

**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 MARCH 31, 2004

000-15701
(Commission file number)

NATURAL ALTERNATIVES INTERNATIONAL, INC.

(Exact name of registrant as specified in its charter)

Delaware
(State of incorporation)

84-1007839
(IRS Employer Identification No.)

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

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

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

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

As of May 17, 2004, 5,889,992 shares of NAI's common stock were outstanding, net of 61,000 treasury shares.

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SPECIAL NOTE – FORWARD-LOOKING STATEMENTS

Certain statements in this report are “forward-looking statements” within the meaning of Section 27A of the Securities Act of 1933, Section 21E of the Securities Exchange Act of 1934, and the Private Securities Litigation Reform Act of 1995. Forward-looking statements reflect current views about future events and financial performance based on certain assumptions. They include opinions, forecasts, projections, guidance, expectations, beliefs or other statements that are not statements of historical fact. Words such as “may,” “will,” “should,” “could,” “would,” “expects,” “plans,” “believes,” “anticipates,” “intends,” “estimates,” “approximates,” “predicts,” or “projects,” or the negative or other variation of such words, and similar expressions may identify a statement as a forward-looking statement. Forward-looking statements in this report may include statements about:

- future financial and operating results, including projections of revenues, income, earnings per share, profit margins, expenditures, liquidity and other financial items;
- inventories and facilities;
- sources and availability of raw materials;
- personnel;
- operations outside the United States;
- overall industry and market performance;
- competition;
- current and future economic and political conditions;
- product development;
- distribution channels and product sales and performance;
- growth and acquisition strategies;
- the outcome of regulatory and litigation matters;
- customers;
- management’s goals and plans for future operations; and
- other assumptions described in this report underlying or relating to any forward-looking statements.

The forward-looking statements in this report speak only as of the date of this report. Forward-looking statements are subject to certain events, risks, and uncertainties that may be outside of our control. When considering forward-looking statements, you should carefully review the risks, uncertainties and other cautionary statements in this report as they identify certain important factors that could cause actual results to differ materially from those expressed in or implied by the forward-looking statements. These factors include, among others, the risks described under Items 2 and 3 and elsewhere in this report, as well as in other reports and documents we file with the SEC.

Unless the context requires otherwise, all references in this report to the “Company,” “NAI,” “we,” “our,” and “us” refer to Natural Alternatives International, Inc. and, as applicable, Natural Alternatives International Europe S.A. (NAIE), its wholly-owned subsidiary.

PART I – FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

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

	March 31, 2004	June 30, 2003
	(Unaudited)	
Assets		
Current assets:		
Cash and cash equivalents	\$ 3,162	\$ 5,482
Accounts receivable, net of allowance for doubtful accounts of \$89 at March 31, 2004 and \$27 at June 30, 2003	6,329	5,668
Inventories, net	12,270	7,845
Prepaid expenses	787	502
Other current assets	379	264
	<u>22,927</u>	<u>19,761</u>
Total current assets	22,927	19,761
Property and equipment, net	10,804	10,820
Other assets, net	201	143
	<u>33,932</u>	<u>30,724</u>
Total assets	\$ 33,932	\$ 30,724
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	\$ 3,634	\$ 5,001
Accrued liabilities	1,862	1,106
Accrued compensation and employee benefits	1,657	717
Line of credit	900	—
Income taxes payable	103	46
Current portion of long-term debt	575	570
	<u>8,731</u>	<u>7,440</u>
Total current liabilities	8,731	7,440
Long-term debt, less current portion	1,955	2,386
Long-term pension liability	200	121
	<u>10,886</u>	<u>9,947</u>
Total liabilities	10,886	9,947
Stockholders' equity:		
Preferred stock; \$.01 par value; 500,000 shares authorized; none issued or outstanding	—	—
Common stock; \$.01 par value; 8,000,000 shares authorized; issued and outstanding 5,920,992 at March 31, 2004 and 6,087,532 at June 30, 2003	59	61
Additional paid-in capital	10,689	11,426
Retained earnings	12,591	10,593
Treasury stock, at cost, 61,000 shares at March 31, 2004 and 272,400 shares at June 30, 2003	(293)	(1,303)
	<u>23,046</u>	<u>20,777</u>
Total stockholders' equity	23,046	20,777
Total liabilities and stockholders' equity	\$ 33,932	\$ 30,724

See accompanying notes to condensed consolidated financial statements.

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

	Three months ended March 31,		Nine months ended March 31,	
	2004	2003	2004	2003
Net sales	\$ 21,268	\$ 13,755	\$ 55,184	\$ 39,901
Cost of goods sold	16,215	10,468	42,090	30,367
Gross profit	5,053	3,287	13,094	9,534
Selling, general & administrative expenses	4,047	3,076	10,909	8,665
Income from operations	1,006	211	2,185	869
Other income (expense):				
Interest income	3	25	21	53
Interest expense	(69)	(56)	(163)	(208)
Foreign exchange gain (loss)	(50)	13	95	(4)
Proceeds from vitamin antitrust litigation	—	—	—	225
Other, net	(22)	(15)	(69)	(56)
	(138)	(33)	(116)	10
Income before income taxes	868	178	2,069	879
Provision for income taxes	13	6	71	21
Net income	\$ 855	\$ 172	\$ 1,998	\$ 858
Net income per common share:				
Basic	\$ 0.15	\$ 0.03	\$ 0.34	\$ 0.15
Diluted	\$ 0.13	\$ 0.03	\$ 0.32	\$ 0.14
Weighted average common shares outstanding:				
Basic shares	5,848,841	5,814,258	5,830,508	5,807,143
Diluted shares	6,335,462	6,061,391	6,201,686	6,004,304

See accompanying notes to condensed consolidated financial statements.

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

	Nine Months Ended March 31,	
	2004	2003
Cash flow from operating activities		
Net income	\$ 1,998	\$ 858
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Provision for uncollectible accounts receivable	62	(75)
Depreciation and amortization	2,029	1,830
Non-cash compensation	100	56
Pension expense, net of contributions	79	(64)
Loss on disposal of asset	15	4
Changes in operating assets and liabilities:		
Accounts receivable	(723)	(897)
Inventories	(4,425)	(603)
Prepaid expenses	(285)	(593)
Other assets	(177)	682
Accounts payable and accrued liabilities	(574)	293
Accrued compensation and employee benefits	940	194
Net cash provided by (used in) operating activities	(961)	1,685
Cash flows from investing activities		
Proceeds from sale of property and equipment	—	109
Capital expenditures	(2,028)	(752)
Repayment of notes receivable	4	71
Net cash used in investing activities	(2,024)	(572)
Cash flows from financing activities		
Net borrowings on line of credit	900	—
Borrowings on long-term debt	—	2,500
Payments on long-term debt	(426)	(1,565)
Decrease in restricted cash	—	1,500
Proceeds from issuance of common stock	191	30
Net cash provided by financing activities	665	2,465
Net increase (decrease) in cash and cash equivalents	(2,320)	3,578
Cash and cash equivalents at beginning of period	5,482	640
Cash and cash equivalents at end of period	\$ 3,162	\$ 4,218
Supplemental disclosures of cash flow information		
Cash paid during the period for interest	\$ 163	\$ 208

See accompanying notes to condensed consolidated financial statements.

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

A. Basis of Presentation and Significant Accounting Policies

Basis of Presentation

The accompanying interim, unaudited, condensed consolidated financial statements have been prepared in accordance with the instructions to Form 10-Q and applicable rules and regulations. Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States have been condensed or omitted pursuant to such rules and regulations. In management's opinion, all adjustments necessary for a fair presentation of the financial position, results of operations and cash flows have been included and are of a normal, recurring nature. The results of operations for the nine months ended March 31, 2004 are not necessarily indicative of the operating results for the full fiscal year or any future periods.

You should read the financial statements and these notes, which are an integral part of the financial statements, together with our audited financial statements included in our Annual Report on Form 10-K for the fiscal year ended June 30, 2003 ("2003 Annual Report"). The accounting policies used to prepare the financial statements included in this report are the same as those described in the notes to the consolidated financial statements in our 2003 Annual Report unless otherwise noted below.

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

Stock- Based Compensation

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

Pro forma information regarding net income and net income per common share is required and has been determined as if we had accounted for our stock-based awards under the fair value method, instead of the guidelines provided by APB 25. The fair value of the awards was estimated at the date of grant using the Black-Scholes option valuation model. The Black-Scholes option valuation model was developed for use in estimating the fair value of traded options that have no vesting restrictions and are fully transferable. Option valuation models require the input of highly subjective assumptions, including expected life and stock price volatility. Because our options have characteristics significantly different from those of traded options, and because changes in the subjective input assumptions can materially affect fair value estimates, in the opinion of management, the existing models do not necessarily provide a reliable single measure of the fair value of our options.

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

	Three Months Ended March 31,		Nine Months Ended March 31,	
	2004	2003	2004	2003
	(in thousands, except per share data)			
Net income - as reported	\$ 855	\$ 172	\$ 1,998	\$ 858
Plus: Reported stock-based compensation	84	5	100	56
Less: Fair value stock-based compensation	(259)	(86)	(462)	(231)
Net income - pro forma	\$ 680	\$ 91	\$ 1,636	\$ 683
Reported basic net income per common share	\$ 0.15	\$ 0.03	\$ 0.34	\$ 0.15
Pro forma basic net income per common share	\$ 0.12	\$ 0.02	\$ 0.28	\$ 0.12
Reported diluted net income per common share	\$ 0.13	\$ 0.03	\$ 0.32	\$ 0.14
Pro forma diluted net income per common share	\$ 0.11	\$ 0.02	\$ 0.26	\$ 0.11

Net Income per Common Share

We compute net income per common share in accordance with SFAS 128, "Earnings Per Share." This statement requires the presentation of basic income per common share, using the weighted average number of shares outstanding during the period, and diluted income per common share, using the additional dilutive effect of all dilutive securities. The dilutive impact of stock options account for the additional weighted average shares of common stock outstanding for our diluted net income per common share computation. We calculated basic and diluted net income per common share as follows:

	Three Months Ended March 31,		Nine Months Ended March 31,	
	2004	2003	2004	2003
	(in thousands, except share and per share data)			
Numerator				
Net income	\$ 855	\$ 172	\$ 1,998	\$ 858
Denominator				
Basic weighted average common shares outstanding	5,848,841	5,814,258	5,830,508	5,807,143
Dilutive effect of stock options	486,621	247,133	371,178	197,161
Diluted weighted average common shares outstanding	6,335,462	6,061,391	6,201,686	6,004,304
Basic net income per common share	\$ 0.15	\$ 0.03	\$ 0.34	\$ 0.15
Diluted net income per common share	\$ 0.13	\$ 0.03	\$ 0.32	\$ 0.14

Shares related to stock options of 55,000 for the three months ended March 31, 2004, and 82,000 for the nine months ended March 31, 2004, were excluded from the calculation of diluted net income per share, as the effect of their inclusion would be anti-dilutive.

Shares related to stock options of 65,000 for the three months ended March 31, 2003, and 100,000 for the nine months ended March 31, 2003, were excluded from the calculation of diluted net income per share, as the effect of their inclusion would be anti-dilutive.

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B. Inventories

Inventories, net at March 31, 2004, consisted of (in thousands):

Raw materials	\$ 6,102
Work in progress	3,405
Finished goods	2,763
	<u>\$12,270</u>

C. Property and Equipment

The following is a summary of property and equipment at March 31, 2004 (in thousands):

	<u>Depreciable Life In Years</u>	
Land	NA	\$ 393
Building and building improvements	5 - 39	3,327
Machinery and equipment	3 - 15	16,925
Office equipment and furniture	5 - 7	4,383
Vehicles	3	228
Leasehold improvements	1 - 10	4,519
		<u>29,775</u>
Total property and equipment		29,775
Less: accumulated depreciation and amortization		<u>(18,971)</u>
Property and equipment, net		<u>\$ 10,804</u>

D. Debt

As of March 31, 2004, we had a \$6.5 million credit facility that was due to expire on October 24, 2004. The facility was comprised of a \$4.0 million working capital line of credit and a \$2.5 million term loan and was secured by all of our assets. The working capital line of credit was subject to eligibility requirements for current accounts receivable and inventory balances. As of March 31, 2004, we had \$900,000 outstanding under the line of credit and a \$1.8 million outstanding term loan balance. As of March 31, 2004, we had approximately \$2.3 million available under the line of credit. The interest rate on the line of credit and term loan was prime plus 0.5%. This entire credit facility was refinanced on May 11, 2004.

On May 11, 2004, we entered into a new \$12.0 million credit facility with a bank. The facility is comprised of an \$8.0 million working capital line of credit and \$4.0 million in term loans secured by all of our assets. The working capital line of credit has a 2.5-year term, interest rate of LIBOR plus 1.75% and is subject to eligibility requirements for current accounts receivable and inventory balances. The term loans consist of a \$700,000 ten year term loan with a twenty year amortization, secured by our building at an interest rate of LIBOR plus 2.25%; a \$1.8 million four year term loan to refinance our outstanding term loan under the previous credit facility, secured by equipment, at an interest rate of LIBOR plus 2.10%; and a \$1.5 million five year term loan, secured by equipment, at an interest rate of LIBOR plus 2.10%. Monthly payments on the term loans will be approximately \$62,000 plus interest.

On May 2, 1996, we entered into a term loan agreement for \$1.1 million, secured by our building, at an annual interest rate of 8.25%. The loan is due in June 2011 and provides for principal and interest payable in monthly installments of \$10,800. The outstanding amount was \$696,000 at March 31, 2004.

The composite interest rate on all outstanding debt was 6.00% at March 31, 2004, and 6.74% at March 31, 2003.

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

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

We lease approximately 74,000 square feet of our manufacturing facilities in Vista, California, from an unaffiliated third party. We have two non-cancelable operating leases, one for approximately 54,000 square feet at 1215 Park Center Drive that we use as a warehousing and blending facility and the other for approximately 20,000 square feet at 1211C Park Center Drive that we use for packaging. Both leases expire in June 2008. However, on October 27, 2003, we entered into a new lease for both facilities, as well as for an additional 46,000 square feet contiguous to our existing space at the 1215 Park Center Drive location. We intend to use the additional space for tableting and encapsulation, which are currently located at our San Marcos, California facility. The new lease begins in April 2004 and expires in March 2014.

On January 22, 2004, we executed our option under the new lease to expand the premises to include an additional 42,000 square feet contiguous to our existing space at 1211C Park Center Drive, for a total of 162,000 square feet of leased space in Vista, California. As we do not require the additional 42,000 square feet immediately, on February 25, 2004, we entered into a sublease agreement with the current tenant. The sublease is for a term of one year beginning April 1, 2004, and provides for monthly rental income equal to our rental expense for the space. We plan on using the space to expand our packaging operations in fiscal 2006.

As required under the terms of the new lease and option to expand the premises, on May 11, 2004, we provided a letter of credit in the amount of \$440,000 to the landlord. The amount of the letter of credit will be reduced by approximately 33% each year. The letter of credit reduces the availability under our line of credit by \$440,000.

On April 5, 2004, we entered into an agreement with a general contractor to build out the tenant improvements for the additional 46,000 square feet contiguous to our existing space at the 1215 Park Center Drive location that was leased on October 27, 2003. The agreement is for a term of approximately four months, commencing after building permits are received. We anticipate receiving the permits in June 2004. The agreement includes an approved budget of \$3.2 million. Our new lease agreement provides a \$960,000 tenant improvement allowance that will be funded by our landlord. The remaining \$2.2 million will be disbursed over the term of the agreement.

Minimum rental commitments (exclusive of property tax, insurance and maintenance) as of March 31, 2004 for the remainder of fiscal 2004 and the following four fiscal years, under all non-cancelable operating leases, (with initial or remaining lease terms in excess of one year) are set forth below (in thousands):

	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>Thereafter</u>
Gross minimum rental commitments	\$ 258	\$ 1,576	\$ 1,580	\$ 1,564	\$ 1,586	\$ 8,668
Sublease income commitments	(68)	(204)	—	—	—	—
	<u>\$ 190</u>	<u>\$ 1,372</u>	<u>\$ 1,580</u>	<u>\$ 1,564</u>	<u>\$ 1,586</u>	<u>\$ 8,668</u>

F. Defined Benefit Pension Plan

We sponsor a defined benefit pension plan, which provides retirement benefits to employees based generally on years of service and compensation during the last five years before retirement. Effective June 21, 1999, we adopted an amendment to freeze benefit accruals to the participants. At March 31, 2004, the amortized portion of the unfunded accrued liability for prior service cost, using a 30-year funding period, was approximately \$200,000. This amount was accrued. Our policy is to fund the net pension cost accrued. However, we will not contribute an amount less than the minimum funding requirements of the Employee Retirement Income Security Act of 1974 or more than the maximum tax-deductible amount.

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The components included in the net periodic benefit cost for the periods indicated are as follows (in thousands):

	Three Months Ended March 31,		Nine Months Ended March 31,	
	2004	2003	2004	2003
Interest cost	\$ 17	\$ 16	\$ 50	\$ 47
Expected return on plan assets	(16)	(17)	(48)	(51)
	\$ 1	\$ (1)	\$ 2	\$ (4)

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 could have a material adverse impact on our net sales and earnings. Sales by customer, representing 10% or more of the respective period's total sales, were (in thousands):

	Three Months Ended March 31,				Nine Months Ended March 31,			
	2004		2003		2004		2003	
	Net Sales by Customer	% of Total Net Sales	Net Sales by Customer	% of Total Net Sales	Net Sales by Customer	% of Total Net Sales	Net Sales by Customer	% of Total Net Sales
Customer 1	\$ 8,510	40%	\$ 5,756	42%	\$ 23,179	42%	\$ 17,234	43%
Customer 2	6,388	30	4,361	32	15,070	27	10,774	27
Customer 3	2,036	10	(a)	(a)	(a)	(a)	(a)	(a)
	\$ 16,934	80%	\$ 10,117	74%	\$ 38,249	69%	\$ 28,008	70%

(a) Net sales were less than 10% of 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 earnings. Raw material purchases from any one supplier representing 10% or more of the respective period's total raw material purchases are shown below (in thousands):

	Three Months Ended March 31,				Nine Months Ended March 31,			
	2004		2003		2004		2003	
	Raw Material Purchases by Supplier	% of Total Raw Material Purchases	Raw Material Purchases by Supplier	% of Total Raw Material Purchases	Raw Material Purchases by Supplier	% of Total Raw Material Purchases	Raw Material Purchases by Supplier	% of Total Raw Material Purchases
Supplier 1	\$ 2,151	25%	\$ 2,637	39%	\$ 6,969	27%	\$ 5,800	35%
Supplier 2	950	11	(a)	(a)	(a)	(a)	(a)	(a)
Supplier 3	889	10	(a)	(a)	(a)	(a)	1,654	10
	\$ 3,990	46%	\$ 2,637	39%	\$ 6,969	27%	\$ 7,454	45%

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

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H. Segment Information

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

	Net Sales for the Three Months Ended March 31,		Net Sales for the Nine Months Ended March 31,	
	2004	2003	2004	2003
United States	\$ 18,932	\$ 12,238	\$ 48,666	\$ 34,577
Europe	2,336	1,517	6,518	5,324
	<u>\$ 21,268</u>	<u>\$ 13,755</u>	<u>\$ 55,184</u>	<u>\$ 39,901</u>

	Long Lived Assets		Total Assets	
	March 31, 2004	June 30, 2003	March 31, 2004	June 30, 2003
United States	\$ 10,118	\$ 9,996	\$28,777	\$26,724
Europe	1,224	1,362	5,155	4,000
	<u>\$ 11,342</u>	<u>\$11,358</u>	<u>\$33,932</u>	<u>\$30,724</u>

I. Contingencies

We were a plaintiff in an anti-trust lawsuit against several manufacturers of vitamins and other raw materials that we purchased. Other similarly situated companies filed a number of similar lawsuits against some or all of the same manufacturers. Our lawsuit was consolidated with some of the others and captioned *In re: Vitamin Antitrust Litigation*. As of June 30, 2003 all of the Company's claims under the *Vitamin Antitrust Litigation* were settled. Settlement payments received by the Company of \$225,000 are included in proceeds from vitamin antitrust litigation in the accompanying statements of operations for the nine months ended March 31, 2003.

From time to time, we become involved in various investigations, claims and legal proceedings that arise in the ordinary course of our business. These matters may relate to product liability, employment, intellectual property, tax, regulation, contract or other matters. The resolution of these matters as they arise will be subject to various uncertainties. While unfavorable outcomes are possible, we believe the resolution of these matters, individually or in the aggregate, will not result in a material adverse effect on our business, financial condition or results of operations.

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

The following discussion and analysis is intended to help you understand our financial condition and results of operations for the three and nine months ended March 31, 2004. You should read the following discussion and analysis together with our unaudited financial statements and the notes to the financial statements included under Item 1 in this report, as well as the information included in our 2003 Annual Report. Our future financial condition and results of operations will vary from our historical financial condition and results of operations as described below.

Executive Overview

The following Executive 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 Executive Overview should be read in conjunction with the other sections of this Item 2 and this report.

Our primary business activity is to provide private label contract manufacturing services to companies that market and distribute vitamins, minerals, herbs, and other nutritional supplements, as well as other health and personal care products, to consumers both within and outside the United States. Our private label contract manufacturing customers include companies that market nutritional supplements through direct sales marketing channels, direct response television and retail stores. Additionally, under our direct-to-consumer ("DTC") marketing program, we develop, manufacture and market our own products. Under the DTC marketing program, we work with nationally recognized physicians and other personalities to develop brand name products that reflect their individual approaches to restoring, maintaining or improving health. DTC marketing program products are sold through a variety of distribution channels including television programs, print media, radio and the internet. We manufacture products in a variety of forms, including capsules, tablets, chewable wafers, and powders to accommodate a variety of consumer preferences.

We believe the lack of relevant and reliable consumer education about nutrition and nutritional supplementation combined with the duplication of brands and products in the retail sales channel creates a significant opportunity for the direct sales marketing channel. The direct sales marketing channel has proved, and we believe will continue to prove, to be a highly effective method for marketing high quality nutritional supplements as associates personally educate consumers on the benefits of science based nutritional supplements. We believe this education process can lead to premium product pricing and avoid competing with brands of inferior quality and lower pricing in the retail distribution channel. Our two largest customers operate in the direct sales marketing channel and, therefore; our growth has been fueled by the effectiveness of this marketing channel.

We believe the DTC marketing program can be an effective method for marketing our high quality nutritional supplements, as consumers are able to purchase science based nutritional supplements that are explained and recommended by a recognized physician. In March 2000, we launched Basic Nutrient Support™, our first product developed in collaboration with Dr. Reginald B. Cherry, M.D. In fiscal 2001, we launched Dr. Cherry's Pathway to Healing™ product line. As of March 31, 2004, the product line had grown to include nineteen condition specific custom formulated products. The products are primarily marketed through a weekly television program. This brand has comprised 100% of our DTC net sales as of March 31, 2004. We believe the recent decline in net sales for this brand has been largely due to the reduced effectiveness of the television programming to attract new customers in our primary television market and reduced media spending in new television markets. We are currently investing in upgrading the content and style of the television programs in an effort to attract new customers. We anticipate introducing the upgraded television programs in the second quarter of fiscal 2005. There can be no assurance that our investment in the upgraded television programs will produce higher net sales for this brand.

In April 2003, we introduced our Jennifer O'Neill Signature Line™ of nutritional supplements and skin care products. The products were marketed through print media and personal appearances. The marketing program did not produce favorable results and, therefore; was terminated in the third quarter of fiscal 2004.

In March 2004, we introduced our Chopra Center Essentials™ product line. As of March 31, 2004, the product line included eight condition specific custom formulated products. The product line was initially marketed through print media and the transformativehealth.com website. We plan to implement a direct mail marketing strategy in the second quarter of fiscal 2005.

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Establishing, building and maintaining brands in the DTC marketing program requires significant cash outlays for product development, initial inventory build, introducing the brand, testing alternative marketing channels, upgrading marketing programs and performing fulfillment activities. Our investments in building new brands for the DTC marketing channel can be of a higher risk than growing our private label contract manufacturing business. We believe, however, that established DTC brands have the long-term potential to improve our operating margins due to higher gross margins than those derived from products sold to private label contract manufacturing customers.

Overall, we believe there is an opportunity to enhance consumer confidence in the quality of our nutritional supplements and their adherence to label claims through the education provided by direct sales and DTC marketing programs. We believe our Good Manufacturing Practices (“GMP”) certified manufacturing operations, science based product formulation, clinical studies and regulatory expertise provide us with a sustainable competitive advantage by providing our customers with a high degree of confidence in our products.

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.

Revenue Recognition

We recognize revenue in accordance with SEC Staff Accounting Bulletin No. 101 “Revenue Recognition in Financial Statements,” or SAB 101. SAB 101 requires that four basic criteria be met before revenue can be recognized: 1) there is evidence that an arrangement exists; 2) delivery has occurred; 3) the fee is fixed or determinable; and 4) collectibility is reasonably assured. We recognize revenue upon determination that all criteria for revenue recognition have been met. The criteria are usually met at the time title passes to the customer, which usually occurs upon shipment. Revenue from shipments where title passes upon delivery is deferred until the shipment has been delivered.

Additionally, we record reductions to gross revenue for estimated returns of private label contract manufacturing products and DTC products. The estimated returns are based upon the trailing six months of private label contract manufacturing gross sales and our historical experience for both private label contract manufacturing and DTC product returns. However, the estimate for product returns does not reflect the impact of a large product return resulting from changes in regulatory requirements, product nonconformance or other factors as such events are not predictable nor is the related economic impact estimable.

Inventory Reserve

We operate primarily as a private label contract manufacturer that builds products following receipt of customer specific purchase orders. As a result, we have limited realization risk in finished goods and work-in-process inventories. Our inventory reserve primarily relates to realization risk for raw materials. Our estimate to reduce inventory to net realizable value is based upon expiration of the raw materials’ efficacy, foreseeable demand of raw materials, market conditions and specific factors that arise from time to time related to regulatory and other factors. The reserve level reflects our historical experience. If demand and/or market conditions are less favorable than we estimate, additional inventory reserves may be required.

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Accounting for Income Taxes

We estimate income taxes in each of the jurisdictions in which we operate. This process involves estimating our actual current tax exposure, together with assessing temporary differences resulting from differing treatment of items, such as property and equipment depreciation, for tax and financial reporting purposes. Actual income taxes could vary from these estimates due to future changes in income tax law or results from final tax examination reviews. At March 31, 2004, we assessed the need for a valuation allowance on our deferred tax assets. A valuation allowance is provided when it is more likely than not that some portion or all of the deferred tax assets will not be realized. Based on the limited historical taxable income and the uncertainty about sufficient near term taxable income, we believe that this evidence creates sufficient uncertainty about the realizability of the net deferred tax assets. Therefore, a full valuation allowance was recorded at March 31, 2004.

Allowance for Doubtful Accounts

We maintain an allowance for doubtful accounts to reflect our estimate of current and past due receivable balances that could not be collected. The allowance for doubtful accounts is based upon the current month private label contract manufacturing gross sales and a review of specific accounts. We believe that the allowance for doubtful accounts is adequate to cover anticipated losses in the receivable balance under current conditions; however significant deterioration in the financial condition of our customers, resulting in an impairment of their ability to make payments, could materially change these expectations and additional allowance may be required.

Defined benefit pension plan

The plan obligation and related assets of the defined benefit retirement plan are presented in the Notes to Consolidated Financial Statements included in our 2003 Annual Report. Plan assets, which consist primarily of marketable equity and debt instruments, are valued based upon third party market quotations. Independent actuaries through the use of a number of assumptions determine plan obligation and annual pension expense. Key assumptions in measuring the plan obligation include the discount rate and estimated future return on plan assets. In determining the discount rate, the actuary utilizes an average long-term bond yield. Asset returns are based upon the historical returns of multiple asset classes to develop a risk free rate of return and risk premiums for each asset class. The overall rate for each asset class was developed by combining a long-term inflation component, the risk free rate of return and the associated risk premium. A weighted average rate is developed based on the overall rates and the plan's asset allocation.

We have discussed the development and selection of these critical accounting policies with the Audit Committee of our Board of Directors and the Audit Committee has reviewed our disclosure relating to these policies.

Recent Developments

On January 22, 2004, we executed the option under our operating lease to expand the premises to include an additional 42,000 square feet contiguous to our existing space at 1211C Park Center Drive, for a total of 162,000 square feet of leased space in Vista, California. As we do not require the additional 42,000 square feet immediately, on February 25, 2004, we entered into a sublease agreement with the current tenant. The sublease is for a term of one year beginning April 1, 2004, and provides for monthly rental income equal to our monthly rental expense for the space. We plan on using the space to expand our packaging operations in fiscal 2006.

On April 5, 2004, we entered into an agreement with a general contractor to build out the tenant improvements for 46,000 square feet contiguous to our existing space at the 1215 Park Center Drive location that was leased on October 27, 2003. The agreement is for a term of approximately four months, commencing after building permits are received. The agreement includes an approved budget of \$3.2 million. Our new lease agreement provides a \$960,000 tenant improvement allowance that will be funded by our landlord. The remaining \$2.2 million will be disbursed over the term of the agreement.

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On May 11, 2004, we entered into a new \$12.0 million credit facility with a bank. The facility is comprised of an \$8.0 million working capital line of credit and \$4.0 million in term loans and is secured by all of our assets. The working capital line of credit has a 2.5-year term, interest rate of LIBOR plus 1.75% and is subject to eligibility requirements for current accounts receivable and inventory balances. The term loans consist of a \$700,000 ten year term loan with a twenty year amortization, secured by our building at an interest rate of LIBOR plus 2.25%; a \$1.8 million four year term loan to refinance our outstanding term loan under the previous credit facility, secured by equipment, at an interest rate of LIBOR plus 2.10%; and a \$1.5 million five year term loan, secured by equipment, at an interest rate of LIBOR plus 2.10%. Monthly payments on the term loans will be approximately \$62,000 plus interest.

Additionally, we continue to evaluate expansion opportunities that could increase product lines, enhance our manufacturing capabilities or reduce risks associated with a variety of factors.

Results of Operations – Three Months Ended March 31, 2004 vs. Three Months Ended March 31, 2003

Net Sales

	Three Months Ended March 31,	
	2004	2003
	(in thousands)	
Private Label Contract Manufacturing	\$ 18,966	\$ 11,259
Direct-to-Consumer Marketing Program	2,302	2,496
Total Net Sales	\$ 21,268	\$ 13,755

Total net sales for the quarter ended March 31, 2004 increased \$7.5 million, or 55% over the comparable quarter last year. The net sales growth resulted from a \$7.7 million, or 68%, increase in private label contract manufacturing sales offset by a (\$194,000), or 8%, decrease in DTC net sales.

The increase in private label contract manufacturing sales was due primarily to an increase of \$4.8 million in net sales to our two largest customers, including \$1.4 million from new products and \$3.4 million from established products. Additionally, the increase in private label contract manufacturing sales included \$3.2 million of new products formulated for new private label contract manufacturing customers. Looking forward, we anticipate growth in private label contract manufacturing sales in the fourth quarter of approximately 4% to 6% over the third quarter of fiscal 2004.

The decrease in DTC sales was partially due to a reduction in our media spending investment in new television markets for the Dr. Cherry Pathway to Healing™ brand, as the investment did not produce what we considered to be adequate results. Additionally, we experienced a reduction in new customer acquisitions from our primary television market, while the average order value remained consistent. During the third quarter we identified opportunities to improve the content and style of the television programs. We anticipate introducing the upgraded television programs in the second quarter of fiscal 2005. Looking forward, we anticipate a further reduction in DTC sales over the near term.

Gross Profit

	Three Months Ended March 31,	
	2004	2003
	(in thousands)	
Gross Profit	\$ 5,053	\$ 3,287
As a Percentage of Net Sales	23.8%	23.9%

Gross profit margin was consistent at 23.8% for the three months ended March 31, 2004 compared to 23.9% for the comparable quarter last year. The gross profit margin remained consistent due to a 1.5 percentage point increase in material cost as a percentage of net sales, offset by a 1.4 percentage point decrease in labor and overhead as a percentage of net sales. Looking forward, we expect our quarterly gross profit margin to remain relatively consistent with the third quarter of fiscal 2004.

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Our material cost as a percentage of net sales was 54.3% (\$11.5 million) for the three months ended March 31, 2004 and 52.8% (\$7.3 million) for the comparable quarter last year. The increase in material cost as a percentage of net sales was primarily due to recording inventory reserves of \$145,000 for raw materials identified as slow moving or for which there has been limited demand. Additionally, inventory reserves of \$111,000 were recorded for Jennifer O'Neill Signature Line™ products along with \$120,000 of remaining royalty payments due to Jennifer O'Neill as of March 31, 2004 as a result of terminating the Jennifer O'Neill Signature Line™ brand. These charges were partially offset by a favorable shift in our sales mix to higher margin products of \$84,000.

Our labor and overhead expenses as a percentage of net sales were 21.9% (\$4.7 million) for the three months ended March 31, 2004 compared to 23.3% (\$3.2 million) for the comparable quarter last year. The decrease in labor and overhead as a percentage of net sales was primarily due to fixed cost leverage on higher net sales.

Selling, General and Administrative Expenses

Selling, general and administrative expenses were \$4.0 million (19.0% of net sales) in the three months ended March 31, 2003, compared to \$3.1 million (22.4% of net sales) in the comparable quarter last year. The increase in absolute dollars of \$971,000 was primarily due to the additional \$600,000 for anticipated compensation payments under our fiscal 2004 Management Incentive Plan, \$109,000 in compensation and relocation costs to strengthen our research and development team, \$135,000 in property, product liability and general liability insurance premiums, \$88,000 in sales commissions, \$51,000 for clinical studies, \$34,000 in pension expense, \$34,000 in bad debt expense for inherent collection risks and \$31,000 in regulatory consulting, partially offset by the \$200,000 reduction in our DTC media investment. Looking forward, we anticipate selling, general and administrative expenses for the fourth quarter of fiscal 2004 to remain relatively consistent as a percentage of net sales with the third quarter of fiscal 2004.

Income from Operations

Our income from operations was \$1.0 million for the three months ended March 31, 2004, compared to \$211,000 in the comparable quarter last year. The improvement in our income from operations was due to the increase in gross profit of \$1.8 million from higher net sales, partially offset by incremental selling, general and administrative expenses of \$971,000.

Other income (expense)

Other income (expense) was (\$138,000) for the three months ended March 31, 2004, compared to (\$33,000) in the comparable quarter last year. The decrease was primarily due to the increase of \$63,000 in foreign exchange losses on the translation of Euro denominated cash and receivables. Looking forward, in the fourth quarter of fiscal 2004 we anticipate incurring a \$30,000 prepayment penalty, in addition to a \$37,000 write-off of deferred loan origination costs as a result of refinancing our credit facility. Additionally, if the US dollar continues to strengthen against the Euro in the fourth quarter of fiscal 2004, we anticipate incurring additional foreign exchange losses for the translation of Euro denominated cash and receivables.

Income taxes

Based on the historical operating losses and the uncertainty about sufficient near term taxable income, a full valuation allowance was recorded at March 31, 2004. If we continue to achieve operating results comparable to recent quarters, we anticipate a reduction of the valuation allowance and the recognition of a deferred tax benefit in the fourth quarter of fiscal 2004.

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Net Income

Our net income was \$855,000 (\$0.13 per diluted share) for the three months ended March 31, 2004 compared to \$172,000 (\$0.03 per diluted share) in the comparable quarter last year. The net income improvement was due to the increase in income from operations of \$795,000 offset by an increase in other expense of \$105,000.

Results of Operations – Nine Months Ended March 31, 2004 vs. Nine Months Ended March 31, 2003

Net Sales

	Nine Months Ended March 31,	
	2004	2003
	(in thousands)	
Private Label Contract Manufacturing	\$ 47,415	\$ 32,379
Direct-to-Consumer Marketing Program	7,769	7,522
Total Net Sales	\$ 55,184	\$ 39,901

Total net sales for the nine months ended March 31, 2004 increased \$15.3 million, or 38%, over the comparable period last year. The net sales growth resulted from a \$15.0 million, or 46%, increase in private label contract manufacturing sales and a \$247,000, or 3%, increase in net sales from our direct-to-consumer marketing program.

The increase in private label contract manufacturing sales was due primarily to an increase of \$10.2 million in net sales for our two largest customers, including \$2.9 million from new products and \$7.3 million from established products. Additionally, the increase in private label contract manufacturing sales included \$5.7 million of new products formulated for new private label contract manufacturing customers.

Gross Profit

	Nine Months Ended March 31,	
	2004	2003
	(in thousands)	
Gross Profit	\$ 13,094	\$ 9,534
As a Percentage of Net Sales	23.7%	23.9%

Gross profit margin was consistent at 23.7% for the nine months ended March 31, 2004 compared to 23.9% for the comparable period last year. The gross profit margin remained consistent due to a 1.2 percentage point increase in material cost as a percentage of net sales, offset by a 1.0 percentage point decrease in labor and overhead as a percentage of net sales.

Our material cost as a percentage of net sales was 53.6% (\$29.6 million) in the nine months ended March 31, 2004 and 52.4% (\$20.9 million) in the comparable period last year. The increase in material cost as a percentage of net sales was primarily due to recording inventory reserves of \$779,000 for specific inventory realization risks and \$111,000 for Jennifer O'Neill Signature Line™ products as a result of terminating the Jennifer O'Neill Signature Line™ brand. Additionally, incremental royalty payments of \$220,000 were recognized for Jennifer O'Neill and Deepak Chopra. These charges were partially offset by a favorable shift in our sales mix to higher margin products of \$800,000.

Our labor and overhead expenses as a percentage of net sales were 22.7% (\$12.5 million) for the nine months ended March 31, 2004 compared to 23.7% (\$9.5 million) in the comparable period last year. The decrease in labor and overhead as a percentage of net sales was primarily due to fixed cost leveraging on higher net sales.

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Selling, General and Administrative Expenses

Selling, general and administrative expenses were \$10.9 million (19.8% of net sales) in the nine months ended March 31, 2004, compared to \$8.7 million (21.7% of net sales) in the comparable period last year. The increase in absolute dollars of \$2.2 million was primarily due to the additional \$690,000 for anticipated compensation payments under our fiscal 2004 Management Incentive Plan, \$319,000 in property, product liability and general liability insurance premiums, \$194,000 in regulatory consulting, \$185,000 in compensation and relocation costs to strengthen our research and development team, \$185,000 in DTC media investment, \$184,000 in sales commissions, \$139,000 in pension expense and \$96,000 in bad debt expense.

Income from Operations

Our income from operations was \$2.2 million for the nine months ended March 31, 2004 compared to \$869,000 in the comparable period last year. The improvement in our income from operations was due to the increase in gross profit of \$3.6 million from higher net sales, partially offset by incremental selling, general and administrative expenses of \$2.2 million.

Other income (expense)

Other income (expense) was (\$116,000) for the nine months ended March 31, 2004, compared to \$10,000 in the comparable period last year. The decrease in other income (expense) was primarily due to the prior year proceeds from the settlement of claims associated with the vitamin antitrust litigation of \$225,000, partially offset by a \$99,000 increase in foreign exchange gains in fiscal 2004 from the translation of Euro denominated cash and receivables.

Net Income

Our net income was \$2.0 million (\$0.32 per diluted share) for the nine months ended March 31, 2004 compared to \$858,000 (\$0.14 per diluted share) in the comparable period last year. The net income improvement was due to the increase in income from operations of \$1.3 million offset by an increase in other expense of \$126,000. Excluding the effects of litigation settlement proceeds of \$225,000 in the first quarter of fiscal 2003, net income increased \$1.4 million or \$0.21 per diluted share.

Liquidity and Capital Resources

Our working capital increased in the nine months ended March 31, 2004 to \$14.2 million versus \$12.3 million at June 30, 2003. Cash and cash equivalents decreased \$2.3 million primarily as a result of an increase of \$4.4 million in inventory. Inventory increased primarily due to customer requirements and potential revenue growth.

Accounts receivable, net of the allowance for doubtful accounts, increased \$661,000 at March 31, 2004 compared to June 30, 2003 due to the increase in net sales. Days sales outstanding decreased to 23 days at March 31, 2004 from 26 days at June 30, 2003. Accounts payable as a percentage of inventory was 30% at March 31, 2004 versus 64% at June 30, 2003 due to timing of disbursements to vendors.

Approximately \$1.5 million of our operating cash flow was generated by NAIE in the nine months ended March 31, 2004. As of March 31, 2004, there were no material restrictions on the transfer of these funds within the Company.

Capital expenditures for the nine months ended March 31, 2004 were approximately \$2.0 million. These expenditures included approximately \$1.3 million for the continuing investment in our domestic manufacturing equipment. We plan on investing approximately \$1.0 million of capital expenditures in the fourth quarter of fiscal 2004 to expand manufacturing capacity and improve efficiency in packaging operations. Additionally, in the first four months of fiscal 2005 we plan on investing \$2.2 million in tenant improvements, net of a \$960,000 tenant improvement allowance that will be funded by our landlord, to build out the 46,000 square feet contiguous to our existing space at 1215 Park Center Drive.

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Our consolidated debt increased to \$3.4 million at March 31, 2004 from \$3.0 million at June 30, 2003. Our consolidated debt of \$3.4 million included a \$696,000 term loan secured by our building. Additionally, as of March 31, 2004, we had a \$1.8 million term loan outstanding and a \$900,000 working capital line of credit balance that were part of a credit facility that was due to expire in October 2004. The credit facility was secured by all of our assets. The working capital line of credit was subject to eligibility requirements for current accounts receivable and inventory balances. As of March 31, 2004, we had \$2.3 million available under the line of credit, net of the outstanding letter of credit. The interest rate on the term loan and line of credit was prime plus 0.5%.

On May 11, 2004 we entered into a new \$12.0 million credit facility with a bank to refinance our existing credit facility. The new facility is comprised of an \$8.0 million working capital line of credit and \$4.0 million in term loans and is secured by all of our assets. The working capital line of credit has a 2.5-year term, interest rate of LIBOR plus 1.75% and is subject to eligibility requirements for current accounts receivable and inventory balances. The term loans consist of a \$700,000 ten year term loan with a twenty year amortization, secured by our building at an interest rate of LIBOR plus 2.25%; a \$1.8 million four year term loan to refinance our outstanding term loan under the previous credit facility, secured by equipment, at an interest rate of LIBOR plus 2.10%; and a \$1.5 million five year term loan, secured by equipment, at an interest rate of LIBOR plus 2.10%. Monthly payments on the new term loans will be approximately \$62,000 plus interest.

The new credit facility provided a \$2.2 million increase in our cash position and an additional \$4.4 million in borrowing capacity from the line of credit, net of the letter of credit issued on May 11, 2004 to our landlord, which reduced the availability under the line of credit by \$440,000.

We plan on funding our current working capital needs, capital expenditures and debt payments using cash flow from operations and our new credit facility.

On January 6, 2004 we purchased option contracts designated as cash flow hedges to protect against the foreign currency exchange risk inherent in our forecasted transactions denominated in Euros. The option contracts have a notional amount of \$8.3 million and a purchase price of \$55,000. The premium associated with each option contract is marked-to-market and realized gains or losses are recognized on the settlement date in cost of goods sold. For the nine months ended March 31, 2004 approximately \$22,000 had been charged to cost of goods sold for options contracts outstanding during the year. The risk of loss associated with purchased options is limited to premium amounts paid for the option contracts.

Off-Balance Sheet Arrangements

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

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Contractual Obligations

This table summarizes our known contractual obligations and commercial commitments at May 11, 2004 (in thousands).

Contractual Obligations	Total	Less Than 1 Year	1 – 3 Years	3 – 5 Years	More Than 5 Years
Long-term Debt	\$ 4,739	\$ 830	\$ 949	\$ 1,005	\$ 1,955
Operating Leases ⁽¹⁾	14,810	1,069	3,096	3,108	7,537
Construction agreement ⁽²⁾	2,192	2,192	—	—	—
Purchase Obligation ⁽³⁾	246	246	—	—	—
Total Obligations	\$21,987	\$ 4,337	\$4,045	\$4,113	\$ 9,492

⁽¹⁾ Operating lease obligations are shown net of \$249,000 in sublease rental income that should be received through March 2005.

⁽²⁾ Construction agreement obligation is shown net of \$960,000 tenant improvement allowance provided under our lease agreement signed on October 27, 2003.

⁽³⁾ On October 20, 2003 we entered into a purchase obligation for certain raw materials from a supplier for one year. Raw materials are to be delivered by the supplier as needed. This obligation is not recorded in our consolidated financial statements until delivery of raw material has occurred.

Recent Accounting Pronouncements

In January 2003, the Financial Accounting Standards Board (“FASB”) issued Interpretation No. 46 (“FIN 46”), “Consolidation of Variable Interest Entities, an interpretation of ARB No. 51”. FIN 46 was revised in December 2003 and clarifies the application of ARB 51 to certain entities in which equity investors do not have the characteristics of a controlling financial interest or do not have sufficient equity at risk for the entity to finance its activities without additional subordinated financial support. The application of FIN 46 may require that an entity be subject to consolidation even though the investor does not have a controlling financial interest that, under ARB 51, was usually deemed to exist through ownership of a majority voting interest. FIN 46, as revised, is generally effective for all entities subject to the interpretation no later than the end of the first reporting period that ends after March 15, 2004. We currently have no investments in entities within the scope of FIN 46 and as a result the application of FIN 46 had no material effect on our financial statements.

In December 2003, the FASB revised Statement of Financial Accounting Standards No. 132, “Employers’ Disclosures about Pension and Other Postretirement Benefits” (“Revised Statement 132”). Revised Statement 132 revises employers’ required disclosures about pension plans and other postretirement benefit plans. It does not change the measurement or recognition of those plans required by FASB Statements No. 87, “Employers’ Accounting for Pensions”, No. 88, “Employers’ Accounting for Settlements and Curtailments of Defined Benefit Pension Plans and for Termination Benefits” and No. 106, “Employers’ Accounting for Postretirement Benefits Other Than Pensions”. Revised Statement 132 requires disclosures in addition to those in the original FASB No. 132. Revised Statement 132 is effective for financial statements with fiscal years ending after December 15, 2003. The interim period disclosures required by Revised Statement 132 are effective for interim periods beginning after December 15, 2003. We adopted Revised Statement 132 beginning in the third quarter of fiscal 2004 and it did not have a material impact on our financial statements or related footnotes.

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In March 2004, the FASB issued an exposure document entitled “Share-Based Payment - an amendment of Statements No. 123 and 95 (Proposed Statement of Financial Accounting Standards)”. The proposed statement would eliminate the ability to account for share-based compensation transactions using APB Opinion No. 25 and generally require instead that such transactions be accounted for using a fair-value-based method. This accounting, if approved, will result in significant compensation expense charges to our future results of operations. The proposed statement, if adopted, would be applied to public entities prospectively for fiscal years beginning after December 15, 2004, as if all share-based compensation awards granted, modified, or settled after December 15, 2004, had been accounted for using the fair-value method of accounting. Retrospective application of the proposed statement is not permitted.

Risks

You should carefully consider the risks described under Item 7 of our 2003 Annual Report, as well as the other information in our 2003 Annual Report and in this report, when evaluating our business and future prospects. If any of the identified risks actually occur, our business, financial condition and results of operations could be seriously harmed. In that event, the market price of our common stock could decline and you could lose all or a portion of the value of your investment in our common stock.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

Interest Rates

At March 31, 2004, we had fixed rate debt of \$696,000 and variable rate debt of approximately \$2.7 million. The interest rate on our variable rate debt was equal to prime plus 0.5%, and was 4.5% as of March 31, 2004. An immediate one hundred basis point (1.0%) increase in the interest rate on our variable rate debt, holding other variables constant, would increase our interest expense by \$23,000 for the nine months ended March 31, 2004. We refinanced our credit facility on May 11, 2004. The new facility includes variable interest rates ranging from LIBOR plus 1.75% to LIBOR plus 2.25%. Interest rates have been at or near historic lows in recent years. There can be no guarantee that interest rates will not rise. Any increase in interest rates may adversely affect our results of operations and financial condition.

Foreign Currencies

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

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

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On January 6, 2004, we bought option contracts designated as cash flow hedges to protect against the foreign currency exchange risk inherent in a portion of our forecasted transactions denominated in Euros. The option contracts had a notional amount of \$8.3 million and a purchase price of \$55,000. The risk of loss associated with the options is limited to premium amounts paid for the option contracts. As of March 31, 2004, we had not exercised any of the options and three of the options had expired.

On March 31, 2004, the Swiss Franc closed at 1.28 to 1.00 United States dollar and the Euro closed at 0.82 to 1.00 United States dollar. A 10% adverse change to the exchange rates between the Swiss Franc and the Euro against the United States dollar would have decreased our earnings for the nine months ended March 31, 2004 by \$1.1 million.

ITEM 4. CONTROLS AND PROCEDURES

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

Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of our disclosure controls and procedures as of March 31, 2004. Based on their evaluation, they concluded that our disclosure controls and procedures were effective for their intended purpose described above. There were no changes to our internal controls during the quarterly period ended March 31, 2004 that have materially affected, or that are reasonably likely to materially affect, our internal controls.

PART II - OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

From time to time, we become involved in various investigations, claims and legal proceedings that arise in the ordinary course of our business. These matters may relate to product liability, employment, intellectual property, tax, regulation, contract or other matters. The resolution of these matters as they arise will be subject to various uncertainties. While unfavorable outcomes are possible, we believe the resolution of these matters, individually or in the aggregate, will not result in a material adverse effect on our business, financial condition or results of operations.

As of May 17, 2004, neither NAI nor its subsidiaries were a party to any material pending legal proceedings nor was any of their property the subject of any material pending legal proceedings.

ITEM 2. CHANGES IN SECURITIES AND USE OF PROCEEDS

None.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

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

Our annual meeting of stockholders was held on January 30, 2004. The following table sets forth the matters voted upon at the meeting and the results of the voting on each matter voted upon:

<u>Matter Voted Upon</u>	<u>Votes For</u>	<u>Withheld</u>	<u>Votes Against</u>	<u>Abstentions</u>	<u>Broker Non-Votes</u>
Election of two Class I directors to serve until the next annual meeting of stockholders held to elect Class I directors and until their successors are elected and qualified:					
Mark A. LeDoux	5,014,948	398,378	—	—	—
Joe E. Davis	5,013,246	400,080	—	—	—
Approval of an amendment to our 1999 Omnibus Equity Incentive Plan, including an increase of 500,000 shares authorized for issuance under the plan	2,085,650	—	609,798	59,111	5,413,326
Ratification of the selection of Emst & Young LLP as our independent auditors for the fiscal year ending June 30, 2004	5,385,920	—	13,675	13,731	420,721

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 counted in the voting process. Each of the above directors and matters was approved by the stockholders at the annual meeting.

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

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

EXHIBIT INDEX

<u>Exhibit Number</u>	<u>Description</u>	<u>Incorporated By Reference To</u>
3(i)	Restated Certificate of Incorporation of Natural Alternatives International, Inc. filed with the Delaware Secretary of State on July 31, 1996	Exhibit 3(i) of NAI's Annual Report on Form 10-K for the fiscal year ended June 30, 2003, filed with the commission on September 17, 2003
3(ii)	By-laws of Natural Alternatives International, Inc. dated as of December 21, 1990	NAI's Registration Statement on Form S-1 (File No. 33-44292) filed with the commission on December 21, 1992
10.1	1999 Omnibus Equity Incentive Plan as adopted effective May 10, 1999	Exhibit A of NAI's definitive Proxy Statement filed with the commission on October 21, 1999
10.2	1999 Employee Stock Purchase Plan as adopted effective October 18, 1999	Exhibit B of NAI's definitive Proxy Statement filed with the commission on October 21, 1999.
10.3	Management Incentive Plan	Exhibit 10.3 of NAI's Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2003, filed with the commission on November 5, 2003
10.4	Form of Executive Employment Agreement dated as of September 13, 2003, by and between NAI and Mark Zimmerman	Exhibit 10.4 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
10.5	Form of Executive Employment Agreement dated as of September 13, 2003, by and between NAI and Randell Weaver	Exhibit 10.5 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
10.6	Form of Executive Employment Agreement dated as of September 13, 2003, by and between NAI and Mark A. LeDoux	Exhibit 10.6 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	Form of Executive Employment Agreement dated as of September 13, 2003, by and between NAI and John Wise	Exhibit 10.7 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
10.8	Form of Executive Employment Agreement dated as of September 13, 2003, by and between NAI and John Reaves	Exhibit 10.8 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
10.9	Form of Executive Employment Agreement dated as of September 13, 2003, by and between NAI and Timothy E. Belanger	Exhibit 10.9 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
10.10	Lease of Facilities in Vista, California between NAI and Calwest Industrial Properties, LLC, a California limited liability company dated October 27, 2003	Exhibit 10.10 of NAI's Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2003, filed with the commission on November 5, 2003
10.11	Credit Agreement dated as of May 1, 2004 by and between NAI and Wells Fargo Bank, National Association	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

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(b) Reports on Form 8-K

On February 2, 2004, we filed a Current Report on Form 8-K with the SEC that included a press release issued on February 2, 2004, announcing our financial results for the second quarter ended December 31, 2003. This report was the only report on Form 8-K that we filed during the quarterly period ended March 31, 2004.

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: May 17, 2004

NATURAL ALTERNATIVES INTERNATIONAL, INC.

By: /s/ John R. Reaves

John R. Reaves, Chief Financial Officer

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

CREDIT AGREEMENT

THIS AGREEMENT is entered into as of May 1, 2004, by and between NATURAL ALTERNATIVES INTERNATIONAL, INC., a Delaware corporation ("Borrower"), and WELLS FARGO BANK, NATIONAL ASSOCIATION ("Bank").

RECITALS

Borrower has requested that Bank extend or continue credit to Borrower as described below, and Bank has agreed to provide such credit to Borrower on the terms and conditions contained herein.

NOW, THEREFORE, for valuable consideration, the receipt and sufficiency of which are hereby acknowledged, Bank and Borrower hereby agree as follows:

ARTICLE I
CREDIT TERMS

1.1 LINE OF CREDIT.

(a) Line of Credit. Subject to the terms and conditions of this Agreement, Bank hereby agrees to make advances to Borrower from time to time up to and including November 1, 2006, not to exceed at any time the aggregate principal amount of Eight Million and 00/100 Dollars (\$8,000,000.00) ("Line of Credit"), the proceeds of which shall be used to finance Borrower's working capital requirements. Borrower's obligation to repay advances under the Line of Credit shall be evidenced by a promissory note dated as of May 1, 2004 ("Line of Credit Note"), all terms of which are incorporated herein by this reference.

(b) Limitation on Borrowings. Outstanding borrowings under the Line of Credit, to a maximum of the principal amount set forth above, shall not at any time exceed an aggregate of eighty-five percent (85%) of Borrower's eligible accounts receivable, plus fifty percent (50%) of the value of Borrower's eligible inventory (exclusive of work in process and inventory which is obsolete, unsaleable or damaged), with value defined as the lower of cost or market value; provided however, that outstanding borrowings against inventory shall not at any time exceed an aggregate of Three Million Dollars (\$3,000,000.00). All of the foregoing shall be determined by Bank upon receipt and review of all collateral reports required hereunder and such other documents and collateral information as Bank may from time to time require. Borrower acknowledges that said borrowing base was established by Bank with the understanding that, among other items, the aggregate of all returns, rebates, discounts, credits and allowances for the immediately preceding three (3) months at all times shall be less than five percent (5%) of Borrower's gross sales for said period. If such dilution of Borrower's accounts for the immediately preceding three (3) months at any time exceeds five percent (5%) of Borrower's gross sales for said period, or if there at any time exists any other matters, events, conditions or contingencies which Bank reasonably believes may affect payment of any portion of Borrower's accounts, Bank, in its sole discretion, may reduce the foregoing advance rate against eligible accounts receivable to a percentage appropriate to reflect such additional dilution and/or establish additional reserves against Borrower's eligible accounts receivable.

As used herein, "eligible accounts receivable" shall consist solely of trade accounts created in the ordinary course of Borrower's business, upon which Borrower's right to receive payment is absolute and not contingent upon the fulfillment of any condition whatsoever, and in which Bank has a perfected security interest of first priority, and shall not include:

- (i) any account which is past due more than twice Borrower's standard selling terms;

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- (ii) that portion of any account for which there exists any right of setoff, defense or discount (except regular discounts allowed in the ordinary course of business to promote prompt payment) or for which any defense or counterclaim has been asserted;
 - (iii) any account which represents an obligation of any state or municipal government or of the United States government or any political subdivision thereof (except accounts which represent obligations of the United States government and for which the assignment provisions of the Federal Assignment of Claims Act, as amended or recodified from time to time, have been complied with to Bank's satisfaction);
 - (iv) any account which represents an obligation of an account debtor located in a foreign country;
 - (v) any account which arises from the sale or lease to or performance of services for, or represents an obligation of, an employee, affiliate, partner, member, parent or subsidiary of Borrower;
 - (vi) that portion of any account, which represents interim or progress billings or retention rights on the part of the account debtor;
 - (vii) any account which represents an obligation of any account debtor when twenty percent (20%) or more of Borrower's accounts from such account debtor are not eligible pursuant to (i) above;
 - (viii) that portion of any account from an account debtor which represents the amount by which Borrower's total accounts from said account debtor exceeds twenty-five percent (25%) of Borrower's total accounts, except that Borrower's total accounts from account debtors Obesity Research, Fiber Thin and Mannatech, Inc. shall not exceed thirty-five percent (35%) as determined by semi-monthly report pursuant to Section 4.3.(d) below;
 - (ix) any account deemed ineligible by Bank when Bank, in its sole discretion, deems the creditworthiness or financial condition of the account debtor, or the industry in which the account debtor is engaged, to be unsatisfactory.

(c) Letter of Credit Subfeature. As a subfeature under the Line of Credit, Bank agrees from time to time during the term thereof to issue or cause an affiliate to issue standby or commercial letters of credit for the account of Borrower (each, a "Letter of Credit" and collectively, "Letters of Credit"); provided however, that the aggregate undrawn amount of all outstanding Letters of Credit shall not at any time exceed Five Hundred Thousand Dollars (\$500,000.00). The form and substance of each Letter of Credit shall be subject to approval by Bank, in its sole discretion. No Letter of Credit shall have an expiration date subsequent to the maturity date of the Line of Credit. The undrawn amount of all Letters of Credit shall be reserved under the Line of Credit and shall not be available for borrowings thereunder. Each Letter of Credit shall be subject to the additional terms and conditions of the Letter of Credit agreements, applications and any related documents required by Bank in connection with the issuance thereof. Each drawing paid under a Letter of Credit shall be deemed an advance under the Line of Credit and shall be repaid by Borrower in accordance with the terms and conditions of this Agreement applicable to such advances; provided however, that if advances under the Line of Credit are not available, for any reason, at the time any drawing is paid, then Borrower shall immediately pay to Bank the full amount drawn, together with interest thereon from the date such drawing is paid to the date such amount is fully repaid by Borrower, at the rate of interest applicable to advances under the Line of Credit. In such event Borrower agrees that Bank, in its sole discretion, may debit any account maintained by Borrower with Bank for the amount of any such drawing.

(d) Borrowing and Repayment. Borrower may from time to time during the term of the Line of Credit borrow, partially or wholly repay its outstanding borrowings, and reborrow, subject to all of the limitations, terms and conditions contained herein or in the Line of Credit Note; provided however, that the total

outstanding borrowings under the Line of Credit shall not at any time exceed the maximum principal amount available thereunder, as set forth above.

1.2 TERM LOAN 1.

(a) Term Loan 1. Subject to the terms and conditions of this Agreement, Bank hereby agrees to make a loan to Borrower in the principal amount of Seven Hundred Thousand and 00/100 Dollars (\$700,000.00) ("Term Loan 1"), the proceeds of which shall be used for tenant improvements. Borrower's obligation to repay Term Loan 1 shall be evidenced by a promissory note dated as of May 1, 2004 ("Term Note 1"), all terms of which are incorporated herein by this reference. Bank's commitment to grant Term Loan 1 shall terminate on June 1, 2004.

(b) Repayment. Principal and interest on Term Loan 1 shall be repaid in accordance with the provisions of Term Note 1.

(c) Prepayment. Borrower may prepay principal on Term Loan 1 solely in accordance with the provisions of Term Note 1.

1.3 TERM LOAN 2.

(a) Term Loan 2. Bank has made a loan to Borrower in the original principal amount of One Million One Hundred Ten Thousand and 00/100 Dollars (\$1,110,000.00) ("Term Loan 2"), on which the outstanding principal balance as of the date hereof is 683,988.27. Borrower's obligation to repay Term Loan 2 is evidenced by a promissory note dated as of May 2, 1996 ("Term Note 2"), all terms of which are incorporated herein by this reference. Any reference in Term Loan 2 to any prior loan agreement between Bank and Borrower shall be deemed a reference to this Agreement. Subject to the terms and conditions of this Agreement, Bank hereby confirms that Term Loan 2 remains in full force and effect. In the event of any conflict between this Agreement and Term Note 2, the terms of this Agreement shall control.

(b) Repayment. The principal amount of Term Loan 2 shall be repaid in accordance with the provisions of Term Note 2.

(c) Prepayment. Borrower may prepay principal on Term Loan 2 solely in accordance with the provisions of Term Note 2.

1.4 FOREIGN EXCHANGE FACILITY.

(a) Foreign Exchange Facility. Subject to the terms and conditions of this Agreement, Bank hereby agrees to make available to Borrower a facility {the "Foreign Exchange Facility"} under which Bank, from time to time up to and including May 1, 2005 will enter into foreign exchange contracts for the account of Borrower for the purchase and/or sale by Borrower in United States dollars of foreign currencies designated by Borrower; provided however, that the contract limit shall not at any time exceed an aggregate of One Million Seven Hundred Thousand United States Dollars (US\$1,700,000.00). No foreign exchange contract shall be executed for a term which extends beyond May 1, 2006. Borrower shall have a "Delivery Limit" under the Foreign Exchange Facility not to exceed at any time the aggregate principal amount of Zero United States Dollars (US\$0.00) with PVD ("Payment versus Delivery") which will require Borrower to provide funds before the currency is delivered and this will eliminate the 1 or 2 business day settlement period and mitigate settlement risk. All foreign exchange transactions shall be subject to the additional terms of a Foreign Exchange Agreement, dated as of May 1, 2004 ("Foreign Exchange Agreement"), all terms of which are incorporated herein by this reference.

(b) Settlement. Each foreign exchange contract under the Foreign Exchange Facility shall be settled on its maturity date by Bank's debit to any deposit account maintained by Borrower with Bank.

1.5 INTEREST/FEES.

(a) Interest. The outstanding principal balance of each credit subject hereto shall bear interest at the rate of interest set forth in each promissory note or other instrument or document executed in connection therewith.

(b) Computation and Payment. Interest shall be computed on the basis of a 360-day year, actual days elapsed. Interest shall be payable at the times and place set forth in each promissory note or other instrument or document required hereby.

(c) Commitment Fee. Borrower shall pay to Bank a non-refundable commitment fee for the Line of Credit equal to Twenty Thousand Dollars (\$20,000.00) payable quarterly in the amount of \$5,000.00 commencing June 1, 2004 until March 1, 2005 and a non-refundable commitment fee for the Term Loan 1 equal to Three Thousand Five Hundred Dollars (\$3,500.00), which fee shall be due and payable in full upon the execution of this Agreement.

(d) Letter of Credit Fees. Borrower shall pay to Bank fees upon the issuance of each Letter of Credit, upon the payment or negotiation of each drawing under any Letter of Credit and upon the occurrence of any other activity with respect to any Letter of Credit (including without limitation, the transfer, amendment or cancellation of any Letter of Credit) determined in accordance with Bank's standard fees and charges then in effect for such activity.

1.6 COLLECTION OF PAYMENTS. Borrower authorizes Bank to collect all principal, interest and fees due under each credit subject hereto by charging Borrower's deposit account number 4159-355015 with Bank, or any other deposit account maintained by Borrower with Bank, for the full amount thereof. Should there be insufficient funds in any such deposit account to pay all such sums when due, the full amount of such deficiency shall be immediately due and payable by Borrower.

1.7 COLLATERAL.

As security for all indebtedness of Borrower to Bank under the Line of Credit, Borrower hereby grants to Bank security interests of first priority in all Borrower's accounts receivable and other rights to payment, general intangibles, inventory and equipment.

As security for all indebtedness of Borrower to Bank under Term Loan 1, Borrower hereby grants to Bank a lien of not less than second priority on that certain real property located at 1185 Linda Vista Drive, San Marcos, CA 92069.

As security for all indebtedness of Borrower to Bank under the Term Loan 2, Borrower hereby grants to Bank a lien of not less than first priority on that certain real property located at 1185 Linda Vista Drive, San Marcos, CA 92069.

All of the foregoing shall be evidenced by and subject to the terms of such security agreements, financing statements, deeds of trust and other documents as Bank shall reasonably require, all in form and substance satisfactory to Bank. Borrower shall reimburse Bank immediately upon demand for all costs and expenses incurred by Bank in connection with any of the foregoing security, including without limitation, filing and recording fees and costs of appraisals, audits and title insurance.

ARTICLE II
REPRESENTATIONS AND WARRANTIES

Borrower makes the following representations and warranties to Bank, which representations and warranties shall survive the execution of this Agreement and shall continue in full force and effect until the full and final payment, and satisfaction and discharge, of all obligations of Borrower to Bank subject to this Agreement.

2.1 LEGAL STATUS. Borrower is a **corporation**, duly organized and existing and in good standing under the laws of the State of Delaware, and is qualified or licensed to do business (and is in good standing as a foreign corporation, if applicable) in all jurisdictions in which such qualification or licensing is required or in which the failure to so qualify or to be so licensed could have a material adverse effect on Borrower.

2.2 AUTHORIZATION AND VALIDITY. This Agreement and each promissory note, contract, instrument and other document required hereby or at any time hereafter delivered to Bank in connection herewith (collectively, the "Loan Documents") have been duly authorized, and upon their execution and delivery in accordance with the provisions hereof will constitute legal, valid and binding agreements and obligations of Borrower or the party which executes the same, enforceable in accordance with their respective terms.

2.3 NO VIOLATION. The execution, delivery and performance by Borrower of each of the Loan Documents do not violate any provision of any law or regulation, or contravene any provision of the Articles of Incorporation or By-Laws of Borrower, or result in any breach of or default under any contract, obligation, indenture or other instrument to which Borrower is a party or by which Borrower may be bound.

2.4 LITIGATION. There are no pending, or to the best of Borrower's knowledge threatened, actions, claims, investigations, suits or proceedings by or before any governmental authority, arbitrator, court or administrative agency which could have a material adverse effect on the financial condition or operation of Borrower other than those disclosed by Borrower to Bank in writing prior to the date hereof.

2.5 CORRECTNESS OF FINANCIAL STATEMENT. The financial statement of Borrower dated December 31, 2003, a true copy of which has been delivered by Borrower to Bank prior to the date hereof, (a) is complete and correct and presents fairly the financial condition of Borrower, (b) discloses all liabilities of Borrower that are required to be reflected or reserved against under generally accepted accounting principles, whether liquidated or unliquidated, fixed or contingent, and (c) has been prepared in accordance with generally accepted accounting principles consistently applied. Since the date of such financial statement there has been no material adverse change in the financial condition of Borrower, nor has Borrower mortgaged, pledged, granted a security interest in or otherwise encumbered any of its assets or properties except in favor of Bank or as otherwise permitted by Bank in writing.

2.6 INCOME TAX RETURNS. Borrower has no knowledge of any pending assessments or adjustments of its income tax payable with respect to any year.

2.7 NO SUBORDINATION. There is no agreement, indenture, contract or instrument to which Borrower is a party or by which Borrower may be bound that requires the subordination in right of payment of any of Borrower's obligations subject to this Agreement to any other obligation of Borrower.

2.8 PERMITS, FRANCHISES. Borrower possesses, and will hereafter possess, all permits, consents, approvals, franchises and licenses required and rights to all trademarks, trade names, patents, and fictitious names, if any, necessary to enable it to conduct the business in which it is now engaged in compliance with applicable law.

2.9 ERISA. Borrower is in compliance in all material respects with all applicable provisions of the Employee Retirement Income Security Act of 1974, as amended or recodified from time to time ("ERISA"); Borrower has not violated any provision of any defined employee pension benefit plan (as defined in ERISA) maintained or contributed to by Borrower (each, a "Plan"); no Reportable Event as defined in ERISA has occurred and is continuing with respect to any Plan initiated by Borrower; Borrower has met its minimum funding requirements under ERISA with respect to each Plan; and each Plan will be able to fulfill its benefit obligations as they come due in accordance with the Plan documents and under generally accepted accounting principles.

2.10 OTHER OBLIGATIONS. Borrower is not in default on any obligation for borrowed money, any purchase money obligation or any other material lease, commitment, contract, instrument or obligation,

2.11 ENVIRONMENTAL MATTERS. Except as disclosed by Borrower to Bank in writing prior to the date hereof, Borrower is in compliance in all material respects with all applicable federal or state environmental, hazardous waste, health and safety statutes, and any rules or regulations adopted pursuant thereto, which govern or affect any of Borrower's operations and/or properties, including without limitation, the Comprehensive Environmental Response, Compensation and Liability Act of 1980, the Superfund Amendments and Reauthorization Act of 1986, the Federal Resource Conservation and Recovery Act of 1976, and the Federal Toxic Substances Control Act, as any of the same may be amended, modified or supplemented from time to time. None of the operations of Borrower is the subject of any federal or state investigation evaluating whether any remedial action involving a material expenditure is needed to respond to a release of any toxic or hazardous waste or substance into the environment. Borrower has no material contingent liability in connection with any release of any toxic or hazardous waste or substance into the environment.

2.12 REAL PROPERTY COLLATERAL. Except as disclosed by Borrower to Bank in writing prior to the date hereof, with respect to any real property collateral required hereby:

(a) All taxes, governmental assessments, insurance premiums, and water, sewer and municipal charges, and rents (if any) which previously became due and owing in respect thereof have been paid as of the date hereof.

(b) There are no mechanics' or similar liens or claims which have been filed for work, labor or material (and no rights are outstanding that under law could give rise to any such lien) which affect all or any interest in any such real property and which are or may be prior to or equal to the lien thereon in favor of Bank.

(c) None of the improvements which were included for purpose of determining the appraised value of any such real property lies outside of the boundaries and/or building restriction lines thereof, and no improvements on adjoining properties materially encroach upon any such real property.

(d) There is no pending, or to the best of Borrower's knowledge threatened, proceeding for the total or partial condemnation of all or any portion of any such real property, and all such real property is in good repair and free and clear of any damage that would materially and adversely affect the value thereof as security and/or the intended use thereof.

ARTICLE III CONDITIONS

3.1 CONDITIONS OF INITIAL EXTENSION OF CREDIT. The obligation of Bank to extend any credit contemplated by this Agreement is subject to the fulfillment to Bank's satisfaction of all of the following conditions:

(a) Approval of Bank Counsel. All legal matters incidental to the extension of credit by Bank shall be satisfactory to Bank's counsel.

(b) Documentation. Bank shall have received, in form and substance satisfactory to Bank, each of the following, duly executed:

- (i) This Agreement and each promissory note or other instrument or document required hereby.
- (ii) Certificate of Incumbency.
- (iii) Corporate Resolution: Borrowing.
- (iv) Continuing Security Agreement: Rights to Payment and Inventory.
- (v) Security Agreement: Equipment.
- (vi) Deed of Trust, Fixture Filing and Assignment of Rents.

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- (vii) Deed of Trust and Assignment of Rents and Leases.
 - (viii) Waiver of Landlord or Mortgagee (Fixtures).
 - (ix) Disbursement Order.
 - (x) Escrow/title Instruction.
 - (xi) Foreign Exchange Agreement.
 - (xii) Authorization for Foreign Exchange Transactions.
 - (xiii) Such other documents as Bank may require under any other Section of this Agreement.

(c) Financial Condition. There shall have been no material adverse change, as determined by Bank, in the financial condition or business of Borrower or any guarantor hereunder, nor any material decline, as determined by Bank, in the market value of any collateral required hereunder or a substantial or material portion of the assets of Borrower or any such guarantor.

(d) Insurance. Borrower shall have delivered to Bank evidence of insurance coverage on all Borrower's property, in form, substance, amounts, covering risks and issued by companies satisfactory to Bank, and where required by Bank, with loss payable endorsements in favor of Bank, including without limitation, policies of fire and extended coverage insurance covering all real property collateral required hereby, with replacement cost and mortgagee loss payable endorsements, and such policies of insurance against specific hazards affecting any such real property as may be required by governmental regulation or Bank.

(e) Appraisals. Bank shall have obtained, at Borrower's cost, an appraisal of all real property collateral required hereby, and all improvements thereon, issued by an appraiser acceptable to Bank and in form, substance and reflecting values satisfactory to Bank, in its discretion.

(f) Title Insurance. Bank shall have received an ALTA Policy of Title Insurance, with such endorsements as Bank may require, issued by a company and in form and substance satisfactory to Bank, in such amount as Bank shall require, insuring Bank's lien on the real property collateral required hereby to be of first and second priority, subject only to such exceptions as Bank shall approve in its discretion, with all costs thereof to be paid by Borrower.

(g) Tax Service Contract. Borrower shall have procured and delivered to Bank, at Borrower's cost, such tax service contract as Bank shall require for any real property collateral required hereby, to remain in effect as long as such real property secures any obligations of Borrower to Bank as required hereby.

3.2 CONDITIONS OF EACH EXTENSION OF CREDIT. The obligation of Bank to make each extension of credit requested by Borrower hereunder shall be subject to the fulfillment to Bank's satisfaction of each of the following conditions:

(a) Compliance. The representations and warranties contained herein and in each of the other Loan Documents shall be true on and as of the date of the signing of this Agreement and on the date of each extension of credit by Bank pursuant hereto, with the same effect as though such representations and warranties had been made on and as of each such date, and on each such date, no Event of Default as defined herein, and no condition, event or act which with the giving of notice or the passage of time or both would constitute such an Event of Default, shall have occurred and be continuing or shall exist.

(b) Documentation. Bank shall have received all additional documents which may be required in connection with such extension of credit.

ARTICLE IV AFFIRMATIVE COVENANTS

Borrower covenants that so long as Bank remains committed to extend credit to Borrower pursuant hereto, or any liabilities (whether direct or contingent, liquidated or unliquidated) of Borrower to Bank under any of the

Loan Documents remain outstanding, and until payment in full of all obligations of Borrower subject hereto, Borrower shall, unless Bank otherwise consents in writing:

4.1 PUNCTUAL PAYMENTS. Punctually pay all principal, interest, fees or other liabilities due under any of the Loan Documents at the times and place and in the manner specified therein, and immediately upon demand by Bank, the amount by which the outstanding principal balance of any credit subject hereto at any time exceeds any limitation on borrowings applicable thereto.

4.2 ACCOUNTING RECORDS. Maintain adequate books and records in accordance with generally accepted accounting principles consistently applied, and permit any representative of Bank, at any reasonable time, to inspect, audit and examine such books and records, to make copies of the same, and to inspect the properties of Borrower.

4.3 FINANCIAL STATEMENTS. Provide to Bank all of the following, in form and detail satisfactory to Bank:

(a) not later than 90 days after and as of the end of each fiscal year, a copy of 10K report filed with the Securities Exchange Commission, prepared by a certified public accountant acceptable to Bank;

(b) not later than 30 days after and as of the end of each fiscal year, annual financial projections, prepared by Borrower on a quarterly basis, to include balance sheet, income statement and statement of cash flow;

(c) not later than 45 days after and as of the end of each fiscal quarter, a copy of 10Q report filed with the Securities Exchange Commission, prepared by a certified public accountant acceptable to Bank;

(d) not later than 15 days after and as of the end of each month, an inventory collateral report, an aged listing of accounts receivable and accounts payable, and a reconciliation of accounts; semi-monthly collateral report if Borrower elects to use 35% concentration allowance for Obesity Research, Fiber Thin and Mannatech, Inc., and not later than 30 days after and as of the end of each April and October, a list of the names, addresses and contact phone numbers of all Borrower's account debtors;

(e) from time to time such other information as Bank may reasonably request, including without limitation, copies of rent rolls and other information with respect to any real property collateral required hereby.

4.4 COMPLIANCE. Preserve and maintain all licenses, permits, governmental approvals, rights, privileges and franchises necessary for the conduct of its business; and comply with the provisions of all documents pursuant to which Borrower is organized and/or which govern Borrower's continued existence and with the requirements of all laws, rules, regulations and orders of any governmental authority applicable to Borrower and/or its business.

4.5 INSURANCE. Maintain and keep in force insurance of the types and in amounts customarily carried in lines of business similar to that of Borrower, including but not limited to fire, extended coverage, public liability, flood, property damage and workers' compensation, with all such insurance carried with companies and in amounts satisfactory to Bank, and deliver to Bank from time to time at Bank's request schedules setting forth all insurance then in effect.

4.6 FACILITIES. Keep all properties useful or necessary to Borrower's business in good repair and condition, and from time to time make necessary repairs, renewals and replacements thereto so that such properties shall be fully and efficiently preserved and maintained.

4.7 TAXES AND OTHER LIABILITIES. Pay and discharge when due any and all indebtedness, obligations, assessments and taxes, both real or personal, including without limitation federal and state income taxes and state and local property taxes and assessments, except such (a) as Borrower may in good faith contest or as to which a bona fide dispute may arise, and (b) for which Borrower has made provision, to Bank's satisfaction, for eventual payment thereof in the event Borrower is obligated to make such payment.

4.8 LITIGATION. Promptly give notice in writing to Bank of any litigation pending or threatened against Borrower.

4.9 FINANCIAL CONDITION. Maintain Borrower's financial condition as follows using generally accepted accounting principles consistently applied and used consistently with prior practices (except to the extent modified by the definitions herein):

(a) Tangible Net Worth not at any time less than \$20,000,000.00, with "Tangible Net Worth" defined as the aggregate of total stockholders' equity plus subordinated debt less any intangible assets.

(b) Total Liabilities divided by Tangible Net Worth not at any time greater than 1.0 to 1.0, with "Total Liabilities" defined as the aggregate of current liabilities and non-current liabilities less subordinated debt, and with "Tangible Net Worth" as defined above.

(c) Net income after taxes not less than \$1.00 as of each fiscal quarter and not less than \$750,000.00 on an annual basis, determined as of each fiscal year end.

(d) EBITDA Coverage Ratio not less than 1.75 to 1.0 as of each fiscal year end, with "EBITDA" defined as net profit before tax plus interest expense (net of capitalized interest expense), depreciation expense and amortization expense, and with "EBITDA Coverage Ratio" defined as EBITDA divided by the aggregate of total interest expense plus the prior period current maturity of long-term debt and the prior period current maturity of subordinated debt.

4.10 NOTICE TO BANK. Promptly (but in no event more than five (5) days after the occurrence of each such event or matter) give written notice to Bank in reasonable detail of: (a) the occurrence of any Event of Default, or any condition, event or act which with the giving of notice or the passage of time or both would constitute an Event of Default; (b) any change in the name or the organizational structure of Borrower; (c) the occurrence and nature of any Reportable Event or Prohibited Transaction, each as defined in ERISA, or any funding deficiency with respect to any Plan; or (d) any termination or cancellation of any insurance policy which Borrower is required to maintain, or any uninsured or partially uninsured loss through liability or property damage, or through fire, theft or any other cause affecting Borrower's property.

ARTICLE V
NEGATIVE COVENANTS

Borrower further covenants that so long as Bank remains committed to extend credit to Borrower pursuant hereto, or any liabilities (whether direct or contingent, liquidated or unliquidated) of Borrower to Bank under any of the Loan Documents remain outstanding, and until payment in full of all obligations of Borrower subject hereto, Borrower will not without Bank's prior written consent:

5.1 USE OF FUNDS. Use any of the proceeds of any credit extended hereunder except for the purposes stated in Article I hereof.

5.2 CAPITAL EXPENDITURES. Make any additional investment in fixed assets in excess of an aggregate of \$4,500,000.00 for fiscal year 2004 and \$6,500,000.00 for fiscal year 2005.

5.3 LEASE EXPENDITURES. Incur operating lease expense in excess of an aggregate of \$100,000.000 for fiscal year 2004 and \$ 100,000.00 for fiscal year 2005.

5.4 OTHER INDEBTEDNESS. Create, incur, assume or permit to exist any indebtedness or liabilities resulting from borrowings, loans or advances, whether secured or unsecured, matured or unmatured, liquidated or unliquidated, joint or several, except (a) the liabilities of Borrower to Bank, and (b) any other liabilities of Borrower existing as of, and disclosed to Bank prior to, the date hereof.

5.5 MERGER, CONSOLIDATION, TRANSFER OF ASSETS. Merge into or consolidate with any other entity; make any substantial change in the nature of Borrower's business as conducted as of the date hereof; acquire all or substantially all of the assets of any other entity; nor sell, lease, transfer or otherwise dispose of all or a substantial or material portion of Borrower's assets except in the ordinary course of its business.

5.6 GUARANTIES. Guarantee or become liable in any way as surety, endorser (other than as endorser of negotiable instruments for deposit or collection in the ordinary course of business), accommodation endorser or otherwise for, nor pledge or hypothecate any assets of Borrower as security for, any liabilities or obligations of any other person or entity, except any of the foregoing in favor of Bank.

5.7 LOANS, ADVANCES, INVESTMENTS. Make any loans or advances to or investments in any person or entity, except any of the foregoing existing as of, and disclosed to Bank prior to, the date hereof.

5.8 DIVIDENDS, DISTRIBUTIONS. Declare or pay any dividend or distribution either in cash, stock or any other property on Borrower's stock now or hereafter outstanding, nor redeem, retire, repurchase or otherwise acquire any shares of any class of Borrower's stock now or hereafter outstanding.

5.9 PLEDGE OF ASSETS. Mortgage, pledge, grant or permit to exist a security interest in, or lien upon, all or any portion of Borrower's assets now owned or hereafter acquired, except any of the foregoing in favor of Bank or which is existing as of, and disclosed to Bank in writing prior to, the date hereof.

ARTICLE VI
EVENTS OF DEFAULT

6.1 The occurrence of any of the following shall constitute an "Event of Default" under this Agreement:

- (a) Borrower shall fail to pay when due any principal, interest, fees or other amounts payable under any of the Loan Documents.
- (b) Any financial statement or certificate furnished to Bank in connection with, or any representation or warranty made by Borrower or any other party under this Agreement or any other Loan Document shall prove to be incorrect, false or misleading in any material respect when furnished or made.
- (c) Any default in the performance of or compliance with any obligation, agreement or other provision contained herein or in any other Loan Document (other than those referred to in subsections (a) and (b) above), and with respect to any such default which by its nature can be cured, such default shall continue for a period of forty-five (45) days from its occurrence.
- (d) Any default in the payment or performance of any obligation, or any defined event of default, under the terms of any contract or instrument (other than any of the Loan Documents) pursuant To which Borrower, any guarantor hereunder, or any general partner or joint venturer in any Borrower which is a partnership or a joint venture (with each such guarantor, general partner and/or joint venturer referred to herein as a "Third Party Obligor") has incurred any debt or other liability to any person or entity, including Bank.
- (e) The filing of a notice of judgment lien against Borrower or any Third Party Obligor, or the recording of any abstract of judgment against Borrower or any Third Party Obligor in any county in which Borrower or any Third Party Obligor has an interest in real property; or the service of a notice of levy and/or of a writ of attachment or execution, or other like process, against the assets of Borrower or any Third Party Obligor; or the entry of a judgment against Borrower or any Third Party Obligor.
- (f) Borrower or any Third Party Obligor shall become insolvent, or shall suffer or consent to or apply for the appointment of a receiver, trustee, custodian or liquidator of itself or any of its property, or shall generally fail

to pay its debts as they become due, or shall make a general assignment for the benefit of creditors; Borrower or any Third Party Obligor shall file a voluntary petition in bankruptcy, or seeking reorganization, in order to effect a plan or other arrangement with creditors or any other relief under the Bankruptcy Reform Act, Title 11 of the United States Code, as amended or recodified from time to time ("Bankruptcy Code"), or under any state or federal law granting relief to debtors, whether now or hereafter in effect; or any involuntary petition or proceeding pursuant to the Bankruptcy Code or any other applicable state or federal law relating to bankruptcy, reorganization or other relief for debtors is filed or commenced against Borrower or any Third Party Obligor, or Borrower or any Third Party Obligor shall file an answer admitting the jurisdiction of the court and the material allegations of any involuntary petition; or Borrower or any Third Party Obligor shall be adjudicated a bankrupt, or an order for relief shall be entered against Borrower or any Third Party Obligor by any court of competent jurisdiction under the Bankruptcy Code or any other applicable state or federal law relating to bankruptcy, reorganization or other relief for debtors.

(g) There shall exist or occur any event or condition which Bank believes impairs, or is substantially likely to impair, the prospect of payment or performance by Borrower of its obligations under any of the Loan Documents.

(h) The death or incapacity of any individual Borrower or Third Party Obligor. The dissolution or liquidation of any Borrower or Third Party Obligor which is a corporation, partnership, joint venture or other type of entity; or any such Borrower or Third Party Obligor, or any of its directors, stockholders or members, shall take action seeking to effect the dissolution or liquidation of such Borrower or Third Party Obligor.

(i) Any change in ownership of an aggregate of twenty-five percent (25%) or more of the common stock in Borrower.

(j) The sale, transfer, hypothecation, assignment or encumbrance, whether voluntary, involuntary or by operation of law, without Bank's prior written consent, of all or any part of or interest in any real property collateral required hereby.

6.2 REMEDIES. Upon the occurrence of any Event of Default: (a) all indebtedness of Borrower under each of the Loan Documents, any term thereof to the contrary notwithstanding, shall at Bank's option and without notice become immediately due and payable without presentment, demand, protest or notice of dishonor, all of which are hereby expressly waived by each Borrower; (b) the obligation, if any, of Bank to extend any further credit under any of the Loan Documents shall immediately cease and terminate; and (c) Bank shall have all rights, powers and remedies available under each of the Loan Documents, or accorded by law, including without limitation the right to resort to any or all security for any credit subject hereto and to exercise any or all of the rights of a beneficiary or secured party pursuant to applicable law. All rights, powers and remedies of Bank may be exercised at any time by Bank and from time to time after the occurrence of an Event of Default, are cumulative and not exclusive, and shall be in addition to any other rights, powers or remedies provided by law or equity.

ARTICLE VII
MISCELLANEOUS

7.1 NO WAIVER. No delay, failure or discontinuance of Bank in exercising any right, power or remedy under any of the Loan Documents shall affect or operate as a waiver of such right, power or remedy; nor shall any single or partial exercise of any such right, power or remedy preclude, waive or otherwise affect any other or further exercise thereof or the exercise of any other right, power or remedy. Any waiver, permit, consent or approval of any kind by Bank of any breach of or default under any of the Loan Documents must be in writing and shall be effective only to the extent set forth in such writing.

7.2 NOTICES. All notices, requests and demands which any party is required or may desire to give to any other party under any provision of this Agreement must be in writing delivered to each party at the following address:

BORROWER: Natural Alternatives International, Inc.
1185 Linda Vista Dr
San Marcos, CA 92069-3823

BANK: WELLS FARGO BANK, NATIONAL ASSOCIATION
Carlsbad LPO
5857 Owens Avenue, Suite 106
Carlsbad, CA 92008

or to such other address as any party may designate by written notice to all other parties. Each such notice, request and demand shall be deemed given or made as follows: (a) if sent by hand delivery, upon delivery; (b) if sent by mail, upon the earlier of the date of receipt or three (3) days after deposit in the U.S. mail, first class and postage prepaid; and (c) if sent by telecopy, upon receipt.

7.3 COSTS, EXPENSES AND ATTORNEYS' FEES. Borrower shall pay to Bank immediately upon demand the full amount of all payments, advances, charges, costs and expenses, including reasonable attorneys' fees (to include outside counsel fees and all allocated costs of Bank's in-house counsel), expended or incurred by Bank in connection with (a) the negotiation and preparation of this Agreement and the other Loan Documents, Bank's continued administration hereof and thereof, and the preparation of any amendments and waivers hereto and thereto, (b) the enforcement of Bank's rights and/or the collection of any amounts which become due to Bank under any of the Loan Documents, and (c) the prosecution or defense of any action in any way related to any of the Loan Documents, including without limitation, any action for declaratory relief, whether incurred at the trial or appellate level, in an arbitration proceeding or otherwise, and including any of the foregoing incurred in connection with any bankruptcy proceeding (including without limitation, any adversary proceeding, contested matter or motion brought by Bank or any other person) relating to any Borrower or any other person or entity.

7.4 SUCCESSORS, ASSIGNMENT. This Agreement shall be binding upon and inure to the benefit of the heirs, executors, administrators, legal representatives, successors and assigns of the parties; provided however, that Borrower may not assign or transfer its interest hereunder without Bank's prior written consent. Bank reserves the right to sell, assign, transfer, negotiate or grant participations in all or any part of, or any interest in, Bank's rights and benefits under each of the Loan Documents. In connection therewith, Bank may disclose all documents and information which Bank now has or may hereafter acquire relating to any credit subject hereto, Borrower or its business, any guarantor hereunder or the business of such guarantor, or any collateral required hereunder.

7.5 ENTIRE AGREEMENT; AMENDMENT. This Agreement and the other Loan Documents constitute the entire agreement between Borrower and Bank with respect to each credit subject hereto and supersede all prior negotiations, communications, discussions and correspondence concerning the subject matter hereof. This Agreement may be amended or modified only in writing signed by each party hereto.

7.6 NO THIRD PARTY BENEFICIARIES. This Agreement is made and entered into for the sole protection and benefit of the parties hereto and their respective permitted successors and assigns, and no other person or entity shall be a third party beneficiary of, or have any direct or indirect cause of action or claim in connection with, this Agreement or any other of the Loan Documents to which it is not a party.

7.7 TIME. Time is of the essence of each and every provision of this Agreement and each other of the Loan Documents.

7.8 SEVERABILITY OF PROVISIONS. If any provision of this Agreement shall be prohibited by or invalid under applicable law, such provision shall be ineffective only to the extent of such prohibition or invalidity without invalidating the remainder of such provision or any remaining provisions of this Agreement.

7.9 COUNTERPARTS. This Agreement may be executed in any number of counterparts, each of which when executed and delivered shall be deemed to be an original, and all of which when taken together shall constitute one and the same Agreement.

7.10 GOVERNING LAW. This Agreement shall be governed by and construed in accordance with the laws of the State of California.

7.11 ARBITRATION.

a) Arbitration. The parties hereto agree, upon demand by any party, to submit to binding arbitration all claims, disputes and controversies between or among them (and their respective employees, officers, directors, attorneys, and other agents), whether in tort, contract or otherwise arising out of or relating to in any way (i) the loan and related Loan Documents which are the subject of this Agreement and its negotiation, execution, collateralization, administration, repayment, modification, extension, substitution, formation, inducement, enforcement, default or termination; or (ii) requests for additional credit.

(b) Governing Rules. Any arbitration proceeding will (i) proceed in a location in California selected by the American Arbitration Association (“AAA”); (ii) be governed by the Federal Arbitration Act (Title 9 of the United States Code), notwithstanding any conflicting choice of law provision in any of the documents between the parties; and (iii) be conducted by the AAA, or such other administrator as the parties shall mutually agree upon, in accordance with the AAA’s commercial dispute resolution procedures, unless the claim or counterclaim is at least \$1,000,000.00 exclusive of claimed interest, arbitration fees and costs in which case the arbitration shall be conducted in accordance with the AAA’s optional procedures for large, complex commercial disputes (the commercial dispute resolution procedures or the optional procedures for large, complex commercial disputes to be referred to, as applicable, as the “Rules”). If there is any inconsistency between the terms hereof and the Rules, the terms and procedures set forth herein shall control. Any party who fails or refuses to submit to arbitration following a demand by any other party shall bear all costs and expenses incurred by such other party in compelling arbitration of any dispute. Nothing contained herein shall be deemed to be a waiver by any party that is a bank of the protections afforded to it under 12 U.S.C. §91 or any similar applicable state law.

(c) No Waiver of Provisional Remedies, Self-Help and Foreclosure. The arbitration requirement does not limit the right of any party to (i) foreclose against real or personal property collateral; (ii) exercise self-help remedies relating to collateral or proceeds of collateral such as setoff or repossession; or (iii) obtain provisional or ancillary remedies such as replevin, injunctive relief, attachment or the appointment of a receiver, before during or after the pendency of any arbitration proceeding. This exclusion does not constitute a waiver of the right or obligation of any party to submit any dispute to arbitration or reference hereunder, including those arising from the exercise of the actions detailed in sections (i), (ii) and (iii) of this paragraph.

(d) Arbitrator Qualifications and Powers. Any arbitration proceeding in which the amount in controversy is \$5,000,000.00 or less will be decided by a single arbitrator selected according to the Rules, and who shall not render an award of greater than \$5,000,000.00. Any dispute in which the amount in controversy exceeds \$5,000,000.00 shall be decided by majority vote of a panel of three arbitrators; provided however, that all three arbitrators must actively participate in all hearings and deliberations. The arbitrator will be a neutral attorney licensed in the State of California or a neutral retired judge of the state or federal judiciary of California, in either case with a minimum of ten years experience in the substantive law applicable to the subject matter of the dispute to be arbitrated. The arbitrator will determine whether or not an issue is arbitratable and will give effect to the statutes of limitation in determining any claim. In any arbitration proceeding the arbitrator will decide (by documents only or with a hearing at the arbitrator’s discretion) any pre-hearing motions which are similar to motions to dismiss for failure to state a claim or motions for summary adjudication. The arbitrator shall resolve all disputes in accordance with the substantive law of California and may grant any remedy or relief that a court of such state could order or grant within the scope hereof and such ancillary relief as is necessary to make effective any award. The arbitrator shall also have the power to award recovery of all costs and fees, to impose sanctions and to take such other action as the arbitrator

deems necessary to the same extent a judge could pursuant to the Federal Rules of Civil Procedure, the California Rules of Civil Procedure or other applicable law. Judgment upon the award rendered by the arbitrator may be entered in any court having jurisdiction. The institution and maintenance of an action for judicial relief or pursuit of a provisional or ancillary remedy shall not constitute a waiver of the right of any party, including the plaintiff, to submit the controversy or claim to arbitration if any other party contests such action for judicial relief.

(e) Discovery. In any arbitration proceeding discovery will be permitted in accordance with the Rules. All discovery shall be expressly limited to matters directly relevant to the dispute being arbitrated and must be completed no later than 20 days before the hearing date and within 180 days of the filing of the dispute with the AAA. Any requests for an extension of the discovery periods, or any discovery disputes, will be subject to final determination by the arbitrator upon a showing that the request for discovery is essential for the party's presentation and that no alternative means for obtaining information is available.

(f) Class Proceedings and Consolidations. The resolution of any dispute arising pursuant to the terms of this Agreement shall be determined by a separate arbitration proceeding and such dispute shall not be consolidated with other disputes or included in any class proceeding.

(g) Payment Of Arbitration Costs And Fees. The arbitrator shall award all costs and expenses of the arbitration proceeding.

(h) Real Property Collateral: Judicial Reference. Notwithstanding anything herein to the contrary, no dispute shall be submitted to arbitration if the dispute concerns indebtedness secured directly or indirectly, in whole or in part, by any real property unless (i) the holder of the mortgage, lien or security interest specifically elects in writing to proceed with the arbitration, or (ii) all parties to the arbitration waive any rights or benefits that might accrue to them by virtue of the single action rule statute of California, thereby agreeing that all indebtedness and obligations of the parties, and all mortgages, liens and security interests securing such indebtedness and obligations, shall remain fully valid and enforceable. If any such dispute is not submitted to arbitration, the dispute shall be referred to a referee in accordance with California Code of Civil Procedure Section 638 et seq., and this general reference agreement is intended to be specifically enforceable in accordance with said Section 638. A referee with the qualifications required herein for arbitrators shall be selected pursuant to the AAA's selection procedures. Judgment upon the decision rendered by a referee shall be entered in the court in which such proceeding was commenced in accordance with California Code of Civil Procedure Sections 644 and 645.

(i) Miscellaneous. To the maximum extent practicable, the AAA, the arbitrators and the parties shall take all action required to conclude any arbitration proceeding within 180 days of the filing of the dispute with the AAA. No arbitrator or other party to an arbitration proceeding may disclose the existence, content or results thereof, except for disclosures of information by a party required in the ordinary course of its business or by applicable law or regulation. If more than one agreement for arbitration by or between the parties potentially applies to a dispute, the arbitration provision most directly related to the Loan Documents or the subject matter of the dispute shall control. This arbitration provision shall survive termination, amendment or expiration of any of the Loan Documents or any relationship between the parties.

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be executed as of the day and year first written above.

Natural Alternatives International, Inc.

By: /s/ John Reaves

John Reaves, Chief Financial Officer

By: /s/ Randell Weaver

Randell Weaver, President

By: /s/ Bernie Palmer

Bernie Palmer, Relationship Manager

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\$8,000,000.00**Carlsbad, California
May 1, 2004**

FOR VALUE RECEIVED, the undersigned **Natural Alternatives International, Inc.** ("Borrower") promises to pay to the order of WELLS FARGO BANK, NATIONAL ASSOCIATION ("Bank") at its office at **Carlsbad LPO, 5857 Owens Avenue, Suite 106, Carlsbad, CA 92008**, or at such other place as the holder hereof may designate, in lawful money of the United States of America and in immediately available funds, the principal sum of **\$8,000,000.00**, or so much thereof as may be advanced and be outstanding, with interest thereon, to be computed on each advance from the date of its disbursement as set forth herein.

1. DEFINITIONS:

As used herein, the following terms shall have the meanings set forth after each, and any other term defined in this Note shall have the meaning set forth at the place defined:

1.1 "Business Day" means any day except a Saturday, Sunday or any other day on which commercial banks in California are authorized or required by law to close.

1.2 "Fixed Rate Term" means a period commencing on a Business Day and continuing for **1, 2, 3, 6 or 12 months**, as designated by Borrower, during which all or a portion of the outstanding principal balance of this Note bears interest determined in relation to LIBOR; provided however, that no Fixed Rate Term may be selected for a principal amount less than **\$100,000.00**; and provided further, that no Fixed Rate Term shall extend beyond the scheduled maturity date hereof. If any Fixed Rate Term would end on a day which is not a Business Day, then such Fixed Rate Term shall be extended to the next succeeding Business Day.

1.3 "LIBOR" means the rate per annum (rounded upward, if necessary, to the nearest whole 1/8 of 1%) determined by dividing Base LIBOR by a percentage equal to 100% less any LIBOR Reserve Percentage.

(a) "Base LIBOR" means the rate per annum for United States dollar deposits quoted by Bank as the Inter-Bank Market Offered Rate, with the understanding that such rate is quoted by Bank for the purpose of calculating effective rates of interest for loans making reference thereto, on the first day of a Fixed Rate Term for delivery of funds on said date for a period of time approximately equal to the number of days in such Fixed Rate Term and in an amount approximately equal to the principal amount to which such Fixed Rate Term applies. Borrower understands and agrees that Bank may base its quotation of the Inter-Bank Market Offered Rate upon such offers or other market indicators of the Inter-Bank Market as Bank in its discretion deems appropriate including, but not limited to, the rate offered for U.S. dollar deposits on the London Inter-Bank Market.

(b) "LIBOR Reserve Percentage" means the reserve percentage prescribed by the Board of Governors of the Federal Reserve System (or any successor) for "Eurocurrency Liabilities" (as defined in Regulation D of the Federal Reserve Board, as amended), adjusted by Bank for expected changes in such reserve percentage during the applicable Fixed Rate Term.

1.4 "Prime Rate" means at any time the rate of interest most recently announced within Bank at its principal office as its Prime Rate, with the understanding that the Prime Rate is one of Bank's base rates and serves as the basis upon which effective rates of interest are calculated for those loans making reference thereto, and is evidenced by the recording thereof after its announcement in such internal publication or publications as Bank may designate.

2. INTEREST:

2.1 Interest. The outstanding principal balance of this Note shall bear interest (computed on the basis of a 360-day year, actual days elapsed) either (a) at a fluctuating rate per annum **equal to** the Prime Rate in effect from time to time, or (b) at a fixed rate per annum determined by Bank to be **1.75000%** above LIBOR in effect on the first day of the applicable Fixed Rate Term. When interest is determined in relation to the Prime Rate, each change in the rate of interest hereunder shall become effective on the date each Prime Rate change is announced within Bank. With respect to each LIBOR selection option selected hereunder, Bank is hereby authorized to note the date, principal amount, interest rate and Fixed Rate Term applicable thereto and any payments made thereon on Bank's books and records (either manually or by electronic entry) and/or on any schedule attached to this Note, which notations shall be prima facie evidence of the accuracy of the information noted.

2.2 Selection of Interest Rate Options. At any time any portion of this Note bears interest determined in relation to LIBOR, it may be continued by Borrower at the end of the Fixed Rate Term applicable thereto so that all or a portion thereof bears interest determined in relation to the Prime Rate or to LIBOR for a new Fixed Rate Term designated by Borrower. At any time any portion of this Note bears interest determined in relation to the Prime Rate, Borrower may convert all or a portion thereof so that it bears interest determined in relation to LIBOR for a Fixed Rate Term designated by Borrower. At such time as Borrower requests an advance hereunder or wishes to select a LIBOR option for all or a portion of the outstanding principal balance hereof, and at the end of each Fixed Rate Term, Borrower shall give Bank notice specifying: (a) the interest rate option selected by Borrower; (b) the principal amount subject thereto; and (c) for each LIBOR selection, the length of the applicable Fixed Rate Term. Any such notice may be given by telephone (or such other electronic method as Bank may permit) so long as, with respect to each LIBOR selection, (i) if requested by Bank, Borrower provides to Bank written confirmation thereof not later than 3 Business Days after such notice is given, and (ii) such notice is given to Bank prior to 10:00 a.m. on the first day of the Fixed Rate Term, or at a later time during any Business Day if Bank, at its sole option but without obligation to do so, accepts Borrower's notice and quotes a fixed rate to Borrower. If Borrower does not immediately accept a fixed rate when quoted by Bank, the quoted rate shall expire and any subsequent LIBOR request from Borrower shall be subject to a redetermination by Bank of the applicable fixed rate. If no specific designation of interest is made at the time any advance is requested hereunder or at the end of any Fixed Rate Term, Borrower shall be deemed to have made a Prime Rate interest selection for such advance or the principal amount to which such Fixed Rate Term applied.

2.3 Taxes and Regulatory Costs. Borrower shall pay to Bank immediately upon demand, in addition to any other amounts due or to become due hereunder, any and all (a) withholdings, interest equalization taxes, stamp taxes or other taxes (except income and franchise taxes) imposed by any domestic or foreign governmental authority and related in any manner to LIBOR, and (b) future, supplemental, emergency or other changes in the LIBOR Reserve Percentage, assessment rates imposed by the Federal Deposit Insurance Corporation, or similar requirements or costs imposed by any domestic or foreign governmental authority or resulting from compliance by Bank with any request or directive (whether or not having the force of law) from any central bank or other governmental authority and related in any manner to LIBOR to the extent they are not included in the calculation of LIBOR. In determining which of the foregoing are attributable to any LIBOR option available to Borrower hereunder, any reasonable allocation made by Bank among its operations shall be conclusive and binding upon Borrower.

2.4 Payment of Interest. Interest accrued on this Note shall be payable on the **1st** day of each **month**, commencing **June 1, 2004**.

2.5 Default Interest. From and after the maturity date of this Note, or such earlier date as all principal owing hereunder becomes due and payable by acceleration or otherwise, the outstanding principal balance of this Note shall bear interest until paid in full at an increased rate per annum (computed on the basis of a 360-day year, actual days elapsed) equal to 4% above the rate of interest from time to time applicable to this Note.

3. BORROWING AND REPAYMENT:

3.1 Borrowing and Repayment. Borrower may from time to time during the term of this Note borrow, partially or wholly repay its outstanding borrowings, and re-borrow, subject to all of the limitations, terms and conditions of this Note and of the Credit Agreement between Borrower and Bank defined below; provided however, that the total outstanding borrowings under this Note shall not at any time exceed the principal amount stated above. The unpaid principal balance of this obligation at any time shall be the total amounts advanced hereunder by the holder hereof less the amount of principal payments made hereon by or for any Borrower, which balance may be endorsed hereon from time to time by the holder. The outstanding principal balance of this Note shall be due and payable in full on **November 1, 2006**.

3.2 Advances. Advances hereunder, to the total amount of the principal sum available hereunder, may be made by the holder at the oral or written request of (a) **John Reaves or Randell Weaver**, any one acting alone, who are authorized to request advances and direct the disposition of any advances until written notice of the revocation of such authority is received by the holder at the office designated above, or (b) any person, with respect to advances deposited to the credit of any deposit account of any Borrower, which advances, when so deposited, shall be conclusively presumed to have been made to or for the benefit of each Borrower regardless of the fact that persons other than those authorized to request advances may have authority to draw against such account. The holder shall have no obligation to determine whether any person requesting an advance is or has been authorized by any Borrower.

3.3 Application of Payments. Each payment made on this Note shall be credited first, to any interest then due and second, to the outstanding principal balance hereof. All payments credited to principal shall be applied first, to the outstanding principal balance of this Note which bears interest determined in relation to the Prime Rate, if any, and second, to the outstanding principal balance of this Note which bears interest determined in relation to LIBOR, with such payments applied to the oldest Fixed Rate Term first.

4. PREPAYMENT:

4.1 Prime Rate. Borrower may prepay principal on any portion of this Note which bears interest determined in relation to the Prime Rate at any time, in any amount and without penalty.

4.2 LIBOR. Borrower may prepay principal on any portion of this Note which bears interest determined in relation to LIBOR at any time and in the minimum amount of **\$100,000.00**; provided however, that if the outstanding principal balance of such portion of this Note is less than said amount, the minimum prepayment amount shall be the entire outstanding principal balance thereof. In consideration of Bank providing this prepayment option to Borrower, or if any such portion of this Note shall become due and payable at any time prior to the last day of the Fixed Rate Term applicable thereto by acceleration or otherwise, Borrower shall pay to Bank immediately upon demand a fee which is the sum of the discounted monthly differences for each month from the month of prepayment through the month in which such Fixed Rate Term matures, calculated as follows for each such month:

(a) Determine the amount of interest which would have accrued each month on the amount prepaid at the interest rate applicable to such amount had it remained outstanding until the last day of the Fixed Rate Term applicable thereto.

(b) Subtract from the amount determined in (a) above the amount of interest which would have accrued for the same month on the amount prepaid for the remaining term of such Fixed Rate Term at LIBOR in effect on the date of prepayment for new loans made for such term and in a principal amount equal to the amount prepaid.

(c) If the result obtained in (b) for any month is greater than zero, discount that difference by LIBOR used in (b) above.

Each Borrower acknowledges that prepayment of such amount may result in Bank incurring additional costs, expenses and/or liabilities, and that it is difficult to ascertain the full extent of such costs, expenses and/or liabilities. Each Borrower, therefore, agrees to pay the above-described prepayment fee and agrees that said amount represents a reasonable estimate of the prepayment costs, expenses and/or liabilities of Bank. If Borrower fails to pay any prepayment fee when due, the amount of such prepayment fee shall thereafter bear interest until paid at a rate per annum **2.000%** above the Prime Rate in effect from time to time (computed on the basis of a **360**-day year, actual days elapsed). Each change in the rate of interest on any such past due prepayment fee shall become effective on the date each Prime Rate change is announced within Bank.

5. EVENTS OF DEFAULT:

This Note is made pursuant to and is subject to the terms and conditions of that certain Credit Agreement between Borrower and Bank dated as of **May 1, 2004**, as amended from time to time (the "Credit Agreement"). Any default in the payment or performance of any obligation under this Note, or any defined event of default under the Credit Agreement, shall constitute an "Event of Default" under this Note.

6. MISCELLANEOUS:

6.1 Remedies. Upon the occurrence of any Event of Default, the holder of this Note, at the holder's option, may declare all sums of principal and interest outstanding hereunder to be immediately due and payable without presentment, demand, notice of nonperformance, notice of protest, protest or notice of dishonor, all of which are expressly waived by each Borrower, and the obligation, if any, of the holder to extend any further credit hereunder shall immediately cease and terminate. Each Borrower shall pay to the holder immediately upon demand the full amount of all payments, advances, charges, costs and expenses, including reasonable attorneys' fees (to include outside counsel fees and all allocated costs of the holder's in-house counsel), expended or incurred by the holder in connection with the enforcement of the holder's rights and/or the collection of any amounts which become due to the holder under this Note, and the prosecution or defense of any action in any way related to this Note, including without limitation, any action for declaratory relief, whether incurred at the trial or appellate level, in an arbitration proceeding or otherwise, and including any of the foregoing incurred in connection with any bankruptcy proceeding (including without limitation, any adversary proceeding, contested matter or motion brought by Bank or any other person) relating to any Borrower or any other person or entity.

6.2 Obligations Joint and Several. Should more than one person or entity sign this Note as a Borrower, the obligations of each such Borrower shall be joint and several.

6.3 Governing Law. This Note shall be governed by and construed in accordance with the laws of the State of California.

IN WITNESS WHEREOF, the undersigned has executed this Note as of the date first written above.

Natural Alternatives International, Inc.

By: /s/ John Reaves

John Reaves, Chief Financial Officer

By: /s/ Randell Weaver

Randell Weaver, President

**PROMNOTE.CA (01/03)
Revolving Line of Credit Note
62596, #6411046333**

20040421030 / Page 4

TERM NOTE

\$700,000.00

Carlsbad, California
May 1, 2004

FOR VALUE RECEIVED, the undersigned Natural Alternatives International, Inc. ("Borrower") promises to pay to the order of WELLS FARGO BANK, NATIONAL ASSOCIATION ("Bank") at its office at Carlsbad LPO, 5857 Owens Avenue, Suite 106, Carlsbad, California, or at such other place as the holder hereof may designate, in lawful money of the United States of America and in immediately available funds, the principal sum of Seven Hundred Thousand Dollars (\$700,000.00), with interest thereon as set forth herein.

DEFINITIONS:

As used herein, the following terms shall have the meanings set forth after each, and any other term defined in this Note shall have the meaning set forth at the place defined:

(a) "Business Day" means any day except a Saturday, Sunday or any other day on which commercial banks in California are authorized or required by law to close.

(b) "Fixed Rate Term" means a period of 1, 2, 3, 6 or 12 months, as designated by Borrower, during which the entire outstanding principal balance of this Note bears interest determined in relation to LIBOR, with the understanding that (i) the initial Fixed Rate Term shall commence on the date this Note is disbursed, (ii) each successive Fixed Rate Term shall commence automatically, and without notice to or consent from Borrower, on the first Business Day following the date on which the immediately preceding Fixed Rate Term matures, and (iii) if, on the first Business Day of the last Fixed Rate Term applicable hereto the remaining term of this Note is less than 1, 2, 3, 6 or 12 months, said Fixed Rate Term shall be in effect only until the scheduled maturity date hereof. If any Fixed Rate Term would end on a day which is not a Business Day, then such Fixed Rate Term shall be extended to the next succeeding Business Day.

(c) "LIBOR" means the rate per annum (rounded upward, if necessary, to the nearest whole 1/8 of 1 %) and determined pursuant to the following formula:

$$\text{LIBOR} = \frac{\text{Base LIBOR}}{100\% - \text{LIBOR Reserve Percentage}}$$

(i) "Base LIBOR" means the rate per annum for United States dollar deposits quoted by Bank as the Inter-Bank Market Offered Rate, with the understanding that such rate is quoted by Bank for the purpose of calculating effective rates of interest for loans making reference thereto, on the first day of a Fixed Rate Term for delivery of funds on said date for a period of time approximately equal to the number of days in such Fixed Rate Term and in an amount approximately equal to the principal amount to which such Fixed Rate Term applies. Borrower understands and agrees that Bank may base its quotation of the Inter-Bank Market Offered Rate upon such offers or other market indicators of the Inter-Bank Market as Bank in its discretion deems appropriate including, but not limited to, the rate offered for U.S. dollar deposits on the London Inter-Bank Market.

(ii) "LIBOR Reserve Percentage" means the reserve percentage prescribed by the Board of Governors of the Federal Reserve System (or any successor) for "Eurocurrency Liabilities" (as defined in Regulation D of the Federal Reserve Board, as amended), adjusted by Bank for expected changes in such reserve percentage during the applicable Fixed Rate Term.

(d) "Prime Rate" means at any time the rate of interest most recently announced within Bank at its principal office as its Prime Rate, with the understanding that the Prime Rate is one of Bank's base rates and serves as the basis upon which effective rates of interest are calculated for those loans making reference thereto, and is evidenced by the recording thereof after its announcement in such internal publication or publications as Bank may designate.

INTEREST:

(a) Interest. The outstanding principal balance of this Note shall bear interest (computed on the basis of a 360-day year, actual days elapsed) at a fixed rate per annum determined by Bank to be two and one-quarter percent (2.25%) above LIBOR in effect on the first day of each Fixed Rate Term. With respect to each Fixed Rate Term hereunder, Bank is hereby authorized to note the date and interest rate applicable thereto and any payments made thereon on Bank's books and records (either manually or by electronic entry) and/or on any schedule attached to this Note, which notations shall be prima facie evidence of the accuracy of the information noted. At the time this Note is disbursed and at the end of each Fixed Rate Term, Borrower shall give Bank notice specifying the length of the applicable Fixed Rate Term. Any such notice may be given by telephone so long as (i) if requested by Bank, Borrower provides to Bank written confirmation thereof not later than three (3) Business Days after such notice is given, and (ii) such notice is given to Bank prior to 10:00 a.m. on the first day of the Fixed Rate Term, or at a later time during any Business Day if Bank, at its sole option but without obligation to do so, accepts Borrower's notice and quotes a fixed rate to Borrower. If Borrower does not immediately accept a fixed rate when quoted by Bank, the quoted rate shall expire and any subsequent LIBOR request from Borrower shall be subject to a redetermination by Bank of the applicable fixed rate. If Bank has not received such notice at the time principal is disbursed hereunder or at the end of any Fixed Rate Term, Borrower shall be deemed to have selected the shortest permitted Fixed Rate Term.

(b) Taxes and Regulatory Costs. Borrower shall pay to Bank immediately upon demand, in addition to any other amounts due or to become due hereunder, any and all (i) withholdings, interest equalization taxes, stamp taxes or other taxes (except income and franchise taxes) imposed by any domestic or foreign governmental authority and related in any manner to LIBOR, and (ii) future, supplemental, emergency or other changes in the LIBOR Reserve Percentage, assessment rates imposed by the Federal Deposit Insurance Corporation, or similar requirements or costs imposed by any domestic or foreign governmental authority or resulting from compliance by Bank with any request or directive (whether or not having the force of law) from any central bank or other governmental authority and related in any manner to LIBOR to the extent they are not included in the calculation of LIBOR. In determining which of the foregoing are attributable to any LIBOR option available to Borrower hereunder, any reasonable allocation made by Bank among its operations shall be conclusive and binding upon Borrower.

(c) Payment of Interest. Interest accrued on this Note shall be payable on the 1st day of each month, commencing June 1, 2004.

(d) Default Interest. From and after the maturity date of this Note, or such earlier date as all principal owing hereunder becomes due and payable by acceleration or otherwise, the outstanding principal balance of this Note shall bear interest until paid in full at an increased rate per annum (computed on the basis of a 360-day year, actual days elapsed) equal to four percent (4%) above the rate of interest from time to time applicable to this Note.

REPAYMENT AND PREPAYMENT:

(a) Repayment. Principal shall be payable on the 1st day of each month in installments of Two Thousand Nine Hundred Twenty Dollars (\$2,920.00) each, commencing June 1, 2004, and continuing up to and including March 1, 2014, with a final installment consisting of all remaining unpaid principal due and payable in full on April 1, 2014.

(b) Application of Payments. Each payment made on this Note shall be credited first, to any interest then due and second, to the outstanding principal balance hereof.

(c) Prepayment. Borrower may prepay principal on this Note at any time and in the minimum amount of One Hundred Thousand Dollars (\$100,000.00); provided however, that if the outstanding principal balance of this Note is less than said amount, the minimum prepayment amount shall be the entire outstanding principal balance hereof. In consideration of Bank providing this prepayment option to Borrower, or if this Note shall become due and payable at any time prior to the last day of any Fixed Rate Term by acceleration or otherwise, Borrower shall pay to Bank immediately upon demand a fee which is the sum of the discounted monthly differences for each month from the month of prepayment through the month in which such Fixed Rate Term matures, calculated as follows for each such month:

- (i) Determine the amount of interest which would have accrued each month on the amount prepaid at the interest rate applicable to such amount had it remained outstanding until the last day of the Fixed Rate Term applicable thereto.
- (ii) Subtract from the amount determined in (i) above the amount of interest which would have accrued for the same month on the amount prepaid for the remaining term of such Fixed Rate Term at LIBOR in effect on the date of prepayment for new loans made for such term and in a principal amount equal to the amount prepaid.
- (iii) If the result obtained in (ii) for any month is greater than zero, discount that difference by LIBOR used in (ii) above.

Each Borrower acknowledges that prepayment of such amount may result in Bank incurring additional costs, expenses and/or liabilities, and that it is difficult to ascertain the full extent of such costs, expenses and/or liabilities. Each Borrower, therefore, agrees to pay the above-described prepayment fee and agrees that said amount represents a reasonable estimate of the prepayment costs, expenses and/or liabilities of Bank. If Borrower fails to pay any prepayment fee when due, the amount of such prepayment fee shall thereafter bear interest until paid at a rate per annum two percent (2%) above the Prime Rate in effect from time to time (computed on the basis of a 360-day year, actual days elapsed).

All prepayments of principal shall be applied on the most remote principal installment or installments then unpaid.

EVENTS OF DEFAULT:

This Note is made pursuant to and is subject to the terms and conditions of that certain Credit Agreement between Borrower and Bank dated as of May 1, 2004, as amended from time to time (the "Credit Agreement"). Any default in the payment or performance of any obligation under this Note, or any defined event of default under the Credit Agreement, shall constitute an "Event of Default" under this Note.

MISCELLANEOUS:

(a) Remedies. Upon the sale, transfer, hypothecation, assignment or other encumbrance, whether voluntary, involuntary or by operation of law, of all or any interest in any real property securing this Note, or upon the occurrence of any Event of Default, the holder of this Note, at the holder's option, may declare all sums of principal and interest outstanding hereunder to be immediately due and payable without presentment, demand, notice of nonperformance, notice of protest, protest or notice of dishonor, all of which are expressly waived by each Borrower. Each Borrower shall pay to the holder immediately upon demand the full amount of all payments, advances, charges, costs and expenses, including reasonable attorneys' fees (to include outside counsel fees and all allocated costs of the holder's in-house counsel), expended or incurred by the holder in connection with the enforcement of the holder's rights and/or the collection of any amounts which become due to the holder under this Note, and the prosecution or defense of any action in any way related to this Note, including without limitation, any action for declaratory relief, whether incurred at the trial or appellate level, in an arbitration proceeding or otherwise, and including any of the foregoing incurred in connection with any bankruptcy proceeding (including without limitation, any adversary proceeding, contested matter or motion brought by Bank or any other person) relating to any Borrower or any other person or entity.

(b) Obligations Joint and Several. Should more than one person or entity sign this Note as a Borrower, the obligations of each such Borrower shall be joint and several.

(c) Governing Law. This Note shall be governed by and construed in accordance with the laws of the State of California.

This Note is secured by, among other collateral, a Deed of Trust dated May 1, 2004.

IN WITNESS WHEREOF, the undersigned has executed this Note as of the date first written above.

Natural Alternatives International, Inc.

By: /s/ Randell Weaver

Randell Weaver
President

By: /s/ John Reaves

John Reaves
Chief Financial Officer



Wells Fargo Equipment Finance, Inc.
733 Marquette Avenue Suite 700
Minneapolis, MN 55402

Promissory Note

Contract Number 120423-700 dated as of May 4, 2004

For Value Received, the undersigned hereby promises to pay to the order of Wells Fargo Equipment Finance, Inc. (the "Lender") at its main office in Minneapolis, Minnesota, in lawful money of the United States of America, the principal sum of **\$1,800,750.00** together with interest on the unpaid balance hereof from the date the loan proceeds are disbursed hereunder at an annual rate (computed on the basis of actual number of days elapsed in a 360-day year) determined as set forth below.

The interest rate in effect on the date the loan proceeds are disbursed hereunder shall be the Index (as hereinafter defined) on the first business day of the month in which the loan proceeds are disbursed plus 2.10% and shall remain in effect through the last day of the calendar quarter in which the loan proceeds are disbursed hereunder. The interest rate in effect for each calendar quarter thereafter during the term of this Note shall be the same percentage over the Index as in effect on the first day of such calendar quarter; provided, however, that notwithstanding any change in the Index after the maturity of this Note, this Note shall bear the same rate of interest after maturity as it bore at maturity.

For purposes of this Note, the terms "Index" or "the Index" mean, as of the date of determination, the London interbank offered rate for deposits in United States dollars having a maturity of three months which appears in the "Money Rates" section of the Wall Street Journal, published on the business day on, or immediately preceding, the first day of each calendar quarter. If the Index is no longer available, Lender will choose an index that is based upon comparable information and will give the undersigned notice of such new "Index".

The First Payment Due Date shall be the date that is one month after the date loan proceeds are disbursed hereunder. The undersigned agrees that the date of the First Payment Due Date and of the Final Installment Due Date may be left blank when this Note is executed and hereby authorizes Lender to insert such dates based upon a **48-month** term from the date the loan proceeds are disbursed.

Principal and interest shall be payable in 47 consecutive equal monthly installments of \$40,081.62 each commencing on the First Payment Due Date and continuing on the same day of each month thereafter, and in a final installment of the entire unpaid balance of this Note on the Final Installment Due Date, provided; however, that annual adjustment payments shall be made as set forth below.

The amount of each monthly installment hereunder other than the final installment is the amount necessary to amortize this Note in equal monthly installments from the First Payment Due Date through the Final Installment Due Date at an interest rate of 3.28%. On each annual anniversary of the First Payment Due Date, the undersigned shall pay Lender or Lender shall credit to the next installment or installments in the order of maturity, as the case may be, an amount necessary to make the unpaid principal balance of this Note on such anniversary date equal to what it would have been on such anniversary date had the interest rate hereon been the rate set forth in this paragraph throughout the previous 12 months. Payments shall be applied first to interest and then to principal.

This Note may be prepaid in whole at any time by paying to Lender the unpaid principal balance of this Note but only if accompanied by a prepayment premium of 2% of the unpaid principal balance, together with accrued but unpaid interest.

This Note may be prepaid in part but only as a result of a disposition of an item of collateral which secures this Note. The amount of such prepayment shall be the product of the unpaid principal balance of this Note times a fraction, the numerator of which is the original advance made by the Lender with respect to the item of collateral in question and the denominator of which is the original principal balance of this Note with respect to the existing collateral securing this Note, together with accrued but unpaid interest multiplied by the same fraction, plus a prepayment premium equal to the percentage set forth in the preceding paragraph times the principal amount prepaid. Nothing contained in this paragraph shall be construed as an authorization by Lender to the undersigned to sell or otherwise dispose of an item of collateral which secures this Note. Such sale or disposition of an item of collateral by the undersigned shall be made solely in accordance with the terms of the security agreement or other agreement pursuant to which the undersigned pledged such item of collateral to Lender.

Promissory Note – floats over 90 day Libor

The undersigned may remit to Lender amounts in excess of an installment that is due hereunder and Lender shall apply such amount to the next maturing installment or installments. Payment of amounts in excess of the installment that is due or installments prior to the due date thereof shall not be treated as a prepayment or result in a change to either the total number of installments or the total sum of all installments payable under this Note.

Each of the following shall constitute an Event of Default hereunder: (a) failure to pay any installment or other payment hereunder when due; (b) the occurrence of an Event of Default as defined in any security agreement or mortgage securing this Note; (c) the commencement of any bankruptcy or insolvency proceedings by or against the undersigned or any guarantor of this Note; and (d) any indebtedness the undersigned may now or hereafter owe to any affiliate of Lender shall be accelerated following a default thereunder or, if any such indebtedness is payable on demand, payment thereof shall be demanded. Upon the occurrence of an Event of Default, Lender may do any one or more of the following as it may elect, provided, however, that upon the occurrence of an Event of Default specified in (c) above, the entire unpaid balance of this Note shall automatically become and be due and payable without notice or demand of any kind: (i) upon written notice to the undersigned, declare the entire unpaid balance of this Note to be immediately due and payable and the same shall thereupon become and be immediately due and payable; (ii) exercise any one or more of the rights and remedies available to it under any security agreement or mortgage securing this Note or under any other agreement or by law.

The undersigned hereby waives presentment, notice of dishonor, and protest. The undersigned agrees to pay all costs of collection of this Note, including reasonable attorney's fees. The holder hereof may change the terms of payment of this Note by extension, renewal or otherwise, and release any security for, or party to, this Note and such action shall not release any accommodation maker, endorser, or guarantor from liability on this Note.

Notwithstanding anything to the contrary contained herein, if the rate of interest, late payment fee, prepayment premium or any other charges or fees due hereunder are determined by a court of competent jurisdiction to be usurious, then said interest rate, fees and/or charges shall be reduced to the maximum amount permissible under applicable law and any such excess amounts shall be applied towards the reduction of the principal balance of this Note.

This Note shall be construed and enforced in accordance with, and the rights of the parties shall be governed by, the laws of the State of Minnesota without regard to conflicts of law rules.

If this Note is signed by more than one person as Debtor, then the term "Debtor" shall refer to each of them separately and to all of them jointly, and each such person shall be liable hereunder individually in full and jointly with the others.

First Payment Due Date: _____

Final Installment Due Date: _____

IN WITNESS WHEREOF the Debtor has signed this Agreement as of the date first above written.

Natural Alternatives International, Inc.

By: /s/ John Reaves

Title: CFO

Natural Alternatives Promissory Note - floats over 90 Day LIBORJBR.doc



Wells Fargo Equipment Finance, Inc.
733 Marquette Avenue Suite 700
Minneapolis, MN 55402

Promissory Note

Contract Number 120423-701 dated as of May 5, 2004

For Value Received, the undersigned hereby promises to pay to the order of Wells Fargo Equipment Finance, Inc. (the "lender") at its main office in Minneapolis, Minnesota, in lawful money of the United States of America, the principal sum of **\$1,554,579.62** together with interest on the unpaid balance hereof from the date the loan proceeds are disbursed hereunder at an annual rate (computed on the basis of actual number of days elapsed in a 360-day year) determined as set forth below.

The interest rate in effect on the date the loan proceeds are disbursed hereunder shall be the Index (as hereinafter defined) on the first business day of the month in which the loan proceeds are disbursed plus 2.10% and shall remain in effect through the last day of the calendar quarter in which the loan proceeds are disbursed hereunder. The interest rate in effect for each calendar quarter thereafter during the term of this Note shall be the same percentage over the Index as in effect on the first day of such calendar quarter; provided, however, that notwithstanding any change in the Index after the maturity of this Note, this Note shall bear the same rate of interest after maturity as it bore at maturity.

For purposes of this Note, the terms "Index" or "the Index" mean, as of the date of determination, the London interbank offered rate for deposits in United States dollars having a maturity of three months which appears in the "Money Rates" section of the Wall Street Journal, published on the business day on, or immediately preceding, the first day of each calendar quarter. If the Index is no longer available, Lender will choose an index that is based upon comparable information and will give the undersigned notice of such new "Index".

The First Payment Due Date shall be the date that is one month after the date loan proceeds are disbursed hereunder. The undersigned agrees that the date of the First Payment Due Date and of the Final Installment Due Date may be left blank when this Note is executed and hereby authorizes Lender to insert such dates based upon a **60-month** term from the date the loan proceeds are disbursed.

Principal and interest shall be payable in 59 consecutive equal monthly installments of \$28,127.61 each commencing on the First Payment Due Date and continuing on the same day of each month thereafter, and in a final installment of the entire unpaid balance of this Note on the Final Installment Due Date, provided; however, that annual adjustment payments shall be made as set forth below.

The amount of each monthly installment hereunder other than the final installment is the amount necessary to amortize this Note in equal monthly installments from the First Payment Due Date through the Final Installment Due Date at an interest rate of 3.28%. On each annual anniversary of the First Payment Due Date, the undersigned shall pay Lender or Lender shall credit to the next installment or installments in the order of maturity, as the case may be, an amount necessary to make the unpaid principal balance of this Note on such anniversary date equal to what it would have been on such anniversary date had the interest rate hereon been the rate set forth in this paragraph throughout the previous 12 months. Payments shall be applied first to interest and then to principal.

This Note may be prepaid in whole at any time by paying to Lender the unpaid principal balance of this Note but only if accompanied by a prepayment premium of 2% of the unpaid principal balance, together with accrued but unpaid interest.

This Note may be prepaid in part but only as a result of a disposition of an item of collateral which secures this Note. The amount of such prepayment shall be the product of the unpaid principal balance of this Note times a fraction, the numerator of which is the original advance made by the Lender with respect to the item of collateral in question and the denominator of which is the original principal balance of this Note with respect to the existing collateral securing this Note, together with accrued but unpaid interest multiplied by the same fraction, plus a prepayment premium equal to the percentage set forth in the preceding paragraph times the principal amount prepaid. Nothing contained in this paragraph shall be construed as an authorization by Lender to the undersigned to sell or otherwise dispose of an item of collateral which secures this Note. Such sale or disposition of an item of collateral by the undersigned shall be made solely in accordance with the terms of the security agreement or other agreement pursuant to which the undersigned pledged such item of collateral to Lender.

Promissory Note – floats over 90 day Libor - dlh

The undersigned may remit to Lender amounts in excess of an installment that is due hereunder and Lender shall apply such amount to the next maturing installment or installments. Payment of amounts in excess of the installment that is due or installments prior to the due date thereof shall not be treated as a prepayment or result in a change to either the total number of installments or the total sum of all installments payable under this Note.

Each of the following shall constitute an Event of Default hereunder: (a) failure to pay any installment or other payment hereunder when due; (b) the occurrence of an Event of Default as defined in any security agreement or mortgage securing this Note; (c) the commencement of any bankruptcy or insolvency proceedings by or against the undersigned or any guarantor of this Note; and (d) any indebtedness the undersigned may now or hereafter owe to any affiliate of Lender shall be accelerated following a default thereunder or, if any such indebtedness is payable on demand, payment thereof shall be demanded. Upon the occurrence of an Event of Default, Lender may do any one or more of the following as it may elect, provided, however, that upon the occurrence of an Event of Default specified in (c) above, the entire unpaid balance of this Note shall automatically become and be due and payable without notice or demand of any kind: (i) upon written notice to the undersigned, declare the entire unpaid balance of this Note to be immediately due and payable and the same shall thereupon become and be immediately due and payable; (ii) exercise any one or more of the rights and remedies available to it under any security agreement or mortgage securing this Note or under any other agreement or by law.

The undersigned hereby waives presentment, notice of dishonor, and protest. The undersigned agrees to pay all costs of collection of this Note, including reasonable attorney's fees. The holder hereof may change the terms of payment of this Note by extension, renewal or otherwise, and release any security for, or party to, this Note and such action shall not release any accommodation maker, endorser, or guarantor from liability on this Note.

Notwithstanding anything to the contrary contained herein, if the rate of interest, late payment fee, prepayment premium or any other charges or fees due hereunder are determined by a court of competent jurisdiction to be usurious, then said interest rate, fees and/or charges shall be reduced to the maximum amount permissible under applicable law and any such excess amounts shall be applied towards the reduction of the principal balance of this Note.

This Note shall be construed and enforced in accordance with, and the rights of the parties shall be governed by, the laws of the State of Minnesota without regard to conflicts of law rules.

If this Note is signed by more than one person as Debtor, then the term "Debtor" shall refer to each of them separately and to all of them jointly, and each such person shall be liable hereunder individually in full and jointly with the others.

First Payment Due Date: _____

Final Installment Due Date: _____

IN WITNESS WHEREOF the Debtor has signed this Agreement as of the date first above written.

Natural Alternatives International, Inc.

By: _____ /s/ JOHN REAVES

Title: CFO



Wells Fargo Equipment Finance, Inc.
733 Marquette Avenue, Suite 700
MAC N9306-070
Minneapolis, MN 55402

Security Agreement

Name and Address of Debtor:
Natural Alternatives International, Inc.
1185 Linda Vista Drive
San Marcos, CA 92069

Dated as of May 4, 2004

1. **Security Interest and Collateral.** To secure the payment and performance of each and every debt, liability and obligation of every type and description which Debtor may now or at any time hereafter owe to Wells Fargo Equipment Finance, Inc. ("Secured Party") (whether such debt, liability or obligation now exists or is hereafter created or incurred, whether it is currently contemplated by the Debtor and Secured Party, whether any documents evidencing it refer to the Security Agreement, whether it arises with or without any documents (e.g. obligations to Secured Party created by checking overdrafts), and whether it is or may be direct or indirect, due or to become due, absolute or contingent, primary or secondary, liquidated or unliquidated, or joint, several or joint and several; all such debts, liabilities and obligations being herein collectively referred to as the "Obligations"), Debtor hereby grants Secured Party a security interest (herein called the "Security Interest") in the following property (herein called the "Collateral"):

INVENTORY:

All inventory of Debtor, whether now owned or hereafter acquired and wherever located;

EQUIPMENT:

All equipment of Debtor, whether now owned or hereafter acquired, including but not limited to all present and future machinery, vehicles, furniture, fixtures, manufacturing equipment, farm machinery and equipment, shop equipment, office and recordkeeping equipment, parts and tools, and the goods described in any equipment schedule or list herewith or hereafter furnished to Secured Party by Debtor (but no such schedule or list need be furnished in order for the security interest granted therein to be valid as to all of Debtor's equipment).

ACCOUNTS AND OTHER RIGHTS TO PAYMENT:

Each and every right of Debtor to the payment of money, whether such right to payment now exists or hereafter arises, whether such right to payment arises out of a sale, lease or other disposition of goods or other property by Debtor, out of a rendering of services by Debtor, out of a loan by Debtor, out of the overpayment of taxes or other liabilities of Debtor, or otherwise arises under any contract or agreement, whether such right to payment is or is not already earned by performance, and howsoever such right to payment may be evidenced, together with all other rights and interests (including all liens and security interests) which Debtor may at any time have by law or agreement against any account debtor or other obligor obligated to make any such payment or against any of the property of such account debtor or other obligor, all, including but not limited to, present and future debt instruments, chattel papers, accounts, loans and obligations receivable and tax refunds.

GENERAL INTANGIBLES:

All general intangibles of Debtor, whether now owned or hereafter acquired, including but not limited to, applications for patents, patents, copyrights, trademarks, trade secrets, good will, tradenames, customers' lists, permits and franchises, and the right to use Debtor's name.

together with all substitutions and replacements for and products of any of the foregoing property not constituting consumer goods and together with proceeds of any and all of the foregoing property and, in the case of all tangible Collateral, together with all accessions and, except in the case of consumer goods, together with (i) all accessories, attachments, parts, equipment and repairs now or hereafter attached or affixed to or used in connection with any such goods, and (ii) all warehouse receipts, bills of lading and other documents of title now or hereafter covering such goods.

2. **Representations, Warranties and Agreements.** Debtor represents, warrants and agrees that:

a) **Authorization.** If Debtor is a corporation, a partnership or a limited liability company, the execution, delivery and performance of this Agreement has been duly authorized by all necessary action on the part of the Debtor and will not violate any provision of the Debtor's articles of incorporation or bylaws, partnership agreement or articles of organization or management agreement, as the case may be.

(b) **Office Location.** Debtor's chief executive office (if Debtor is a corporation, a partnership or a limited liability company) is located at the address for Debtor shown above. Debtor will not change the location of its chief executive office or his/her residence, as the case may be, without first giving Secured Party at least 10 days prior written notice of the new location.

(c) **Business Purpose; Lawful Use.** The Equipment will be used primarily for business purposes as opposed to personal, family or household purposes. Debtor will comply with all laws and regulations applicable to the Equipment and its use.

3. **Additional Representations, Warranties and Agreements.** Debtor represents, warrants and agrees that:

(a) Debtor has (or will have at the time Debtor acquires rights in Collateral hereafter arising) absolute title to each item of Collateral free and clear of all security interests, liens and encumbrances, except the Security Interest and will defend the Collateral against all claims or demands of all persons other than Secured Party. Debtor will not sell or otherwise dispose of the Collateral or any interest therein without the prior written consent of Secured Party, except that, until the occurrence of an Event of Default and the revocation by Secured Party of Debtor's right to do so, Debtor may sell any inventory constituting Collateral to buyers in the ordinary course of business and use and consume any farm products constituting Collateral in Debtor's farming operation. If Debtor is a corporation, this Agreement has been duly and validly authorized by all necessary corporate action, and, if Debtor is a partnership or a limited liability company, the partner(s) or manager(s) executing this Agreement has (have) authority to act for the partnership or the limited liability company.

THIS AGREEMENT INCLUDES THE TERMS ON THE ATTACHED PAGE(S).

Natural Alternatives International, Inc.
Debtor

By _____ /s/ JOHN REAVES

Title

CFO

(b) Debtor will not permit any tangible Collateral to be located in any state (and, if county filing is required, in any county) in which the financing statement covering such Collateral is required to be, but has not in fact been, filed in order to perfect the Security Interest.

(c) Each right to payment and each instrument, document, chattel paper and other agreement constituting or evidencing Collateral is (or will be when arising or issued) the valid, genuine and legally enforceable obligation, subject to no defense, set-off or counterclaim (other than those arising in the ordinary course of business) of the account debtor or other obligor named therein or in Debtor's records pertaining thereto as being obligated to pay such obligation. Debtor will neither agree to any material modification or amendment nor agree to any cancellation of any such obligation without Secured Party's prior written consent, and will not subordinate any such right to payment to claims of other creditors of such account debtor or other obligor.

(d) Debtor will (i) keep all tangible Collateral in good repair, Working order and condition, normal depreciation excepted, and will, from time to time, replace any worn, broken or defective parts thereof; (ii) promptly pay all taxes and other governmental charges levied or assessed upon or against any Collateral or upon or against the creation, perfection or continuance of the Security Interest; (iii) keep all Collateral free and clear of all security interests, liens and encumbrances except the Security Interest; (iv) at all reasonable times, permit Secured Party or its representatives to examine or inspect any Collateral, wherever located, and to examine, inspect and copy Debtor's books and records pertaining to the Collateral and its business and financial condition and to discuss with account debtors and other obligors requests for verifications of amounts owed to Debtor; (v) keep accurate and complete records pertaining to the Collateral and pertaining to Debtor's business and financial condition and submit to Secured Party such periodic reports concerning the Collateral and Debtor's business and financial condition as Secured Party may from time to time reasonably request; (vi) promptly notify Secured Party of any loss of or material damage to any Collateral or of any adverse change, known to Debtor, in the prospect of payment of any sums due or under any instrument, chattel paper, or account constituting Collateral; (vii) if Secured Party at any time so requests (whether the request is made before or after the occurrence of an Event of Default), promptly deliver to Secured Party any instrument, document or chattel paper constituting Collateral, duly endorsed or assigned by Debtor; (viii) at all times keep all tangible Collateral insured against risks of fire (including so-called extended coverage), then, collision (in case of Collateral consisting of motor vehicles) and such other risks and to such amounts as Secured Party may reasonably request, with any loss payable to Secured Party to the extent of its interest, (ix) from time to time execute such financing statements as Secured Party may reasonably require in order to perfect the Security Interest and, if any Collateral consists of a motor vehicle, execute such documents as may be required to have the Security Interest properly noted on a certificate of title; (x) pay when due or reimburse Secured Party on demand for all costs of collection of any of the Obligations and all other out-of-pocket expenses (including in each case all reasonable attorneys' fees) incurred by Secured Party in connection with the creation, perfection, satisfaction, protection, defence or enforcement of the Security Interest or the creation, continuance, protection, defense or enforcement of this Agreement or any or all of the Obligations, including expenses incurred in any litigation or bankruptcy or insolvency proceedings; (xi) execute, deliver or endorse any and all instruments, documents, assignments, security agreements and other agreements and writings which Secured Party may at any time reasonably request in order to secure, protect, perfect or enforce the Security Interest and Secured Party's rights under this Agreement; (xii) not use or keep any Collateral, or permit it to be used or kept, for any unlawful purpose or in violation of any federal, state or local law, statute or ordinance; (xiii) permit Secured Party at any time and from time to time to send requests (both before and after the occurrence of an Event of Default) to account debtors or other obligors for verification of amounts owed to Debtor; and (xiv) not permit any tangible Collateral to become part of or to be affixed to any real property without first assuring to the reasonable satisfaction of Secured Party that the Security Interest will be prior and senior to any interest or lien then held or thereafter acquired by any mortgagee of such real property or the owner or purchaser of any interest therein. If Debtor at any time fails to perform or observe any agreement contained in this Section 3(d), and if such failure shall continue for a period of ten calendar days after Secured Party gives Debtor written notice thereof (or, in the case of the agreements contained in clauses (viii) and (ix) of this Section 3(d), immediately upon the occurrence of such failure, without notice or lapse of time), Secured Party may (but need not) perform or observe such agreement on behalf and in the name, place and stead of Debtor (or, at Secured Party's option, in Secured Party's own name) and may (but need not) take any and all other actions which Secured Party may reasonably deem necessary to cure or correct such failure (including, without limitation, the payment of taxes, the satisfaction of security interests, liens, or encumbrances, the performance of obligations under contracts or agreements with account debtors or other obligors, the procurement and maintenance of Insurance, the execution of financing statements, the endorsement of instruments, and the procurement of repairs, transportation or insurance); and, except to the extent that the effect of such payment would be to render any loan or forbearance of money usurious or otherwise illegal under any applicable law Debtor shall thereupon pay Secured Party on demand the amount of all moneys expended and all costs and expenses (including reasonable attorneys' fees) incurred by Secured Party in connection with or as a result of Secured Party's performing or observing such agreement or taking such actions, together with interest thereon from the date expended or incurred by Secured Party at the highest rate then applicable to any of the Obligations. To facilitate the performance or observance by Secured Party of such agreements of Debtor, Debtor hereby irrevocably appoints (which appointment is coupled with an interest) Secured Party, or its delegate, as the attorney-in-fact of Debtor with the right (but not the duty) from time to time to create, prepare, complete, execute, deliver, endorse or file. In the name and on behalf of Debtor, any and all instruments, documents, financing statements, applications for insurance and other agreements and writings required to be obtained, executed, delivered or endorsed by Debtor under this Section 3.

4. **Assignment of Insurance.** Debtor hereby assigns to Secured Party, as additional security for the payment of the Obligations, any and all moneys (including but not limited to proceeds of insurance and refunds of unearned premiums) due or to become due under, and all other rights of Debtor under or with respect to, any and all policies of insurance covering the Collateral, and Debtor hereby directs the issuer of any such policy to pay any such moneys directly to Secured Party. Both before and after the occurrence of an Event of Default, Secured Party may (but need not), in its own name or in Debtor's name, execute and deliver proofs of claim, receive all such moneys, endorse checks and other instruments representing payment of such moneys, and adjust, litigate, compromise or release any claim against the issuer of any such policy.
5. **Events of Default.** Each of the following occurrences shall constitute an event of default under this Agreement (herein called "Event of Default"): (i) Debtor shall fail to pay any or all of the Obligations when due or (if payable on demand) on demand, or shall fail to observe or perform any covenant or agreement herein binding on it; (ii) any representation or warranty by Debtor set forth in the Agreement or made to Secured Party in any financial statements or reports submitted to Secured Party by or on behalf of Debtor shall prove materially false or misleading; (iii) a garnishment, summons or a writ of attachment shall be issued against or served upon the Secured Party for the attachment of any property of Debtor or any indebtedness owing to Debtor; (iv) Debtor or any guarantor of any Obligation shall (A) be or become insolvent (however defined); or (B) voluntarily file, or have filed against it involuntarily, a petition under the United States Bankruptcy Code; or (C) if a corporation, partnership, or organization, be dissolved or liquidated or, if a partnership, suffer the death of a partner or, if an individual, die; or (D) go out of business; (v) an event of default shall occur under any indebtedness Debtor may now or hereafter owe to any affiliate of Secured Party; (vi) if Debtor is a corporation, more than 50% of the shares of voting stock of Debtor shall become owned by a shareholder or shareholders who were not owners of voting stock of Debtor on the date of this Agreement or, if Debtor is a partnership, more than 50% of the partnership interests in the Debtor shall become owned by a partner or partners who were not partners of Debtor on the date of this Agreement; or (vii) Debtor shall consolidate with or merge into, or sell all or substantially all of its assets to, any individual, corporation, or other entity.

6. **Remedies upon Event of Default.** Upon the occurrence of an Event of Default under Section 5 and at any time thereafter, Secured Party may exercise any one or more of the following rights and remedies; (i) declare all unmatured Obligations to be immediately due and payable, and the same shall thereupon be immediately due and payable, without presentment or other notice or demand; (ii) exercise and enforce any or all rights and remedies available upon default to a secured party under the Uniform Commercial Code, including but not limited to the right to take possession of any Collateral, proceeding without judicial process or by judicial process (without a prior hearing or notice thereof, which Debtor hereby expressly waives), and the right to sell, lease or otherwise dispose of any or all of the Collateral, and in connection therewith. Secured Party may require Debtor to make the Collateral available to Secured Party at a place to be designated by Secured Party which is reasonably convenient to both parties, and if notice to Debtor of any intended disposition of Collateral, or any other intended action is required by law in a particular instance, such notice shall be deemed commercially reasonable if given (in the manner specified in Section 8) at least 10 calendar days prior to the date of intended disposition or other action; (iii) exercise or enforce any or all other rights or remedies available to Secured Party by law or agreement against the Collateral, against Debtor or against any other person or property. Upon the occurrence of the Event of Default described in Section 5(iv) (B), all Obligations shall be immediately due and payable without demand or notice thereof. Secured Party is hereby granted a nonexclusive, worldwide and royalty-free license to use or otherwise exploit all trademarks, trade secrets, franchises, copyrights and patents of Debtor that Secured Party deems necessary or appropriate to the disposition of any Collateral.
7. **Other Personal Property.** Unless at the time Secured party takes possession of any tangible Collateral, or within seven days thereafter, Debtor gives written notice to Secured Party of the existence of any goods, papers or other property of Debtor, not affixed to or constituting a part of such Collateral, but which are located or found upon or within such Collateral, describing such property, Secured Party shall not be responsible or liable to Debtor for any action taken or omitted by or on behalf of Secured Party with respect to such property without actual knowledge of the existence of any such property or without actual knowledge that it was located or to be found upon or within such Collateral.

8. **Miscellaneous.** *This Agreement does not contemplate a sale of accounts, or chattel paper. Debtor agrees that each provision whose box is checked is part of this Agreement. This Agreement can be waived, modified, amended, terminated or discharged, and the Security Interest can be released, only explicitly in a writing signed by Secured Party. A waiver signed by Secured Party shall be effective only in the specific instance and for the specific purpose given. More delay or failure to act shall not preclude the exercise or enforcement of any of Secured Party's rights or remedies. All rights and remedies of Secured Party shall be cumulative and may be exercised singularly or concurrently, at Secured Party's option, and the exercise or enforcement of any one such right or remedy shall neither be a condition to nor bar the exercise or enforcement of any other. All notices to be given to Debtor shall be deemed sufficiently given if delivered or mailed by registered or certified mail, postage prepaid, to Debtor at its address set forth above or at the most recent address shown on Secured Party's records. Secured Party's duty of care with respect to Collateral in its possession (as imposed by law) shall be deemed fulfilled if Secured Party exercises reasonable care in physically safekeeping such Collateral or, in the case of Collateral in the custody or possession of a bailee or other third person, exercises reasonable care in the selection of the bailee or other third person, and Secured Party need not otherwise preserve, protect, insure or care for any Collateral. Secured Party shall not be obligated to reserve any rights Debtor may have against prior parties, to realize on the Collateral at all or in any particular manner or order, or to apply any cash proceeds of Collateral in any particular order of application. This Agreement shall be binding upon and inure to the benefit of Debtor and Secured Party and their respective heirs, representatives, successors and assigns and shall take effect when signed by Debtor and delivered to Secured Party, and Debtor waves notice of Secured Party's acceptance hereof. Secured Party may execute this Agreement if appropriate for the purpose of filing, but the failure of Secured Party to execute this Agreement shall not affect or impair the validity or effectiveness of this Agreement. A carbon, photographic or other reproduction of this Agreement or of any financing statement signed by the Debtor shall have the same force and effects as the original for all purposes of a financing statement. Except to the extent otherwise required by law, this Agreement shall be governed by the internal laws of the State of Minnesota. If any provision or application of this Agreement is held unlawful or unenforceable in any respect, such illegality or unenforceability shall not affect other provisions or applications which can be given effect, and this Agreement shall be construed as if the unlawful or unenforceable provision or application had never been contained herein or prescribed hereby. All representations and warranties contained in this Agreement shall survive the execution, delivery and performance of this Agreement and the creation and payment of the Obligations. If this Agreement is signed by more than one person as Debtor, the term "Debtor" shall refer to each of them separately and to both or all of them jointly; all such persons shall be bound both severally and jointly with the others); and the Obligations shall include all debts, liabilities and obligations owed to Secured Party by any Debtor solely or by both or several or all Debtors jointly or jointly and severally, and all property described in Section 1 shall be included as part of the Collateral, whether it is owned jointly by both or all Debtors or is owned in whole or in part by one (or more) of them. There shall be (1) counterpart of this Agreement and it will be marked "Original." To the extent that this Agreement constitutes chattel paper (as defined by the Uniform Commercial Code), a security interest only may be created in the Agreement marked "Original" DEBTOR HEREBY WAIVES ANY RIGHT TO A JURY TRIAL WITH RESPECT TO ANY MATTER UNDER OR IN CONNECTION WITH THE SECURITY AGREEMENT.*



Wells Fargo Equipment Finance, Inc.
733 Marquette Avenue, Suite 700
MAC N9 306-070
Minneapolis, MN 55402

Security Agreement

Name and Address of Debtor:
Natural Alternatives International, Inc.
1185 Linda Vista Drive
San Marcos, CA 92069

Dated as of May 5, 2004
Contract Number 120423-701

1. **Security Interest and Collateral.** To secure the payment and performance of each and every debt, liability and obligation of every type and description which Debtor may now or at any time hereafter owe to Wells Fargo Equipment Finance, Inc. ("Secured Party") (whether such debt, liability or obligation now exists or is hereafter created or incurred, whether it is currently contemplated by the Debtor and Secured Party, whether any documents evidencing it refer to the Security Agreement, and whether it is or may be direct or indirect, due or to become due, absolute or contingent, primary or secondary, liquidated or unliquidated, or joint, several or joint and several; all such debts, liabilities and obligations being herein collectively referred to as the "Obligations"), Debtor hereby grants Secured Party a security interest (herein called the "Security Interest") in the following property (herein called the "Collateral"):

The Equipment described on Schedule A attached here to and made a part hereof together with all substitutions and replacements for and products of the Collateral, all proceeds, accessories, attachments, parts, equipment and repairs now or hereafter attached or affixed to or used in connection with the Collateral.
2. **Representations, Warranties and Agreements.** Debtor represents, warrants and agrees that:
 - (a) **Authorization.** If Debtor is a corporation, a partnership or a limited liability company, the execution, delivery and performance of this Agreement has been duly authorized by all necessary action on the part of the Debtor and will not violate any provision of the Debtor's articles of incorporation or bylaws, partnership agreement or articles of organization or management agreement, as the case may be.
 - (b) **Office Location.** Debtor's chief executive office (if Debtor is a corporation, a partnership or a limited liability company) is located at the address for Debtor shown above. Debtor will not change the location of its chief executive office or his/her residence, as the case may be, without first giving Secured Party at least 10 days prior written notice of the new location.
 - (c) **Business Purpose; Lawful Use.** The Equipment will be used primarily for business purposes as opposed to personal, family or household purposes. Debtor will comply with all laws and regulations applicable to the Equipment and its use.
3. **Additional Representations, Warranties and Agreements.** Debtor represents, warrants and agrees that:
 - (a) Debtor has (or will have at the time Debtor acquires rights in Collateral hereafter arising) absolute title to each item of Collateral free and clear of all security interests, liens and encumbrances, except the Security Interest and will defend the Collateral against all claims or demands of all persons other than Secured Party. Debtor will not sell or otherwise dispose of the Collateral or any interest therein without the prior written consent of Secured Party. If Debtor is a corporation, this Agreement has been duly and validly authorized by all necessary corporate action, and, if Debtor is a partnership or a limited liability company, the partner(s) or manager(s) executing this Agreement has (have) authority to act for the partnership or the limited liability company.
 - (b) Debtor will not permit any Collateral to be located in any state (and, if county filing is required, in any county) in which the financing statement covering such Collateral is required to be, but has not in fact been, filed in order to perfect the Security Interest.
 - (c) Debtor will (i) keep all Collateral in good repair, working order and condition, normal depreciation excepted, and will, from time to time, replace any worn, broken or defective parts thereof; (ii) promptly pay all taxes and other governmental charges levied or assessed upon or against any Collateral or upon or against the creation, perfection or continuance of the Security Interest; (iii) keep all Collateral free and clear of all security interests, liens and encumbrances except the Security interest; (iv) at all reasonable times, permit Secured Party or its representatives to examine or inspect any Collateral, wherever located, and to examine, inspect and copy Debtor's books and records pertaining to the Collateral and its business and financial condition; (v) keep accurate and complete records pertaining to Debtor's business and financial condition and submit to Secured Party such periodic reports concerning Debtor's business and financial condition as Secured Party may from time to time reasonably request; (vi) promptly notify Secured Party of any loss of or material damage to any Collateral; (vii) at all times keep all Collateral insured against risks of fire (including so-called extended coverage), theft, collision (in case of Collateral consisting of motor vehicles) and such other risks and in such amounts as Secured Party may reasonably request, with any loss payable to Secured Party to the extent of its interest, (viii) from time to time execute such financing statements as Secured Party may reasonably require in order to perfect the Security Interest and, if any Collateral consists of a motor execute such documents as may be required to have the Security Interest properly noted on a certificate of title; (ix) pay when due or reimburse Secured Party on demand for all costs of collection of any of the Obligations and all other out-of-pocket expenses (including in each case all reasonable attorneys' fees) incurred by Secured Party in connection with the creation, perfection, satisfaction, protection, defense or enforcement of the Security Interest or the creation, continuance, protection, defense or enforcement of this Agreement or any or all of the Obligations, including expenses incurred in any litigation or bankruptcy or insolvency proceedings; (x) execute, deliver or endorse any and all instruments, documents, assignment, security agreements and other agreements and writings which Secured Party may at any time reasonably request in order to secure, protect, perfect or enforce the Security Interest and Secured Party's rights under this Agreement; (xi) not use or keep any Collateral, or permit it to be used or kept, for any unlawful purpose or in violation of any federal, state or local law, statute or ordinance; and (xii) not permit any Collateral to become part of or to be affixed to any real property without first assuring to the reasonable satisfaction of Secured Party that the Security Interest will be prior and senior to any interest or lien then held or thereafter acquired by any mortgagee of such real property or the owner or purchaser of any interest therein. If Debtor at any time fails to perform or observe any agreement contained in this Section 3(c), and if such failure shall continue for a period of ten calendar days after Secured Party gives Debtor written notice thereof (or, in the case of the agreements contained clauses (vii) and (viii) of this Section 3(c), immediately upon the occurrence of such failure, without notice or lapse of time), Secured Party may (but need not) perform or observe such

THIS AGREEMENT INCLUDES THE TERMS ON THE ATTACHED PAGE(S).

Natural Alternatives International, Inc.
Debtor

By: /s/ JOHN REAVES

agreement on behalf and in the name, place and stead of Debtor (or, at Secured Party's option, in Secured Party's own name) and may (but need not) take any and all other actions which Secured Party may reasonably deem necessary to cure or correct such failure (including, without limitation, the payment of taxes, the satisfaction of security interests, liens, or encumbrances, the procurement and maintenance of Insurance, the execution of financing statements, the endorsement of instruments, and the procurement of repairs, transportation or insurance); and, except to the extent that the effect of such payment would be to render any loan or forbearance of money usurious or otherwise illegal under any applicable law Debtor shall thereupon pay Secured Party on demand the amount of all moneys expended and all cost and expenses (including reasonable attorneys' fees) incurred by Secured Party in connection with or as a result of Secured Party's performing or observing such agreement or taking such actions, together with interest thereon from the date expended or incurred by Secured Party at the highest rate then applicable to any of the Obligations. To facilitate the performance or observance by Secured Party of such agreements of Debtor, Debtor hereby irrevocably appoints (which appointment is coupled with an interest) Secured Party, or its delegate, as the attorney-in-fact of Debtor with the right (but not the duty) from time to time to create, prepare, complete, execute, deliver, endorse or file, in the name and on behalf of Debtor, any and all instruments, documents, financing statements, applications for insurance and other agreements and writings required to be obtained, executed, delivered or endorsed by Debtor under this Section 3.

4. **Assignment of Insurance.** Debtor hereby assigns to Secured Party, as additional security for the payment of the Obligations, any and all moneys (including but not limited to proceeds of insurance and refunds of unearned premiums) due or to become due under, and all other rights of Debtor under or with respect to, any and all policies of insurance covering the Collateral, and Debtor hereby directs the issuer of any such policy to pay any such moneys directly to Secured Party. Both before and after the occurrence of an Event of default, Secured Party may (but need not), in its own name or in Debtor's name, execute and deliver proofs of claim, receive all such moneys, endorse checks and other instruments representing payment of such moneys, and adjust, litigate, compromise or release any claim against the issuer of any such policy.
5. **Events of Default.** Each of the following occurrences shall constitute an event of default under this Agreement (herein called "Event of Default"): (i) Debtor shall fail to pay any or all of the Obligations when due or (if payable on demand) on demand, or shall fail to observe or perform any covenant or agreement herein binding on it; (ii) any representation or warranty by Debtor set forth in the Agreement or made to Secured Party in any financial statements or reports submitted to Secured Party by or on behalf of Debtor shall prove materially false or misleading; (iii) a garnishment, summons or a writ of attachment shall be issued against or served upon the Secured Party for the attachment of any property of Debtor or any indebtedness owing to Debtor; (iv) Debtor or any guarantor of any Obligation shall (A) be or become insolvent (however defined); or (B) voluntarily file, or have filed against it involuntarily, a petition under the United States Bankruptcy Code; or (C) if a corporation, partnership, or organization, be dissolved or liquidated or, if a partnership, suffer the death of a partner or, if an Individual, die; or (D) go out of business; (v) an event of default shall occur under any indebtedness Debtor may now or hereafter owe to any affiliate of Secured Party; (vi) if Debtor is a corporation, more than 50% of the shares of voting stock of Debtor shall become owned by a shareholder or shareholders who were not owners of voting stock of Debtor on the date of this Agreement or, if Debtor is a partnership, more than 50% of the partnership interests in the Debtor shall become owned by a partner or partners who were not partners of Debtor on the date of this Agreement; or (vii) Debtor shall consolidate with or merge into, or sell all or substantially all of its assets to, any individual, corporation, or other entity.
6. **Remedies upon Event of Default.** Upon the occurrence of an Event of Default under Section 5 and at any time thereafter, Secured Party may exercise any one or more of the following rights and remedies; (i) declare all unmatured Obligations to be immediately due and payable, and the same shall thereupon be immediately due and payable, without presentment or other notice or demand; (ii) exercise and enforce any or all rights and remedies available upon default to a secured party under the Uniform Commercial Code, including but not limited to the right to take possession of any Collateral, proceeding without judicial process or by judicial process (without a prior hearing or notice thereof, which Debtor hereby expressly waives), and the right to sell, lease or otherwise dispose of any or all of the Collateral, and in connection therewith, Secured Party may require Debtor to make the Collateral available to Secured Party at a place to be designated by Secured Party which is reasonably convenient to both parties, and if notice to Debtor of any intended disposition of Collateral or any other intended action is required by law in a particular instance, such notice shall be deemed commercially reasonable if given (in the manner specified in Section 7) at least 10 calendar days prior to the date of intended disposition or other action; (iii) exercise or enforce any or all other rights or remedies available to Secured Party by law or agreement against the Collateral, against Debtor or against any other person or property. Upon the occurrence of the Event of Default described in Section 5(iv) (B), all Obligations shall be immediately due and payable without demand or notice thereof.

7. **Miscellaneous.** *This Agreement can be waived, modified, amended, terminated or discharged, and the Security Interest can be released, only explicitly in a writing signed by Secured Party. A waiver signed by Secured Party shall be effective only in the specific instance and for the specific purpose given. Mere delay or failure to act shall not preclude the exercise or enforcement of any of Secured Party's rights or remedies. All rights and remedies of Secured Party shall be cumulative and may be exercised singularly or concurrently, at Secured Party's option, and the exercise or enforcement of any one such right or remedy shall neither be a condition to nor bar the exercise or enforcement of any other. All notices to be given to Debtor shall be deemed sufficiently given if delivered or mailed by registered or certified mail, postage prepaid, to Debtor at its address set forth above or at the most recent address shown on Secured Party's records. Secured Party's duty of care with respect to Collateral in its possession (as imposed by law) shall be deemed fulfilled if Secured Party exercises reasonable care in physically safekeeping such Collateral or, in the case of Collateral in the custody or possession of a bailee or other third person, exercises reasonable care in the selection of the bailee or other third person, and Secured Party need not otherwise preserve, protect, insure or care for any Collateral. Secured Party shall not be obligated to reserve any rights Debtor may have against prior parties, to realize on the Collateral at all or in any particular manner or order, or to apply any cash proceeds of Collateral in any particular order of application. This Agreement shall be binding upon and inure to the benefit of Debtor and Secured Party and their respective heirs, representatives, successors and assigns and shall take effect when signed by Debtor and delivered to Secured Party, and Debtor waves notice of Secured Party's acceptance hereof. Secured Party may execute this Agreement if appropriate for the purpose of filing, but the failure of Secured Party to execute this Agreement shall not affect or impair the validity or effectiveness of this Agreement. A carbon, photographic or other reproduction of this Agreement or of any financing statement signed by the Debtor shall have the same force and effects as the original for all purposes of a financing statement. Except to the extent otherwise required by law, this Agreement shall be governed by the internal laws of the State of Minnesota. If any provision or application of this Agreement is held unlawful or unenforceable in any respect, such illegality or unenforceability shall not affect other provisions or applications which can be given effect, and this Agreement shall be construed as if the unlawful or unenforceable provision or application had never been contained herein or prescribed hereby. All representations and warranties contained in this Agreement shall survive the execution, delivery and performance of this Agreement and the creation and payment of the Obligations. If this Agreement is signed by more than one person as Debtor, the term "Debtor" shall refer to each of them separately and to both or all of them jointly; all such persons shall be bound both severally and jointly with the other(s); and the Obligations shall include all debts, liability and obligations owed to Secured Party by any Debtor solely or by both or several or all Debtors jointly or jointly and severally, and all property described in Section 1 shall be included as part of the Collateral, whether it is owned jointly by both or all Debtors or is owned in whole or in part by one (or more) of them. There shall be (1) counterpart of this Agreement and it will be marked "Original." To the extent that this Agreement constitutes chattel paper (as that term is defined by the Uniform Commercial Code), a security interest only may be created in the Agreement marked "Original." DEBTOR HEREBY WAIVES ANY RIGHT TO A JURY TRIAL WITH RESPECT TO ANY MATTER UNDER OR IN CONNECTION WITH THE SECURITY AGREEMENT.*



Wells Fargo Equipment Finance, Inc.
2030 Main Street
9th Floor
Irvine, CA 92614-7255

Schedule A

Contract Number **120423-701** dated as of **May 5, 2004**

Debtor: *Natural Alternatives International, Inc.*

<u>Vendor Name</u>	<u>Invoice/Quote Number and Date</u>
<i>Prime Business Systems</i>	<i>Quote #8488 dated 9/12/03</i>
<i>Xerox Corporation</i>	<i>Invoice#17749 dated 11/10/03 & Invoice#18374 dated 12/6/03</i> <i>Invoice#097401348 & 097401350 dated 8/21/03</i>
<i>Consiliant Technologies</i>	<i>Invoice#25 dated 2/10/04</i>
<i>AmeriComp</i>	<i>Invoice#21646 dated 2/5/04</i>
<i>AmeriComp</i>	<i>Invoice#21851 dated 3/23/04</i>
<i>AmeriComp</i>	<i>Invoice#22217 dated 3/23/04</i>
<i>AmeriComp</i>	<i>Invoice#21647 dated 2/5/04</i>
<i>AmeriComp</i>	<i>Invoice#21852 dated 2/20/04</i>
<i>SE Technologies</i>	<i>Schedule A to Professional Services Agreement dated 7/10/03</i>
<i>Consiliant Technologies</i>	<i>Invoice#25 dated 2/10/04</i>
<i>IMA</i>	<i>Invoice#IM18673-IN dated 12/26/02</i>
<i>Markem</i>	<i>Invoice#848225 dated 2/5/03</i>
<i>Pack West</i>	<i>Invoice#13788 dated 3/28/03</i>
<i>Ron Preston Prom.</i>	<i>Invoice#033-31-dated 4/14/03</i>
<i>EquipNet Direct</i>	<i>Invoice# 12732 dated 4/24/03</i>
<i>Sunset Packaging Co.</i>	<i>Invoice#NA62605 dated 6/26/03</i>
<i>Alltech</i>	<i>Invoice#898124 dated 6/30/04</i>
<i>DI Pharma Tech</i>	<i>Invoice#2235 dated 6/23/03</i>
<i>Agilent Technologies</i>	<i>Invoice# 100808044 dated 6/25/03</i>
<i>Merritt-Pac</i>	<i>Invoice#30234 dated 4/25/03</i>
<i>Scottish Ent.</i>	<i>Invoice#2089 dated 5/19/03</i>
<i>PDC International</i>	<i>Invoice#NA62605 dated 8/31/03</i>
<i>Marburg Ind.</i>	<i>Invoice#9951 dated 11/4/03</i>
<i>IMA</i>	<i>Invoice#IM27009-IN dated 10/31/03</i>
<i>IMA</i>	<i>Invoice#IM27462-IN dated 11/19/03</i>
<i>Bran+Luebbe</i>	<i>Invoice#32396 dated 11/6/03</i>
<i>Kaps-All</i>	<i>Invoice#39206 dated 12/3/03</i>
<i>Kaps-All</i>	<i>Invoice# 39198 dated 11/26/03</i>
<i>San Diego Crane</i>	<i>Invoice#5436 dated 11/4/03</i>
<i>Ron Preston Prom.</i>	<i>Invoice#219 dated 1/5/04</i>
<i>Advanced Air</i>	<i>Invoice#11286 dated 2/19/04</i>
<i>Dynamold Int.</i>	<i>Invoice#275-729 dated 11/12/02</i>
<i>Dynamold Int.</i>	<i>Invoice#275-730 dated 11/12/02</i>
<i>Dynamold Int.</i>	<i>Invoice#275-732 dated 11/1/02</i>
<i>Dynamold Int.</i>	<i>Invoice#275-733 dated 11/1/02</i>
<i>Dynamold Int.</i>	<i>Invoice#275-836 dated 7/17/03</i>
<i>Heat and Control</i>	<i>Invoice#90100940 dated 3/12/04</i>
<i>SBC</i>	<i>Invoice#276-235114 dated 11/13/03</i>
<i>SBC</i>	<i>Invoice#276-146761 dated 3/8/04</i>
<i>SBC</i>	<i>Invoice#276-138275 dated 12/17/03</i>
<i>SBC</i>	<i>Invoice#276-138446 dated 12/18/03</i>
<i>Ken Grody Ford</i>	<i>Quote from Ken Grody dated 11/21/03 referencing One(1) Used 2002 Ford Truck</i>
<i>John Wayne</i>	<i>BOS dated 2/10/04 referecing One (1) 1997 Used Ford Truck</i>

Debtor hereby authorizes Secured Party to insert factual information regarding the Equipment, most specifically the Serial Number or VIN, into this Equipment Description.

Dated: May 10, 2004

Debtor: Natural Alternatives International, Inc.

By: _____ /s/ JOHN REAVES

Its: CFO

1. GRANT OF SECURITY INTEREST. For valuable consideration, the undersigned **Natural Alternatives International, Inc.**, or any of them ("Debtor"), hereby grants and transfers to WELLS FARGO BANK, NATIONAL ASSOCIATION ("Bank") a security interest in all goods, tools, machinery, furnishings, furniture and other equipment and fixtures, now or at any time hereafter, and prior to the termination hereof, owned or acquired by Debtor, wherever located, whether in the possession of Debtor or any other person and whether located on Debtor's property or elsewhere, and all improvements, replacements, accessions and additions thereto and embedded software included therein (collectively called "Collateral"), and including all of the foregoing which are now or hereafter affixed or to be affixed to, and whether or not severed and removed from, the real property described on Schedule 1 attached hereto and incorporated herein by this reference, together with whatever is receivable or received when any of the Collateral or proceeds thereof are sold, leased, collected, exchanged or otherwise disposed of, whether such disposition is voluntary or involuntary, including without limitation, (a) all accounts, contract rights, chattel paper (whether electronic or tangible), instruments, promissory notes, documents, general intangibles, payment intangibles and other rights to payment of every kind now or at any time hereafter arising from any such sale, lease, collection, exchange or other disposition of any of the foregoing, (b) all rights to payment, including returned premiums, with respect to any insurance relating to any of the foregoing, and (c) all rights to payment with respect to any claim or cause of action affecting or relating to any of the foregoing (hereinafter called "Proceeds").

2. OBLIGATIONS SECURED. The obligations secured hereby are the payment and performance of: (a) all present and future Indebtedness of Debtor to Bank; (b) all obligations of Debtor and rights of Bank under this Agreement; and (c) all present and future obligations of Debtor to Bank of other kinds. The word "Indebtedness" is used herein in its most comprehensive sense and includes any and all advances, debts, obligations and liabilities of Debtor, or any of them, heretofore, now or hereafter made, incurred or created, whether voluntary or involuntary and however arising, whether due or not due, absolute or contingent, liquidated or unliquidated, determined or undetermined, and whether Debtor may be liable individually or jointly, or whether recovery upon such Indebtedness may be or hereafter becomes unenforceable.

3. TERMINATION. This Agreement will terminate upon the performance of all obligations of Debtor to Bank, including without limitation, the payment of all Indebtedness of Debtor to Bank, and the termination of all commitments of Bank to extend credit to Debtor, existing at the time Bank receives written notice from Debtor of the termination of this Agreement.

4. OBLIGATIONS OF BANK. Bank has no obligation to make any loans hereunder. Any money received by Bank in respect of the Collateral may be deposited, at Bank's option, into a non-interest bearing account over which Debtor shall have no control, and the same shall, for all purposes, be deemed Collateral hereunder.

5. REPRESENTATIONS AND WARRANTIES. Debtor represents and warrants to Bank that: (a) Debtor's legal name is exactly as set forth on the first page of this Agreement, and all of Debtor's organizational documents or agreements delivered to Bank are complete and accurate in every respect; (b) Debtor is the owner and has possession or control of the Collateral and Proceeds; (c) Debtor has the exclusive right to grant a security interest in the Collateral and Proceeds; (d) all Collateral and Proceeds are genuine, free from liens, adverse claims, setoffs, default, prepayment, defenses and conditions precedent of any kind or character, except the lien created hereby or as otherwise agreed to by Bank, or heretofore disclosed by Debtor to Bank, in writing; (e) all statements contained herein are true and complete in all material respects; (f) no financing statement covering any of the Collateral or Proceeds, and naming any secured party other than Bank, is on file in any public office; and (g) Debtor is not in the business of selling goods of the kind included within the Collateral subject to this Agreement, and Debtor acknowledges that no sale or other disposition of any Collateral, including without limitation, any Collateral which Debtor may deem to be surplus, has been or shall be consented to or acquiesced in by Bank, except as specifically set forth in writing by Bank.

6. COVENANTS OF DEBTOR.

6.1 Debtor Agrees in general: (a) to pay Indebtedness secured hereby when due; (b) to indemnify Bank against all losses, claims, demands, liabilities and expenses of every kind caused by property subject hereto; (c) to pay all costs and expenses, including reasonable attorneys' fees, incurred by Bank in the perfection and preservation of the Collateral or Bank's interest therein and/or the realization, enforcement and exercise of Bank's rights, powers and remedies hereunder; (d) to permit Bank to exercise its powers; (e) to execute and deliver such documents as Bank deems necessary to create, perfect and continue the security interests contemplated hereby; (f) not to change its name, and as applicable, its chief executive office, its principal residence or the jurisdiction in which it is organized and/or registered without giving Bank prior written notice thereof; (g) not to change the places where Debtor keeps any Collateral or Debtor's records concerning the Collateral and Proceeds without giving Bank prior written notice of the address to which Debtor is moving same; and (h) to cooperate with Bank in perfecting all security interests granted herein and in obtaining such agreements from third parties as Bank deems necessary, proper or convenient in connection with the preservation, perfection or enforcement of any of its rights hereunder.

6.2 Debtor agrees with regard to the Collateral and Proceeds, unless Bank agrees otherwise in writing: (a) that Bank is authorized to file financing statements in the name of Debtor to perfect Bank's security interest in Collateral and Proceeds; (b) to insure the Collateral with Bank named as loss payee, in form, substance and amounts, under agreements, against risks and liabilities, and with insurance companies satisfactory to Bank; (c) to operate the Collateral in accordance with all applicable statutes, rules and regulations relating to the use and control thereof, and not to use the Collateral for any unlawful purpose or in any way that would void any insurance required to be carried in connection therewith; (d) not to permit any security interest in or lien on the Collateral or Proceeds, including without limitation, liens arising from repairs to or storage of the Collateral, except in favor of Bank; (e) to pay when due all license fees, registration fees and other charges in connection with any Collateral; (f) not to remove the Collateral from Debtor's premises unless the Collateral consists of mobile goods as defined in the California Uniform Commercial Code, in which case Debtor agrees not to remove or permit the removal of the Collateral from its state of domicile for a period in excess of 30 calendar days; (g) not to sell, hypothecate or otherwise dispose of, nor permit the transfer by operation of law of, any of the Collateral or Proceeds or any interest therein; (h) not to rent, lease or charter the Collateral; (i) to permit Bank to inspect the Collateral at any time; (j) to keep, in accordance with generally accepted accounting principles, complete and accurate records regarding all Collateral and Proceeds, and to permit Bank to inspect the same and make copies thereof at any reasonable time; (k) if requested by Bank, to receive and use reasonable diligence to collect Proceeds, in trust and as the property of Bank, and to immediately endorse as appropriate and deliver such Proceeds to Bank daily in the exact form in which they are received together with a collection report in form satisfactory to Bank; (l) not to commingle Proceeds or collections thereunder with other property; (m) to give only normal allowances and credits and to advise Bank thereof immediately in writing if they affect any Collateral or Proceeds in any material respect; (n) in the event Bank elects to receive payments of Proceeds hereunder, to pay all expenses incurred by Bank in connection therewith, including expenses of accounting, correspondence, collection efforts, reporting to account or contract debtors, filing, recording, record keeping and expenses incidental thereto; and (o) to provide any service and do any other acts which may be necessary to maintain, preserve and protect all Collateral and, as appropriate and applicable, to keep the Collateral in good and saleable condition and repair, to deal with the Collateral in accordance with the standards and practices adhered to generally by owners of like property, and to keep all Collateral and Proceeds free and clear of all defenses, rights of offset and counterclaims.

7. POWERS OF BANK. Debtor appoints Bank its true attorney-in-fact to perform any of the following powers, which are coupled with an interest, are irrevocable until termination of this Agreement and may be exercised from time to time by Bank's officers and employees, or any of them, whether or not Debtor is in default: (a) to perform any obligation of Debtor hereunder in Debtor's name or otherwise; (b) to give notice to account debtors or others of Bank's rights in the Collateral and Proceeds, to enforce or forebear from enforcing the same and make extension or modification agreements with respect thereto; (c) to release persons liable on Proceeds and to give receipts and acquittances and compromise disputes in connection therewith; (d) to release or substitute security; (e) to resort to security in any order; (f) to prepare, execute, file, record or deliver notes, assignments, schedules, designation statements, financing statements,

continuation statements, termination statements, statements of assignment, applications for registration or like papers to perfect, preserve or release Bank's interest in the Collateral and Proceeds; (g) to receive, open and read mail addressed to Debtor; (h) to take cash, instruments for the payment of money and other property to which Bank is entitled; (i) to verify facts concerning the Collateral and Proceeds by inquiry of obligors thereon, or otherwise, in its own name or a fictitious name; (j) to endorse, collect, deliver and receive payment under instruments for the payment of money constituting or relating to Proceeds; (k) to prepare, adjust, execute, deliver and receive payment under insurance claims, and to collect and receive payment of and endorse any instrument in payment of loss or returned premiums or any other insurance refund or return, and to apply such amounts received by Bank, at Bank's sole option, toward repayment of the Indebtedness or replacement of the Collateral; (l) to exercise all rights, powers and remedies which Debtor would have, but for this Agreement, with respect to all Collateral and Proceeds subject hereto; (m) to enter onto Debtor's premises in inspecting the Collateral; and (n) to do all acts and things and execute all documents in the name of Debtor or otherwise, deemed by Bank as necessary, proper and convenient in connection with the preservation, perfection or enforcement of its rights hereunder.

8. PAYMENT OF PREMIUMS, TAXES, CHARGES, LIENS AND ASSESSMENTS. Debtor agrees to pay, prior to delinquency, all insurance premiums, taxes, charges, liens and assessments against the Collateral and Proceeds, and upon the failure of Debtor to do so, Bank at its option may pay any of them and shall be the sole judge of the legality or validity thereof and the amount necessary to discharge the same. Any such payments made by Bank shall be obligations of Debtor to Bank, due and payable immediately upon demand, together with interest at a rate determined in accordance with the provisions of this Agreement, and shall be secured by the Collateral and Proceeds, subject to all terms and conditions of this Agreement.

9. EVENTS OF DEFAULT. The occurrence of any of the following shall constitute an "Event of Default" under this Agreement: (a) any default in the payment or performance of any obligation, or any defined event of default, under (i) any contract or instrument evidencing any Indebtedness, or (ii) any other agreement between Debtor and Bank, including without limitation any loan agreement, relating to or executed in connection with any Indebtedness; (b) any representation or warranty made by Debtor herein shall prove to be incorrect, false or misleading in any material respect when made; (c) Debtor shall fail to observe or perform any obligation or agreement contained herein; (d) any impairment of the rights of Bank in any Collateral or Proceeds or any attachment or like levy on any property of Debtor; and (e) Bank, in good faith, believes any or all of the Collateral and/or Proceeds to be in danger of substantial misuse, dissipation, commingling, loss, theft, damage or destruction, or otherwise in substantial jeopardy or materially unsatisfactory in character or value.

10. REMEDIES. Upon the occurrence of any Event of Default, Bank shall have the right to declare immediately due and payable all or any Indebtedness secured hereby and to terminate any commitments to make loans or otherwise extend credit to Debtor. Bank shall have all other rights, powers, privileges and remedies granted to a secured party upon default under the California Uniform Commercial Code or otherwise provided by law, including without limitation, the right (a) to contact all persons obligated to Debtor on any Collateral or Proceeds and to instruct such persons to deliver all Collateral and/or Proceeds directly to Bank, and (b) to sell, lease, license or otherwise dispose of any or all Collateral. All rights, powers, privileges and remedies of Bank shall be cumulative. No delay, failure or discontinuance of Bank in exercising any right, power, privilege or remedy hereunder shall affect or operate as a waiver of such right, power, privilege or remedy; nor shall any single or partial exercise of any such right, power, privilege or remedy preclude, waive or otherwise affect any other or further exercise thereof or the exercise of any other right, power, privilege or remedy. Any waiver, permit, consent or approval of any kind by Bank of any default hereunder, or any such waiver of any provisions or conditions hereof, must be in writing and shall be effective only to the extent set forth in writing. It is agreed that public or private sales or other dispositions, for cash or on credit, to a wholesaler or retailer or investor, or user of property of the types subject to this Agreement, or public auctions, are all commercially reasonable since differences in the prices generally realized in the different kinds of dispositions are ordinarily offset by the differences in the costs and credit risks of such dispositions.

While an Event of Default exists: (a) Debtor will deliver to Bank from time to time, as requested by Bank, current lists of all Collateral and Proceeds; (b) Debtor will not dispose of any Collateral or Proceeds except on

terms approved by Bank; (c) at Bank's request. Debtor will assemble and deliver all Collateral and Proceeds, and books and records pertaining thereto, to Bank at a reasonably convenient place designated by Bank; and (d) Bank may, without notice to Debtor, enter onto Debtor's premises and take possession of the Collateral. Debtor further agrees that Bank shall have no obligation to process or prepare any Collateral for sale or other disposition.

11. DISPOSITION OF COLLATERAL AND PROCEEDS; TRANSFER OF INDEBTEDNESS. In disposing of Collateral hereunder, Bank may disclaim all warranties of title, possession, quiet enjoyment and the like. Any proceeds of any disposition of any Collateral or Proceeds, or any part thereof, may be applied by Bank to the payment of expenses incurred by Bank in connection with the foregoing, including reasonable attorneys' fees, and the balance of such proceeds may be applied by Bank toward the payment of the Indebtedness in such order of application as Bank may from time to time elect. Upon the transfer of all or any part of the Indebtedness, Bank may transfer all or any part of the Collateral or Proceeds and shall be fully discharged thereafter from all liability and responsibility with respect to any of the foregoing so transferred, and the transferee shall be vested with all rights and powers of Bank hereunder with respect to any of the foregoing so transferred; but with respect to any Collateral or Proceeds not so transferred Bank shall retain all rights, powers, privileges and remedies herein given.

12. STATUTE OF LIMITATIONS. Until all Indebtedness shall have been paid in full and all commitments by Bank to extend credit to Debtor have been terminated, the power of sale or other disposition and all other rights, powers, privileges and remedies granted to Bank hereunder shall continue to exist and may be exercised by Bank at any time and from time to time irrespective of the fact that the Indebtedness or any part thereof may have become barred by any statute of limitations, or that the personal liability of Debtor may have ceased, unless such liability shall have ceased due to the payment in full of all Indebtedness secured hereunder.

13. MISCELLANEOUS. When there is more than one Debtor named herein: (a) the word "Debtor" shall mean all or any one or more of them as the context requires; (b) the obligations of each Debtor hereunder are joint and several; and (c) until all Indebtedness shall have been paid in full, no Debtor shall have any right of subrogation or contribution, and each Debtor hereby waives any benefit of or right to participate in any of the Collateral or Proceeds or any other security now or hereafter held by Bank. Debtor hereby waives any right to require Bank to (i) proceed against Debtor or any other person, (ii) proceed against or exhaust any security from Debtor or any other person, (iii) perform any obligation of Debtor with respect to any Collateral or Proceeds, and (d) make any presentment or demand, or give any notice of nonpayment or nonperformance, protest, notice of protest or notice of dishonor hereunder or in connection with any Collateral or Proceeds. Debtor further waives any right to direct the application of payments or security for any Indebtedness of Debtor or indebtedness of customers of Debtor.

14. NOTICES. All notices, requests and demands required under this Agreement must be in writing, addressed to Bank at the address specified in any other loan documents entered into between Debtor and Bank and to Debtor at the address of its chief executive office (or principal residence, if applicable) specified below or to such other address as any party may designate by written notice to each other party, and shall be deemed to have been given or made as follows: (a) if personally delivered, upon delivery; (b) if sent by mail, upon the earlier of the date of receipt or 3 days after deposit in the U. S. mail, first class and postage prepaid; and (c) if sent by telecopy, upon receipt.

15. COSTS, EXPENSES AND ATTORNEYS' FEES. Debtor shall pay to Bank immediately upon demand the full amount of all payments, advances, charges, costs and expenses, including reasonable attorneys' fees (to include outside counsel fees and all allocated costs of Bank's in-house counsel), expended or incurred by Bank in exercising any right, power, privilege or remedy conferred by this Agreement or in the enforcement thereof, whether incurred at the trial or appellate level, in an arbitration proceeding or otherwise, and including any of the foregoing incurred in connection with any bankruptcy proceeding (including without limitation, any adversary proceeding, contested matter or motion brought by Bank or any other person) relating to Debtor or in any way affecting any of the Collateral or Bank's ability to exercise any of its rights or remedies with

respect thereto. All of the foregoing shall be paid by Debtor with interest from the date of demand until paid in full at a rate per annum equal to the greater of ten percent (10%) or Bank's Prime Rate in effect from time to time.

16. SUCCESSORS; ASSIGNS; AMENDMENT. This Agreement shall be binding upon and inure to the benefit of the heirs, executors, administrators, legal representatives, successors and assigns of the parties, and may be amended or modified only in writing signed by Bank and Debtor.

17. OBLIGATIONS OF MARRIED PERSONS. Any married person who signs this Agreement as Debtor hereby expressly agrees that recourse may be had against his or her separate property for all his or her Indebtedness to Bank secured by the Collateral and Proceeds under this Agreement.

18. SEVERABILITY OF PROVISIONS. If any provision of this Agreement shall be held to be prohibited by or invalid under applicable law, such provision shall be ineffective only to the extent of such prohibition or invalidity, without invalidating the remainder of such provision or any remaining provisions of this Agreement.

19. GOVERNING LAW. This Agreement shall be governed by and construed in accordance with the laws of the State of California.

Debtor warrants that Debtor is an organization registered under the laws of the State of Delaware.

Debtor warrants that its chief executive office (or principal residence, if applicable) is located at the following address: **1185 Linda Vista Drive, San Marcos, CA 92069**

Debtor warrants that the Collateral (except goods in transit) is located or domiciled at the following additional addresses: **1211-C Park Center Drive, Vista, CA 92083; 1215 Park Center Drive, Vista, CA 92083**

IN WITNESS WHEREOF, this Agreement has been duly executed as of **May 1, 2004**.

Natural Alternatives International, Inc.

By: /s/ John Reaves

John Reaves, Chief Financial Officer

By: /s/ Randell Weaver

Randell Weaver, President

**SCHEDULE 1
TO
SECURITY AGREEMENT**

This Schedule 1 is attached to and made a part of that certain Security Agreement dated as of **May 1, 2004**, executed by **Natural Alternatives International, Inc.** ("Debtor") for the benefit of **WELLS FARGO BANK, NATIONAL ASSOCIATION** ("Bank").

DESCRIPTION OF REAL PROPERTY:

1185 Linda Vista Drive; San Marcos, CA 92069

PARCEL 1:

AN UNDIVIDED 37.11 % INTEREST IN AND TO LOT 1 OF SAN MARCOS TRACT 255, IN THE CITY OF SAN MARCOS, COUNTY OF SAN DIEGO, STATE OF CALIFORNIA, ACCORDING TO MAP THEREOF NO. 10841, AS FILED IN THE OFFICE OF THE COUNTY RECORDER OF SAN DIEGO COUNTY, ON FEBRUARY 10, 1984.

EXCEPTING THEREFROM ALL UNITS AS SHOWN ON THAT CERTAIN CONDOMINIUM PLAN ENTITLED "OLD MILL PARK SAN MARCOS II" RECORDED APRIL 3, 1984 AS FILE NO. 84-122110, OFFICIAL RECORDS AND DEFINED IN THE DECLARATION OF COVENANTS, CONDITIONS AND RESTRICTIONS RECORDED MARCH 16, 1984 AS FILE NO. 84-097363, OFFICIAL RECORDS.

PARCEL 2:

UNITS 5B, 6A, 6B, 7A, 7B, 8A AND 8B AS SHOWN ON THAT CERTAIN CONDOMINIUM PLAN REFERRED TO IN PARCEL 1 ABOVE.

PARCEL 3:

A RECIPROCAL ACCESS EASEMENT FOR INGRESS, EGRESS AND INCIDENTAL PURPOSES THERETO OVER THE WESTERLY 14.00 FEET OF, PARCEL 2 OF PARCEL MAP NO. 12792, IN THE CITY OF SAN MARCOS; COUNTY OF SAN DIEGO, STATE OF CALIFORNIA, FILED IN THE OFFICE OF THE COUNTY RECORDER OF SAN DIEGO COUNTY, JULY 6, 1983 AS FILE NO. 83-229209, OFFICIAL RECORDS.

1211-C Park Center Dr.; Vista, CA & 1215 Park Center Dr. Vista, CA 92083

PARCEL 1:

PARCEL B OF PARCEL MAP NO. 16047, IN THE CITY OF VISTA, COUNTY OF SAN DIEGO, STATE OF CALIFORNIA, FILED IN THE OFFICE OF THE COUNTY RECORDER OF SAN DIEGO COUNTY, APRIL 10, 1990 AS FILE NO. 90-193067 OF OFFICIAL RECORDS.

PARCEL 2:

PARCEL C-1 OF PARCEL MAP NO. 17010, IN THE CITY OF VISTA, COUNTY OF SAN . DIEGO, STATE OF CALIFORNIA, FILED IN THE OFFICE OF THE COUNTY RECORDER OF SAN DIEGO COUNTY ON DECEMBER 2, 1992 AS FILE NO. 1992-0774240 OF OFFICIAL RECORDS.

WELLS FARGO

1. GRANT OF SECURITY INTEREST. For valuable consideration, the undersigned **Natural Alternatives International, Inc.**, or any of them ("Debtor"), hereby grants and transfers to WELLS FARGO BANK, NATIONAL ASSOCIATION ("Bank") a security interest in all accounts, deposit accounts, chattel paper (whether electronic or tangible), instruments, promissory notes, documents, general intangibles, payment intangibles, software, letter of credit rights, health-care insurance receivables and other rights to payment (collectively called "Rights to Payments"), now existing or at any time hereafter, and prior to the termination hereof, arising (whether they arise from the sale, lease or other disposition of inventory or from performance of contracts for service, manufacture, construction, repair or otherwise or from any other source whatsoever), including all securities, guaranties, warranties, indemnity agreements, insurance policies, supporting obligations and other agreements pertaining to the same or the property described therein, and in all goods returned by or repossessed from Debtor's customers, together with a security interest in all inventory, goods held for sale or lease or to be furnished under contracts for service, goods so leased or furnished, raw materials, component parts and embedded software, work in process or materials used or consumed in Debtor's business and all warehouse receipts, bills of lading and other documents evidencing goods owned or acquired by Debtor, and all goods covered thereby, now or at any time hereafter, and prior to the termination hereof, owned or acquired by Debtor, wherever located, and all products thereof (collectively called "Inventory"), whether in the possession of Debtor, warehousemen, bailees or any other person, or in process of delivery and whether located at Debtor's places of business or elsewhere (with all Rights to Payment and Inventory referred to herein collectively as the "Collateral"), together with whatever is receivable or received when any of the Collateral or proceeds thereof are sold, leased, collected, exchanged or otherwise disposed of, whether such disposition is voluntary or involuntary, including without limitation, all rights to payment, including returned premiums, with respect to any insurance relating to any of the foregoing, and all rights to payment with respect to any claim or cause of action affecting or relating to any of the foregoing (hereinafter called "Proceeds").

2. OBLIGATIONS SECURED. The obligations secured hereby are the payment and performance of: (a) all present and future Indebtedness of Debtor to Bank; (b) all obligations of Debtor and rights of Bank under this Agreement; and (c) all present and future obligations of Debtor to Bank of other kinds. The word "Indebtedness" is used herein in its most comprehensive sense and includes any and all advances, debts, obligations and liabilities of Debtor, or any of them, heretofore, now or hereafter made, incurred or created, whether voluntary or involuntary and however arising, whether due or not due, absolute or contingent, liquidated or unliquidated, determined or undetermined, and whether Debtor may be liable individually or jointly, or whether recovery upon such Indebtedness may be or hereafter becomes unenforceable.

3. TERMINATION. This Agreement will terminate upon the performance of all obligations of Debtor to Bank, including without limitation, the payment of all Indebtedness of Debtor to Bank, and the termination of all commitments of Bank to extend credit to Debtor, existing at the time Bank receives written notice from Debtor of the termination of this Agreement.

4. OBLIGATIONS OF BANK. Bank has no obligation to make any loans hereunder. Any money received by Bank in respect of the Collateral may be deposited, at Bank's option, into a non-interest bearing account over which Debtor shall have no control, and the same shall, for all purposes, be deemed Collateral hereunder.

5. REPRESENTATIONS AND WARRANTIES. Debtor represents and warrants to Bank that: (a) Debtor's legal name is exactly as set forth on the first page of this Agreement, and all of Debtor's organizational documents or agreements delivered to Bank are complete and accurate in every respect; (b) Debtor is the owner and has possession or control of the Collateral and Proceeds; (c) Debtor has the exclusive right to grant a security interest in the Collateral and Proceeds; (d) all Collateral and Proceeds are genuine, free from liens, adverse claims, setoffs, default, prepayment, defenses and conditions precedent of any kind or character,

except the lien created hereby or as otherwise agreed to by Bank, or heretofore disclosed by Debtor to Bank, in writing; (e) all statements contained herein and, where applicable, in the Collateral are true and complete in all material respects; (f) no financing statement covering any of the Collateral or Proceeds, and naming any secured party other than Bank, is on file in any public office; (g) all persons appearing to be obligated on Rights to Payment and Proceeds have authority and capacity to contract and are bound as they appear to be; (h) all property subject to chattel paper has been properly registered and filed in compliance with law and to perfect the interest of Debtor in such property; and (i) all Rights to Payment and Proceeds comply with all applicable laws concerning form, content and manner of preparation and execution, including where applicable Federal Reserve Regulation Z and any State consumer credit laws.

6. COVENANTS OF DEBTOR.

6.1 Debtor Agrees in general: (a) to pay Indebtedness secured hereby when due; (b) to indemnify Bank against all losses, claims, demands, liabilities and expenses of every kind caused by property subject hereto; (c) to pay all costs and expenses, including reasonable attorneys' fees, incurred by Bank in the perfection and preservation of the Collateral or Bank's interest therein and/or the realization, enforcement and exercise of Bank's rights, powers and remedies hereunder; (d) to permit Bank to exercise its powers; (e) to execute and deliver such documents as Bank deems necessary to create, perfect and continue the security interests contemplated hereby; (f) not to change its name, and as applicable, its chief executive office, its principal residence or the jurisdiction in which it is organized and/or registered without giving Bank prior written notice thereof; (g) not to change the places where Debtor keeps any Collateral or Debtor's records concerning the Collateral and Proceeds without giving Bank prior written notice of the address to which Debtor is moving same; and (h) to cooperate with Bank in perfecting all security interests granted herein and in obtaining such agreements from third parties as Bank deems necessary, proper or convenient in connection with the preservation, perfection or enforcement of any of its rights hereunder.

6.2 Debtor agrees with regard to the Collateral and Proceeds, unless Bank agrees otherwise in writing: (a) that Bank is authorized to file financing statements in the name of Debtor to perfect Bank's security interest in Collateral and Proceeds; (b) to insure Inventory and, where applicable, Rights to Payment with Bank named as loss payee, in form, substance and amounts, under agreements, against risks and liabilities, and with insurance companies satisfactory to Bank; (c) not to use any Inventory for any unlawful purpose or in any way that would void any insurance required to be carried in connection therewith; (d) not to remove Inventory from Debtor's premises, except for deliveries to buyers in the ordinary course of Debtor's business and except Inventory which consists of mobile goods as defined in the California Uniform Commercial Code, in which case Debtor agrees not to remove or permit the removal of the Inventory from its state of domicile for a period in excess of 30 calendar days; (e) not to permit any security interest in or lien on the Collateral or Proceeds, including without limitation, liens arising from the storage of Inventory, except in favor of Bank; (f) not to sell, hypothecate or otherwise dispose of, nor permit the transfer by operation of law of, any of the Collateral or Proceeds or any interest therein, except sales of Inventory to buyers in the ordinary course of Debtor's business; (g) to furnish reports to Bank of all acquisitions, returns, sales and other dispositions of the Inventory in such form and detail and at such times as Bank may require; (h) to permit Bank to inspect the Collateral at any time; (i) to keep, in accordance with generally accepted accounting principles, complete and accurate records regarding all Collateral and Proceeds, and to permit Bank to inspect the same and make copies thereof at any reasonable time; (j) if requested by Bank, to receive and use reasonable diligence to collect Rights to Payment and Proceeds, in trust and as the property of Bank, and to immediately endorse as appropriate and deliver such Rights to Payment and Proceeds to Bank daily in the exact form in which they are received together with a collection report in form satisfactory to Bank; (k) not to commingle Rights to Payment, Proceeds or collections thereunder with other property; (l) to give only normal allowances and credits and to advise Bank thereof immediately in writing if they affect any Rights to Payment or Proceeds in any material respect; (m) on demand, to deliver to Bank returned property resulting from, or payment equal to, such allowances or credits on any Rights to Payment or Proceeds or to execute such documents and do such other things as Bank may reasonably request for the purpose of perfecting, preserving and enforcing its security interest in such returned property; (n) from time to time, when requested by Bank, to prepare and deliver a schedule of all Collateral and Proceeds subject to this Agreement and to assign in writing and deliver

to Bank all accounts, contracts, leases and other chattel paper, instruments, documents and other evidences thereof; (o) in the event Bank elects to receive payments of Rights to Payment or Proceeds hereunder, to pay all expenses incurred by Bank in connection therewith, including expenses of accounting, correspondence, collection efforts, reporting to account or contract debtors, filing, recording, record keeping and expenses incidental thereto; and (p) to provide any service and do any other acts which may be necessary to maintain, preserve and protect all Collateral and, as appropriate and applicable, to keep all Collateral in good and saleable condition in accordance with the standards and practices adhered to generally by users and manufacturers of like property, and to keep all Collateral and Proceeds free and clear of all defenses, rights of offset and counterclaims.

7. POWERS OF BANK. Debtor appoints Bank its true attorney-in-fact to perform any of the following powers, which are coupled with an interest, are irrevocable until termination of this Agreement and may be exercised from time to time by Bank's officers and employees, or any of them, whether or not Debtor is in default: (a) to perform any obligation of Debtor hereunder in Debtor's name or otherwise; (b) to give notice to account debtors or others of Bank's rights in the Collateral and Proceeds, to enforce or forebear from enforcing the same and make extension or modification agreements with respect thereto; (c) to release persons liable on Proceeds and to give receipts and acquittances and compromise disputes in connection therewith; (d) to release or substitute security; (e) to resort to security in any order; (f) to prepare, execute, file, record or deliver notes, assignments, schedules, designation statements, financing statements, continuation statements, termination statements, statements of assignment, applications for registration or like papers to perfect, preserve or release Bank's interest in the Collateral and Proceeds; (g) to receive, open and read mail addressed to Debtor; (h) to take cash, instruments for the payment of money and other property to which Bank is entitled; (i) to verify facts concerning the Collateral and Proceeds by inquiry of obligors thereon, or otherwise, in its own name or a fictitious name; (j) to endorse, collect, deliver and receive payment under instruments for the payment of money constituting or relating to Proceeds; (k) to prepare, adjust, execute, deliver and receive payment under insurance claims, and to collect and receive payment of and endorse any instrument in payment of loss or returned premiums or any other insurance refund or return, and to apply such amounts received by Bank, at Bank's sole option, toward repayment of the Indebtedness or replacement of the Collateral; (l) to exercise all rights, powers and remedies which Debtor would have, but for this Agreement, with respect to all Collateral and Proceeds subject hereto; (m) to enter onto Debtor's premises in inspecting the Collateral; (n) to make withdrawals from and to close deposit accounts or other accounts with any financial institution, wherever located, into which Proceeds may have been deposited, and to apply funds so withdrawn to payment of the Indebtedness; (o) to preserve or release the interest evidenced by chattel paper to which Bank is entitled hereunder and to endorse and deliver any evidence of title incidental thereto; and (p) to do all acts and things and execute all documents in the name of Debtor or otherwise, deemed by Bank as necessary, proper and convenient in connection with the preservation, perfection or enforcement of its rights hereunder.

8. PAYMENT OF PREMIUMS, TAXES, CHARGES, LIENS AND ASSESSMENTS. Debtor agrees to pay, prior to delinquency, all insurance premiums, taxes, charges, liens and assessments against the Collateral and Proceeds, and upon the failure of Debtor to do so, Bank at its option may pay any of them and shall be the sole judge of the legality or validity thereof and the amount necessary to discharge the same. Any such payments made by Bank shall be obligations of Debtor to Bank, due and payable immediately upon demand, together with interest at a rate determined in accordance with the provisions of this Agreement, and shall be secured by the Collateral and Proceeds, subject to all terms and conditions of this Agreement.

9. EVENTS OF DEFAULT. The occurrence of any of the following shall constitute an "Event of Default" under this Agreement: (a) any default in the payment or performance of any obligation, or any defined event of default, under (i) any contract or instrument evidencing any Indebtedness, or (ii) any other agreement between Debtor and Bank, including without limitation any loan agreement, relating to or executed in connection with any Indebtedness; (b) any representation or warranty made by Debtor herein shall prove to be incorrect, false or misleading in any material respect when made; (c) Debtor shall fail to observe or perform any obligation or agreement contained herein; (d) any impairment of the rights of Bank in any Collateral or Proceeds or any attachment or like levy on any property of Debtor; and (e) Bank, in good faith, believes any or

all of the Collateral and/or Proceeds to be in danger of substantial misuse, dissipation, commingling, loss, theft, damage or destruction, or otherwise in substantial jeopardy or materially unsatisfactory in character or value.

10. REMEDIES. Upon the occurrence of any Event of Default, Bank shall have the right to declare immediately due and payable all or any Indebtedness secured hereby and to terminate any commitments to make loans or otherwise extend credit to Debtor. Bank shall have all other rights, powers, privileges and remedies granted to a secured party upon default under the California Uniform Commercial Code or otherwise provided by law, including without limitation, the right (a) to contact all persons obligated to Debtor on any Collateral or Proceeds and to instruct such persons to deliver all Collateral and/or Proceeds directly to Bank, and (b) to sell, lease, license or otherwise dispose of any or all Collateral. All rights, powers, privileges and remedies of Bank shall be cumulative. No delay, failure or discontinuance of Bank in exercising any right, power, privilege or remedy hereunder shall affect or operate as a waiver of such right, power, privilege or remedy; nor shall any single or partial exercise of any such right, power, privilege or remedy preclude, waive or otherwise affect any other or further exercise thereof or the exercise of any other right, power, privilege or remedy. Any waiver, permit, consent or approval of any kind by Bank of any default hereunder, or any such waiver of any provisions or conditions hereof, must be in writing and shall be effective only to the extent set forth in writing. It is agreed that public or private sales or other dispositions, for cash or on credit, to a wholesaler or retailer or investor, or user of property of the types subject to this Agreement, or public auctions, are all commercially reasonable since differences in the prices generally realized in the different kinds of dispositions are ordinarily offset by the differences in the costs and credit risks of such dispositions.

While an Event of Default exists: (a) Debtor will deliver to Bank from time to time, as requested by Bank, current lists of all Collateral and Proceeds; (b) Debtor will not dispose of any Collateral or Proceeds except on terms approved by Bank; (c) at Bank's request, Debtor will assemble and deliver all Collateral and Proceeds, and books and records pertaining thereto, to Bank at a reasonably convenient place designated by Bank; and (d) Bank may, without notice to Debtor, enter onto Debtor's premises and take possession of the Collateral. With respect to any sale by Bank of any Collateral subject to this Agreement, Debtor hereby expressly grants to Bank the right to sell such Collateral using any or all of Debtor's trademarks, trade names, trade name rights and/or proprietary labels or marks. Debtor further agrees that Bank shall have no obligation to process or prepare any Collateral for sale or other disposition.

11. DISPOSITION OF COLLATERAL AND PROCEEDS; TRANSFER OF INDEBTEDNESS. In disposing of Collateral hereunder, Bank may disclaim all warranties of title, possession, quiet enjoyment and the like. Any proceeds of any disposition of any Collateral or Proceeds, or any part thereof, may be applied by Bank to the payment of expenses incurred by Bank in connection with the foregoing, including reasonable attorneys' fees, and the balance of such proceeds may be applied by Bank toward the payment of the Indebtedness in such order of application as Bank may from time to time elect. Upon the transfer of all or any part of the Indebtedness, Bank may transfer all or any part of the Collateral or Proceeds and shall be fully discharged thereafter from all liability and responsibility with respect to any of the foregoing so transferred, and the transferee shall be vested with all rights and powers of Bank hereunder with respect to any of the foregoing so transferred; but with respect to any Collateral or Proceeds not so transferred Bank shall retain all rights, powers, privileges and remedies herein given.

12. STATUTE OF LIMITATIONS. Until all Indebtedness shall have been paid in full and all commitments by Bank to extend credit to Debtor have been terminated, the power of sale or other disposition and all other rights, powers, privileges and remedies granted to Bank hereunder shall continue to exist and may be exercised by Bank at any time and from time to time irrespective of the fact that the Indebtedness or any part thereof may have become barred by any statute of limitations, or that the personal liability of Debtor may have ceased, unless such liability shall have ceased due to the payment in full of all Indebtedness secured hereunder.

13. MISCELLANEOUS. When there is more than one Debtor named herein: (a) the word "Debtor" shall mean all or any one or more of them as the context requires; (b) the obligations of each Debtor hereunder are joint and several; and (c) until all Indebtedness shall have been paid in full, no Debtor shall have any right of

subrogation or contribution, and each Debtor hereby waives any benefit of or right to participate in any of the Collateral or Proceeds or any other security now or hereafter held by Bank. Debtor hereby waives any right to require Bank to (i) proceed against Debtor or any other person, (ii) proceed against or exhaust any security from Debtor or any other person, (iii) perform any obligation of Debtor with respect to any Collateral or Proceeds, and (d) make any presentment or demand, or give any notice of nonpayment or nonperformance, protest, notice of protest or notice of dishonor hereunder or in connection with any Collateral or Proceeds. Debtor further waives any right to direct the application of payments or security for any Indebtedness of Debtor or indebtedness of customers of Debtor.

14. NOTICES. All notices, requests and demands required under this Agreement must be in writing, addressed to Bank at the address specified in any other loan documents entered into between Debtor and Bank and to Debtor at the address of its chief executive office (or principal residence, if applicable) specified below or to such other address as any party may designate by written notice to each other party, and shall be deemed to have been given or made as follows: (a) if personally delivered, upon delivery; (b) if sent by mail, upon the earlier of the date of receipt or 3 days after deposit in the U. S. mail, first class and postage prepaid; and (c) if sent by telecopy, upon receipt.

15. COSTS, EXPENSES AND ATTORNEYS' FEES. Debtor shall pay to Bank immediately upon demand the full amount of all payments, advances, charges, costs and expenses, including reasonable attorneys' fees (to include outside counsel fees and all allocated costs of Bank's in-house counsel), expended or incurred by Bank in exercising any right, power, privilege or remedy conferred by this Agreement or in the enforcement thereof, whether incurred at the trial or appellate level, in an arbitration proceeding or otherwise, and including any of the foregoing incurred in connection with any bankruptcy proceeding (including without limitation, any adversary proceeding, contested matter or motion brought by Bank or any other person) relating to Debtor or in any way affecting any of the Collateral or Bank's ability to exercise any of its rights or remedies with respect thereto. All of the foregoing shall be paid by Debtor with interest from the date of demand until paid in full at a rate per annum equal to the greater of ten percent (10%) or Bank's Prime Rate in effect from time to time.

16. SUCCESSORS; ASSIGNS; AMENDMENT. This Agreement shall be binding upon and inure to the benefit of the heirs, executors, administrators, legal representatives, successors and assigns of the parties, and may be amended or modified only in writing signed by Bank and Debtor.

17. OBLIGATIONS OF MARRIED PERSONS. Any married person who signs this Agreement as Debtor hereby expressly agrees that recourse may be had against his or her separate property for all his or her Indebtedness to Bank secured by the Collateral and Proceeds under this Agreement.

18. SEVERABILITY OF PROVISIONS. If any provision of this Agreement shall be held to be prohibited by or invalid under applicable law, such provision shall be ineffective only to the extent of such prohibition or invalidity, without invalidating the remainder of such provision or any remaining provisions of this Agreement.

19. GOVERNING LAW. This Agreement shall be governed by and construed in accordance with the laws of the State of California.

Debtor warrants that Debtor is an organization registered under the laws of the State of Delaware.

Debtor warrants that its chief executive office (or principal residence, if applicable) is located at the following address: **1185 Linda Vista Drive, San Marcos, CA 92069**

Debtor warrants that the Collateral (except goods in transit) is located or domiciled at the following additional addresses: **1211-C Park Center Drive, Vista, CA 92083; 1215 Park Center Drive, Vista, CA 92083**

IN WITNESS WHEREOF, this Agreement has been duly executed as of **May 1, 2004**.

Natural Alternatives International, Inc.

By: /s/ John Reaves

John Reaves, Chief Financial Officer

By: /s/ Randell Weaver

Randell Weaver, President

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

I, Mark A. LeDoux, Chief Executive Officer of Natural Alternatives International, Inc., certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Natural Alternatives International, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:
 - a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - c) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting;
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 17, 2004

/s/ Mark A. LeDoux

Mark A. LeDoux, Chief Executive Officer

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

I, John R. Reaves, Chief Financial Officer of Natural Alternatives International, Inc., certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Natural Alternatives International, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:
 - a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - c) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting;
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 17, 2004

/s/ John R. Reaves

John R. Reaves, Chief Financial Officer

Certification
Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
(Subsections (a) and (b) of Section 1350, Chapter 63 of Title 18, United States Code)

Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (Subsections (a) and (b) of Section 1350, Chapter 63 of Title 18, United States Code), each of the undersigned officers of Natural Alternatives International, Inc., a Delaware corporation, does hereby certify, to such officer's knowledge, that the Quarterly Report on Form 10-Q for the period ended March 31, 2004 of Natural Alternatives International, Inc. fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 (15 U.S.C. 78m or 78o(d)) and that information contained in such report fairly presents, in all material respects, the financial condition and results of operations of Natural Alternatives International, Inc.

Date: May 17, 2004

/s/ Mark A. LeDoux

Mark A. LeDoux, Chief Executive Officer

Date: May 17, 2004

/s/ John R. Reaves

John R. Reaves, Chief Financial Officer

The foregoing certification is furnished solely pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (Subsections (a) and (b) of Section 1350, Chapter 63 of Title 18, United States Code) and is not being filed as part of the Form 10-Q or as a separate disclosure document.