



Life

improving it naturally.

NATURAL ALTERNATIVES INTERNATIONAL, INC.
A N N U A L R E P O R T 2 0 0 1

DEAR SHAREHOLDERS,

Last year was a time of transition, during which we made progress on many fronts.

We used this time to focus on several important objectives, including controlling costs, improving our balance sheet, targeting new revenue opportunities and increasing operational efficiencies. We reduced debt by more than \$2.5 million and improved cash flow from operations. Gross profit increased through streamlining materials management and manufacturing processes. Administrative expenses increased minimally due to costs associated with the successful launch of the Dr. Cherry physician-branded product line and unrelated litigation costs. In addition, we continued implementation of an enterprise-wide business software system that significantly improved operations by making comprehensive, real-time information available across the Company.

We are optimistic about our industry and the opportunity for NAI. Supplements are a significant portion of the \$140-billion global nutrition market. The supplements market is driven by an aging population, increased media attention, emergence of supplements into mainstream usage and expanding medical knowledge regarding their health benefits.

Recently, we have seen increased interest from consumers and international regulatory bodies for greater scientific validation of supplements. For the past 20 years, NAI has placed great emphasis on clinical evaluation and quality control in product development. Our focus in these areas ensures that NAI products consistently meet the intense scrutiny of consumers and regulatory agencies.

It's our belief that consumer confidence must be maintained through regulatory bodies and trade groups that advocate product quality and improved international manufacturing standards. In support of these objectives, Dr. John Wise, NAI's Chief Science Officer, and I are expanding the Company's involvement in industry organizations such as the Council for Responsible Nutrition and National Nutritional Foods Association.

Recent publications of scientific research are fostering greater acceptance of the role of well-designed supplements in promoting health. As scientific publications continue to report their findings regarding nutritional supplementation, we are confident that quality supplements will enjoy even greater acceptance in commerce.

In September, we announced senior management changes to further enhance our effectiveness and improve our responsiveness to customers and new market opportunities. The role of Chairman of the Board was added to my responsibilities and I relinquished the position of President. Randell Weaver, the Company's Chief Financial Officer, was also appointed to the role of Chief Operating Officer. Additional management changes are detailed on the following pages.

With the Company's most pressing issues behind us we are now focused on achieving profitability by investing wisely, cutting expenses appropriately and targeting strong markets and revenue sources. As I look at our talented employees, strengthened manufacturing and business processes and accomplishments in 2001, I am confident that we can execute our strategy of operating NAI as a successful, profitable company.

Sincerely,



MARK A. LE DOUX

FOUNDER, CHIEF EXECUTIVE OFFICER AND CHAIRMAN OF THE BOARD

Diversifying Our Core Business

The Company enjoyed great success in the first full year sales of Dr. Cherry products, the Company's first physician-branded product line distributed direct to consumers. Sales exceeded \$5 million and Dr. Cherry products now represent a growing client base of more than 10,000 consumers. The line's initial *Basic Nutrient Support* supplement was followed in 2001 with the introduction of condition-specific products for joints, menopause, prostate and sleep that target Dr. Cherry's demographic audience.



Fighting Muscle Fatigue with a Patented Process

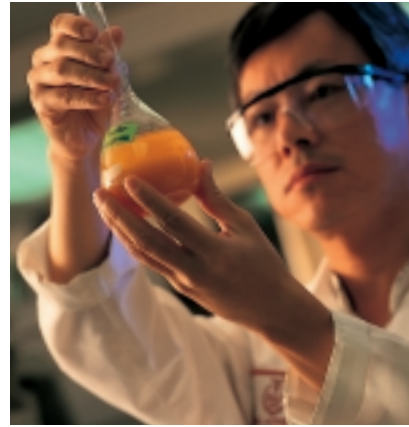
The U.S. Patent Office awarded NAI two patents for a significant new process that enhances athletic performance by enabling muscles to work harder for a longer period of time. The Company's process, known as the "Oxford Factor", substantially reduces muscle fatigue by buffering against lactic acid build-up during strenuous exercise. With patents issued or pending in a number of countries, NAI is seeking exclusive worldwide rights for this invention. The patents also grant NAI the exclusive right to combine the Oxford Factor with creatine, a popular supplement that improves muscle strength.



Building Consumer Confidence through Quality

Product quality is vital to consumer acceptance of supplements and confidence in their effectiveness. NAI employs stringent manufacturing and quality control standards to deliver the highest quality products. All raw materials are certified to meet or exceed federally-mandated requirements and are tested to ensure they are free of harmful pesticides, herbicides and heavy metal contamination. NAI maintains Good Manufacturing Practices (GMP) and has been audited and approved for the third time by the prestigious Therapeutic Goods Administration (TGA) of Australia. TGA is an agency of the Australian government that regulates therapeutic goods to ensure their quality, safety and efficacy.





Advancing Supplements through Science

NAI conducts numerous clinical studies in affiliation with renowned universities and research institutions. The verified results ensure that our consumers receive the most advanced nutritional supplements available. The benefits of using an NAI product to reduce oxidative stress has been demonstrated in a study at the Institute of Social Medicine in Austria. An on-going study at the University of Sydney in Australia is researching how the same product protects LDL cholesterol against oxidative damage. A test with U.S. Navy Special Forces demonstrated how another NAI product combats oxidative

stress on the immune system that occurs during heavy exercise.

A University of Maryland study showed that NAI supplements virtually eliminate the constriction of arteries that occurs after high-fat meals. A study with Scripps Hospital in San Diego and the University of Texas incorporating diet, exercise and NAI nutritional supplements showed dramatic improvements in body composition. Participants lost fat while maintaining or increasing lean muscle mass and improving overall fitness.

Providing Solutions for the Self-Care Revolution

Demand for dietary supplements is driven by several factors, including an aging population, a desire to control one's healthcare, high cost of doctor visits and the perception that supplements provide safe, effective self-care. In response to these trends, the Company developed condition-specific formulations for primary health concerns that include: maintaining healthy cholesterol, promoting a healthy heart, increasing vision acuity, enhancing memory, increasing energy levels, promoting extended youthfulness, easing menopause symptoms, promoting healthy weight levels, improving sleep, alleviating joint pain, easing prostate problems and providing antioxidants.



BUILDING NAI GLOBALLY

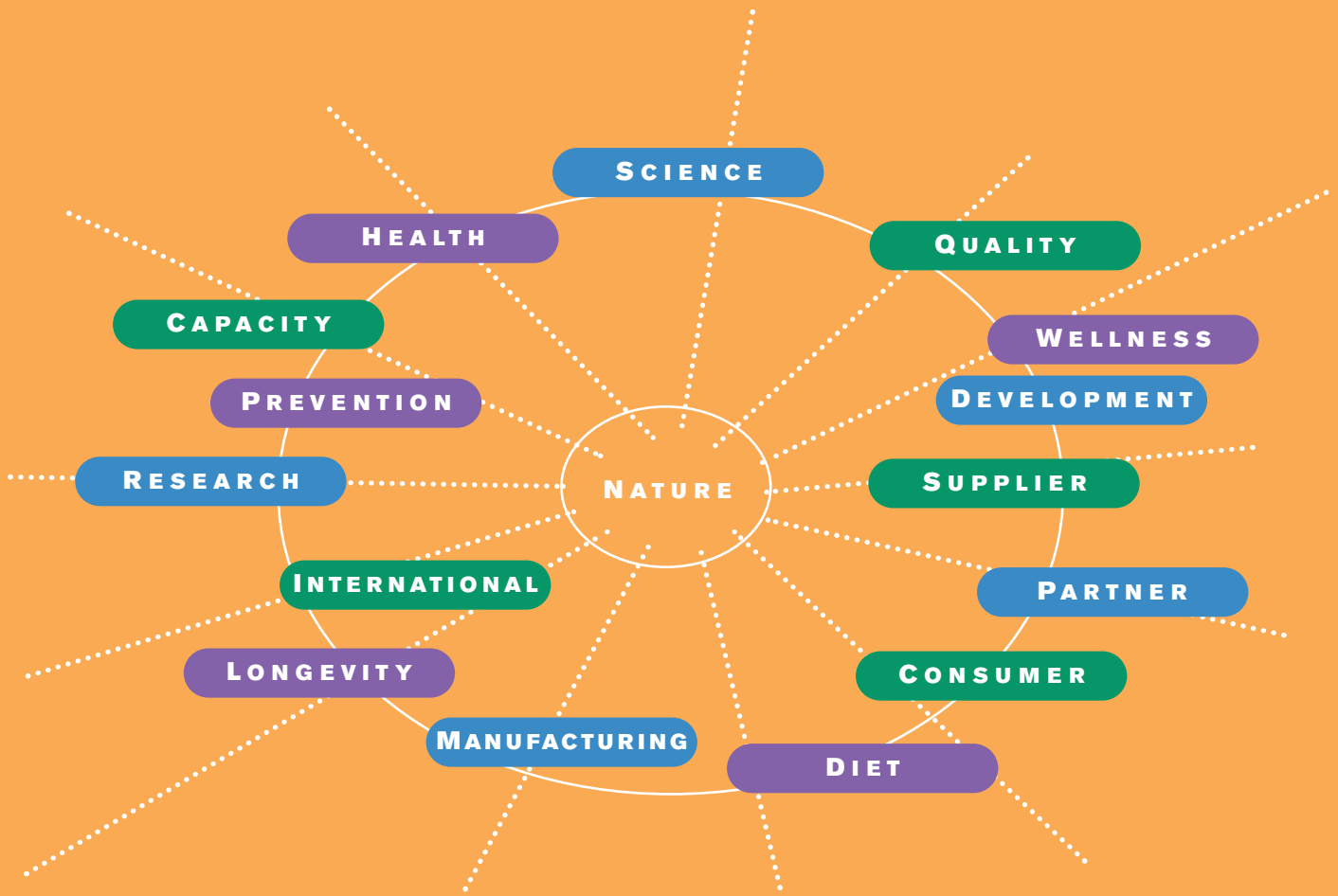
Natural Alternatives International Europe (NAIE), our European subsidiary in Lugano, Switzerland, upgraded and expanded manufacturing and infrastructure this year in response to increased levels of client growth. Manufacturing capacity was increased through the addition of new encapsulation, tableting and blending equipment, and by doubling packaging throughput. The facility was expanded with additional manufacturing and laboratory space. Key staff hired to implement new quality and business systems brought total employment at NAIE to 23 people.

IMPROVING BUSINESS INFORMATION SYSTEMS

During 2001, NAI completed implementation of a top-tier enterprise software system that we believe will significantly improve operations by providing real-time information about Company activities across all departments. From entering a customer sales order to tracking manufacturing capacity and generating financial reports, the system seamlessly integrates operational data to provide managers with more accurate and current information. Managers can make better decisions faster, which improves business efficiencies and enables the Company to achieve on-time deliveries and better meet customer needs.

STRENGTHENING MANAGEMENT

The Company made several senior management appointments intended to enhance NAI's effectiveness, improve productivity and responsiveness to customers and expand our ability to identify and capitalize on market opportunities. Randell Weaver, the Company's Chief Financial Officer, was named Chief Operating Officer and is now responsible for daily operations. Robert Clausen was promoted to Senior Vice President of Manufacturing. In his expanded role, Mr. Clausen oversees worldwide manufacturing and production, quality control, product development and regulatory affairs. Dr. John Wise was appointed Chief Science Officer. John Egerer was promoted to Vice President and Corporate Controller and David Lough was appointed Vice President Business Development.



NAI GOALS

Achieve profitability in a challenging global environment.

Focus on excellence in research, formulation, manufacturing and marketing.

Expand NAI's role in the international regulatory environment through participation in key regulatory and trade groups.



OFFICERS

Mark A. Le Doux
Chairman and Chief Executive Officer

Randell Weaver
Chief Operating Officer and
Chief Financial Officer

John A. Wise, Ph.D.
Chief Science Officer

Robert Clausen
Senior Vice President
Manufacturing

David Lough
Vice President
Business Development

John Egerer
Vice President and
Corporate Controller

BOARD OF DIRECTORS

Mark A. Le Doux
Chairman and Chief Executive Officer

Marie Le Doux
Director

Lee Weldon
Director

J. Scott Schmidt
Director

Joe Davis
Director

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This report includes forward-looking statements that reflect management's current views of future events. Actual results may differ materially from the forward-looking statements due to a number of important factors including but not limited to those described in the most recent Forms 10-K and 10-Q.



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