places and in the manner now and heretofore conducted, and all such licenses, authorizations and permits are in full force and effect. Seller has neither received notice of nor have any knowledge of or any reasonable grounds to know after due inquiry that the business and operations of Seller have not and are not, conducted in material violation of any such licenses, authorizations and permits, and no proceeding is pending or threatened to revoke or limit any such license, authorizations or permits.

14. Termination.

14.1 Termination by Seller. Seller will have just cause to terminate this Agreement immediately upon written notice to Buyer or to refuse to renew this Agreement, without judicial or administrative notice or resolution, upon the occurrence of any termination event specified below:

14.1.1 Breach. Buyer or any of its employees (i) breaches any obligation under the terms of this Agreement or (ii) breaches any other obligation under this Agreement and fails to cure the breach within 90 days after Seller demands its cure in writing.

14.1.2 Normal Business. Buyer ceases to conduct business in the normal course, becomes insolvent, enters into suspension of payments, moratorium, reorganization or bankruptcy, makes a general assignment for the benefit of creditors, admits in writing its inability to pay debts as they mature, suffers or permits the appointment of a receiver for its business or assets, or avails itself of or becomes subject

to any other judicial or administrative proceeding that relates to insolvency or protection of creditors' rights.

14.2 Termination by Buyer. Buyer will have just cause to terminate this Agreement immediately upon written notice to Seller or to refuse to renew this Agreement, without judicial or administrative notice or resolution, upon the occurrence of any termination event specified below or elsewhere in this Agreement:

14.2.1 Breach. Seller or any of its employees breaches any obligation under this Agreement and fails to cure the breach to Buyer's satisfaction within ninety (90) days after Buyer demands its cure in writing.

14.2.2 Normal Business. Seller ceases to conduct business in the normal course, becomes insolvent, enters into suspension of payments, moratorium, reorganization or bankruptcy, makes a general assignment for the benefit of creditors, admits in writing its inability to pay debts as they mature, suffers or permits the appointment of a receiver for its business or assets, or avails itself of or becomes subject to any other judicial or administrative proceeding that relates to insolvency or protection of creditors' rights.

14.2.3 Failed Conditions. In the event Seller does not cure its inability to satisfy the conditions contained in a notice received from Buyer pursuant to Section 3.4 within the time periods set forth therein.

14.2.4 Insolvency. The institution by Seller of insolvency, receivership or bankruptcy proceedings or any other material proceedings for the settlement of its debts, including, without limitation, a reorganization, a compromise, an arrangement or assignment for the benefit of its creditors; the institution of such proceedings against the Seller and Seller has failed to resolve in its favor within twenty (20) calendar days after appropriate services of process.

14.2.5 General Assignment. The Seller makes a general assignment for the benefit of creditors, Seller's dissolution or ceasing to do business in the normal course; Seller has a substantial part of its assets seized.

14.2.6 Fair Trade Practices. The Seller shall at all times comply with international fair trade practices. Buyer shall have the right to terminate this Agreement upon seven (7) days prior written notice to Seller or its legal representative in the event that Seller, its officers, executives, partners, directors, principals, employees, attorneys or agents, does any of the following: engages in illegal, immoral, or criminal conduct resulting in a criminal indictment with a substantial likelihood of conviction; misrepresents or conceals anything in its background that could be detrimental to the value of Buyer's goodwill, name, reputation or stock; engages in conduct contrary to the best interests of Buyer; engages in conduct that offends the sensitivities of a significant portion of the population, including, without limitations, use of child labor, acts contrary to international standards for the treatment of employees or the environment, abrogates

the rights of employees to congregate and the like; or engages in conduct that could bring Buyer into public disrepute.

15. Consequences of Termination.

15.1 Termination Obligations. Without waiving any rights or remedies a Party may have hereunder, upon the expiration or termination of this Agreement, all rights granted to either Party hereunder will immediately cease, and the parties will (i) promptly comply with the termination obligations specified below and (ii) otherwise cooperate with the other Party to terminate relations in an orderly manner.

15.2 Payments. Buyer shall pay Seller all due and outstanding amounts. There shall be no liquidated, consequential or incidental damages or payments due of any kind.

16. Notice.

16.1 All notices, consents, waivers and other communications under this Agreement must be in writing and will be deemed to have been given by a Party (i) when delivered by hand; (ii) one day after deposit with a nationally recognized overnight courier service (postage prepaid); (iii) when sent by facsimile with confirmation of transmission by the transmitting equipment (a confirming copy of the notice shall also be delivered by the method specified in (i) or (ii) in this Section). Notices shall be sent in each case to the address indicated for each Party below. The notice provision for any Party may be changed by sending notice in accordance with this Section.

If to Seller:

Natural Alternatives
International, Inc.
1185 Linda Vista Drive
San Marcos, California 92078
Attn: President or Chief
Operating Officer
Telephone: (760) 744-7340
Facsimile: (760) 591-9637

with a copy to:

Fisher Thurber LLP
4225 Executive Square, Suite 1600
La Jolla, California 92037
Attention: David A. Fisher
Telephone: (858) 535-9400
Facsimile: (858) 535-1616

If to Buyer:

Mannatech, Inc.
600 S. Royal Lane, Suite 200
Coppell TX 75019
Attention: General Counsel

with a copy to:

Telephone: 972-471-7388

16.2 Designated Contact. If a specific contact person is designated in a provision, notice concerning the subject matter of such provision shall be directed to such person. The address, facsimile number or the name of any Party or contact person or other number may be changed by sending notice in the manner set forth above.

17. Attorney's Fees.

In the event any Party hereto shall institute an action, including arbitration pursuant to Section 21 of this Agreement, to enforce any rights hereunder, the prevailing party in such action shall be entitled, in addition to any other relief granted, to reasonable attorneys' fees and costs.

18. Severability.

Any portion of this Agreement which may be prohibited or unenforceable in any applicable jurisdiction shall, as to such jurisdiction, be ineffective to the extent of such prohibition or unenforceability, but shall not invalidate the remaining portions of such provisions or the other provisions hereof or affect any such provisions or portion thereof in any other jurisdiction.

19. Modification.

This Agreement and any documents or memorandums attached hereto may be revised from time to time and can be modified by mutual written agreement of the Parties.

20. Waivers.

Any failure by any of the Parties to comply with any of the obligations, agreements or conditions set forth in this Agreement may be waived by the other Party, but any such waiver will not be deemed a waiver of any other obligations, agreement or conditions contained herein.

21. Arbitration.

Any controversy or claim arising out of or relating to this Agreement or the existence, validity, breach or termination thereof, whether during or after its term, will be finally settled by compulsory arbitration in accordance with the Commercial Arbitration Rules and Supplementary Procedures for Commercial Arbitration of the American Arbitration Association ("AAA"); provided, however, that in the event of any such controversy or claim, (i) neither Party will initiate arbitration within the first thirty (30) days after the aggrieved Party first notifies the other Party of the controversy or claim and (ii) during such thirty (30) day period, the chief executive officers of both parties convene at least

once in Dallas, Texas, to endeavor in good faith to amicably resolve the controversy or claim.

To initiate arbitration, either Party will file the appropriate notice at the appropriate Regional Office of the AAA. The arbitration proceeding will take place during a period not exceeding three (3) days. The arbitration panel will consist of three (3) arbitrators, one arbitrator appointed by each Party and a third neutral arbitrator appointed by the AAA. Any communication between a Party and any arbitrator will be directed to the AAA for transmittal to the arbitrator.

The arbitral award will be the exclusive remedy of the parties for all claims, counterclaims, issues or accountings presented or plead to the arbitrators. The award will (i) be granted and paid in U.S. Dollars exclusive of any tax, deduction or offset and (ii) include interest from the date of breach or other violation of the Agreement until the award is fully paid, computed at the then-prevailing LIBOR rate. Judgment upon the arbitral award may be entered in any court that has jurisdiction thereof. Any additional costs, fees or expenses incurred in enforcing the arbitral award will be charged against the Party that resists its enforcement.

22. Counterparts.

This Agreement may be executed in one or more counterparts, each of which will be deemed an original but all of which together will constitute one and the same document.

23. Compliance.

Each Party will comply with all laws relating to the performance of this Agreement including federal and state laws, rules and regulations and represents and warrants that execution of this Agreement and performance of its obligations under this Agreement does not and will not breach any other agreement to which it is or will be a party, including but not limited to any agreements with its customers.

24. No Agency.

Neither Party shall purport or shall be deemed an agent, employee, partner, or joint venture with the other Party.

25. Governing Law.

The Parties hereto agree that this Agreement shall be enforced and governed by the laws of the State of Texas without regard to the conflicts of law principals. Each Party consents to personal jurisdiction in Dallas County, Texas, for any action to enforce arbitration including any further rules provided for emergency or extraordinary relief, as to this Agreement.

26. Authority.

The Parties represent that they have full capacity and authority to grant all rights and assume all obligations they have granted and assumed under this Agreement.

27. Assignment.

This Agreement and the rights hereunder may not be assigned by any Party (except by operation of law) without prior written consent of the other Party, but, subject to the foregoing limitation, this Agreement shall be binding and inure to the benefit of the respective successors, assigns, and legal representatives of the Parties.

28. Force Majeure.

Neither Party shall be liable for any failure, inability or delay to perform hereunder, if such failure, inability or delay is due to war, strike or other labor stoppage or slowdown, flood, fire, explosion or accident, transportation stoppage, materials shortage, government law, order or regulation or energy allocation or shortage; provided, however that Buyer shall under no circumstances be relieved of the obligation to pay amounts then due to Seller. If delay or failure caused by such force majeure condition shall continue for more than ninety (90) days, either Party shall have the right, at its sole discretion, to terminate this Agreement, by giving notice to the other of its election to terminate. For the purposes of this Agreement, the term "force majeure" shall mean any event beyond the control of the parties, including, without limitation, fire, flood, riots, strikes, epidemics, war (declared or undeclared and including the continuation, expansion or new outbreak of any war or conflict now in effect), terrorist acts, export controls, embargoes, changes in government and governmental actions or decrees.

29. Captions.

The headings of the sections in this Agreement are intended solely for convenience of reference and are not intended and shall not be deemed for any purpose whatsoever to modify or explain or place constriction upon any of the provisions of this Agreement.

30. Incorporation of Recitals.

The recitals of this Agreement shall be construed and interpreted as comprising an essential portion of this Agreement.

31. Publicity of Agreement.

This existence of this Agreement is confidential. Neither Party shall engage in any type of publicity in any way connected with this Agreement without the other Party's prior written approval, which approval shall not be unreasonably withheld. However, approval to disclose is hereby given by both parties to the extent required for compliance with any

governmental rule, regulation or other requirement. In the event of any disclosure, the publishing Party shall furnish a copy of such disclosure to the other Party.

32. Entire Agreement.

This Agreement constitutes the entire agreement between the Parties hereto pertaining to the subject matter hereof and supersedes all prior and contemporaneous agreements and understanding of the Parties, and there are no representations, warranties, or other agreements between the Parties in connection with the subject matter hereof except as specifically set forth herein. No supplement, modification, amendment, waiver or termination of this Agreement shall be binding unless executed in writing by the Parties hereto.

IN WITNESS WHEREOF, the parties have duly executed this Agreement on the date first written above.

Mannatech Incorporated

By: /s/ Terry L. Persinger
Terry L. Persinger
Its: President

Natural Alternatives International, Inc.

By: /s/ Randy Weaver
Randell Weaver
Its: President

AMENDMENT TO MANUFACTURING SALES AGREEMENT

THIS AMENDMENT TO MANUFACTURING SALES AGREEMENT (this "Amendment") is effective as of January 1, 2008, by and between NATURAL ALTERNATIVES INTERNATIONAL, INC. ("NAI"), MANNATECH, INCORPORATED ("MANNATECH US"), and MANNATECH SWISS INTERNATIONAL GmbH ("MANNATECH SWISS").

- A. MANNATECH US and NAI are the current parties to a Manufacturing Sales Agreement dated November 19, 2004 (the "Manufacturing Agreement");
- B. MANNATECH SWISS is an affiliate of MANNATECH US; MANNATECH US is implementing a global restructuring project to optimize its operations and the restructuring includes adding MANNATECH SWISS as a party to certain supply and purchasing agreements; and
- C. The parties, therefore, desire to amend and revise the Manufacturing Agreement for the purpose of adding MANNATECH SWISS as an additional party. Any capitalized terms used in the Amendment shall, unless otherwise specified herein, have the same meaning ascribed to such terms as set forth in the Manufacturing Agreement.

NOW, THEREFORE, the undersigned parties agree as follows:

- 1. Amendment to Manufacturing Agreement. The Manufacturing Agreement is amended to provide that MANNATECH SWISS is added as a party to the Manufacturing Agreement. Thus, collectively and individually MANNATECH US and MANNATECH SWISS are entitled to receive all rights and benefits of Buyer under the Manufacturing Agreement and shall be responsible for all duties and obligations of Buyer under the Manufacturing Agreement. Except as contemplated under this Amendment, all other terms, conditions, provisions contained in the Manufacturing Agreement remain unchanged and in full force and effect.
- 2. Integration; Modification. This Amendment contains the entire understanding between NAI on the one hand, and MANNATECH US and MANNATECH SWISS on the other hand, with respect to the subject matter of this Amendment and this Amendment supersedes all prior or contemporaneous oral or written agreements, conditions, or representations. This Amendment may not be amended, canceled, or superseded, nor will any provision of this Amendment be deemed waived, except by a written instrument executed by each of the parties to be charged.
- 3. Binding Effect. This Amendment will be binding upon, and inure to the benefit of, the parties and their respective heirs, legatees, personal representatives, successors and assigns.
- 4. Counterparts. This Amendment may be executed in one or more counterparts, each of which will be deemed an original, but all of which, when taken together, will constitute one and the same instrument.

IN WITNESS WHEREOF, the parties have executed this instrument as of the date first above written.

[Signatures on Next Page]

NATURAL ALTERNATIVES INTERNATIONAL, INC.

By: /s/ Randy Weaver
Name: RANDY WEAVER
Title: PRESIDENT

MANNATECH, INCORPORATED

By: /s/ Terry L. Persinger
Name: TERRY L. PERSINGER
Title: Pres & CEO

MANNATECH SWISS INTERNATIONAL GmbH

By: /s/ Ronald D. Norman
Name: Ronald D. Norman
Title: Director

EXCLUSIVE MANUFACTURING AGREEMENT

THIS EXCLUSIVE MANUFACTURING AGREEMENT (the "Agreement") dated as of the 1st day of April, 2005, by and between **NSA, INC.**, a Tennessee corporation having a place of business at 4260 East Raines Road, Memphis, Tennessee 38118 ("NSA"), and **NATURAL ALTERNATIVES INTERNATIONAL EUROPE LTD./SA/AG**, a Swiss corporation ("NAIE") having a place of business at Centro Galleria 1, Via Cantonale, 6928 Manno, Switzerland, and **NATURAL ALTERNATIVES INTERNATIONAL, INC.**, a Delaware corporation ("NAI") having a place of business at 1185 Linda Vista Drive, San Marcos, California 92078 (NAIE and NAI collectively referred to herein as "Seller") (each a "Party" and collectively the "Parties").

WITNESSETH:

WHEREAS, NSA is the owner and/or exclusive licensee of the specifications and formulations of certain nutritional products currently marketed under the trademark "Juice Plus+®";

WHEREAS, Seller desires to be the exclusive manufacturer and supplier of certain nutritional products for and on behalf of NSA for resale in the Territory (as hereinafter defined) through international licensees of NSA known as master distributors ("Master Distributors");

WHEREAS, NSA desires that Seller be the exclusive manufacturer and supplier of nutritional products for and on behalf of NSA for resale in the Territory through its Master Distributors;

WHEREAS, NSA desires to grant to Seller and Seller desires to accept a right of first refusal to manufacture and supply certain new nutritional products that NSA wishes to distribute in the Territory on the terms and conditions set forth herein;

WHEREAS, in addition to the manufacturing services provided to NSA by Seller, NSA desires that Seller provide certain consulting and other services more specifically detailed herein;

WHEREAS, Seller desires to provide such consulting and other services to NSA; and

NOW, THEREFORE, in consideration of the premises and the mutual covenants and agreements set forth herein and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the Parties hereby agree as follows:

1. **Manufacturing.** Subject to the terms and conditions of this Agreement, Seller shall be and become the exclusive manufacturer and supplier to NSA of the nutritional products listed on written memorandums signed by the Parties and expressly referring to this Agreement for distribution in the Territory (the "Products", and individually a "Product"). The detailed formulations and specifications for the manufacturing, producing and packaging of all Products (the "Standards") shall be listed on subsequent written memorandums signed by the Parties and

expressly referring to this Agreement. The Parties may, from time to time amend any subsequent written memorandums by mutual written agreement. NSA agrees for the duration of this Agreement to order and purchase from Seller all requirements it may have from time to time for the Products in the Territory and to do so in accordance with the provisions of this Agreement. NSA will enter into no other agreement for the purchase or manufacture of any of the Products for distribution in the Territory during the term of this Agreement. For purposes of this Agreement, "Territory" shall mean those countries listed on Exhibit A attached and incorporated into this Agreement and any additional countries mutually agreed upon by the Parties to be added to this Agreement. Seller agrees to produce and deliver Products in sufficient quantity and quality in accordance with the terms and provisions of this Agreement.

- (a) **Compliance with Standards and Warranties.** Seller shall produce the Products in accordance with the Standards. Seller shall conduct in-process inspections, final inspection and perform testing as mutually agreed upon by the Parties to insure that all Products are manufactured in compliance with the Standards. Seller shall not make any changes in the specifications or formulations without the prior written consent of NSA. All Products manufactured for NSA by Seller shall be manufactured and delivered in accordance with the warranties contained in Section 6. In order to insure compliance with this Agreement, Seller shall maintain a retained sample of each batch and lot of Products produced by Seller for a period of five (5) years from the production date.
- (b) **Parts, Labor and Materials.** Seller shall provide all parts, labor, and materials necessary to perform Seller's obligations under the terms of this Agreement. Seller shall maintain, at no cost to NSA, an inventory of raw materials used in the manufacture of the Products reasonably sufficient to meet NSA's forecast of anticipated monthly Purchase Orders (defined in Section 5). Seller shall maintain such inventory on a FIFO basis.
- (c) **Inspection Rights.** NSA or its representatives may review Seller's performance of the work under this Agreement including development, formulation, production and tests of the Products, the design of the manufacturing process used to produce them, and their operation. To review the work, NSA or its representatives may visit the sites where Seller and/or Seller's subcontractors and agents perform the process, or NSA or its representatives may review any and all documentation related to Seller's performance of the work hereunder. NSA may review such documentation at Seller's site or request Seller to provide copies for review. NSA shall visit the sites during normal business hours and shall have access to documentation with reasonable notice to Seller.
- (d) **Quality Control and Product Information.** Upon receipt of a request for information relating to formulation, sources of ingredients, suppliers, subcontractors or other information relating to the Products from NSA's Vice President of Product and Research or International Product Manager (or their written designee), as soon as reasonably possible (but, in any event, not to exceed

fourteen days), Seller shall provide all requested information and cooperate fully and to the extent reasonably requested with the party requesting such information.

- (e) **Packaging and Labeling.** Seller shall label and package the Products in accordance with the Standards. Seller shall be solely responsible for insuring that all individual Product labeling comply in all respects with all applicable laws, rules and regulations of the intended market place. Seller shall consult with NSA regarding such labeling, and NSA shall approve all Product labeling in writing. Additional costs incurred as a result of future modifications to the packaging of the Products requested by NSA shall be reimbursed by NSA, provided Seller provides an accounting of those additional costs. Seller shall be responsible for procurement of materials, any testing required and obtaining NSA's approval of all packaging. Seller shall be solely responsible for insuring that all packaging materials comply with the requirements of the intended market place. Standard external packaging for each Product, which generally consists of a recommended four-month supply, will contain the bar coded information specified in the Standards. Seller is not responsible for (i) any claims made by NSA in its marketing and/or selling literature, including package inserts, (ii) any claims made by NSA's Master Distributors, distributors or any other representative or agent of NSA, or (iii) any alterations to the labeling and/or packaging for the Products made by NSA, its Master Distributors, distributors or any other representative or agent of NSA after the Products are delivered by Seller in accordance with the Standards.
- (f) **Subcontractors and Suppliers.** Seller currently utilizes certain subcontractors and suppliers in order to perform its obligations hereunder whose names are listed on a written memorandum signed by the Parties and expressly referring to this Agreement. Seller shall not utilize any subcontractors or suppliers other than those listed in such written memorandum in the manufacturing process without obtaining the prior written consent of NSA to such additional or replacement subcontractors or suppliers. Seller shall not be required to obtain the consent of NSA before changing subcontractors or suppliers involved solely in the labeling or shipping portion of the manufacturing process.
- (g) **Batch and Lot Codes.** Each Product manufactured by Seller under this Agreement shall be identified by a lot number that is linked to the manufacturing Batch Number of the Product and location, time and shift of final packaging. The term "Batch Number" shall mean a number which is assigned to a single production run of a Product manufactured by Seller.
- (h) **Certificates of Analysis.** Seller shall ensure that an appropriate certificate of analysis accompanies each shipment of Products to NSA. If, at NSA's request pursuant to Section 7, Products are shipped to a third-party distributor of NSA, Seller shall provide to both NSA and the entity receiving the shipment a certificate of analysis. In either case, the certificate shall, at a minimum, provide an analysis

of the Products contained in that shipment, as well as the input amounts of all components of the Products with label claims, and the results of all assays performed) and the bar coded information in the form set forth in the Standards. NSA or any recipient of a shipment shall have the right to reject any shipment of Products if such shipment is received by NSA or other recipient without a certificate of analysis, provided however that Seller shall be given notice of any missing certificate of analysis and three (3) business days to deliver the missing certificate to NSA or such third party before any such rejection can occur. Seller is also responsible to maintain certificates of analysis from all suppliers of materials blended into the Products, and to insure that these conform to NSA's and Seller's agreed upon specifications for the Products.

- (i) **Expiration Date.** Each Product manufactured by Seller under this Agreement shall display an expiration date consisting of month and year on the label.

The failure by Seller to adhere to any of the terms of this Section 1 shall be a material breach of this Agreement.

2. **Consulting and Other Services.** In consideration for NSA utilizing Seller's manufacturing services, in addition to the manufacturing services described above, Seller will also provide the following services to NSA:

- (a) **Labeling and Regulatory Approval.** With respect to the Products, Seller shall (i) subject to Section 1(f) of this Agreement, engage subcontractors necessary to produce the aforementioned Products, (ii) prepare label copy and packaging for the Products, and (iii) as mutually agreed upon by the Parties pursuant to Section 22 of this Agreement, procure any necessary governmental registrations or approvals of the aforementioned Products in any geographic area in which NSA intends to sell or distribute the Products or cooperate with NSA in the procurement of such registrations or approvals.
- (b) **Third Party Manufacturing.** With respect to the products purchased by NSA from third party manufacturers to whom Seller provides specified pre-blended raw materials, Seller shall (i) consult with NSA to locate a primary manufacturing facility to produce the aforementioned products (if such primary manufacturing facility has not already been located), (ii) consult with the primary manufacturer with regard to label copy and packaging for the aforementioned products, (iii) provide specified pre-blended raw materials in conformity with the formulas and specifications for the aforementioned products at the prices listed on subsequent memorandums signed by the Parties, and (iv) as mutually agreed by the Parties pursuant to Section 22 of this Agreement, procure any necessary governmental registrations or approvals required for the aforementioned products in any geographic area in which NSA intends to sell or distribute the

above-mentioned products or cooperate with NSA in the procurement of such registrations or approvals.

- (c) **Clinical Trials.** Seller agrees to provide consulting services in the development and execution of clinical trials, such as the review of proposed protocols prior to IRB submission and review of draft manuscripts prior to submission to a journal, as requested by NSA for Products and products which have the potential to become new Products under this Agreement.
- (d) **Certifications and Good Manufacturing Practices.** Seller shall maintain the appropriate manufacturing certifications, to be mutually agreed on between Seller and NSA.
- (e) **Emergency Action Plan.** Seller shall maintain an Emergency Action Plan (“EAP”) reasonably agreeable to NSA that enables Seller to respond to NSA forecast volume requirements in the event of a business disruption at Seller’s Lugano, Switzerland facility by utilizing production capacity at Seller’s facilities in San Marcos and Vista, California, USA. Seller shall maintain offsite backup copies of all Standards, documentation, formulas, specifications, vendor listings and any other data necessary to begin manufacturing Products in Seller’s San Marcos and Vista, California, USA facilities immediately after a business disruption and in accordance with the EAP. Seller shall also enter into any necessary agreements with ingredient, raw material and packaging suppliers to ensure that the terms of the mutually agreeable EAP can be met within timeframes specified in the EAP.
- (f) **Product Enhancement and New Product Development.** Seller shall provide all reasonable assistance necessary to NSA to enhance existing products including consulting on raw material processes and proposed formula changes as well as assisting in evaluating potential changes to ingredients or raw materials. Seller shall also assist in the development of new products or the expansion of existing products to new markets including, but not limited to, regulatory consulting.
- (g) **Marketing Support.** Seller shall provide reasonable support to NSA’s marketing efforts including, but not limited to, providing scientists and/or other executives knowledgeable about the product to be available to speak at functions organized by NSA.
- (h) **Management Support.** Seller shall provide reasonable management support to assist in the resolution of issues that may arise from time to time with respect to product questions, registrations, ingredients, disputes with governmental agencies, import or export agencies and any other entities as may be requested from time to time by NSA.

- (i) **Developing Markets.** Seller shall provide reasonable support to NSA to develop new international markets including regulatory consulting, product formulation consulting, clinical study consulting and any marketing experiences Seller may have.
- (j) **Facility Tours - Monthly and Special.** Seller shall cooperate with NSA to provide tours of Seller's receiving, production, packaging and laboratory facilities to NSA distributors, Master Distributors and other personnel requested by NSA. On a monthly basis, Seller and NSA will coordinate no more than two days per month to be designated for tours of the production facility by distributors in reasonable size groups of approximately twenty-five people. If it is mutually agreeable to Seller and NSA, multiple tours may be conducted on the same day to accommodate interested distributors. Special tours will be arranged from time to time for special events or personnel requested by NSA and reasonably agreed to by Seller including "boot camps" and other tours reasonably requested by NSA from time to time. With respect to all tours, NSA shall be responsible for approving the group, coordinating distributor signups and advising Seller of the general size of the group. Seller shall be responsible for providing adequately trained guides for each tour, any direct costs related to the tour on Seller's premises and ensuring Seller's facilities are adequately prepared for each tour. To the extent practical, Seller will attempt to schedule production in such a way that participants in the tour will see Products covered by this Agreement being produced and packaged. Should any distributor, Master Distributor or other NSA personnel contact Seller directly to arrange any tour, Seller will refer them to NSA and/or will contact NSA to notify them of the request.
3. **Purchase Price.** The purchase price to be paid by NSA for each Product shall be listed on subsequent written memorandums signed by the Parties and expressly referring to this Agreement. Any change in the purchase price is subject to the following:
- (a) **Price Increases.** In the event that manufacturing and other Product related costs increase materially as a result of labor costs, material costs, rent, custom charges, state taxes, import or export fees, freight costs, utility rates, or other costs, Seller shall provide NSA documentation supporting such cost increases in a form reasonably satisfactory to NSA. Upon NSA's reasonable satisfaction and confirmation of the increased manufacturing and other Product related costs, the increased costs shall be reflected in an increased purchase price of the Products paid by NSA to Seller on a per Product basis to be determined by NSA and Seller. In such an event the purchase price of the Products shall increase by a percentage equal to the percentage of the increase in Seller's manufacturing and other Product related costs. Any increase in purchase price shall become effective ninety (90) days after such increase is determined by NSA and Seller. Seller agrees to take all customary and reasonable steps to maintain manufacturing costs at levels consistent with or below such costs as of the date of this Agreement. For purposes of this Section 3(a), manufacturing and other Product related costs shall

be examined annually, with the first such examination to occur on the first business day after April 1, 2006.

- (b) **Price Decreases.** In the event manufacturing costs and other Product related costs decrease materially, Seller shall inform NSA of such decrease and negotiate with NSA, in good faith, a reduction in the purchase price of each Product. The decreased costs shall be “passed through” to NSA on a per Product basis to be determined by NSA and Seller, with such decrease to reflect a direct pass through of such decreased manufacturing costs. Any decrease in purchase price shall become effective ninety (90) days after such decrease is determined by NSA and Seller. For purposes of this Section 3(b), manufacturing costs shall be examined annually, with the first such examination to occur on the first business day after April 1, 2006.

4. **Payment Terms.** Seller shall submit invoices to NSA with each shipment of Products. Payment in full shall be due within thirty (30) days after receipt by NSA of each invoice and shall be made in United States Dollars. NSA shall receive a two percent (2%) discount for payments made on or before the tenth (10th) day after receipt of such invoice by NSA. All payments shall be made via wire transfer pursuant to wire instructions agreed to by the Parties from time to time. NSA’s payment of the purchase price shall be subject to its rights under Section 9 of this Agreement.

5. **Purchase Orders.** Seller’s authorization to perform work under this Agreement will be given by NSA in the form of a Purchase Order executed by an officer of NSA or their written designee (“Purchase Order”). NSA will not pay Seller for Products or charges for Products unless the Products are produced, and the charges were incurred, to fill an authorized Purchase Order previously submitted to Seller by NSA, except as provided in Section 17. The Purchase Orders shall set forth a quantity of Products which NSA requires from Seller and the delivery requirements. The Purchase Order is the authorization by NSA to order materials, allocate labor or equipment, or enter into any other commitments for the assembly of the Products. NSA shall issue Purchase Orders for delivery of Products at NSA’s discretion. Upon receipt of a Purchase Order, Seller shall send NSA within 48 hours written confirmation of such receipt and shall confirm the delivery date for such Products. Except as provided in Section 17, NSA shall not be responsible for work performed, material purchased or other commitments or expenses incurred by Seller other than as stated in the Purchase Order provided by NSA unless otherwise agreed to in writing by both Parties. Seller will ship Product on the date set forth in each Purchase Order provided that: (i) such date cannot be less than the number of days agreed upon in subsequent written memorandums signed by the Parties and expressly referring to this Agreement; and (ii) NSA may, prior to shipment, request that Seller delay the shipment date subject to the Parties’ agreement to the payment by NSA for any additional storage charges. The Parties agree to set minimum order sizes for all Purchase Orders under this Agreement in subsequent written memorandums signed by the Parties and expressly referring to this Agreement. NSA shall provide Seller monthly during the term of this Agreement with a good faith rolling forecast of its Product needs for the following twelve (12) month period. Except as provided in Section 17, such forecasts provided by NSA shall be only for Seller’s production planning and capacity

planning purposes and negotiations with materials vendors, and shall not constitute Purchase Orders by NSA and shall in no way obligate NSA to issue Purchase Orders based thereon.

6. **Representations, Warranties and Covenants.** Seller expressly represents, warrants, and covenants to NSA that it is Seller's continuing responsibility to insure that:

- (a) **Manufacturing.** Products manufactured by Seller (i) shall be manufactured in conformity with the Standards and comply in all respects to all applicable laws of the intended marketplace, (ii) will have a shelf life equal to or in excess of the shelf life specified in the Standards, and (iii) Seller, except as set forth in Section 6(b), shall not change any formulation or specification for the Products without the prior written consent of NSA, which consent may be withheld in NSA's sole and absolute discretion. All Products sold hereunder shall be of merchantable quality, free from defects, fully acceptable, fit for their intended use and manufactured in conformity with the Standards and comply in all respects to all applicable laws, regulations, statutes and orders of the intended marketplace, and any intended marketplace in which (i) NSA advised Seller prior to manufacture and delivery, in writing, the Products are to be sold and in which (ii) Seller participated in or reviewed the procurement of any necessary governmental registrations or approvals. Each Product shall be delivered free and clear of all liens, security interests, and/or encumbrances of any type or nature;
- (b) **Legal Requirements.** Should applicable law requirements specify defect limits or other requirements that are more stringent than those, if any, contained in the Standards, the more stringent requirements shall prevail and apply and the Standards shall be automatically modified without the requirement of action by either Party. Notwithstanding the foregoing, Seller shall not change any Standards as a result of the preceding sentence without the prior written consent of NSA. In the event Seller and NSA fail to agree on any modification that Seller deems required under this Section 6(b), Seller shall not be obligated to manufacture any Product in accordance with any Standard that Seller deems to be non-conforming, and the Parties shall negotiate in good faith to resolve the issue;
- (c) **Labeling.** All packaging and labeling provided by Seller for Products manufactured by Seller under this Agreement shall be in conformity with the Standards and comply in all respects to all applicable laws, regulations, statutes and orders of the intended marketplace and any intended marketplace in which (i) NSA advised Seller prior to manufacture and delivery, in writing, the Products are to be sold and in which (ii) Seller participated in or reviewed the procurement of any necessary governmental registrations or approvals. No Product contained in any shipment now or hereafter made to NSA will, at the time of such shipment or delivery, be adulterated, mis-labeled or misbranded within the meaning of any applicable law, ordinance, rule or regulation, in existence at the time of shipment or delivery; and

- (d) **Continuing Effect.** The representations, warranties, and covenants contained herein shall be continuing representations, warranties, and covenants and shall be binding upon Seller with respect to all Products that Seller ships or delivers to NSA or its designee. The warranties set forth in this Section shall not extend to provide a warranty claim to NSA in connection with any liability for which NSA has an obligation to indemnify Seller pursuant to Section 31, below, and shall not extend to NSA's customers or their customers, if any.

The failure by Seller to adhere to any of the terms of this Section 6 shall be a material breach of this Agreement.

7. **Delivery of Products.** All Products are delivered FCA (Incoterms 2000) Seller's manufacturing facility in Lugano, Switzerland. Seller shall provide Products to the NSA location that is set forth in the Purchase Order. In the event Seller is requested to ship Products on NSA's behalf, Seller shall deliver the Products to the party and the final destination set forth in the Purchase Order. It is the responsibility of Seller to schedule production and delivery of all Products ordered under this Agreement.

8. **Title and Risk of Loss.** The title to and all risk of loss of the Products shall remain with Seller until loaded onto the designated shipper.

9. **Acceptance and Rejections.** Seller shall provide and maintain an inspection procedure and quality assurance program for the Products and their production processes. All inspection records maintained by Seller shall be made available to NSA, at a reasonable time, upon request. NSA and any Master Distributor to whom Products are shipped by Seller shall have fifteen (15) calendar days from the date of delivery to inspect and test all Products and may refuse to accept Products which do not conform to the Standards. If NSA or such Master Distributor has not timely notified Seller of rejection, then the Products shall be deemed to have been accepted by NSA. The act of payment for Products shall not of itself signify acceptance. Notwithstanding the above, Seller shall, at NSA's option, replace (FCA (Incoterms 2000) NSA's point of destination) or issue a credit or refund to NSA for any Products discovered by NSA after the Products have been delivered to NSA or its customers that do not conform to the Standards, provided, however, that NSA furnishes to Seller written notice, in reasonable detail, of the nonconformity of the Products prior to the expiration date set forth on the Products, and provides Seller with a reasonable opportunity to inspect such goods and offers to return such goods to Seller at Seller's cost. NSA or any Master Distributor to whom Products are shipped by Seller shall have the right to reject any Products delivered to NSA or such Master Distributor which are not accompanied by or preceded by a certificate of analysis, as described in Section 1(h). If the returned Products are not in breach of Seller's warranties, NSA or a Master Distributor to whom Products have been shipped shall bear the cost of shipping the returned Products back to Seller's point of shipment. These rights granted to NSA and any Master Distributor to whom Products are shipped are in addition to and shall not be construed as a limitation of Section 6 of this Agreement. NSA, its Master Distributors, distributors or any other representative or agent of NSA shall store all shipped Products in clean space suitable for storage of food and protection of

its contents with respect to integrity and quality, in compliance with good commercial practice, the Standards and all applicable laws, rules and regulations of the intended marketplace.

10. Confidential Information.

- (a) **Seller's Access to Confidential Information.** The Parties agree and acknowledge that as a result of this Agreement, each party shall receive and have access to information, including, without limitation, information regarding the Product specifications and formulations, costs of manufacture, pricing, and information regarding customers, which is proprietary to and a trade secret of the other party and which is governed by this Section 10(a), all of which shall be considered "Confidential Information." Each party covenants and warrants to the other party that it shall not disclose or divulge Confidential Information except to the extent: (i) required by law, (ii) to protect its interests in any dispute or litigation, (iii) necessary to perform its obligations under this Agreement, or (iv) if such information becomes publicly available without breach of this Section 10. The Parties' obligations under this Section 10(a) shall survive any termination or expiration of this Agreement.
- (b) **Injunctive Relief.** The Parties hereby acknowledge that breach of the covenants contained in Section 10(a) will cause irreparable harm to the non-breaching party. Notwithstanding any other provision of this Agreement, a party may enforce the above-described covenants and warranties by injunction, both preliminary and permanent, it being agreed that the posting of an injunction bond of no more than \$5,000 shall be sufficient to indemnify the other party against costs or damages which might be incurred by virtue of any temporary injunction. Nothing herein shall be construed as prohibiting a party from pursuing any other legal or equitable remedy available due to the breach of the provisions of this Section 10.

The failure by Seller or NSA to adhere to any of the terms of this Section 10 shall be a material breach of this Agreement.

11. Intellectual Property, Formulations and Suppliers. NSA hereby warrants that it is the owner or exclusive licensee of the formulations for the Products that are the subject of this Agreement and that it has the right to manufacture or have manufactured such Products, and Seller acknowledges NSA's rights in the Products. Seller shall not be permitted to use the formulations for the Products in any way except as necessary to perform its obligations under this Agreement. Furthermore, Seller agrees that it shall not, during the term of this Agreement and any extensions hereof and for a period of three (3) years hereafter, utilize NSA's proprietary juice powder ingredients from any existing supplier of such ingredients for the Products in the manufacture and/or distribution of any products for Seller or any other customers of Seller without the prior written approval from NSA. For purposes of this Section, NSA's proprietary juice powder ingredients used in the Products shall be defined in the Standards or on an attached memorandum signed by the Parties expressly referring to this Agreement. Seller acknowledges

NSA's exclusive ownership of the trademarks affixed to and any patents embodied in the Products and will do nothing at any time, during or after the term of this Agreement, which could adversely affect their validity or enforceability, including any modification or obliteration of the trademark or patent markings on the Products as sold. This Agreement shall not give Seller any right to use the "NSA" or "Juice Plus+®" name, logo, and marks, or any other trademarks of NSA, except as specifically authorized by NSA. Promptly following the termination of this Agreement for any reason, Seller agrees to discontinue use of the "NSA" and "Juice Plus+®" marks, and any other NSA names and trademarks and to remove, or dispose of, as NSA shall direct, any signs or other indicia relating to NSA's name and trademarks. Following termination of this Agreement, Seller shall not be permitted to use the "NSA" or "Juice Plus+®" name, logo or marks on any other NSA name or trademark in connection with any product. Seller shall not have any right to register any trademarks identical with or similar to NSA's trademarks. All use of NSA's trademarks by Seller in connection with this Agreement shall be subject to NSA's control and shall inure to the benefit of NSA. NSA hereby licenses to Seller during the term of this Agreement the use of the "NSA" and "Juice Plus+®" trademarks and other intellectual property rights solely for Seller's use in the manufacture and sale of the Products to NSA. Any and all improvements, modifications, inventions or discoveries by Seller or its employees relating to the Products and formulations shall be the sole and exclusive property of NSA. Seller's obligations under this Section 11 shall survive any termination or expiration of this Agreement. The failure by Seller to adhere to any of the terms of this Section 11 shall be a material breach of this Agreement.

12. **Term.** Subject to Section 14 of this Agreement, the term of this Agreement shall commence on the date first written hereinabove and shall expire at the end of the business day occurring seven (7) years thereafter.

13. **New Products.**

- (a) **Right of First Refusal.** During the term of this Agreement and to the extent not prohibited by applicable patent or other law or any applicable agreement, NSA hereby grants to Seller a right of first refusal to manufacture new nutritional products in capsule or tablet form which include the proprietary NSA Juice Plus+® powder blend that NSA desires to distribute in the Territory ("New Products"); provided, however, that nothing in this right of first refusal shall be construed or interpreted in any way to prevent NSA from obtaining competitive bids from third party manufacturers to produce any New Product.
- (b) **New Product Notice.** In the event NSA wishes to manufacture a New Product for distribution in the Territory, NSA shall provide a written notice ("New Product Notice") to Seller. The New Product Notice will contain formulation and product specifications and any price, manufacturing, delivery and other material terms agreed to or offered in writing by any third party manufacturer. Seller shall have a period of thirty (30) days from the date of receipt of the New Product Notice to determine whether or not to exercise its right of first refusal. If Seller exercises its right of first refusal, it must have the ability

to produce the New Product in quality, quantity, and at costs competitive with those specified in the New Product Notice. If Seller does not exercise its right of first refusal, NSA shall have the right to have the New Product produced by a third party manufacturer on the terms specified in the New Product Notice. If NSA is unable to have the New Product manufactured upon the terms set forth in the New Product Notice, NSA shall be required to resubmit a New Product Notice to Seller and Seller shall have an additional thirty (30) days from the date of resubmittal to exercise its right of first refusal. If Seller is granted the right to produce any New Products for NSA pursuant to this Section 13, such New Products shall be listed on subsequent written memorandums signed by the Parties and expressly referring to this Agreement, and shall fall within the definition of a Product subject to terms of this Agreement.

14. **Termination.** This Agreement may be terminated upon the occurrence of the following:

- (a) **Default of Seller.** If NSA delivers to Seller a written notice specifying the nature of Seller's default and Seller fails to cure such default within thirty (30) days following the delivery of such notice, then and only then shall NSA have the right to terminate or cancel this Agreement. A "default" with respect to Seller shall mean that Seller, or Seller's Affiliate, as applicable:
- (i) becomes insolvent or has a petition in bankruptcy, reorganization or similar action filed by or against it;
 - (ii) has all or a substantial portion of its capital stock or assets expropriated or attached by any government entity;
 - (iii) is dissolved or liquidated or has a petition for dissolution or liquidation filed with respect to it;
 - (iv) is subject to property attachment, court injunction, or court order materially affecting its operations under this Agreement; or
 - (v) breaches any representation, warranty, covenant, obligation, commitment or other agreement contained in this Agreement provided, however, that, notwithstanding anything else to the contrary contained herein, in the event of a material breach by Seller of its obligations under Sections 1, 6, 10, 11 or 23, if NSA delivers to Seller a written notice specifying the nature of Seller's default and Seller fails to cure such default within three (3) business days following the delivery of such notice, then and only then shall NSA have the right to terminate or cancel this Agreement without further opportunity to cure; or
 - (vi) shall be in default in the full and prompt payment or performance of any representation, warranty, covenant, obligation, commitment, condition or undertaking on Seller's or Seller's Affiliate's part to be paid, met, kept, observed or performed pursuant to the provisions of any other written

agreements between Seller or Seller's Affiliate and NSA. "Seller's Affiliate" shall mean any individual or entity that directly or indirectly controls, is controlled by, or is under common control with Seller.

- (b) **Default by NSA.** If Seller delivers to NSA a written notice specifying the nature of NSA's default and NSA fails to cure such default within thirty (30) days following the delivery of such notice, then and only then shall Seller have the right to terminate or cancel this Agreement. A "default" with respect to NSA shall mean that NSA:
- (i) becomes insolvent or has a petition in bankruptcy, reorganization or similar action filed by or against it;
 - (ii) has all or a substantial portion of its capital stock or assets expropriated or attached by any government entity;
 - (iii) is dissolved or liquidated or has a petition for dissolution or liquidation filed with respect to it;
 - (iv) is subject to property attachment, court injunction, or court order materially affecting its operations under this Agreement; or
 - (v) fails to pay any amount due pursuant to the terms of this Agreement, provided, however, that if NSA is in good faith contesting any amount owed to Seller as a result of this Agreement through appropriate proceedings, such failure to pay shall not be considered an event of default under this Agreement.
- (c) **Election to Continue.** In the event of a default and the lapse of any applicable cure period, the non-defaulting party may agree to continue the Agreement rather than terminating it. To do so, that party shall send a notice to the defaulting party specifying the conditions under which the non-defaulting party will agree to continue the Agreement. By agreeing to continue the Agreement in this manner, the non-defaulting party does not waive its right to later terminate the Agreement for default based on the event of default that is the subject of the notice.
- (d) **Result of Termination by NSA.** Upon termination of this Agreement, Seller shall deliver to NSA all documents, information, and work in process produced in performance of this Agreement pursuant to Section 17.

15. **Force Majeure.** Neither party shall be in default nor liable to the other for any failure to perform directly caused by events beyond that party's reasonable control, such as acts of nature, labor strikes, war, insurrections, riots, acts of governments, embargoes and unusually severe weather provided the affected party notifies the other party within ten (10) days of the occurrence. Such an event is an Excusable Delay. THE PARTY AFFECTED BY AN EXCUSABLE DELAY SHALL TAKE ALL REASONABLE STEPS TO PERFORM DESPITE THE DELAY. If the party is unable to perform within a reasonable period, this Agreement shall end without any further obligation of the unaffected party.

16. **Reserved.**

17. **Return of Materials.** If NSA terminates this Agreement, Seller shall complete all work in process in a timely fashion and deliver the same to NSA as provided herein against payment as provided herein. To the extent that after such work in progress has been completed, Seller has inventory of raw materials and packaging materials on hand that were purchased in good faith reliance upon the rolling forecasts, then NSA shall be liable for, and required to purchase such inventory from Seller within thirty (30) days from the date that Seller furnishes to NSA a written reconciliation showing the amount of such inventory; provided that such inventory is in compliance with the Standards. With the approval of NSA, Seller may try to use all or any part of such inventory for other customers or sell all or any part of it to third parties. The Parties shall cooperate and utilize their reasonable best efforts to prepare such final reconciliations of Products and inventory and any other amounts to be provided as between them in connection with such termination. Upon payment of all amounts owed to Seller, Seller shall return to NSA all materials containing the Confidential Information, documents produced in the performance of this Agreement, work-in-process, parts, tools and test equipment paid for, owned or supplied by NSA.

18. **Acts of Employees.** Each party is solely responsible for the acts of its respective employees and agents, including any negligent acts. Each party shall hold harmless, defend and indemnify the other against all claims based on acts of its respective employees or agents.

19. **Insurance.** Seller will, at Seller's expense, maintain in full force and effect, products liability insurance coverage with a policy limit of at least Ten Million Dollars (\$10,000,000) per occurrence and Ten Million Dollars (\$10,000,000) in the aggregate, consisting of at least Two Million Dollars (\$2,000,000) in primary coverage and the remaining Eight Million Dollars (\$8,000,000) in an umbrella form for excess liability coverage. Such policy referred to in this Section 19 shall (a) name NSA and any master distributor or affiliated company designated by NSA as additional insured parties thereunder (without any representation or warranty by or obligation upon NSA) as respects distribution or sale of Seller's products, (b) provide that at least thirty (30) days prior written notice of cancellation, amendment, or lapse of coverage shall be given to NSA by the insurer, (c) provide worldwide coverage for occurrences; and (d) provide coverage for occurrences during the term of this Agreement which will continue for such occurrences after the term of this Agreement. Seller will deliver to NSA original or duplicate policies of such insurance, or satisfactory certificates of insurance.

20. **Seller's Agreement with its Employees.** Seller shall have an appropriate agreement with each of its employees, or others whose service Seller may require, sufficient to enable it to comply with all of the terms of this Agreement.

21. **Relationship with Employees.** Neither party's employees shall be considered employees or agents of the other party. Each party shall be solely responsible for paying, supervising, and directing the manner of work of its employees.

22. **Foreign Registrations.** In the event NSA intends to sell Products in a new geographic area, NSA and Seller agree to cooperate and use their best commercially reasonable efforts to obtain and maintain any necessary approvals or registrations by or with any governmental or regulatory agency in any country or political subdivision in which the Products are to be sold. NSA and Seller shall mutually agree as to which party shall be primarily responsible for obtaining such approvals or registrations on a case-by-case basis. In the event Seller shall be responsible for obtaining such foreign registrations, Seller shall obtain such approvals or registrations and/or file all applications on behalf of and under the name of NSA. Payment for all costs incurred in obtaining such foreign registrations shall be made as listed on subsequent written memorandums signed by the Parties and expressly referring to this Agreement. Regardless of which Party shall be responsible for obtaining such foreign registrations, the responsible Party will provide copies of all registration documents for the other Party's review prior to submission for approval of such registration documents. The reviewing Party will have ten (10) business days following receipt of such registration documents to provide comments to the responsible Party on any such matters following submission to it. All such approvals, registrations and applications under this Section shall inure solely to the benefit of NSA and Seller shall have no rights in any such approvals, registrations, or applications. All costs, including consulting and legal fees, associated with obtaining and maintaining approvals or registrations for products not manufactured by Seller shall be borne completely by NSA.

23. **Restriction on Manufacture or Distribution of Competing Products.** During the term of this Agreement and any extensions hereof and for a period of three (3) years hereafter, Seller agrees that Seller shall not manufacture or otherwise distribute any products substantially similar to the Products. For purposes of this Section 23, a product will be considered to be substantially similar to the Products if it is an encapsulated whole food based nutrition product containing blended fruit, berry and/or vegetable juice powders. The failure of Seller to comply with the provision of this Section 23 shall constitute a material breach of this Agreement.

24. **Amendments.** This Agreement may only be changed or supplemented by a written amendment, signed by authorized representatives of each party.

25. **Assignment.** Neither party may assign its rights or delegate its obligations under this Agreement without the prior written approval of the other party. Any attempted assignment or delegation without such an approval shall be void. Provided, however, that NSA may assign this Agreement to any Affiliate of NSA, without being released from its obligations hereunder. "Affiliate" shall mean any individual or entity that directly or indirectly controls, is controlled by, or is under common control with NSA.

26. **Governing Law and Forum.** This Agreement shall be governed by the laws of the State of Tennessee without regard to any provision (including conflicts of law provisions) which would require the application of the law of any state other than the State of Tennessee. All disputes arising under or in connection with this Agreement shall be determined by actions filed in the courts within the State of Tennessee.

27. **Severability.** If any provision of this Agreement is held to be illegal, invalid or unenforceable by a court of competent jurisdiction, the remaining provisions shall not be affected.

28. **Effect of Title and Headings.** The title of the Agreement and the headings of its Sections are included for convenience, and shall not affect the meaning of the Agreement or the Section.

29. **Notice.** All notices, consents, waivers and other communications under this Agreement must be in writing and will be deemed to have been duly given upon (a) delivery by hand (with written confirmation of receipt) or (b) one business day after deposit with an internationally recognized overnight delivery service (receipt requested, delivery prepaid). Notices shall be sent in each case to the appropriate addresses indicated for each party below, or to such other addresses as a party may designate in writing by notice to the other party. If a specific contact person is designated in a provision, notice concerning the subject matter of such provision shall be directed to such person. The address or the name of any party or contact person or other number may be changed by sending notice in the manner set forth below:

If to the Seller:

Natural Alternatives International Europe
Via Cantonale
Centro Galleria 1,
6928 Manno Switzerland
Attention: Dr. Fausto Petrini

Copies to:

Natural Alternatives International, Inc.
1185 Linda Vista Drive
San Marcos, California 92078
Attention: President

and to:

Fisher Thurber LLP
4225 Executive Square, Suite 1600
La Jolla, California 92037
Attn: David A. Fisher, Esq.

If to the NSA:

Charles R. Evans
Executive Vice President
NSA, Inc.
4260 East Raines Road
Memphis, Tennessee 38118

Copies to:

John J. Blair
Vice President of Product Development
NSA, Inc.
4260 East Raines Road
Memphis, Tennessee 38118

G. Robert Morris, Esq.
Butler, Snow, O'Mara, Stevens & Cannada
PLLC
6075 Poplar Avenue, Suite 500
Memphis, Tennessee 38119

30. **Waiver.** Failure of either party to insist in any strict conformance to any term herein, or in Purchase Orders issued hereunder, or failure by either party to act in the event of a breach or default shall not be construed as a consent to or waiver of that breach or default or any subsequent breach or default of the same or any other term contained herein.

31. **Indemnification by NSA and Seller.**

(a) **Indemnification by Seller.** Seller shall indemnify and hold harmless NSA, its Master Distributors, affiliated and/or controlled companies, as well as each of their respective officers, directors, shareholders, agents, and employees, from and against all loss, liability, damages, claims for damages, settlements, judgments or executions, including costs, expenses and reasonable attorneys' fees and costs (collectively, "Losses") incurred by NSA and/or such persons or entities as a result of any third party demands, actions, suits, prosecutions or other such claims arising on and after the date of this Agreement ("Third Party Claims") based on: (i) any injury to or death of any person, or damage to property caused in any way by a Product provided by Seller under this Agreement; (ii) any claims that a Product infringes any patent, copyright, trade mark right, trade secret, mask work right or other proprietary right of any third party, unless such claim is attributable to Seller's incorporation of formulations, specifications or materials provided by NSA into the Products; or (iii) any alleged breach of Seller's representations and warranties contained herein.

(b) **Indemnification by NSA.** NSA shall indemnify and hold harmless Seller, its subsidiaries, affiliated and/or controlled companies, as well as each of their respective officers, directors, agents, and employees, from and against all Losses incurred by Seller and/or such persons or entities as a result of Third Party Claims based on: (i) any alleged breach of NSA's warranties contained herein, or (ii) any claims that a Product infringes any patent, copyright, trade mark right, trade secret, mask work right or other proprietary right of any third party to the extent such claim is attributable to Seller's incorporation of formulations, specifications or materials provided by NSA into the Products. For purposes of this Section, all formulations, specifications or materials provided by NSA into the Products shall be described in the Standards or on an attached memorandum signed by the Parties expressly referring to this Agreement.

(c) **Indemnification Procedure.** The party entitled to indemnification under this Section (the "Indemnified Party") will provide the party obligated to provide indemnification under this Section (the "Indemnifying Party") with prompt notice of any Third Party Claim for which its seeks indemnification under this Section, provided that the failure to do so will not excuse the Indemnifying Party of its obligations under this Section 31 except to the extent prejudiced by such failure or delay. The Indemnifying Party shall not be liable for any settlement effected without the Indemnified Party's consent, which consent shall not be unreasonably withheld. The Parties shall cooperate in defending any Third Party Claim.

32. Inspection Events, Returns and Recalls, Regulatory Action.

(a) **Inspection Events.** Seller shall immediately notify NSA by the most expeditious means practicable, but in no event later than the next business day, if and when it is informed of an impending audit, inspection and/or onsite visit (“Inspection Event”) concerning the manufacture of any Product by Seller under this Agreement by a governmental agency or any licensing unit thereof. NSA, at its sole discretion and expense may elect to send an employee or designee to observe the Inspection Event. In the event that Seller should not have prior notice of an Inspection Event, then Seller shall immediately, but in no event later than the next business day after such Inspection Event, give written notice of the same to NSA, and shall further provide to NSA any written documentation supplied to Seller on account of such Inspection Event. In the event of any action described in this Section, the Parties shall cooperate in determining the response, if any, to be made to such action.

(b) **Returns and Recalls.** Seller shall immediately provide NSA with notification of any event or occurrence that could necessitate the need to recall or withdraw Products together with such information as may be available to Seller concerning the degree to which the reasons may have application to any Products shipped to or on behalf of NSA. In the event of such event or occurrence, Seller may request the return of any such Products in the possession of NSA or its Master Distributors. NSA shall manage all recall decisions with respect to Products sold or shipped by it to its Master Distributors and/or customers.

(c) **Regulatory Action.** If any government agency makes, with respect to any Product manufactured by Seller for NSA under this Agreement, (i) an inquiry, or (ii) gives notice of or makes an inspection at any party’s premises, or (iii) seizes any such Product or requests a recall, or (iv) directs any party to take or cease taking any action, the other party shall be notified immediately but in no event later than the next business day. Seller will investigate the inquiry or complaint and provide NSA with a written report within three (3) business days after the notification. Duplicates of any samples of Product taken by such agency shall be sent to the other party promptly. In the event of any action described in this Section, the Parties shall cooperate in determining, and will mutually agree upon, the response, if any, to be made to such action and each party agrees to cooperate with the other in responding to any communication or inquiry and/or attempting to resolve any such action.

33. **Agency.** Nothing contained herein shall be deemed to authorize or empower Seller or its subsidiaries to act as an agent for NSA or to conduct business in the name of NSA.

34. **Entire Agreement.** This Agreement, including its Exhibits and Purchase Orders issued under it, is the complete statement of the Parties’ agreement, and supersedes all previous and contemporaneous written and oral communication about its subject.

35. **Counterparts.** This Agreement may be executed in one or more counterparts, each of which will be deemed an original but all of which together will constitute one and the same document.

36. **Compliance.** Each Party will comply with all laws relating to the performance of this Agreement and represents and warrants that execution of this Agreement and performance of its obligations under this Agreement does not and will not breach any other agreement to which it is or will be a party, including but not limited to any agreements with its customers.

37. **Authority.** The Parties represent that they have full capacity and authority to grant all rights and assume all obligations they have granted and assumed under this Agreement.

38. **Publicity of Agreement.** The Parties agree that no press release or public announcement of this Agreement or concerning the activities and transactions contemplated herein shall be issued without the prior written consent of both Parties to the content of such release or public announcement, which consent shall not be unreasonably withheld.

39. **Further Assurances.** The Parties agree to furnish upon request to each other such further information, to execute and deliver to each other such other documents, and to do such other acts and things, all as the other party may reasonably request for the purpose of carrying out the intent of this Agreement and the documents referred to in this Agreement.

40. **Arbitration.** Any dispute, controversy or claim arising from, out of or in connection with, or relating to, this Agreement, or any breach or alleged breach of this Agreement, except allegations of violations of Federal or State securities laws, will upon the request of any party involved be submitted to any private arbitration service utilizing former judges as mediators and approved by the Parties. The dispute once submitted shall be settled by binding arbitration conducted in Memphis, Tennessee (or at any other place or under any other form of arbitration mutually acceptable to Parties involved), provided, however, that in the event of any such controversy or claim, (i) neither party will initiate arbitration within the first thirty (30) days after the aggrieved party first notifies the other party of the controversy or claim and (ii) during such thirty (30) day period, the chief executive officers of both Parties convene at least once in a mutually agreed to location to endeavor in good faith to amicably resolve the controversy or claim. The single arbitrator shall follow and apply the federal rules of evidence and the applicable local federal rules governing discovery in the arbitration. Any award rendered shall be final, binding and conclusive upon the Parties and shall be non-appealable, and a judgment thereon may be entered in the highest State or Federal court of the forum, having jurisdiction. The expenses of the arbitration shall be borne equally by the Parties to the arbitration, provided that each party shall pay for and bear the cost of its own experts, evidence and attorneys' fees, except that in the discretion of the arbitrator, any award may include the costs, fees and expenses of a party's attorneys.

41. **Attorneys Fees.** If any arbitration or legal proceeding is brought for the enforcement of this Agreement, or because of an alleged breach, default or misrepresentation in connection with any provision of this Agreement or other dispute concerning this Agreement, the successful or prevailing party shall be entitled to recover reasonable attorneys fees incurred in connection with such arbitration or legal proceeding. The term "prevailing party" shall mean the party that is entitled to recover its costs in the proceeding under applicable law, or the party designated as such by the court or the arbitrator.

42. **Damages.** Seller shall be liable to NSA for any incidental or consequential damages incurred by NSA as a result of a breach of this Agreement by Seller; provided, however, the maximum aggregate liability of Seller with respect to or arising from any claims for such damages shall not exceed Two Million Dollars (\$2,000,000) during the first three (3) years of the Agreement or Three Million Dollars (\$3,000,000) for the remaining term of the Agreement.

43. **Business Day.** Shall mean Monday through Friday, inclusive, during posted business hours, except for national or other holidays in the Territory.

44. **Exhibits.** The exhibits attached hereto are an integral part of this Agreement and are specifically attached hereto and incorporated herein by this reference.

[signature page follows]

IN WITNESS WHEREOF, the Parties hereto have executed this Agreement on the date first written above.

**NATURAL ALTERNATIVES INTERNATIONAL EUROPE
S.A.**, a Swiss corporation

By: /s/ Mark A. LeDoux
Mark A. LeDoux, President

By: /s/ Randell Weaver
Randell Weaver, Managing Director

NATURAL ALTERNATIVES INTERNATIONAL, INC., a
Delaware corporation

By: /s/ Mark A. LeDoux
Mark A. LeDoux, Chief Executive Officer

NSA, INC.
a Tennessee corporation

By: /s/ Jay Martin
Jay Martin, President

EXHIBIT A

Countries Included in the Territory

Austria
Belgium
Denmark
Finland
France
Germany
Hungary
Ireland
Italy
Norway
Netherlands
Sweden
Spain
Switzerland
United Kingdom

**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)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) 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) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) 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
 - d) 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; and
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 16, 2010

/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, Ken Wolf, 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)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) 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) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) 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
 - d) 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; and
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 16, 2010

/s/ Kenneth E. Wolf
Kenneth E. Wolf, 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, 2009 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 16, 2010

/s/ Mark A. LeDoux

Mark A. LeDoux, Chief Executive Officer

Date: February 16, 2010

/s/ Kenneth E. Wolf

Kenneth E. Wolf, 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.