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

FORM 10-K

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

FOR THE FISCAL YEAR ENDED JUNE 30, 2003

000-15701
(Commission file number)

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

Delaware	**84-1007839**
(State of incorporation)	**(IRS Employer Identification No.)**
1185 Linda Vista Drive **San Marcos, California 92069**	**(760) 744-7340**
(Address of principal executive offices)	**(Registrant's telephone number)**

Securities registered pursuant to Section 12(b) of the Act:

None

Securities registered pursuant to Section 12(g) of the Act:

Common Stock, $0.01 par value per share

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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of NAI's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☐

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

The aggregate market value of NAI's common stock held by non-affiliates of NAI as of the last business day of NAI's most recently completed second fiscal quarter (December 31, 2002) was approximately $17,578,361 (based on the closing sale price of $3.985 reported by Nasdaq on December 31, 2002). For this purpose, all of NAI's officers and directors and their affiliates were assumed to be affiliates of NAI.

As of September 17, 2003, 5,821,973 shares of NAI's common stock were outstanding, net of 272,400 treasury shares.

DOCUMENTS INCORPORATED BY REFERENCE

Part III (Items 10, 11, 12, 13 and 14) of this Form 10-K incorporates by reference portions of NAI's definitive proxy statement for its 2004 Annual Meeting of Stockholders, to be filed on or before October 28, 2003.

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SPECIAL NOTE—FORWARD-LOOKING STATEMENTS

Certain statements in this report, including information incorporated by reference, are "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933, Section 21E of the Securities Exchange Act of 1934, and the Private Securities Litigation Reform Act of 1995. Forward-looking statements reflect current views about future events and financial performance based on certain assumptions. They include opinions, forecasts, projections, guidance, expectations, beliefs or other statements that are not statements of historical fact. Words such as "may," "will," "should," "could," "would," "expects," "plans," "believes," "anticipates," "intends," "estimates," "approximates," "predicts," or "projects," or the negative or other variation of such words, and similar expressions may identify a statement as a forward-looking statement. 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;
- 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 Item 7 and elsewhere in this report, as well as in other reports and documents we file with the SEC.

PART I

ITEM 1. BUSINESS

Overview

We 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. We provide both product and market development services including:

- customized formulations of nutritional and personal care products;
- research, clinical evaluations and product testing;
- manufacturing;
- marketing support;
- international regulatory and label law compliance; and
- package and label design.

In fiscal 2000, we initiated our direct-to-consumer marketing program to develop, manufacture and market our own products. Under this 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. 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.

While private label contract manufacturing remains our core business, we are actively pursuing new products and initiatives for our direct-to-consumer marketing program. In April 2003, we began marketing our Jennifer O'Neill line of vitamins and skin care products.

Our U.S.-based manufacturing facilities are located in San Marcos and Vista, California. Natural Alternatives International Europe S.A. (NAIE), our wholly-owned subsidiary existing under the laws of Switzerland, also operates a manufacturing, warehousing and distribution facility in Manno, Switzerland. This facility helps us provide improved service to our customers that sell their products in Europe. Among other benefits, our facility in Switzerland can help lower distribution and other costs of products sold outside the United States and can also help reduce lead times and lower inventory costs. NAIE operates under a five-year Swiss federal and cantonal income tax holiday that ends in fiscal 2005.

In addition to our operations in the United States and Switzerland, we have a full-time representative in Japan who provides a range of services to our customers seeking to expand into the Japanese market and other markets in the Pacific Rim. These services include regulatory and marketing assistance along with guidance and support in adapting products to these markets.

Originally founded in 1980, Natural Alternatives International, Inc. reorganized as a Delaware corporation in 1989. Our principal executive offices are located at 1185 Linda Vista Drive, San Marcos, California 92069. 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, NAIE, its wholly-owned subsidiary.

Business Strategy

Our goals are to increase and diversify our revenues and improve our overall financial results. To achieve these goals, we intend to:

- capitalize on the strength of our existing customer relationships through new product introductions;
- develop new customer relationships both within and outside the United States;
- continue to develop new products, marketing strategies and brands within our direct-to-consumer marketing program;
- improve brand awareness;
- further diversify by entering new markets outside the United States and/or expanding our presence in existing markets;
- evaluate acquisition opportunities; and
- improve efficiencies and manage costs.

We believe our comprehensive approach to customer service is unique within our industry. We believe this approach, together with our commitment to high-quality, innovative products and the leadership of our experienced management team, will provide the means to implement our strategy and achieve our goals. There can be no assurance, however, that we will successfully implement any of our business strategies or that we will increase our revenues or improve our overall financial results.

Products, Principal Markets and Methods of Distribution

We 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 products are generally available in a variety of forms, including capsules, tablets, chewable wafers, powders and creams, to accommodate a variety of consumer preferences.

Our private label contract manufacturing customers include direct selling organizations and other specialized corporate accounts. We have a worldwide manufacturing agreement with NSA International, Inc., located in Memphis, Tennessee. NSA International, Inc. is our largest customer and sells its nutritional products to consumers in over 30 countries.

Under our direct-to-consumer marketing program, we develop and manufacture our own products. 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. The products in our direct-to-consumer marketing program are sold through a variety of distribution channels including television programs, personal appearances of brand name personalities, newsletters, direct mail solicitations, websites, radio, magazines and other marketing channels.

In October 1999, the Therapeutic Goods Administration (TGA) of Australia certified our operations. The TGA evaluates new therapeutic products, prepares standards, develops testing methods and conducts testing programs to ensure that products are high in quality, safe and effective. TGA certification enables us to manufacture products for export into countries that have signed the Pharmaceutical Inspection Convention, which include most European countries as well as several Pacific Rim countries. The TGA recertified our operations in March 2000.

In October 2002, we were awarded Good Manufacturing Practices (GMP) registration by NSF International (NSF) through the NSF Dietary Supplements Certification Program. GMP requirements are regulatory requirements that provide guidelines for necessary processes, procedures and documentation to assure the product produced has the identity, strength, composition, quality and purity it is represented to possess.

For the last three fiscal years, net sales from our private label contract manufacturing and direct-to-consumer marketing program were as follows:

	Fiscal 2003	Fiscal 2002	Fiscal 2001
	(Dollars in Thousands)		
Private Label Contract Manufacturing	$45,768	$41,667	$36,437
Direct-to-Consumer Marketing Program	10,194	8,370	5,721
Total Net Sales	$55,962	$50,037	$42,158

Research and Development

We are committed to quality research and development. We focus on the development of new products and the improvement of existing products through continued testing. We continuously produce sample runs of products to help ensure their stability, potency, and safety, as well as to determine ingredient interaction and the potential for customer acceptance of the final product. We maintain quality control procedures to verify that our products comply with applicable specifications and standards established by the Food and Drug Administration and other regulatory agencies. We also direct and participate in clinical research studies, often in collaboration with other scientists and research institutions, to establish the benefits of a product, including its potency and efficacy, and to provide scientific support for product claims and marketing initiatives. We believe our research and development team of experienced personnel, as well as our facilities and strategic alliances with our suppliers and customers, allow us to effectively identify, develop and market high-quality and innovative products.

As part of the services we provide to our private label contract manufacturing customers, we may perform certain research and development activities related to the development or improvement of their products. While our customers typically do not pay directly for this service, the cost of this service is included as a component of the price we charge to manufacture and deliver their products. Research and development costs are expensed as incurred.

Our research and development expenses for the fiscal years ended June 30, 2003, 2002 and 2001 were $1.7 million, $821,000 and $718,000, respectively.

Sources and Availability of Raw Materials

We use various raw materials in our operations including nutrient powders, excipients, empty gelatin capsules, and components for packaging and distributing our finished products. We typically buy raw materials in bulk from a limited number of qualified vendors located both within and outside the United States. During fiscal 2003, Carrington Laboratories Incorporated was our largest supplier, accounting for 35% of our total raw material purchases.

We test the materials we buy to ensure their quality, purity and potency before we use them in our products. During the fiscal year ended June 30, 2003, we did not experience any shortages or difficulties obtaining adequate supplies of raw materials and we do not anticipate any significant shortages or difficulties in the near term.

Major Customers

Most of our customers are marketing organizations that distribute a variety of nutritional and health related products throughout the United States, Europe and the Pacific Rim. NSA International, Inc. has been our largest customer over the past several years. During the fiscal year ended June 30, 2003, NSA International, Inc. accounted for approximately 43% of our net sales. Our second largest customer was Mannatech Incorporated, which accounted for approximately 27% of our net sales during fiscal 2003. No other customer accounted for 10% or more of our net sales during fiscal 2003.

Competition

We compete with other manufacturers and distributors of vitamins, minerals, herbs, and other nutritional supplements, as well as other health and personal care products, both within and outside the United States. The nutritional supplement industry is highly fragmented and competition for the sale of nutritional supplements and other health and personal care products comes from many sources. These products are sold primarily through mass market retailers (drug store chains, supermarkets, and large chain discount retailers), health and natural food stores, and direct sales channels (mail order, network marketing and internet distribution companies). The products we produce for our private label contract manufacturing customers may compete with our direct-to-consumer products, although we believe any competition will be limited.

We believe competition in our industry is based on, among other things, price, delivery, product quality and safety, innovation and customer service. We believe we compete favorably with other companies because of our comprehensive approach to customer service and our commitment to innovation, quality and safety through our research and development activities. Our future position in the industry will likely depend on, but not be limited to the following:

- the continued acceptance of our products by our customers and consumers;
- our ability to continue to develop high quality, innovative products;
- our ability to attract and retain qualified personnel;
- the effect of any future governmental regulations on our products and business;
- the results of, and publicity from, product safety and performance studies performed by governments and other research institutions;
- the continued growth of the global nutrition industry; and
- our ability to react to changes within the industry and consumer demand, financially and otherwise.

The nutritional supplement industry is highly competitive and we expect the level of competition to remain high over the near term. We do not believe it is possible to accurately estimate the number or size of our competitors. The industry has undergone consolidation in the recent past and we expect that trend to continue in the near term.

Government Regulation

Our business is subject to varying degrees of regulation by a number of government authorities in the United States, including the United States Food and Drug Administration (FDA), the Federal Trade Commission (FTC), the Consumer Product Safety Commission, the United States Department of Agriculture, and the Environmental Protection Agency. Various agencies of the state and localities in which we operate and in which our products are sold also regulate our business, such as the California Department of Health Services, Food and Drug Branch. The areas of our business that these and other authorities regulate include, among others:

- product claims and advertising;
- product labels;
- product ingredients; and
- how we manufacture, package, distribute, import, export, sell and store our products.

The FDA, in particular, regulates the formulation, manufacturing, packaging, storage, labeling, promotion, distribution and sale of vitamin and other nutritional supplements in the United States, while the FTC regulates marketing and advertising claims. The FDA issued a final rule called "Statements Made for Dietary Supplements Concerning the Effect of the Product on the Structure or Function of the Body," which includes regulations requiring companies, their suppliers and manufacturers to meet Good Manufacturing Practices in the preparation, packaging, storage and shipment of their products. The FDA also published a Notice of Advance Rule Making for Good Manufacturing Practices that would require manufacturing of dietary supplements to follow Good Manufacturing Practices. While the final regulations are subject to revision, we are committed to meeting or exceeding the standards set by the FDA.

The FDA has also issued regulations governing the labeling and marketing of dietary and nutritional supplement products. They include:

- the identification of dietary or nutritional supplements and their nutrition and ingredient labeling;
- requirements related to the wording used for claims about nutrients, health claims, and statements of nutritional support;
- labeling requirements for dietary or nutritional supplements for which "high potency" and "antioxidant" claims are made;
- notification procedures for statements on dietary and nutritional supplements; and
- pre-market notification procedures for new dietary ingredients in nutritional supplements.

The Dietary Supplement Health and Education Act of 1994 (DSHEA) revised the provisions of the Federal Food, Drug and Cosmetic Act concerning the composition and labeling of dietary supplements and defined dietary supplements to include vitamins, minerals, herbs, amino acids and other dietary substances used to supplement diets. DSHEA generally provides a regulatory framework to help ensure safe, quality dietary supplements and the dissemination of accurate information about such products. Under DSHEA, companies must provide evidence that a dietary supplement is reasonably safe. The FDA is generally prohibited from regulating active ingredients in dietary supplements as drugs unless product claims, such as claims that a product may heal, mitigate, cure or prevent an illness, disease or malady, trigger drug status.

We are also subject to a variety of other regulations in the United States, including those relating to taxes, labor and employment, import and export, the environment and intellectual property.

Our operations outside the United States are similarly regulated by various agencies and entities in the countries in which we operate and in which our products are sold. The regulations of these countries may conflict with those in the United States and may vary from country to country. The sale of our products in Europe is subject to the rules and regulations of the European Union, which may be interpreted differently among the countries within the union. In markets outside the United States, we may be required to obtain approvals, licenses, or certifications from a country's ministry of health or comparable agency before we begin operations or the marketing of products in that country. Approvals or licenses may be conditioned on reformulation of our products for a particular market or may be unavailable for certain products or product ingredients. These regulations may limit our ability to enter certain markets outside the United States.

Intellectual Property

Trademarks. We have developed and use registered trademarks in our business, particularly relating to corporate and product names. We own 19 trademark registrations in the United States and 10 trademark applications pending with the United States Patent and Trademark Office. Federal registration of a trademark enables the registered owner of the mark to bar the unauthorized use of the registered mark in connection with a similar product in the same channels of trade by any third party anywhere in the United States, regardless of whether the registered owner has ever used the trademark in the area where the unauthorized use occurs.

We have filed applications and own trademark registrations and intend to register additional trademarks in foreign countries where products are or may be sold in the future. Currently, we have five trademark applications filed with the Japan Trademark Office.

We also claim ownership and protection of certain product names, unregistered trademarks and service marks under common law. Common law trademark rights do not provide the same level of protection afforded by registration of a trademark. In addition, common law trademark rights are limited to the geographic area in which the trademark is actually used. We believe these trademarks, whether registered or claimed under common law, constitute valuable assets, adding to our recognition and the marketing of our products and that these proprietary rights have been and will continue to be important in enabling us to compete.

Trade Secrets. We own certain intellectual property, including trade secrets, that we seek to protect, in part, through confidentiality agreements with employees and other parties, although some employees involved in research and development activities have not entered into these agreements. Although we regard our proprietary technology, trade secrets, trademarks and similar intellectual property as critical to our success, we rely on a combination of trade secrets, contract, patent, copyright and trademark law to establish and protect our rights in our products and technology. In addition, the laws of certain foreign countries may not protect our intellectual property rights to the same extent as the laws of the United States.

Patent Licenses. We have licensed exclusive worldwide rights to three certain United States patents, and each patent's corresponding foreign patent application, and are currently involved in research and development of products employing the licensed inventions.

Backlogs

Our backlog was approximately $10.1 million at September 2, 2003 and September 5, 2002, respectively. Our sales are made primarily pursuant to standard purchase orders for the delivery of products. Quantities of our products to be delivered and delivery schedules are frequently revised to reflect changes in our customers' needs. Customer orders generally can be cancelled or rescheduled without significant penalty to the customer. For these reasons, our backlog as of any particular date is not representative of actual sales for any succeeding period, and therefore, we believe that backlog is not necessarily a good indicator of future revenue.

Employees

As of June 30, 2003, we employed 175 full-time employees in the United States, 6 of whom held executive management positions. Of the remaining full-time employees, 23 were employed in research, laboratory and quality control, 9 in sales and marketing, and 137 in manufacturing and administration. From time to time we use temporary personnel to help us meet short-term operating requirements. These positions typically are in manufacturing and manufacturing support. As of June 30, 2003, we had approximately 12 temporary personnel.

In January 2003, Randell Weaver was promoted from Executive Vice President and Chief Operating Officer to President. John Reaves was promoted from Vice President of Finance to Chief Financial Officer.

As of June 30, 2003, NAIE employed 24 full-time employees. Most of these positions are in the areas of manufacturing and manufacturing support.

Our employees are not represented by a collective bargaining agreement and we have not experienced any work stoppages as a result of labor disputes. We believe our relationship with our employees is good.

Seasonality

We believe there is no material impact on our business or results of operations from seasonal factors.

Financial Information about Our Business Segment and Geographic Areas

Our business consists of one industry segment, the development, manufacturing, marketing and distribution of nutritional supplements and other health and personal care products. It is grouped into two geographic areas, the United States and all other markets outside the United States. Our primary market outside the United States is Europe.

For the last three fiscal years, the percentage of our net sales to customers in markets outside the United States and the percentage of our net sales from products manufactured by NAIE for customers within the European market were as follows:

Fiscal Year Ended June 30	Net Sales to Customers in Markets Outside the United States	Net Sales from Products Manufactured by NAIE for Customers within the European Market
2003	25%	13%
2002	31%	16%
2001	29%	18%

For additional financial information about our business segment and geographic areas, please see the notes to the consolidated financial statements included under Item 8 of this report.

As we continue to expand into markets outside the United States, we will become increasingly subject to political, economic and other risks in the countries in which the products are sold and in which we operate. For more information about these and other risks, please see Items 7 and 7A in this report.

ITEM 2. PROPERTIES

This table summarizes our facilities as of June 30, 2003. We believe our facilities are adequate to meet our operating requirements for the foreseeable future.

Location	Nature of Use	Square Feet	How Held	Lease Expiration Date[2]
San Marcos, CA USA	Corporate headquarters and manufacturing[3]	49,000	Owned/leased[4]	Various[4]
Vista, CA USA	Manufacturing, warehousing and packaging[3]	74,000	Leased	June 2008
Manno, Switzerland[1]	Manufacturing, packaging and distribution	22,000	Leased	December 2010

(1) This facility is used by NAIE, our Swiss subsidiary.
(2) We expect to renew our leases in the normal course of business.
(3) We use approximately 68,000 square feet for production; 35,000 square feet for warehousing; 5,000 square feet for research and product development; and 15,000 for administrative functions.
(4) We own approximately 29,500 square feet and lease the remaining space with various expiration dates through 2007.

We believe we have adequate capacity in our domestic and Swiss facilities for current and foreseeable business requirements.

ITEM 3. 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 September 17, 2003, 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 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

We did not submit any matters to our stockholders for a vote during the fourth quarter ended June 30, 2003.

PART II

ITEM 5. MARKET FOR OUR COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

Market Information

Our common stock trades on the Nasdaq National Market under the symbol "NAII." Below are the high and low closing prices of our common stock as reported on the Nasdaq National Market for each quarter of the fiscal years ended June 30, 2003 and 2002:

	Fiscal 2003		Fiscal 2002	
	High	Low	High	Low
First Quarter	$3.90	$2.50	$2.10	$1.24
Second Quarter	$4.08	$2.51	$2.25	$1.08
Third Quarter	$4.85	$3.17	$2.45	$1.60
Fourth Quarter	$5.25	$3.47	$3.10	$1.58

Holders

As of September 17, 2003, there were approximately 408 stockholders of record of our common stock.

Dividends

We have never paid a dividend on our common stock and we do not intend to pay a dividend in the foreseeable future. Our current policy is to retain all earnings to help provide funds for future growth.

Securities Authorized for Issuance Under Equity Compensation Plans

Plan Category	(a) Number of securities to be issued upon exercise of outstanding options and rights	(b) Weighted-average exercise price of outstanding options and rights	(c) Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a))
Equity compensation plans approved by stockholders	565,200	$ 2.49	334,800(2)
Equity compensation plans not approved by stockholders(1)	20,000	$ 5.75	—
Total	585,200	$ 2.60	334,800

(1) In October 1998, the Board of Directors adopted an outside director compensation plan. Under the plan, on March 1st of each year, each non-employee director was to be granted an option to buy 10,000 shares of our common stock. Each option was to have an exercise price equal to the last sale price reported by Nasdaq on the trading day before the grant, a term of five years, and a three year vesting schedule. Options were granted to non-employee directors under this plan in March 1999. No other grants were made under this plan. In May 1999, the Board of Directors adopted our 1999 Omnibus Equity Incentive Plan. Shareholders approved the plan in December 1999. Thereafter, annual grants to non-employee directors were made under the 1999 Omnibus Equity Incentive Plan.

(2) Under the terms of the 1999 Plan the aggregate number of shares of common stock that may be awarded is automatically increased on January 1st of each year, commencing January 1, 2000, by a number equal to the lesser of 2.5% of the total number of common shares then outstanding or 100,000.

Recent Sales of Unregistered Securities

During the fiscal year ended June 30, 2003, we did not sell any unregistered securities.

ITEM 6. SELECTED FINANCIAL DATA

The following tables contain certain financial information about NAI, including its subsidiaries. When you review this information, you should keep in mind that it is historical. Our future financial condition and results of operations will vary based on a variety of factors. You should carefully review the following information together with the information on risks under Item 7 and elsewhere in this report, and our consolidated financial statements included in this report under Item 8.

Annual Financial Data

	Year Ended June 30 (Amounts in thousands, except per share amounts)				
	2003	2002	2001	2000	1999
Net sales	$55,962	$50,037	$42,158	$47,827	$57,430
Cost of goods sold	42,781	39,068	33,970	44,152	45,010
Gross profit	13,181	10,969	8,188	3,675	12,420
Selling, general & administrative expenses	12,012	10,684	8,848	8,670	11,965
Loss on abandonment of leased facility	—	—	—	1,729	5,392
Loss on impairment of intangible assets acquired	—	—	1,544	—	—
Income (loss) from operations	1,169	285	(2,204)	(6,724)	(4,937)
Other income (expense):					
Interest income	57	16	92	139	185
Interest expense	(252)	(665)	(755)	(399)	(85)
Equity in loss of unconsolidated joint venture	—	—	(38)	(62)	—
Foreign exchange gain (loss)	12	(68)	15	74	—
Proceeds from vitamin antitrust litigation	225	3,410	298	116	—
Other, net	(59)	259	73	(45)	15
Total other income (expense)	(17)	2,952	(315)	(177)	115
Income (loss) before income taxes	1,152	3,237	(2,519)	(6,901)	(4,822)
Provision (benefit) for income taxes	47	(642)	2,370	(2,429)	(1,899)
Net income (loss)	$ 1,105	$ 3,879	$ (4,889)	$ (4,472)	$ (2,923)
Net income (loss) per common share:					
Basic	$ 0.19	$ 0.67	$ (0.85)	$ (0.78)	$ (0.50)
Diluted	$ 0.18	$ 0.67	$ (0.85)	$ (0.78)	$ (0.50)
Weighted average common shares:					
Basic	5,809	5,788	5,770	5,757	5,868
Diluted	6,021	5,798	5,770	5,757	5,868
Balance sheet data at end of project:					
Total assets	$30,724	$27,510	$25,068	$34,109	$38,596
Working capital	$12,321	$ 8,725	$ 5,045	$ 7,639	$14,098
Long-term debt and capital lease obligations, net of current portion	$ 2,386	$ 1,576	$ 3,567	$ 3,345	$ 927
Total stockholders' equity	$20,777	$19,608	$15,604	$20,486	$25,091

Quarterly Financial Data

Quarterly Financial Information for Fiscal 2003 and Fiscal 2002
(Amounts in thousands, except per share amounts)

	Fiscal 2003				Fiscal 2002			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Net sales	$13,136	$13,010	$13,755	$16,061	$9,887	$12,655	$12,843	$14,652
Cost of goods sold	9,941	9,958	10,468	12,414	7,863	9,949	9,956	11,300
Gross profit	3,195	3,052	3,287	3,647	2,024	2,706	2,887	3,352
Selling, general & administrative expenses	2,792	2,797	3,076	3,347	2,454	2,461	2,946	2,823
Income (loss) from operations	403	255	211	300	(430)	245	(59)	529
Other income (expense):								
Interest income	7	21	25	4	3	4	2	7
Interest expense	(82)	(70)	(56)	(44)	(158)	(193)	(159)	(155)
Foreign exchange gain (loss)	(6)	(11)	13	16	(64)	27	(2)	(29)
Proceeds from vitamin antitrust litigation	225	—	—	—	—	—	1,000	2,410
Other, net	(2)	(39)	(15)	(3)	5	9	(2)	247
Total other income (expense)	142	(99)	(33)	(27)	(214)	(153)	839	2,480
Income (loss) before income taxes	545	156	178	273	(644)	92	780	3,009
Provision (benefit) for income taxes	8	7	6	26	14	28	21	(705)
Net income (loss)	$ 537	$ 149	$ 172	$ 247	$ (658)	$ 64	$ 759	$ 3,714
Net income (loss) per common share:								
Basic	$ 0.09	$ 0.03	$ 0.03	$ 0.04	$ (0.11)	$ 0.01	$ 0.13	$ 0.64
Diluted	$ 0.09	$ 0.02	$ 0.03	$ 0.04	$ (0.11)	$ 0.01	$ 0.13	$ 0.64
Weighted average common shares:								
Basic	5,804	5,804	5,814	5,815	5,786	5,786	5,795	5,785
Diluted	5,929	6,022	6,061	6,072	5,786	5,786	5,796	5,821

ITEM 7. 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 last three fiscal years ended June 30, 2003. You should read the following discussion and analysis together with our audited consolidated financial statements and the notes to the consolidated financial statements included under Item 8 in this report. Our future financial condition and results of operations will vary from our historical financial condition and results of operations described below.

Critical Accounting Policies and Estimates

Our consolidated financial statements included under Item 8 in this report have been prepared in accordance with accounting principles generally accepted in the United States (GAAP). Our significant accounting policies are described in the consolidated financial statements. The preparation of financial statements in accordance with GAAP requires that we make estimates and assumptions that affect the amounts reported in our financial statements and their accompanying notes. We have identified certain policies that we believe are important to the portrayal of our financial condition and results of operations. These policies require the application of significant judgment by our management. We base our estimates on our historical experience, industry standards, and various other assumptions that we believe are reasonable under the circumstances. Actual results could differ from these estimates under different assumptions or conditions. An adverse effect on our financial condition, changes in financial condition, and results of operations could occur if circumstances change that alter the various assumptions or conditions used in such estimates or assumptions. Our critical accounting policies include those listed below.

Allowance for Doubtful Accounts

We maintain an allowance for doubtful accounts for estimated losses resulting from any inability of our customers to make required payments. If the financial condition of our customers were to deteriorate, resulting in an impairment of their ability to make payments, additional allowance may be required.

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 are deferred until the shipment has been delivered. In addition, we record reductions to revenue for estimated returns. If actual returns exceed our estimates, additional reductions to revenue would result.

Inventory Reserve

We record valuation reserves on our inventory for estimated excess and obsolete inventory equal to the difference between the cost of inventory and the estimated market value based on assumptions about future product demand and market conditions. If demand and/or market conditions are less favorable than we estimated, additional inventory reserves may be required.

Depreciation of Long-Lived Assets

We assign useful lives for long-lived assets based on periodic studies of actual asset lives and the intended use for those assets. Any change in the asset lives would be reported in the statement of operations as soon as practicable after we determine any change in the estimate.

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 June 30, 2003, 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 historical operating losses 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 of $1.6 million is recorded at June 30, 2003. Should we determine that we would be able to realize all or part of our net deferred tax assets in the future, we would record an adjustment to the deferred tax assets to operations in the period for which such determination was made.

Results of Operations—Fiscal 2003 Compared to Fiscal 2002

Net Sales

	Fiscal 2003	Fiscal 2002
	(Dollars in Thousands)	
Private Label Contract Manufacturing	$ 45,768	$ 41,667
Direct-to-Consumer Marketing Program	10,194	8,370
Total Net Sales	$ 55,962	$ 50,037

Our total net sales increased 12% in fiscal 2003. Net sales from our direct-to-consumer marketing program increased 22%. This increase in fiscal 2003 was due primarily to the introduction of five new direct-to-consumer products. Total net sales for all private label contract manufacturing customers with individual volumes of at least $1.0 million was $42.9 million (three customers) in fiscal 2003 and $39.2 million (four customers) in fiscal 2002. This represents an increase of $3.7 million, which was primarily due to new product sales together with an increase in the volume of established products for our two largest customers.

Gross Profit

	Fiscal 2003	Fiscal 2002
	(Dollars in Thousands)	
Gross Profit	$ 13,181	$ 10,969
As a Percentage of Net Sales	24%	22%

The improvement in gross profit margin to 24% from 22% was due to fixed cost leverage from higher net sales and improved efficiency from investments in our packaging operations. Our direct and indirect manufacturing expenses were 23% of net sales in fiscal 2003 and 24% of net sales in fiscal 2002. Our material and packaging costs as a percentage of net sales was 53% in fiscal 2003 ($29.6 million) and 53.7% in fiscal 2002 ($26.9 million).

Selling, General and Administrative Expenses

Selling, general and administrative expenses were $12.0 million (21.5% of net sales) in fiscal 2003 and $10.7 million (21.4% of net sales) in fiscal 2002. The increase in absolute dollars in fiscal 2003 was primarily due to increases in direct-to-consumer fulfillment and recurring media costs of $573,000 associated with incremental sales, new direct-to-consumer media and production costs of $603,000 for introducing Dr. Cherry's Pathway to Healing™ brand in several new television markets, sales and executive personnel costs of $325,000, research and development personnel costs of $459,000, insurance premiums of $352,000, information system costs of $204,000 and clinical study costs of $197,000. These increases were partially offset by a $350,000 reduction in legal costs, $300,000 reduction in employee separation expenses, and $767,000 reduction of direct-to-consumer costs incurred in the prior year for improving customer service, processing and reporting.

Income from Operations

Our income from operations was $1.2 million in fiscal 2003 and $285,000 in fiscal 2002. The improvement in our income from operations was due to the increase in gross profit of $2.2 million from improved gross margin on higher net sales, partially offset by incremental selling, general and administrative expenses of $1.3 million.

Other income

We received proceeds from the settlement of claims associated with the vitamin antitrust litigation of $225,000 in fiscal 2003 and $3.4 million in fiscal 2002.

Income Taxes

In fiscal 2002, federal tax legislation was passed allowing companies to carryback net operating losses for five years. This resulted in recognition of a $701,000 income tax refund receivable, which was included as an income tax benefit in our consolidated statement of operations for the year ended June 30, 2002. At June 30, 2003, we assessed the need for a valuation allowance on our deferred tax assets. Based on the historical operating losses 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 of $1.6 million was recorded at June 30, 2003.

Net Income

Our net income was $1.1 million ($0.18 per diluted share) in fiscal 2003 and $3.9 million ($0.67 per diluted share) in fiscal 2002. Excluding the effect of the litigation settlement proceeds and income tax refund receivable of $701,000 in the prior year, net income increased $1.1 million to $880,000 ($0.15 per diluted share) compared to a net loss of $232,000 ($0.04 per diluted share.)

Results of Operations—Fiscal 2002 Compared to Fiscal 2001

Net Sales

	Fiscal 2002	Fiscal 2001
	(Dollars in Thousands)	
Private Label Contract Manufacturing	$ 41,667	$ 36,437
Direct-to-Consumer Marketing Program	8,370	5,721
Total Net Sales	$ 50,037	$ 42,158

Our total net sales increased 19% in fiscal 2002. Net sales from our direct-to-consumer marketing program increased 46%. This increase was due primarily to the introduction of eight new direct-to-consumer products in fiscal 2002. Total net sales for all private label contract manufacturing customers with individual volumes of at least $1.0 million was $39.2 million (four customers) in fiscal 2002 and $34.4 million (six customers) in fiscal 2001. This represents an increase of $4.8 million, which was primarily due to new product sales together with an increase in the volume of established products to our two largest customers.

Gross Profit

	Fiscal 2002	Fiscal 2001
	(Dollars in Thousands)	
Gross Profit	$ 10,969	$ 8,188
As a Percentage of Net Sales	22%	19%

Sales increases in both our private label contract manufacturing business and our direct-to consumer marketing program favorably impacted our gross profit in fiscal 2002. Our direct and indirect manufacturing expenses were 24% of net sales in fiscal 2002 and 28% of net sales in fiscal 2001. This reduction was due to improved internal process controls and increased efficiency.

Our material and packaging costs as a percentage of net sales were relatively steady at 53.7% ($26.9 million) in fiscal 2002 and 52.7% ($22.2 million) in fiscal 2001. Material contribution margins decreased in fiscal 2002 due to material costs for our packaged powder products. Excluding the packaged powder products, material costs as a percentage of net sales would have improved 4% due to our cost reduction efforts.

Selling, General, and Administrative Expenses

Selling, general and administrative expenses were $10.7 million (21% of net sales) in fiscal 2002 and $8.8 million (21% of net sales) in fiscal 2001. The increase in absolute dollar terms in fiscal 2002 was primarily due to incremental spending for our direct-to-consumer marketing program of $1.7 million, and spending of $350,000 to reorganize our manufacturing and sales organizations. In addition, lower than expected performance by our former third party provider of direct-to-consumer call and fulfillment services resulted in significantly higher processing and customer service costs. We replaced the third party provider in December 2001 and began an aggressive campaign to improve customer service. This resulted in additional charges of approximately $500,000. The start-up costs of our direct-to-consumer call and fulfillment center were approximately $267,000.

Total operating expenses were comparable in absolute dollar terms at approximately $10.7 million in fiscal 2002 and $10.4 million in fiscal 2001. Operating expenses in fiscal 2001 included a charge of $1.5 million. This charge reflected a write down for intangible assets and additional expenses associated with our attempt to commercialize the software we obtained from our FitnessAge and Custom Nutrition ventures.

Income (Loss) from Operations

Our income from operations was $285,000 in fiscal 2002. In fiscal 2001, we suffered a loss of $2.2 million. The improvement in our income from operations was primarily due to the increase in gross profit of $2.8 million in fiscal 2002 and the intangible asset impairment charge of $1.5 million recorded in 2001.

Other income

We received proceeds from the settlement of claims associated with the vitamin antitrust litigation of $3.4 million in fiscal 2002 and $298,000 in fiscal 2001.

Income Taxes

Our income tax expense for fiscal 2001 was $2.4 million, resulting from the establishment of a valuation allowance on our net deferred tax assets. In fiscal 2002, federal tax legislation was passed allowing companies to carryback net operating losses for five years. This resulted in recognition of a $701,000 income tax refund receivable, which was included as an income tax benefit in our consolidated statement of operations for the year ended June 30, 2002.

Net Income (Loss)

Our net income was $3.9 million ($0.67 per share) in fiscal 2002. In fiscal 2001, we suffered a net loss of $4.9 million ($0.85 per share). The improvement in our net income was due to improved operating results, the vitamin antitrust litigation settlement, and the income tax benefit described above.

Liquidity and Capital Resources

Our working capital increased substantially in fiscal 2003 to $12.3 million at June 30, 2003 versus $8.7 million at June 30, 2002. Cash and cash equivalents increased $4.8 million as a result of the new credit facility, as discussed below, collection of the income tax refund of $701,000 and cash generated from operations. The new credit facility provided a $1.3 million increase in our cash position and freed up $1.5 million of cash previously restricted as collateral for the prior line of credit. Accounts receivable increased $2.1 million due to higher net sales in the fourth quarter of fiscal 2003 as compared with the same period in the prior fiscal year and an increase in days sales outstanding. Accounts payable as a percentage of inventory was 64% at June 30, 2003 versus 52% at June 30, 2002 due to timing of payments.

Approximately 47% of our operating cash flow was generated by NAIE in fiscal 2003. There are currently no material restrictions on the transfer of these funds within the Company.

Capital expenditures for fiscal 2003 were approximately $977,000. These expenditures were for investments in our continuing development of the Swiss manufacturing facility of approximately $222,000 and domestic manufacturing and information system improvements of approximately $755,000. The domestic capital expenditures were primarily for improving our finished goods packaging operation. We plan on increasing capital expenditures in fiscal 2004 by greater than 50% to expand capacity in encapsulation and packaging operations.

Our consolidated debt increased to $3.0 million at June 30, 2003 from $2.2 million at June 30, 2002. Our consolidated debt of $3.0 million was comprised of a $748,000 term loan secured by a building and $2.2 million outstanding on the term loan included in our new credit facility. On October 25, 2002, we entered into a $6.5 million two-year credit facility. The facility includes a $4 million working capital line of credit and a $2.5 million term loan and is secured by all of our assets. The working capital line of credit is subject to eligibility requirements for current accounts receivable and inventory balances. As of June 30, 2003, we had $4.0 million available under the line of credit. The interest rate on the line of credit and the term loan is prime plus 0.5%. This new facility replaced our previous $2.5 million line of credit that expired on October 31, 2002 and refinanced a $1.2 million outstanding term note.

In fiscal 2004 we plan on funding normal working capital needs, capital expenditures and debt payments using cash flow from operations.

On June 24, 2003 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 had a notional amount of $1.5 million and a purchase price of $16,100. The premium associated with each option contract is amortized on a straight-line basis over the term of the option, and mark-to-market amounts and realized gains or losses are recognized on the settlement date in cost of good sold. The risk of loss associated with purchased options is limited to premium amounts paid for the option contracts. At June 30, 2003, the value of the purchased options of $16,100 was included in other current assets in the consolidated financial statements. There are no other derivative financial instruments at June 30, 2003.

Off-Balance Sheet Arrangements

We do not have any off-balance sheet debt nor do we have any transactions, arrangements or relationships with any special purposes entities.

Contractual Obligations

This table summarizes our known contractual obligations and commercial commitments at June 30, 2003 (dollars in thousands).

Contractual Obligations	Total	Fiscal 2004	Fiscal 2005	Fiscal 2006	Fiscal 2007	Fiscal 2008	Thereafter
Long-term Debt	$2,956	$ 570	$1,784	$ 83	$ 90	$ 97	$ 332
Operating Lease	5,837	1,024	980	972	943	952	966
Total Obligations	$8,793	$1,594	$2,764	$1,055	$1,033	$1,049	$ 1,298

Inflation

We do not believe that inflation or changing prices have had a material impact on our historical operations or profitability.

Recent Accounting Pronouncements

In November 2002, the Financial Accounting Standards Board (FASB) issued Interpretation No. 45 (FIN 45), "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others." FIN 45 is applicable to guarantees issued or modified after December 31, 2002. FIN 45 expands the existing disclosure required for most guarantees, including loan guarantees such as standby letters of credit. FIN 45 also requires a company to recognize an initial liability for the fair market value of the obligations it assumes under that guarantee upon issuance and disclosure of certain information about the guarantee in its interim and annual financial statements. We do not expect this interpretation to have a significant impact on our financial condition or results of operations.

In December 2002, FASB issued Statement of Financial Accounting Standards No. 148 (SFAS 148), "Accounting for Stock-Based Compensation—Transition and Disclosure and amendment of FASB Statement No. 123." SFAS 148 is effective for fiscal years ending after December 15, 2002. SFAS 148 provides an alternative method of transition for an entity that voluntarily changes accounting for its stock-based employee compensation to the fair value method. In addition, SFAS 148 changes the disclosure provisions to provide more prominent disclosures about the effects on reported net income with respect to stock-based employee compensation and adds additional disclosures relating to stock-based employee compensation for interim financial information. We have made the required disclosures in the notes to our consolidated financial statements. However, we do not plan to change the accounting for our employee stock-based compensation at this time.

In January 2003, FASB issued Interpretation No. 46 (FIN 46), "Consolidation of Variable Interest Entities." FIN 46 is effective for variable interest entities created after January 31, 2003. FIN 46 is an interpretation of Accounting Research Bulletin No. 51, "Consolidated Financial Statements." FIN 46 requires a variable interest entity to be consolidated by a company if that company is subject to a majority of the risk of loss from the variable interest entity's activities or entitled to receive a majority of the entity's residual returns or both. We do not expect this interpretation to have a significant impact on our financial condition or results of operations.

In April 2003, FASB issued Statement of Financial Accounting Standards No. 149 (SFAS 149), "Amendment of Statement 133 on Derivative Instruments and Hedging Activities." SFAS 149 amends and clarifies financial accounting and reporting for derivative instruments, including certain derivative instruments embedded in other contracts and for hedging activities under Statement 133. SFAS 149 requires that contracts with comparable characteristics be accounted for similarly. In particular, SFAS 149 (1) clarifies under what circumstances a contract with an initial net investment meets the characteristic of a derivative, (2) clarifies when a derivative contains a financing component, and (3) amends the definition of underlying to conform it to language used in FIN 45. SFAS 149 is effective for contracts entered into or modified after June 30, 2003. We do not expect this interpretation to have a significant impact on our financial condition or results of operations.

In May 2003, FASB issued Statement of Financial Accounting Standards No. 150 (SFAS 150), "Accounting for Certain Financial Instruments with Characteristics of Both Liabilities and Equity." SFAS 150 establishes standards for how to classify and measure certain financial instruments with characteristics of both liabilities and equity. It is effective for financial instruments entered into or modified after May 31, 2003, and otherwise is effective at the beginning of the first interim period beginning after June 15, 2003. We do not expect this interpretation to have a significant impact on our financial condition or results of operations.

Risks

You should carefully consider the risks described below, as well as the other information in this report, when evaluating our business and future prospects. If any of the following 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.

Because we derive a significant portion of our revenues from a limited number of customers, our revenues would be adversely affected by the loss of a major customer.

We have in the past, and expect to continue in the near future, to derive a significant portion of our revenues from a relatively limited number of customers. During the fiscal year ended June 30, 2003, sales to one customer, NSA International, Inc., were approximately 43% of our total net sales. Our second largest customer was Mannatech Incorporated, which accounted for approximately 27% of our net sales. The loss of either of these customers or other major customers, or a significant decrease in sales to these customers, would materially affect our financial condition and results of operations.

Our operating results will vary and there is no guarantee that we will earn a profit. Fluctuations in our operating results may adversely affect the share price of our common stock.

While our net sales and income from operations have both improved during the past two fiscal years, there can be no assurance that they will continue to improve, or that we will earn a profit in any given year. We have experienced losses in the recent past and may incur losses in the future. Our operating results may fluctuate from year to year due to various factors including differences related to the timing of revenues and expenses for financial reporting purposes and other factors described in this report. At times, these fluctuations may be significant. Fluctuations in our operating results may adversely affect the share price of our common stock.

A significant or prolonged economic downturn could have a material adverse effect on our results of operations.

Our results of operations are affected by the level of business activity of our customers, which in turn is affected by the level of consumer demand for their products. A significant or prolonged economic downturn may adversely affect the disposable income of many consumers and may lower demand for the products we produce for our private label contract manufacturing customers, as well as for our direct-to-consumer products. A decline in consumer demand and the level of business activity of our customers due to economic conditions could have a material adverse effect on our revenues and profit margins.

Because our direct-to-consumer sales rely on the marketability of key personalities, the inability of a key personality to perform his or her role or the existence of negative publicity surrounding a key personality may adversely affect our revenues.

Our direct-to-consumer products have been a growing part of our business. For the fiscal year ended June 30, 2003, our direct-to-consumer products accounted for 18% of our net sales. These products are marketed with a key personality through a variety of distribution channels. The inability or failure of a key personality to fulfill his or her role as a spokesperson for a product, a reduction in the exposure of a key personality or negative publicity about a key personality may adversely affect the sales of our product associated with that personality and could affect the sale of other products. A decline in sales would negatively affect our results of operations and financial condition.

Our industry is highly competitive and we may be unable to compete effectively. Increased competition could adversely affect our financial condition.

The market for our products is highly competitive. Many of our competitors are substantially larger and have greater financial resources and broader name recognition than we do. Our larger competitors may be able to devote greater resources to research and development, marketing and other activities that could provide them with a competitive advantage. Our market has relatively low entry barriers and is highly sensitive to the introduction of new products that may rapidly capture a significant market share. Increased competition could result in price reductions, reduced gross profit margins or loss of market share, any of which could have a material adverse effect on our financial condition and results of operations. There can be no assurance that we will be able to compete in this intensely competitive environment.

We may not be able to raise additional capital or obtain additional financing if needed.

Our cash from operations may not be sufficient to meet our working capital needs and/or to implement our business strategies. Although we obtained a new $6.5 million two-year line of credit in October 2002, there can be no

assurance that this line of credit will be sufficient to meet our needs. Furthermore, if we fail to maintain certain loan covenants we will no longer have access to the credit line. As a result, we may need to raise additional capital or obtain additional financing.

In recent years, it has been difficult for companies to raise capital due to a variety of factors including the overall poor performance of the stock markets and the economic slowdown in the United States and other countries. Thus, there is no assurance we would be able to raise additional capital if needed. To the extent we do raise additional capital, the ownership position of existing shareholders could be diluted. Similarly, there can be no assurance that additional financing will be available if needed or that it will be available on favorable terms. Our inability to raise additional capital or to obtain additional financing if needed would negatively affect our ability to implement our business strategies and meet our goals. This, in turn, would adversely affect our financial condition and results of operations.

The failure of our suppliers to supply materials in sufficient quantities, at a favorable price, and in a timely fashion could adversely affect the results of our operations.

We buy our raw materials from a limited number of suppliers. During fiscal 2003, Carrington Laboratories Incorporated was our largest supplier, accounting for 35% of our total raw material purchases. The loss of Carrington Laboratories Incorporated or other major supplier could adversely affect our business operations. Although we believe that we could establish alternate sources for most of our raw materials, any delay in locating and establishing relationships with other sources could result in product shortages and back orders for our products, with a resulting loss of sales and customers. In certain situations we may be required to alter our products or to substitute different materials from alternative sources.

A shortage of raw materials or an unexpected interruption of supply could also result in higher prices for those materials. Although we may be able to raise our prices in response to significant increases in the cost of raw materials, we may not be able to raise prices sufficiently or quickly enough to offset the negative effects of the cost increases on our results of operations.

There can be no assurance that suppliers will provide the raw materials needed by us in the quantities requested or at a price we are willing to pay. Because we do not control the actual production of these raw materials, we are also subject to delays caused by interruption in production of materials based on conditions outside of our control, including weather, transportation interruptions, strikes by supplier employees, and natural disasters or other catastrophic events.

We rely solely on one supplier to process certain raw materials that we use in the product line of our largest customer. The loss of or unexpected interruption in this service would materially adversely affect our results of operations and financial condition.

Our business is subject to the effects of adverse publicity, which could negatively affect our sales and revenues.

Our business can be affected by adverse publicity or negative public perception about our industry, our competitors, or our business generally. This adverse publicity may include publicity about the nutritional supplements industry generally, the safety and quality of nutritional supplements and personal care products or ingredients in general or our products or ingredients specifically, and regulatory investigations, regardless of whether these investigations involve us or the business practices or products of our competitors. There can be no assurance that we will be able to avoid any adverse publicity or negative public perception in the future. Any adverse publicity or negative public perception will likely have a material adverse effect on our business, financial condition and results of operations. Our business, financial condition and results of operations also could be adversely affected if any of our products or any similar products distributed by other companies are alleged to be or are proved to be harmful to consumers or to have unanticipated health consequences.

We could be exposed to product liability claims or other litigation, which may be costly and could materially adversely affect our operations.

We could face financial liability due to product liability claims if the use of our products results in significant loss or injury. Additionally, the manufacture and sale of our products involves the risk of injury to consumers from

tampering by unauthorized third parties or product contamination. We could be exposed to future product liability claims that, among others: our products contain contaminants; we provide consumers with inadequate instructions about product use; or we provide inadequate warning about side effects or interactions of our products with other substances.

We maintain product liability insurance coverage, including primary product liability and excess liability coverage. The cost of this coverage has increased dramatically in recent years, while the availability of adequate insurance coverage has decreased. There can be no assurance that product liability insurance will continue to be available at an economically reasonable cost or that our insurance will be adequate to cover any liability we may incur. Additionally, it is possible that one or more of our insurers could exclude from our coverage certain ingredients used in our products. In such event, we may have to stop using those ingredients or rely on indemnification or similar arrangements with our customers who wish to continue to include those ingredients in their products. A substantial increase in our product liability risk or the loss of customers or product lines could have a material adverse effect on our results of operations and financial condition.

As we continue to expand into markets outside the United States our business becomes increasingly subject to political and economic risks in those markets, which could adversely affect our business.

Our future growth may depend, in part, on our ability to continue to expand into markets outside the United States. There can be no assurance that we will be able to expand our presence in our existing markets outside the United States, enter new markets on a timely basis, or that new markets outside the United States will be profitable. There are significant regulatory and legal barriers in markets outside the United States that we must overcome. We will be subject to the burden of complying with a wide variety of national and local laws, including multiple and possibly overlapping and conflicting laws. We also may experience difficulties adapting to new cultures, business customs and legal systems. Our sales and operations outside the United States are subject to political, economic and social uncertainties including, among others:

- changes and limits in import and export controls;
- increases in custom duties and tariffs;
- changes in government regulations and laws;
- coordination of geographically separated locations;
- absence in some jurisdictions of effective laws to protect our intellectual property rights;
- changes in currency exchange rates;
- economic and political instability; and
- currency transfer and other restrictions and regulations that may limit our ability to sell certain products or repatriate profits to the United States.

Any changes related to these and other factors could adversely affect our business, profitability and growth prospects. As we continue to expand into markets outside the United States, these and other risks associated with operations outside the United States are likely to increase.

Our products and manufacturing activities are subject to extensive government regulation, which could limit or prevent the sale of our products in some markets and could increase our costs.

The manufacturing, packaging, labeling, advertising, promotion, distribution, and sale of our products are subject to regulation by numerous national and local governmental agencies in the United States and in other countries. Failure to comply with FDA regulations may result in, among other things, injunctions, product withdrawals, recalls, product seizures, fines, and criminal prosecutions. Any action of this type by the FDA could materially adversely affect our ability to successfully market our products. In addition, if the FTC has reason to believe the law is being violated (for example, if it believes we do not possess adequate substantiation for product claims), it can initiate an enforcement action. FTC enforcement could result in orders requiring, among other things, limits on advertising, consumer redress, divestiture of assets, rescission of contracts, and such other relief as may be deemed necessary. Violation of these orders could result in substantial financial or other penalties. Any action by the FTC could materially adversely affect our ability to successfully market our products.

In markets outside the United States, before commencing operations or marketing our products, we may be required to obtain approvals, licenses, or certifications from a country's ministry of health or comparable agency. Approvals or licensing may be conditioned on reformulation of products or may be unavailable with respect to certain products or product ingredients. We must also comply with product labeling and packaging regulations that vary from country to country. Furthermore, the regulations of these countries may conflict with those in the United States and with each other. The sale of our products in Europe is subject to the rules and regulations of the European Union, which may be interpreted differently among the countries within the union. The cost of complying with these various and potentially conflicting regulations can be substantial and can adversely affect our results of operations.

We cannot predict the nature of any future laws, regulations, interpretations, or applications, nor can we determine what effect additional governmental regulations or administrative orders, when and if adopted, would have on our business. They could include requirements for the reformulation of certain products to meet new standards, the recall or discontinuance of certain products, additional record keeping, expanded or different labeling, and additional scientific substantiation. Any or all of these requirements could have a material adverse effect on our operations.

If we are unable to attract and retain qualified management personnel, our business will suffer.

Our executive officers and other management personnel are primarily responsible for our day-to-day operations. We believe our success depends largely on our ability to attract, maintain and motivate highly qualified management personnel. Competition for qualified individuals can be intense, and we may not be able to hire additional qualified personnel in a timely manner and on reasonable terms. We employed the majority of our current executive officers in fiscal 2002 and 2001. Our inability to retain a skilled professional management team could adversely affect our ability to successfully execute our business strategy and achieve our goals.

Our manufacturing activity is subject to certain risks.

We currently manufacture the vast majority of our products at our manufacturing facilities in California. As a result, we are dependent on the uninterrupted and efficient operation of that facility. Our manufacturing operations are subject to power failures, the breakdown, failure or substandard performance of equipment, the improper installation or operation of equipment, natural or other disasters, and the need to comply with the requirements or directives of governmental agencies, including the FDA. While we maintain business interruption insurance, there can be no assurance that the occurrence of these or any other operational problems at our facilities in California or at NAIE's facility in Switzerland would not have a material adverse effect on our business, financial condition and results of operations. Furthermore, there can be no assurance that our insurance will continue to be available at a reasonable cost or, if available, will be adequate to cover any losses that we may incur from an interruption in our manufacturing and distribution operations.

We may be unable to protect our intellectual property rights or may inadvertently infringe on the intellectual property rights of others.

We possess and may possess in the future certain proprietary technology, trade secrets, trademarks, tradenames and similar intellectual property. There can be no assurance that we will be able to protect our intellectual property adequately. In addition, the laws of certain foreign countries may not protect our intellectual property rights to the same extent as the laws of the United States. Litigation in the United States or abroad may be necessary to enforce our intellectual property rights, to determine the validity and scope of the proprietary rights of others or to defend against claims of infringement. This litigation, even if successful, could result in substantial costs and diversion of resources and could have a material adverse effect on our business, results of operation and financial condition. If any such claims are asserted against us, we may seek to obtain a license under the third party's intellectual property rights. There can be no assurance, however, that a license would be available on terms acceptable or favorable to us, if at all.

Collectively, our officers and directors own a significant amount of our common stock, giving them influence over corporate transactions and other matters and potentially limiting the influence of other shareholders on important policy and management issues.

Our officers and directors, together with their families and affiliates, beneficially owned approximately 24.2% of our outstanding shares of common stock as of June 30, 2003. As a result, our officers and directors could influence such

business matters as the election of directors and approval of significant corporate transactions. Various transactions could be delayed, deferred or prevented without the approval of shareholders, including:

- transactions resulting in a change in control;
- mergers and acquisitions;
- tender offers;
- election of directors; and
- proxy contests.

There can be no assurance that conflicts of interest will not arise with respect to the officers and directors who own shares of our common stock or that conflicts will be resolved in a manner favorable to us or our other shareholders.

If certain provisions of our Certificate of Incorporation, Bylaws and Delaware law are triggered, the future price investors might be willing to pay for our common stock could be limited.

Certain provisions in our Certificate of Incorporation, Bylaws and Delaware corporate law help discourage unsolicited proposals to acquire our business, even if the proposal benefits our shareholders. Our Board of Directors is authorized, without shareholder approval, to issue up to 500,000 shares of preferred stock having such rights, preferences, and privileges, including voting rights, as the board designates. The rights of our common stockholders will be subject to, and may be adversely affected by, the rights of holders of any preferred stock that may be issued in the future. Any or all of these provisions could delay, deter or prevent a takeover of our company and could limit the price investors are willing to pay for our common stock.

Our stock price could fluctuate significantly.

Our stock price has been volatile in recent years. The trading price of our stock could be subject to fluctuations in response to:

- broad market fluctuations and general economic conditions;
- fluctuations in our financial results;
- future offerings of our common stock or other securities;
- the general condition of the nutritional supplement industry;
- increased competition;
- regulatory action;
- adverse publicity; and
- product and other public announcements.

The stock market has historically experienced significant price and volume fluctuations. There can be no assurance that an active market in our stock will continue to exist or that the price of our common stock will not decline. Our future operating results may be below the expectations of securities analysts and investors. If this were to occur, the price of our common stock would likely decline, perhaps substantially.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We generally do not engage in trading market risk sensitive instruments and do not buy investments as hedges or for purposes other than trading that are likely to expose us to certain types of market risk, including interest rate, commodity price, or equity price risk. We may, however, buy certain investments to hedge our foreign currency exchange rate exposures.

We are exposed to interest rate risk in connection with our credit facility established on October 25, 2002. As of June 30, 2003 the credit facility was $2.2 million of our total outstanding debt. The interest rate on the credit facility is equal to prime plus 0.5%, and was 4.5% as of June 30, 2003. The remaining outstanding debt of $748,000 at June 30, 2003 has a fixed interest rate. An immediate adverse change of one hundred basis points in interest rates would increase our annual interest expense by $13,000. 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.

We are also exposed to changes in currency exchange rates as measured against the United States dollar. 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 effected 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 effected.

We are exposed to the risk of fluctuation in the exchange rate between the Swiss Franc and the United States dollar given NAIE's operations in Switzerland, and between the Euro and the United States dollar as NSA International, Inc., our largest customer, pays NAIE in Euros. On June 30, 2003, the Swiss Franc closed at 1.35 to 1 United States dollar and the Euro closed at 0.87 to 1 U.S. Dollar. A 10% adverse change to the exchange rate between both the Swiss Franc and the United States dollar and the Euro and the United States dollar would have decreased our earnings by $489,000.

Our goal in managing foreign currency risk is to help 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. To hedge our foreign currency risk, we may enter into forward exchange contracts, foreign currency borrowing, and option contracts.

On June 24, 2003 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 had a notional amount of $1.5 million and a purchase price of $16,100. The options allow us to sell $227,273 Euros a month for a period of six months at an exchange rate of 1.10 to 1 United Sates dollar. The premium associated with each option contract is amortized on a straight-line basis over the term of the option, and mark-to-market amounts and realized gains or losses are recognized on the settlement date in cost of goods sold. The risk of loss associated with purchased options is limited to premium amounts paid for the option contracts.

We have not entered into any forward or futures contracts or any swaps and we do not use any financial instruments to manage our exposure to markets risks, other than foreign currency exchange rate risks as described above.

We cannot predict with any certainty our future exposure to fluctuations in interest rates, foreign currency exchange 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.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Report of Ernst & Young LLP, Independent Auditors

The Board of Directors and Stockholders
Natural Alternatives International, Inc.

We have audited the accompanying consolidated balance sheets of Natural Alternatives International, Inc. as of June 30, 2003 and 2002, and the related consolidated statements of operations and comprehensive income (loss), stockholders' equity, and cash flows for each of the three years in the period ended June 30, 2003. Our audits also included the financial statement schedule listed under Item 15(a). These financial statements and schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedule based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Natural Alternatives International, Inc. at June 30, 2003 and 2002, and the consolidated results of its operations and its cash flows for each of the three years in the period ended June 30, 2003, in conformity with accounting principles generally accepted in the United States. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

Ernst & Young LLP

San Diego, California
August 1, 2003

Natural Alternatives International, Inc.
Consolidated Balance Sheets
As of June 30
(Dollars in thousands, except share and per share data)

	2003	2002
Assets		
Current assets:		
Cash and cash equivalents	$ 5,482	$ 640
Restricted cash	—	1,500
Accounts receivable—less allowance for doubtful accounts of $27 at June 30, 2003 and $105 at June 30, 2002	5,668	3,536
Inventories, net	7,845	7,871
Income tax refund receivable	—	701
Other current assets	766	604
Total current assets	19,761	14,852
Property and equipment, net	10,820	12,439
Other assets:		
Related party notes receivable	25	118
Other noncurrent assets, net	118	101
Total other assets	143	219
Total assets	$30,724	$27,510
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	$ 5,001	$ 4,112
Accrued liabilities	1,106	815
Accrued compensation and employee benefits	717	482
Income taxes payable	46	131
Current portion of long-term debt	570	587
Total current liabilities	7,440	6,127
Long-term debt, less current portion	2,386	1,576
Long-term pension liability	121	199
Total liabilities	9,947	7,902
Commitments and contingencies		
Stockholders' equity:		
Preferred stock; $.01 par value; 500,000 shares authorized; none issued or outstanding	—	—
Common stock; $.01 par value; 8,000,000 shares authorized, issued and outstanding 6,087,532 at June 30, 2003 and 6,073,179 at June 30, 2002	61	61
Additional paid-in capital	11,426	11,362
Retained earnings	10,593	9,488
Treasury stock, at cost, 272,400 shares at June 30, 2003 and 2002, respectively	(1,303)	(1,303)
Total stockholders' equity	20,777	19,608
Total liabilities and stockholders' equity	$30,724	$27,510

See accompanying notes to consolidated financial statements.

Natural Alternatives International, Inc.
Consolidated Statements Of Operations And Comprehensive Income (Loss)
For the Years Ended June 30
(Dollars in thousands, except share and per share data)

	2003	2002	2001
Net sales	$ 55,962	$ 50,037	$ 42,158
Cost of goods sold	42,781	39,068	33,970
Gross profit	13,181	10,969	8,188
Selling, general & administrative expenses	12,012	10,684	8,848
Loss on impairment of intangible assets acquired	—	—	1,544
Income (loss) from operations	1,169	285	(2,204)
Other income (expense):			
Interest income	57	16	92
Interest expense	(252)	(665)	(755)
Equity in loss of unconsolidated joint venture	—	—	(38)
Foreign exchange gain (loss)	12	(68)	15
Proceeds from vitamin antitrust litigation	225	3,410	298
Other, net	(59)	259	73
	(17)	2,952	(315)
Income (loss) before income taxes	1,152	3,237	(2,519)
Provision for (benefit from) income taxes	47	(642)	2,370
Net income (loss)	$ 1,105	$ 3,879	$ (4,889)
Unrealized loss on investments	—	—	(28)
Comprehensive income (loss)	$ 1,105	$ 3,879	$ (4,917)
Net income (loss) per common share:			
Basic	$ 0.19	$ 0.67	$ (0.85)
Diluted	$ 0.18	$ 0.67	$ (0.85)
Weighted average common shares outstanding:			
Basic shares	5,809,140	5,787,712	5,769,585
Diluted shares	6,021,155	5,798,453	5,769,585

See accompanying notes to consolidated financial statements.

Natural Alternatives International, Inc.
Consolidated Statements Of Stockholders' Equity
For the Years Ended June 30
(Dollars in thousands)

	Common Stock		Additional Paid-in Capital	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive (Loss)	Total
	Shares	Amount					
Balance, June 30, 2000	6,024,380	$ 60	$ 11,272	$10,498	$(1,283)	$ (61)	$20,486
Issuance of common stock for employee stock purchase plan	23,726	—	35	—	—	—	35
Net unrealized loss on investments	—	—	—	—	—	(28)	(28)
Net loss	—	—	—	(4,889)	—	—	(4,889)
Balance, June 30, 2001	6,048,106	60	11,307	5,609	(1,283)	(89)	15,604
Issuance of common stock for employee stock purchase plan and stock option exercises	25,073	1	53	—	—	—	54
Treasury stock purchased	—	—	—	—	(20)	—	(20)
Compensation expense related to stock options granted to employees	—	—	2	—	—	—	2
Net realized loss on disposal of investments	—	—	—	—	—	89	89
Net income	—	—	—	3,879	—	—	3,879
Balance, June 30, 2002	6,073,179	61	11,362	9,488	(1,303)	—	19,608
Issuance of common stock for employee stock purchase plan and stock option exercises	14,353	—	33	—	—	—	33
Compensation expense related to stock options granted to employees	—	—	31	—	—	—	31
Net income	—	—	—	1,105	—	—	1,105
Balance, June 30, 2003	6,087,532	$ 61	$ 11,426	$10,593	$(1,303)	$ —	$20,777

See accompanying notes to consolidated financial statements.

Natural Alternatives International, Inc.
Consolidated Statements Of Cash Flows
For the Years Ended June 30
(Dollars in thousands)

	2003	2002	2001
Cash flows from operating activities			
Net income (loss)	$ 1,105	$ 3,879	$(4,889)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Provision for uncollectible accounts receivable	(46)	(58)	286
Write-off of notes receivable	—	—	89
Depreciation and amortization	2,477	2,407	2,487
Impairment charge on intangible assets	—	—	1,216
Deferred income taxes	—	—	2,293
Non-cash compensation	31	2	—
Pension expense, net of contributions	(78)	(26)	(192)
(Gain) loss on disposal of assets	10	(54)	32
Loss on investments	—	89	37
Loss on abandonment of leased facility, net of amounts paid	—	—	(50)
Changes in operating assets and liabilities:			
Accounts receivable	(2,086)	(147)	373
Inventories	26	(1,670)	1,426
Tax refund receivable	701	(701)	1,500
Other assets	(175)	83	41
Accounts payable and accrued liabilities	1,180	778	(302)
Income taxes payable	(85)	59	72
Accrued compensation and employee benefits	235	162	(35)
Net cash provided by operating activities	3,295	4,803	4,384
Cash flows from investing activities			
Proceeds from sale of property and equipment	109	82	—
Capital expenditures	(977)	(1,076)	(960)
Issuance of notes receivable	—	—	(100)
Repayment of notes receivable	89	313	17
Increase in intangible assets	—	—	(11)
Net cash used in investing activities	(779)	(681)	(1,054)
Cash flows from financing activities			
Net payments on lines of credit	—	(242)	(2,561)
Borrowings on long-term debt and capital leases	2,500	—	1,708
Payments on long-term debt and capital leases	(1,707)	(2,293)	(2,828)
Increase (decrease) in restricted cash	1,500	(1,500)	—
Issuance of common stock	33	54	35
Net cash provided by (used in) financing activities	2,326	(3,981)	(3,646)
Net increase (decrease) in cash and cash equivalents	4,842	141	(316)
Cash and cash equivalents at beginning of year	640	499	815
Cash and cash equivalents at end of year	$ 5,482	$ 640	$ 499
Supplemental disclosures of cash flow information			
Cash paid during the year for:			
Interest	$ 252	$ 394	$ 676
Income taxes refunded	—	—	(1,497)
Disclosure of non-cash activities:			
Net unrealized losses on investments	$ —	$ —	$ (28)

Supplemental schedule of non-cash activities			
Related party notes receivable	$ —	$ 20	$ 855
Investments	—	—	150
Accounts receivable	—	—	107
Inventory	—	—	64
Accounts payable	—	—	29
	$ —	$ 20	$ 1,205

See accompanying notes to consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

A. Organization and Summary of Significant Accounting Policies

Organization

Natural Alternatives International, Inc. manufactures vitamins, micronutrients and related nutritional supplements, and provides innovative private-label products for specialized corporate, institutional and commercial accounts worldwide. The Company operates in a single segment, nutritional supplements.

International Subsidiary

On January 22, 1999, Natural Alternatives International Europe, S.A. (NAIE), was formed as a wholly-owned subsidiary of the Company, based in Manno, Switzerland, which is adjacent to the city of Lugano. In September 1999, NAIE opened its new manufacturing facility to provide manufacturing capability in encapsulation and tablets, finished goods packaging, quality control laboratory testing, warehousing, distribution and administration. Upon formation, NAIE obtained from the Swiss tax authorities a five-year federal and cantonal income tax holiday ending in fiscal 2005.

Principles of Consolidation

The consolidated financial statements include the accounts of Natural Alternatives International, Inc. and its wholly-owned subsidiary, NAIE. All significant intercompany accounts and transactions have been eliminated. The functional currency of the Company's foreign subsidiary is the United States dollar. The financial statements of the subsidiary have been translated at either current or historical exchange rates, as appropriate, with gains and losses included in the consolidated statements of operations.

Cash and Cash Equivalents

The Company considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

Inventories

Inventories are recorded at the lower of cost (first-in, first-out) or market (net realizable value). Such costs include raw materials, labor and manufacturing overhead.

Property and Equipment

Property and equipment are stated at cost. Depreciation of property and equipment is provided using the straight-line method over their estimated useful lives, generally ranging from 1 to 39 years. Leasehold improvements are amortized using the straight-line method over the shorter of the life of the improvement or the expected term of the lease. Maintenance and repairs are expensed as incurred. Significant expenditures that increase economic useful lives are capitalized.

Impairment of Long-Lived Assets

Long-lived assets and certain identifiable intangibles are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceed the fair value of the assets. Assets to be disposed of are reported at the lower of the carrying amount or fair value less costs to sell.

Revenue Recognition

Revenue is recognized 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. Revenue is recognized 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 are deferred until the shipment has been delivered.

Cost of Goods Sold

Cost of goods sold includes raw material, labor and manufacturing overhead.

Research and Development Costs

Research and development costs are expensed when incurred and were $1.7 million, $821,000 and $718,000 for the years ended June 30, 2003, 2002 and 2001, respectively.

Advertising Costs

Advertising costs are expensed as incurred. During the years ended June 30, 2003, 2002 and 2001, the Company incurred and expensed advertising costs in the amounts of $1.5 million, $679,000 and $501,000, respectively. These costs are included in selling, general and administrative expenses in the accompanying statements of operations.

Income Taxes

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

Stock Option Plans

The Company has in effect stock option plans under which non-qualified and incentive stock options have been granted to employees and non-employee directors. The Company also has in effect an employee stock purchase plan. The Company accounts 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. The Company has 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 share is required and has been determined as if the Company had accounted for its 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 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 the expected life and stock price volatility. Because the Company's 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 its options.

The per share fair value of options granted in connection with stock option plans and rights granted in connection with employee stock purchase plans reported below has been estimated at the date of grant with the following weighted average assumptions:

	Employee Stock Options			Employee Stock Purchase Plans		
	Fiscal Years Ended June 30,			Fiscal Years Ended June 30,		
	2003	2002	2001	2003	2002	2001
Expected life (years)	4.0–6.0	4.0–9.0	4.0	0.5	0.5	0.5
Risk-free interest rate	4.0%	4.4%	6.0%	1.5%	2.7%	5.8%
Volatility	71%	53%	52%	71%	53%	52%
Dividend yield	0%	0%	0%	0%	0%	0%
Weighted average fair value	$ 1.75	$ 1.45	$2.17	$ 1.10	$ 0.62	$ 0.53

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

	2003	2002	2001
	(Dollars in thousands, except per share data)		
Net income (loss)—as reported	$ 1,105	$ 3,879	$ (4,889)
Plus: Reported stock-based compensation	31	2	—
Less: Fair value stock-based compensation	(299)	(153)	(117)
Net income (loss)—pro forma	$ 837	$ 3,728	$ (5,006)
Reported basic net income (loss) per share	$ 0.19	$ 0.67	$ (0.85)
Pro forma basic net income (loss) per share	$ 0.14	$ 0.64	$ (0.87)
Reported diluted net income (loss) per share	$ 0.18	$ 0.67	$ (0.85)
Pro forma diluted net income (loss) per share	$ 0.14	$ 0.64	$ (0.87)

Fair Value of Financial Instruments

The carrying amounts of certain of the Company's financial instruments, including cash and cash equivalents, accounts receivable, notes receivable, accounts payable, line of credit and note payable approximates fair value due to the relatively short maturity of such instruments. The carrying amounts for long-term debt approximate fair value as the interest rates and terms are comparable to rates and terms that could be obtained currently for similar instruments.

Use of Estimates

Management of the Company has made a number of estimates and assumptions relating to the reporting of assets and liabilities, revenue and expenses, and the disclosure of contingent assets and liabilities to prepare these consolidated financial statements in conformity with accounting principles generally accepted in the United States. Actual results could differ from those estimates.

Net Income (Loss) per Share

The Company computes net income (loss) per share in accordance with SFAS 128, "Earnings Per Share." This statement requires the presentation of basic income (loss) per share, using the weighted average number of shares outstanding during the period, and diluted income per 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 the Company's diluted income per share computation. Basic and diluted income (loss) per share are calculated as follows:

	For the Years Ended June 30,		
	2003	2002	2001
	(Dollars in thousands, except share and per share data)		
Numerator			
Net income (loss)	$ 1,105	$ 3,879	$ (4,889)
Denominator			
Basic weighted average common shares outstanding	5,809,140	5,787,712	5,769,585
Dilutive effect of stock options	212,015	10,741	—
Diluted weighted average common shares outstanding	6,021,155	5,798,453	5,769,585
Basic net income (loss) per share	$ 0.19	$ 0.67	$ (0.85)
Diluted net income (loss) per share	$ 0.18	$ 0.67	$ (0.85)

For the years ended June 30, 2003, 2002 and 2001, shares related to stock options of 73,750, 137,000 and 524,400, respectively, were excluded from the calculation of diluted loss per share, as the effect of their inclusion would be anti-dilutive.

Concentrations of Credit Risk

Financial instruments that subject the Company to concentrations of credit risk consist primarily of cash and cash equivalents and accounts receivable. The Company places its cash and cash equivalents with highly rated financial institutions. Credit risk with respect to receivables is concentrated with the Company's largest customers. These customers' receivable balances collectively represent 74% of gross accounts receivable at June 30, 2003 and 71% at June 30, 2002. Concentrations of credit risk related to the remaining accounts receivable balances are limited due to the number of customers comprising the Company's remaining customer base.

Reclassifications

Certain prior period amounts have been reclassified to conform with the current period presentation.

B. Inventories

Inventories, net are comprised of the following at June 30:

	2003	2002
	(Dollars in thousands)	
Raw materials	$4,208	$4,631
Work in progress	2,408	1,754
Finished goods	1,229	1,486
	$7,845	$7,871

C. Property and Equipment

The following is a summary of property and equipment at June 30:

	Life Used for Depreciation	2003	2002
		(Dollars in thousands)	
Land	NA	$ 393	$ 393
Building and building improvements	5 - 39 years	3,288	3,279
Machinery and equipment	3 - 15 years	15,623	15,517
Office equipment and furniture	5 - 7 years	3,995	4,054
Vehicles	3 years	207	197
Leasehold improvements	1 - 10 years	4,397	4,230
Total property and equipment		27,903	27,670
Less accumulated depreciation and amortization		(17,083)	(15,231)
Property and equipment, net		$ 10,820	$ 12,439

D. Debt

Effective July 1, 2002, the Company and its lender amended the existing working capital line of credit agreement. The terms of the amended agreement provided for maximum borrowings of $2.5 million at prime plus 0.5%. The amended agreement required the Company to maintain a minimum cash balance of $1.5 million with the secured creditor. The minimum cash balance requirement is reflected as restricted cash in the accompanying balance sheet as of June 30, 2002.

On October 25, 2002, the Company entered into a new $6.5 million two-year credit facility. The facility is comprised of a $4 million working capital line of credit and a $2.5 million term loan and is secured by all of the Company's assets. The working capital line of credit is subject to eligibility requirements for current accounts receivable and inventory balances. As of June 30, 2003 the Company had $4.0 million available under the line of credit. The interest rate on the line of credit and term loan is prime plus 0.5%. The new facility replaced the $2.5 million line of credit that expired on October 31, 2002, and refinanced the $1.2 million outstanding term note. The new credit facility provided a $1.3 million increase in the Company's cash position, released $1.5 million of cash previously restricted as collateral for the prior line of credit and provided an additional $1.5 million of borrowing capacity. As of June 30, 2003 the outstanding amount on the term loan was $2.2 million.

On May 2, 1996, the Company entered into a term loan agreement for $1.1 million, secured by a building, at an annual interest rate of 8.25%. The loan is due in June 2011 and provides for principal and interest payable in monthly installments of $10,800. As of June 30, 2003 the outstanding amount was $748,000.

On November 9, 1999, the Company entered into a term loan agreement for $2.5 million, secured by equipment, at an annual interest rate of 9.2%. The loan had a five-year term that provided for principal and interest payable in monthly installments of $52,000. The loan was paid in full on October 31, 2002 as part of the new credit facility.

The composite interest rate on all outstanding debt at June 30, 2003 and 2002 was 7.31 % and 8.84%, respectively.

Aggregate amounts of long-term debt maturities as of June 30, 2003 were as follows (dollars in thousands):

2004	$ 570
2005	1,784
2006	83
2007	90
2008	97
Thereafter	332
	$2,956

E. Income Taxes

The provision (benefit) for income taxes for the years ended June 30 consisted of the following:

	2003	2002	2001
	(Dollars in thousands)		
Current:			
Federal	$ —	$ (701)	$ —
State	—	—	—
Foreign	47	59	—
	47	(642)	—
Deferred:			
Federal	(372)	2,357	1,992
State	(163)	20	378
Foreign	—	—	—
Change in valuation allowance	535	(2,377)	—
	—	—	2,370
Provision (benefit) for income taxes	$ 47	$ (642)	$2,370

Net deferred tax assets and deferred tax liabilities as of June 30 were as follows:

	2003	2002
	(Dollars in thousands)	
Deferred tax assets:		
Allowance for doubtful accounts	$ 8	$ 29
Accrued vacation expense	131	88
Tax credit carryforward	524	439
Allowance for inventories	253	517
Other, net	45	117
Net operating loss carryforward	1,482	1,439
Total gross deferred tax assets	$ 2,443	$ 2,629
Deferred tax liabilities:		
Accumulated depreciation and amortization	(812)	(1,532)
Deferred tax liabilities	(812)	(1,532)
Deferred tax asset	1,631	1,097
Valuation allowance	(1,631)	(1,097)
Net deferred tax assets	$ —	$ —

At June 30, 2003, the Company had federal and state tax net operating loss carry forwards of approximately $3,500,000 and $5,100,000, respectively. The federal and state tax loss carryforwards will begin to expire in 2020 and 2007, respectively, unless previously utilized.

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 upon the historical operating losses and the uncertainty regarding sufficient near term taxable income, management believes that this evidence creates sufficient uncertainty regarding the realizability of the net deferred tax assets. Therefore, a full valuation allowance of $1.6 million and $1.1 million was established in the years ended June 30, 2003 and 2002, respectively.

NAIE obtained from the Swiss tax authorities a five year federal and local income tax holiday ending in fiscal 2005. NAIE had net income of $768,000 for the year ended June 30, 2003.

A reconciliation of income taxes computed by applying the statutory federal income tax rate of 34% to earnings before income taxes for the year ended June 30 is as follows:

	2003	2002	2001
		(Dollars in thousands)	
Income taxes (benefit) computed at statutory federal income tax rate	$ 392	$1,101	$ (857)
State income taxes (benefit), net of federal income tax benefit (expense)	67	128	(101)
Net operating loss carryback refund	—	(701)	—
Increase (decrease) in valuation allowance	534	(863)	3,355
Expenses not deductible for tax purposes	12	3	70
Foreign tax holiday	(228)	(356)	(442)
Increase in beginning balance of net deferred tax assets	(668)		
Other	(62)	46	345
Income taxes (benefit) as reported	$ 47	$ (642)	$2,370
Effective tax rate	4.1%	(19.8)%	94.1%

F. Employee Benefit Plans

The Company has a profit sharing plan pursuant to Section 401(k) of the Internal Revenue Code (the "Code"), whereby participants may contribute a percentage of compensation not in excess of the maximum allowed under the Code. All employees with six months of continuous employment are eligible to participate in the plan. The Company may make contributions to the plan at the discretion of its Board of Directors. Effective July 1, 2001, the plan was amended to require the Company to match one half of the first 6% of a participant's compensation contributed to the plan. The total contributions under the plan charged to operations totaled $79,000, $73,000, and $-0- for the fiscal years ended June 30, 2003, 2002 and 2001, respectively.

The Company has a "Cafeteria Plan" pursuant to Section 125 of the Code, whereby health care benefits are provided for active employees through insurance companies. Substantially all active full-time employees are eligible for these benefits. The Company recognizes the cost of providing these benefits by expensing the annual premiums, which are based on benefits paid during the year. The premiums expensed for these benefits totaled $492,000, $342,000 and $271,000 for the fiscal years ended June 30, 2003, 2002 and 2001, respectively.

In December 1999, the Company adopted an employee stock purchase plan that provides for the issuance of up to 150,000 shares of the Company's common stock. The plan is intended to qualify under Section 423 of the Internal Revenue Code and is for the benefit of qualifying employees, as designated by the Human Resource Committee of the Board of Directors. Under the terms of the plan, participating employees are eligible to have a maximum of 15% of their compensation withheld through payroll deductions to purchase shares of common stock at the lower of 85% of (i) the fair market value at the beginning of each offering period or (ii) the fair market value on predetermined dates. As of June 30, 2003, 72,881 shares of common stock were issued pursuant to this plan.

The Company sponsors 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,

the Company adopted an amendment to freeze benefit accruals to the participants. At June 30, 2003, the amortized portion of the unfunded accrued liability for prior service cost, using a 30-year funding period, was approximately $121,000. This amount was accrued. The Company's policy is to fund the net pension cost accrued. However, the Company 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.

Disclosure of Funded Status

The following table sets forth the defined benefit pension plan's funded status and amount recognized in the Company's consolidated balance sheets at June 30:

	2003	2002
	(Dollars in thousands)	
Change in Benefit Obligation		
Benefit obligation at beginning of year	$ 1,033	$ 978
Interest cost	67	63
Actuarial loss	3	8
Benefits paid	(1)	(16)
Benefit obligation at end of year	$ 1,102	$ 1,033
Change in Plan Assets		
Fair value of plan assets at beginning of year	$ 857	$ 768
Actual return on plan assets	1	84
Employer contributions	80	21
Benefits paid	(1)	(16)
Fair value of plan assets at end of year	$ 937	$ 857
Reconciliation of Funded Status		
Benefit obligation in excess of fair value of plan assets	$ (165)	$ (176)
Unrecognized net actuarial loss (gain)	44	(23)
Accrued benefit cost	$ (121)	$ (199)
Additional Minimum Liability Disclosures		
Accrued benefit liability	$ (165)	$ (176)

Net Periodic Benefit Cost

The defined benefit pension plan's net periodic benefit cost for the fiscal years ending June 30 includes the following components:

	2003	2002	2001
	(Dollars in thousands)		
Components of Net Periodic Benefit Cost			
Interest cost	$ 67	$ 63	$ 68
Expected return on plan assets	(64)	(68)	(58)
Recognized net actuarial gain	—	—	(6)
Effect of special events (curtailment)	—	—	4
Net periodic benefit cost (income)	$ 3	$ (5)	$ 8

Assumption and Method Disclosures

	2003	2002	2001
Discount rate	6.50%	6.50%	6.50%
Expected long term rate of return	7.50%	7.50%	7.50%
Amortization method	Straight-line	Straight-line	Straight-line

G. Stockholders' Equity

Treasury Stock

In February 1999, the Board of Directors approved a repurchase program of up to 500,000 shares of the Company's common stock. As of June 30, 2003, 272,400 shares were repurchased under this program.

Stock Option Plans

Effective June 5, 1992, the Company adopted the 1992 Incentive Stock Option Plan for which 500,000 shares of common stock have been reserved for issuance to officers, directors, and key employees of the Company. The plan provides that no option may be granted at an exercise price less than the fair market value of the common stock of the Company on the date of grant. The plan terminated on May 14, 2002.

Effective December 9, 1994, the Board of Directors approved the 1994 Nonqualified Stock Option Plan for which 500,000 shares of common stock were reserved for issuance to officers, employees, and consultants of the Company. The plan was terminated April 24, 2003.

On October 30, 1998, and as amended March 11, 1999, the Board of Directors adopted the 1998 Outside Director Compensation Plan that provides non-employee directors an annual grant of nonqualified stock options. The Outside Director Compensation Plan was subsequently included with the 1999 Plan and ceased to exist as a separate stock option plan. Pursuant to the former Outside Director Compensation Plan and the 1999 Plan, each non-employee director receives an annual grant of a nonqualified stock option to purchase 10,000 shares on the first day of March of each fiscal year. Each such option has an exercise price equal to the fair market value on the date of grant, a five-year term, if issued under the Outside Director Compensation Plan, a ten-year term, if issued under the 1999 Plan and vests over three years providing the non-employee director remains willing to serve as a non-employee director of the Company.

At the Company's Annual Meeting held on December 6, 1999, the Stockholders approved the adoption of the 1999 Omnibus Equity Incentive Plan (the "1999 Plan"). A total of 500,000 shares of common stock for issuance to officers, directors, employees, and consultants of the Company were reserved under the 1999 Plan. Under the terms of the 1999 Plan the aggregate number of shares of common stock that may be awarded is automatically increased on January 1st of each year, commencing January 1, 2000, by a number equal to the lesser of 2.5% of the total number of common shares then outstanding or 100,000 shares. The Plan increased by 100,000 common shares on January 1, 2000, 2001, 2002, and 2003, respectively. Grants under this Plan can be either Incentive Stock Options or Nonqualified Stock Options.

Stock options granted under the 1999 Plan have either a five or a ten-year term and become fully vested within three years of their grant date.

Stock option activity for the three years ending June 30, 2003 is as follows:

	1992 Incentive Plan	1998 Outside Director Plan	1999 Plan	Total All Plans	Weighted Average Exercise Price
Outstanding at June 30, 2000	173,000	20,000	120,000	313,000	5.18
Forfeited	(8,000)	—	(13,600)	(21,600)	5.17
Granted	—	—	233,000	233,000	2.17
Outstanding at June 30, 2001	165,000	20,000	339,400	524,400	3.84
Exercised	—	—	(6,104)	(6,104)	2.02
Forfeited	(80,000)	—	(186,296)	(266,296)	2.51
Granted	—	—	274,800	274,800	2.01
Outstanding at June 30, 2002	85,000	20,000	421,800	526,800	3.58
Exercised	—	—	(6,199)	(6,199)	2.17
Forfeited	(85,000)	—	(135,401)	(220,401)	5.57
Granted	—	—	285,000	285,000	3.08
Outstanding at June 30, 2003	—	20,000	565,200	585,200	2.60
Exercisable at June 30, 2003	—	20,000	196,773	216,773	2.45
Weighted-average remaining contractual life in years	—	0.7	5.28	5.13	
Available for grant at June 30, 2003	—	—	334,800	334,800	

During fiscal 2002, the Company granted options to purchase 90,000 shares to employees at an exercise price below the fair market value of the stock on the grant date. The Company recorded approximately $31,000 and $2,000 of compensation expense in fiscal 2003 and 2002 related to these option grants, respectively. As of June 30, 2003, the Company expects to record approximately $92,000 of compensation expense over the vesting period of the related stock options through fiscal 2005.

As of June 30, 2003, the range of stock option exercise prices was $1.80 to $5.75.

H. Commitments

The Company leases part of its main facilities under leases that are non-cancelable operating leases.

The Company entered into two lease agreements during fiscal year 1999 for adjacent buildings located in Vista, California. The facilities are leased from an unaffiliated third party and consist of a total of approximately 74,000 square feet. The lease for the first building commenced in August 1998 under a five-year lease agreement and consists of approximately 54,000 square feet to be utilized as a warehousing and blending facility. The lease for the second building commenced in March 1999 under a 3.5-year lease agreement for the rental of approximately 20,000 square feet to be utilized as a packaging facility. In June 2003 the Company exercised its option to extend the terms of the leases for both facilities for an additional five years ending June 2008.

NAIE leases facility space in Manno, a town adjacent to Lugano, Switzerland. The leased space totals approximately 22,000 square feet. The facilities are used primarily for the use of manufacturing, packaging and distribution of nutritional supplement products for the European marketplace. The Company entered into a five-year lease agreement in March 1999 for the initial space of 18,000 square feet, with the facility becoming fully operational for manufacturing operations in September 1999. The lease for an additional 4,000 square feet (the term of which is the same as the initial lease agreement) was completed in March 2001. In September 2003 the Company renewed the lease agreements for an additional seven years ending December 2010.

Minimum rental commitments (exclusive of property tax, insurance and maintenance) under all non-cancelable operating leases, including the lease agreements referred to above, (with initial or remaining lease terms in excess of one year) are set forth below (dollars in thousands):

2004	$1,024
2005	980
2006	972
2007	943
2008	952
Thereafter	966
	$5,837

Rental expense totaled $947,000, $818,000, and $780,000 for the years ended June 30, 2003, 2002 and 2001, respectively.

I. Foreign Currency Instruments

On June 24, 2003 the Company purchased option contracts designated as cash flow hedges to protect against the foreign currency exchange risk inherent in the Company's forecasted transactions denominated in Euros. The option contracts had a notional amount of $1.5 million and a purchase price of $16,100. The options allow the Company to sell $227,273 Euros a month for a period of six months at an exchange rate of 1.10 to 1 United Sates dollar. The premium associated with each option contract is amortized on a straight-line basis over the term of the option, and mark-to-market amounts and realized gains or losses are recognized on the settlement date in cost of good sold. The risk of loss associated with purchased options is limited to premium amounts paid for the option contracts. At June 30, 2003, the value of the purchased options of $16,100 was included in other current assets in the consolidated financial statements.

J. Related Party Transactions

Prior to fiscal 2001, the Company had sales to a customer in which directors, officers and employees previously had direct and indirect equity ownership. During fiscal 2000, the Company wrote off an account receivable and a note receivable from this customer of $34,000 and $50,000, respectively. During fiscal 2001, $65,000 was received from this customer and credited to other income as recovery of amounts previously written off.

During fiscal 1999, the Company made 6% interest-bearing loans of $20,000, secured by Company common stock, to the Vice President of Science and Technology, the former Vice President of Marketing, and a former Vice President of Operations. During fiscal 2000 an additional loan of $19,000, with interest at 6% and secured by a second deed of trust on his principal residence, was made to a former Vice President of Marketing. During fiscal

2000 the loan amount, including accrued interest, to the Vice President of Operations, was repaid upon termination of his employment. As of June 30, 2001, the notes receivable from the former Vice President of Marketing of $39,000 plus accrued interest of $4,000 were fully reserved as uncollectible. During fiscal 2001, certain notes and accrued interest receivable, totaling $61,216 from the Company's Vice President of Science and Technology, which had been fully reserved in fiscal 1999, as uncollectible, were forgiven. During fiscal 2002, the note and accrued interest receivables from the former Vice President of Marketing, which had been fully reserved in fiscal 2001, were repaid as part of a separation agreement. During fiscal 2002, the Company made a non-interest loan for $14,000 to the Vice President of Science and Technology. The loan was paid in full as of July 31, 2003. The remaining note and interest due from the Vice President of Science and Technology of $25,000 will be paid in biweekly payments of $550 commencing in August 2003 and concluding May 2005.

During fiscal 2001 and 2000, the Company paid the brother and sister-in-law of the Chief Executive Officer approximately $25,000 and $58,000, respectively, in settlement of an existing consulting arrangement. As of June 30, 2001, the agreement expired.

During each of the fiscal years 2001 and 2000, the Company made non-interest loans to a former member of the Board of Directors in the amount of $50,000. Amounts owed on these loans, which are secured by proceeds from life insurance policies, were $350,000 and $300,000 at June 30, 2001 and 2000, respectively. During fiscal 2002, the loans were repaid from the insurance proceeds.

The balances of these notes receivables from related parties and employees as of June 30, including accrued interest are shown below (dollars in thousands).

	2003	2002
Chief Executive Officer	$—	$ 76
Vice President of Science and Technology	25	42
	$ 25	$118

The Company accrued interest from related parties notes receivable of $2,000 and $5,600 for the years ended June 30, 2003 and 2002, respectively.

K. Joint Venture and Intangible Assets Acquired

In March 1999, the Company entered into a letter of intent to form a joint venture with FitnessAge Incorporated, a privately held development stage company based in San Diego, CA ("FitnessAge"). In connection therewith, on March 30, 1999 the Company purchased 300,000 shares of FitnessAge common stock for $150,000. On or about the same date, the Family Limited Partnership of the Chief Executive Officer and the former Chairperson of the Board of Directors and Secretary purchased 200,000 shares of common stock of FitnessAge for $100,000.

During fiscal 2000, the Company and FitnessAge formalized the joint venture by forming a new company named Custom Nutrition, LLC, ("Custom Nutrition") in which the Company at formation had a 40% ownership from an initial capital contribution of $100,000.

Additionally, in November and December 1999, the Company loaned FitnessAge a total of $750,000 (the "Loan"). The principal together with all accrued and unpaid interest on the Loan was due beginning February 1, 2001.

FitnessAge did not meet its loan payment obligation on February 1, 2001. As a result, the Company notified FitnessAge on February 2, 2001 of its decision to accelerate the maturity of the Loan and its intention to retain the Loan collateral in satisfaction of FitnessAge's obligations. As of February 23, 2001, the Company perfected its interest in the collateralized assets, as defined per the escrow agreement and the Uniform Commercial Code, and took full ownership and possession of Custom Nutrition LLC and the perpetual, irrevocable, nonexclusive, royalty-free worldwide license to FitnessAge's proprietary physical assessment software technology. The Company retained its equity interest in FitnessAge by its ownership of common stock.

As of June 30, 2001, management and the Board of Directors determined based on their on-going evaluation of the various alternatives to commercialize the physical assessment software, that the Company would not dedicate the resources necessary to recover the carrying value of the asset. Management determined that the fair value of the asset was zero and therefore recorded a charge of $1,216,000 to write off the carrying value of the intangible asset. Additionally, in fiscal 2001 the Company incurred expenses of approximately $328,000 in its efforts toward commercializing the assets.

As of June 30, 2003 and 2002, the net book value of the intangible asset was zero.

L. Economic Dependency

The Company had substantial sales to three separate customers during one or more of the periods shown in the following table. The loss of any of these customers could have a material adverse impact on the Company's revenues and earnings. Sales by customer, representing 10% or more of the respective year's total sales, are shown below (dollars in thousands):

	2003		2002		2001	
	Sales by Customer	%(a)	Sales by Customer	%(a)	Sales by Customer	%(a)
Customer 1	$24,119	43%	$23,975	48%	$21,889	52%
Customer 2	15,337	27%	10,432	21%	4,242	10%
Customer 3	(b)	—	(b)	—	4,219	10%
	$39,456	70%	$34,407	69%	$30,350	72%

(a) Percent of total sales (b) Sales for the year were less than 10% of total sales.

Accounts receivable from these customers totaled $4,192,000 and $2,528,000 at June 30, 2003 and 2002, respectively.

The Company purchases certain products it does not manufacture from a limited number of raw material suppliers. Carrington Laboratories Incorporated comprised 35% of total raw material purchases for the year ended June 30, 2003. Accounts payable to Carrington Laboratories Incorporated was $347,000 at June 30, 2003. No other supplier comprised 10% or more of the Company's raw material purchases for the year ended June 30, 2003.

M. Contingencies

The Company was a plaintiff in an anti-trust lawsuit against several manufacturers of vitamins and other raw materials purchased by the Company. Other similarly situated companies filed a number of similar lawsuits against some or all of the same manufacturers. The Company's 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, $3,410,000 and $298,000 are included in proceeds from vitamin antitrust litigation in the accompanying statements of operations for fiscal 2003, 2002 and 2001, respectively.

From time to time, the Company becomes involved in various investigations, claims and legal proceedings that arise in the ordinary course of 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, the Company believes the resolution of these matters, individually or in the aggregate, will not result in a material adverse effect on the business, financial condition or results of operations.

N. Segment Information

Prior to July 1, 1999 the Company operated solely within the United States. During the year ended June 30, 2000 the Company opened its new wholly owned manufacturing subsidiary in Switzerland. The Company's segment information by geographic area as of and for the years ended June 30, 2003, 2002 and 2001, respectively, is as follows (dollars in thousands):

2003	Sales	Long Lived Assets	Total Assets	Capital Expenditures
United States	$48,790	$ 9,996	$26,724	$ 755
Europe	7,172	1,362	4,000	222
	$55,962	$ 11,358	$30,724	$ 977

2002	Sales	Long Lived Assets	Total Assets	Capital Expenditures
United States	$41,807	$ 11,450	$24,290	$ 720
Europe	8,230	1,527	3,220	356
	$50,037	$ 12,977	$27,510	$ 1,076

2001	Sales	Long Lived Assets	Total Assets	Capital Expenditures
United States	$34,639	$ 12,678	$22,674	$ 605
Europe	7,519	1,370	2,394	355
	$42,158	$ 14,048	$25,068	$ 960

SCHEDULE II

Natural Alternatives International, Inc.
Valuation And Qualifying Accounts
For The Years Ended June 30, 2003, 2002 and 2001

	Allowance for Doubtful Accounts *(Dollars in Thousands)*			
	Balance at Beginning of Period	Provision	(Deductions)	Balance at End of Period
2003	$ 105	$ (46)	$ (32)	$ 27
2002	$ 470	$ (58)	$ (307)	$ 105
2001	$ 330	$ 286	$ (146)	$ 470

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

ITEM 9A. 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 Chief Executive Officer and Chief Financial Officer evaluated the effectiveness of our disclosure controls and procedures as of June 30, 2003. 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 fourth quarter ended June 30, 2003 that have materially affected, or that are reasonably likely to materially affect, our internal controls.

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS

The information for this item is incorporated by reference to the sections “Information About Nominee and Directors,” “Board Committees and Meetings,” “Executive Officers” and “Section 16(a) Beneficial Ownership Reporting Compliance” in our definitive proxy statement for our 2004 Annual Meeting of Stockholders, to be filed on or before October 28, 2003.

ITEM 11. EXECUTIVE COMPENSATION

The information for this item is incorporated by reference to the sections “Summary of Cash and Other Compensation,” “Option Grants,” “Option Exercises and Holdings,” “Defined Benefit Pension Plans,” and “Employment Agreements” in our definitive proxy statement for our 2004 Annual Meeting of Stockholders, to be filed on or before October 28, 2003.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

The information for this item relating to securities authorized for issuance under equity compensation plans is included under Item 5 of this report and is incorporated by reference. The remaining information for this item is incorporated by reference to the section "Security Ownership of Certain Beneficial Owners and Management" in our definitive proxy statement for our 2004 Annual Meeting of Stockholders, to be filed on or before October 28, 2003.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

The information for this item is incorporated by reference to the section "Certain Relationships and Related Transactions" in our definitive proxy statement for our 2004 Annual Meeting of Stockholders, to be filed on or before October 28, 2003.

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

The information for this item is incorporated by reference to the sections "Audit Fees," "Audit-Related Fees," "Tax Fees," "All Other Fees" and "Audit Committee's Pre-Approval Polices and Procedures" in our definitive proxy statement for our 2004 Annual Meeting of Stockholders, to be filed on or before October 28, 2003.

PART IV

ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES AND REPORTS ON FORM 8-K

(a) The following documents are filed as part of this report:

(1) Financial Statements. The financial statements listed below are included under Item 8 of this report:

- Consolidated Balance Sheets as of June 30, 2003 and 2002;
- Consolidated Statements of Operations and Comprehensive Income (Loss) for the years ended June 30, 2003, 2002 and 2001;
- Consolidated Statements of Stockholders' Equity for the years ended June 30, 2003, 2002 and 2001;
- Consolidated Statements of Cash Flows for the years ended June 30, 2003, 2002 and 2001; and
- Notes to Consolidated Financial Statements.

(2) Financial Statement Schedule. The following financial statement schedule is included under Item 8 of this report:

- Schedule II - Valuation and Qualifying Accounts for the years ended June 30, 2003, 2002 and 2001

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

EXHIBIT INDEX

Exhibit Number	Description	
3(i)	Restated Certificate of Incorporation of Natural Alternatives International, Inc. filed with the Delaware Secretary of State on July 31, 1996.	*
3(ii)	By-laws of Natural Alternatives International, Inc. dated as of December 21, 1990, incorporated herein by reference to 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, incorporated herein by reference to 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, incorporated herein by reference to Exhibit B of NAI's definitive Proxy Statement filed with the commission on October 21, 1999.	
10.3	Executive Employment Agreement dated as of July 1, 2002, by and between NAI and Mark Zimmerman	*
10.4	Executive Employment Agreement dated as of July 1, 2002, by and between NAI and Randell Weaver	*
10.5	Executive Employment Agreement dated as of July 1, 2002, by and between NAI and Mark A. LeDoux	*
10.6	Executive Employment Agreement dated as of July 1, 2002, by and between NAI and John Wise	*
10.7	Executive Employment Agreement dated as of July 1, 2002, by and between NAI and John Reaves	*
10.8	Executive Employment Agreement dated as of July 1, 2002, by and between NAI and Timothy E. Belanger	*
10.9	Loan and Security Agreement dated as of October 25, 2002, by and between NAI and UPS Capital Corporation	*
23.1	Consent of Ernst & Young LLP, Independent Auditors	*
31.1	Rule 13a-14(a)/15d-14(a) Certification of Chief Executive Officer	*
31.2	Rule 13a-14(a)/15d-14(a) Certification of Chief Financial Officer	*
32	Section 1350 Certification	*

* Filed herewith.

(b) Reports on Form 8-K

On May 6, 2003, we filed a Current Report on Form 8-K that included a press release issued on May 6, 2003, announcing our financial results for the third quarter ended March 31, 2003. This report was the only report on Form 8-K that we filed during the fourth quarter ended June 30, 2003.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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: September 17, 2003

NATURAL ALTERNATIVES INTERNATIONAL, INC.

By: /s/ Mark A. LeDoux

Mark A. LeDoux, Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of Natural Alternatives International, Inc., in the capacities and on the dates indicated.

Signature	Title	Date
/s/ Mark A. LeDoux (Mark A. LeDoux)	Chief Executive Officer and Chairman of the Board of Directors (principal executive officer)	September 17, 2003
/s/ John R. Reaves (John R. Reaves	Chief Financial Officer (principal financial officer)	September 17, 2003
/s/ Joe E. Davis (Joe E. Davis)	Director	September 17, 2003
/s/ Scott J. Schmidt (Scott J. Schmidt)	Director	September 17, 2003
/s/ Lee G. Weldon (Lee G. Weldon)	Director	September 17, 2003

Exhibit 3(i)

RESTATED CERTIFICATE OF INCORPORATION
OF
NATURAL ALTERNATIVES INTERNATIONAL, INC.

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

1. The name of the corporation (which is hereinafter referred to as the "Corporation") is Natural Alternatives International, Inc.

2. The original Certificate of Incorporation was filed with the Secretary of State of the State of Delaware on October 26, 1989 ("Original Certificate") and a Certificate of Amendment was filed with the Secretary of State of the State of Delaware on April 5, 1991.

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

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

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

SECOND: For the purpose of this Certificate of Incorporation:

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

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

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

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

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

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

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

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

FIFTH: The total authorized number of shares of the Corporation shall be 8,500,000 shares, consisting of 8,000,000 shares designated as Common Stock, $.01 par value, and 500,000 shares designated as Preferred Stock, $.01 par value.

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

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

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

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

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

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

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

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

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

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

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

TWELFTH: The Board shall be divided as nearly equal in number as possible into three classes, designated Class I, Class II and Class III. The term of office of directors of one class shall expire at each regularly scheduled annual meeting of stockholders held for the purpose of electing directors of that class, and in all cases as to each director until his or her successor shall be elected and shall qualify or until his or her

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

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

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

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

stockholder known by such stockholder to be supporting such proposal; (c) the class and number of shares of the Corporation's stock which are beneficially owned by the stockholder on the date of such stockholder's notice and by any other stockholder known by such stockholder to be supporting such proposal, on the date of such stockholder notice; and (d) any financial interest in any aspect of the proposal of the stockholder making the proposal or any other stockholder known by such stockholder to be supporting the proposal.

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

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

SIXTEENTH: Only persons who are nominated in accordance with the following procedures shall be eligible for election as directors. Nominations of persons for election to the Board of Directors of the Corporation may be made at a meeting of stockholders called for the purpose of electing directors, by or at the direction of the Board of Directors, by any nominating committee or person appointed by the Board of Directors, or by any stockholder of the Corporation entitled to vote for the election of directors at the meeting so long as the stockholder complies with the notice procedures set forth in this Article Sixteenth. Such nominations, other than those made by or at the direction of the Board of Directors, or by any nominating committee or person appointed by the Board of Directors, shall be made pursuant to timely notice in writing to the Secretary of the Corporation. To be timely, a stockholder's notice must be delivered to, or mailed and received at, the principal executive office of the Corporation not less than 60 days prior to the scheduled meeting, regardless of any postponements, deferrals or adjournments of that meeting to a later date; provided, however, that if less than 70 days' notice or prior public disclosure is given or made, notice by the stockholder, to be timely, must be delivered or received not later than the close of business on the tenth day following the earlier of the day on which such notice of the date of the scheduled meeting was mailed or the day on which such public disclosure was made. A stockholder's notice to the Secretary shall set forth (a) as to each person whom the stockholder proposes to nominate for election or reelection as a director (i) the name, age, business address and residence address of the person, (ii) the principal occupation or employment of the person, (iii) the class and number of shares of capital stock of the Corporation which are beneficially owned by the person and (iv) any other information relating to the person that is required to be disclosed in solicitations for proxies for election of directors pursuant to Rule 14a under the Securities Exchange Act of 1934, as amended; and (b) as to the stockholder giving notice (i) the name and address, as they appear on the Corporation's books, of the stockholder and (ii) the class and number of shares of the Corporation's stock which are beneficially owned by the stockholder on the date of such stockholder notice. The Corporation may require any proposed nominee to furnish such other information as may be required by the Corporation in its reasonable discretion, in order to determine the eligibility of such proposed nominee to serve as a director of the Corporation.

SEVENTEENTH: 1. In addition to any affirmative vote required or permitted by law or this Restated Certificate of Incorporation or the Bylaws of the Corporation, and except as otherwise expressly provided in Paragraphs 1(a) and 1(b) of this Article Seventeenth, the Corporation shall not effect, directly or indirectly, any Stock Repurchase from an Interested Stockholder unless said Stock Repurchase is authorized by the affirmative vote of the Voting Stock, voting together as a single class, which shares are Beneficially Owned by Persons other than such Interested Stockholder.

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

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

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

2. For purposes of this Article Seventeenth:

(a) The following terms shall be defined by reference to the Securities Exchange Act of 1934 and the Rules in effect thereunder on the date of this Restated Certificate: "Subsidiary" under Rule 12b-2;

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

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

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

the fair market value on the Determination Date of a share of such stock as determined in good faith by a majority of the Board.

(e) "Determination Date" shall mean the date upon which the determination of Market Price is made by the Board.

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

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

4. The Board shall have the power and duty to determine for the purposes of this Article Seventeenth on the basis of information known to its members after reasonable inquiry, (1) whether a Person is, and if so, when such Person became, an Interested Stockholder, (2) the number of shares of stock of the Corporation or other securities of which any Person is a Beneficial Owner and the number of votes entitled to be cast by such person, (3) whether a Person is an Affiliate or Associate or another, and (4) whether the price proposed to be paid for any shares of stock of the Corporation is in excess of the Market Price of such shares. Any such determination made in good faith shall be binding on and conclusive for all parties.

For the purposes of determining whether a Person is an Interested Stockholder pursuant to Paragraph 2(b) of this Article, the shares of the stock of the Corporation deemed to be outstanding shall include shares deemed Beneficially Owned by such Person through application of Paragraph 2(a) of this Article, but shall not include any other shares of stock of the Corporation that may be issuable pursuant to any agreement, arrangement or understanding, or upon exercise of conversion rights, warrants or options, or otherwise.

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

For the purpose of this Article Eighteenth:

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

(b) The term "Fair Market Value" shall mean (i) in the case of shares, if such shares are listed on an exchange, the highest closing bid quotation with respect to the shares during the 30-day calendar period preceding the date in question, the highest closing sale price quoted during the 30-day calendar period immediately preceding the consummation of the Business Combination on the National Association of Securities Dealers, Inc. automated quotations system or any similar system then in general use, or, if no such quotations are available, the fair market value of a share on the date in question as determined by 75% of the Board; and (ii) in the case of property other than cash or shares, the fair market value of such property on the date in question as determined by 75% of the Board.

(c) The term "Fair Price" shall mean that the aggregate amount of cash and the Fair Market Value of consideration other than cash to be received per share are at least equal to the highest of the following: (i) if applicable, the highest per share price, including any brokerage commissions, transfer taxes, and soliciting dealers' fees, paid by the Acquiring Person for any shares acquired by it within the two year period immediately preceding the consummation of the Business Combination or the transaction in which it became an Acquiring Person, whichever is higher; or (ii) the Fair Market Value per share.

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

(e) The term "Acquiring Person" shall mean any Person (other than the Corporation, or any subsidiary or any profit-sharing, employee stock ownership or other employee benefit plan of the Corporation or any subsidiary or any trustee of or fiduciary with respect to any such plan when acting in such capacity) who or which: (i) is the Beneficial Owner (as hereinafter defined for purposes of this section only) of 15% or more of the outstanding common stock of the Corporation; (ii) is an Affiliate or Associate of the Corporation and at any time within the two year period immediately prior to the date in question was the Beneficial Owner of 15% or more of the outstanding common stock of the Corporation; or (iii) is at such time an

assignee of or has otherwise succeeded to the beneficial ownership of any shares of outstanding common stock of the Corporation which were at any time within the two year period immediately prior to such time beneficially owned by any Acquiring Person, if such assignment or succession shall have occurred in the course of a transaction or series of transactions not involving a public offering within the meaning of the Securities Act of 1933.

(f) A Person shall be a Beneficial Owner of any common stock: (i) which such Person or any of its Affiliates or Associates beneficially owns, directly or indirectly, (a) the right to acquire whether such right is exercisable immediately or not, pursuant to any agreement, arrangement or understanding or upon the exercise of conversion rights, exchange rights, warrants or options, or otherwise, or (b) the right to vote pursuant to any agreement, arrangement or understanding;

(g) An Acquiring Person shall be deemed to have acquired a share of the common stock of the Corporation at the time when such Acquiring Person became the Beneficial Owner thereof.

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

TWENTIETH: Notwithstanding any other provision of this Restated Certificate of Incorporation, the affirmative vote of the holders of at least seventy percent (70%) of the voting power of all of the then outstanding shares of the stock of the Corporation entitled to vote generally in the election of Directors, voting together as a single class, shall be required to amend in any respect or repeal this Article Twentieth, or Articles Second, Seventh, Eighth, Twelfth, Thirteenth, Fourteenth, Fifteenth, Sixteenth, Seventeenth, Eighteenth, and Nineteenth.

IN WITNESS WHEREOF, this Restated Certificate of Incorporation has been signed this day of July 19, 1996.

Natural Alternatives International, Inc.

By: /s/ Mark Le Doux

Mark A. Le Doux, President

ATTEST:

/s/ Marie Le Doux

Marie A. Le Doux, Secretary

Exhibit 10.3

EXECUTIVE EMPLOYMENT AGREEMENT

Mark Zimmerman ("Employee") hereby accepts the offer of Natural Alternatives International, Inc. ("NAI" or the "Company") for employment as Vice President of Manufacturing beginning July 1, 2002. Collectively, NAI and Employee will be referred to herein as the "Parties."

1. **Employment.** Notwithstanding the rights of the Parties to terminate the relationship described below, the Parties anticipate that Employee will be employed through June 30, 2003. Employee's employment will be at-will and may be terminated by either Employee or NAI at any time for any reason or no reason, with or without cause upon written notice to the other, or without any notice upon the death of Employee. The at-will status of the employment relationship may not be modified except in writing authorized in advance by the Board of Directors of NAI and signed by the Board of Directors of NAI and Employee.

2. **Employee Handbook.** Employee and NAI further understand and agree that nothing in the NAI Employee Handbook is intended to be, and nothing in it should be construed to be, a limitation of NAI's right to terminate, transfer, demote, suspend and administer discipline at any time for any reason. Employee and NAI understand and agree nothing in the Handbook is intended to, and nothing in the Handbook should be construed to, create an implied or express contract of employment contrary to this Agreement.

3. **Position and Responsibilities.** During employment, Employee shall have such responsibilities, duties and authority as NAI through its Board of Directors may from time to time assign to Employee, and that are normal and customary duties of a Vice President of Manufacturing of a publicly held corporation. Employee's initial title shall be Vice President of Manufacturing.

4. **Term.** If Employee continues working for NAI past June 30, 2003, and if NAI still desires Employee's services, then the following terms and conditions will apply:

a. At-will. Employee shall be an at-will employee and NAI or Employee will be entitled to terminate the employment relationship for any reason or for no reason, with or without cause and with or without notice;

b. Compensation. Employee will be compensated at the rate set forth in Section 5 below unless another rate is mutually agreed upon; and

c. Benefits. As to benefits and other terms of employment, Employee shall be subject to the same policies and procedures as other employees of NAI in similar positions.

5. **Compensation.** While Employee is employed by NAI as Vice President of Manufacturing, Employee's rate of compensation will be at a rate of $120,000 per year, payable no less frequently than monthly. The compensation set forth in this Section 5 will be Employee's only compensation except standard employee benefits available to other level one executives of NAI or any other written compensation arrangement approved by the Board of Directors of NAI. Employee will be entitled to participate in any bonus compensation in a manner and at a level consistent with other level one executives of NAI.

6. **Termination.** In the event of termination or resignation, the following terms and conditions will apply:

a. Without Cause, Severance Benefit. In the event Employee is terminated by NAI without cause, Employee shall be entitled to receive a severance benefit, including standard employee benefits available to other level one executives of NAI, in an amount equal to one months' compensation for each completed year of service up to a maximum severance benefit of six (6) months' compensation. One half of any severance benefit owing hereunder shall be paid within 10 days of termination and the balance shall be paid on a bi-weekly basis over the severance period of from one to six months.

b. With Cause, No Severance Benefit. NAI may terminate Employee with cause, which shall be limited to the occurrence of one or more of the following events: (i) the Employee's commission of any fraud against NAI; (ii) Employee's intentional appropriation for his or her personal use or benefit the funds of the Company not authorized by the Board of Directors; (iii) Employee's conviction of any crime involving moral turpitude; (iv) Employee's conviction of a violation of any state or federal law which could result in a material adverse impact upon the business of NAI; (v) the Employee engaging in any other professional employment or consulting or directly or indirectly participating in or assisting any business which is a current or potential supplier, customer or competitor of NAI without prior written approval from the Board of Directors of NAI, (vi) the Employee accepting or encouraging the offering of gifts or gratuities from any customer, vendor, supplier, or other person doing business with NAI, or (vii) when Employee has been disabled and is unable to perform the essential functions of the position for any reason notwithstanding reasonable accommodation and has received from NAI compensation in an amount equivalent to his or her severance benefit payment. No severance benefit shall be due to Employee if Employee is terminated for cause.

c. Resignation or Retirement, No Severance Pay. No severance pay shall be due to Employee if Employee resigns or retires from employment.

7. **Termination Obligations.**

a. Return of NAI Company Property. Employee shall take all reasonable steps to make sure all NAI Company Property (as defined in Attachment 2) is returned to NAI within two (2) business days following termination of employment.

b. Employee Cooperation. Following any termination of the employment, Employee shall cooperate fully with NAI in all matters relating to completing pending work on behalf of NAI and the orderly transfer of work to other employees of NAI. Employee shall also cooperate in the defense of any action brought by any third party against NAI that relates in any way to Employee's acts or omissions while employed by NAI.

c. Survival of Obligations. Employee's obligations under this Section shall survive the termination of employment and the expiration or termination of this Agreement.

8. **Change in Control.** In the event of any Change in Control, the following provisions will apply. Any of the following shall constitute a "Change in Control" for the purposes of this Section 7:

a. A "person" (meaning an individual, a partnership, or other group or association as defined in sections 13(d) and 14(d) of the Securities Exchange Act of 1934) acquires fifty percent (50%) or more of the combined voting power of the outstanding securities of NAI having a right to vote in elections of directors; or

b. The members of the Board of Directors of the Company who were members of the Board of Directors on the commencement date hereof, shall for any reason cease to constitute a majority of the Board of Directors of the Company; or

c. All or substantially all of the business of NAI is disposed of by NAI to a party or parties other than a subsidiary or other affiliate of NAI, in which NAI owns less than a majority of the equity, pursuant to a partial or complete liquidation of NAI, sale of assets (including stock of a subsidiary of NAI) or otherwise.

d. In the event of any such Change in Control, this Agreement shall continue in effect unless Employee at his or her sole option, and within sixty (60) days of a Change in Control taking place, elects voluntarily to terminate this Agreement. In such case, NAI shall pay Employee as severance pay or liquidated damages, or both, a lump sum payment ("Change in Control Severance Payment") equal to the severance period specified in Section 6(a) above or such greater amount as the Board of Directors determines from time to time pursuant to terms which may not be revoked or reduced thereafter.

e. In the event Employee is terminated following a Change in Control by NAI and/or the surviving or resulting corporation without cause, Employee shall be entitled to a Change in Control Severance Payment equal to the severance period specified in Section 6(a) or such greater amount as the Board of Directors determines from time to time pursuant to terms which may not be revoked or reduced thereafter.

f. Any Change in Control Severance Payment shall be made not later than the fifteenth (15th) day following the effective date of the voluntary or involuntary termination of this Agreement in connection with a Change in Control; provided, however, that if the amount of such payments cannot be finally determined on or before such date, NAI shall pay to Employee on such date a good faith estimate of the minimum amount of such payments, and shall pay the remainder of such payments (together with interest at the rate provided in Internal Revenue Code Section 1274(b)(2)(B) of the Code), as soon as the amount thereof can be determined, but in no event later than the thirtieth (30th) day after the applicable termination date. In the event the amount of the estimated payments exceeds the amount subsequently determined to have been due, such excess shall constitute a loan by NAI payable on the fifteenth (15th) day after receipt by Employee of a written demand for payment from NAI (together with interest calculated as above). The total of any payment pursuant to this Section 7 shall be limited to the extent necessary, in the opinion of legal counsel acceptable to Employee and NAI, to avoid the payment of an "excess parachute" payment within the meaning of Internal Revenue Code Section 280 G or any similar successor provision.

g. In the event of termination of employment either by the Employee under paragraph 7d. or by NAI under paragraph 7e., NAI shall cause each stock option heretofore granted by NAI to the Employee to become fully exercisable and to remain exercisable for the term of the option.

9. **Arbitration.** Employee and NAI hereby agree to the Mutual Agreement to Arbitrate attached hereto and made a part hereof as Attachment #1. Employee's obligations under this Section shall survive the termination of employment and the expiration or termination of this Agreement.

10. **Confidential Information and Inventions.** Employee and NAI hereby agree to the Confidential Information and Assignment Agreement, Covenant of Exclusivity and Covenant Not to Compete attached hereto and made a part hereof as Attachment #2. Employee's obligations under this Section shall survive the termination of employment and the expiration or termination of this Agreement.

11. **Competitive Activity.** Employee covenants, warrants and represents that during the period of his or her employment with NAI, Employee shall not engage anywhere directly or indirectly in (as a principal, shareholder, partner, director, officer, agent, employee, consultant or otherwise) or be financially interested in any business which is involved in business activities which are the same as, similar to, or in competition with business activities carried on by NAI or any business that is a current or potential supplier, customer or competitor of NAI without prior written approval from the Board of Directors of NAI.

12. **Employee Conduct.** Employee covenants, warrants and represents that during the period of his or her employment with NAI, Employee shall not accept or encourage the offering of gifts or gratuities from any customer, vendor, supplier, or other person doing business with NAI. Employee represents and understands that acceptance or encouragement of any gift or gratuity may create a perceived financial obligation and/or conflict of interest for NAI and shall not be permitted as a means to influence business decisions, transactions or service. In this situation, as in all other areas of employment, Employee is expected to conduct himself or herself using the highest ethical standard.

13. **Entire Agreement.** This Agreement contains the entire agreement between the parties. It supersedes any and all other agreements, either oral or in writing, between the parties hereto with respect to Employee's employment by NAI. Each party to this Agreement acknowledges that no representations, inducements, promises or agreements, oral or otherwise, have been made by any party, or anyone acting on behalf of any party, which are not embodied herein and acknowledges that no other agreement, statement or promise not contained in this Agreement shall be valid or binding. This Agreement may not be modified or amended by oral agreement or course of conduct, but only by an agreement in writing signed by the Board of Directors of NAI and Employee. To the extent the practices, policies or procedures of NAI, now or in the future, are inconsistent with the terms of this Agreement, the provisions of this Agreement shall control.

14. **Governing Law.** This Executive Employment Agreement shall be construed and enforced in accordance with the laws of the State of California.

15. **Provisions Separable.** Should any part or provision of this Executive Employment Agreement be held unenforceable or in conflict with the law of any jurisdiction, the validity of the remaining parts shall not be affected by such holding.

16. **Attorney's Fees.** Should any party institute any action, arbitration or proceeding to enforce, interpret or apply any provision of this Executive Employment Agreement, the parties

agree that the prevailing party shall be entitled to reimbursement by the non-prevailing party of all recoverable costs and expenses, including, but not limited to, reasonable attorney fees.

17. **Interpretation.** This Agreement shall be construed as a whole, according to its fair meaning, and not in favor of or against any party. By way of example and not in limitation, this Agreement shall not be construed in favor of the party receiving a benefit nor against the party responsible for any particular language in this Agreement.

"EMPLOYEE"

/s/ Mark Zimmerman

Mark Zimmerman

NATURAL ALTERNATIVES INTERNATIONAL, INC.
a Delaware corporation

By: /s/ Randell Weaver

Randell Weaver, Chief Financial Officer and
Chief Operating Officer

ATTACHMENT #1

MUTUAL AGREEMENT TO MEDIATE AND ARBITRATE CLAIMS

This Mutual Agreement to Mediate and Arbitrate Claims ("Agreement") is entered into between Mark Zimmerman ("Employee") and Natural Alternatives International, Inc. ("NAI"), together with its affiliates and subsidiaries.

In consideration of Employee's prospective and continued employment relationship with NAI, Employee's employment rights under Employee's Executive Employment Agreement, Employee's participation in stock option plans, Employee's participation in bonus compensation programs, Employee's access to and receipt of confidential information of NAI, and other good and valuable consideration, all of which Employee considers to have been negotiated at arm's length, Employee agrees to the following:

1. **Claims Covered by this Agreement.**

a. To the fullest extent permitted by law, all claims and disputes between Employee (and his attorneys, successors and assigns) and NAI (as defined below) relating in any manner whatsoever to the employment or termination of Employee, including without limitation all claims and disputes arising under this Agreement, shall be resolved by arbitration. All persons and entities specified in the preceding sentence (other than NAI and Employee) shall be considered third-party beneficiaries of the rights and obligations created by this Agreement on arbitration. Claims and disputes covered by this Agreement include without limitation those arising under:

(i) Any federal, state or local laws, regulations or statutes prohibiting employment discrimination (such as, without limitation: race, sex, national origin, age, disability, religion, sexual orientation) and harassment.

(ii) Any alleged or actual agreement or covenant (oral, written or implied) between Employee and NAI.

(iii) Any company policy, compensation, wage or related claim or benefit plan, unless the decision in question was made by an entity other than NAI.

(iv) Any public policy.

(v) Any other claim for personal, emotional, physical or economic injury.

b. The only disputes between Employee and NAI which are not included within this Mutual Agreement to Arbitrate Claims are:

(i) Any claim by Employee for workers' compensation or unemployment compensation benefits.

(ii) Any claim by Employee for benefits under a company plan which provides for its own arbitration procedure.

2. **Mandatory Mediation of Claims and Disputes.**

a. If any claim or dispute concerning this Agreement or the parties' employment relationship cannot be resolved by negotiation between the parties, the following mediation and arbitration procedures shall be invoked. Before invoking the binding arbitration procedure set forth below, NAI and Employee shall first participate in mandatory mediation of any dispute arising under this Agreement.

b. The claim or dispute shall be submitted to mediation before a mediator of the Judicial Arbitration and Mediation Service ("JAMS"), a mutually agreed to alternative dispute resolution ("ADR") organization. The mediation shall be conducted at a mutually agreeable location, or if a location cannot be agreed to by the parties, at a location chosen by the mediator. The administrator of the ADR organization shall select three (3) mediators. From the three (3) chosen, each party shall strike one and the remaining mediator shall preside over the mediation. The cost of the mediation shall be borne equally by NAI and Employee.

c. At least ten (10) business days before the date of the mediation, each side shall provide the mediator with a statement of its position and copies of all supporting documents. Each party shall send to the mediation a person who has authority to bind the party. If a subsequent dispute will involve third parties, such as insurers or subcontractors, they shall also be asked to participate in the mediation.

d. If a party has participated in the mediation and is dissatisfied with the outcome, that party may invoke the arbitration procedure set forth below.

3. **Binding Arbitration of Claims and Disputes.**

a. If NAI and Employee are unable to resolve a dispute relating to this Agreement through mediation, they shall submit any such dispute or claims relating to Employee's employment with NAI or the termination of that employment including but not limited to claims arising under common law or under any statute, rule, regulation, or law, whether federal, state or local including without limitation, any claims under the California Fair Employment and Housing Act, the California Labor Code, Title VII of the Civil Rights Act of 1964, the Age Discrimination in Employment Act, the Americans with Disabilities Act, the Rehabilitation Act of 1973, the Family Medical Leave Act the Employee Retirement Income Security Act of 1974, or Section 1981 or Title 42 of the United States Code to binding arbitration, in accordance with California Code of Civil Procedure §§1280 through 1294.2. Either party may enforce the award of the arbitrator under Code of Civil Procedure §1285 by any competent court of law. Employee and NAI understand that they are waiving their rights to a jury trial.

b. The party demanding arbitration shall submit a written claim to the other party, setting out the basis of the claim and proposing the name of an arbitrator from JAMS, the mutually agreed to ADR organization. The responding party shall have ten (10) business days in which to respond to this demand in a written answer. If this response is not timely made, or if the responding party agrees with the person proposed as the arbitrator, then the person named by the demanding party shall serve as the arbitrator. If the responding party submits a written answer rejecting the proposed arbitrator then, on the request of either party, JAMS shall appoint an arbitrator other than the mediator. The Employee and NAI agree to apply AAA rules for the

resolution of employment disputes to the arbitration even though the ADR is one other than AAA. No one who has ever had any business, financial, family, or social relationship with any party to this Agreement shall serve as an arbitrator unless the related party informs the other party of the relationship and the other party consents in writing to the use of that arbitrator.

c. The arbitration shall take place in the greater San Diego, California area, at a time and place selected by the arbitrator. A pre-arbitration hearing shall be held within ten (10) business days after the arbitrator's selection. The arbitration shall be held within sixty (60) calendar days after the pre-arbitration hearing. The arbitrator shall establish all discovery and other deadlines necessary to accomplish this goal.

d. Each party shall be entitled to discovery of essential documents and witnesses, as determined by the arbitrator in accordance with the then-applicable rules of discovery for the resolution of employment disputes and the time frame set forth in this Agreement. The arbitrator may resolve any disputes over any discovery matters as they would be resolved in civil litigation.

e. The arbitrator shall have the following powers:

(i) to issue subpoenas for the attendance of witnesses and subpoenas duces tecum for the production of books, records, documents, and other evidence;

(ii) to order depositions to be used as evidence;

(iii) subject to the limitations on discovery enumerated above, to enforce the rights, remedies, procedures, duties, liabilities, and obligations of discovery as if the arbitration were a civil action before a California superior court;

(iv) to conduct a hearing on the arbitrable issues;

(v) to administer oaths to parties and witnesses.

f. Within fifteen (15 days) after completion of the arbitration, the arbitrator shall submit a tentative decision in writing, specifying the reasoning for the decision and any calculations necessary to explain the award. Each party shall have fifteen (15 days) in which to submit written comments to the tentative decision. Within ten (10) days after the deadline for written comments, the arbitrator shall announce the final award.

g. NAI shall pay the arbitrator's expenses and fees, all meeting room charges, and any other expenses that would not have been incurred if the case were litigated in the judicial forum having jurisdiction over it. Unless otherwise ordered by the arbitrator, each party shall pay its own attorney fees, witness fees, and other expenses incurred by the party for his or her own benefit. Regardless of any statute, procedure, rule or law, the prevailing party in arbitration shall be entitled to recover from the non-prevailing party reasonable attorney fees incurred as a result of arbitration.

4. **Miscellaneous Provisions.**

a. The term "company" means NAI, and all related entities, all officers, employees, directors, agents, shareholders, partners, benefit plan sponsors, fiduciaries, administrators or affiliates of any of the above, and all successors and assignees of any of the above.

b. If either party pursues a covered claim against the other by any action, method or legal proceeding other than mediation or arbitration as provided herein, the responding party shall be entitled to dismissal or injunctive relief regarding such action and recovery of all costs, losses and attorneys' fees related to such other action or proceeding.

c. The parties to this Agreement acknowledge and agree that they are waiving their right to a jury trial on the issues covered by this Agreement.

d. This is the complete agreement of the parties on the subject of mediation and the arbitration of disputes and claims. This Agreement supersedes any prior or contemporaneous oral, written or implied understanding on the subject, shall survive the termination of Employee's employment and can only be revoked or modified by a written agreement signed by Employee and the Board of Directors of NAI that specifically states an intent to revoke or modify this Agreement. If any provision of this Agreement is adjudicated to be void or otherwise unenforceable in whole or in part, such adjudication shall not affect the validity of the remainder of the Agreement, which shall remain in full force and effect.

e. Employee represents and agrees that (i) Employee has entered into this Agreement voluntarily and without coercion or duress, (ii) Employee has been offered a reasonable time to consider the matters contained in this Agreement, (iii) Employee has been advised and has had the opportunity to consult with an attorney of his or her choice to explain the terms of this Agreement and the consequences of signing it, and (iv) Employee fully understands his or her rights, privileges and duties under the Agreement. NAI hereby advises Employee in writing to discuss this Agreement with independent counsel prior to executing this Agreement.

My signature below signifies that I have read, understand and agree to this Agreement.

"EMPLOYEE"

/s/ Mark Zimmerman

Mark Zimmerman

NATURAL ALTERNATIVES INTERNATIONAL, INC.
a Delaware corporation

By: /s/ Randell Weaver

Randell Weaver, Chief Financial Officer and
Chief Operating Officer

ATTACHMENT #2

CONFIDENTIAL INFORMATION AND INVENTION ASSIGNMENT AGREEMENT, COVENANT OF EXCLUSIVITY AND COVENANT NOT TO COMPETE

This Confidential Information And Invention Assignment Agreement ("Agreement") is made between Natural Alternatives International, Inc., a Delaware corporation ("Company") and the undersigned Employee.

In consideration of and as a condition of my prospective and continued employment relationship with the Company (which for purposes of this Agreement shall be deemed to include any subsidiaries or affiliates of the Company where "affiliate" shall mean any person or entity that directly or indirectly controls, is controlled by, or is under common control with the Company), the receipt of confidential information while associated with the Company, and other good and valuable consideration, I agree to the following, and I agree the following shall be in addition to the terms and conditions of any Confidential Information and Invention Assignment Agreement executed by employees of the Company generally, and which I may execute in addition hereto:

1. **Inventions.**

a. Disclosure. I will disclose promptly in writing to the appropriate officer or other representative of the Company, any idea, invention, work of authorship, design, formula, pattern, compilation, program, device, method, technique, process, improvement, development or discovery, whether or not patentable or copyrightable or entitled to legal protection as a trade secret, trademark service mark, trade name or otherwise ("Invention"), that I may conceive, make, develop, reduce to practice or work on, in whole or in part, solely or jointly with others ("Invent"), during the period of my employment with the Company.

i. The disclosure required by this Section 1a. applies to each and every Invention that I Invent (1) whether during my regular hours of employment or during my time away from work (2) whether or not the Invention was made at the suggestion of the Company, and (3) whether or not the Invention was reduced to or embodied in writing, electronic media or tangible form.

ii. The disclosure required by this Section 1 a. also applies to any Invention which may relate at the time of conception or reduction to practice of the Invention to the Company's business or actual or demonstrably anticipated research or development of the Company, and to any Invention which results from any work performed by me for the Company.

iii. The disclosure required by this Section 1 a. shall be received in confidence by the Company within the meaning of and to the extent required by California Labor Code §2871, the provisions of which are set forth on Exhibit "A" hereto.

iv. To facilitate the complete and accurate disclosures described above, I shall maintain complete written records of all Inventions and all work,

study and investigation done by me during my employment, which records shall be the Company's property.

v. I agree that during my employment I shall have a continuing obligation to supplement the disclosure required by this Section 1 a. on a monthly basis if I Invent an Invention during the period of employment. In order to facilitate the same, the Company and I shall periodically review every six months the written records of all Inventions as outlined in this Paragraph 1 a. to determine whether any particular invention is in fact related to Company business. Should a dispute arise between the Company and myself during the review period, I agree that binding arbitration as outlined in Paragraph 3 of the Mutual Agreement to Mediate and Arbitrate Claims shall be the sole determination whether any particular invention is in fact related to Company business. As to those inventions that are determined to be my sole property, the Company retains right of first refusal or to submit of a purchase agreement, stemming from or related to the review period.

b. Assignment. I hereby assign to the Company without royalty or any other further consideration my entire right, title and interest in and to each and every Invention I am required to disclose under Section 1 a. other than an Invention that (i) I have or shall have developed entirely on my own time without using the Company's equipment, supplies, facilities or trade secret information, (ii) does not relate at the time of conception or reduction to practice of the Invention to the Company's business, or actual or demonstrably anticipated research or development of the Company and (iii) does not result from any work performed by me for the Company. I acknowledge that the Company has notified me that the assignment provided for in this Section l b. does not apply to any Invention to which the assignment may not lawfully apply under the provisions of Section §2870 of the California Labor Code, a copy of which is attached as Exhibit "A" hereto. I shall bear the full burden of proving to the Company that an invention qualifies fully under Section §2870.

c. Additional Assistance and Documents. I will assist the Company in obtaining, maintaining and enforcing patents, copyrights, trade secrets, trademarks, service marks, trade names and other proprietary rights in connection with any Invention I have assigned to the Company under Section l b., and I further agree that my obligations under this Section l c. shall continue beyond the termination of my employment with the Company. Among other things, for the foregoing purposes I will (i) testify at the request of the Company in any interference, litigation or other legal proceeding that may arise during or after my employment, and (ii) execute, verify, acknowledge and deliver any proper document and, if, because of my mental or physical incapacity or for any other reason whatsoever, the Company is unable to obtain my signature to apply for or to pursue any application for any United States or foreign patent or copyright covering Inventions assigned to the Company by me, I hereby irrevocably designate and appoint each of the Company and its duly authorized officers and agents as my agent and attorney in fact to act for me and in my behalf and stead to execute and file any such applications and to do all other lawfully permitted acts to further the prosecution and issuance of any United States or foreign patent or copyright thereon with the same legal force and effect as if executed by me. I shall be entitled to reimbursement of any out-of-pocket expenses incurred by me in rendering such assistance and, if I am required to render such assistance after the termination of my employment, the Company shall pay me a reasonable rate of compensation for

time spent by me in rendering such assistance to the extent permitted by law (provided, I understand that no compensation shall be paid for my time in connection with preparing for or rendering any testimony or statement under oath in any judicial proceeding, arbitration or similar proceeding).

d. Prior Contracts and Inventions; Rights of Third Parties. I represent to the Company that, except as set forth on Exhibit "B" hereto, there are no other contracts to assign Inventions now in existence between me and any other person or entity (and if no Exhibit "B" is attached hereto or there is no such contract(s) described thereon, then it means that by signing this Agreement, I represent to the Company that there is no such other contract(s)). In addition, I represent to the Company that I have no other employments or undertaking which do or would restrict or impair my performance of this Agreement. I further represent to the Company that Exhibit "C" hereto sets forth a brief description of all Inventions made or conceived by me prior to my employment with the Company which I desire to be excluded from this Agreement (and if no Exhibit "C" is attached hereto or there is no such description set forth thereon, then it means that by signing this Agreement I represent to the Company that there is no such Invention made or conceived by me prior to my employment with the Company). In connection with my employment with the Company, I promise not to use or disclose to the Company any patent, copyright, confidential trade secret or other proprietary information of any previous employer or other person that I am not lawfully entitled so to use or disclose. If in the course of my employment with the Company I incorporate into an Invention or any product process or service of the Company any Invention made or conceived by me prior to my employment with the Company, I hereby grant to the Company a royalty-free, irrevocable, worldwide nonexclusive license to make, have made, use and sell that Invention without restriction as to the extent of my ownership or interest.

2. **Confidential Information.**

a. Company Confidential Information. I will not use or disclose Confidential Information, whether before, during or after the period of my employment except to perform my duties as an employee of the Company based on my reasonable judgment as an Officer of the Company, or in accordance with instruction or authorization of the Company, without prior written consent of the Company or pursuant to process or requirements of law after I have disclosed such process or requirements to the Company so as to afford it the opportunity to seek appropriate relief therefrom. "Confidential Information" means any Invention of any person in which the Company has an interest and in addition means any financial, client, customer, supplier, marketing, distribution and other information of a confidential or private nature connected with the business of the Company or any person with whom it deals, provided by the Company to me or to which I have access during or in the course of any employment. Confidential Information is to be broadly defined, and includes all information that has or could have commercial value or other utility in the business in which the Company is engaged or contemplates engaging, and all information of which the unauthorized disclosure could be detrimental to the interests of the Company, whether or not such information is identified as Confidential Information by the Company.

b. Third Party Information. I acknowledge that during my employment with the Company I may have access to patent, copyright, confidential, trade secret or other proprietary information of third parties subject to restrictions on the use or disclosure thereof by the Company. During the period of my employment and thereafter I will not use or disclose any

such information other than consistent with the restrictions and my duties as an employee of the Company.

3. **Property of the Company.** All equipment and all tangible and intangible information relating to NAI, its employees and its customers or vendors furnished to, obtained by or prepared by Employee or any other person during the course of or incident to employment by NAI are and shall remain the sole property of NAI ("NAI Company Property"). NAI Company Property shall include, but not be limited to, computer equipment, books, manuals, records, reports, notes, correspondence, contracts, customer lists, business cards, advertising, sales, financial, personnel, operations, and manufacturing materials and information, data processing reports, computer programs, software, customer information and records, business records, price lists or information, and samples, and in each case shall include all copies thereof in any medium, including paper, electronic and magnetic media and all other forms of information storage. All tangible NAI Company Property shall be returned promptly to NAI upon termination of employment.

4. **No Solicitation of Company Employees.** While employed by the Company and for a period of one year after termination of my employment with the Company, I agree not to induce or attempt to influence directly or indirectly any employee of the Company to terminate employment with the Company or to work for me or any other person or entity.

5. **Covenant of Exclusivity and Not to Compete.** During the period of my employment with the Company, I will not engage in any other professional employment or consulting or directly or indirectly participate in or assist any business which is a current or potential supplier, customer or competitor of the Company without prior written approval from the Board of Directors of the Company.

6. **General.**

a. Assignments, Successors and Assignees. All representations, warranties, covenants and agreements of the parties shall bind their respective heirs, executors, personal representatives, successors and assignees ("transferees") and shall inure to the benefit of their respective permitted transferees. The Company shall have the right to assign any or all of its rights and to delegate any or all of its obligations hereunder. The undersigned employee shall not have the right to assign any rights or delegate any obligations hereunder without the prior written consent of the Company or its transferee.

b. Number and Gender, Headings. Each number and gender shall be deemed to include each other number and gender as the context may require. The headings and captions contained in this Agreement shall not constitute a part thereof and shall not be used in its construction or interpretation.

c. Severability. If any provision of this Agreement is found by any court or arbitral tribunal of competent jurisdiction to be invalid or unenforceable, the invalidity of such provision shall not affect the other provisions of this Agreement and all provisions not affected by the invalidity shall remain in full force and effect.

d. Amendment and Modification. This Agreement may be amended or modified only by a writing executed by each party.

e. Government Law. The laws of California shall govern the construction, interpretation and performance of this Agreement and all transactions under it.

f. Remedies. I acknowledge that my failure to carry out any obligation under this Agreement, or a breach by me of any provision herein, will constitute immediate and irreparable damage to the Company, which cannot be fully and adequately compensated in money damages and which will warrant preliminary and other injunctive relief, an order for specific performance, and other equitable relief. I further agree that no bond or other security shall be required in obtaining such equitable relief and I hereby consent to the issuance of such injunction and to the ordering of specific performance. I also understand that other action may be taken and remedies enforced against me.

g. Mediation and Arbitration. This Agreement is subject to the Mutual Agreement to Mediate and Arbitrate Claims attached to the Executive Employment Agreement between myself and Company, incorporated into this Agreement by this reference.

h. Attorneys' Fees. Should either I or the Company, or any heir, personal representative, successor or permitted assign of either party, resort to arbitration or legal proceedings to enforce this Agreement, the prevailing party (as defined in California statutory law) in such proceeding shall be awarded, in addition to such other relief as may be granted, attorneys' fees and costs incurred in connection with such proceeding.

i. No Effect on Other Terms or Conditions of Employment. I acknowledge that this Agreement does not affect any term or condition of my employment except as expressly provided in this Agreement, and that this Agreement does not give rise to any right or entitlement on my part to employment or continued employment with the Company. I further acknowledge that this Agreement does not affect in any way the right of the Company to terminate my employment.

j. Independent Counsel. Employee represents and agrees that (i) Employee has entered into this Agreement voluntarily and without coercion or duress, (ii) Employee has been offered a reasonable time to consider the matters contained in this Agreement, (iii) Employee has been advised and has had the opportunity to consult with an attorney of his or her choice to explain the terms of this Agreement and the consequences of signing it, and (iv) Employee fully understands his or her rights, privileges and duties under the Agreement. NAI hereby advises Employee in writing to discuss this Agreement with independent counsel prior to executing this Agreement.

My signature below signifies that I have read, understand and agree to this Agreement.

/s/ Mark Zimmerman

Mark Zimmerman

ACCEPTED:
NATURAL ALTERNATIVES INTERNATIONAL, INC.
a Delaware corporation

By: /s/ Randell Weaver

Randell Weaver, Chief Financial Officer and Chief Operating Officer

EXHIBIT "A"

California Labor Code

§ 2870. Invention on Own Time-Exemption from Agreement.

(a) Any provision in an employment agreement which provides that an employee shall assign, or offer to assign, any of his or her rights in an invention to his or her employer shall not apply to an invention that the employee developed entirely on his or her own time without using the employer's equipment, supplies, facilities or trade secret information expect for those inventions that either:

(1) Relate at the time of conception or reduction to practice of the invention to the employer's business, or actual or demonstrably anticipated research or development of the employer.

(2) Result from any work performed by the employee for the employer.

(b) To the extent a provision in an employment agreement purports to require an employee to assign an invention otherwise excluded from being required to be assigned under subdivision (a), the provision is against the public policy of this state and is unenforceable.

§ 2871. Restrictions on Employer for Condition of Employment.

No employer shall require a provision made void or unenforceable by Section 2870 as a condition of employment or continued employment. Nothing in this article shall be construed to forbid or restrict the right of an employer to provide in contracts of employment for disclosure, provided that any such disclosures be received in confidence, of all of the employee's inventions made solely or jointly with others during the period of his or her employment, a review process by the employer to determine such issues as may arise, and for full title to certain patents and inventions to be in the United States, as required by contracts between the employer and the United States or any of its agencies.

EXHIBIT "B"

Except as set forth below, Employee represents to the Company that there are no other contracts to assign Inventions now in existence between Employee and any other person or entity (see Section 1 d. of the Agreement):

EXHIBIT "C"

Set forth below is a brief description of all Inventions made or conceived by Employee prior to Employee's employment with the Company which Employee desires to be excluded from this Agreement (see Section 1 d. of the Agreement):

Exhibit 10.4

EXECUTIVE EMPLOYMENT AGREEMENT

Randell Weaver ("Employee") hereby accepts the offer of Natural Alternatives International, Inc. ("NAI" or the "Company") for employment as Chief Financial Officer and Chief Operating Officer beginning July 1, 2002. Collectively, NAI and Employee will be referred to herein as the "Parties."

1. **Employment.** Notwithstanding the rights of the Parties to terminate the relationship described below, the Parties anticipate that Employee will be employed through June 30, 2003. Employee's employment will be at-will and may be terminated by either Employee or NAI at any time for any reason or no reason, with or without cause upon written notice to the other, or without any notice upon the death of Employee. The at-will status of the employment relationship may not be modified except in writing authorized in advance by the Board of Directors of NAI and signed by the Board of Directors of NAI and Employee.

2. **Employee Handbook.** Employee and NAI further understand and agree that nothing in the NAI Employee Handbook is intended to be, and nothing in it should be construed to be, a limitation of NAI's right to terminate, transfer, demote, suspend and administer discipline at any time for any reason. Employee and NAI understand and agree nothing in the Handbook is intended to, and nothing in the Handbook should be construed to, create an implied or express contract of employment contrary to this Agreement.

3. **Position and Responsibilities.** During employment, Employee shall have such responsibilities, duties and authority as NAI through its Board of Directors may from time to time assign to Employee, and that are normal and customary duties of a Chief Financial Officer and Chief Operating Officer of a publicly held corporation. Employee's initial title shall be Chief Financial Officer and Chief Operating Officer.

4. **Term.** If Employee continues working for NAI past June 30, 2003, and if NAI still desires Employee's services, then the following terms and conditions will apply:

a. At-will. Employee shall be an at-will employee and NAI or Employee will be entitled to terminate the employment relationship for any reason or for no reason, with or without cause and with or without notice;

b. Compensation. Employee will be compensated at the rate set forth in Section 5 below unless another rate is mutually agreed upon; and

c. Benefits. As to benefits and other terms of employment, Employee shall be subject to the same policies and procedures as other employees of NAI in similar positions.

5. **Compensation.** While Employee is employed by NAI as Chief Financial Officer and Chief Operating Officer, Employee's rate of compensation will be at a rate of $225,000 per year, payable no less frequently than monthly. While Employee is employed by NAI as solely Chief Financial Officer, Employee's rate of compensation will be at a rate of $195,000 per year, payable no less frequently than monthly. The compensation set forth in this Section 5 will be Employee's only compensation except standard employee benefits available to other level one executives of NAI or any other written compensation arrangement approved by the Board of

Directors of NAI. Employee will be entitled to participate in any bonus compensation in a manner and at a level consistent with other level one executives of NAI.

6. **Termination.** In the event of termination or resignation, the following terms and conditions will apply:

a. Without Cause, Severance Benefit. In the event Employee is terminated by NAI without cause, Employee shall be entitled to receive a severance benefit, including standard employee benefits available to other level one executives of NAI, in an amount equal to one months' compensation for each completed year of service up to a maximum severance benefit of six (6) months' compensation. One half of any severance benefit owing hereunder shall be paid within 10 days of termination and the balance shall be paid on a bi-weekly basis over the severance period of from one to six months.

b. With Cause, No Severance Benefit. NAI may terminate Employee with cause, which shall be limited to the occurrence of one or more of the following events: (i) the Employee's commission of any fraud against NAI; (ii) Employee's intentional appropriation for his or her personal use or benefit the funds of the Company not authorized by the Board of Directors; (iii) Employee's conviction of any crime involving moral turpitude; (iv) Employee's conviction of a violation of any state or federal law which could result in a material adverse impact upon the business of NAI; (v) the Employee engaging in any other professional employment or consulting or directly or indirectly participating in or assisting any business which is a current or potential supplier, customer or competitor of NAI without prior written approval from the Board of Directors of NAI, (vi) the Employee accepting or encouraging the offering of gifts or gratuities from any customer, vendor, supplier, or other person doing business with NAI, or (vii) when Employee has been disabled and is unable to perform the essential functions of the position for any reason notwithstanding reasonable accommodation and has received from NAI compensation in an amount equivalent to his or her severance benefit payment. No severance benefit shall be due to Employee if Employee is terminated for cause.

c. Resignation or Retirement, No Severance Pay. No severance pay shall be due to Employee if Employee resigns or retires from employment.

7. **Termination Obligations**.

a. Return of NAI Company Property. Employee shall take all reasonable steps to make sure all NAI Company Property (as defined in Attachment 2) is returned to NAI within two (2) business days following termination of employment.

b. Employee Cooperation. Following any termination of the employment, Employee shall cooperate fully with NAI in all matters relating to completing pending work on behalf of NAI and the orderly transfer of work to other employees of NAI. Employee shall also cooperate in the defense of any action brought by any third party against NAI that relates in any way to Employee's acts or omissions while employed by NAI.

c. Survival of Obligations. Employee's obligations under this Section shall survive the termination of employment and the expiration or termination of this Agreement.

8. **Change in Control.** In the event of any Change in Control, the following provisions will apply. Any of the following shall constitute a "Change in Control" for the purposes of this Section 7:

a. A "person" (meaning an individual, a partnership, or other group or association as defined in sections 13(d) and 14(d) of the Securities Exchange Act of 1934) acquires fifty percent (50%) or more of the combined voting power of the outstanding securities of NAI having a right to vote in elections of directors; or

b. The members of the Board of Directors of the Company who were members of the Board of Directors on the commencement date hereof, shall for any reason cease to constitute a majority of the Board of Directors of the Company; or

c. All or substantially all of the business of NAI is disposed of by NAI to a party or parties other than a subsidiary or other affiliate of NAI, in which NAI owns less than a majority of the equity, pursuant to a partial or complete liquidation of NAI, sale of assets (including stock of a subsidiary of NAI) or otherwise.

d. In the event of any such Change in Control, this Agreement shall continue in effect unless Employee at his or her sole option, and within sixty (60) days of a Change in Control taking place, elects voluntarily to terminate this Agreement. In such case, NAI shall pay Employee as severance pay or liquidated damages, or both, a lump sum payment ("Change in Control Severance Payment") equal to the severance period specified in Section 6(a) above or such greater amount as the Board of Directors determines from time to time pursuant to terms which may not be revoked or reduced thereafter.

e. In the event Employee is terminated following a Change in Control by NAI and/or the surviving or resulting corporation without cause, Employee shall be entitled to a Change in Control Severance Payment equal to the severance period specified in Section 6(a) or such greater amount as the Board of Directors determines from time to time pursuant to terms which may not be revoked or reduced thereafter.

f. Any Change in Control Severance Payment shall be made not later than the fifteenth (15th) day following the effective date of the voluntary or involuntary termination of this Agreement in connection with a Change in Control; provided, however, that if the amount of such payments cannot be finally determined on or before such date, NAI shall pay to Employee on such date a good faith estimate of the minimum amount of such payments, and shall pay the remainder of such payments (together with interest at the rate provided in Internal Revenue Code Section 1274(b)(2)(B) of the Code), as soon as the amount thereof can be determined, but in no event later than the thirtieth (30th) day after the applicable termination date. In the event the amount of the estimated payments exceeds the amount subsequently determined to have been due, such excess shall constitute a loan by NAI payable on the fifteenth (15th) day after receipt by Employee of a written demand for payment from NAI (together with interest calculated as above). The total of any payment pursuant to this Section 7 shall be limited to the extent necessary, in the opinion of legal counsel acceptable to Employee and NAI, to avoid the payment of an "excess parachute" payment within the meaning of Internal Revenue Code Section 280 G or any similar successor provision.

g. In the event of termination of employment either by the Employee under paragraph 7d. or by NAI under paragraph 7e., NAI shall cause each stock option heretofore granted by NAI to the Employee to become fully exercisable and to remain exercisable for the term of the option.

9. **Arbitration.** Employee and NAI hereby agree to the Mutual Agreement to Arbitrate attached hereto and made a part hereof as Attachment #1. Employee's obligations under this Section shall survive the termination of employment and the expiration or termination of this Agreement.

10. **Confidential Information and Inventions.** Employee and NAI hereby agree to the Confidential Information and Assignment Agreement, Covenant of Exclusivity and Covenant Not to Compete attached hereto and made a part hereof as Attachment #2. Employee's obligations under this Section shall survive the termination of employment and the expiration or termination of this Agreement.

11. **Competitive Activity.** Employee covenants, warrants and represents that during the period of his or her employment with NAI, Employee shall not engage anywhere directly or indirectly in (as a principal, shareholder, partner, director, officer, agent, employee, consultant or otherwise) or be financially interested in any business which is involved in business activities which are the same as, similar to, or in competition with business activities carried on by NAI or any business that is a current or potential supplier, customer or competitor of NAI without prior written approval from the Board of Directors of NAI.

12. **Employee Conduct.** Employee covenants, warrants and represents that during the period of his or her employment with NAI, Employee shall not accept or encourage the offering of gifts or gratuities from any customer, vendor, supplier, or other person doing business with NAI. Employee represents and understands that acceptance or encouragement of any gift or gratuity may create a perceived financial obligation and/or conflict of interest for NAI and shall not be permitted as a means to influence business decisions, transactions or service. In this situation, as in all other areas of employment, Employee is expected to conduct himself or herself using the highest ethical standard.

13. **Entire Agreement.** This Agreement contains the entire agreement between the parties. It supersedes any and all other agreements, either oral or in writing, between the parties hereto with respect to Employee's employment by NAI. Each party to this Agreement acknowledges that no representations, inducements, promises or agreements, oral or otherwise, have been made by any party, or anyone acting on behalf of any party, which are not embodied herein and acknowledges that no other agreement, statement or promise not contained in this Agreement shall be valid or binding. This Agreement may not be modified or amended by oral agreement or course of conduct, but only by an agreement in writing signed by the Board of Directors of NAI and Employee. To the extent the practices, policies or procedures of NAI, now or in the future, are inconsistent with the terms of this Agreement, the provisions of this Agreement shall control.

14. **Governing Law.** This Executive Employment Agreement shall be construed and enforced in accordance with the laws of the State of California.

15. **Provisions Separable.** Should any part or provision of this Executive Employment Agreement be held unenforceable or in conflict with the law of any jurisdiction, the validity of the remaining parts shall not be affected by such holding.

16. **Attorney's Fees.** Should any party institute any action, arbitration or proceeding to enforce, interpret or apply any provision of this Executive Employment Agreement, the parties agree that the prevailing party shall be entitled to reimbursement by the non-prevailing party of all recoverable costs and expenses, including, but not limited to, reasonable attorney fees.

17. **Interpretation.** This Agreement shall be construed as a whole, according to its fair meaning, and not in favor of or against any party. By way of example and not in limitation, this Agreement shall not be construed in favor of the party receiving a benefit nor against the party responsible for any particular language in this Agreement.

"EMPLOYEE"

/s/ Randell Weaver

Randell Weaver

NATURAL ALTERNATIVES INTERNATIONAL, INC.
a Delaware corporation

By: /s/ Mark Le Doux

Mark A. LeDoux, Chief Executive Officer

ATTACHMENT #1

MUTUAL AGREEMENT TO MEDIATE AND ARBITRATE CLAIMS

This Mutual Agreement to Mediate and Arbitrate Claims ("Agreement") is entered into between Randell Weaver ("Employee") and Natural Alternatives International, Inc. ("NAI"), together with its affiliates and subsidiaries.

In consideration of Employee's prospective and continued employment relationship with NAI, Employee's employment rights under Employee's Executive Employment Agreement, Employee's participation in stock option plans, Employee's participation in bonus compensation programs, Employee's access to and receipt of confidential information of NAI, and other good and valuable consideration, all of which Employee considers to have been negotiated at arm's length, Employee agrees to the following:

1. **Claims Covered by this Agreement.**

a. To the fullest extent permitted by law, all claims and disputes between Employee (and his attorneys, successors and assigns) and NAI (as defined below) relating in any manner whatsoever to the employment or termination of Employee, including without limitation all claims and disputes arising under this Agreement, shall be resolved by arbitration. All persons and entities specified in the preceding sentence (other than NAI and Employee) shall be considered third-party beneficiaries of the rights and obligations created by this Agreement on arbitration. Claims and disputes covered by this Agreement include without limitation those arising under:

(i) Any federal, state or local laws, regulations or statutes prohibiting employment discrimination (such as, without limitation: race, sex, national origin, age, disability, religion, sexual orientation) and harassment.

(ii) Any alleged or actual agreement or covenant (oral, written or implied) between Employee and NAI.

(iii) Any company policy, compensation, wage or related claim or benefit plan, unless the decision in question was made by an entity other than NAI.

(iv) Any public policy.

(v) Any other claim for personal, emotional, physical or economic injury.

b. The only disputes between Employee and NAI which are not included within this Mutual Agreement to Arbitrate Claims are:

(i) Any claim by Employee for workers' compensation or unemployment compensation benefits.

(ii) Any claim by Employee for benefits under a company plan which provides for its own arbitration procedure.

2. **Mandatory Mediation of Claims and Disputes.**

a. If any claim or dispute concerning this Agreement or the parties' employment relationship cannot be resolved by negotiation between the parties, the following mediation and arbitration procedures shall be invoked. Before invoking the binding arbitration procedure set forth below, NAI and Employee shall first participate in mandatory mediation of any dispute arising under this Agreement.

b. The claim or dispute shall be submitted to mediation before a mediator of the Judicial Arbitration and Mediation Service ("JAMS"), a mutually agreed to alternative dispute resolution ("ADR") organization. The mediation shall be conducted at a mutually agreeable location, or if a location cannot be agreed to by the parties, at a location chosen by the mediator. The administrator of the ADR organization shall select three (3) mediators. From the three (3) chosen, each party shall strike one and the remaining mediator shall preside over the mediation. The cost of the mediation shall be borne equally by NAI and Employee.

c. At least ten (10) business days before the date of the mediation, each side shall provide the mediator with a statement of its position and copies of all supporting documents. Each party shall send to the mediation a person who has authority to bind the party. If a subsequent dispute will involve third parties, such as insurers or subcontractors, they shall also be asked to participate in the mediation.

d. If a party has participated in the mediation and is dissatisfied with the outcome, that party may invoke the arbitration procedure set forth below.

3. **Binding Arbitration of Claims and Disputes.**

a. If NAI and Employee are unable to resolve a dispute relating to this Agreement through mediation, they shall submit any such dispute or claims relating to Employee's employment with NAI or the termination of that employment including but not limited to claims arising under common law or under any statute, rule, regulation, or law, whether federal, state or local including without limitation, any claims under the California Fair Employment and Housing Act, the California Labor Code, Title VII of the Civil Rights Act of 1964, the Age Discrimination in Employment Act, the Americans with Disabilities Act, the Rehabilitation Act of 1973, the Family Medical Leave Act the Employee Retirement Income Security Act of 1974, or Section 1981 or Title 42 of the United States Code to binding arbitration, in accordance with California Code of Civil Procedure §§1280 through 1294.2. Either party may enforce the award of the arbitrator under Code of Civil Procedure §1285 by any competent court of law. Employee and NAI understand that they are waiving their rights to a jury trial.

b. The party demanding arbitration shall submit a written claim to the other party, setting out the basis of the claim and proposing the name of an arbitrator from JAMS, the mutually agreed to ADR organization. The responding party shall have ten (10) business days in which to respond to this demand in a written answer. If this response is not timely made, or if the responding party agrees with the person proposed as the arbitrator, then the person named by the demanding party shall serve as the arbitrator. If the responding party submits a written answer rejecting the proposed arbitrator then, on the request of either party, JAMS shall appoint an arbitrator other than the mediator. The Employee and NAI agree to apply AAA rules for the

resolution of employment disputes to the arbitration even though the ADR is one other than AAA. No one who has ever had any business, financial, family, or social relationship with any party to this Agreement shall serve as an arbitrator unless the related party informs the other party of the relationship and the other party consents in writing to the use of that arbitrator.

c. The arbitration shall take place in the greater San Diego, California area, at a time and place selected by the arbitrator. A pre-arbitration hearing shall be held within ten (10) business days after the arbitrator's selection. The arbitration shall be held within sixty (60) calendar days after the pre-arbitration hearing. The arbitrator shall establish all discovery and other deadlines necessary to accomplish this goal.

d. Each party shall be entitled to discovery of essential documents and witnesses, as determined by the arbitrator in accordance with the then-applicable rules of discovery for the resolution of employment disputes and the time frame set forth in this Agreement. The arbitrator may resolve any disputes over any discovery matters as they would be resolved in civil litigation.

e. The arbitrator shall have the following powers:

(i) to issue subpoenas for the attendance of witnesses and subpoenas duces tecum for the production of books, records, documents, and other evidence;

(ii) to order depositions to be used as evidence;

(iii) subject to the limitations on discovery enumerated above, to enforce the rights, remedies, procedures, duties, liabilities, and obligations of discovery as if the arbitration were a civil action before a California superior court;

(iv) to conduct a hearing on the arbitrable issues;

(v) to administer oaths to parties and witnesses.

f. Within fifteen (15 days) after completion of the arbitration, the arbitrator shall submit a tentative decision in writing, specifying the reasoning for the decision and any calculations necessary to explain the award. Each party shall have fifteen (15 days) in which to submit written comments to the tentative decision. Within ten (10) days after the deadline for written comments, the arbitrator shall announce the final award.

g. NAI shall pay the arbitrator's expenses and fees, all meeting room charges, and any other expenses that would not have been incurred if the case were litigated in the judicial forum having jurisdiction over it. Unless otherwise ordered by the arbitrator, each party shall pay its own attorney fees, witness fees, and other expenses incurred by the party for his or her own benefit. Regardless of any statute, procedure, rule or law, the prevailing party in arbitration shall be entitled to recover from the non-prevailing party reasonable attorney fees incurred as a result of arbitration.

4. **Miscellaneous Provisions.**

a. The term "company" means NAI, and all related entities, all officers, employees, directors, agents, shareholders, partners, benefit plan sponsors, fiduciaries, administrators or affiliates of any of the above, and all successors and assignees of any of the above.

b. If either party pursues a covered claim against the other by any action, method or legal proceeding other than mediation or arbitration as provided herein, the responding party shall be entitled to dismissal or injunctive relief regarding such action and recovery of all costs, losses and attorneys' fees related to such other action or proceeding.

c. The parties to this Agreement acknowledge and agree that they are waiving their right to a jury trial on the issues covered by this Agreement.

d. This is the complete agreement of the parties on the subject of mediation and the arbitration of disputes and claims. This Agreement supersedes any prior or contemporaneous oral, written or implied understanding on the subject, shall survive the termination of Employee's employment and can only be revoked or modified by a written agreement signed by Employee and the Board of Directors of NAI that specifically states an intent to revoke or modify this Agreement. If any provision of this Agreement is adjudicated to be void or otherwise unenforceable in whole or in part, such adjudication shall not affect the validity of the remainder of the Agreement, which shall remain in full force and effect.

e. Employee represents and agrees that (i) Employee has entered into this Agreement voluntarily and without coercion or duress, (ii) Employee has been offered a reasonable time to consider the matters contained in this Agreement, (iii) Employee has been advised and has had the opportunity to consult with an attorney of his or her choice to explain the terms of this Agreement and the consequences of signing it, and (iv) Employee fully understands his or her rights, privileges and duties under the Agreement. NAI hereby advises Employee in writing to discuss this Agreement with independent counsel prior to executing this Agreement.

My signature below signifies that I have read, understand and agree to this Agreement.

"EMPLOYEE"

/s/ Randell Weaver

Randell Weaver

NATURAL ALTERNATIVES INTERNATIONAL, INC.
a Delaware corporation

By: /s/ Mark Le Doux

Mark A. LeDoux, Chief Executive Officer

ATTACHMENT #2

CONFIDENTIAL INFORMATION AND INVENTION ASSIGNMENT AGREEMENT, COVENANT OF EXCLUSIVITY AND COVENANT NOT TO COMPETE

This Confidential Information And Invention Assignment Agreement ("Agreement") is made between Natural Alternatives International, Inc., a Delaware corporation ("Company") and the undersigned Employee.

In consideration of and as a condition of my prospective and continued employment relationship with the Company (which for purposes of this Agreement shall be deemed to include any subsidiaries or affiliates of the Company where "affiliate" shall mean any person or entity that directly or indirectly controls, is controlled by, or is under common control with the Company), the receipt of confidential information while associated with the Company, and other good and valuable consideration, I agree to the following, and I agree the following shall be in addition to the terms and conditions of any Confidential Information and Invention Assignment Agreement executed by employees of the Company generally, and which I may execute in addition hereto:

1. **Inventions.**

a. Disclosure. I will disclose promptly in writing to the appropriate officer or other representative of the Company, any idea, invention, work of authorship, design, formula, pattern, compilation, program, device, method, technique, process, improvement, development or discovery, whether or not patentable or copyrightable or entitled to legal protection as a trade secret, trademark service mark, trade name or otherwise ("Invention"), that I may conceive, make, develop, reduce to practice or work on, in whole or in part, solely or jointly with others ("Invent"), during the period of my employment with the Company.

i. The disclosure required by this Section 1a. applies to each and every Invention that I Invent (1) whether during my regular hours of employment or during my time away from work (2) whether or not the Invention was made at the suggestion of the Company, and (3) whether or not the Invention was reduced to or embodied in writing, electronic media or tangible form.

ii. The disclosure required by this Section 1 a. also applies to any Invention which may relate at the time of conception or reduction to practice of the Invention to the Company's business or actual or demonstrably anticipated research or development of the Company, and to any Invention which results from any work performed by me for the Company.

iii. The disclosure required by this Section 1 a. shall be received in confidence by the Company within the meaning of and to the extent required by California Labor Code §2871, the provisions of which are set forth on Exhibit "A" hereto.

iv. To facilitate the complete and accurate disclosures described above, I shall maintain complete written records of all Inventions and all work,

study and investigation done by me during my employment, which records shall be the Company's property.

v. I agree that during my employment I shall have a continuing obligation to supplement the disclosure required by this Section 1 a. on a monthly basis if I Invent an Invention during the period of employment. In order to facilitate the same, the Company and I shall periodically review every six months the written records of all Inventions as outlined in this Paragraph 1 a. to determine whether any particular invention is in fact related to Company business. Should a dispute arise between the Company and myself during the review period, I agree that binding arbitration as outlined in Paragraph 3 of the Mutual Agreement to Mediate and Arbitrate Claims shall be the sole determination whether any particular invention is in fact related to Company business. As to those inventions that are determined to be my sole property, the Company retains right of first refusal or to submit of a purchase agreement, stemming from or related to the review period.

b. Assignment. I hereby assign to the Company without royalty or any other further consideration my entire right, title and interest in and to each and every Invention I am required to disclose under Section 1 a. other than an Invention that (i) I have or shall have developed entirely on my own time without using the Company's equipment, supplies, facilities or trade secret information, (ii) does not relate at the time of conception or reduction to practice of the Invention to the Company's business, or actual or demonstrably anticipated research or development of the Company and (iii) does not result from any work performed by me for the Company. I acknowledge that the Company has notified me that the assignment provided for in this Section l b. does not apply to any Invention to which the assignment may not lawfully apply under the provisions of Section §2870 of the California Labor Code, a copy of which is attached as Exhibit "A" hereto. I shall bear the full burden of proving to the Company that an invention qualifies fully under Section §2870.

c. Additional Assistance and Documents. I will assist the Company in obtaining, maintaining and enforcing patents, copyrights, trade secrets, trademarks, service marks, trade names and other proprietary rights in connection with any Invention I have assigned to the Company under Section l b., and I further agree that my obligations under this Section l c. shall continue beyond the termination of my employment with the Company. Among other things, for the foregoing purposes I will (i) testify at the request of the Company in any interference, litigation or other legal proceeding that may arise during or after my employment, and (ii) execute, verify, acknowledge and deliver any proper document and, if, because of my mental or physical incapacity or for any other reason whatsoever, the Company is unable to obtain my signature to apply for or to pursue any application for any United States or foreign patent or copyright covering Inventions assigned to the Company by me, I hereby irrevocably designate and appoint each of the Company and its duly authorized officers and agents as my agent and attorney in fact to act for me and in my behalf and stead to execute and file any such applications and to do all other lawfully permitted acts to further the prosecution and issuance of any United States or foreign patent or copyright thereon with the same legal force and effect as if executed by me. I shall be entitled to reimbursement of any out-of-pocket expenses incurred by me in rendering such assistance and, if I am required to render such assistance after the termination of my employment, the Company shall pay me a reasonable rate of compensation for

time spent by me in rendering such assistance to the extent permitted by law (provided, I understand that no compensation shall be paid for my time in connection with preparing for or rendering any testimony or statement under oath in any judicial proceeding, arbitration or similar proceeding).

d. Prior Contracts and Inventions; Rights of Third Parties. I represent to the Company that, except as set forth on Exhibit "B" hereto, there are no other contracts to assign Inventions now in existence between me and any other person or entity (and if no Exhibit "B" is attached hereto or there is no such contract(s) described thereon, then it means that by signing this Agreement, I represent to the Company that there is no such other contract(s)). In addition, I represent to the Company that I have no other employments or undertaking which do or would restrict or impair my performance of this Agreement. I further represent to the Company that Exhibit "C" hereto sets forth a brief description of all Inventions made or conceived by me prior to my employment with the Company which I desire to be excluded from this Agreement (and if no Exhibit "C" is attached hereto or there is no such description set forth thereon, then it means that by signing this Agreement I represent to the Company that there is no such Invention made or conceived by me prior to my employment with the Company). In connection with my employment with the Company, I promise not to use or disclose to the Company any patent, copyright, confidential trade secret or other proprietary information of any previous employer or other person that I am not lawfully entitled so to use or disclose. If in the course of my employment with the Company I incorporate into an Invention or any product process or service of the Company any Invention made or conceived by me prior to my employment with the Company, I hereby grant to the Company a royalty-free, irrevocable, worldwide nonexclusive license to make, have made, use and sell that Invention without restriction as to the extent of my ownership or interest.

2. **Confidential Information.**

a. Company Confidential Information. I will not use or disclose Confidential Information, whether before, during or after the period of my employment except to perform my duties as an employee of the Company based on my reasonable judgment as an Officer of the Company, or in accordance with instruction or authorization of the Company, without prior written consent of the Company or pursuant to process or requirements of law after I have disclosed such process or requirements to the Company so as to afford it the opportunity to seek appropriate relief therefrom. "Confidential Information" means any Invention of any person in which the Company has an interest and in addition means any financial, client, customer, supplier, marketing, distribution and other information of a confidential or private nature connected with the business of the Company or any person with whom it deals, provided by the Company to me or to which I have access during or in the course of any employment. Confidential Information is to be broadly defined, and includes all information that has or could have commercial value or other utility in the business in which the Company is engaged or contemplates engaging, and all information of which the unauthorized disclosure could be detrimental to the interests of the Company, whether or not such information is identified as Confidential Information by the Company.

b. Third Party Information. I acknowledge that during my employment with the Company I may have access to patent, copyright, confidential, trade secret or other proprietary information of third parties subject to restrictions on the use or disclosure thereof by the Company. During the period of my employment and thereafter I will not use or disclose any

such information other than consistent with the restrictions and my duties as an employee of the Company.

3. **Property of the Company.** All equipment and all tangible and intangible information relating to NAI, its employees and its customers or vendors furnished to, obtained by or prepared by Employee or any other person during the course of or incident to employment by NAI are and shall remain the sole property of NAI ("NAI Company Property"). NAI Company Property shall include, but not be limited to, computer equipment, books, manuals, records, reports, notes, correspondence, contracts, customer lists, business cards, advertising, sales, financial, personnel, operations, and manufacturing materials and information, data processing reports, computer programs, software, customer information and records, business records, price lists or information, and samples, and in each case shall include all copies thereof in any medium, including paper, electronic and magnetic media and all other forms of information storage. All tangible NAI Company Property shall be returned promptly to NAI upon termination of employment.

4. **No Solicitation of Company Employees.** While employed by the Company and for a period of one year after termination of my employment with the Company, I agree not to induce or attempt to influence directly or indirectly any employee of the Company to terminate employment with the Company or to work for me or any other person or entity.

5. **Covenant of Exclusivity and Not to Compete.** During the period of my employment with the Company, I will not engage in any other professional employment or consulting or directly or indirectly participate in or assist any business which is a current or potential supplier, customer or competitor of the Company without prior written approval from the Board of Directors of the Company.

6. **General.**

a. Assignments, Successors and Assignees. All representations, warranties, covenants and agreements of the parties shall bind their respective heirs, executors, personal representatives, successors and assignees ("transferees") and shall inure to the benefit of their respective permitted transferees. The Company shall have the right to assign any or all of its rights and to delegate any or all of its obligations hereunder. The undersigned employee shall not have the right to assign any rights or delegate any obligations hereunder without the prior written consent of the Company or its transferee.

b. Number and Gender, Headings. Each number and gender shall be deemed to include each other number and gender as the context may require. The headings and captions contained in this Agreement shall not constitute a part thereof and shall not be used in its construction or interpretation.

c. Severability. If any provision of this Agreement is found by any court or arbitral tribunal of competent jurisdiction to be invalid or unenforceable, the invalidity of such provision shall not affect the other provisions of this Agreement and all provisions not affected by the invalidity shall remain in full force and effect.

d. Amendment and Modification. This Agreement may be amended or modified only by a writing executed by each party.

e. Government Law. The laws of California shall govern the construction, interpretation and performance of this Agreement and all transactions under it.

f. Remedies. I acknowledge that my failure to carry out any obligation under this Agreement, or a breach by me of any provision herein, will constitute immediate and irreparable damage to the Company, which cannot be fully and adequately compensated in money damages and which will warrant preliminary and other injunctive relief, an order for specific performance, and other equitable relief. I further agree that no bond or other security shall be required in obtaining such equitable relief and I hereby consent to the issuance of such injunction and to the ordering of specific performance. I also understand that other action may be taken and remedies enforced against me.

g. Mediation and Arbitration. This Agreement is subject to the Mutual Agreement to Mediate and Arbitrate Claims attached to the Executive Employment Agreement between myself and Company, incorporated into this Agreement by this reference.

h. Attorneys' Fees. Should either I or the Company, or any heir, personal representative, successor or permitted assign of either party, resort to arbitration or legal proceedings to enforce this Agreement, the prevailing party (as defined in California statutory law) in such proceeding shall be awarded, in addition to such other relief as may be granted, attorneys' fees and costs incurred in connection with such proceeding.

i. No Effect on Other Terms or Conditions of Employment. I acknowledge that this Agreement does not affect any term or condition of my employment except as expressly provided in this Agreement, and that this Agreement does not give rise to any right or entitlement on my part to employment or continued employment with the Company. I further acknowledge that this Agreement does not affect in any way the right of the Company to terminate my employment.

j. Independent Counsel. Employee represents and agrees that (i) Employee has entered into this Agreement voluntarily and without coercion or duress, (ii) Employee has been offered a reasonable time to consider the matters contained in this Agreement, (iii) Employee has been advised and has had the opportunity to consult with an attorney of his or her choice to explain the terms of this Agreement and the consequences of signing it, and (iv) Employee fully understands his or her rights, privileges and duties under the Agreement. NAI hereby advises Employee in writing to discuss this Agreement with independent counsel prior to executing this Agreement.

My signature below signifies that I have read, understand and agree to this Agreement.

/s/ Randell Weaver

Randell Weaver

ACCEPTED:
NATURAL ALTERNATIVES INTERNATIONAL, INC.
a Delaware corporation

By: /s/ Mark Le Doux

Mark A. LeDoux, Chief Executive Officer

EXHIBIT "A"

California Labor Code

§ 2870. Invention on Own Time-Exemption from Agreement.

(a) Any provision in an employment agreement which provides that an employee shall assign, or offer to assign, any of his or her rights in an invention to his or her employer shall not apply to an invention that the employee developed entirely on his or her own time without using the employer's equipment, supplies, facilities or trade secret information expect for those inventions that either:

(1) Relate at the time of conception or reduction to practice of the invention to the employer's business, or actual or demonstrably anticipated research or development of the employer.

(2) Result from any work performed by the employee for the employer.

(b) To the extent a provision in an employment agreement purports to require an employee to assign an invention otherwise excluded from being required to be assigned under subdivision (a), the provision is against the public policy of this state and is unenforceable.

§ 2871. Restrictions on Employer for Condition of Employment.

No employer shall require a provision made void or unenforceable by Section 2870 as a condition of employment or continued employment. Nothing in this article shall be construed to forbid or restrict the right of an employer to provide in contracts of employment for disclosure, provided that any such disclosures be received in confidence, of all of the employee's inventions made solely or jointly with others during the period of his or her employment, a review process by the employer to determine such issues as may arise, and for full title to certain patents and inventions to be in the United States, as required by contracts between the employer and the United States or any of its agencies.

EXHIBIT "B"

Except as set forth below, Employee represents to the Company that there are no other contracts to assign Inventions now in existence between Employee and any other person or entity (see Section 1 d. of the Agreement):

EXHIBIT "C"

Set forth below is a brief description of all Inventions made or conceived by Employee prior to Employee's employment with the Company which Employee desires to be excluded from this Agreement (see Section 1 d. of the Agreement):

Exhibit 10.5

EXECUTIVE EMPLOYMENT AGREEMENT

Mark A. LeDoux ("Employee") hereby accepts the offer of Natural Alternatives International, Inc. ("NAI" or the "Company") for employment as Chief Executive Officer beginning July 1, 2002. Collectively, NAI and Employee will be referred to herein as the "Parties."

1. **Employment.** Notwithstanding the rights of the Parties to terminate the relationship described below, the Parties anticipate that Employee will be employed through June 30, 2003. Employee's employment will be at-will and may be terminated by either Employee or NAI at any time for any reason or no reason, with or without cause upon written notice to the other, or without any notice upon the death of Employee. The at-will status of the employment relationship may not be modified except in writing authorized in advance by the Board of Directors of NAI and signed by the Board of Directors of NAI and Employee.

2. **Employee Handbook.** Employee and NAI further understand and agree that nothing in the NAI Employee Handbook is intended to be, and nothing in it should be construed to be, a limitation of NAI's right to terminate, transfer, demote, suspend and administer discipline at any time for any reason. Employee and NAI understand and agree nothing in the Handbook is intended to, and nothing in the Handbook should be construed to, create an implied or express contract of employment contrary to this Agreement.

3. **Position and Responsibilities.** During employment, Employee shall have such responsibilities, duties and authority as NAI through its Board of Directors may from time to time assign to Employee, and that are normal and customary duties of a Chief Executive Officer of a publicly held corporation. Employee's initial title shall be Chief Executive Officer.

4. **Term.** If Employee continues working for NAI past June 30, 2003, and if NAI still desires Employee's services, then the following terms and conditions will apply:

a. At-will. Employee shall be an at-will employee and NAI or Employee will be entitled to terminate the employment relationship for any reason or for no reason, with or without cause and with or without notice;

b. Compensation. Employee will be compensated at the rate set forth in Section 5 below unless another rate is mutually agreed upon; and

c. Benefits. As to benefits and other terms of employment, Employee shall be subject to the same policies and procedures as other employees of NAI in similar positions.

5. **Compensation.** While Employee is employed by NAI as Chief Executive Officer, Employee's rate of compensation will be at a rate of $225,000 per year, payable no less frequently than monthly. The compensation set forth in this Section 5 will be Employee's only compensation except standard employee benefits available to other level one executives of NAI or any other written compensation arrangement approved by the Board of Directors of NAI. Employee will be entitled to participate in any bonus compensation in a manner and at a level consistent with other level one executives of NAI.

6. **Termination.** In the event of termination or resignation, the following terms and conditions will apply:

a. Without Cause, Severance Benefit. In the event Employee is terminated by NAI without cause, Employee shall be entitled to receive a severance benefit, including standard employee benefits available to other level one executives of NAI, in an amount equal to twelve (12) months' compensation. One half of any severance benefit owing hereunder shall be paid within 10 days of termination and the balance shall be paid on a bi-weekly basis over the severance period of from one to twelve months.

b. With Cause, No Severance Benefit. NAI may terminate Employee with cause, which shall be limited to the occurrence of one or more of the following events: (i) the Employee's commission of any fraud against NAI; (ii) Employee's intentional appropriation for his or her personal use or benefit the funds of the Company not authorized by the Board of Directors; (iii) Employee's conviction of any crime involving moral turpitude; (iv) Employee's conviction of a violation of any state or federal law which could result in a material adverse impact upon the business of NAI; (v) the Employee engaging in any other professional employment or consulting or directly or indirectly participating in or assisting any business which is a current or potential supplier, customer or competitor of NAI without prior written approval from the Board of Directors of NAI, (vi) the Employee accepting or encouraging the offering of gifts or gratuities from any customer, vendor, supplier, or other person doing business with NAI, or (vii) when Employee has been disabled and is unable to perform the essential functions of the position for any reason notwithstanding reasonable accommodation and has received from NAI compensation in an amount equivalent to his or her severance benefit payment. No severance benefit shall be due to Employee if Employee is terminated for cause.

c. Resignation or Retirement, No Severance Pay. No severance pay shall be due to Employee if Employee resigns or retires from employment.

7. **Termination Obligations**.

a. Return of NAI Company Property. Employee shall take all reasonable steps to make sure all NAI Company Property (as defined in Attachment 2) is returned to NAI within two (2) business days following termination of employment.

b. Employee Cooperation. Following any termination of the employment, Employee shall cooperate fully with NAI in all matters relating to completing pending work on behalf of NAI and the orderly transfer of work to other employees of NAI. Employee shall also cooperate in the defense of any action brought by any third party against NAI that relates in any way to Employee's acts or omissions while employed by NAI.

c. Survival of Obligations. Employee's obligations under this Section shall survive the termination of employment and the expiration or termination of this Agreement.

8. **Change in Control.** In the event of any Change in Control, the following provisions will apply. Any of the following shall constitute a "Change in Control" for the purposes of this Section 7:

a. A "person" (meaning an individual, a partnership, or other group or association as defined in sections 13(d) and 14(d) of the Securities Exchange Act of 1934) acquires fifty percent (50%) or more of the combined voting power of the outstanding securities of NAI having a right to vote in elections of directors; or

b. The members of the Board of Directors of the Company who were members of the Board of Directors on the commencement date hereof, shall for any reason cease to constitute a majority of the Board of Directors of the Company; or

c. All or substantially all of the business of NAI is disposed of by NAI to a party or parties other than a subsidiary or other affiliate of NAI, in which NAI owns less than a majority of the equity, pursuant to a partial or complete liquidation of NAI, sale of assets (including stock of a subsidiary of NAI) or otherwise.

d. In the event of any such Change in Control, this Agreement shall continue in effect unless Employee at his or her sole option, and within sixty (60) days of a Change in Control taking place, elects voluntarily to terminate this Agreement. In such case, NAI shall pay Employee as severance pay or liquidated damages, or both, a lump sum payment ("Change in Control Severance Payment") equal to the severance period specified in Section 6(a) above or such greater amount as the Board of Directors determines from time to time pursuant to terms which may not be revoked or reduced thereafter.

e. In the event Employee is terminated following a Change in Control by NAI and/or the surviving or resulting corporation without cause, Employee shall be entitled to a Change in Control Severance Payment equal to the severance period specified in Section 6(a) or such greater amount as the Board of Directors determines from time to time pursuant to terms which may not be revoked or reduced thereafter.

f. Any Change in Control Severance Payment shall be made not later than the fifteenth (15th) day following the effective date of the voluntary or involuntary termination of this Agreement in connection with a Change in Control; provided, however, that if the amount of such payments cannot be finally determined on or before such date, NAI shall pay to Employee on such date a good faith estimate of the minimum amount of such payments, and shall pay the remainder of such payments (together with interest at the rate provided in Internal Revenue Code Section 1274(b)(2)(B) of the Code), as soon as the amount thereof can be determined, but in no event later than the thirtieth (30th) day after the applicable termination date. In the event the amount of the estimated payments exceeds the amount subsequently determined to have been due, such excess shall constitute a loan by NAI payable on the fifteenth (15th) day after receipt by Employee of a written demand for payment from NAI (together with interest calculated as above). The total of any payment pursuant to this Section 7 shall be limited to the extent necessary, in the opinion of legal counsel acceptable to Employee and NAI, to avoid the payment of an "excess parachute" payment within the meaning of Internal Revenue Code Section 280 G or any similar successor provision.

g. In the event of termination of employment either by the Employee under paragraph 7d. or by NAI under paragraph 7e., NAI shall cause each stock option heretofore granted by NAI to the Employee to become fully exercisable and to remain exercisable for the term of the option.

9. **Arbitration.** Employee and NAI hereby agree to the Mutual Agreement to Arbitrate attached hereto and made a part hereof as Attachment #1. Employee's obligations under this Section shall survive the termination of employment and the expiration or termination of this Agreement.

10. **Confidential Information and Inventions.** Employee and NAI hereby agree to the Confidential Information and Assignment Agreement, Covenant of Exclusivity and Covenant Not to Compete attached hereto and made a part hereof as Attachment #2. Employee's obligations under this Section shall survive the termination of employment and the expiration or termination of this Agreement.

11. **Competitive Activity.** Employee covenants, warrants and represents that during the period of his or her employment with NAI, Employee shall not engage anywhere directly or indirectly in (as a principal, shareholder, partner, director, officer, agent, employee, consultant or otherwise) or be financially interested in any business which is involved in business activities which are the same as, similar to, or in competition with business activities carried on by NAI or any business that is a current or potential supplier, customer or competitor of NAI without prior written approval from the Board of Directors of NAI.

12. **Employee Conduct.** Employee covenants, warrants and represents that during the period of his or her employment with NAI, Employee shall not accept or encourage the offering of gifts or gratuities from any customer, vendor, supplier, or other person doing business with NAI. Employee represents and understands that acceptance or encouragement of any gift or gratuity may create a perceived financial obligation and/or conflict of interest for NAI and shall not be permitted as a means to influence business decisions, transactions or service. In this situation, as in all other areas of employment, Employee is expected to conduct himself or herself using the highest ethical standard.

13. **Entire Agreement.** This Agreement contains the entire agreement between the parties. It supersedes any and all other agreements, either oral or in writing, between the parties hereto with respect to Employee's employment by NAI. Each party to this Agreement acknowledges that no representations, inducements, promises or agreements, oral or otherwise, have been made by any party, or anyone acting on behalf of any party, which are not embodied herein and acknowledges that no other agreement, statement or promise not contained in this Agreement shall be valid or binding. This Agreement may not be modified or amended by oral agreement or course of conduct, but only by an agreement in writing signed by the Board of Directors of NAI and Employee. To the extent the practices, policies or procedures of NAI, now or in the future, are inconsistent with the terms of this Agreement, the provisions of this Agreement shall control.

14. **Governing Law.** This Executive Employment Agreement shall be construed and enforced in accordance with the laws of the State of California.

15. **Provisions Separable.** Should any part or provision of this Executive Employment Agreement be held unenforceable or in conflict with the law of any jurisdiction, the validity of the remaining parts shall not be affected by such holding.

16. **Attorney's Fees.** Should any party institute any action, arbitration or proceeding to enforce, interpret or apply any provision of this Executive Employment Agreement, the parties

agree that the prevailing party shall be entitled to reimbursement by the non-prevailing party of all recoverable costs and expenses, including, but not limited to, reasonable attorney fees.

17. **Interpretation.** This Agreement shall be construed as a whole, according to its fair meaning, and not in favor of or against any party. By way of example and not in limitation, this Agreement shall not be construed in favor of the party receiving a benefit nor against the party responsible for any particular language in this Agreement.

"EMPLOYEE"

/s/ Mark Le Doux

Mark A. LeDoux

NATURAL ALTERNATIVES INTERNATIONAL, INC.
a Delaware corporation

By: /s/ Randell Weaver

Randell Weaver, Chief Financial Officer and Chief Operating Officer

ATTACHMENT #1

MUTUAL AGREEMENT TO MEDIATE AND ARBITRATE CLAIMS

This Mutual Agreement to Mediate and Arbitrate Claims ("Agreement") is entered into between Mark A. LeDoux ("Employee") and Natural Alternatives International, Inc. ("NAI"), together with its affiliates and subsidiaries.

In consideration of Employee's prospective and continued employment relationship with NAI, Employee's employment rights under Employee's Executive Employment Agreement, Employee's participation in stock option plans, Employee's participation in bonus compensation programs, Employee's access to and receipt of confidential information of NAI, and other good and valuable consideration, all of which Employee considers to have been negotiated at arm's length, Employee agrees to the following:

1. **Claims Covered by this Agreement.**

a. To the fullest extent permitted by law, all claims and disputes between Employee (and his attorneys, successors and assigns) and NAI (as defined below) relating in any manner whatsoever to the employment or termination of Employee, including without limitation all claims and disputes arising under this Agreement, shall be resolved by arbitration. All persons and entities specified in the preceding sentence (other than NAI and Employee) shall be considered third-party beneficiaries of the rights and obligations created by this Agreement on arbitration. Claims and disputes covered by this Agreement include without limitation those arising under:

(i) Any federal, state or local laws, regulations or statutes prohibiting employment discrimination (such as, without limitation: race, sex, national origin, age, disability, religion, sexual orientation) and harassment.

(ii) Any alleged or actual agreement or covenant (oral, written or implied) between Employee and NAI.

(iii) Any company policy, compensation, wage or related claim or benefit plan, unless the decision in question was made by an entity other than NAI.

(iv) Any public policy.

(v) Any other claim for personal, emotional, physical or economic injury.

b. The only disputes between Employee and NAI which are not included within this Mutual Agreement to Arbitrate Claims are:

(i) Any claim by Employee for workers' compensation or unemployment compensation benefits.

(ii) Any claim by Employee for benefits under a company plan which provides for its own arbitration procedure.

2. **Mandatory Mediation of Claims and Disputes.**

a. If any claim or dispute concerning this Agreement or the parties' employment relationship cannot be resolved by negotiation between the parties, the following mediation and arbitration procedures shall be invoked. Before invoking the binding arbitration procedure set forth below, NAI and Employee shall first participate in mandatory mediation of any dispute arising under this Agreement.

b. The claim or dispute shall be submitted to mediation before a mediator of the Judicial Arbitration and Mediation Service ("JAMS"), a mutually agreed to alternative dispute resolution ("ADR") organization. The mediation shall be conducted at a mutually agreeable location, or if a location cannot be agreed to by the parties, at a location chosen by the mediator. The administrator of the ADR organization shall select three (3) mediators. From the three (3) chosen, each party shall strike one and the remaining mediator shall preside over the mediation. The cost of the mediation shall be borne equally by NAI and Employee.

c. At least ten (10) business days before the date of the mediation, each side shall provide the mediator with a statement of its position and copies of all supporting documents. Each party shall send to the mediation a person who has authority to bind the party. If a subsequent dispute will involve third parties, such as insurers or subcontractors, they shall also be asked to participate in the mediation.

d. If a party has participated in the mediation and is dissatisfied with the outcome, that party may invoke the arbitration procedure set forth below.

3. **Binding Arbitration of Claims and Disputes.**

a. If NAI and Employee are unable to resolve a dispute relating to this Agreement through mediation, they shall submit any such dispute or claims relating to Employee's employment with NAI or the termination of that employment including but not limited to claims arising under common law or under any statute, rule, regulation, or law, whether federal, state or local including without limitation, any claims under the California Fair Employment and Housing Act, the California Labor Code, Title VII of the Civil Rights Act of 1964, the Age Discrimination in Employment Act, the Americans with Disabilities Act, the Rehabilitation Act of 1973, the Family Medical Leave Act the Employee Retirement Income Security Act of 1974, or Section 1981 or Title 42 of the United States Code to binding arbitration, in accordance with California Code of Civil Procedure §§1280 through 1294.2. Either party may enforce the award of the arbitrator under Code of Civil Procedure §1285 by any competent court of law. Employee and NAI understand that they are waiving their rights to a jury trial.

b. The party demanding arbitration shall submit a written claim to the other party, setting out the basis of the claim and proposing the name of an arbitrator from JAMS, the mutually agreed to ADR organization. The responding party shall have ten (10) business days in which to respond to this demand in a written answer. If this response is not timely made, or if the responding party agrees with the person proposed as the arbitrator, then the person named by the demanding party shall serve as the arbitrator. If the responding party submits a written answer rejecting the proposed arbitrator then, on the request of either party, JAMS shall appoint an arbitrator other than the mediator. The Employee and NAI agree to apply AAA rules for the

resolution of employment disputes to the arbitration even though the ADR is one other than AAA. No one who has ever had any business, financial, family, or social relationship with any party to this Agreement shall serve as an arbitrator unless the related party informs the other party of the relationship and the other party consents in writing to the use of that arbitrator.

c. The arbitration shall take place in the greater San Diego, California area, at a time and place selected by the arbitrator. A pre-arbitration hearing shall be held within ten (10) business days after the arbitrator's selection. The arbitration shall be held within sixty (60) calendar days after the pre-arbitration hearing. The arbitrator shall establish all discovery and other deadlines necessary to accomplish this goal.

d. Each party shall be entitled to discovery of essential documents and witnesses, as determined by the arbitrator in accordance with the then-applicable rules of discovery for the resolution of employment disputes and the time frame set forth in this Agreement. The arbitrator may resolve any disputes over any discovery matters as they would be resolved in civil litigation.

e. The arbitrator shall have the following powers:

(i) to issue subpoenas for the attendance of witnesses and subpoenas duces tecum for the production of books, records, documents, and other evidence;

(ii) to order depositions to be used as evidence;

(iii) subject to the limitations on discovery enumerated above, to enforce the rights, remedies, procedures, duties, liabilities, and obligations of discovery as if the arbitration were a civil action before a California superior court;

(iv) to conduct a hearing on the arbitrable issues;

(v) to administer oaths to parties and witnesses.

f. Within fifteen (15 days) after completion of the arbitration, the arbitrator shall submit a tentative decision in writing, specifying the reasoning for the decision and any calculations necessary to explain the award. Each party shall have fifteen (15 days) in which to submit written comments to the tentative decision. Within ten (10) days after the deadline for written comments, the arbitrator shall announce the final award.

g. NAI shall pay the arbitrator's expenses and fees, all meeting room charges, and any other expenses that would not have been incurred if the case were litigated in the judicial forum having jurisdiction over it. Unless otherwise ordered by the arbitrator, each party shall pay its own attorney fees, witness fees, and other expenses incurred by the party for his or her own benefit. Regardless of any statute, procedure, rule or law, the prevailing party in arbitration shall be entitled to recover from the non-prevailing party reasonable attorney fees incurred as a result of arbitration.

4. **Miscellaneous Provisions.**

a. The term "company" means NAI, and all related entities, all officers, employees, directors, agents, shareholders, partners, benefit plan sponsors, fiduciaries, administrators or affiliates of any of the above, and all successors and assignees of any of the above.

b. If either party pursues a covered claim against the other by any action, method or legal proceeding other than mediation or arbitration as provided herein, the responding party shall be entitled to dismissal or injunctive relief regarding such action and recovery of all costs, losses and attorneys' fees related to such other action or proceeding.

c. The parties to this Agreement acknowledge and agree that they are waiving their right to a jury trial on the issues covered by this Agreement.

d. This is the complete agreement of the parties on the subject of mediation and the arbitration of disputes and claims. This Agreement supersedes any prior or contemporaneous oral, written or implied understanding on the subject, shall survive the termination of Employee's employment and can only be revoked or modified by a written agreement signed by Employee and the Board of Directors of NAI that specifically states an intent to revoke or modify this Agreement. If any provision of this Agreement is adjudicated to be void or otherwise unenforceable in whole or in part, such adjudication shall not affect the validity of the remainder of the Agreement, which shall remain in full force and effect.

e. Employee represents and agrees that (i) Employee has entered into this Agreement voluntarily and without coercion or duress, (ii) Employee has been offered a reasonable time to consider the matters contained in this Agreement, (iii) Employee has been advised and has had the opportunity to consult with an attorney of his or her choice to explain the terms of this Agreement and the consequences of signing it, and (iv) Employee fully understands his or her rights, privileges and duties under the Agreement. NAI hereby advises Employee in writing to discuss this Agreement with independent counsel prior to executing this Agreement.

My signature below signifies that I have read, understand and agree to this Agreement.

"EMPLOYEE"

/s/ Mark Le Doux

Mark A. LeDoux

NATURAL ALTERNATIVES INTERNATIONAL, INC.
a Delaware corporation

By: /s/ Randell Weaver

Randell Weaver, Chief Financial Officer and
Chief Operating Officer

ATTACHMENT #2

CONFIDENTIAL INFORMATION AND INVENTION ASSIGNMENT AGREEMENT, COVENANT OF EXCLUSIVITY AND COVENANT NOT TO COMPETE

This Confidential Information And Invention Assignment Agreement ("Agreement") is made between Natural Alternatives International, Inc., a Delaware corporation ("Company") and the undersigned Employee.

In consideration of and as a condition of my prospective and continued employment relationship with the Company (which for purposes of this Agreement shall be deemed to include any subsidiaries or affiliates of the Company where "affiliate" shall mean any person or entity that directly or indirectly controls, is controlled by, or is under common control with the Company), the receipt of confidential information while associated with the Company, and other good and valuable consideration, I agree to the following, and I agree the following shall be in addition to the terms and conditions of any Confidential Information and Invention Assignment Agreement executed by employees of the Company generally, and which I may execute in addition hereto:

1. **Inventions.**

a. Disclosure. I will disclose promptly in writing to the appropriate officer or other representative of the Company, any idea, invention, work of authorship, design, formula, pattern, compilation, program, device, method, technique, process, improvement, development or discovery, whether or not patentable or copyrightable or entitled to legal protection as a trade secret, trademark service mark, trade name or otherwise ("Invention"), that I may conceive, make, develop, reduce to practice or work on, in whole or in part, solely or jointly with others ("Invent"), during the period of my employment with the Company.

i. The disclosure required by this Section 1a. applies to each and every Invention that I Invent (1) whether during my regular hours of employment or during my time away from work (2) whether or not the Invention was made at the suggestion of the Company, and (3) whether or not the Invention was reduced to or embodied in writing, electronic media or tangible form.

ii. The disclosure required by this Section 1 a. also applies to any Invention which may relate at the time of conception or reduction to practice of the Invention to the Company's business or actual or demonstrably anticipated research or development of the Company, and to any Invention which results from any work performed by me for the Company.

iii. The disclosure required by this Section 1 a. shall be received in confidence by the Company within the meaning of and to the extent required by California Labor Code §2871, the provisions of which are set forth on Exhibit "A" hereto.

iv. To facilitate the complete and accurate disclosures described above, I shall maintain complete written records of all Inventions and all work,

study and investigation done by me during my employment, which records shall be the Company's property.

v. I agree that during my employment I shall have a continuing obligation to supplement the disclosure required by this Section 1 a. on a monthly basis if I Invent an Invention during the period of employment. In order to facilitate the same, the Company and I shall periodically review every six months the written records of all Inventions as outlined in this Paragraph 1 a. to determine whether any particular invention is in fact related to Company business. Should a dispute arise between the Company and myself during the review period, I agree that binding arbitration as outlined in Paragraph 3 of the Mutual Agreement to Mediate and Arbitrate Claims shall be the sole determination whether any particular invention is in fact related to Company business. As to those inventions that are determined to be my sole property, the Company retains right of first refusal or to submit of a purchase agreement, stemming from or related to the review period.

b. Assignment. I hereby assign to the Company without royalty or any other further consideration my entire right, title and interest in and to each and every Invention I am required to disclose under Section 1 a. other than an Invention that (i) I have or shall have developed entirely on my own time without using the Company's equipment, supplies, facilities or trade secret information, (ii) does not relate at the time of conception or reduction to practice of the Invention to the Company's business, or actual or demonstrably anticipated research or development of the Company and (iii) does not result from any work performed by me for the Company. I acknowledge that the Company has notified me that the assignment provided for in this Section l b. does not apply to any Invention to which the assignment may not lawfully apply under the provisions of Section §2870 of the California Labor Code, a copy of which is attached as Exhibit "A" hereto. I shall bear the full burden of proving to the Company that an invention qualifies fully under Section §2870.

c. Additional Assistance and Documents. I will assist the Company in obtaining, maintaining and enforcing patents, copyrights, trade secrets, trademarks, service marks, trade names and other proprietary rights in connection with any Invention I have assigned to the Company under Section l b., and I further agree that my obligations under this Section l c. shall continue beyond the termination of my employment with the Company. Among other things, for the foregoing purposes I will (i) testify at the request of the Company in any interference, litigation or other legal proceeding that may arise during or after my employment, and (ii) execute, verify, acknowledge and deliver any proper document and, if, because of my mental or physical incapacity or for any other reason whatsoever, the Company is unable to obtain my signature to apply for or to pursue any application for any United States or foreign patent or copyright covering Inventions assigned to the Company by me, I hereby irrevocably designate and appoint each of the Company and its duly authorized officers and agents as my agent and attorney in fact to act for me and in my behalf and stead to execute and file any such applications and to do all other lawfully permitted acts to further the prosecution and issuance of any United States or foreign patent or copyright thereon with the same legal force and effect as if executed by me. I shall be entitled to reimbursement of any out-of-pocket expenses incurred by me in rendering such assistance and, if I am required to render such assistance after the termination of my employment, the Company shall pay me a reasonable rate of compensation for

time spent by me in rendering such assistance to the extent permitted by law (provided, I understand that no compensation shall be paid for my time in connection with preparing for or rendering any testimony or statement under oath in any judicial proceeding, arbitration or similar proceeding).

d. Prior Contracts and Inventions; Rights of Third Parties. I represent to the Company that, except as set forth on Exhibit "B" hereto, there are no other contracts to assign Inventions now in existence between me and any other person or entity (and if no Exhibit "B" is attached hereto or there is no such contract(s) described thereon, then it means that by signing this Agreement, I represent to the Company that there is no such other contract(s)). In addition, I represent to the Company that I have no other employments or undertaking which do or would restrict or impair my performance of this Agreement. I further represent to the Company that Exhibit "C" hereto sets forth a brief description of all Inventions made or conceived by me prior to my employment with the Company which I desire to be excluded from this Agreement (and if no Exhibit "C" is attached hereto or there is no such description set forth thereon, then it means that by signing this Agreement I represent to the Company that there is no such Invention made or conceived by me prior to my employment with the Company). In connection with my employment with the Company, I promise not to use or disclose to the Company any patent, copyright, confidential trade secret or other proprietary information of any previous employer or other person that I am not lawfully entitled so to use or disclose. If in the course of my employment with the Company I incorporate into an Invention or any product process or service of the Company any Invention made or conceived by me prior to my employment with the Company, I hereby grant to the Company a royalty-free, irrevocable, worldwide nonexclusive license to make, have made, use and sell that Invention without restriction as to the extent of my ownership or interest.

2. **Confidential Information.**

a. Company Confidential Information. I will not use or disclose Confidential Information, whether before, during or after the period of my employment except to perform my duties as an employee of the Company based on my reasonable judgment as an Officer of the Company, or in accordance with instruction or authorization of the Company, without prior written consent of the Company or pursuant to process or requirements of law after I have disclosed such process or requirements to the Company so as to afford it the opportunity to seek appropriate relief therefrom. "Confidential Information" means any Invention of any person in which the Company has an interest and in addition means any financial, client, customer, supplier, marketing, distribution and other information of a confidential or private nature connected with the business of the Company or any person with whom it deals, provided by the Company to me or to which I have access during or in the course of any employment. Confidential Information is to be broadly defined, and includes all information that has or could have commercial value or other utility in the business in which the Company is engaged or contemplates engaging, and all information of which the unauthorized disclosure could be detrimental to the interests of the Company, whether or not such information is identified as Confidential Information by the Company.

b. Third Party Information. I acknowledge that during my employment with the Company I may have access to patent, copyright, confidential, trade secret or other proprietary information of third parties subject to restrictions on the use or disclosure thereof by the Company. During the period of my employment and thereafter I will not use or disclose any

such information other than consistent with the restrictions and my duties as an employee of the Company.

3. **Property of the Company.** All equipment and all tangible and intangible information relating to NAI, its employees and its customers or vendors furnished to, obtained by or prepared by Employee or any other person during the course of or incident to employment by NAI are and shall remain the sole property of NAI ("NAI Company Property"). NAI Company Property shall include, but not be limited to, computer equipment, books, manuals, records, reports, notes, correspondence, contracts, customer lists, business cards, advertising, sales, financial, personnel, operations, and manufacturing materials and information, data processing reports, computer programs, software, customer information and records, business records, price lists or information, and samples, and in each case shall include all copies thereof in any medium, including paper, electronic and magnetic media and all other forms of information storage. All tangible NAI Company Property shall be returned promptly to NAI upon termination of employment.

4. **No Solicitation of Company Employees.** While employed by the Company and for a period of one year after termination of my employment with the Company, I agree not to induce or attempt to influence directly or indirectly any employee of the Company to terminate employment with the Company or to work for me or any other person or entity.

5. **Covenant of Exclusivity and Not to Compete.** During the period of my employment with the Company, I will not engage in any other professional employment or consulting or directly or indirectly participate in or assist any business which is a current or potential supplier, customer or competitor of the Company without prior written approval from the Board of Directors of the Company.

6. **General.**

a. Assignments, Successors and Assignees. All representations, warranties, covenants and agreements of the parties shall bind their respective heirs, executors, personal representatives, successors and assignees ("transferees") and shall inure to the benefit of their respective permitted transferees. The Company shall have the right to assign any or all of its rights and to delegate any or all of its obligations hereunder. The undersigned employee shall not have the right to assign any rights or delegate any obligations hereunder without the prior written consent of the Company or its transferee.

b. Number and Gender, Headings. Each number and gender shall be deemed to include each other number and gender as the context may require. The headings and captions contained in this Agreement shall not constitute a part thereof and shall not be used in its construction or interpretation.

c. Severability. If any provision of this Agreement is found by any court or arbitral tribunal of competent jurisdiction to be invalid or unenforceable, the invalidity of such provision shall not affect the other provisions of this Agreement and all provisions not affected by the invalidity shall remain in full force and effect.

d. Amendment and Modification. This Agreement may be amended or modified only by a writing executed by each party.

e. Government Law. The laws of California shall govern the construction, interpretation and performance of this Agreement and all transactions under it.

f. Remedies. I acknowledge that my failure to carry out any obligation under this Agreement, or a breach by me of any provision herein, will constitute immediate and irreparable damage to the Company, which cannot be fully and adequately compensated in money damages and which will warrant preliminary and other injunctive relief, an order for specific performance, and other equitable relief. I further agree that no bond or other security shall be required in obtaining such equitable relief and I hereby consent to the issuance of such injunction and to the ordering of specific performance. I also understand that other action may be taken and remedies enforced against me.

g. Mediation and Arbitration. This Agreement is subject to the Mutual Agreement to Mediate and Arbitrate Claims attached to the Executive Employment Agreement between myself and Company, incorporated into this Agreement by this reference.

h. Attorneys' Fees. Should either I or the Company, or any heir, personal representative, successor or permitted assign of either party, resort to arbitration or legal proceedings to enforce this Agreement, the prevailing party (as defined in California statutory law) in such proceeding shall be awarded, in addition to such other relief as may be granted, attorneys' fees and costs incurred in connection with such proceeding.

i. No Effect on Other Terms or Conditions of Employment. I acknowledge that this Agreement does not affect any term or condition of my employment except as expressly provided in this Agreement, and that this Agreement does not give rise to any right or entitlement on my part to employment or continued employment with the Company. I further acknowledge that this Agreement does not affect in any way the right of the Company to terminate my employment.

j. Independent Counsel. Employee represents and agrees that (i) Employee has entered into this Agreement voluntarily and without coercion or duress, (ii) Employee has been offered a reasonable time to consider the matters contained in this Agreement, (iii) Employee has been advised and has had the opportunity to consult with an attorney of his or her choice to explain the terms of this Agreement and the consequences of signing it, and (iv) Employee fully understands his or her rights, privileges and duties under the Agreement. NAI hereby advises Employee in writing to discuss this Agreement with independent counsel prior to executing this Agreement.

My signature below signifies that I have read, understand and agree to this Agreement.

/s/ Mark Le Doux

Mark A. LeDoux

ACCEPTED:
NATURAL ALTERNATIVES INTERNATIONAL, INC.
a Delaware corporation

By: /s/ Randell Weaver

Randell Weaver, Chief Financial Officer and Chief Operating Officer

EXHIBIT "A"

California Labor Code

§ 2870. Invention on Own Time-Exemption from Agreement.

(a) Any provision in an employment agreement which provides that an employee shall assign, or offer to assign, any of his or her rights in an invention to his or her employer shall not apply to an invention that the employee developed entirely on his or her own time without using the employer's equipment, supplies, facilities or trade secret information expect for those inventions that either:

(1) Relate at the time of conception or reduction to practice of the invention to the employer's business, or actual or demonstrably anticipated research or development of the employer.

(2) Result from any work performed by the employee for the employer.

(b) To the extent a provision in an employment agreement purports to require an employee to assign an invention otherwise excluded from being required to be assigned under subdivision (a), the provision is against the public policy of this state and is unenforceable.

§ 2871. Restrictions on Employer for Condition of Employment.

No employer shall require a provision made void or unenforceable by Section 2870 as a condition of employment or continued employment. Nothing in this article shall be construed to forbid or restrict the right of an employer to provide in contracts of employment for disclosure, provided that any such disclosures be received in confidence, of all of the employee's inventions made solely or jointly with others during the period of his or her employment, a review process by the employer to determine such issues as may arise, and for full title to certain patents and inventions to be in the United States, as required by contracts between the employer and the United States or any of its agencies.

EXHIBIT "B"

Except as set forth below, Employee represents to the Company that there are no other contracts to assign Inventions now in existence between Employee and any other person or entity (see Section 1 d. of the Agreement):

EXHIBIT "C"

Set forth below is a brief description of all Inventions made or conceived by Employee prior to Employee's employment with the Company which Employee desires to be excluded from this Agreement (see Section 1 d. of the Agreement):

Exhibit 10.6

EXECUTIVE EMPLOYMENT AGREEMENT

John Wise ("Employee") hereby accepts the offer of Natural Alternatives International, Inc. ("NAI" or the "Company") for employment as Chief Scientific Officer beginning July 1, 2002. Collectively, NAI and Employee will be referred to herein as the "Parties."

1. **Employment.** Notwithstanding the rights of the Parties to terminate the relationship described below, the Parties anticipate that Employee will be employed through June 30, 2003. Employee's employment will be at-will and may be terminated by either Employee or NAI at any time for any reason or no reason, with or without cause upon written notice to the other, or without any notice upon the death of Employee. The at-will status of the employment relationship may not be modified except in writing authorized in advance by the Board of Directors of NAI and signed by the Board of Directors of NAI and Employee.

2. **Employee Handbook.** Employee and NAI further understand and agree that nothing in the NAI Employee Handbook is intended to be, and nothing in it should be construed to be, a limitation of NAI's right to terminate, transfer, demote, suspend and administer discipline at any time for any reason. Employee and NAI understand and agree nothing in the Handbook is intended to, and nothing in the Handbook should be construed to, create an implied or express contract of employment contrary to this Agreement.

3. **Position and Responsibilities.** During employment, Employee shall have such responsibilities, duties and authority as NAI through its Board of Directors may from time to time assign to Employee, and that are normal and customary duties of a Chief Scientific Officer of a publicly held corporation. Employee's initial title shall be Chief Scientific Officer.

4. **Term.** If Employee continues working for NAI past June 30, 2003, and if NAI still desires Employee's services, then the following terms and conditions will apply:

a. At-will. Employee shall be an at-will employee and NAI or Employee will be entitled to terminate the employment relationship for any reason or for no reason, with or without cause and with or without notice;

b. Compensation. Employee will be compensated at the rate set forth in Section 5 below unless another rate is mutually agreed upon; and

c. Benefits. As to benefits and other terms of employment, Employee shall be subject to the same policies and procedures as other employees of NAI in similar positions.

5. **Compensation.** While Employee is employed by NAI as Chief Scientific Officer, Employee's rate of compensation will be at a rate of $180,000 per year, payable no less frequently than monthly. The compensation set forth in this Section 5 will be Employee's only compensation except standard employee benefits available to other level one executives of NAI or any other written compensation arrangement approved by the Board of Directors of NAI. Employee will be entitled to participate in any bonus compensation in a manner and at a level consistent with other level one executives of NAI.

6. **Termination.** In the event of termination or resignation, the following terms and conditions will apply:

a. Without Cause, Severance Benefit. In the event Employee is terminated by NAI without cause, Employee shall be entitled to receive a severance benefit, including standard employee benefits available to other level one executives of NAI, in an amount equal to twelve months' compensation. One half of any severance benefit owing hereunder shall be paid within 10 days of termination and the balance shall be paid on a bi-weekly basis over the severance period of from one to twelve months.

b. With Cause, No Severance Benefit. NAI may terminate Employee with cause, which shall be limited to the occurrence of one or more of the following events: (i) the Employee's commission of any fraud against NAI; (ii) Employee's intentional appropriation for his or her personal use or benefit the funds of the Company not authorized by the Board of Directors; (iii) Employee's conviction of any crime involving moral turpitude; (iv) Employee's conviction of a violation of any state or federal law which could result in a material adverse impact upon the business of NAI; (v) the Employee engaging in any other professional employment or consulting or directly or indirectly participating in or assisting any business which is a current or potential supplier, customer or competitor of NAI without prior written approval from the Board of Directors of NAI, (vi) the Employee accepting or encouraging the offering of gifts or gratuities from any customer, vendor, supplier, or other person doing business with NAI, or (vii) when Employee has been disabled and is unable to perform the essential functions of the position for any reason notwithstanding reasonable accommodation and has received from NAI compensation in an amount equivalent to his or her severance benefit payment. No severance benefit shall be due to Employee if Employee is terminated for cause.

c. Resignation or Retirement, No Severance Pay. No severance pay shall be due to Employee if Employee resigns or retires from employment.

7. **Termination Obligations.**

a. Return of NAI Company Property. Employee shall take all reasonable steps to make sure all NAI Company Property (as defined in Attachment 2) is returned to NAI within two (2) business days following termination of employment.

b. Employee Cooperation. Following any termination of the employment, Employee shall cooperate fully with NAI in all matters relating to completing pending work on behalf of NAI and the orderly transfer of work to other employees of NAI. Employee shall also cooperate in the defense of any action brought by any third party against NAI that relates in any way to Employee's acts or omissions while employed by NAI.

c. Survival of Obligations. Employee's obligations under this Section shall survive the termination of employment and the expiration or termination of this Agreement.

8. **Change in Control.** In the event of any Change in Control, the following provisions will apply. Any of the following shall constitute a "Change in Control" for the purposes of this Section 7:

a. A "person" (meaning an individual, a partnership, or other group or association as defined in sections 13(d) and 14(d) of the Securities Exchange Act of 1934) acquires fifty percent (50%) or more of the combined voting power of the outstanding securities of NAI having a right to vote in elections of directors; or

b. The members of the Board of Directors of the Company who were members of the Board of Directors on the commencement date hereof, shall for any reason cease to constitute a majority of the Board of Directors of the Company; or

c. All or substantially all of the business of NAI is disposed of by NAI to a party or parties other than a subsidiary or other affiliate of NAI, in which NAI owns less than a majority of the equity, pursuant to a partial or complete liquidation of NAI, sale of assets (including stock of a subsidiary of NAI) or otherwise.

d. In the event of any such Change in Control, this Agreement shall continue in effect unless Employee at his or her sole option, and within sixty (60) days of a Change in Control taking place, elects voluntarily to terminate this Agreement. In such case, NAI shall pay Employee as severance pay or liquidated damages, or both, a lump sum payment ("Change in Control Severance Payment") equal to the severance period specified in Section 6(a) above or such greater amount as the Board of Directors determines from time to time pursuant to terms which may not be revoked or reduced thereafter.

e. In the event Employee is terminated following a Change in Control by NAI and/or the surviving or resulting corporation without cause, Employee shall be entitled to a Change in Control Severance Payment equal to the severance period specified in Section 6(a) or such greater amount as the Board of Directors determines from time to time pursuant to terms which may not be revoked or reduced thereafter.

f. Any Change in Control Severance Payment shall be made not later than the fifteenth (15th) day following the effective date of the voluntary or involuntary termination of this Agreement in connection with a Change in Control; provided, however, that if the amount of such payments cannot be finally determined on or before such date, NAI shall pay to Employee on such date a good faith estimate of the minimum amount of such payments, and shall pay the remainder of such payments (together with interest at the rate provided in Internal Revenue Code Section 1274(b)(2)(B) of the Code), as soon as the amount thereof can be determined, but in no event later than the thirtieth (30th) day after the applicable termination date. In the event the amount of the estimated payments exceeds the amount subsequently determined to have been due, such excess shall constitute a loan by NAI payable on the fifteenth (15th) day after receipt by Employee of a written demand for payment from NAI (together with interest calculated as above). The total of any payment pursuant to this Section 7 shall be limited to the extent necessary, in the opinion of legal counsel acceptable to Employee and NAI, to avoid the payment of an "excess parachute" payment within the meaning of Internal Revenue Code Section 280 G or any similar successor provision.

g. In the event of termination of employment either by the Employee under paragraph 7d. or by NAI under paragraph 7e., NAI shall cause each stock option heretofore granted by NAI to the Employee to become fully exercisable and to remain exercisable for the term of the option.

9. **Arbitration.** Employee and NAI hereby agree to the Mutual Agreement to Arbitrate attached hereto and made a part hereof as Attachment #1. Employee's obligations under this Section shall survive the termination of employment and the expiration or termination of this Agreement.

10. **Confidential Information and Inventions.** Employee and NAI hereby agree to the Confidential Information and Assignment Agreement, Covenant of Exclusivity and Covenant Not to Compete attached hereto and made a part hereof as Attachment #2. Employee's obligations under this Section shall survive the termination of employment and the expiration or termination of this Agreement.

11. **Competitive Activity.** Employee covenants, warrants and represents that during the period of his or her employment with NAI, Employee shall not engage anywhere directly or indirectly in (as a principal, shareholder, partner, director, officer, agent, employee, consultant or otherwise) or be financially interested in any business which is involved in business activities which are the same as, similar to, or in competition with business activities carried on by NAI or any business that is a current or potential supplier, customer or competitor of NAI without prior written approval from the Board of Directors of NAI.

12. **Employee Conduct.** Employee covenants, warrants and represents that during the period of his or her employment with NAI, Employee shall not accept or encourage the offering of gifts or gratuities from any customer, vendor, supplier, or other person doing business with NAI. Employee represents and understands that acceptance or encouragement of any gift or gratuity may create a perceived financial obligation and/or conflict of interest for NAI and shall not be permitted as a means to influence business decisions, transactions or service. In this situation, as in all other areas of employment, Employee is expected to conduct himself or herself using the highest ethical standard.

13. **Entire Agreement.** This Agreement contains the entire agreement between the parties. It supersedes any and all other agreements, either oral or in writing, between the parties hereto with respect to Employee's employment by NAI. Each party to this Agreement acknowledges that no representations, inducements, promises or agreements, oral or otherwise, have been made by any party, or anyone acting on behalf of any party, which are not embodied herein and acknowledges that no other agreement, statement or promise not contained in this Agreement shall be valid or binding. This Agreement may not be modified or amended by oral agreement or course of conduct, but only by an agreement in writing signed by the Board of Directors of NAI and Employee. To the extent the practices, policies or procedures of NAI, now or in the future, are inconsistent with the terms of this Agreement, the provisions of this Agreement shall control.

14. **Governing Law.** This Executive Employment Agreement shall be construed and enforced in accordance with the laws of the State of California.

15. **Provisions Separable.** Should any part or provision of this Executive Employment Agreement be held unenforceable or in conflict with the law of any jurisdiction, the validity of the remaining parts shall not be affected by such holding.

16. **Attorney's Fees.** Should any party institute any action, arbitration or proceeding to enforce, interpret or apply any provision of this Executive Employment Agreement, the parties agree that the prevailing party shall be entitled to reimbursement by the non-prevailing party of all recoverable costs and expenses, including, but not limited to, reasonable attorney fees.

17. **Interpretation.** This Agreement shall be construed as a whole, according to its fair meaning, and not in favor of or against any party. By way of example and not in limitation,

this Agreement shall not be construed in favor of the party receiving a benefit nor against the party responsible for any particular language in this Agreement.

"EMPLOYEE"

/s/ John Wise

John Wise

NATURAL ALTERNATIVES INTERNATIONAL, INC.
a Delaware corporation

By: /s/ Randell Weaver

Randell Weaver, Chief Financial Officer and Chief Operating Officer

ATTACHMENT #1

MUTUAL AGREEMENT TO MEDIATE AND ARBITRATE CLAIMS

This Mutual Agreement to Mediate and Arbitrate Claims ("Agreement") is entered into between John Wise ("Employee") and Natural Alternatives International, Inc. ("NAI"), together with its affiliates and subsidiaries.

In consideration of Employee's prospective and continued employment relationship with NAI, Employee's employment rights under Employee's Executive Employment Agreement, Employee's participation in stock option plans, Employee's participation in bonus compensation programs, Employee's access to and receipt of confidential information of NAI, and other good and valuable consideration, all of which Employee considers to have been negotiated at arm's length, Employee agrees to the following:

1. **Claims Covered by this Agreement.**

a. To the fullest extent permitted by law, all claims and disputes between Employee (and his attorneys, successors and assigns) and NAI (as defined below) relating in any manner whatsoever to the employment or termination of Employee, including without limitation all claims and disputes arising under this Agreement, shall be resolved by arbitration. All persons and entities specified in the preceding sentence (other than NAI and Employee) shall be considered third-party beneficiaries of the rights and obligations created by this Agreement on arbitration. Claims and disputes covered by this Agreement include without limitation those arising under:

(i) Any federal, state or local laws, regulations or statutes prohibiting employment discrimination (such as, without limitation: race, sex, national origin, age, disability, religion, sexual orientation) and harassment.

(ii) Any alleged or actual agreement or covenant (oral, written or implied) between Employee and NAI.

(iii) Any company policy, compensation, wage or related claim or benefit plan, unless the decision in question was made by an entity other than NAI.

(iv) Any public policy.

(v) Any other claim for personal, emotional, physical or economic injury.

b. The only disputes between Employee and NAI which are not included within this Mutual Agreement to Arbitrate Claims are:

(i) Any claim by Employee for workers' compensation or unemployment compensation benefits.

(ii) Any claim by Employee for benefits under a company plan which provides for its own arbitration procedure.

2. **Mandatory Mediation of Claims and Disputes.**

a. If any claim or dispute concerning this Agreement or the parties' employment relationship cannot be resolved by negotiation between the parties, the following mediation and arbitration procedures shall be invoked. Before invoking the binding arbitration procedure set forth below, NAI and Employee shall first participate in mandatory mediation of any dispute arising under this Agreement.

b. The claim or dispute shall be submitted to mediation before a mediator of the Judicial Arbitration and Mediation Service ("JAMS"), a mutually agreed to alternative dispute resolution ("ADR") organization. The mediation shall be conducted at a mutually agreeable location, or if a location cannot be agreed to by the parties, at a location chosen by the mediator. The administrator of the ADR organization shall select three (3) mediators. From the three (3) chosen, each party shall strike one and the remaining mediator shall preside over the mediation. The cost of the mediation shall be borne equally by NAI and Employee.

c. At least ten (10) business days before the date of the mediation, each side shall provide the mediator with a statement of its position and copies of all supporting documents. Each party shall send to the mediation a person who has authority to bind the party. If a subsequent dispute will involve third parties, such as insurers or subcontractors, they shall also be asked to participate in the mediation.

d. If a party has participated in the mediation and is dissatisfied with the outcome, that party may invoke the arbitration procedure set forth below.

3. **Binding Arbitration of Claims and Disputes.**

a. If NAI and Employee are unable to resolve a dispute relating to this Agreement through mediation, they shall submit any such dispute or claims relating to Employee's employment with NAI or the termination of that employment including but not limited to claims arising under common law or under any statute, rule, regulation, or law, whether federal, state or local including without limitation, any claims under the California Fair Employment and Housing Act, the California Labor Code, Title VII of the Civil Rights Act of 1964, the Age Discrimination in Employment Act, the Americans with Disabilities Act, the Rehabilitation Act of 1973, the Family Medical Leave Act the Employee Retirement Income Security Act of 1974, or Section 1981 or Title 42 of the United States Code to binding arbitration, in accordance with California Code of Civil Procedure §§1280 through 1294.2. Either party may enforce the award of the arbitrator under Code of Civil Procedure §1285 by any competent court of law. Employee and NAI understand that they are waiving their rights to a jury trial.

b. The party demanding arbitration shall submit a written claim to the other party, setting out the basis of the claim and proposing the name of an arbitrator from JAMS, the mutually agreed to ADR organization. The responding party shall have ten (10) business days in which to respond to this demand in a written answer. If this response is not timely made, or if the responding party agrees with the person proposed as the arbitrator, then the person named by the demanding party shall serve as the arbitrator. If the responding party submits a written answer rejecting the proposed arbitrator then, on the request of either party, JAMS shall appoint an arbitrator other than the mediator. The Employee and NAI agree to apply AAA rules for the

resolution of employment disputes to the arbitration even though the ADR is one other than AAA. No one who has ever had any business, financial, family, or social relationship with any party to this Agreement shall serve as an arbitrator unless the related party informs the other party of the relationship and the other party consents in writing to the use of that arbitrator.

c. The arbitration shall take place in the greater San Diego, California area, at a time and place selected by the arbitrator. A pre-arbitration hearing shall be held within ten (10) business days after the arbitrator's selection. The arbitration shall be held within sixty (60) calendar days after the pre-arbitration hearing. The arbitrator shall establish all discovery and other deadlines necessary to accomplish this goal.

d. Each party shall be entitled to discovery of essential documents and witnesses, as determined by the arbitrator in accordance with the then-applicable rules of discovery for the resolution of employment disputes and the time frame set forth in this Agreement. The arbitrator may resolve any disputes over any discovery matters as they would be resolved in civil litigation.

e. The arbitrator shall have the following powers:

(i) to issue subpoenas for the attendance of witnesses and subpoenas duces tecum for the production of books, records, documents, and other evidence;

(ii) to order depositions to be used as evidence;

(iii) subject to the limitations on discovery enumerated above, to enforce the rights, remedies, procedures, duties, liabilities, and obligations of discovery as if the arbitration were a civil action before a California superior court;

(iv) to conduct a hearing on the arbitrable issues;

(v) to administer oaths to parties and witnesses.

f. Within fifteen (15 days) after completion of the arbitration, the arbitrator shall submit a tentative decision in writing, specifying the reasoning for the decision and any calculations necessary to explain the award. Each party shall have fifteen (15 days) in which to submit written comments to the tentative decision. Within ten (10) days after the deadline for written comments, the arbitrator shall announce the final award.

g. NAI shall pay the arbitrator's expenses and fees, all meeting room charges, and any other expenses that would not have been incurred if the case were litigated in the judicial forum having jurisdiction over it. Unless otherwise ordered by the arbitrator, each party shall pay its own attorney fees, witness fees, and other expenses incurred by the party for his or her own benefit. Regardless of any statute, procedure, rule or law, the prevailing party in arbitration shall be entitled to recover from the non-prevailing party reasonable attorney fees incurred as a result of arbitration.

4. **Miscellaneous Provisions.**

a. The term "company" means NAI, and all related entities, all officers, employees, directors, agents, shareholders, partners, benefit plan sponsors, fiduciaries, administrators or affiliates of any of the above, and all successors and assignees of any of the above.

b. If either party pursues a covered claim against the other by any action, method or legal proceeding other than mediation or arbitration as provided herein, the responding party shall be entitled to dismissal or injunctive relief regarding such action and recovery of all costs, losses and attorneys' fees related to such other action or proceeding.

c. The parties to this Agreement acknowledge and agree that they are waiving their right to a jury trial on the issues covered by this Agreement.

d. This is the complete agreement of the parties on the subject of mediation and the arbitration of disputes and claims. This Agreement supersedes any prior or contemporaneous oral, written or implied understanding on the subject, shall survive the termination of Employee's employment and can only be revoked or modified by a written agreement signed by Employee and the Board of Directors of NAI that specifically states an intent to revoke or modify this Agreement. If any provision of this Agreement is adjudicated to be void or otherwise unenforceable in whole or in part, such adjudication shall not affect the validity of the remainder of the Agreement, which shall remain in full force and effect.

e. Employee represents and agrees that (i) Employee has entered into this Agreement voluntarily and without coercion or duress, (ii) Employee has been offered a reasonable time to consider the matters contained in this Agreement, (iii) Employee has been advised and has had the opportunity to consult with an attorney of his or her choice to explain the terms of this Agreement and the consequences of signing it, and (iv) Employee fully understands his or her rights, privileges and duties under the Agreement. NAI hereby advises Employee in writing to discuss this Agreement with independent counsel prior to executing this Agreement.

My signature below signifies that I have read, understand and agree to this Agreement.

"EMPLOYEE"

/s/ John Wise

John Wise

NATURAL ALTERNATIVES INTERNATIONAL, INC.
a Delaware corporation

By: /s/ Randell Weaver

Randell Weaver, Chief Financial Officer and
Chief Operating Officer

ATTACHMENT #2

CONFIDENTIAL INFORMATION AND INVENTION ASSIGNMENT AGREEMENT, COVENANT OF EXCLUSIVITY AND COVENANT NOT TO COMPETE

This Confidential Information And Invention Assignment Agreement ("Agreement") is made between Natural Alternatives International, Inc., a Delaware corporation ("Company") and the undersigned Employee.

In consideration of and as a condition of my prospective and continued employment relationship with the Company (which for purposes of this Agreement shall be deemed to include any subsidiaries or affiliates of the Company where "affiliate" shall mean any person or entity that directly or indirectly controls, is controlled by, or is under common control with the Company), the receipt of confidential information while associated with the Company, and other good and valuable consideration, I agree to the following, and I agree the following shall be in addition to the terms and conditions of any Confidential Information and Invention Assignment Agreement executed by employees of the Company generally, and which I may execute in addition hereto:

1. **Inventions.**

a. Disclosure. I will disclose promptly in writing to the appropriate officer or other representative of the Company, any idea, invention, work of authorship, design, formula, pattern, compilation, program, device, method, technique, process, improvement, development or discovery, whether or not patentable or copyrightable or entitled to legal protection as a trade secret, trademark service mark, trade name or otherwise ("Invention"), that I may conceive, make, develop, reduce to practice or work on, in whole or in part, solely or jointly with others ("Invent"), during the period of my employment with the Company.

i. The disclosure required by this Section 1a. applies to each and every Invention that I Invent (1) whether during my regular hours of employment or during my time away from work (2) whether or not the Invention was made at the suggestion of the Company, and (3) whether or not the Invention was reduced to or embodied in writing, electronic media or tangible form.

ii. The disclosure required by this Section 1 a. also applies to any Invention which may relate at the time of conception or reduction to practice of the Invention to the Company's business or actual or demonstrably anticipated research or development of the Company, and to any Invention which results from any work performed by me for the Company.

iii. The disclosure required by this Section 1 a. shall be received in confidence by the Company within the meaning of and to the extent required by California Labor Code §2871, the provisions of which are set forth on Exhibit "A" hereto.

iv. To facilitate the complete and accurate disclosures described above, I shall maintain complete written records of all Inventions and all work,

study and investigation done by me during my employment, which records shall be the Company's property.

v. I agree that during my employment I shall have a continuing obligation to supplement the disclosure required by this Section 1 a. on a monthly basis if I Invent an Invention during the period of employment. In order to facilitate the same, the Company and I shall periodically review every six months the written records of all Inventions as outlined in this Paragraph 1 a. to determine whether any particular invention is in fact related to Company business. Should a dispute arise between the Company and myself during the review period, I agree that binding arbitration as outlined in Paragraph 3 of the Mutual Agreement to Mediate and Arbitrate Claims shall be the sole determination whether any particular invention is in fact related to Company business. As to those inventions that are determined to be my sole property, the Company retains right of first refusal or to submit of a purchase agreement, stemming from or related to the review period.

b. Assignment. I hereby assign to the Company without royalty or any other further consideration my entire right, title and interest in and to each and every Invention I am required to disclose under Section 1 a. other than an Invention that (i) I have or shall have developed entirely on my own time without using the Company's equipment, supplies, facilities or trade secret information, (ii) does not relate at the time of conception or reduction to practice of the Invention to the Company's business, or actual or demonstrably anticipated research or development of the Company and (iii) does not result from any work performed by me for the Company. I acknowledge that the Company has notified me that the assignment provided for in this Section l b. does not apply to any Invention to which the assignment may not lawfully apply under the provisions of Section §2870 of the California Labor Code, a copy of which is attached as Exhibit "A" hereto. I shall bear the full burden of proving to the Company that an invention qualifies fully under Section §2870.

c. Additional Assistance and Documents. I will assist the Company in obtaining, maintaining and enforcing patents, copyrights, trade secrets, trademarks, service marks, trade names and other proprietary rights in connection with any Invention I have assigned to the Company under Section l b., and I further agree that my obligations under this Section l c. shall continue beyond the termination of my employment with the Company. Among other things, for the foregoing purposes I will (i) testify at the request of the Company in any interference, litigation or other legal proceeding that may arise during or after my employment, and (ii) execute, verify, acknowledge and deliver any proper document and, if, because of my mental or physical incapacity or for any other reason whatsoever, the Company is unable to obtain my signature to apply for or to pursue any application for any United States or foreign patent or copyright covering Inventions assigned to the Company by me, I hereby irrevocably designate and appoint each of the Company and its duly authorized officers and agents as my agent and attorney in fact to act for me and in my behalf and stead to execute and file any such applications and to do all other lawfully permitted acts to further the prosecution and issuance of any United States or foreign patent or copyright thereon with the same legal force and effect as if executed by me. I shall be entitled to reimbursement of any out-of-pocket expenses incurred by me in rendering such assistance and, if I am required to render such assistance after the termination of my employment, the Company shall pay me a reasonable rate of compensation for

time spent by me in rendering such assistance to the extent permitted by law (provided, I understand that no compensation shall be paid for my time in connection with preparing for or rendering any testimony or statement under oath in any judicial proceeding, arbitration or similar proceeding).

d. Prior Contracts and Inventions; Rights of Third Parties. I represent to the Company that, except as set forth on Exhibit "B" hereto, there are no other contracts to assign Inventions now in existence between me and any other person or entity (and if no Exhibit "B" is attached hereto or there is no such contract(s) described thereon, then it means that by signing this Agreement, I represent to the Company that there is no such other contract(s)). In addition, I represent to the Company that I have no other employments or undertaking which do or would restrict or impair my performance of this Agreement. I further represent to the Company that Exhibit "C" hereto sets forth a brief description of all Inventions made or conceived by me prior to my employment with the Company which I desire to be excluded from this Agreement (and if no Exhibit "C" is attached hereto or there is no such description set forth thereon, then it means that by signing this Agreement I represent to the Company that there is no such Invention made or conceived by me prior to my employment with the Company). In connection with my employment with the Company, I promise not to use or disclose to the Company any patent, copyright, confidential trade secret or other proprietary information of any previous employer or other person that I am not lawfully entitled so to use or disclose. If in the course of my employment with the Company I incorporate into an Invention or any product process or service of the Company any Invention made or conceived by me prior to my employment with the Company, I hereby grant to the Company a royalty-free, irrevocable, worldwide nonexclusive license to make, have made, use and sell that Invention without restriction as to the extent of my ownership or interest.

2. **Confidential Information.**

a. Company Confidential Information. I will not use or disclose Confidential Information, whether before, during or after the period of my employment except to perform my duties as an employee of the Company based on my reasonable judgment as an Officer of the Company, or in accordance with instruction or authorization of the Company, without prior written consent of the Company or pursuant to process or requirements of law after I have disclosed such process or requirements to the Company so as to afford it the opportunity to seek appropriate relief therefrom. "Confidential Information" means any Invention of any person in which the Company has an interest and in addition means any financial, client, customer, supplier, marketing, distribution and other information of a confidential or private nature connected with the business of the Company or any person with whom it deals, provided by the Company to me or to which I have access during or in the course of any employment. Confidential Information is to be broadly defined, and includes all information that has or could have commercial value or other utility in the business in which the Company is engaged or contemplates engaging, and all information of which the unauthorized disclosure could be detrimental to the interests of the Company, whether or not such information is identified as Confidential Information by the Company.

b. Third Party Information. I acknowledge that during my employment with the Company I may have access to patent, copyright, confidential, trade secret or other proprietary information of third parties subject to restrictions on the use or disclosure thereof by the Company. During the period of my employment and thereafter I will not use or disclose any

such information other than consistent with the restrictions and my duties as an employee of the Company.

3. **Property of the Company.** All equipment and all tangible and intangible information relating to NAI, its employees and its customers or vendors furnished to, obtained by or prepared by Employee or any other person during the course of or incident to employment by NAI are and shall remain the sole property of NAI ("NAI Company Property"). NAI Company Property shall include, but not be limited to, computer equipment, books, manuals, records, reports, notes, correspondence, contracts, customer lists, business cards, advertising, sales, financial, personnel, operations, and manufacturing materials and information, data processing reports, computer programs, software, customer information and records, business records, price lists or information, and samples, and in each case shall include all copies thereof in any medium, including paper, electronic and magnetic media and all other forms of information storage. All tangible NAI Company Property shall be returned promptly to NAI upon termination of employment.

4. **No Solicitation of Company Employees.** While employed by the Company and for a period of one year after termination of my employment with the Company, I agree not to induce or attempt to influence directly or indirectly any employee of the Company to terminate employment with the Company or to work for me or any other person or entity.

5. **Covenant of Exclusivity and Not to Compete.** During the period of my employment with the Company, I will not engage in any other professional employment or consulting or directly or indirectly participate in or assist any business which is a current or potential supplier, customer or competitor of the Company without prior written approval from the Board of Directors of the Company.

6. **General.**

a. Assignments, Successors and Assignees. All representations, warranties, covenants and agreements of the parties shall bind their respective heirs, executors, personal representatives, successors and assignees ("transferees") and shall inure to the benefit of their respective permitted transferees. The Company shall have the right to assign any or all of its rights and to delegate any or all of its obligations hereunder. The undersigned employee shall not have the right to assign any rights or delegate any obligations hereunder without the prior written consent of the Company or its transferee.

b. Number and Gender, Headings. Each number and gender shall be deemed to include each other number and gender as the context may require. The headings and captions contained in this Agreement shall not constitute a part thereof and shall not be used in its construction or interpretation.

c. Severability. If any provision of this Agreement is found by any court or arbitral tribunal of competent jurisdiction to be invalid or unenforceable, the invalidity of such provision shall not affect the other provisions of this Agreement and all provisions not affected by the invalidity shall remain in full force and effect.

d. Amendment and Modification. This Agreement may be amended or modified only by a writing executed by each party.

e. Government Law. The laws of California shall govern the construction, interpretation and performance of this Agreement and all transactions under it.

f. Remedies. I acknowledge that my failure to carry out any obligation under this Agreement, or a breach by me of any provision herein, will constitute immediate and irreparable damage to the Company, which cannot be fully and adequately compensated in money damages and which will warrant preliminary and other injunctive relief, an order for specific performance, and other equitable relief. I further agree that no bond or other security shall be required in obtaining such equitable relief and I hereby consent to the issuance of such injunction and to the ordering of specific performance. I also understand that other action may be taken and remedies enforced against me.

g. Mediation and Arbitration. This Agreement is subject to the Mutual Agreement to Mediate and Arbitrate Claims attached to the Executive Employment Agreement between myself and Company, incorporated into this Agreement by this reference.

h. Attorneys' Fees. Should either I or the Company, or any heir, personal representative, successor or permitted assign of either party, resort to arbitration or legal proceedings to enforce this Agreement, the prevailing party (as defined in California statutory law) in such proceeding shall be awarded, in addition to such other relief as may be granted, attorneys' fees and costs incurred in connection with such proceeding.

i. No Effect on Other Terms or Conditions of Employment. I acknowledge that this Agreement does not affect any term or condition of my employment except as expressly provided in this Agreement, and that this Agreement does not give rise to any right or entitlement on my part to employment or continued employment with the Company. I further acknowledge that this Agreement does not affect in any way the right of the Company to terminate my employment.

j. Independent Counsel. Employee represents and agrees that (i) Employee has entered into this Agreement voluntarily and without coercion or duress, (ii) Employee has been offered a reasonable time to consider the matters contained in this Agreement, (iii) Employee has been advised and has had the opportunity to consult with an attorney of his or her choice to explain the terms of this Agreement and the consequences of signing it, and (iv) Employee fully understands his or her rights, privileges and duties under the Agreement. NAI hereby advises Employee in writing to discuss this Agreement with independent counsel prior to executing this Agreement.

My signature below signifies that I have read, understand and agree to this Agreement.

/s/ John Wise

John Wise

ACCEPTED:
NATURAL ALTERNATIVES INTERNATIONAL, INC.
a Delaware corporation

By: /s/ Randell Weaver

Randell Weaver, Chief Financial Officer and Chief Operating Officer

EXHIBIT "A"

California Labor Code

§ 2870. Invention on Own Time-Exemption from Agreement.

(a) Any provision in an employment agreement which provides that an employee shall assign, or offer to assign, any of his or her rights in an invention to his or her employer shall not apply to an invention that the employee developed entirely on his or her own time without using the employer's equipment, supplies, facilities or trade secret information expect for those inventions that either:

(1) Relate at the time of conception or reduction to practice of the invention to the employer's business, or actual or demonstrably anticipated research or development of the employer.

(2) Result from any work performed by the employee for the employer.

(b) To the extent a provision in an employment agreement purports to require an employee to assign an invention otherwise excluded from being required to be assigned under subdivision (a), the provision is against the public policy of this state and is unenforceable.

§ 2871. Restrictions on Employer for Condition of Employment.

No employer shall require a provision made void or unenforceable by Section 2870 as a condition of employment or continued employment. Nothing in this article shall be construed to forbid or restrict the right of an employer to provide in contracts of employment for disclosure, provided that any such disclosures be received in confidence, of all of the employee's inventions made solely or jointly with others during the period of his or her employment, a review process by the employer to determine such issues as may arise, and for full title to certain patents and inventions to be in the United States, as required by contracts between the employer and the United States or any of its agencies.

EXHIBIT "B"

Except as set forth below, Employee represents to the Company that there are no other contracts to assign Inventions now in existence between Employee and any other person or entity (see Section 1 d. of the Agreement):

EXHIBIT "C"

Set forth below is a brief description of all Inventions made or conceived by Employee prior to Employee's employment with the Company which Employee desires to be excluded from this Agreement (see Section 1 d. of the Agreement):

Exhibit 10.7

EXECUTIVE EMPLOYMENT AGREEMENT

John Reaves ("Employee") hereby accepts the offer of Natural Alternatives International, Inc. ("NAI" or the "Company") for employment as Vice President of Finance beginning July 1, 2002. Collectively, NAI and Employee will be referred to herein as the "Parties."

1. **Employment.** Notwithstanding the rights of the Parties to terminate the relationship described below, the Parties anticipate that Employee will be employed through June 30, 2003. Employee's employment will be at-will and may be terminated by either Employee or NAI at any time for any reason or no reason, with or without cause upon written notice to the other, or without any notice upon the death of Employee. The at-will status of the employment relationship may not be modified except in writing authorized in advance by the Board of Directors of NAI and signed by the Board of Directors of NAI and Employee.

2. **Employee Handbook.** Employee and NAI further understand and agree that nothing in the NAI Employee Handbook is intended to be, and nothing in it should be construed to be, a limitation of NAI's right to terminate, transfer, demote, suspend and administer discipline at any time for any reason. Employee and NAI understand and agree nothing in the Handbook is intended to, and nothing in the Handbook should be construed to, create an implied or express contract of employment contrary to this Agreement.

3. **Position and Responsibilities.** During employment, Employee shall have such responsibilities, duties and authority as NAI through its Board of Directors may from time to time assign to Employee, and that are normal and customary duties of a Vice President of Finance of a publicly held corporation. Employee's initial title shall be Vice President of Finance.

4. **Term.** If Employee continues working for NAI past June 30, 2003, and if NAI still desires Employee's services, then the following terms and conditions will apply:

a. At-will. Employee shall be an at-will employee and NAI or Employee will be entitled to terminate the employment relationship for any reason or for no reason, with or without cause and with or without notice;

b. Compensation. Employee will be compensated at the rate set forth in Section 5 below unless another rate is mutually agreed upon; and

c. Benefits. As to benefits and other terms of employment, Employee shall be subject to the same policies and procedures as other employees of NAI in similar positions.

5. **Compensation.** While Employee is employed by NAI as Vice President of Finance, Employee's rate of compensation will be at a rate of $150,000 per year, payable no less frequently than monthly. The compensation set forth in this Section 5 will be Employee's only compensation except standard employee benefits available to other level one executives of NAI or any other written compensation arrangement approved by the Board of Directors of NAI. Employee will be entitled to participate in any bonus compensation in a manner and at a level consistent with other level one executives of NAI.

6. **Termination.** In the event of termination or resignation, the following terms and conditions will apply:

a. Without Cause, Severance Benefit. In the event Employee is terminated by NAI without cause, Employee shall be entitled to receive a severance benefit, including standard employee benefits available to other level one executives of NAI, in an amount equal to one months' compensation for each completed year of service up to a maximum severance benefit of six (6) months' compensation. One half of any severance benefit owing hereunder shall be paid within 10 days of termination and the balance shall be paid on a bi-weekly basis over the severance period of from one to six months.

b. With Cause, No Severance Benefit. NAI may terminate Employee with cause, which shall be limited to the occurrence of one or more of the following events: (i) the Employee's commission of any fraud against NAI; (ii) Employee's intentional appropriation for his or her personal use or benefit the funds of the Company not authorized by the Board of Directors; (iii) Employee's conviction of any crime involving moral turpitude; (iv) Employee's conviction of a violation of any state or federal law which could result in a material adverse impact upon the business of NAI; (v) the Employee engaging in any other professional employment or consulting or directly or indirectly participating in or assisting any business which is a current or potential supplier, customer or competitor of NAI without prior written approval from the Board of Directors of NAI, (vi) the Employee accepting or encouraging the offering of gifts or gratuities from any customer, vendor, supplier, or other person doing business with NAI, or (vii) when Employee has been disabled and is unable to perform the essential functions of the position for any reason notwithstanding reasonable accommodation and has received from NAI compensation in an amount equivalent to his or her severance benefit payment. No severance benefit shall be due to Employee if Employee is terminated for cause.

c. Resignation or Retirement, No Severance Pay. No severance pay shall be due to Employee if Employee resigns or retires from employment.

7. **Termination Obligations.**

a. Return of NAI Company Property. Employee shall take all reasonable steps to make sure all NAI Company Property (as defined in Attachment 2) is returned to NAI within two (2) business days following termination of employment.

b. Employee Cooperation. Following any termination of the employment, Employee shall cooperate fully with NAI in all matters relating to completing pending work on behalf of NAI and the orderly transfer of work to other employees of NAI. Employee shall also cooperate in the defense of any action brought by any third party against NAI that relates in any way to Employee's acts or omissions while employed by NAI.

c. Survival of Obligations. Employee's obligations under this Section shall survive the termination of employment and the expiration or termination of this Agreement.

8. **Change in Control.** In the event of any Change in Control, the following provisions will apply. Any of the following shall constitute a "Change in Control" for the purposes of this Section 7:

a. A "person" (meaning an individual, a partnership, or other group or association as defined in sections 13(d) and 14(d) of the Securities Exchange Act of 1934) acquires fifty percent (50%) or more of the combined voting power of the outstanding securities of NAI having a right to vote in elections of directors; or

b. The members of the Board of Directors of the Company who were members of the Board of Directors on the commencement date hereof, shall for any reason cease to constitute a majority of the Board of Directors of the Company; or

c. All or substantially all of the business of NAI is disposed of by NAI to a party or parties other than a subsidiary or other affiliate of NAI, in which NAI owns less than a majority of the equity, pursuant to a partial or complete liquidation of NAI, sale of assets (including stock of a subsidiary of NAI) or otherwise.

d. In the event of any such Change in Control, this Agreement shall continue in effect unless Employee at his or her sole option, and within sixty (60) days of a Change in Control taking place, elects voluntarily to terminate this Agreement. In such case, NAI shall pay Employee as severance pay or liquidated damages, or both, a lump sum payment ("Change in Control Severance Payment") equal to the severance period specified in Section 6(a) above or such greater amount as the Board of Directors determines from time to time pursuant to terms which may not be revoked or reduced thereafter.

e. In the event Employee is terminated following a Change in Control by NAI and/or the surviving or resulting corporation without cause, Employee shall be entitled to a Change in Control Severance Payment equal to the severance period specified in Section 6(a) or such greater amount as the Board of Directors determines from time to time pursuant to terms which may not be revoked or reduced thereafter.

f. Any Change in Control Severance Payment shall be made not later than the fifteenth (15th) day following the effective date of the voluntary or involuntary termination of this Agreement in connection with a Change in Control; provided, however, that if the amount of such payments cannot be finally determined on or before such date, NAI shall pay to Employee on such date a good faith estimate of the minimum amount of such payments, and shall pay the remainder of such payments (together with interest at the rate provided in Internal Revenue Code Section 1274(b)(2)(B) of the Code), as soon as the amount thereof can be determined, but in no event later than the thirtieth (30th) day after the applicable termination date. In the event the amount of the estimated payments exceeds the amount subsequently determined to have been due, such excess shall constitute a loan by NAI payable on the fifteenth (15th) day after receipt by Employee of a written demand for payment from NAI (together with interest calculated as above). The total of any payment pursuant to this Section 7 shall be limited to the extent necessary, in the opinion of legal counsel acceptable to Employee and NAI, to avoid the payment of an "excess parachute" payment within the meaning of Internal Revenue Code Section 280 G or any similar successor provision.

g. In the event of termination of employment either by the Employee under paragraph 7d. or by NAI under paragraph 7e., NAI shall cause each stock option heretofore granted by NAI to the Employee to become fully exercisable and to remain exercisable for the term of the option.

9. **Arbitration.** Employee and NAI hereby agree to the Mutual Agreement to Arbitrate attached hereto and made a part hereof as Attachment #1. Employee's obligations under this Section shall survive the termination of employment and the expiration or termination of this Agreement.

10. **Confidential Information and Inventions.** Employee and NAI hereby agree to the Confidential Information and Assignment Agreement, Covenant of Exclusivity and Covenant Not to Compete attached hereto and made a part hereof as Attachment #2. Employee's obligations under this Section shall survive the termination of employment and the expiration or termination of this Agreement.

11. **Competitive Activity.** Employee covenants, warrants and represents that during the period of his or her employment with NAI, Employee shall not engage anywhere directly or indirectly in (as a principal, shareholder, partner, director, officer, agent, employee, consultant or otherwise) or be financially interested in any business which is involved in business activities which are the same as, similar to, or in competition with business activities carried on by NAI or any business that is a current or potential supplier, customer or competitor of NAI without prior written approval from the Board of Directors of NAI.

12. **Employee Conduct.** Employee covenants, warrants and represents that during the period of his or her employment with NAI, Employee shall not accept or encourage the offering of gifts or gratuities from any customer, vendor, supplier, or other person doing business with NAI. Employee represents and understands that acceptance or encouragement of any gift or gratuity may create a perceived financial obligation and/or conflict of interest for NAI and shall not be permitted as a means to influence business decisions, transactions or service. In this situation, as in all other areas of employment, Employee is expected to conduct himself or herself using the highest ethical standard.

13. **Entire Agreement.** This Agreement contains the entire agreement between the parties. It supersedes any and all other agreements, either oral or in writing, between the parties hereto with respect to Employee's employment by NAI. Each party to this Agreement acknowledges that no representations, inducements, promises or agreements, oral or otherwise, have been made by any party, or anyone acting on behalf of any party, which are not embodied herein and acknowledges that no other agreement, statement or promise not contained in this Agreement shall be valid or binding. This Agreement may not be modified or amended by oral agreement or course of conduct, but only by an agreement in writing signed by the Board of Directors of NAI and Employee. To the extent the practices, policies or procedures of NAI, now or in the future, are inconsistent with the terms of this Agreement, the provisions of this Agreement shall control.

14. **Governing Law.** This Executive Employment Agreement shall be construed and enforced in accordance with the laws of the State of California.

15. **Provisions Separable.** Should any part or provision of this Executive Employment Agreement be held unenforceable or in conflict with the law of any jurisdiction, the validity of the remaining parts shall not be affected by such holding.

16. **Attorney's Fees.** Should any party institute any action, arbitration or proceeding to enforce, interpret or apply any provision of this Executive Employment Agreement, the parties

agree that the prevailing party shall be entitled to reimbursement by the non-prevailing party of all recoverable costs and expenses, including, but not limited to, reasonable attorney fees.

17. **Interpretation.** This Agreement shall be construed as a whole, according to its fair meaning, and not in favor of or against any party. By way of example and not in limitation, this Agreement shall not be construed in favor of the party receiving a benefit nor against the party responsible for any particular language in this Agreement.

"EMPLOYEE"

/s/ John Reaves

John Reaves

NATURAL ALTERNATIVES INTERNATIONAL, INC.
a Delaware corporation

By: /s/ Randell Weaver

Randell Weaver, Chief Financial Officer and Chief Operating Officer

ATTACHMENT #1

MUTUAL AGREEMENT TO MEDIATE AND ARBITRATE CLAIMS

This Mutual Agreement to Mediate and Arbitrate Claims ("Agreement") is entered into between John Reaves ("Employee") and Natural Alternatives International, Inc. ("NAI"), together with its affiliates and subsidiaries.

In consideration of Employee's prospective and continued employment relationship with NAI, Employee's employment rights under Employee's Executive Employment Agreement, Employee's participation in stock option plans, Employee's participation in bonus compensation programs, Employee's access to and receipt of confidential information of NAI, and other good and valuable consideration, all of which Employee considers to have been negotiated at arm's length, Employee agrees to the following:

1. **Claims Covered by this Agreement.**

a. To the fullest extent permitted by law, all claims and disputes between Employee (and his attorneys, successors and assigns) and NAI (as defined below) relating in any manner whatsoever to the employment or termination of Employee, including without limitation all claims and disputes arising under this Agreement, shall be resolved by arbitration. All persons and entities specified in the preceding sentence (other than NAI and Employee) shall be considered third-party beneficiaries of the rights and obligations created by this Agreement on arbitration. Claims and disputes covered by this Agreement include without limitation those arising under:

(i) Any federal, state or local laws, regulations or statutes prohibiting employment discrimination (such as, without limitation: race, sex, national origin, age, disability, religion, sexual orientation) and harassment.

(ii) Any alleged or actual agreement or covenant (oral, written or implied) between Employee and NAI.

(iii) Any company policy, compensation, wage or related claim or benefit plan, unless the decision in question was made by an entity other than NAI.

(iv) Any public policy.

(v) Any other claim for personal, emotional, physical or economic injury.

b. The only disputes between Employee and NAI which are not included within this Mutual Agreement to Arbitrate Claims are:

(i) Any claim by Employee for workers' compensation or unemployment compensation benefits.

(ii) Any claim by Employee for benefits under a company plan which provides for its own arbitration procedure.

2. **Mandatory Mediation of Claims and Disputes.**

a. If any claim or dispute concerning this Agreement or the parties' employment relationship cannot be resolved by negotiation between the parties, the following mediation and arbitration procedures shall be invoked. Before invoking the binding arbitration procedure set forth below, NAI and Employee shall first participate in mandatory mediation of any dispute arising under this Agreement.

b. The claim or dispute shall be submitted to mediation before a mediator of the Judicial Arbitration and Mediation Service ("JAMS"), a mutually agreed to alternative dispute resolution ("ADR") organization. The mediation shall be conducted at a mutually agreeable location, or if a location cannot be agreed to by the parties, at a location chosen by the mediator. The administrator of the ADR organization shall select three (3) mediators. From the three (3) chosen, each party shall strike one and the remaining mediator shall preside over the mediation. The cost of the mediation shall be borne equally by NAI and Employee.

c. At least ten (10) business days before the date of the mediation, each side shall provide the mediator with a statement of its position and copies of all supporting documents. Each party shall send to the mediation a person who has authority to bind the party. If a subsequent dispute will involve third parties, such as insurers or subcontractors, they shall also be asked to participate in the mediation.

d. If a party has participated in the mediation and is dissatisfied with the outcome, that party may invoke the arbitration procedure set forth below.

3. **Binding Arbitration of Claims and Disputes.**

a. If NAI and Employee are unable to resolve a dispute relating to this Agreement through mediation, they shall submit any such dispute or claims relating to Employee's employment with NAI or the termination of that employment including but not limited to claims arising under common law or under any statute, rule, regulation, or law, whether federal, state or local including without limitation, any claims under the California Fair Employment and Housing Act, the California Labor Code, Title VII of the Civil Rights Act of 1964, the Age Discrimination in Employment Act, the Americans with Disabilities Act, the Rehabilitation Act of 1973, the Family Medical Leave Act the Employee Retirement Income Security Act of 1974, or Section 1981 or Title 42 of the United States Code to binding arbitration, in accordance with California Code of Civil Procedure §§1280 through 1294.2. Either party may enforce the award of the arbitrator under Code of Civil Procedure §1285 by any competent court of law. Employee and NAI understand that they are waiving their rights to a jury trial.

b. The party demanding arbitration shall submit a written claim to the other party, setting out the basis of the claim and proposing the name of an arbitrator from JAMS, the mutually agreed to ADR organization. The responding party shall have ten (10) business days in which to respond to this demand in a written answer. If this response is not timely made, or if the responding party agrees with the person proposed as the arbitrator, then the person named by the demanding party shall serve as the arbitrator. If the responding party submits a written answer rejecting the proposed arbitrator then, on the request of either party, JAMS shall appoint an arbitrator other than the mediator. The Employee and NAI agree to apply AAA rules for the

resolution of employment disputes to the arbitration even though the ADR is one other than AAA. No one who has ever had any business, financial, family, or social relationship with any party to this Agreement shall serve as an arbitrator unless the related party informs the other party of the relationship and the other party consents in writing to the use of that arbitrator.

c. The arbitration shall take place in the greater San Diego, California area, at a time and place selected by the arbitrator. A pre-arbitration hearing shall be held within ten (10) business days after the arbitrator's selection. The arbitration shall be held within sixty (60) calendar days after the pre-arbitration hearing. The arbitrator shall establish all discovery and other deadlines necessary to accomplish this goal.

d. Each party shall be entitled to discovery of essential documents and witnesses, as determined by the arbitrator in accordance with the then-applicable rules of discovery for the resolution of employment disputes and the time frame set forth in this Agreement. The arbitrator may resolve any disputes over any discovery matters as they would be resolved in civil litigation.

e. The arbitrator shall have the following powers:

(i) to issue subpoenas for the attendance of witnesses and subpoenas duces tecum for the production of books, records, documents, and other evidence;

(ii) to order depositions to be used as evidence;

(iii) subject to the limitations on discovery enumerated above, to enforce the rights, remedies, procedures, duties, liabilities, and obligations of discovery as if the arbitration were a civil action before a California superior court;

(iv) to conduct a hearing on the arbitrable issues;

(v) to administer oaths to parties and witnesses.

f. Within fifteen (15 days) after completion of the arbitration, the arbitrator shall submit a tentative decision in writing, specifying the reasoning for the decision and any calculations necessary to explain the award. Each party shall have fifteen (15 days) in which to submit written comments to the tentative decision. Within ten (10) days after the deadline for written comments, the arbitrator shall announce the final award.

g. NAI shall pay the arbitrator's expenses and fees, all meeting room charges, and any other expenses that would not have been incurred if the case were litigated in the judicial forum having jurisdiction over it. Unless otherwise ordered by the arbitrator, each party shall pay its own attorney fees, witness fees, and other expenses incurred by the party for his or her own benefit. Regardless of any statute, procedure, rule or law, the prevailing party in arbitration shall be entitled to recover from the non-prevailing party reasonable attorney fees incurred as a result of arbitration.

4. **Miscellaneous Provisions.**

a. The term "company" means NAI, and all related entities, all officers, employees, directors, agents, shareholders, partners, benefit plan sponsors, fiduciaries, administrators or affiliates of any of the above, and all successors and assignees of any of the above.

b. If either party pursues a covered claim against the other by any action, method or legal proceeding other than mediation or arbitration as provided herein, the responding party shall be entitled to dismissal or injunctive relief regarding such action and recovery of all costs, losses and attorneys' fees related to such other action or proceeding.

c. The parties to this Agreement acknowledge and agree that they are waiving their right to a jury trial on the issues covered by this Agreement.

d. This is the complete agreement of the parties on the subject of mediation and the arbitration of disputes and claims. This Agreement supersedes any prior or contemporaneous oral, written or implied understanding on the subject, shall survive the termination of Employee's employment and can only be revoked or modified by a written agreement signed by Employee and the Board of Directors of NAI that specifically states an intent to revoke or modify this Agreement. If any provision of this Agreement is adjudicated to be void or otherwise unenforceable in whole or in part, such adjudication shall not affect the validity of the remainder of the Agreement, which shall remain in full force and effect.

e. Employee represents and agrees that (i) Employee has entered into this Agreement voluntarily and without coercion or duress, (ii) Employee has been offered a reasonable time to consider the matters contained in this Agreement, (iii) Employee has been advised and has had the opportunity to consult with an attorney of his or her choice to explain the terms of this Agreement and the consequences of signing it, and (iv) Employee fully understands his or her rights, privileges and duties under the Agreement. NAI hereby advises Employee in writing to discuss this Agreement with independent counsel prior to executing this Agreement.

My signature below signifies that I have read, understand and agree to this Agreement.

"EMPLOYEE"

/s/ John Reaves

John Reaves

NATURAL ALTERNATIVES INTERNATIONAL, INC.
a Delaware corporation

By: /s/ Randell Weaver

Randell Weaver, Chief Financial Officer and
Chief Operating Officer

ATTACHMENT #2

CONFIDENTIAL INFORMATION AND INVENTION ASSIGNMENT AGREEMENT, COVENANT OF EXCLUSIVITY AND COVENANT NOT TO COMPETE

This Confidential Information And Invention Assignment Agreement ("Agreement") is made between Natural Alternatives International, Inc., a Delaware corporation ("Company") and the undersigned Employee.

In consideration of and as a condition of my prospective and continued employment relationship with the Company (which for purposes of this Agreement shall be deemed to include any subsidiaries or affiliates of the Company where "affiliate" shall mean any person or entity that directly or indirectly controls, is controlled by, or is under common control with the Company), the receipt of confidential information while associated with the Company, and other good and valuable consideration, I agree to the following, and I agree the following shall be in addition to the terms and conditions of any Confidential Information and Invention Assignment Agreement executed by employees of the Company generally, and which I may execute in addition hereto:

1. **Inventions.**

a. Disclosure. I will disclose promptly in writing to the appropriate officer or other representative of the Company, any idea, invention, work of authorship, design, formula, pattern, compilation, program, device, method, technique, process, improvement, development or discovery, whether or not patentable or copyrightable or entitled to legal protection as a trade secret, trademark service mark, trade name or otherwise ("Invention"), that I may conceive, make, develop, reduce to practice or work on, in whole or in part, solely or jointly with others ("Invent"), during the period of my employment with the Company.

i. The disclosure required by this Section 1a. applies to each and every Invention that I Invent (1) whether during my regular hours of employment or during my time away from work (2) whether or not the Invention was made at the suggestion of the Company, and (3) whether or not the Invention was reduced to or embodied in writing, electronic media or tangible form.

ii. The disclosure required by this Section 1 a. also applies to any Invention which may relate at the time of conception or reduction to practice of the Invention to the Company's business or actual or demonstrably anticipated research or development of the Company, and to any Invention which results from any work performed by me for the Company.

iii. The disclosure required by this Section 1 a. shall be received in confidence by the Company within the meaning of and to the extent required by California Labor Code §2871, the provisions of which are set forth on Exhibit "A" hereto.

iv. To facilitate the complete and accurate disclosures described above, I shall maintain complete written records of all Inventions and all work,

study and investigation done by me during my employment, which records shall be the Company's property.

v. I agree that during my employment I shall have a continuing obligation to supplement the disclosure required by this Section 1 a. on a monthly basis if I Invent an Invention during the period of employment. In order to facilitate the same, the Company and I shall periodically review every six months the written records of all Inventions as outlined in this Paragraph 1 a. to determine whether any particular invention is in fact related to Company business. Should a dispute arise between the Company and myself during the review period, I agree that binding arbitration as outlined in Paragraph 3 of the Mutual Agreement to Mediate and Arbitrate Claims shall be the sole determination whether any particular invention is in fact related to Company business. As to those inventions that are determined to be my sole property, the Company retains right of first refusal or to submit of a purchase agreement, stemming from or related to the review period.

b. Assignment. I hereby assign to the Company without royalty or any other further consideration my entire right, title and interest in and to each and every Invention I am required to disclose under Section 1 a. other than an Invention that (i) I have or shall have developed entirely on my own time without using the Company's equipment, supplies, facilities or trade secret information, (ii) does not relate at the time of conception or reduction to practice of the Invention to the Company's business, or actual or demonstrably anticipated research or development of the Company and (iii) does not result from any work performed by me for the Company. I acknowledge that the Company has notified me that the assignment provided for in this Section l b. does not apply to any Invention to which the assignment may not lawfully apply under the provisions of Section §2870 of the California Labor Code, a copy of which is attached as Exhibit "A" hereto. I shall bear the full burden of proving to the Company that an invention qualifies fully under Section §2870.

c. Additional Assistance and Documents. I will assist the Company in obtaining, maintaining and enforcing patents, copyrights, trade secrets, trademarks, service marks, trade names and other proprietary rights in connection with any Invention I have assigned to the Company under Section l b., and I further agree that my obligations under this Section l c. shall continue beyond the termination of my employment with the Company. Among other things, for the foregoing purposes I will (i) testify at the request of the Company in any interference, litigation or other legal proceeding that may arise during or after my employment, and (ii) execute, verify, acknowledge and deliver any proper document and, if, because of my mental or physical incapacity or for any other reason whatsoever, the Company is unable to obtain my signature to apply for or to pursue any application for any United States or foreign patent or copyright covering Inventions assigned to the Company by me, I hereby irrevocably designate and appoint each of the Company and its duly authorized officers and agents as my agent and attorney in fact to act for me and in my behalf and stead to execute and file any such applications and to do all other lawfully permitted acts to further the prosecution and issuance of any United States or foreign patent or copyright thereon with the same legal force and effect as if executed by me. I shall be entitled to reimbursement of any out-of-pocket expenses incurred by me in rendering such assistance and, if I am required to render such assistance after the termination of my employment, the Company shall pay me a reasonable rate of compensation for

time spent by me in rendering such assistance to the extent permitted by law (provided, I understand that no compensation shall be paid for my time in connection with preparing for or rendering any testimony or statement under oath in any judicial proceeding, arbitration or similar proceeding).

d. Prior Contracts and Inventions; Rights of Third Parties. I represent to the Company that, except as set forth on Exhibit "B" hereto, there are no other contracts to assign Inventions now in existence between me and any other person or entity (and if no Exhibit "B" is attached hereto or there is no such contract(s) described thereon, then it means that by signing this Agreement, I represent to the Company that there is no such other contract(s)). In addition, I represent to the Company that I have no other employments or undertaking which do or would restrict or impair my performance of this Agreement. I further represent to the Company that Exhibit "C" hereto sets forth a brief description of all Inventions made or conceived by me prior to my employment with the Company which I desire to be excluded from this Agreement (and if no Exhibit "C" is attached hereto or there is no such description set forth thereon, then it means that by signing this Agreement I represent to the Company that there is no such Invention made or conceived by me prior to my employment with the Company). In connection with my employment with the Company, I promise not to use or disclose to the Company any patent, copyright, confidential trade secret or other proprietary information of any previous employer or other person that I am not lawfully entitled so to use or disclose. If in the course of my employment with the Company I incorporate into an Invention or any product process or service of the Company any Invention made or conceived by me prior to my employment with the Company, I hereby grant to the Company a royalty-free, irrevocable, worldwide nonexclusive license to make, have made, use and sell that Invention without restriction as to the extent of my ownership or interest.

2. **Confidential Information.**

a. Company Confidential Information. I will not use or disclose Confidential Information, whether before, during or after the period of my employment except to perform my duties as an employee of the Company based on my reasonable judgment as an Officer of the Company, or in accordance with instruction or authorization of the Company, without prior written consent of the Company or pursuant to process or requirements of law after I have disclosed such process or requirements to the Company so as to afford it the opportunity to seek appropriate relief therefrom. "Confidential Information" means any Invention of any person in which the Company has an interest and in addition means any financial, client, customer, supplier, marketing, distribution and other information of a confidential or private nature connected with the business of the Company or any person with whom it deals, provided by the Company to me or to which I have access during or in the course of any employment. Confidential Information is to be broadly defined, and includes all information that has or could have commercial value or other utility in the business in which the Company is engaged or contemplates engaging, and all information of which the unauthorized disclosure could be detrimental to the interests of the Company, whether or not such information is identified as Confidential Information by the Company.

b. Third Party Information. I acknowledge that during my employment with the Company I may have access to patent, copyright, confidential, trade secret or other proprietary information of third parties subject to restrictions on the use or disclosure thereof by the Company. During the period of my employment and thereafter I will not use or disclose any

such information other than consistent with the restrictions and my duties as an employee of the Company.

3. **Property of the Company.** All equipment and all tangible and intangible information relating to NAI, its employees and its customers or vendors furnished to, obtained by or prepared by Employee or any other person during the course of or incident to employment by NAI are and shall remain the sole property of NAI ("NAI Company Property"). NAI Company Property shall include, but not be limited to, computer equipment, books, manuals, records, reports, notes, correspondence, contracts, customer lists, business cards, advertising, sales, financial, personnel, operations, and manufacturing materials and information, data processing reports, computer programs, software, customer information and records, business records, price lists or information, and samples, and in each case shall include all copies thereof in any medium, including paper, electronic and magnetic media and all other forms of information storage. All tangible NAI Company Property shall be returned promptly to NAI upon termination of employment.

4. **No Solicitation of Company Employees.** While employed by the Company and for a period of one year after termination of my employment with the Company, I agree not to induce or attempt to influence directly or indirectly any employee of the Company to terminate employment with the Company or to work for me or any other person or entity.

5. **Covenant of Exclusivity and Not to Compete.** During the period of my employment with the Company, I will not engage in any other professional employment or consulting or directly or indirectly participate in or assist any business which is a current or potential supplier, customer or competitor of the Company without prior written approval from the Board of Directors of the Company.

6. **General.**

a. Assignments, Successors and Assignees. All representations, warranties, covenants and agreements of the parties shall bind their respective heirs, executors, personal representatives, successors and assignees ("transferees") and shall inure to the benefit of their respective permitted transferees. The Company shall have the right to assign any or all of its rights and to delegate any or all of its obligations hereunder. The undersigned employee shall not have the right to assign any rights or delegate any obligations hereunder without the prior written consent of the Company or its transferee.

b. Number and Gender, Headings. Each number and gender shall be deemed to include each other number and gender as the context may require. The headings and captions contained in this Agreement shall not constitute a part thereof and shall not be used in its construction or interpretation.

c. Severability. If any provision of this Agreement is found by any court or arbitral tribunal of competent jurisdiction to be invalid or unenforceable, the invalidity of such provision shall not affect the other provisions of this Agreement and all provisions not affected by the invalidity shall remain in full force and effect.

d. Amendment and Modification. This Agreement may be amended or modified only by a writing executed by each party.

e. Government Law. The laws of California shall govern the construction, interpretation and performance of this Agreement and all transactions under it.

f. Remedies. I acknowledge that my failure to carry out any obligation under this Agreement, or a breach by me of any provision herein, will constitute immediate and irreparable damage to the Company, which cannot be fully and adequately compensated in money damages and which will warrant preliminary and other injunctive relief, an order for specific performance, and other equitable relief. I further agree that no bond or other security shall be required in obtaining such equitable relief and I hereby consent to the issuance of such injunction and to the ordering of specific performance. I also understand that other action may be taken and remedies enforced against me.

g. Mediation and Arbitration. This Agreement is subject to the Mutual Agreement to Mediate and Arbitrate Claims attached to the Executive Employment Agreement between myself and Company, incorporated into this Agreement by this reference.

h. Attorneys' Fees. Should either I or the Company, or any heir, personal representative, successor or permitted assign of either party, resort to arbitration or legal proceedings to enforce this Agreement, the prevailing party (as defined in California statutory law) in such proceeding shall be awarded, in addition to such other relief as may be granted, attorneys' fees and costs incurred in connection with such proceeding.

i. No Effect on Other Terms or Conditions of Employment. I acknowledge that this Agreement does not affect any term or condition of my employment except as expressly provided in this Agreement, and that this Agreement does not give rise to any right or entitlement on my part to employment or continued employment with the Company. I further acknowledge that this Agreement does not affect in any way the right of the Company to terminate my employment.

j. Independent Counsel. Employee represents and agrees that (i) Employee has entered into this Agreement voluntarily and without coercion or duress, (ii) Employee has been offered a reasonable time to consider the matters contained in this Agreement, (iii) Employee has been advised and has had the opportunity to consult with an attorney of his or her choice to explain the terms of this Agreement and the consequences of signing it, and (iv) Employee fully understands his or her rights, privileges and duties under the Agreement. NAI hereby advises Employee in writing to discuss this Agreement with independent counsel prior to executing this Agreement.

My signature below signifies that I have read, understand and agree to this Agreement.

/s/ John Reaves

John Reaves

ACCEPTED:
NATURAL ALTERNATIVES INTERNATIONAL, INC.
a Delaware corporation

By: /s/ Randell Weaver

Randell Weaver, Chief Financial Officer and Chief Operating Officer

EXHIBIT "A"

California Labor Code

§ 2870. Invention on Own Time-Exemption from Agreement.

(a) Any provision in an employment agreement which provides that an employee shall assign, or offer to assign, any of his or her rights in an invention to his or her employer shall not apply to an invention that the employee developed entirely on his or her own time without using the employer's equipment, supplies, facilities or trade secret information expect for those inventions that either:

(1) Relate at the time of conception or reduction to practice of the invention to the employer's business, or actual or demonstrably anticipated research or development of the employer.

(2) Result from any work performed by the employee for the employer.

(b) To the extent a provision in an employment agreement purports to require an employee to assign an invention otherwise excluded from being required to be assigned under subdivision (a), the provision is against the public policy of this state and is unenforceable.

§ 2871. Restrictions on Employer for Condition of Employment.

No employer shall require a provision made void or unenforceable by Section 2870 as a condition of employment or continued employment. Nothing in this article shall be construed to forbid or restrict the right of an employer to provide in contracts of employment for disclosure, provided that any such disclosures be received in confidence, of all of the employee's inventions made solely or jointly with others during the period of his or her employment, a review process by the employer to determine such issues as may arise, and for full title to certain patents and inventions to be in the United States, as required by contracts between the employer and the United States or any of its agencies.

EXHIBIT "B"

Except as set forth below, Employee represents to the Company that there are no other contracts to assign Inventions now in existence between Employee and any other person or entity (see Section 1 d. of the Agreement):

EXHIBIT "C"

Set forth below is a brief description of all Inventions made or conceived by Employee prior to Employee's employment with the Company which Employee desires to be excluded from this Agreement (see Section 1 d. of the Agreement):

Exhibit 10.8

EXECUTIVE EMPLOYMENT AGREEMENT

Timothy E. Belanger ("Employee") hereby accepts the offer of Natural Alternatives International, Inc. ("NAI" or the "Company") for employment as Senior Vice President Marketing and Sales beginning July 1, 2002. Collectively, NAI and Employee will be referred to herein as the "Parties."

1. **Employment.** Notwithstanding the rights of the Parties to terminate the relationship described below, the Parties anticipate that Employee will be employed through June 30, 2003. Employee's employment will be at-will and may be terminated by either Employee or NAI at any time for any reason or no reason, with or without cause upon written notice to the other, or without any notice upon the death of Employee. The at-will status of the employment relationship may not be modified except in writing authorized in advance by the Board of Directors of NAI and signed by the Board of Directors of NAI and Employee.

2. **Employee Handbook.** Employee and NAI further understand and agree that nothing in the NAI Employee Handbook is intended to be, and nothing in it should be construed to be, a limitation of NAI's right to terminate, transfer, demote, suspend and administer discipline at any time for any reason. Employee and NAI understand and agree nothing in the Handbook is intended to, and nothing in the Handbook should be construed to, create an implied or express contract of employment contrary to this Agreement.

3. **Position and Responsibilities.** During employment, Employee shall have such responsibilities, duties and authority as NAI through its Board of Directors may from time to time assign to Employee, and that are normal and customary duties of Senior Vice President Marketing and Sales of a publicly held corporation. Employee's initial title shall be Senior Vice President Marketing and Sales.

4. **Term.** If Employee continues working for NAI past June 30, 2003, and if NAI still desires Employee's services, then the following terms and conditions will apply:

a. At-will. Employee shall be an at-will employee and NAI or Employee will be entitled to terminate the employment relationship for any reason or for no reason, with or without cause and with or without notice;

b. Compensation. Employee will be compensated at the rate set forth in Section 5 below unless another rate is mutually agreed upon; and

c. Benefits. As to benefits and other terms of employment, Employee shall be subject to the same policies and procedures as other employees of NAI in similar positions.

5. **Compensation.** While Employee is employed by NAI as Senior Vice President Marketing and Sales, Employee's rate of compensation will be at a rate of $175,000 per year, payable no less frequently than monthly. The compensation set forth in this Section 5 will be Employee's only compensation except standard employee benefits available to other level one executives of NAI or any other written compensation arrangement approved by the Board of Directors of NAI. Employee will be entitled to participate in any bonus compensation in a manner and at a level consistent with other level one executives of NAI.

6. **Termination.** In the event of termination or resignation, the following terms and conditions will apply:

a. Without Cause, Severance Benefit. In the event Employee is terminated by NAI without cause, Employee shall be entitled to receive a severance benefit, including standard employee benefits available to other level one executives of NAI, in an amount equal to one months' compensation for each completed year of service up to a maximum severance benefit of six (6) months' compensation. One half of any severance benefit owing hereunder shall be paid within 10 days of termination and the balance shall be paid on a bi-weekly basis over the severance period of from one to six months.

b. With Cause, No Severance Benefit. NAI may terminate Employee with cause, which shall be limited to the occurrence of one or more of the following events: (i) the Employee's commission of any fraud against NAI; (ii) Employee's intentional appropriation for his or her personal use or benefit the funds of the Company not authorized by the Board of Directors; (iii) Employee's conviction of any crime involving moral turpitude; (iv) Employee's conviction of a violation of any state or federal law which could result in a material adverse impact upon the business of NAI; (v) the Employee engaging in any other professional employment or consulting or directly or indirectly participating in or assisting any business which is a current or potential supplier, customer or competitor of NAI without prior written approval from the Board of Directors of NAI, (vi) the Employee accepting or encouraging the offering of gifts or gratuities from any customer, vendor, supplier, or other person doing business with NAI, or (vii) when Employee has been disabled and is unable to perform the essential functions of the position for any reason notwithstanding reasonable accommodation and has received from NAI compensation in an amount equivalent to his or her severance benefit payment. No severance benefit shall be due to Employee if Employee is terminated for cause.

c. Resignation or Retirement, No Severance Pay. No severance pay shall be due to Employee if Employee resigns or retires from employment.

7. **Termination Obligations.**

a. Return of NAI Company Property. Employee shall take all reasonable steps to make sure all NAI Company Property (as defined in Attachment 2) is returned to NAI within two (2) business days following termination of employment.

b. Employee Cooperation. Following any termination of the employment, Employee shall cooperate fully with NAI in all matters relating to completing pending work on behalf of NAI and the orderly transfer of work to other employees of NAI. Employee shall also cooperate in the defense of any action brought by any third party against NAI that relates in any way to Employee's acts or omissions while employed by NAI.

c. Survival of Obligations. Employee's obligations under this Section shall survive the termination of employment and the expiration or termination of this Agreement.

8. **Change in Control.** In the event of any Change in Control, the following provisions will apply. Any of the following shall constitute a "Change in Control" for the purposes of this Section 7:

a. A "person" (meaning an individual, a partnership, or other group or association as defined in sections 13(d) and 14(d) of the Securities Exchange Act of 1934) acquires fifty percent (50%) or more of the combined voting power of the outstanding securities of NAI having a right to vote in elections of directors; or

b. The members of the Board of Directors of the Company who were members of the Board of Directors on the commencement date hereof, shall for any reason cease to constitute a majority of the Board of Directors of the Company; or

c. All or substantially all of the business of NAI is disposed of by NAI to a party or parties other than a subsidiary or other affiliate of NAI, in which NAI owns less than a majority of the equity, pursuant to a partial or complete liquidation of NAI, sale of assets (including stock of a subsidiary of NAI) or otherwise.

d. In the event of any such Change in Control, this Agreement shall continue in effect unless Employee at his or her sole option, and within sixty (60) days of a Change in Control taking place, elects voluntarily to terminate this Agreement. In such case, NAI shall pay Employee as severance pay or liquidated damages, or both, a lump sum payment ("Change in Control Severance Payment") equal to the severance period specified in Section 6(a) above or such greater amount as the Board of Directors determines from time to time pursuant to terms which may not be revoked or reduced thereafter.

e. In the event Employee is terminated following a Change in Control by NAI and/or the surviving or resulting corporation without cause, Employee shall be entitled to a Change in Control Severance Payment equal to the severance period specified in Section 6(a) or such greater amount as the Board of Directors determines from time to time pursuant to terms which may not be revoked or reduced thereafter.

f. Any Change in Control Severance Payment shall be made not later than the fifteenth (15th) day following the effective date of the voluntary or involuntary termination of this Agreement in connection with a Change in Control; provided, however, that if the amount of such payments cannot be finally determined on or before such date, NAI shall pay to Employee on such date a good faith estimate of the minimum amount of such payments, and shall pay the remainder of such payments (together with interest at the rate provided in Internal Revenue Code Section 1274(b)(2)(B) of the Code), as soon as the amount thereof can be determined, but in no event later than the thirtieth (30th) day after the applicable termination date. In the event the amount of the estimated payments exceeds the amount subsequently determined to have been due, such excess shall constitute a loan by NAI payable on the fifteenth (15th) day after receipt by Employee of a written demand for payment from NAI (together with interest calculated as above). The total of any payment pursuant to this Section 7 shall be limited to the extent necessary, in the opinion of legal counsel acceptable to Employee and NAI, to avoid the payment of an "excess parachute" payment within the meaning of Internal Revenue Code Section 280 G or any similar successor provision.

g. In the event of termination of employment either by the Employee under paragraph 7d. or by NAI under paragraph 7e., NAI shall cause each stock option heretofore granted by NAI to the Employee to become fully exercisable and to remain exercisable for the term of the option.

9. **Arbitration.** Employee and NAI hereby agree to the Mutual Agreement to Arbitrate attached hereto and made a part hereof as Attachment #1. Employee's obligations under this Section shall survive the termination of employment and the expiration or termination of this Agreement.

10. **Confidential Information and Inventions.** Employee and NAI hereby agree to the Confidential Information and Assignment Agreement, Covenant of Exclusivity and Covenant Not to Compete attached hereto and made a part hereof as Attachment #2. Employee's obligations under this Section shall survive the termination of employment and the expiration or termination of this Agreement.

11. **Competitive Activity.** Employee covenants, warrants and represents that during the period of his or her employment with NAI, Employee shall not engage anywhere directly or indirectly in (as a principal, shareholder, partner, director, officer, agent, employee, consultant or otherwise) or be financially interested in any business which is involved in business activities which are the same as, similar to, or in competition with business activities carried on by NAI or any business that is a current or potential supplier, customer or competitor of NAI without prior written approval from the Board of Directors of NAI.

12. **Employee Conduct.** Employee covenants, warrants and represents that during the period of his or her employment with NAI, Employee shall not accept or encourage the offering of gifts or gratuities from any customer, vendor, supplier, or other person doing business with NAI. Employee represents and understands that acceptance or encouragement of any gift or gratuity may create a perceived financial obligation and/or conflict of interest for NAI and shall not be permitted as a means to influence business decisions, transactions or service. In this situation, as in all other areas of employment, Employee is expected to conduct himself or herself using the highest ethical standard.

13. **Entire Agreement.** This Agreement contains the entire agreement between the parties. It supersedes any and all other agreements, either oral or in writing, between the parties hereto with respect to Employee's employment by NAI. Each party to this Agreement acknowledges that no representations, inducements, promises or agreements, oral or otherwise, have been made by any party, or anyone acting on behalf of any party, which are not embodied herein and acknowledges that no other agreement, statement or promise not contained in this Agreement shall be valid or binding. This Agreement may not be modified or amended by oral agreement or course of conduct, but only by an agreement in writing signed by the Board of Directors of NAI and Employee. To the extent the practices, policies or procedures of NAI, now or in the future, are inconsistent with the terms of this Agreement, the provisions of this Agreement shall control.

14. **Governing Law.** This Executive Employment Agreement shall be construed and enforced in accordance with the laws of the State of California.

15. **Provisions Separable.** Should any part or provision of this Executive Employment Agreement be held unenforceable or in conflict with the law of any jurisdiction, the validity of the remaining parts shall not be affected by such holding.

16. **Attorney's Fees.** Should any party institute any action, arbitration or proceeding to enforce, interpret or apply any provision of this Executive Employment Agreement, the parties

agree that the prevailing party shall be entitled to reimbursement by the non-prevailing party of all recoverable costs and expenses, including, but not limited to, reasonable attorney fees.

17. **Interpretation.** This Agreement shall be construed as a whole, according to its fair meaning, and not in favor of or against any party. By way of example and not in limitation, this Agreement shall not be construed in favor of the party receiving a benefit nor against the party responsible for any particular language in this Agreement.

"EMPLOYEE"

/s/ Tim Belanger

Timothy E. Belanger

NATURAL ALTERNATIVES INTERNATIONAL, INC.
a Delaware corporation

By: /s/ Randell Weaver

Randell Weaver, Chief Financial Officer and
Chief Operating Officer

ATTACHMENT #1

MUTUAL AGREEMENT TO MEDIATE AND ARBITRATE CLAIMS

This Mutual Agreement to Mediate and Arbitrate Claims ("Agreement") is entered into between Timothy E. Belanger ("Employee") and Natural Alternatives International, Inc. ("NAI"), together with its affiliates and subsidiaries.

In consideration of Employee's prospective and continued employment relationship with NAI, Employee's employment rights under Employee's Executive Employment Agreement, Employee's participation in stock option plans, Employee's participation in bonus compensation programs, Employee's access to and receipt of confidential information of NAI, and other good and valuable consideration, all of which Employee considers to have been negotiated at arm's length, Employee agrees to the following:

1. **Claims Covered by this Agreement**.

a. To the fullest extent permitted by law, all claims and disputes between Employee (and his attorneys, successors and assigns) and NAI (as defined below) relating in any manner whatsoever to the employment or termination of Employee, including without limitation all claims and disputes arising under this Agreement, shall be resolved by arbitration. All persons and entities specified in the preceding sentence (other than NAI and Employee) shall be considered third-party beneficiaries of the rights and obligations created by this Agreement on arbitration. Claims and disputes covered by this Agreement include without limitation those arising under:

(i) Any federal, state or local laws, regulations or statutes prohibiting employment discrimination (such as, without limitation: race, sex, national origin, age, disability, religion, sexual orientation) and harassment.

(ii) Any alleged or actual agreement or covenant (oral, written or implied) between Employee and NAI.

(iii) Any company policy, compensation, wage or related claim or benefit plan, unless the decision in question was made by an entity other than NAI.

(iv) Any public policy.

(v) Any other claim for personal, emotional, physical or economic injury.

b. The only disputes between Employee and NAI which are not included within this Mutual Agreement to Arbitrate Claims are:

(i) Any claim by Employee for workers' compensation or unemployment compensation benefits.

(ii) Any claim by Employee for benefits under a company plan which provides for its own arbitration procedure.

2. **Mandatory Mediation of Claims and Disputes.**

a. If any claim or dispute concerning this Agreement or the parties' employment relationship cannot be resolved by negotiation between the parties, the following mediation and arbitration procedures shall be invoked. Before invoking the binding arbitration procedure set forth below, NAI and Employee shall first participate in mandatory mediation of any dispute arising under this Agreement.

b. The claim or dispute shall be submitted to mediation before a mediator of the Judicial Arbitration and Mediation Service ("JAMS"), a mutually agreed to alternative dispute resolution ("ADR") organization. The mediation shall be conducted at a mutually agreeable location, or if a location cannot be agreed to by the parties, at a location chosen by the mediator. The administrator of the ADR organization shall select three (3) mediators. From the three (3) chosen, each party shall strike one and the remaining mediator shall preside over the mediation. The cost of the mediation shall be borne equally by NAI and Employee.

c. At least ten (10) business days before the date of the mediation, each side shall provide the mediator with a statement of its position and copies of all supporting documents. Each party shall send to the mediation a person who has authority to bind the party. If a subsequent dispute will involve third parties, such as insurers or subcontractors, they shall also be asked to participate in the mediation.

d. If a party has participated in the mediation and is dissatisfied with the outcome, that party may invoke the arbitration procedure set forth below.

3. **Binding Arbitration of Claims and Disputes.**

a. If NAI and Employee are unable to resolve a dispute relating to this Agreement through mediation, they shall submit any such dispute or claims relating to Employee's employment with NAI or the termination of that employment including but not limited to claims arising under common law or under any statute, rule, regulation, or law, whether federal, state or local including without limitation, any claims under the California Fair Employment and Housing Act, the California Labor Code, Title VII of the Civil Rights Act of 1964, the Age Discrimination in Employment Act, the Americans with Disabilities Act, the Rehabilitation Act of 1973, the Family Medical Leave Act the Employee Retirement Income Security Act of 1974, or Section 1981 or Title 42 of the United States Code to binding arbitration, in accordance with California Code of Civil Procedure §§1280 through 1294.2. Either party may enforce the award of the arbitrator under Code of Civil Procedure §1285 by any competent court of law. Employee and NAI understand that they are waiving their rights to a jury trial.

b. The party demanding arbitration shall submit a written claim to the other party, setting out the basis of the claim and proposing the name of an arbitrator from JAMS, the mutually agreed to ADR organization. The responding party shall have ten (10) business days in which to respond to this demand in a written answer. If this response is not timely made, or if the responding party agrees with the person proposed as the arbitrator, then the person named by the demanding party shall serve as the arbitrator. If the responding party submits a written answer rejecting the proposed arbitrator then, on the request of either party, JAMS shall appoint an arbitrator other than the mediator. The Employee and NAI agree to apply AAA rules for the

resolution of employment disputes to the arbitration even though the ADR is one other than AAA. No one who has ever had any business, financial, family, or social relationship with any party to this Agreement shall serve as an arbitrator unless the related party informs the other party of the relationship and the other party consents in writing to the use of that arbitrator.

c. The arbitration shall take place in the greater San Diego, California area, at a time and place selected by the arbitrator. A pre-arbitration hearing shall be held within ten (10) business days after the arbitrator's selection. The arbitration shall be held within sixty (60) calendar days after the pre-arbitration hearing. The arbitrator shall establish all discovery and other deadlines necessary to accomplish this goal.

d. Each party shall be entitled to discovery of essential documents and witnesses, as determined by the arbitrator in accordance with the then-applicable rules of discovery for the resolution of employment disputes and the time frame set forth in this Agreement. The arbitrator may resolve any disputes over any discovery matters as they would be resolved in civil litigation.

e. The arbitrator shall have the following powers:

(i) to issue subpoenas for the attendance of witnesses and subpoenas duces tecum for the production of books, records, documents, and other evidence;

(ii) to order depositions to be used as evidence;

(iii) subject to the limitations on discovery enumerated above, to enforce the rights, remedies, procedures, duties, liabilities, and obligations of discovery as if the arbitration were a civil action before a California superior court;

(iv) to conduct a hearing on the arbitrable issues;

(v) to administer oaths to parties and witnesses.

f. Within fifteen (15 days) after completion of the arbitration, the arbitrator shall submit a tentative decision in writing, specifying the reasoning for the decision and any calculations necessary to explain the award. Each party shall have fifteen (15 days) in which to submit written comments to the tentative decision. Within ten (10) days after the deadline for written comments, the arbitrator shall announce the final award.

g. NAI shall pay the arbitrator's expenses and fees, all meeting room charges, and any other expenses that would not have been incurred if the case were litigated in the judicial forum having jurisdiction over it. Unless otherwise ordered by the arbitrator, each party shall pay its own attorney fees, witness fees, and other expenses incurred by the party for his or her own benefit. Regardless of any statute, procedure, rule or law, the prevailing party in arbitration shall be entitled to recover from the non-prevailing party reasonable attorney fees incurred as a result of arbitration.

4. **Miscellaneous Provisions.**

a. The term "company" means NAI, and all related entities, all officers, employees, directors, agents, shareholders, partners, benefit plan sponsors, fiduciaries, administrators or affiliates of any of the above, and all successors and assignees of any of the above.

b. If either party pursues a covered claim against the other by any action, method or legal proceeding other than mediation or arbitration as provided herein, the responding party shall be entitled to dismissal or injunctive relief regarding such action and recovery of all costs, losses and attorneys' fees related to such other action or proceeding.

c. The parties to this Agreement acknowledge and agree that they are waiving their right to a jury trial on the issues covered by this Agreement.

d. This is the complete agreement of the parties on the subject of mediation and the arbitration of disputes and claims. This Agreement supersedes any prior or contemporaneous oral, written or implied understanding on the subject, shall survive the termination of Employee's employment and can only be revoked or modified by a written agreement signed by Employee and the Board of Directors of NAI that specifically states an intent to revoke or modify this Agreement. If any provision of this Agreement is adjudicated to be void or otherwise unenforceable in whole or in part, such adjudication shall not affect the validity of the remainder of the Agreement, which shall remain in full force and effect.

e. Employee represents and agrees that (i) Employee has entered into this Agreement voluntarily and without coercion or duress, (ii) Employee has been offered a reasonable time to consider the matters contained in this Agreement, (iii) Employee has been advised and has had the opportunity to consult with an attorney of his or her choice to explain the terms of this Agreement and the consequences of signing it, and (iv) Employee fully understands his or her rights, privileges and duties under the Agreement. NAI hereby advises Employee in writing to discuss this Agreement with independent counsel prior to executing this Agreement.

My signature below signifies that I have read, understand and agree to this Agreement.

"EMPLOYEE"

/s/ Tim Belanger

Timothy E. Belanger

NATURAL ALTERNATIVES INTERNATIONAL, INC.
a Delaware corporation

By: /s/ Randell Weaver

Randell Weaver, Chief Financial Officer and
Chief Operating Officer

ATTACHMENT #2

CONFIDENTIAL INFORMATION AND INVENTION ASSIGNMENT AGREEMENT, COVENANT OF EXCLUSIVITY AND COVENANT NOT TO COMPETE

This Confidential Information And Invention Assignment Agreement ("Agreement") is made between Natural Alternatives International, Inc., a Delaware corporation ("Company") and the undersigned Employee.

In consideration of and as a condition of my prospective and continued employment relationship with the Company (which for purposes of this Agreement shall be deemed to include any subsidiaries or affiliates of the Company where "affiliate" shall mean any person or entity that directly or indirectly controls, is controlled by, or is under common control with the Company), the receipt of confidential information while associated with the Company, and other good and valuable consideration, I agree to the following, and I agree the following shall be in addition to the terms and conditions of any Confidential Information and Invention Assignment Agreement executed by employees of the Company generally, and which I may execute in addition hereto:

1. **Inventions.**

a. Disclosure. I will disclose promptly in writing to the appropriate officer or other representative of the Company, any idea, invention, work of authorship, design, formula, pattern, compilation, program, device, method, technique, process, improvement, development or discovery, whether or not patentable or copyrightable or entitled to legal protection as a trade secret, trademark service mark, trade name or otherwise ("Invention"), that I may conceive, make, develop, reduce to practice or work on, in whole or in part, solely or jointly with others ("Invent"), during the period of my employment with the Company.

i. The disclosure required by this Section 1a. applies to each and every Invention that I Invent (1) whether during my regular hours of employment or during my time away from work (2) whether or not the Invention was made at the suggestion of the Company, and (3) whether or not the Invention was reduced to or embodied in writing, electronic media or tangible form.

ii. The disclosure required by this Section 1 a. also applies to any Invention which may relate at the time of conception or reduction to practice of the Invention to the Company's business or actual or demonstrably anticipated research or development of the Company, and to any Invention which results from any work performed by me for the Company.

iii. The disclosure required by this Section 1 a. shall be received in confidence by the Company within the meaning of and to the extent required by California Labor Code §2871, the provisions of which are set forth on Exhibit "A" hereto.

iv. To facilitate the complete and accurate disclosures described above, I shall maintain complete written records of all Inventions and all work,

study and investigation done by me during my employment, which records shall be the Company's property.

v. I agree that during my employment I shall have a continuing obligation to supplement the disclosure required by this Section 1 a. on a monthly basis if I Invent an Invention during the period of employment. In order to facilitate the same, the Company and I shall periodically review every six months the written records of all Inventions as outlined in this Paragraph 1 a. to determine whether any particular invention is in fact related to Company business. Should a dispute arise between the Company and myself during the review period, I agree that binding arbitration as outlined in Paragraph 3 of the Mutual Agreement to Mediate and Arbitrate Claims shall be the sole determination whether any particular invention is in fact related to Company business. As to those inventions that are determined to be my sole property, the Company retains right of first refusal or to submit of a purchase agreement, stemming from or related to the review period.

b. Assignment. I hereby assign to the Company without royalty or any other further consideration my entire right, title and interest in and to each and every Invention I am required to disclose under Section 1 a. other than an Invention that (i) I have or shall have developed entirely on my own time without using the Company's equipment, supplies, facilities or trade secret information, (ii) does not relate at the time of conception or reduction to practice of the Invention to the Company's business, or actual or demonstrably anticipated research or development of the Company and (iii) does not result from any work performed by me for the Company. I acknowledge that the Company has notified me that the assignment provided for in this Section l b. does not apply to any Invention to which the assignment may not lawfully apply under the provisions of Section §2870 of the California Labor Code, a copy of which is attached as Exhibit "A" hereto. I shall bear the full burden of proving to the Company that an invention qualifies fully under Section §2870.

c. Additional Assistance and Documents. I will assist the Company in obtaining, maintaining and enforcing patents, copyrights, trade secrets, trademarks, service marks, trade names and other proprietary rights in connection with any Invention I have assigned to the Company under Section l b., and I further agree that my obligations under this Section l c. shall continue beyond the termination of my employment with the Company. Among other things, for the foregoing purposes I will (i) testify at the request of the Company in any interference, litigation or other legal proceeding that may arise during or after my employment, and (ii) execute, verify, acknowledge and deliver any proper document and, if, because of my mental or physical incapacity or for any other reason whatsoever, the Company is unable to obtain my signature to apply for or to pursue any application for any United States or foreign patent or copyright covering Inventions assigned to the Company by me, I hereby irrevocably designate and appoint each of the Company and its duly authorized officers and agents as my agent and attorney in fact to act for me and in my behalf and stead to execute and file any such applications and to do all other lawfully permitted acts to further the prosecution and issuance of any United States or foreign patent or copyright thereon with the same legal force and effect as if executed by me. I shall be entitled to reimbursement of any out-of-pocket expenses incurred by me in rendering such assistance and, if I am required to render such assistance after the termination of my employment, the Company shall pay me a reasonable rate of compensation for

time spent by me in rendering such assistance to the extent permitted by law (provided, I understand that no compensation shall be paid for my time in connection with preparing for or rendering any testimony or statement under oath in any judicial proceeding, arbitration or similar proceeding).

d. Prior Contracts and Inventions; Rights of Third Parties. I represent to the Company that, except as set forth on Exhibit "B" hereto, there are no other contracts to assign Inventions now in existence between me and any other person or entity (and if no Exhibit "B" is attached hereto or there is no such contract(s) described thereon, then it means that by signing this Agreement, I represent to the Company that there is no such other contract(s)). In addition, I represent to the Company that I have no other employments or undertaking which do or would restrict or impair my performance of this Agreement. I further represent to the Company that Exhibit "C" hereto sets forth a brief description of all Inventions made or conceived by me prior to my employment with the Company which I desire to be excluded from this Agreement (and if no Exhibit "C" is attached hereto or there is no such description set forth thereon, then it means that by signing this Agreement I represent to the Company that there is no such Invention made or conceived by me prior to my employment with the Company). In connection with my employment with the Company, I promise not to use or disclose to the Company any patent, copyright, confidential trade secret or other proprietary information of any previous employer or other person that I am not lawfully entitled so to use or disclose. If in the course of my employment with the Company I incorporate into an Invention or any product process or service of the Company any Invention made or conceived by me prior to my employment with the Company, I hereby grant to the Company a royalty-free, irrevocable, worldwide nonexclusive license to make, have made, use and sell that Invention without restriction as to the extent of my ownership or interest.

2. **Confidential Information.**

a. Company Confidential Information. I will not use or disclose Confidential Information, whether before, during or after the period of my employment except to perform my duties as an employee of the Company based on my reasonable judgment as an Officer of the Company, or in accordance with instruction or authorization of the Company, without prior written consent of the Company or pursuant to process or requirements of law after I have disclosed such process or requirements to the Company so as to afford it the opportunity to seek appropriate relief therefrom. "Confidential Information" means any Invention of any person in which the Company has an interest and in addition means any financial, client, customer, supplier, marketing, distribution and other information of a confidential or private nature connected with the business of the Company or any person with whom it deals, provided by the Company to me or to which I have access during or in the course of any employment. Confidential Information is to be broadly defined, and includes all information that has or could have commercial value or other utility in the business in which the Company is engaged or contemplates engaging, and all information of which the unauthorized disclosure could be detrimental to the interests of the Company, whether or not such information is identified as Confidential Information by the Company.

b. Third Party Information. I acknowledge that during my employment with the Company I may have access to patent, copyright, confidential, trade secret or other proprietary information of third parties subject to restrictions on the use or disclosure thereof by the Company. During the period of my employment and thereafter I will not use or disclose any

such information other than consistent with the restrictions and my duties as an employee of the Company.

3. **Property of the Company.** All equipment and all tangible and intangible information relating to NAI, its employees and its customers or vendors furnished to, obtained by or prepared by Employee or any other person during the course of or incident to employment by NAI are and shall remain the sole property of NAI ("NAI Company Property"). NAI Company Property shall include, but not be limited to, computer equipment, books, manuals, records, reports, notes, correspondence, contracts, customer lists, business cards, advertising, sales, financial, personnel, operations, and manufacturing materials and information, data processing reports, computer programs, software, customer information and records, business records, price lists or information, and samples, and in each case shall include all copies thereof in any medium, including paper, electronic and magnetic media and all other forms of information storage. All tangible NAI Company Property shall be returned promptly to NAI upon termination of employment.

4. **No Solicitation of Company Employees.** While employed by the Company and for a period of one year after termination of my employment with the Company, I agree not to induce or attempt to influence directly or indirectly any employee of the Company to terminate employment with the Company or to work for me or any other person or entity.

5. **Covenant of Exclusivity and Not to Compete.** During the period of my employment with the Company, I will not engage in any other professional employment or consulting or directly or indirectly participate in or assist any business which is a current or potential supplier, customer or competitor of the Company without prior written approval from the Board of Directors of the Company.

6. **General.**

a. Assignments, Successors and Assignees. All representations, warranties, covenants and agreements of the parties shall bind their respective heirs, executors, personal representatives, successors and assignees ("transferees") and shall inure to the benefit of their respective permitted transferees. The Company shall have the right to assign any or all of its rights and to delegate any or all of its obligations hereunder. The undersigned employee shall not have the right to assign any rights or delegate any obligations hereunder without the prior written consent of the Company or its transferee.

b. Number and Gender, Headings. Each number and gender shall be deemed to include each other number and gender as the context may require. The headings and captions contained in this Agreement shall not constitute a part thereof and shall not be used in its construction or interpretation.

c. Severability. If any provision of this Agreement is found by any court or arbitral tribunal of competent jurisdiction to be invalid or unenforceable, the invalidity of such provision shall not affect the other provisions of this Agreement and all provisions not affected by the invalidity shall remain in full force and effect.

d. Amendment and Modification. This Agreement may be amended or modified only by a writing executed by each party.

e. Government Law. The laws of California shall govern the construction, interpretation and performance of this Agreement and all transactions under it.

f. Remedies. I acknowledge that my failure to carry out any obligation under this Agreement, or a breach by me of any provision herein, will constitute immediate and irreparable damage to the Company, which cannot be fully and adequately compensated in money damages and which will warrant preliminary and other injunctive relief, an order for specific performance, and other equitable relief. I further agree that no bond or other security shall be required in obtaining such equitable relief and I hereby consent to the issuance of such injunction and to the ordering of specific performance. I also understand that other action may be taken and remedies enforced against me.

g. Mediation and Arbitration. This Agreement is subject to the Mutual Agreement to Mediate and Arbitrate Claims attached to the Executive Employment Agreement between myself and Company, incorporated into this Agreement by this reference.

h. Attorneys' Fees. Should either I or the Company, or any heir, personal representative, successor or permitted assign of either party, resort to arbitration or legal proceedings to enforce this Agreement, the prevailing party (as defined in California statutory law) in such proceeding shall be awarded, in addition to such other relief as may be granted, attorneys' fees and costs incurred in connection with such proceeding.

i. No Effect on Other Terms or Conditions of Employment. I acknowledge that this Agreement does not affect any term or condition of my employment except as expressly provided in this Agreement, and that this Agreement does not give rise to any right or entitlement on my part to employment or continued employment with the Company. I further acknowledge that this Agreement does not affect in any way the right of the Company to terminate my employment.

j. Independent Counsel. Employee represents and agrees that (i) Employee has entered into this Agreement voluntarily and without coercion or duress, (ii) Employee has been offered a reasonable time to consider the matters contained in this Agreement, (iii) Employee has been advised and has had the opportunity to consult with an attorney of his or her choice to explain the terms of this Agreement and the consequences of signing it, and (iv) Employee fully understands his or her rights, privileges and duties under the Agreement. NAI hereby advises Employee in writing to discuss this Agreement with independent counsel prior to executing this Agreement.

My signature below signifies that I have read, understand and agree to this Agreement.

/s/ Tim Belanger

Timothy E. Belanger

ACCEPTED:
NATURAL ALTERNATIVES INTERNATIONAL, INC.
a Delaware corporation

By: /s/ Randell Weaver

Randell Weaver, Chief Financial Officer and Chief Operating Officer

EXHIBIT "A"

California Labor Code

§ 2870. Invention on Own Time-Exemption from Agreement.

(a) Any provision in an employment agreement which provides that an employee shall assign, or offer to assign, any of his or her rights in an invention to his or her employer shall not apply to an invention that the employee developed entirely on his or her own time without using the employer's equipment, supplies, facilities or trade secret information expect for those inventions that either:

(1) Relate at the time of conception or reduction to practice of the invention to the employer's business, or actual or demonstrably anticipated research or development of the employer.

(2) Result from any work performed by the employee for the employer.

(b) To the extent a provision in an employment agreement purports to require an employee to assign an invention otherwise excluded from being required to be assigned under subdivision (a), the provision is against the public policy of this state and is unenforceable.

§ 2871. Restrictions on Employer for Condition of Employment.

No employer shall require a provision made void or unenforceable by Section 2870 as a condition of employment or continued employment. Nothing in this article shall be construed to forbid or restrict the right of an employer to provide in contracts of employment for disclosure, provided that any such disclosures be received in confidence, of all of the employee's inventions made solely or jointly with others during the period of his or her employment, a review process by the employer to determine such issues as may arise, and for full title to certain patents and inventions to be in the United States, as required by contracts between the employer and the United States or any of its agencies.

EXHIBIT "B"

Except as set forth below, Employee represents to the Company that there are no other contracts to assign Inventions now in existence between Employee and any other person or entity (see Section 1 d. of the Agreement):

EXHIBIT "C"

Set forth below is a brief description of all Inventions made or conceived by Employee prior to Employee's employment with the Company which Employee desires to be excluded from this Agreement (see Section 1 d. of the Agreement):

Exhibit 10.9

LOAN AND SECURITY AGREEMENT

PREAMBLE. **THIS LOAN AND SECURITY AGREEMENT** (as it may be amended or modified from time to time, and together with all Schedules, Riders and Exhibits attached hereto, called herein this "Agreement") is made by UPS CAPITAL CORPORATION, a Delaware corporation ("Lender") with NATURAL ALTERNATIVES INTERNATIONAL, INC., a Delaware corporation (as more particularly defined below, "Borrower") as of the "Closing Date" specified below (the "Closing Date"), for the purpose of evidencing the terms and conditions on which Lender will extend certain financing accommodations to Borrower, as described more particularly below.

NOW, THEREFORE, to induce Lender to extend the financing provided for herein, and for other good and valuable consideration, the sufficiency and receipt of which are mutually acknowledged, Borrower agrees with Lender as follows:

1. DEFINITIONS, TERMS AND REFERENCES

1.1. **Certain Definitions**. In addition to such other terms as elsewhere defined herein, as used in this Agreement and in any Exhibit or Schedule attached hereto, the following terms shall have the following meanings:

"Accounts Receivable Collateral" shall mean and include all of Borrower's accounts, accounts receivable, contract rights, instruments, investment property, chattel paper and payment intangibles, including, without limitation, all rights of Borrower to payment for goods sold or leased, or to be sold or to be leased, or for services rendered or to be rendered, howsoever evidenced or incurred, together with all letters of credit, letter of credit rights and supporting obligations, all returned or repossessed goods and all books, records, computer tapes, software, programs and ledger books arising therefrom or relating thereto, all whether now owned or hereafter acquired and howsoever arising.

"Account Debtor" shall mean any Person who is obligated on any of the Accounts Receivable Collateral or otherwise is obligated as a purchaser or lessee of any of the Inventory Collateral.

"Advance" shall mean an advance of borrowed funds made by Lender to Borrower under the Line of Credit, provided however, that for purposes of determining the amount of any non-usage fee and compliance with the Borrowing Base Requirement, "Advances" shall include, without duplication: (i) the amount available for drawing under each Letter of Credit, and (ii) all outstanding Reimbursement Obligations.

"Affiliate" shall mean, with respect to any Person, any Subsidiary, shareholder, partner, member, director, manager, officer or employee of such Person.

"Agreement"—See Preamble.

"Applicable Law" shall mean all federal, state (or provincial) and local laws, rules, regulations, orders, writs, judgments, injunctions, decrees or awards applicable to Borrower or any Subsidiary, whether domestic or foreign, including, without limitation, all pertinent rules and regulations of the following agencies of the United States government: FDA, FTC, CPSC, USDA and EPA.

"Applicable Margin" shall mean one-half of one percent (1/2%) per annum, for Advances and one-half of one percent (1/2%) per annum, for the Term Loan.

"Applicable Rate" shall mean the Prime Rate plus the Applicable Margin.

"Assignment of Claims Act" shall mean the federal Assignment of Claims Act of 1940, as it may be amended from time to time; together with all regulations promulgated from time to time in respect thereof.

"Balances Collateral" shall mean all deposit accounts together with all cash or other property of Borrower which may be left with Lender or in Lender's possession, custody or control now or at any time hereafter, including any escrow deposits, security deposits or earnest money. The foregoing term shall include funds from time to time on deposit in any Concentration Account.

"Bankruptcy Code" shall mean Title 11 of the United States Code, as it may be amended from time to time.

"Blocked Account Agreement" shall have the meaning given to such term in Section 2.3.4.

"Booked Cost," in respect of Inventory Collateral, shall mean the inventory cost accounting method employed by Borrower as of the Closing Date.

"Borrower" — See Preamble. If more than one Person is so identified and described as "Borrower," then, the term "Borrower" shall mean each such Person, jointly and severally.

"Borrowing Base" shall mean a sum determined by Lender, in its credit judgment, from time to time, equal to: (i) up to eighty-five percent (85%), of the net dollar amount of Eligible Accounts as at the date of determination; plus (ii) up to forty-six percent (46%) of the dollar amount of the Eligible Inventory, valued at the lower of its Booked Cost or market value, at the date of determination, not to exceed, in any event, as to Eligible Inventory, the lesser of (A) Two Million Dollars ($2,000,000) or (B) then current borrowing availability under the Line of Credit determined by reference to Eligible Accounts under clause (i) above without regard to Eligible Inventory; minus (iii) such reserves against the Borrowing Base and borrowing availability under the Line of Credit as Lender may establish from time to time in its credit judgment.

"Borrowing Base Certificate" shall mean a certificate, in form and substance satisfactory to Lender, submitted by Borrower to Lender demonstrating compliance with the Borrowing Base Requirement, as provided in Section 5.3.

"Borrowing Base Requirement" shall have the meaning ascribed to such term in Section 2.1.1.

"Borrowings" shall mean total Advances outstanding from time to time.

"Business Day" shall mean a day on which Lender is open for the conduct of its business at its principal office in Atlanta, Georgia.

"Clearing Bank" shall have the meaning given to such term in Section 2.3.4.

"Closing Date" shall mean the date specified in the signature page of this Agreement as the Closing Date.

"Collateral" shall mean the property, or interests in property, of Borrower described as such in Article 3, plus any other property, or interests in property, of Borrower in which Lender has, or hereafter obtains or claims, a Lien as security for the payment of the Obligations.

"Collateral Location" shall mean any location (whether owned or leased, and including any public warehouse) at which Borrower has, or maintains any records concerning, Collateral which, as of the Closing Date, are limited to (i) the Executive Office, and (ii) 1215 Park Center Drive, Suites C, D and E, Vista, California 92083.

"Collateral Status Certificate" shall mean a certificate, attached hereto, submitted by Borrower, reflecting the status of the Collateral, as provided in Section 5.5.

"Compliance Certificate" shall mean a certificate, in form and substance satisfactory to Lender issued by a duly authorized officer of Borrower, confirming Borrower's continuing compliance with this Agreement, as provided in Section 5.7.

"Concentration Account" shall have the meaning given to such term in Section 2.3.4.

"Consolidated Subsidiaries" shall mean those Subsidiaries of Borrower (if any) existing from time to time which, for purposes of GAAP, are required to be consolidated for financial reporting purposes.

"Control," "Controlled" or "Controlling" shall mean, with respect to any Person, the power to direct the management and policies of such Person, directly, indirectly, whether through the ownership of voting securities or otherwise.

"Debt" means all liabilities, obligations and indebtedness of a Person, of any kind or nature, whether now or hereafter owing, arising, due or payable, howsoever evidenced, created, incurred, acquired or owing, whether primary, secondary, direct, contingent, fixed or otherwise, and whether initiated, assumed or acquired by such Person.

"Default Condition" shall mean the occurrence of any event which, after satisfaction of any requirement for the giving of notice or the lapse of time, or both, would become an Event of Default.

"Default Rate" shall mean that interest rate per annum equal to two percent (2%) per annum in excess of the otherwise Applicable Rate payable on any Obligation.

"Dollars" or "$" shall mean United States Dollars.

"Eligible Accounts" shall mean that portion of Borrower's Accounts Receivable Collateral consisting of trade accounts receivable actually billed to, and owing to Borrower by, its Account Debtors in the ordinary course of its business, which Lender, in its credit judgment, has determined to be eligible for credit extensions hereunder excluding, however, in any event, unless otherwise approved by Lender, in its credit judgment, any such account: (i) with respect to which any portion thereof is more than ninety (90) days past invoice date; (ii) which is owing by any Affiliate of Borrower; (iii) which is owing by any Account Debtor having twenty-five percent (25%) or more in face value of its then existing accounts with Borrower ineligible hereunder pursuant to the operation and effect of clause (i) above; (iv) which arises from any contract on which Borrower's performance is assured by a performance, completion or other bond; (v) constituting retainage which has been withheld from Borrower pending contract completion, to the extent thereof; (vi) constituting a service, warranty or similar charge, to the extent thereof; (vii) which is evidenced by a promissory note, other instrument or chattel paper; (viii) which represents an accord and satisfaction in respect of any prior account receivable; (ix) the assignment of which is subject to any requirements set forth in the Assignment of Claims Act (unless and except to the extent that Borrower has complied therewith to Lender's satisfaction); (x) which does not conform in any respect to the warranties and representations set forth in the Loan Documents in respect of Accounts Receivable Collateral; (xi) which is owing by any Account Debtor whose accounts in face amount with Borrower exceed ten percent (10%) of Borrower's Eligible Accounts, but only to the extent of such excess, in each case: (A) NSA International, Inc. ("NSA"), 25%, (B) Mannatech Incorporated ("Mannatech"), 35%, and (C) all Account Debtors, except Mannatech and NSA, 10%; (xii) which is owing by, billed to or paid by any Account Debtor not located in the United States of America (unless and except to the extent that it is backed by a letter of credit issued to Borrower as beneficiary by or through a bank headquartered in the United States which is acceptable to Lender); (xiii) as to which a duly perfected, first priority security interest does not exist at any time in favor of Lender; (xiv) as to which any counterclaim, defense, setoff, deduction or contra-account exists, to the extent thereof; or (xv) which has otherwise been determined by Lender in its credit judgment not to be an "Eligible Account" for purposes hereof.

"Eligible Inventory" shall mean that portion of the Inventory Collateral consisting of raw materials and new, saleable finished goods inventory of Borrower which Lender, in its credit judgment, has determined to be eligible for credit extensions hereunder, excluding, however, in any event, unless otherwise approved by Lender, in its credit judgment, any such inventory which (i) is not at all times subject to a duly perfected, first priority security interest in favor of Lender; (ii) is not in good and saleable condition; (iii) is on consignment from, or is subject to, any repurchase agreement with any supplier; (iv) constitutes returned, repossessed, damaged or slow-moving goods; (v) does not conform in all respects to the warranties and representations set forth in the Loan Documents in respect of Inventory Collateral; (vi) is subject to a negotiable document of title (unless issued or endorsed to Lender); (vii) is subject to any license or other agreement that limits or restricts Borrower's or Lender's right to sell or otherwise dispose of such inventory; (viii) is located at a Collateral Location with respect to which, if leased by Borrower,

Lender has not received from the landlord at such location a Landlord's Agreement; and (ix) has otherwise been determined by Lender in its credit judgment to be excluded from "Eligible Inventory" for purposes hereof.

"Equipment Collateral" shall mean all equipment and fixtures of Borrower, whether now owned or hereafter acquired, wherever located, including, without limitation, all machinery, furniture, furnishings, leasehold improvements, computer hardware, motor vehicles, forklifts, rolling stock, dies and tools, used or useful in Borrower's business operations.

"Equity Interests" shall mean all capital stock, warrants and other securities evidencing ownership of equity interests in a Person. In the case of (i) a partnership, the foregoing includes partnership interests or shares; and (ii) a limited liability company, the foregoing includes members' interests or shares.

"Event of Default" shall mean any of the events or conditions described in Article 8, provided that any requirement for the giving of notice or the lapse of time, or both, has been satisfied.

"Executive Office" shall mean the address of Borrower's chief executive office and principal place of business, in this case, 1185 Linda Vista Drive, San Marcos, California 92069.

"Fiscal Year", in respect of a Person, shall mean the fiscal year of such Person, as employed by such Person as of the Closing Date, which for Borrower is the twelve month period ending June 30. The terms "Fiscal Quarter" and "Fiscal Month" shall correspond accordingly thereto.

"GAAP" shall mean generally accepted accounting principles consistently applied for the fiscal period(s) in question.

"Guaranty" shall mean an agreement or other writing executed by a Guarantor, in form and substance satisfactory to Lender, guaranteeing payment of any of the Obligations or otherwise giving assurances to Lender in respect thereof.

"Guarantor" shall mean, individually and collectively, any and all Persons who either, as of the Closing Date, or thereafter, join in the execution of any Guaranty. As of the Closing Date, there are no Guarantors.

"Home State" shall mean the State in which Borrower is incorporated or otherwise organized (if Borrower is not a corporation); in this case, Delaware.

"Initial Term", in reference to the Line of Credit, shall mean a period of two (2) years, ending on the second (2^{nd}) anniversary of the Closing Date.

"Insolvent", in respect of a Person, shall mean that (i) such Person is not able to pay its Debts generally as and when they become due; or (ii) such Person has an unreasonably small capital with which to operate; or (iii) the total Debts and other liabilities of such Person, including contingent liabilities, exceed the fair saleable value of the assets of such Person.

"Intangibles Collateral" shall mean all general intangibles of Borrower, whether now existing or hereafter acquired or arising, including, without limitation, all copyrights, royalties, tax refunds, rights to tax refunds, trademarks, trade names, service marks, patent and proprietary rights, blueprints, drawings, designs, trade secrets, plans, diagrams, schematics and assembly and display materials relating thereto, all customer lists, all books and records, all computer software and programs, and all rights of Borrower as purchaser, lessee, licensee or indemnitee under any contract.

"Inventory Collateral" shall mean all inventory of Borrower, whether now owned or hereafter acquired, wherever located, including, without limitation, all goods of Borrower held for sale or lease or furnished or to be furnished under contracts of service, all goods held for display or demonstration, goods on lease or consignment, spare parts, repair parts, returned and repossessed goods, all raw materials, work-in-process, finished goods, catalysts and supplies used or consumed in Borrower's business, together with all documents, documents of title,

dock warrants, dock receipts, warehouse receipts, bills of lading or orders for the delivery of all, or any portion, of the foregoing, and any letters of credit issued in respect thereof, and all letter of credit rights arising therefrom.

"IP Security Agreements" shall mean, individually or collectively, as applicable, in form and substance satisfactory to Lender, (i) a security agreement for Trademarks, and/or (ii) a security agreement for Patents; each to be executed by Borrower in favor of Lender on the Closing Date.

"Landlord's Agreement" shall mean an agreement from the landlord (or any warehouse operator, as the case may be), of any Collateral Location pursuant to which such landlord (or warehouse operator) has waived, released or subordinated in favor of Lender any rights it has in respect of the Collateral.

"Lender"—See Preamble.

"Letter of Credit" shall have the mean given to such term in Section 2.1.2.

"Lien" shall mean any deed to secure debt, deed of trust, mortgage or similar instrument, and any lien, security interest, preferential arrangement which has the practical effect of constituting a security interest, security title, pledge, charge, encumbrance or servitude of any kind, whether by consensual agreement or by operation of statute or other law, and whether voluntary or involuntary, including, without limitation, any conditional sale or other title retention agreement or lease in the nature thereof.

"Line of Credit" shall refer to the line of credit in the Maximum Amount opened by Lender in favor of Borrower pursuant to the provisions of Section 2.1.

"Loan Documents" shall mean this Agreement, each Note, any IP Security Agreements, any financing statements covering portions of the Collateral, and any and all other documents, instruments, certificates and agreements executed and/or delivered by Borrower in connection herewith, or any one, more, or all of the foregoing, as the context shall require.

"Master Note" shall mean a master promissory note in form and substance satisfactory to Lender, dated of even date herewith, as amended or supplemented from time to time, in a principal amount equal to the maximum amount of the Line of Credit, evidencing Advances to be obtained by Borrower under the Line of Credit, together with any renewals or extensions thereof in whole or in part.

"Material Adverse Change" shall mean with respect to any event, act, condition or occurrence of whatever nature (including any adverse determination in any litigation, arbitration or governmental investigation or proceeding or any change in Applicable Law), whether occurring singly or in conjunction with any other event or events, act or acts, condition or conditions, occurrence or occurrences, whether or not related, a material adverse change in, or a material adverse effect upon, any of (a) the financial condition, operations, business, properties or prospects of the Borrower and its Consolidated Subsidiaries, taken as a whole, (b) the rights and remedies of the Lender under any of the Loan Documents or the ability of the Borrower to perform its obligations under any of the Loan Documents, or (c) the legality, validity or enforceability of any of the Loan Documents.

"Materiality Threshold" shall mean One Hundred Thousand Dollars ($100,000).

"Maximum Amount" shall mean the maximum amount which is available for borrowing under the Line of Credit (determined without regard to the Borrowing Base Requirement), which, as of the Closing Date, is equal to Four Million Dollars ($4,000,000).

"NAIE" shall mean Natural Alternatives International Europe S.A., a Swiss company and wholly-owned Subsidiary of Borrower.

"Note" shall mean any instrument at any time evidencing all or any portion of any Obligations, including, particularly, the Master Note and the Term Note.

"Notice of Borrowing" shall mean a notice in form and substance satisfactory to Lender of intended Borrowing, executed by a duly authorized officer of Borrower.

"Obligations" shall mean any and all Debts of Borrower to Lender (or any Affiliate of Lender), including, without limiting the generality of the foregoing, any Debt of Borrower to Lender (or any Affiliate of Lender) under any loan made to Borrower by Lender prior to the date hereof and any and all extensions or renewals thereof in whole or in part; any Debt of Borrower to Lender arising hereunder or as a result hereof, whether evidenced by any Note, or constituting Advances or otherwise, including all Reimbursement Obligations, and any and all extensions or renewals thereof in whole or in part; any Debt of Borrower to Lender (or any Affiliate of Lender) under any later or future advances or loans made by Lender (or any Affiliate of Lender) to Borrower, and any and all extensions or renewals thereof in whole or in part; and any and all future or additional Debts of Borrower to Lender (or any Affiliate of Lender) whatsoever and in any event, whether existing as of the date hereof or hereafter arising, whether arising under a loan, lease, credit card arrangement, line of credit, letter of credit or other type of financing, whether initiated, assumed or acquired by Lender, and whether direct, indirect, absolute or contingent, as maker, endorser, guarantor, surety or otherwise, howsoever evidenced.

"Organization Documents" shall mean the formation and governing documents of a Person, as applicable. In the case of (i) a corporation, the foregoing shall include its charter and bylaws; (ii) a partnership, the foregoing shall include its partnership agreement; and (iii) a limited liability company, the foregoing shall include its operating agreement.

"Permitted Encumbrances" shall mean: (i) Liens for taxes not yet due and payable or being actively contested as permitted by this Agreement, but only if such Liens do not adversely affect Lender's rights or the priority of Lender's security interest in the Collateral; (ii) carriers', warehousemen's, mechanics', materialmen's, repairmen's or other like Liens arising in the ordinary course of business, payment for which is not yet due or which are being actively contested in good faith and by appropriate, lawful proceedings, but only if such liens are and remain junior to liens granted in favor of Lender; (iii) pledges or deposits in connection with worker's compensation, unemployment insurance and other social security legislation; (iv) deposits to secure the performance of utilities, leases, statutory obligations and surety and appeal bonds and other obligations of a like nature arising by statute or under customary terms regarding depository relationships on deposits held by financial institutions with whom Borrower has a banker-customer relationship; (vi) typical restrictions imposed by licenses and leases of software (including location and transfer restrictions); (vii) Liens in favor of Lender; and (viii) Liens granted by Borrower or any Subsidiary to vendors or financiers of capital assets to secure the payment of Purchase Money Debt so long as (A) such Debt is permitted to be incurred hereunder, (B) such Liens extend only to the specific assets so purchased, secure only such deferred payment obligation and related interest, fees and charges and no other Debt, and (C) such Liens are promptly released upon the payment in full of such Debt.

"Person" shall mean any individual, partnership, corporation, limited liability company, joint venture, joint stock company, trust, governmental unit or other entity.

"Prime Rate" shall mean the interest rate published under the "Money Rates" section of The Wall Street Journal (on each day on which it is published) as the "prime rate" on such day, as such rate may change from time to time; provided, however, that if The Wall Street Journal shall cease to publish such rate (or itself to be published); then, the "Prime Rate" shall be the highest among the prime or base rates then publicly announced by Bank of America, N.A., J.P. Morgan Chase Bank and Wachovia Bank, National Association (or their respective successors-in-interest).

"Purchase Money Debt" shall mean Debt incurred by Borrower or any Subsidiary in connection with the acquisition of capital assets for the cost thereof (including any for the deferred payment of any purchase price).

"Reimbursement Obligations" has the meaning given to such term in Section 2.1.2.

"Securities Collateral" shall mean all securities and investment property of Borrower, whether now owned or hereafter acquired, including all Equity Interests owned in any Subsidiary at any time.

"Subordinated Debt" shall mean any Debt owing by Borrower from time to time which has been subordinated to the Obligations pursuant to a Subordination Agreement.

"Subordination Agreement" shall mean an agreement in form and substance satisfactory to Lender between or among Borrower, Lender and any other creditor of Borrower pursuant to which such other creditor shall agree to subordinate Debt of Borrower owing to it to the Obligations.

"Subsidiary" shall mean any corporation, partnership, business association or other entity (including any Subsidiary of any of the foregoing) of which Borrower owns, directly or indirectly through one or more Subsidiaries, fifty percent (50%) or more of the capital stock or other Equity Interest having ordinary power for the election of directors or others performing similar functions.

"Telephone Instruction Letter" shall mean a letter, dated the Closing Date, issued by a duly authorized officer of Borrower.

"Term Loan" shall have the meaning given to such term in Section 2.1.3.

"Term Note" shall mean a term promissory note in form and substance satisfactory to Lender, dated of even date herewith, as amended or supplemented from time to time, in a principal amount equal to the Term Loan, together with any extensions or renewals thereof, in whole or in part.

"Termination Date" shall mean the earliest to occur of the following dates: (i) that date on which, pursuant hereto, Lender terminates the Line of Credit (or the Line of Credit is deemed automatically terminated) subsequent to the occurrence of an Event of Default; (ii) the last day of the Initial Term; or (iii) such later date as to which Lender and Borrower may agree in writing from time to time hereafter, but not later than sixty (60) days prior to any scheduled Termination Date.

"UCC" shall mean the Uniform Commercial Code of Georgia, as in effect from time to time.

1.2. **Use of Defined Terms**. All terms defined in this Agreement and the Exhibits shall have the same defined meanings when used in any other Loan Documents, unless the context shall require otherwise.

1.3. **Accounting Terms**. All accounting terms not specifically defined herein shall have the meanings generally attributed to such terms under GAAP.

1.4. **UCC Terms**. Any terms defined in Articles 8 or 9 of the UCC, including "accounts", "chattel paper", "investment property," "instruments", "general intangibles", "inventory," "equipment," "fixtures," "securities" and "investment property" shall have the same meanings given to such terms thereunder as and when used in the Loan Documents.

2. **THE FINANCING**.

2.1. **Extensions of Credit**.

2.1.1. **Line of Credit**. On the Closing Date, subject to fulfillment of all conditions precedent set forth herein, Lender agrees to open the Line of Credit in favor of Borrower so that, during the period from the Closing Date to, but not including, the Termination Date, so long as there is not in existence any Default Condition or Event of Default and the requested Borrowing, if made, will not cause a Default Condition or Event of Default to exist, Borrower may borrow and repay and reborrow Advances under the Line of Credit; subject, however, to the requirement that at no time shall the aggregate principal amount of outstanding Advances under the Line of Credit exceed the lesser of: (A) the Maximum Amount or (B) the Borrowing Base (such requirement being generally referred to herein as the "Borrowing Base Requirement"); and subject, further, to the requirement that if, at any time hereafter, the Borrowing Base Requirement is not satisfied, Borrower will immediately repay the then principal balance of the Master Note by that amount necessary to satisfy the Borrowing Base Requirement. All proceeds so obtained under the Line of Credit shall be used by Borrower to refinance existing Debt or for working capital in

such manner as Borrower may elect in the ordinary course of its business operations. The Debts arising from Advances made to or on behalf of Borrower under the Line of Credit shall be evidenced by the Master Note, which shall be executed by Borrower and delivered to Lender on the Closing Date. The outstanding principal amount of the Master Note may fluctuate from time to time, but shall be due and payable in full on the Termination Date, and shall bear interest from the date of each disbursement of principal until paid in full at the Applicable Rate, payable in the manner described in Section 2.2.1. Borrower may request Advances under the Line of Credit by giving to Lender a Notice of Borrowing not later than 10:00 a.m. (Atlanta, Georgia time) on the date of the requested Advance; provided, however, that, in accordance with the Telephone Instruction Letter, Borrower may provide such instructions by telephone, provided, further, that any such telephone request shall be confirmed in writing not later than the Business Day following the disbursement of the requested Advance. The Line of Credit shall terminate on the Termination Date, but may be terminated earlier by Borrower, upon its giving at least ten (10) days advance written notice to Lender, subject, however, to Borrower's payment of any early termination fee then due (if so specified in Section 2.2.2).

2.1.2. **Letters of Credit**. Borrower has proposed that the Line of Credit be utilized from time to time, at Borrower's request, to support the issuance of one or more letters of credit for the account of Borrower (each, a "Letter of Credit," and, collectively, "Letters of Credit"), either by Lender's making (or joining with Borrower in making) application to the issuer(s) of such Letters of Credit (the "Issuers" or an "Issuer") therefor, or otherwise by Lender's issuance of a risk participation or similar agreement in favor of the Issuer(s) in regard thereto (the foregoing herein called, generally, a "Risk Participation Arrangement"). Lender has agreed to such proposal, subject, however, to the following terms, covenants and conditions:

(a) **Notice**. Borrower shall give Lender at least five (5) Business Days advance written notice of Borrower's request that Lender enter into a Risk Participation Arrangement (a "Risk Participation Request") specifying the face amount of the underlying Letter of Credit, its issuer, its expiry date, its beneficiary and its purpose; e.g., whether "commercial" or "standby."

(b) **Acceptance of Risk Participation**. Lender may accept or reject any Risk Participation Request, in its sole discretion. Without limitation of the foregoing, no Risk Participation Request will be accepted if: (i) any Default Condition or Event of Default then exists; (ii) the face amount of the Letter of Credit specified in the Risk Participation Request, when added to all Advances then outstanding, would cause the Borrowing Base Requirement to be exceeded; (iii) the expiry date of the Letter of Credit specified in the Risk Participation Request exceeds the earlier of: (i) one (1) year, or (ii) the Termination Date; (iv) the face amount of the Letter of Credit specified in the Risk Participation Request, when aggregated with the face amounts of all Letters of Credit for which Risk Participation Arrangements are then outstanding, shall not exceed such sum as Lender may establish from time to time as an absolute limit on the amount of outstanding Letters of Credit issued pursuant hereto; (v) the Issuer has not been selected by, or approved by, Lender; or (vi) Lender and the Issuer are unable to reach agreement on the terms of the underlying Risk Participation Arrangement.

(c) **Accepted Risk Participations**. Once Lender has entered into any Risk Participation Arrangement with respect to a Letter of Credit, then: (i) pending its expiry, the amount available for drawing under each Letter of Credit shall be deemed an outstanding Advance for purposes of determining Borrower's ongoing compliance with the Borrowing Base Requirement; i.e., the amount thereof shall be charged against the Line of Credit; and (ii) if Lender remits any payment to the Issuer in respect of such Letter of Credit, whether upon a drawing therefor, in settlement thereof or otherwise, the full amount of such payment shall be automatically charged as an Advance (whether or not an Event of Default then exists or would be caused thereby); and Lender shall reimburse itself from the proceeds thereof; or, if such Advance cannot be made; i.e., if the Line of Credit already has terminated, then, Borrower shall, on demand from Lender, reimburse Lender for the full amount of such payment (the foregoing herein called Borrower's "Reimbursement Obligations").

(d) **Reimbursement Obligations**. Borrower's Reimbursement Obligations arising from time to time hereunder shall: (i) be continuing, absolute and unconditional; (ii) constitute part of the Obligations and be secured by all Collateral; (iii) if not paid in full when due, either by the making of an Advance or otherwise, bear interest until fully paid at the Default Rate; and (iv) survive termination of the Line of Credit.

(e) **Cash Imposts**. If any Default Condition or Event of Default exists at any time while any such Risk Participation Arrangement is in effect, Lender may require that cash equal in amount to 110% of the undrawn amount of each underlying Letter of Credit be posted with Lender by Borrower as additional Collateral for the payment of Borrower's Reimbursement Obligations in regard thereto; or, if Lender is then or thereafter enforcing its rights and remedies respecting Collateral, Lender may reserve from the proceeds thereof such cash in order to assure that the Reimbursement Obligations then outstanding shall be paid when due.

(f) **Letter of Credit Fees**. In consideration of Lender's entry into each Risk Participation Arrangement, unless otherwise agreed to by Lender at or prior to the issuance of any Letter of Credit, Borrower shall pay to Lender the following fees in addition to any fees or charges which Lender pays to the Issuer in respect of such Letter of Credit, which also shall be reimbursed to Lender by Borrower, upon demand.

Commercial:	
Issuance:	$1,000 per issuance
Amendment:	$1,000 per occurrence
Examination/Negotiation:	
Sight:	.5% p.a. (min $1,000)
Time:	.5% p.a. (min $1,000)
Standby:	.5% p.a. (min $1,000)

(g) **Indemnity**. Borrower shall indemnify and save Lender and hold Lender harmless from any loss, damage, cost or expense which Lender incurs in entering into, or performing under, any Risk Participation Arrangement.

2.1.3. **Term Loan**. On the Closing Date, subject to fulfillment of all conditions precedent set forth herein, Lender agrees to make a term loan (the "Term Loan") in the principal amount of up to Two Million Five Hundred Thousand Dollars ($2,500,000) to Borrower, the proceeds of which shall be fully disbursed to Borrower in a lump sum on the Closing Date. All proceeds of the Term Loan shall be used by Borrower to refinance Debt existing on the Closing Date, for the acquisition of property, plant or equipment on or after the Closing Date or for working capital. The Debt arising from the Term Loan shall be evidenced by the Term Note, which shall be executed by Borrower and delivered to Lender on the Closing Date. The principal amount of the Term Loan shall be repaid in twenty-three (23) installments of Forty-One Thousand Six Hundred Sixty-Seven Dollars ($41,667) each (based on a 60-months level term principal amortization) due and payable commencing on the first day of the first calendar month after the Closing Date, and continuing on the same day of each succeeding calendar month, except that the final such installment shall be in the amount of One Million Five Hundred Forty-One Thousand Six Hundred Fifty-Nine Dollars ($1,541,654), or such lesser or greater as shall be necessary to pay in full the then unpaid principal of the Term Loan; and, except further, if the stated maturity of the Term Loan is later than the Termination Date, then, the Term Loan shall be due and payable on the Termination Date. The Term Loan shall bear interest from the date of its disbursement until paid in full at the Applicable Rate, payable in the manner described in Section 2.2.1. The Term Loan may be prepaid at any time or from time to time, in whole or in part, but any partial prepayment of the Term Loan shall be applied to the then remaining installments of the Term Loan in the reverse order of their respective maturities, and any prepayment shall be accompanied by the appropriate prepayment fee specified in Section 2.2.2(6).

2.2. **Interest and Other Charges**.

2.2.1. **Interest**. Lender and Borrower agree that the interest rate payable on the Borrowings shall be determined and paid as follows:

(a) **Interest Charges**. Outstanding Advances under the Line of Credit and the outstanding unpaid principal amount of the Term Loan shall bear interest at the Applicable Rate.

(b) **Payment of Interest**. Accrued interest on Borrowings and the outstanding unpaid principal amount of the Term Loan shall be due and payable monthly in arrears, on the first day of each calendar month, for the preceding calendar month (or portion thereof), commencing on the first day of the first calendar month following the Closing Date; and after maturity, on demand.

(c) **Calculation of Interest and Fees**. Interest on Borrowings and the outstanding unpaid principal amount of the Term Loan (and any fees described in Section 2.2.2 computed on a per annum basis) shall be calculated on the basis of a 360-day year and actual days elapsed. The Applicable Rate shall change with each change in the Prime Rate, as determined by Lender, effective as of the opening of business on the Business Day of such change.

(d) **Charging of Interest and Costs**. Accrued and unpaid interest on any Borrowings and the outstanding unpaid principal amount of the Term Loan, any outstanding fees described in Section 2.2.2 and any reimbursable costs and expenses specified in Section 10.6, may, when due and payable, be paid, at Lender's option (without any obligation to do so), by Lender's charging the Line of Credit for an Advance in the amount thereof; but Borrower shall be and remain responsible for the payment of such sums to the extent not so paid by Lender.

2.2.2. **Fees**. In addition to the payment of interest at the Applicable Rate and the charging of Letter of Credit fees pursuant to Section 2.1.2, Borrower shall also be obligated to pay Lender all fees and charges specified below:

(a) **Closing Fee**. On the Closing Date, a fully earned, non-refundable loan fee equal to one-half of percent (1/2%) of the sum of (i) the Maximum Amount and (ii) the Term Loan.

(b) **Annual Fee**. Annually, on each anniversary of the Closing Date, a fully earned, non-refundable loan fee equal to one-fourth of one percent (¼%) of the maximum Amount.

(c) **Early Termination/Prepayment Fee**. If this Agreement is terminated prior to the Termination Date, there shall be due and payable to Lender upon such termination occurring, as liquidated damages for the loss of its bargain, and not as a penalty, a sum equal to the product of (i) the Maximum Amount plus the outstanding principal amount of the Term Loan immediately prior to such early termination occurring, multiplied by (ii) a percentage, equal to (A) three percent (3%), if the early termination occurs on or before the first anniversary of the Closing Date, (B) one percent (1%), if the early termination occurs after the first anniversary of the Closing Date, but on or before the second anniversary of the Closing Date If the Term Note only is prepaid, in whole or in part, prior to its scheduled maturity, then, there shall be due and payable to Lender upon such termination occurring, as liquidated damages for the loss of its bargain, and not as a penalty, a sum equal to the product of the amount of the Term Loan being prepaid multiplied by the applicable percentage among those specified above (based on the timing of the prepayment).

(d) **Audit Fees**. With respect to field audits conducted by Lender pursuant to Section 5.2, based on a ninety (90) day audit cycle (which may be increased, in Lender's discretion, whenever an Event of Default exists), Borrower shall reimburse Lender on demand the sum of $850 per auditor per day plus out-of-pocket expenses.

(e) **Non-Usage Fee**. Monthly, on the first day of each calendar month, commencing on the first of such dates following the Closing Date, Borrower shall pay to Lender a fee equal to (x) one-fourth of one percent (¼%) per annum, times (y) the difference between (A) the Maximum Amount, and (B) the aggregate amount of outstanding Advances, determined on a daily average basis for the immediately preceding calendar month (or portion thereof, as the case may be).

(f) **Miscellaneous Fees**. Borrower shall also reimburse Lender for returned item fees and bank service charges levied by any financial institution on Lender in connection with remittances made or received in furtherance hereof, plus handling fees. Wire transfer fees incurred by Lender in such regards shall also be reimbursed at cost plus handling fees.

2.2.3. **Usury Savings Provisions**. Lender and Borrower hereby further agree that the only charge imposed by Lender upon Borrower for the use of money in connection herewith is and shall be interest at the Applicable Rate, and that all other charges imposed by Lender upon Borrower in connection herewith, are and shall be deemed to be charges made to compensate Lender for underwriting and administrative services and costs, and other services and costs performed and incurred, and to be performed and incurred, by Lender in connection with making credit available to Borrower hereunder, and shall under no circumstances be deemed to be charges for the use of money. In no contingency or event whatsoever shall the aggregate of all amounts deemed interest hereunder or under the Notes and charged or collected pursuant to the terms of this Agreement or pursuant to the Notes exceed the highest rate permissible under any law which a court of competent jurisdiction shall, in a final determination, deem applicable hereto. In the event that such a court determines that Lender has charged or received interest hereunder in excess of the highest applicable rate, the rate in effect hereunder shall automatically be reduced to the maximum rate permitted by applicable law and Lender shall promptly refund to Borrower any interest received by Lender in excess of the maximum lawful rate or, if so requested by Borrower, shall apply such excess to the principal balance of the Obligations. It is the intent hereof that Borrower not pay or contract to pay, and that Lender not receive or contract to receive, directly or indirectly in any manner whatsoever, interest in excess of that which may be paid by Borrower under applicable law.

2.3. **General Provisions as to Payments**.

2.3.1. **Method of Payment**. Unless and except to the extent otherwise approved in writing by Lender from time to time, payments of interest, fees and principal pursuant to this Agreement must be received by Lender at an account designated by Lender for such purpose no later than 11:00 a.m. (Atlanta, Georgia time) on the date when due, in federal or other funds immediately available to Lender in Atlanta, Georgia, without setoff, discount or deduction.

2.3.2. **Application of Payment**. Except as otherwise expressly set forth herein, all payments received by Lender hereunder shall be applied, in accordance with the then current billing statement applicable to the Borrowing, first to accrued interest, then to fees, and then to principal due. Any remaining funds shall be applied to the further reduction of principal. Notwithstanding the foregoing, upon the occurrence of a Default Condition or Event of Default, payments shall be applied to the Obligations in such order as Lender, in its sole discretion, may elect.

2.3.3. **Crediting of Payments**. The receipt of any item of payment by Lender shall be applied to reduce the Obligations, as provided in Section 2.3.2; but, for purposes of computing interest charges hereunder, each such item of payment shall be deemed paid and applied one (1) Business Day after actual receipt thereof.

2.3.4. **Collections**. Effective on the Closing Date, Borrower shall have established, and thereafter Borrower shall maintain, with Bank of America, N.A. or one or more other banks acceptable to Lender ("Clearing Banks"), deposit accounts into which all proceeds of Collateral, including, particularly, payments on Accounts Receivable Collateral, shall be remitted ("Concentration Accounts"). Concentration Accounts shall be maintained in Borrower's name, but for Lender's benefit, and Borrower, Clearing Bank and Lender shall have entered into a tri-party agreement, in form and substance satisfactory to Lender, (a "Blocked Account Agreement") pursuant to which, among other things, Clearing Bank shall agree to remit all collected funds in its Concentration Account directly to Lender for application to the Obligations as prescribed below. All collected funds deposited into a Concentration Account shall be remitted on a daily basis directly to Lender for application to Lender as provided in Section 2.3.2. Borrower shall instruct all Account Debtors to remit all payments to the designated address for the established Concentration Accounts. The foregoing shall be in addition to, and not in limitation of, Lender's rights to collect Accounts Receivable Collateral directly after an Event of Default has occurred and while it is continuing, as provided hereinbelow.

3. **SECURITY INTEREST**.

3.1. **Grant of Security Interest**. As security for the payment of all Obligations, Borrower hereby grants to Lender a continuing, general lien upon and security interest and security title in and to all assets of Borrower, wherever located, whether now existing or hereafter acquired or arising, including all of the following property, or interests in property of Borrower (herein collectively called the "Collateral"), namely: (a) the Accounts

Receivable Collateral; (b) the Inventory Collateral; (c) the Equipment Collateral; (d) the Intangibles Collateral; (e) the Securities Collateral; (f) the Balances Collateral; and (g) all products and/or proceeds of any and all of the foregoing, including, without limitation, insurance proceeds.

3.2. **Representations, Warranties and Covenants Applicable to Collateral**. Borrower represents, warrants and covenants that:

3.2.1. **Good Title**. Borrower has marketable title to the Collateral, free and clear of all Liens, other than any Permitted Encumbrances.

3.2.2. **Right to Pledge**. Borrower has full right, power and authority to grant to Lender a security interest in the Collateral on the terms set forth herein, and the grant of such security interest shall not result in Borrower being in default of any other Debt or require Borrower to grant a Lien on any Collateral to the holder of any such Debt.

3.2.3. **Sale of Collateral**. Borrower will not sell, lease, exchange, or otherwise dispose of any of the Collateral without the prior written consent of Lender, except that: (i) Borrower may sell portions of its inventory in the ordinary course of business for cash, or on open account or on other terms of payment ordinarily extended to its customers (but any bulk sales thereof shall be prohibited) and (ii) Borrower may sell, exchange or otherwise dispose of portions of its equipment which are obsolete, worn-out or unsuitable for continued use by Borrower if such equipment is replaced promptly upon its disposition with equipment constituting equipment having a market value equal to or greater than the equipment so disposed of and in which Lender shall obtain and have a first priority security interest pursuant hereto or, in any event grant a Lien or permit a Lien to exist thereon, except for a Permitted Encumbrance. Upon the sale, exchange or other disposition of any Collateral permitted to be sold hereunder, the security interest and lien created and provided for herein, without break in continuity and without further formality or act, shall continue in and attach to any proceeds thereof, including, without limitation, accounts, contract rights, shipping documents, documents of title, bills of lading, warehouse receipts, dock warrants, dock receipts and cash or noncash proceeds, and in the event of any unauthorized sale or other disposition, shall continue in the Collateral itself.

3.2.4. **Insurance**. Borrower will obtain and maintain insurance on that portion of the Collateral consisting of tangible property with such companies, in such amounts and against such risks as Lender may request, with loss payable to Lender as its interests may appear. Such insurance shall not be cancellable by Borrower, unless with the prior written consent of Lender, or by Borrower's insurer, unless with at least thirty (30) days (or any lesser number of days otherwise approved by Lender) advance written notice to Lender. In addition, Borrower shall cause its insurer to provide Lender with at least thirty (30) days advance written notice prior to insurer's nonrenewal of such insurance. Borrower shall provide to Lender a copy of each such policy. All proceeds received by Lender as loss payee of any such insurance shall be applied to the Obligations, unless otherwise approved by Lender. Borrower shall file with Lender on the Closing Date and annually thereafter a detailed list of such insurance as then in effect, certified by Borrower's insurer, together with copies of all policies of such insurance (if requested by Lender). Within thirty (30) days after being requested by Lender to do so, Borrower will obtain such additional insurance (or increase its existing coverage) as Lender may request.

3.2.5. **Location**. As of the Closing Date, the Collateral is situated only at one or more of the Collateral Locations, and Borrower covenants with Lender not to locate the Collateral at any location other than a Collateral Location without giving at least thirty (30) days prior written notice to Lender.

3.2.6. **Further Assurances**. Borrower shall duly execute and/or deliver (or cause to be duly executed and/or delivered) to Lender any instrument, letter of credit, invoice, document, document of title, dock warrant, dock receipt, warehouse receipt, bill of lading, order, financing statement, assignment, waiver, consent or other writing which may be reasonably necessary to Lender to carry out the terms of this Agreement and any of the other Loan Documents and to perfect its security interest in and facilitate the collection of the Collateral, the proceeds thereof, and any other property at any time constituting security to Lender. Borrower shall perform or cause to be performed such acts as Lender may request to establish and maintain for Lender a valid and perfected security interest in and security title to the Collateral, free and clear of any liens, encumbrances or security interests other than Permitted Encumbrances. In addition to the foregoing, Borrower hereby irrevocably authorizes Lender to

complete and file initial or "in lieu of" financing statements in each jurisdiction which now or hereafter has in effect revised Article 9 of the Uniform Commercial Code, giving notice of Lender's security interest in the Collateral and describing the Collateral generally; e.g., "all assets," or particularly, all as Lender sees fit; and Borrower agrees not to file any amendment to, or termination of, any such financing statement without Lender's prior written consent unless all Obligations have been fully paid and satisfied and this Agreement has been terminated.

4. **GENERAL REPRESENTATIONS AND WARRANTIES**. In order to induce Lender to enter into this Agreement, Borrower hereby represents and warrants to Lender (which representations and warranties, together with any other representations and warranties of Borrower contained elsewhere in this Agreement, shall be deemed to be renewed as of the date of each Advance), as set forth below:

4.1. **Existence and Qualification**. Borrower is duly organized, validly existing and in good standing under the laws of its Home State with its principal place of business, chief executive office and office where it keeps all of its books and records being located at the Executive Office, and Borrower is duly qualified to do business in each other state in which a Collateral Location is situated or wherein the conduct of its business or the ownership of its property requires such qualification. Borrower has as its official name, as registered with the secretary of state of its Home State, the words inscribed on the signature page hereof as its name, and Borrower has not done business under any other name within the five (5) years preceding the Closing Date.

4.2. **Authority; and Validity and Binding Effect**. Borrower has the power to make, deliver and perform under the Loan Documents, and to borrow hereunder, and has taken all necessary and appropriate action to authorize the execution, delivery and performance of the Loan Documents. This Agreement constitutes, and the remainder of the Loan Documents, as and when executed and delivered for value received, will constitute, the valid obligations of Borrower, legally binding upon it and enforceable against it in accordance with their respective terms.

4.3. **Incumbency and Authority of Signing Officers**. Each undersigned officer of Borrower holds the office specified hereinbelow and, in such capacity, is duly authorized and empowered to execute, attest and deliver this Agreement and the remainder of the Loan Documents for and on behalf of Borrower, and to bind Borrower accordingly thereby.

4.4. **No Material Litigation**. On the Closing Date, there are no legal proceedings pending (or, so far as Borrower knows, threatened), before any court or administrative agency which, if adversely determined, could reasonably be expected to result in a Material Adverse Change.

4.5. **Taxes**. As of the Closing Date, Borrower has filed or caused to be filed all tax returns required to be filed by it and has paid all taxes shown to be due and payable by it on said returns or on any assessments made against it.

4.6. **Capital**. All Equity Interests of Borrower issued and outstanding on the Closing Date are validly and properly issued in accordance with all applicable laws.

4.7. **Organization**. The Organization Documents of Borrower are in full force and effect under the laws of the state of its Home State, and all amendments to the Organization Documents have been duly and properly made under and in accordance with all applicable laws.

4.8. **No Insolvency**. After giving effect to the execution and delivery of the Loan Documents and the extension of any credit or other financial accommodations hereunder, Borrower will not be Insolvent.

4.9. **No Violations**. The execution, delivery and performance by Borrower of this Agreement and the other Loan Documents have been duly authorized by all necessary organizational action on the part of Borrower and do not and will not require any consent or approval of the Shareholders of Borrower, violate any provision of any Applicable Law or of any Organization Documents of Borrower, or result in a breach of or constitute a default under any indenture or loan or credit agreement or any other agreement, lease or instrument to

which Borrower is a party or by which it or its properties may be bound or affected; and Borrower is not in default under any Applicable Law.

4.10. **Financial Statements**. The financial statements of Borrower and its Consolidated Subsidiaries (if any) for its most recently completed Fiscal Year and for that portion of its current Fiscal Year ended with that Fiscal Month ended closest to the Closing Date for which financial statements have been prepared, including balance sheet, income statement and, if available, statement of changes in cash flow, copies of which heretofore have been furnished to Lender, are complete and accurately and fairly represent the financial condition of Borrower and its Consolidated Subsidiaries (if any), the results of its operations and the transactions in its equity accounts as of the dates and for the periods referred to therein, and have been prepared in accordance with GAAP. There are no material liabilities, direct or indirect, fixed or contingent, of Borrower or any such Consolidated Subsidiaries as of the date of such financial statements which are not reflected therein or in the notes thereto. No Material Adverse Change has occurred since the date of the balance sheet contained in the annual audited financial statement of Borrower described hereinabove.

4.11. **Compliance with Laws**. Borrower is in compliance with all Applicable Laws on the Closing Date, where noncompliance therewith would or could reasonably be expected to result in a Material Adverse Change. Borrower possesses all franchises, certificates, licenses, permits and other authorizations from governmental political subdivisions or regulatory authorities, and all patents, trademarks, service marks, trade names, copyrights, licenses and other, similar rights, free from burdensome restrictions, that are necessary for the ownership, maintenance and operation of any of its properties and assets; and Borrower is not in violation of any thereof.

4.12. **Subsidiaries**. As of the Closing Date, Borrower has no Subsidiaries, except for NAIE.

5. **AFFIRMATIVE COVENANTS**. Borrower covenants to Lender that from and after the Closing Date, and so long as any amounts remain unpaid on account of any of the Obligations or this Agreement remains effective (whichever is the last to occur), Borrower will comply (and cause each Subsidiary to comply) with the affirmative covenants set forth below:

5.1. **Records Respecting Collateral**. All records of Borrower and each Subsidiary with respect to the Collateral will be kept at its Executive Office and will not be removed from such address without the prior written consent of Lender.

5.2. **Right to Inspect and Conduct Audits**. Lender (or any Person or Persons designated by it) shall have the continuing right to call at the Executive Office or any Collateral Location at any time and, without hindrance or delay, inspect, audit, check and make extracts from Borrower's or any Subsidiary's books, records, journals, orders, receipts and any correspondence and other data relating to the Collateral, to Borrower's or any Subsidiary's business or to any other transactions between the parties hereto.

5.3. **Borrowing Base Certificates**. On a weekly basis, or more frequently if required by Lender from time to time, Borrower shall prepare and deliver to Lender a Borrowing Base Certificate with respect to satisfaction of the Borrowing Base Requirement as of the date of report submission, the statements in which, in each instance, shall be certified as to truth and accuracy by a duly authorized officer of Borrower.

5.4. **Collateral Status Certificates**. Borrower shall, as soon as practicable, but in any event on or before ten (10) days after the end of each Fiscal Month, furnish or cause to be furnished to Lender a Collateral Status Certificate, certified by a duly authorized officer of Borrower, showing (i) the aggregate dollar value of the items comprising the Accounts Receivable Collateral and the age of each individual item thereof as of the last day of the preceding Fiscal Month (segregating such items in such manner and to such degree as Lender may request), plus (ii) the type, dollar value and location of the Inventory Collateral as at the end of the preceding Fiscal Month, valued at the lower of its Booked Cost or market value. Additionally, Lender may, from time to time, verify the individual account balances of any individual Account Debtors. Further, upon request from Lender, made at any time hereafter, and, in any event, with the above-described Collateral Status Certificate for the month of December in each year, Borrower shall furnish Lender with a then current Account Debtor name and address list. In addition to the foregoing, Borrower shall also provide Lender, on a weekly basis, with an accounts payable aging.

5.5. **Periodic Financial Statements**. Borrower shall, as soon as practicable, and in any event within thirty (30) days after the end of each Fiscal Month, furnish to Lender unaudited financial statements of Borrower and each Consolidated Subsidiary (if any), including balance sheets, income statements and statements of cash flow, for the Fiscal Month ended, and for the Fiscal Year to date, on a consolidated and, if requested by Lender, consolidating basis. All such financial statements shall be certified by a duly authorized officer of Borrower to present fairly the financial position and results of operations of Borrower for the period involved in accordance with GAAP (but for the omission of footnotes and subject to year-end audit adjustments).

5.6. **Annual Financial Statements**. Borrower shall, as soon as practicable, and in any event within ninety (90) days after the end of each Fiscal Year, furnish to Lender the annual audit report of Borrower and its Consolidated Subsidiaries (if any), certified without material qualification by independent certified public accountants selected by Borrower and acceptable to Lender, and prepared in accordance with GAAP, together with relevant financial statements of Borrower and such Subsidiaries for the Fiscal Year then ended, on a consolidating and a consolidated basis, if applicable. Borrower shall cause said accountants to furnish Lender with a statement that in making their examination of such financial statements, they obtained no knowledge of any Event of Default or Default Condition which pertains to accounting matters relating to this Agreement or the Notes, or, in lieu thereof, a statement specifying the nature and period of existence of any such Event of Default or Default Condition disclosed by their examination.

5.7. **Compliance Certificate**. Borrower shall, on a monthly basis not later than thirty (30) days after the close of each of its first eleven (11) Fiscal Months and not later than ninety (90) days after the close of its Fiscal Year, certify to Lender, in a Compliance Certificate, that no Event of Default and no Default Condition exists or has occurred, or, if an Event of Default or Default Condition exists, specifying the nature and period of existence thereof. Each such Compliance Certificate shall include a computation showing Borrower's compliance with all financial covenants set forth in Article 7.

5.8. **Payment of Taxes**. Borrower shall pay and discharge all taxes, assessments and governmental charges upon it, its income and its properties prior to the date on which penalties attach thereto, unless and to the extent only that (i) such taxes, assessments and governmental charges are being contested in good faith and by appropriate proceedings by Borrower, (ii) Borrower maintains reasonable reserves on its books therefor and (iii) the payment of such taxes does not result in a Lien upon any of the Collateral other than a Permitted Encumbrance.

5.9. **Change of Principal Place of Business, Etc.** Borrower hereby understands and agrees that if, at time hereafter, Borrower or any Subsidiary elects to move its Executive Office, or if Borrower or any Subsidiary elects to change its name, identity or its organization structure, Borrower will notify Lender in writing at least thirty (30) days prior thereto and, at Lender's request, comply (or cause its Subsidiary to comply) with Section 3.2.6 hereof to the extent Lender determines that any new or additional actions need to be undertaken in regard thereto.

5.10. **Waivers**. With respect to each of the Collateral Locations, Borrower will use its reasonable best efforts to obtain Landlord Agreement, to insure the priority of its security interest in that portion of the Collateral situated at such locations. Should Borrower be unable to obtain any such Landlord Agreements, Borrower understands that Lender may impose rent reserves on the Borrowing Base for each affected Collateral Location.

5.11. **Preservation of Existence**. Borrower shall preserve and maintain (and cause its Subsidiaries to preserve and maintain) its organizational existence, rights, franchises and privileges in its Home State, and qualify and remain qualified to do business in each jurisdiction (domestic or foreign) in which such qualification is necessary or desirable in view of its business and operations or the ownership of its properties.

5.12. **Compliance With Laws**. Borrower and each of its Subsidiaries shall comply with the requirements of all Applicable Laws, noncompliance with which would or could reasonably be expected to result in a Material Adverse Change. Without limiting the foregoing, each of Borrower and its Subsidiaries shall obtain and maintain all permits, licenses and other authorizations which are required under, and otherwise comply with, all Applicable Laws.

5.13. **Certain Required Notices**. Promptly, upon its receipt of notice or knowledge thereof, Borrower will report to Lender: (i) any lawsuit or administrative proceeding in which Borrower or any Subsidiary is a defendant which, if decided adversely to Borrower or such Subsidiary, could reasonably be expected to result in a Material Adverse Change; or (ii) the existence and nature of any Default Condition or Event of Default.

5.14. **Projections**. Within sixty (60) days prior to the end of each Fiscal Year, Borrower shall provide projections for the following Fiscal Year. These shall include income statement, balance sheet and cash flow budgets for each fiscal month of the following Fiscal Year.

6. **NEGATIVE COVENANTS**. Borrower covenants to Lender that from and after the Closing Date, and so long as any amount remains unpaid on account of any of the Obligations or this Agreement remains effective (whichever is the last to occur), Borrower will not do (and will not permit any Subsidiary to do), any of the things or acts set forth below, except with the prior written consent of Lender:

6.1. **Encumbrances**. Create, assume, or suffer to exist any Lien, except for Permitted Encumbrances.

6.2. **Debt**. Incur, assume, or suffer to exist any Debt, except for: (i) Debt to Lender or any Affiliate of Lender; (ii) trade payables and contractual obligations to suppliers and customers incurred in the ordinary course of business; (iii) accrued pension fund and other employee benefit plan obligations and liabilities (provided, however, that such Debt does not result in the existence of any Event of Default or Default Condition under any other provision of this Agreement); (iv) deferred taxes; (v) Debt resulting from endorsements of negotiable instruments received in the ordinary course of its business; (vi) Purchase Money Debt not to exceed the Materiality Threshold, however; and (vii) Subordinated Debt.

6.3. **Contingent Liabilities**. Guarantee, endorse, become surety with respect to or otherwise become directly or contingently liable for or in connection with the obligations of any other person, firm, or corporation, except for endorsements of negotiable instruments for collection in the ordinary course of business.

6.4. **Dividends**. Declare or pay any dividends on, or make any distribution with respect to, its Equity Interests, except that any Subsidiaries of Borrower may pay dividends and make other distributions to Borrower.

6.5. **Redemption**. Purchase, redeem, or otherwise acquire for value of its Equity Interests.

6.6. **Investments**. Make any investment in cash or by delivery of property to any Person, whether by acquisition of Equity Interests or Debt, or by loan, advance or capital contribution, or otherwise, in any Person or property of a Person (herein called, subject to the following exceptions, "Restricted Investments"), except for: (i) assets acquired from time to time in the ordinary course of business; (ii) current assets arising from the sale of goods or the provision of services in the ordinary course of business; (iii) loans or advances made to employees for salary, commissions, travel or the like, made in the ordinary course of business not to exceed, in aggregate amount, the Materiality Threshold; (iv) investments in NAIE either (A) existing on the Closing Date, or (B) made subsequent to the Closing Date, but not to exceed, in aggregate amount, the Materiality Threshold; and (v) other investments not to exceed, in aggregate amount, the Materiality Threshold.

6.7. **Mergers**. Dissolve or otherwise terminate its organizational status; or enter into any merger, reorganization or consolidation; or make any substantial change in the basic type of business conducted by Borrower and its Subsidiaries, as of the Closing Date.

6.8. **Business Locations**. Transfer the Executive Office, or open new Collateral Locations, except upon at least thirty (30) days prior written notice to Lender and after the delivery to Lender of financing statements, if required by Lender, in form satisfactory to Lender, to perfect or continue the perfection of Lender's Lien thereon.

6.9. **Affiliate Transactions**. Enter into, or be a party to, or permit any Subsidiary to enter into or be a party to, any transaction with any Affiliate, except in the ordinary course of and pursuant to the reasonable requirements of Borrower's or such Subsidiary's business and upon fair and reasonable terms which are fully disclosed to Lender and are no less favorable to Borrower than would be expected to be obtained in a comparable arm's length transaction with a Person not an Affiliate.

6.10. **Subsidiaries**. Create any Subsidiary or divest itself of any assets exceeding the Materiality Threshold by transferring them to any Subsidiary which exists on the Closing Date or is hereafter created with Lender's consent.

6.11. **Fiscal Year**. Change its Fiscal Year, or permit any Subsidiary to have a fiscal year different from the Fiscal Year of Borrower.

6.12. **Disposition of Assets**. Sell, lease or otherwise dispose of any of its properties, including any disposition of property as part of a sale and leaseback transaction, to or in favor of any Person, except as otherwise expressly permitted, as to certain Collateral, in Article 3.

6.13. **Federal Taxpayer Identification Number**. Change or permit any Subsidiary to change its federal taxpayer identification number without prior written notice to Lender.

6.14. **Subordinated Debt**. Pay any Subordinated Debt except to the extent expressly provided in the Subordination Agreement or as Lender otherwise may consent from time to time.

6.15. **Restrictions or Subsidiaries**. Enter into or assume any agreement (other than the Loan Documents) prohibiting or otherwise restricting (i) the creation or assumption of any Lien upon its or any Subsidiaries' properties, or (ii) the ability of any Subsidiary to pay dividends or make other distributions or transfers to Borrower.

6.16. **Different Business**. Engage in any businesses other than businesses of the type engaged in by Borrower and its Subsidiaries as of the Closing Date.

6.17. **Commingled Funds**. Commingle any cash funds of Borrower and its Subsidiaries with any cash funds of the Principal or any Shareholders.

6.18. **Compensation**. Increase total annual compensation paid to officers and directors of Borrower and its Subsidiaries in any Fiscal Year beyond the limits set forth in Borrower's total annual compensation plan for such Fiscal Year, which plan shall have been submitted to and approved by Lender for each such Fiscal Year prior to the beginning thereof (it being understood that for the Fiscal Year of Borrower ending June 30, 2003, the annual compensation plan referred to above shall be that submitted to and approved by Lender on or prior to the Closing Date.

7. **FINANCIAL COVENANTS**. Borrower covenants to Lender that, from and after the Closing Date and so long as any amount remains on unpaid account of any of the Obligations or this Agreement remains effective (whichever is the last to occur), it will comply with the financial covenants set forth below.

7.1. **Minimum Net Worth**. Borrower shall maintain a minimum Net Worth of at least $19,608,000 at all times. As used herein, "Net Worth" shall mean Borrower's book net worth, determined on a consolidated basis for Borrower and its Consolidated Subsidiaries in accordance with GAAP, with inventory calculated on a FIFO basis.

7.2. **Capital Expenditures**. Borrower shall not expend, in Capital Expenditures, more than One Million Seven Hundred Thousand Dollars ($1,700,000), in the aggregate, for all such expenditures in any one Fiscal Year. As used herein, "Capital Expenditures" shall mean all expenditures made in respect of the cost of any fixed asset or improvement, or replacement, substitution, or addition thereto, having a useful life of more than one (1) year, including, without limitation, those arising in connection with the direct or indirect acquisition of such

assets by way of increased product or service charges or offset items or in connection with Capital Leases. "Capital Leases" shall mean any leases of Property than, in accordance with GAAP, should be reflected as liabilities on the balance sheet of a Person.

7.3. **EBITDA**. Borrower shall have a minimum EBITDA (i) for its 2003 Fiscal Year of at least Three Million Three Hundred Thousand Dollars ($3,300,000) and (ii) for its 2004 Fiscal Year of at least Three Million Seven Hundred Fifty Thousand Dollars ($3,750,000). As used herein, "EBITDA" means the sum of (i) consolidated net income of Borrower and its Subsidiaries for the Fiscal Year in question (computed without regard to any extraordinary items of gain or loss) plus (ii) to the extent deducted from revenue in computing consolidated net income for such Fiscal Year, the sum of (A) interest expense, (B) taxes, and (C) depreciation and amortization.

8. **EVENTS OF DEFAULT**. The occurrence of any events or conditions set forth below shall constitute an Event of Default hereunder, provided that any requirement for the giving of notice or the lapse of time, or both, has been satisfied:

8.1. **Obligations**. Borrower shall fail to make any payment on any of its Obligations, when due.

8.2. **Misrepresentations**. Any representations or warranties made herein or in any of the Loan Documents or in any Guaranty or in any certificate or statement furnished at any time hereunder or in connection with any of the Loan Documents or any Guaranty shall prove to have been untrue or misleading in any material respect when made or furnished.

8.3. **Certain Covenants**. Borrower shall default in the observance or performance of any covenant or agreement contained in Articles 5, 6 or 7.

8.4. **Other Covenants**. Borrower, any Subsidiary or any Guarantor shall default in the observance or performance of any covenant or agreement contained herein, in any of the other Loan Documents or any Guaranty (other than a default the performance or observance of which is dealt with specifically elsewhere in this Article 8).

8.5. **Other Debts**. Borrower, any Subsidiary or any Guarantor shall default in connection with any agreement for Debt exceeding the Materiality Threshold with any creditor, including Lender, which entitles said creditor to accelerate the maturity thereof.

8.6. **Voluntary Bankruptcy**. Borrower, any Subsidiary or any Guarantor shall file a voluntary petition in bankruptcy or a voluntary petition or answer seeking liquidation, reorganization, arrangement, readjustment of its debts, or for any other relief under the Bankruptcy Code, or under any other act or law pertaining to insolvency or debtor relief, whether state, Federal, or foreign, now or hereafter existing; Borrower, any Subsidiary or any Guarantor shall enter into any agreement indicating its consent to, approval of, or acquiescence in, any such petition or proceeding; Borrower, any Subsidiary or any Guarantor shall apply for or permit the appointment by consent or acquiescence of a receiver, custodian or trustee of Borrower, any Subsidiary or any Guarantor for all or a substantial part of its property; Borrower, any Subsidiary or any Guarantor shall make an assignment for the benefit of creditors; or Borrower, any Subsidiary or any Guarantor shall be or become Insolvent; or Borrower, any Subsidiary or any Guarantor shall admit, in writing, its inability or failure to pay its debts generally as such debts become due.

8.7. **Involuntary Bankruptcy**. There shall have been filed against Borrower, any Subsidiary or any Guarantor an involuntary petition in bankruptcy or seeking liquidation, reorganization, arrangement, readjustment of its debts or for any other relief under the Bankruptcy Code, or under any other act or law pertaining to insolvency or debtor relief, whether state, federal or foreign, now or hereafter existing; Borrower, any Subsidiary or any Guarantor shall suffer or permit the involuntary appointment of a receiver, custodian or trustee of Borrower, any Subsidiary or any Guarantor or for all or a substantial part of its property; or Borrower, any Subsidiary or any Guarantor shall suffer or permit the issuance of a warrant of attachment, execution or similar process against all or any substantial part of the property of Borrower, any Subsidiary or any Guarantor; or any motion, complaint or other

pleading is filed in any bankruptcy case of any person or entity other than Borrower, any Subsidiary or any Guarantor and such motion, complaint or pleading seeks the consolidation of Borrower's, any Subsidiary's or any Guarantor's assets and liabilities with the assets and liabilities of such person or entity.

8.8. **Damage, Loss, Theft or Destruction of Collateral**. There shall have occurred material uninsured damage to, or loss, theft or destruction of, any Collateral having a value, based on the lower of its depreciated cost or market value, exceeding the Materiality Threshold.

8.9. **Judgments**. A final judgment or order for the payment of money is rendered against Borrower, any Subsidiary or any Guarantor in an amount exceeding the Materiality Threshold (exclusive of amounts covered by insurance) and either (x) enforcement proceedings shall have been commenced by any creditor upon such judgment or order, or (y) a stay of enforcement of such judgment or order, by reason of a pending appeal or otherwise, shall not be in effect for any period of thirty (30) consecutive days.

8.10. **Disavowal of Certain Obligations**. Any Person (other than Lender) party to a Guaranty or Subordination Agreement shall disavow its obligations thereunder; or any such Guaranty or Subordination Agreement is alleged to be, or determined by any governmental authority to be, invalid, unenforceable or otherwise not binding on any Person party thereto (other than Lender), in whole or in part.

8.11. **Material Adverse Change**. There shall occur any Material Adverse Change.

8.12. **Change of Control, Etc.** Any Person, or group of Persons acting in concert, not in Control of Borrower on the Closing Date shall obtain Control of Borrower subsequent to the Closing Date.

8.13. **Change in Management, Etc.** Borrower shall fail to maintain generally executive management satisfactory to Lender having sufficient skill and experience in Borrower's industry to manage Borrower competently and efficiently.

9. **REMEDIES**. Upon the occurrence or existence of any Event of Default, or at any time thereafter, without prejudice to the rights of Lender to enforce its claims against Borrower for damages for failure by Borrower to fulfill any of its obligations hereunder, subject only to prior receipt by Lender of payment in full of all Obligations then outstanding in a form acceptable to Lender, Lender shall have all of the rights and remedies set forth below, and it may exercise any one, more, or all of such remedies, in its sole discretion, without thereby waiving any of the others; provided, however, that, in addition to the foregoing, if the Event of Default is in respect of Section 8.6 or 8.7, then, automatically, immediately upon such Event of Default occurring, without necessity of any further action on Lender's part, all commitments of Lender hereunder and under all other Loan Documents shall terminate, and all Obligations shall be immediately due and payable.

9.1. **Acceleration of the Obligations**. Lender, at its option, may terminate all commitments of Lender hereunder and under all other Loan Documents, and declare all of the Obligations to be immediately due and payable, whereupon the same shall become immediately due and payable without presentment, demand, protest, notice of nonpayment or any other notice required by law relative thereto, all of which are hereby expressly waived by Borrower, anything contained herein to the contrary notwithstanding. If any note of Borrower to Lender constituting Obligations, including, without limitation, any of the Notes, shall be a demand instrument, however, the recitation of the right of Lender to declare any and all Obligations to be immediately due and payable, whether such recitation is contained in such note or in this Agreement, as well as the recitation of the above events permitting Lender to declare all Obligations due and payable, shall not constitute an election by Lender to waive its right to demand payment under a demand at any time and in any event, as Lender in its discretion may deem appropriate. Thereafter, Lender, at its option, may, but shall not be obligated to, accept less than the entire amount of Obligations due, if tendered, provided, however, that unless then agreed to in writing by Lender, no such acceptance shall or shall be deemed to constitute a waiver of any Event of Default or a reinstatement of any commitments of Lender hereunder or under all other Loan Documents.

9.2. **Default**. If Lender so elects, by further written notice to Borrower, Lender may increase the rate of interest charged on the Notes then outstanding for so long thereafter as Lender further shall elect by an amount not to exceed the Default Rate.

9.3. **Remedies of a Secured Party**. Lender shall thereupon have the rights and remedies of a secured party under the UCC in effect on the date thereof (regardless whether the same has been enacted in the jurisdiction where the rights or remedies are asserted), including, without limitation, the right to take possession of any of the Collateral or the proceeds thereof, to sell or otherwise dispose of the same, to apply the proceeds therefrom to any of the Obligations in such order as Lender, in its sole discretion, may elect. Lender shall give Borrower written notice of the time and place of any public sale of the Collateral or the time after which any other intended disposition thereof is to be made. The requirement of sending reasonable notice shall be met if such notice is given to Borrower at least ten (10) days before such disposition. Expenses of retaking, holding, insuring, preserving, protecting, preparing for sale or selling or the like with respect to the Collateral shall include, in any event, reasonable attorneys' fees and other legally recoverable collection expenses, all of which shall constitute Obligations.

9.4. **Repossession of the Collateral**. Lender may take the Collateral or any portion thereof into its possession, by such means (without breach of the peace) and through agents or otherwise as it may elect (and, in connection therewith, demand that Borrower assemble the Collateral at a place or places and in such manner as Lender shall prescribe), and sell, lease or otherwise dispose of the Collateral or any portion thereof in its then condition or following any commercially reasonable preparation or processing, which disposition may be by public or private proceedings, by one or more contracts, as a unit or in parcels, at any time and place and on any terms, so long as the same are commercially reasonable and Borrower hereby waives all rights which Borrower has or may have under applicable law to notice and to a judicial hearing prior to seizure of any Collateral by Lender.

9.5. **Direct Notification**. Lender may, additionally, in its sole discretion, at any time that an Event of Default exists, direct Account Debtors to make payments on the Accounts Receivable Collateral, or portions thereof, directly to Lender, and the Account Debtors are hereby authorized and directed to do so by Borrower upon Lender's direction, and the funds so received shall be also deposited in the Collateral Reserve Account, or, at the election of Lender, upon its receipt thereof, be applied directly to repayment of the Obligations in such order as Lender, in its sole discretion, shall determine.

9.6. **Other Remedies**. Unless and except to the extent expressly provided for to the contrary herein, the rights of Lender specified herein shall be in addition to, and not in limitation of, Lender's rights under the UCC, as amended from time to time, or any other statute or rule of law or equity, or under any other provision of any of the Loan Documents, or under the provisions of any other document, instrument or other writing executed by Borrower or any third party in favor of Lender, all of which may be exercised successively or concurrently.

10. **MISCELLANEOUS**

10.1. **Waiver**. Each and every right granted to Lender under this Agreement, or any of the other Loan Documents, or any other document delivered hereunder or in connection herewith or allowed it by law or in equity, shall be cumulative and may be exercised from time to time. No failure on the part of Lender to exercise, and no delay in exercising, any right shall operate as a waiver thereof, nor shall any single or partial exercise by Lender of any right preclude any other or future exercise thereof or the exercise of any other right. No waiver by Lender of any Default Condition or Event of Default shall constitute a waiver of any subsequent Default Condition or Event of Default.

10.2. **GOVERNING LAW**. THIS AGREEMENT AND THE OTHER LOAN DOCUMENTS, AND THE RIGHTS AND OBLIGATIONS OF THE PARTIES HEREUNDER AND THEREUNDER, SHALL BE GOVERNED BY, AND CONSTRUED AND INTERPRETED IN ACCORDANCE WITH, THE LAWS OF THE STATE OF GEORGIA.

10.3. **Survival**. All representations, warranties and covenants made herein and in the Loan Documents shall survive the execution and delivery hereof and thereof. The terms and provisions of this Agreement shall continue in full force and effect, notwithstanding the payment of one or more of the Notes or the termination of

the Line of Credit, until all of the Obligations have been paid in full and Lender has terminated this Agreement in writing.

10.4. **Assignments**. No assignment hereof or of any Loan Document shall be made by Borrower without the prior written consent of Lender. Lender may assign, or sell participations in, its right, title and interest herein and in the Loan Documents at any time hereafter without notice to or consent of Borrower.

10.5. **Counterparts**. This Agreement may be executed in two or more counterparts, each of which when fully executed shall be an original, and all of said counterparts taken together shall be deemed to constitute one and the same agreement.

10.6. **Reimbursement**. Borrower shall pay to Lender on demand all reasonable out-of-pocket costs and expenses that Lender pays or actually incurs in connection with the negotiation, preparation, consummation, amendment, modification, enforcement and termination of this Agreement and the other Loan Documents, including, without limitation: (a) fees and disbursements of legal counsel; (b) costs and expenses of lien and title searches insurance; (c) actual taxes, fees and other charges for recording any mortgages, filing any financing statements and continuations, and other actions to perfect, protect and continue the Lien of Lender in the Collateral; (d) sums paid or incurred to pay for any amount or to take any action required of Borrower under the Loan Documents that Borrower fails to pay or take; (e) costs of appraisals, inspections, field audits and verifications of the Collateral, including, without limitation, costs of travel, for inspections of the Collateral and Borrower's operations by Lender; (f) costs and expenses of preserving and protecting the Collateral; and (g) after an Event of Default, costs and expenses (including fees and disbursements of legal counsel) paid or incurred to obtain payment of the Obligations, enforce the Lender's Lien in any Collateral, sell or otherwise realize upon the Collateral, and otherwise enforce the provisions of the Loan Documents or to defend any claim made or threatened against Lender arising out of the transactions contemplated hereby (including, without limitation, preparations for and consultations concerning any such matters). The foregoing shall not be construed to limit any other provisions of the Loan Documents regarding costs and expenses to be paid to Borrower. All of the foregoing costs and expenses may, in the discretion of Lender, be charged as Advances. Borrower will pay all expenses incurred by it in the transaction. In the event Borrower becomes a debtor under the Bankruptcy Code, Lender's secured claim in such case shall include interest on the Obligations and all fees, costs and charges provided for herein (including, without limitation, reasonable attorneys' fees actually incurred) all for the extent allowed by the Bankruptcy Code.

10.7. **Successors and Assigns.** This Agreement and Loan Documents shall be binding upon and inure to the benefit of the successors and permitted assigns of the parties hereto and thereto.

10.8. **Severability**. If any provision this Agreement or of any of the Loan Documents or the application thereof to any party thereto or circumstances shall be invalid or unenforceable to any extent, the remainder of such Loan Documents and the application of such provisions to any other party thereto or circumstance shall not be affected thereby and shall be enforced to the greatest extent permitted by law.

10.9. **Notices**. All notices, requests and demands to or upon the respective parties hereto shall be deemed to have been given or made when personally delivered or deposited in the mail, registered or certified mail, postage prepaid, addressed as follows: (i) for Lender, care of the address of Lender inscribed beneath its signature hereinbelow and (ii) for Borrower, care of the address set forth as its Executive Office (or to such other address as may be designated hereafter in writing by the respective parties hereto) except in cases where it is expressly provided herein or by applicable law that such notice, demand or request is not effective until received by the party to whom it is addressed.

10.10. **Entire Agreement; Amendments**. This Agreement, together with the remaining Loan Documents, constitute the entire agreement between the parties hereto with respect to the subject matter hereof. Neither this Agreement nor any Loan Document may be changed, waived, discharged, modified or terminated orally, but only by an instrument in writing signed by the party against whom enforcement is sought.

10.11. **Time of Essence**. Time is of the essence in this Agreement and the other Loan Documents.

10.12. **Interpretation**. No provision of this Agreement or any Loan Document shall be construed against or interpreted to the disadvantage of any party hereto by any court or other governmental or judicial authority by reason of such party having or being deemed to have structured or dictated such provision.

10.13. **Lender Not a Joint Venturer**. Neither this Agreement nor any Loan Document shall in any respect be interpreted, deemed or construed as making Lender a partner or joint venturer with Borrower or as creating any similar relationship or entity, and Borrower agrees that it will not make any contrary assertion, contention, claim or counterclaim in any action, suit or other legal proceeding involving Lender and Borrower.

10.14. **JURISDICTION**. BORROWER AGREES THAT ANY LEGAL ACTION OR PROCEEDING WITH RESPECT TO THIS AGREEMENT OR ANY LOAN DOCUMENT MAY BE BROUGHT IN THE COURTS OF THE STATE OF GEORGIA OR THE UNITED STATES OF AMERICA FOR THE NORTHERN DISTRICT OF GEORGIA, ATLANTA DIVISION, ALL AS LENDER MAY ELECT. BY EXECUTION OF THIS AGREEMENT, BORROWER HEREBY SUBMITS TO EACH SUCH JURISDICTION, HEREBY EXPRESSLY WAIVING WHATEVER RIGHTS MAY CORRESPOND TO IT BY REASON OF ITS PRESENT OR FUTURE DOMICILE. NOTHING HEREIN SHALL AFFECT THE RIGHT OF LENDER TO COMMENCE LEGAL PROCEEDINGS OR OTHERWISE PROCEED AGAINST BORROWER IN ANY OTHER JURISDICTION OR TO SERVE PROCESS IN ANY MANNER PERMITTED OR REQUIRED BY LAW.

10.15. **ACCEPTANCE**. THIS AGREEMENT, TOGETHER WITH THE OTHER LOAN DOCUMENTS, SHALL NOT BECOME EFFECTIVE UNLESS AND UNTIL DELIVERED TO LENDER AT ITS PRINCIPAL OFFICE IN ATLANTA, FULTON COUNTY, GEORGIA AND ACCEPTED IN WRITING BY LENDER AT SUCH OFFICE AS EVIDENCED BY ITS EXECUTION HEREOF (NOTICE OF WHICH DELIVERY AND ACCEPTANCE ARE HEREBY WAIVED BY BORROWER).

10.16. **Payment on Non-Business Days**. Whenever any payment to be made hereunder or under the Notes shall be stated to be due on a Saturday, Sunday or any other day in which national banks within the State of Georgia are legally authorized to close, such payment may be made on the next succeeding Business Day, and such extension of time shall in such case be included in the computation of payment of interest hereunder or under the Notes.

10.17. **Cure of Defaults by Lender**. If, hereafter, Borrower defaults in the performance of any duty or obligation to Lender hereunder or under any Loan Document, Lender may, at its option, but without obligation, cure such default and any costs, fees and expenses incurred by Lender in connection therewith including, without limitation, for the purchase of insurance, the payment of taxes and the removal or settlement of liens and claims, shall be deemed to be advances against the Master Note, whether or not this creates an overadvance thereunder, and shall be payable in accordance with its terms.

10.18. **Attorney-in-Fact**. Borrower hereby designates, appoints and empowers Lender irrevocably as its attorney-in-fact, effective during any time that an Event of Default exists, either in the name of Borrower or the name of Lender, at Borrower's cost and expense, (i) to do any and all actions which Lender may deem necessary or advisable to carry out the terms of this Agreement or any other Loan Document upon the failure, refusal or inability of Borrower to do so and (ii) to ask for, demand, sue for, collect, compromise, compound, receive, receipt for and give acquittances for any and all sums owing or which may become due upon any of the Collateral and, in connection therewith, to take any and all actions as Lender may deem necessary or desirable to realize upon any Collateral; and Borrower hereby agrees to indemnify and hold Lender harmless from any costs, damages, expenses or liabilities arising against or incurred by Lender in connection therewith.

10.19. **Sole Benefit**. The rights and benefits set forth in this Agreement and the other Loan Documents are for the sole and exclusive benefit of the parties hereto and thereto and may be relied upon only by them.

10.20. **Indemnification**. Borrower will hold Lender, its respective directors, officers, employees, agents, Affiliates, successors and assigns harmless from and indemnify Lender, its respective directors, officers, employees, agents, Affiliates, successors and assigns against, all loss, damages, costs and expenses (including, without limitation, reasonable attorney's fees, costs and expenses) actually incurred by any of the

foregoing, whether direct, indirect or consequential, as a result of or arising from or relating to any "Proceedings" (as defined below) by any Person, whether threatened or initiated, asserting a claim for any legal or equitable remedy against any Person under any statute, case or regulation, including, without limitation, any federal or state securities laws or under any common law or equitable case or otherwise, arising from or in connection with this Agreement, and any other of the transactions contemplated by this Agreement, except to the extent such losses, damages, costs or expenses are due to the willful misconduct or gross negligence of Lender. As used herein, "Proceedings" shall mean actions, suits or proceedings before any court, governmental or regulatory authority and shall include, particularly, but without limitation, any actions concerning environmental laws, regulations or rules. At the request of Lender, Borrower will indemnify any Person to whom Lender transfers or sells all or any portion of its interest in the Obligations or participations therein on terms substantially similar to the terms set forth above. Lender shall not be responsible or liable to any Person for consequential damages which may be alleged as a result of this Agreement or any of the transactions contemplated hereby. The obligations of Borrower under this Section shall survive the termination of this Agreement and payment of the Obligations.

10.21. **JURY TRIAL WAIVER**. EACH OF BORROWER AND LENDER HEREBY WAIVES, TO THE EXTENT PERMITTED BY APPLICABLE LAW, THE RIGHT TO TRIAL BY JURY IN ANY ACTION, SUIT, PROCEEDING OR COUNTERCLAIM OF ANY KIND ARISING OUT OF OR RELATED TO ANY OF THE LOAN DOCUMENTS, OBLIGATIONS OR THE COLLATERAL.

10.22. **Terminology**. All personal pronouns used in this Agreement, whether used in the masculine, feminine or neuter gender, shall include all other genders; the singular shall include the plural, and the plural shall include the singular. Titles of Articles and Sections in this Agreement are for convenience only, and neither limit nor amplify the provisions of this Agreement, and all references in this Agreement to Articles, Sections, Subsections, paragraphs, clauses, subclauses or Exhibits shall refer to the corresponding Article, Section, Subsection, paragraph, clause, subclause of, or Exhibit attached to, this Agreement, unless specific reference is made to the articles, sections or other subdivisions divisions of or Exhibit to, another document or instrument. Wherever in this Agreement reference is made to any instrument, agreement or other document, including, without limitation, any of the Loan Documents, such reference shall be understood to mean and include any and all amendments thereto or modifications, restatements, renewals or extensions thereof. Wherever in this Agreement reference is made to any statute, such reference shall be understood to mean and include any and all amendments thereof and all regulations promulgated pursuant thereto. Whenever any matter set forth herein or in any Loan Document is to be consented to or be satisfactory to Lender, or is to be determined, calculated or approved by Lender, then, unless otherwise expressly set forth herein or in any such Loan Document, such consent, satisfaction, determination, calculation or approval shall be in Lender's sole discretion, exercised in good faith and, where required by law, in a commercially reasonable manner, and shall be conclusive absent manifest error.

10.23. **Publicity**. Lender may post notice of this transaction in trade publications and other media, including through the use of "tombstones," and may include Borrower's name and other selected data about the transaction of a general nature. Borrower shall not use the name of Lender, or use any "logo," trade style, trade name or other likeness or image of Lender in any advertising, publication or other public disclosures except with Lender's prior written consent or where required to do so by applicable law (in which latter event, however, Borrower first shall consult with Lender in regard thereto and limit, as directed by Lender, such publication to the extent permissible to do so under applicable law.).

10.24. **Counterclaims**. Borrower waives any right to interpose any claim, deduction, setoff or counterclaim of any sort (other than compulsory counterclaims) that Borrower may have, or allege, as against Lender or any of its Affiliates in any action or proceeding instituted by Lender to endorse the payment of any obligations or the performance of any Loan Document, all of which claims, deductions, setoffs or counterclaims shall and must be brought against Lender or any of its Affiliates, as the case may be, if at all by a separate and independent action or proceeding initiated by Borrower.

10.25. **TM Services**. To the extent that at any time or from time to time hereafter Lender arranges for, or gives assurances on Borrower's behalf in regard to, any TM Services (as hereinafter defined), Borrower acknowledges and agrees that: (i) Lender shall have no duty, obligation or liability whatsoever to Borrower in respect thereof, including, without limitation, as to (A) their initiation, continuation, suspension or termination, (B) any actions (or omissions) of the party(ies) providing such services or any other Person, or (C) any

charges, fees or other costs associated therewith; (ii) if this Agreement is terminated, Borrower shall cease obtaining all TM Services and if Borrower shall fail to do so, Lender may do so itself on behalf of Borrower under the power of attorney granted in Section 10.18; and (iii) the indemnity of Borrower granted in Section 10.20 shall extend to and include, without limitation, any cost, damage, loss or expense occasioned by Lender's arrangement of, or the giving of assurances in regard to, any TM Services. As used herein, "TM Services" shall mean all treasury management services, including, without limitation, foreign exchange, automated clearing house (ACH) services, controlled disbursements and wire transfer and deposit actively performed by any financial institutions on behalf of Borrower.

11. **CONDITIONS PRECEDENT**. Unless waived in writing by Lender at or prior to the execution and delivery of this Agreement, the conditions set forth below shall constitute express conditions precedent to any obligation of Lender hereunder.

11.1. **Loan Documents**. Receipt by Lender of this Agreement and the following Loan Documents, each to be duly executed by Borrower and each other Person party thereto:

(a) Borrowing Base Certificate. An initial Borrowing Base Certificate duly completed, to be in substantially the form of Exhibit A;

(b) Collateral Status Certificate. An initial Compliance Certificate, duly completed, to be in substantially the form of Exhibit B;

(c) Compliance Certificate. An initial Compliance Certificate, duly completed, to be in substantially the form of Exhibit C;

(d) IP Security Agreements. If applicable, IP Security Agreements, to be in substantially the form of Exhibit D-1, as to patents, and Exhibit D-2, as to trademarks

(e) Landlord's Agreements. Landlord's Agreements, with respect to any landlords and warehouse operators with whom Borrower has any Collateral on the Closing Date, to be in substantially the form of Exhibit E-1, as to landlords, and Exhibit E-2, as to public warehouse operators;

(f) Note. The Master Note, to be substantially in the form of Exhibit F-1 and the Term Note, to be in substantially the form of Exhibit F-2;

(g) Notice of Borrowing. An initial Notice of Borrowing, duly completed, to be in substantially the form of Exhibit G;

(h) A Telephone Instructions Letter, duly completed, to be in substantially the form of Exhibit H;

(i) A Blocked Account Agreement, to be in substantially the form of Exhibit I-1, if Bank of America N.A. is the Clearing Bank; and to be in substantially the form of Exhibit I-2, if Bank of America N.A. is not the Clearing bank.

(j) An organization and incumbency certificate from the corporate Secretary of Borrower (or similar officer or representative, if Borrower is not a corporation) certifying as to the Borrower's Organization Documents and the Person(s) authorized to execute the Loan Documents on Borrower's behalf, to be in substantially the form of Exhibit J;

(k) An opinion of counsel from Borrower' counsel, to be in substantially the form of Exhibit K;

(l) A disbursement instructions letter, duly completed, to be in substantially the form of Exhibit L;

(m) A payoff letter from each creditor of Borrower whose credit is being refinanced pursuant hereto, duly completed, to be in substantially the form of Exhibit M; and

(n) a stock pledge agreement from Borrower in respect of sixty-five percent (65%) of the Equity Interests that it owns in NAIE, t o be substantially in the form of Exhibit N;

(o) a current list of Account Debtors, including names and addresses; and

(p) such other Loan Documents as may be referred to herein or contemplated hereby, or as other may be required by Lender in its credit judgment.

11.2. **No Default**. No Default Condition or Event of Default shall have occurred.

11.3. **No Material Change**. No Material Adverse Change shall have occurred.

IN WITNESS WHEREOF, Borrower has caused this Agreement to be executed as of the day and year set forth below as the Closing Date.

"BORROWER"

NATURAL ALTERNATIVES INTERNATIONAL, INC

By: /s/ RANDELL WEAVER

Name: Randell Weaver
Title: Chief Financial Officer

Accepted by Lender in Atlanta, Georgia
as of October 25, 2002
(the **"Closing Date"**)

"LENDER"

UPS CAPITAL CORPORATION

By: /s/ CHARLES JOHNSON

Name: Charles G. Johnson
Title: Sr. Vice President

Address for Notices:

35 Glenlake Parkway, N.E.
Suite 500
Atlanta, GA 30328
Attn: Legal Department

EXHIBIT 23.1

CONSENT OF ERNST & YOUNG LLP, INDEPENDENT AUDITORS

We consent to the incorporation by reference in the Registration Statement (Form S-8 No. 33-00947 and 333-32828) pertaining to the 1994 Nonqualified Stock Option Plan, 1999 Omnibus Equity Incentive Plan and the 1999 Employee Stock Purchase Plan of Natural Alternatives International, Inc. of our report dated August 1, 2003, with respect to the consolidated financial statements and schedule of Natural Alternatives International, Inc. included in the Annual Report (Form 10-K) for the year ended June 30, 2003.

/s/ Ernst & Young LLP

San Diego, California
September 10, 2003

Exhibit 31.1

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 Annual Report on Form 10-K 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 financing 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: September 17, 2003

/s/ MARK A. LEDOUX

Mark A. LeDoux, Chief Executive Officer

Exhibit 31.2

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 Annual Report on Form 10-K 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 financing 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: September 17, 2003

/s/ John R. Reaves

John R. Reaves, Chief Financial Officer

Exhibit 32

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 Annual Report on Form 10-K for the fiscal year ended June 30, 2003 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: September 17, 2003 /s/ Mark A. LeDoux

Mark A. LeDoux, Chief Executive Officer

Date: September 17, 2003 /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-K or as a separate disclosure document.