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, 1997 Commission file number 0-15701

NATURAL ALTERNATIVES INTERNATIONAL, INC.

Incorporated in Delaware	84-1007839
1185 Linda Vista Drive, San Marcos, California 92069	(I.R.S. Employer
(760) 744-7340	Identification No.)

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

Common Stock - $.01 par value Nasdaq Stock Market

Indicate by check mark whether the Registrant (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 the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes [X]   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 registrant'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. [ ]

The aggregate market value of 3,955,974 shares of voting stock held by non-affiliates (assuming for this purpose that all officers and directors, and affiliates of directors, are affiliates) of the Registrant was approximately $30,659,000 based on the closing sale price as of September 23, 1997.

At September 23, 1997, the Registrant had outstanding 5,431,764 shares of Common Stock, $.01 par value.

Documents Incorporated by Reference

NONE

PART I

ITEM 1. BUSINESS

Natural Alternatives International, Inc. (referred to herein as the "Company") is engaged in the formulation and production of encapsulated vitamins and nutrients and provides for its clients sports affiliations, assistance with foreign registration of products, graphic design, brochures, formulations and a host of other marketing related services. The Company narrowly focuses its marketing activity on attracting and retaining a select number of large, financially sound companies with global, growth-oriented objectives. The Company seeks to further its customers' objectives by assisting them in expanding their market share through a variety of special programs and services. There are no fees charged or revenues generated from these marketing related services, which are generally provided before orders for product are obtained. Therefore, these costs are treated as period costs.

In 1995, the Company expanded and enhanced its laboratory and quality control capabilities. Management believes its technically advanced facilities are a major factor in solidifying existing customer relationships and adding new customers. Newly recognized standards for manufacturing nutritional products should, in the opinion of management, assist the Company in serving its present and future customers. The newly revised United States Pharmacopeia compendia (USP) contain, for the first time, specifications for vitamin and mineral supplements. This USP monograph has long been the basis for determining the strength, quality, purity, packaging and labeling of drugs and related articles. The Company believes it currently has the technical and quality control expertise to conform to all aspects of USP specifications. Conformance with USP specifications will allow the Company to use the USP designation on all products manufactured for its customers, which have the USP designation.

During 1997, the Company expanded its product-delivery system mix with the addition of a tablet manufacturing facility that nearly doubles the Company's overall manufacturing capacity. Tablets and chewable wafers are more readily accepted than capsules by consumers in overseas markets, such as Asia. The Company's proprietary and sophisticated flavoring laboratory formulates chewable wafers in a wide variety of tasty flavors.

The Company has several proprietary lines of products, which were sold by two of its wholly owned subsidiaries, Millennium Health Products, Inc. (formerly Pro-Lean, Inc. and before that Sonergy, Inc.), and CellLife International, Inc. The operations of its two primary subsidiaries were transferred to the Company during fiscal 1997. The Company believes such specialty proprietary products typically generate higher profit margins and assist in product diversification and less reliance on contract manufacturing.

RESEARCH AND DEVELOPMENT

The Company continuously produces pilot or sample runs of products to ensure stability or efficacy and to determine ingredient interaction and prospective customer acceptance. Research of this type, and the associated costs, are part of the operating expenses incurred by the Company. Such research and development has not been significant and is not expected to be significant in the future.

COMPETITION AND BUSINESS RISKS

The vitamin and nutritional supplement industry is highly competitive, and competition is expected to increase in the future. Competition for the sale of vitamins and supplements comes from many sources, including companies which sell vitamins to supermarkets, large chain discount retailers, drug store chains and independent drug stores, health food stores, pharmaceutical companies and others which sell to wholesalers, mail order vendors and network marketing companies. The Company does not believe it is possible to accurately estimate the number or size of its many competitors since the vitamin industry is largely privately held.

PART I

ITEM 1. BUSINESS (continued)

The Company believes that competition among vitamin and supplement products is based, among other things, on price, timely delivery, product quality, safety, availability, product innovation and assistance in marketing and customer service. The competitive position of the Company will also depend upon continued acceptance of its hard gel capsules, its ability to attract and retain qualified personnel, future governmental regulations affecting vitamins and nutritional supplements, and publication of vitamin product safety and efficacy studies by the government and authoritative health and medical authorities.

The Company's operations are subject to the risks normally associated with manufacturing vitamins and nutritional products, including shortage of certain raw materials and damage to property or injury to persons.

BACKLOG

The Company's backlog, believed to be firm as of September 22, 1997 was $18,114,000. These compare to backlogs of $12,465,000 and $13,634,000 as of September 16, 1996 and September 5, 1995, respectively. The Company expects that all orders in the backlog at September 22, 1997 will be shipped during calendar year 1997.

RAW MATERIALS

Raw materials used by the Company consist of nutrient powders, empty gelatin capsules, and necessary components for packaging and distribution of finished vitamin and nutritional supplement products. The nutrient powders and the empty gelatin capsules are purchased from manufacturers in the United States, including foreign-owned entities operating in the United States.

MAJOR CUSTOMERS

Nu Skin International, NSA International and Nutrilite Products (a division of Amway Corporation) together represented 62% of the Company's sales for the year ended June 30, 1997. Loss of any of these customers could have an adverse impact on the Company's revenues and earnings until the Company could replace these sales. If the Company was unable to replace the sales to any of these customers, it would have a material adverse impact on the business and operations of the Company. No other customer represented 10% or more of the Company's sales.

EMPLOYEES

The Company employs 110 individuals, with three employed in executive or other professional positions, seven in the area of research, laboratory and quality control, nine in sales and marketing, while the remaining employees are engaged in production and administration. The Company has never experienced a work stoppage, and none of its employees are currently represented by a union or any other form of collective bargaining unit. The Company believes its relations with its employees are excellent.

GOVERNMENT REGULATION

The processing, formulation, packaging, labeling and advertising of the Company's products are subject to regulations by one or more federal agencies, including the Federal Drug Administration (FDA), the Federal Trade Commission (FTC), the Consumer Product Safety Commission, the United States Department of Agriculture and the Environmental Protection Agency. These activities are also regulated by various agencies of the states and localities in which the Company's products are sold, including without limitation the California Department of Health Services, Food and Drug branch. The FDA in particular regulates the advertising, labeling

PART I

ITEM 1. BUSINESS (continued)

and sales of vitamin and mineral supplements and may take regulatory action concerning medical claims, misleading or untruthful advertising, and product safety issues. While the Company is subject to the FDA's Good Manufacturing Practices for foods, and complies with them as a quality control practice, it also adheres to many of the FDA's more stringent standards for pharmaceutical manufacturing.

ITEM 2. PROPERTIES

The Company's corporate and manufacturing facilities consist of approximately 54,000 square feet and are located in San Marcos, California. Of this space, the Company owns approximately 36,000 square feet and leases the remaining space. In June 1996, the Company acquired certain suites within a building occupied by certain of its offices and production facilities which, up to that time, were being leased from its two principal stockholders, Marie A. LeDoux and Mark A. LeDoux. The lease provided for rent payable in the amount of $60,000 per year. Purchase price of the building was $545,000 which, in the opinion of management and an independent certified appraiser who evaluated the property in April 1996, represented fair market value.

The Company believes its facilities are adequate and suitable for its current needs.

ITEM 3. LEGAL PROCEEDINGS

The Company is involved in various claims and legal actions arising in the ordinary course of business. In the opinion of management, based in part on the advice of counsel, the ultimate disposition of these matters will not have a material adverse effect on the Company's consolidated financial position, results of operations or cash flows.

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

None.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

On January 13, 1997, the Company's common stock began trading on the Nasdaq National Market tier of The Nasdaq Stock Market under the Symbol: NAII. The common stock of the Company had previously been traded on the American Stock Exchange (AMEX) since November 17, 1992, under the stock symbol NAI. The table below sets forth the high and low sales prices, which are derived from the Monthly Market Statistics issued by the American Stock Exchange and the Summary of Activity issued by The Nasdaq Stock Market for the respective periods.

	High	Low
First Quarter Ended September 30, 1996	$10.375	$7.625
Second Quarter Ended December 31, 1996	$ 9.500	$7.125
Third Quarter Ended March 31, 1997	$10.500	$8.125
Fourth Quarter Ended June 30, 1997	$ 9.000	$6.875
First Quarter Ended September 30, 1995	$ 9.750	$6.000
Second Quarter Ended December 31, 1995	$12.750	$7.000
Third Quarter Ended March 31, 1996	$10.125	$7.750
Fourth Quarter Ended June 30, 1996	$11.250	$9.250

As of June 30, 1997, the approximate number of holders of common stock was 4,000.

The Company has never paid a dividend on its common stock. It is the Company's present policy to retain all earnings to provide funds for the future growth of the Company.

PART II

ITEM 6. SELECTED FINANCIAL DATA

Five-Year Summary

(NOT COVERED BY INDEPENDENT AUDITORS' REPORT)

	YEAR ENDED JUNE 30				
	1997	1996	1995	1994	1993
Net sales	$49,444,221	$47,621,804	$37,388,254	$34,334,062	$19,431,664
Income from Operations	$ 1,815,072	$ 5,263,376	$ 3,637,522	$ 3,592,951	$ 1,604,699
Net Earnings	$ 1,119,920	$ 3,222,317	$ 2,028,059	$ 1,887,367	$ 965,543
Net Earnings Per Common Share: Primary and fully diluted	$ 0.20	$ 0.58	$ 0.39	$ 0.38	$ 0.21
Current Assets	$18,857,979	$15,710,135	$14,722,929	$11,883,140	$ 5,953,903
Total Assets	$27,729,175	$23,561,191	$21,193,780	$17,514,511	$10,620,035
Long-Term Debt and Capital Lease Obligations, less current installments	$ 1,123,898	$ 1,324,920	$ 1,114,828	$ 958,415	$ 819,528
Stockholders' Equity	$18,699,487	$17,159,586	$13,278,255	$11,216,465	$ 6,873,068

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PART II

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

RESULTS OF OPERATIONS

FISCAL 1997 COMPARED TO FISCAL 1996

Net sales increased 3.8% or $1.8 million to $49.4 million in fiscal 1997, primarily due to increased sales to existing customers. The Company added several new customers in the latter part of the year, however the sales to these new customers were not significant in fiscal 1997.

Sales to international customers declined from $4.3 million in 1996 to $1.9 million in 1997. The decrease is the result of a major client restructuring its European operations coupled with a declining demand for the same client's products in Europe.

Income from operations decreased 65.5% to $1.8 million. This was due to a $2.0 million decline in gross profit and a $1.4 million increase in selling, general and administrative expenses.

Gross profit margins were 21.1% and 26.1% in fiscal 1997 and 1996, respectively. The decline in gross margins is due to several factors. Shifts in product sales mix toward lower profit margin products, rising costs of certain raw materials, and increased costs for subcontracted packaging were the major contributing factors. To a lesser extent, the change in ownership of one of the Company's customers resulted in a substantial write-off of packaging materials. In addition, the Company wrote off raw materials that became obsolete because of customer discontinuance of certain products.

Selling, general and administrative expenses increased as a percentage of sales from 15.1% in 1996 to 17.4% in 1997. Selling, general and administrative expenses increased to $8.6 million in fiscal 1997 from $7.2 million in 1996. The increase in expenses was due to several factors: a specific provision for doubtful accounts was made for the balance due from a related party customer; the Company underwrote several clinical studies to show the efficacy of certain customer products; marketing fixtures related to certain unprofitable products were written off; and finally, the Company incurred startup expenses for its new tablet manufacturing facility.

Other income (expense) amounted to net other income of approximately $25,000 in fiscal 1997 compared to a net expense of approximately $56,000 in fiscal 1996. The net increase was primarily the result of increased interest income on investments.

Net earnings decreased 65.2% or $2.1 million to $1.1 million in fiscal 1997. This decrease was due, primarily, to the reasons given above. The higher effective income tax rate, from 38.1% in 1996 to 39.1% in 1997, is primarily the result of a smaller investment credit applicable to California franchise taxes.

Net earnings per common share decreased 65.6% to $.20 per share in 1997 from $.58 per share in 1996.

The Company's backlog position amounted to $18,114,000 as of September 22, 1997, compared to $12,465,000 as of September 16, 1996. This increase is attributable to successful customer expansion into foreign markets and increased orders from existing customers.

PART II

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (continued)

RESULTS OF OPERATIONS

FISCAL 1996 COMPARED TO FISCAL 1995

Net sales increased 27.4% or $10.2 million to a record $47.6 million in fiscal 1996, primarily due to the combination of increased existing and new customer volume, which took place throughout the year. The Company continues to pursue Olympic marketing affiliations for its customers on an international basis.

Sales to international customers of $4.3 million increased 43% or $1.3 million in 1996 and represented 9.0% of net sales. The increase was due to the completion of registration requirements on new international products being developed at customers' requests.

Income from operations increased 44.7% to $5.3 million, due primarily to increased gross profit offset by a moderate rise in selling, general and administrative expenses.

Gross margins were 26.1% and 26.3% in fiscal 1996 and 1995, respectively. The decline in gross margins is primarily due to writedowns of inventories relating to certain discontinued products.

Selling, general and administrative expenses decreased moderately as a percentage of sales from 16.6% in 1995 to 15.1% in 1996. In absolute dollars, selling, general and administrative expenses increased to approximately $7.2 million in fiscal 1996 from $6.2 million in 1995. This was due, primarily, to increases in bad debt expense, operating supplies, outside services, repairs and maintenance, royalties, and salaries, partially offset by decreases in printing and stationery and professional fees.

Other income (expense) amounted to net other expense of approximately $56,000 in fiscal 1996 compared to a net expense of approximately $52,000 in fiscal 1995.

Net earnings increased 58.9% or $1.2 million to a record $3.2 million in fiscal 1996. This increase was due, in part, to the reasons given above, and to a lower effective income tax rate. The lower income tax rate, from 43.4% in 1995 to 38.1% in 1996, is the result of an investment credit recently enacted by the state of California.

Earnings per share increased 48.7% to $.58 per share in 1996 from $.39 per share in 1995. Earnings per share did not increase at the same rate as net earnings due to the increase in the weighted average number of shares outstanding to 5,585,442 as of June 30, 1996 from 5,257,865 as of June 30, 1995. The increase in weighted average shares was due to exercises of employee stock options and the dilutive effect of common stock equivalents in 1996 which was not a factor in 1995.

PART II

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (continued)

LIQUIDITY AND CAPITAL RESOURCES

Since its inception, the Company has satisfied its liquidity requirements through a combination of equity financing, net cash provided by operating activities, revolving lines of credit, equipment financing and leases. Management believes the Company's financial condition remains strong, and management also believes the Company should have the resources necessary to meet currently anticipated funding requirements.

At June 30, 1997, the Company had working capital of $11,439,000 and revolving lines of credit of $3,000,000. As of June 30, 1997, there were no borrowings under these lines.

In 1997, net cash provided by operating activities was $3,802,000 compared to $1,103,000 for 1996. This increase of $2,699,000 was due primarily to an increase in accounts payable and a decrease in inventory that was offset by a decrease in net earnings and an increase in accounts receivable. Current maturities of long-term debt and capital leases amounted to $189,000 which the Company expects to pay out of working capital.

The Company has revolving lines of credit permitting borrowings up to $3,000,000, which are secured by the Company's receivables, inventory, equipment, and vehicles and bear interest at the bank's prime rate. The present loan agreement with the bank contains financial covenants concerning limitations on maintenance of debt, certain financial ratio's and other matters, for all of which the Company is in full compliance as of September 25, 1997. The lines of credit expire on December 5, 1997; management expects such lines to be renewed in the normal course of business.

Capital expenditures for 1997 amounted to $2,236,000 primarily in connection with construction of a new tablet facility and the acquisition of related high-speed tablet compression equipment to expand the Company's output capacity. The Company anticipates capital expenditures, subject to satisfactory financial performance and conditions, of approximately $1,500,000 during fiscal 1998, primarily for equipment and building improvements. These expenditures are expected to be paid from a combination of cash holdings, net cash provided by operating activities in fiscal 1998 and borrowings under the Company's lines of credit with its bank.

NEW ACCOUNTING PRONOUNCEMENTS

In March 1997, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards No. 128, "Earnings Per Share" ("SFAS 128"). SFAS 128 supercedes Accounting Principles Board Opinion No. 15, "Earnings Per Share" ("APB 15") and specifies the computation, presentation, and disclosure requirements of earnings per share ("EPS"). SFAS 128 replaces "primary" and "fully diluted" EPS under APB 15 with "basic" and "diluted" EPS. Unlike primary EPS, basic EPS excludes the dilutive effects of options, warrants and other convertible securities. Dilutive EPS reflects the potential dilution of securities that could share in the earnings of an entity, similar to fully diluted EPS. SFAS 128 is effective for years ending after December 15, 1997. The Company does not expect that the adoption of this statement will have a material impact on the Company's results of operations.

In June 1997, the FASB issued Statement of Financial Accounting Standards No. 130, "Reporting Comprehensive Income" ("SFAS 130") and No. 131, "Disclosures about Segments of an Enterprise and Related Information" ("SFAS 131"). SFAS 130 establishes standards for the reporting and display of comprehensive income and its components in the financial statements. SFAS 131 establishes standards for the manner in which public business enterprises report information about operating segments and also establishes standards for related disclosures about products and services, geographic areas, and major customers. These statements are effective for years beginning after December 15, 1997. The Company does not expect that the adoption of these statements will have a material impact on the Company's financial position or results of operations.

PART II

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The financial statements and supplementary data as required by this item are set forth on pages 24 through 45.

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

None.

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

The directors and executive officers of the Company (Registrant) are as follows:

Name and Position	Age as of June 30, 1997	Year of First Election	Family Relationship
Mark A. LeDoux Chief Executive Officer, Director	43	1986	Son to Chairperson of the Board, Marie A. LeDoux
William P. Spencer President, Treasurer, Chief Operating Officer, Chief Financial Officer, Chief Accounting Officer and Director	44	1986	None
Marie A. LeDoux Secretary, Chairperson of the Board	80	1986	Mother to Chief Executive Officer, Mark A. LeDoux
William R. Kellas Director	46	1988	None
Lee G. Weldon Director	58	1992	None

MARK A. LEDOUX was a director, the President and Chief Executive Officer of Natural Alternatives, Inc., the predecessor corporation, from its formation in 1981 until the 1986 merger into the Company. Mr. LeDoux has been a director and Chief Executive Officer of the Company since the August 1986 merger of the predecessor corporation into the Company, which continued the business and operations of Natural Alternatives, Inc. From August 1986 to December 1996, he also served as President of the Company. From 1976 to 1980, Mr. LeDoux held the position of Executive Vice President and Chief Operating Officer of Kovac Laboratories, a company, which was engaged in the business of manufacturing nutritional supplements. He attended the University of Oklahoma and graduated Cum Laude with a Bachelor of Arts in Letters in 1975. Mr. LeDoux graduated from Western State University, College of Law in 1979, with a Juris Doctorate.

WILLIAM P. SPENCER has been a director, Chief Operating Officer and Chief Financial Officer of the Company since August 1986. He also served as Executive Vice President until December 1996 when he became President of the Company. Prior to joining the Company, he was with San Diego Trust and Savings Bank for ten years, the last four as Vice President. Mr. Spencer received a Bachelor of Science in Finance in 1974, and a Masters in Business Administration, also in the area of Finance, in 1979 from San Diego State University.

(continued)

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT (continued)

MARIE A. LEDOUX has been a director of the Company since August 1986, and has also been Chairperson and Secretary since that time. Mrs. LeDoux was also the Chairperson/Advisor of the Company's predecessor from its formation until 1986. She has thirty-nine years of experience in the area of nutrition. In 1978, Mrs. LeDoux was awarded an Honorary Fellowship in the International Academy of Preventive Medicine. In 1981, she received an Honorary Ph.D. in Humanities from the Heritage Institute. Marie A. LeDoux is the mother of Mark A. LeDoux. For the last eighteen years, Mrs. LeDoux has been the President of Play N' Talk International, a company which is in the business of preparing instructional materials for children's reading programs.

WILLIAM R. KELLAS, PH.D. became a director of the Company in October 1987. Mr. Kellas graduated from the University of Southern California earning a Bachelor of Science in Business with a Minor in Physics. He earned his Ph.D. in Health Sciences from the Doctors University of Natural Health Sciences in 1985. Dr. Kellas also graduated from Harvard University's Financial and Management Program. From 1974 to 1984, Dr. Kellas was employed by IBM as the firm's Western Regional Marketing Manager. From 1984 to 1985, Dr. Kellas was a District Manager for Wang Laboratories. In 1985, Dr. Kellas founded Comprehensive Health Centers, a medical clinic offering integrated medical, dental, chiropractic, and natural therapeutic services. In addition, Dr. Kellas is the President of Professional Preference, a biochemical firm that sells computerized regimens of protocols that are designed to regenerate an individual's immune system and fight related degenerative diseases.

LEE G. WELDON has been a director of the Company since June of 1992. He was the Chairman and Chief Executive Officer of Kal Healthway, Inc., a food supplement distributor, until it was acquired by another company during the past year. In 1963, Mr. Weldon graduated from UCLA and obtained a Bachelor of Science in Business Administration. In 1982, Mr. Weldon became a member of Young President's Organization (YPO), and since 1990 he has been a graduate member of YPO.

BOARD MEMBERS

Members of the Board of Directors are elected in three classes (Class I, Class II, and Class III) to serve initially until the 1997, 1998, and 1999 annual meetings of stockholders, respectively, and until the election and qualification of their successors. After the initial term of directors of each class terminates, at each regularly scheduled annual meeting of stockholders held to elect directors of that class, the number of directors equal to the number of directors of the class whose term expires at the time of such meeting shall be elected to hold office until the third succeeding annual meeting of stockholders. Directors receive $500 for each Directors' meeting attended in person. Mark A. LeDoux is the son of Marie A. LeDoux. Executive officers serve at the discretion of the Board of Directors. The classes of directors are as follows:

Director	Class
Mark A. LeDoux	I
Marie A. LeDoux, Lee G. Weldon	II

William R. Kellas, William P. Spencer III

COMMITTEES

The Company currently has a Compensation Committee, composed of William R. Kellas and Lee G. Weldon. The Company's Audit Committee is comprised of William R. Kellas, Lee G. Weldon and William P. Spencer.

(continued)

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT (continued)

COMPLIANCE WITH SECTION 16(A) OF THE EXCHANGE ACT

Based solely on its review of the copies of Form 4's received by the Company, the Company believes that during its most recent fiscal year ended June 30, 1997, that its officers and directors complied with the filing requirements under Section 16(a).

ITEM 11. EXECUTIVE COMPENSATION

SUMMARY OF CASH AND OTHER COMPENSATION

The following table sets forth compensation for services rendered in all capacities to the Company during the years ended June 30, by each of the executive officers.

SUMMARY COMPENSATION TABLE

		Annual Compensation			Long-Term Compensation Awards	
Name and Principal Position	Year	Salary	Bonus	Other(1)	Securities Underlying Options/SARs (#)	All Other Compensation (2)
Mark A. LeDoux, Chief Executive Officer and Director	1997	$201,579	$50,345	$28,422	0	$18,703
	1996	$213,520	$45,300	$8,592	0	$21,987
	1995	$172,942	$101,203	$11,502	100,000	$14,961
William P. Spencer, President, Chief Financial Officer, and Director	1997	$178,830	$72,304	$166,178	0	$37,438
	1996	$169,275	$40,300	$113,656	0	$35,005
	1995	$168,058	$83,854	$543	125,000	$35,538

(1) Amounts do not exceed the lesser of $50,000 or 10% of salary and bonus combined for named executive, except as set forth in the following table.

(2) See following table.

(continued)

ITEM 11. EXECUTIVE COMPENSATION (continued)

SUMMARY OF CASH AND OTHER COMPENSATION (continued

	Mark A. LeDoux	William P. Spencer
Other Annual Compensation-1997		
Gain from exercise and sale of stock options	$ 0	$ 92,799
Personal Transportation	18,600	13,800
Other Personal Expenses	9,822	59,579
Totals	$28,422	$166,178
Other Annual Compensation-1996		
Gain from exercise and sale of stock options	NA	$ 53,078
Personal Transportation	NA	7,284
Other Personal Expenses	NA	40,600
Tax Payment Reimbursements	NA	12,694
Totals	$ 8,592	$113,656
All Other Compensation-1997		
401(k) Employer Contributions	$ 5,550	$ 6,698
Life Insurance Premiums	1,920	13,990
Medical, Dental and Vision	10,233	15,750
Board of Director Meetings	1,000	1,000
Totals	$18,703	$ 37,438
All Other Compensation-1996		
401(k) Employer Contributions	$ 8,759	$ 10,974
Life Insurance Premiums	1,819	13,998
Medical, Dental and Vision	9,909	8,533
Board of Director Meetings	1,500	1,500
Totals	$21,987	$ 35,005
All Other Compensation-1995		
401(k) Employer Contributions	$ 5,060	$ 4,518
Life Insurance Premiums	1,813	13,895
Medical, Dental and Vision	5,838	14,875
Board of Director Meetings	2,250	2,250
Totals	$14,961	$ 35,538

(continued)

ITEM 11. EXECUTIVE COMPENSATION (continued)

OPTION GRANTS

There were no options granted in the year ended June 30, 1997.

OPTION EXERCISES AND HOLDINGS

The following table sets forth information for the year ended June 30, 1997, concerning option exercises and option holdings under the 1992 Incentive Stock Option Plan, the 1992 Nonqualified Stock Option Plan, and the 1994 Nonqualified Stock Option Plan with respect to the Company's executive officers:

AGGREGATED OPTIONS/SAR EXERCISES IN LAST FISCAL YEAR
AND FISCAL YEAR-END OPTION/SAR VALUES

	Shares Acquired	Value RealizedMarket Price at Exercise less Exercise Price	Number of Unexercised Options/SAR's at Fiscal Year-End(#)		Value of Unexercised In-The Money Options/SAR's at Fiscal Year End(1)	
			Exercisable	Unexercisable	Exercisable	Unexercisable
1992 Plans-						
Mark A. LeDoux	0	$0	60,000	0	$165,000	$0
William P. Spencer	20,000	$92,799	95,000	0	$261,250	$0
1994 Plan-						
Mark A. LeDoux	0	$0	100,000	0	$300,000	$0
William P. Spencer	0	$0	125,000	0	$375,000	$0

(1) The closing price of the Company's common stock at June 30, 1997, as quoted on the Nasdaq Exchange, was $7.625.

COMPENSATION COMMITTEE INTERLOCKS AND INSIDER PARTICIPATION

The members of the Company's Compensation Committee for fiscal 1997 were William R. Kellas and Lee G. Weldon. No current member of the Compensation Committee is a current or former officer or employee of the Company or its subsidiaries.

(continued)

ITEM 11. EXECUTIVE COMPENSATION (continued)

EMPLOYMENT AGREEMENTS

There were no employment agreements in effect at June 30, 1997.

BONUS PLAN

There were no bonus plans in effect at June 30, 1997.

401(k) PLAN

The NATURAL ALTERNATIVES Partnership for Profits Plan (Plan) is considered a qualified plan under Section 401(k) of the Internal Revenue Code. All employees of the Company with twelve (12) months and at least one thousand hours of service during the twelve month period are eligible to participate in the Plan. The Plan provides for employee contributions of up to 15% of compensation. Employer contributions are determined by the Board of Directors at their discretion. The Company may match up to 100% of each employee's contribution, which does not exceed 5% of the employee's total compensation. Employee contributions in the Plan are 100% vested. Participants become vested in employer contributions at the rate of 34% the first year, 67% the second year and 100% after three years. The Company contributed and expensed $114,206, $101,161, and $50,345 in 1997, 1996 and 1995, respectively.

STOCK OPTION PLANS

The Company maintains three stock option plans: the 1992 Incentive Stock Option Plan (Incentive Plan) and the 1992 Nonqualified Stock Option Plan (1992 Nonqualified Plan), both of which were approved by the shareholders of the Company at its Annual Meeting of Shareholders on June 5, 1992, and the 1994 Nonqualified Stock Option Plan (1994 Nonqualified Plan) which was approved by the Board of Directors on December 9, 1994, and by the shareholders of the Company at its Annual Meeting of Shareholders on May 10, 1996. The Incentive Plan provides for the granting of "incentive stock options" as described in Section 422 of the Internal Revenue Code (Code). The 1992 and 1994 Nonqualified Plans provide for the granting of nonqualified stock options which are not intended to qualify under any provision of the Code. On September 9, 1993, all options then authorized under the Incentive Plan and 1992 Nonqualified Plan were granted at the fair market value price of $4.875 per share. On December 9, 1994, the Shareholders approved an amendment to the Incentive Plan, increasing the number of common shares that may be granted from 200,000 to 500,000. There have been no additional options granted to date. On January 24, 1995, options for 500,000 shares under the 1994 Plan were granted at the fair market value of $4.625 per share.

Incentive Plan

The purpose of the Incentive Plan is to promote the interests of the Company by providing a method whereby key management personnel of the Company and its subsidiaries responsible for the management, growth and financial success of the Company may be offered incentives to encourage them to acquire a proprietary interest or to increase their proprietary interest in the Company, and to remain in the employ of the Company and its subsidiaries. The total number of shares issuable under the Incentive Plan may not exceed 500,000 shares, subject to certain adjustments.

(continued)

PART III

ITEM 11. EXECUTIVE COMPENSATION (continued)

STOCK OPTION PLANS (continued)

Incentive Plan (continued)

The Incentive Plan is to be administered by either the Board of Directors (Board) or the Company's Compensation Committee. Subject to the express provisions of the Incentive Plan, the Board or the Compensation Committee will have complete authority to determine the employees to whom, and the times at which options are to be granted, the number of shares to be subject to each option, the option term, and all other terms and conditions of an option. The Board or the Compensation Committee will also have the authority to interpret the provisions in the Incentive Plan and to prescribe rules and regulations for its orderly administration.

The exercise price of incentive stock options granted under the Incentive Plan may not be less than 100% of the fair market value of the Common Stock on the date of the option grant. With respect to any key employee who owns stock representing more than 10% of the voting power of the outstanding capital stock of the Company, the exercise price of any incentive stock option may not be less than 110% of the fair market value of such shares at the time of grant and the term of such option may not exceed five years. Each option granted under the Incentive Plan will be exercisable at such time or times, during such period, and for such number of shares as is determined by the Board or the Compensation Committee and set forth in the instrument evidencing the option. No option granted under the Incentive Plan shall have a term in excess of ten years from the date of grant.

During the lifetime of the optionee, the option will be exercisable only by the optionee and may not be assigned or transferred by the optionee other than by will or the laws of descent or distribution. Should an optionee cease to be an employee of the Company or its subsidiaries for any reason other than death, then any outstanding option granted under the Incentive Plan will be exercisable by the optionee only during the three month period following cessation of employee status, and only to the extent of the number of shares for which the option is exercisable at the time of such cessation of employee status.

If the Company or its shareholders enter into an agreement to dispose of all or substantially all of the assets or outstanding capital stock of the Company by sale, merger, reorganization or liquidation, each option outstanding will become exercisable during the 15 days immediately prior to the scheduled consummation of such sale, merger, reorganization or liquidation with respect to the full number of shares of the Company's Common Stock purchasable under such option, unless the successor corporation or parent assumes or replaces the outstanding options.

In the event any change is made to the outstanding shares of the Company's Common Stock without the receipt of consideration by the Company, then unless such change results in the termination of all outstanding options, appropriate adjustments will be made to the maximum number of shares issuable under the Incentive Plan and to the number of shares and the option price per share of the stock subject to each outstanding option.

1992 and 1994 Nonqualified Plans

The purpose of the 1992 and 1994 Nonqualified Plans (the Nonqualified Plans) is to provide an incentive to eligible employees, consultants and officers whose present and potential contributions are important to the continued success of the Company, to afford those individuals the opportunity to acquire a proprietary interest in the Company and to enable the Company to enlist and retain in its employment qualified personnel for the successful conduct of its business. Officers, consultants and other employees of the Company and its subsidiaries whom the administrators deem to have the potential to contribute to the success of the Company shall be eligible to receive options under the Nonqualified Plans.

(continued)

ITEM 11. EXECUTIVE COMPENSATION (continued)

STOCK OPTION PLANS (continued)

1992 and 1994 Nonqualified Plans(continued)

The administrators of the Nonqualified Plans shall be either the Board of the Company or a committee designated by the Board. The administrators have full power to select, from among the officers, employees and consultants of the Company eligible for options, the individuals to whom options will be granted, and to determine the specific terms of each grant, subject to the provisions of the Nonqualified Plans.

The exercise price for each share covered by the Nonqualified Plans will be determined by the administrators, but will not be less than 60% and 100% for the 1992 Nonqualified Plan and the 1994 Nonqualified Plan, respectively, of the fair market value of a share of Common Stock of the Company on the date of grant of such option. The term of each option will be fixed by the administrators of the Nonqualified Plans. In addition, the administrators will determine the time or times each option may be exercised. Options may be exercisable in installments, and the exercisability of options may be accelerated by the administrators.

Options granted pursuant to the Nonqualified Plans are nontransferable by their participants, other than by will or by the laws of descent or distribution, and may be exercised during the lifetime of the participant only by the participant. In the event of an optionee's termination of employment or consulting relationship for any reason other than death or total and permanent disability, an option may be thereafter exercised, to the extent it was exercisable at the date of such termination, for such period of time as the administrator shall determine at the time of grant, but only to the extent that the term of the option has not expired.

Subject to the Nonqualified Plans' change in control provisions, in the event of the sale of substantially all of the assets of the Company or the merger of the Company with or into another corporation, each outstanding option shall be assumed or substituted by such successor corporation or parent or subsidiary of such successor corporation. The Nonqualified Plans also provide that in the event of a change of control of the Company, certain acceleration and valuation provisions shall apply, except as otherwise determined by the Board at its discretion prior to the change of control.

In the event of any change in capitalization in the Company which results in an increase or decrease in the number of outstanding shares of Common Stock without receipt of consideration by the Company, an appropriate adjustment shall be made in the number of shares which have been reserved for issuance under the Nonqualified Plans and the price per share covered by each outstanding option.

DEFINED BENEFIT PENSION PLAN

Effective January 1, 1997, the Company adopted a defined benefit pension plan (the "Plan") covering substantially all of its employees. The benefits are based on years of service and the employee's compensation during the five years before retirement. The Company will make annual contributions to the Plan equal to the maximum amount that can be deducted for income tax purposes. For the six months ended June 30, 1997, the estimated current service cost (normal cost) and the amortized portion of the unfunded estimated accrued liability for prior service cost, using a 30-year funding period amounted to $158,560. This amount has been accrued in the current period.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The following table sets forth, as far as is known to the Board of Directors or management of the Company, as of September 24, 1997, the stock ownership of each person known by the Company to be the beneficial owner of 5% or more of the Company's Common Stock, all Directors individually, all Directors and Officers as a group and by the individuals listed under the summary compensation table.

Directors and Officers

Title of Class	Name and Address of Beneficial Owner	Amounts and Nature of Beneficial Ownership (1)(2)	Percent of Class (2)
Common Stock	Marie A. LeDoux (3) 1185 Linda Vista Drive San Marcos CA 92069	1,077,301	16.98%
Common Stock	Mark A. LeDoux (4) 1185 Linda Vista Drive San Marcos CA 92069	495,317	7.81%
Common Stock	William R. Kellas (5) 1185 Linda Vista Drive San Marcos CA 92069	29,500	.46%
Common Stock	William P. Spencer (6) 1185 Linda Vista Drive San Marcos CA 92069	234,792	3.70%
Common Stock	Lee G. Weldon 1185 Linda Vista Drive San Marcos CA 92069	43,880	.69%
Common Stock	All Directors and Officers as a Group (5 persons)	1,880,790	29.64%

(continued)

PART III

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT (continued)

(1) Except as indicated in the footnotes to this table and pursuant to applicable community property laws, to the Company's knowledge, the persons named in the table have sole voting and investment power with respect to all shares of Common Stock.

(2) Shares of common stock which were not outstanding but which could be acquired upon exercise of an option within 60 days from the date of this filing are considered outstanding for the purpose of computing the percentage of outstanding shares beneficially owned. However, such shares are not considered to be outstanding for any other purpose.

(3) Includes 10,000 shares, which Mrs. LeDoux has the right to acquire upon exercise of options exercisable within 60 days of the date of this filing.

(4) Includes 800 shares of common stock held in the name of Mr. LeDoux's wife,

Julie LeDoux, and 8,000 shares of common stock held as custodian for his children and a niece. Also includes 160,000 shares, which Mr. LeDoux has the right to acquire upon exercise of options exercisable within 60 days of the date of this filing.

(5) Includes 1,500 shares of common stock held in the name of Mr. Kellas' wife and 15,000 shares which Mr. Kellas has the right to acquire upon exercise of options exercisable within 60 days of the date of this filing.

(6) Includes 2,400 shares of common stock held as custodian for Mr. Spencer's children and 220,000 shares, which he has the right to acquire upon exercise of options exercisable within 60 days of the date of this filing.

There is no arrangement known to the Company, the operation of which may at a subsequent date, result in a change of control of the Company.

PART III

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

In June 1996, the Company acquired a portion of a building occupied by certain of its offices and production facilities which, up to that time, were being leased from its two principal stockholders, Marie A. LeDoux and Mark A. LeDoux. The lease provided for rent payable in the amount of $60,000 per year. The purchase price of the building was $545,000 which, in the opinion of management and an independent certified appraiser who evaluated the property in April 1996, represented fair market value.

The Company entered into an agreement with the father-in-law and mother-in-law of the Chief Executive Officer of the Company in December 1991, which provides commissions on sales to a particular customer. The term of the agreement is ten years and will expire in December 2001. The commission equals 5% of sales, with earnings capped at $25,000 per calendar quarter. Amounts paid under this agreement were $100,000 for each of the years ending June 30, 1997, 1996 and 1995. There were no amounts owed under the agreement at June 30, 1997 or 1996.

Included in notes receivable are notes from the Company's Chief Executive Officer and President. The balance of the notes, including accrued interest, at June 30, 1997 was $74,444 and $89,824, respectively, and at June 30, 1996 was $70,119 and $84,606, respectively.

Additionally, during the year ended June 30, 1997, the Company made noninterest-bearing loans to the Chairman of the Board and the President in the amount of $50,000 and $13,802, respectively, bringing the aggregate amount of such loans to $219,012. Amounts owed on these loans, which are secured by proceeds from life insurance policies on their respective lives, were $150,000 and $100,000 for the Chairman of the Board and $69,012 and $55,210 for the President at June 30, 1997 and 1996, respectively.

During fiscal year 1995, the Company's Chairman of the Board paid $26,483 for certain expenses on behalf of the Company. Also, the Company paid commissions during the years ended June 30, 1996 and 1995 in the amounts of $6,916 and $10,800, respectively, to the Chairman of the Board.

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PART IV

ITEM 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES AND REPORTS ON FORM 8-K

(a) 1. FINANCIAL STATEMENTS

The financial statements listed in the accompanying index to consolidated financial statements are filed as part of this report.

2. FINANCIAL STATEMENT SCHEDULES

The financial statement schedule listed in the accompanying index to the consolidated financial statements is filed as part of this annual report. Schedules not included have been omitted because they are not applicable or the information required is included in the financial statements and notes thereto.

(b) EXHIBITS

Exhibit 11 Re: Computation of Per Share Earnings

Exhibit 23 Re: Consent of KPMG Peat Marwick LLP

(c) REPORTS FORM 8-K

Not Applicable

NATURAL ALTERNATIVES INTERNATIONAL, INC. AND SUBSIDIARIES
INDEX TO CONSOLIDATED FINANCIAL STATEMENTS
AND FINANCIAL STATEMENT SCHEDULE
JUNE 30, 1997

INDEPENDENT AUDITORS' REPORT

The Board of Directors and Stockholders
NATURAL ALTERNATIVES INTERNATIONAL, INC.:

We have audited the consolidated financial statements of Natural Alternatives International, Inc. and subsidiaries as listed in the accompanying index. In connection with our audits of the consolidated financial statements, we have also audited the financial statement schedule as listed in the accompanying index. These consolidated financial statements and financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements and financial statement schedule based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. 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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of Natural Alternatives International, Inc. and subsidiaries as of June 30, 1997 and 1996, and the results of their operations and their cash flows for each of the years in the three-year period ended June 30, 1997, in conformity with generally accepted accounting principles. Also in our opinion, the related financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

KPMG Peat Marwick LLP

San Diego, California
September 18, 1997

NATURAL ALTERNATIVES INTERNATIONAL, INC.
CONSOLIDATED BALANCE SHEETS
JUNE 30, 1997 AND 1996

ASSETS

	1997	1996
Current Assets:		
Cash and cash equivalents	$ 3,469,739	$ 1,887,427
Accounts receivable - less allowance for doubtful accounts of $231,000 in 1997 and $319,000 in 1996 (Notes E, F, and L)	6,990,121	5,026,204

Accounts receivable, related party - less allowance for doubtful accounts of $775,000 in 1997 and $0 in 1996 (Note E and K)	--	932,490
Inventory (Notes B, E, and F)	5,690,850	6,399,592
Tax refund receivable	842,209	--
Notes receivable - current portion (Note K)	235,613	157,155
Deferred income taxes (Note H)	851,000	425,000
Deposits	322,269	100,513
Other current assets	456,178	781,754
Total Current Assets	18,857,979	15,710,135
Property and equipment, net (Notes C, E, F, G, and K)	8,259,705	7,278,078
Other Assets:		
Investments (Note D)	58,862	74,890
Notes receivable, less current portion (Note K)	261,697	285,470
Other noncurrent assets, net	290,932	212,618
Total Other Assets	611,491	572,978
TOTAL ASSETS	$27,729,175	$23,561,191

(continued)

NATURAL ALTERNATIVES INTERNATIONAL, INC.
CONSOLIDATED BALANCE SHEETS (continued)
JUNE 30, 1997 AND 1996

LIABILITIES AND STOCKHOLDERS' EQUITY

	1997	1996
Current Liabilities:		
Accounts payable	$ 6,907,998	$ 3,658,897
Current installments of long-term debt (Note F)	164,266	234,736
Current installments of capital lease obligations (Note G)	25,189	22,860
Accrued compensation and employee benefits	321,337	280,340
Income taxes payable (Note H)	--	520,246
Customer deposits	--	2,606
Total Current Liabilities	7,418,790	4,719,685
Deferred income taxes (Note H)	487,000	357,000
Long-term debt, less current installments (Note F)	1,100,285	1,276,118
Capital lease obligations, less current installments Note (G)	23,613	48,802
Total Liabilities	9,029,688	6,401,605
Stockholders' Equity (Note J):		
Preferred stock; $.01 par value; 500,000 shares authorized; none issued or outstanding	--	--
Common stock; $.01 par value; 8,000,000 shares authorized; issued and outstanding 5,429,764 in 1997 and 5,351,875 in 1996	54,298	53,519
Additional paid-in capital	6,675,426	6,220,196

Retained earnings	12,021,013	10,901,093
Net unrealized losses on investments (Note D)	(51,250)	(15,222)
Total Stockholders' Equity	18,699,487	17,159,586
Commitments and contingencies (Notes K, L and M)		
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 27,729,175	$ 23,561,191

See accompanying notes to consolidated financial statements.

NATURAL ALTERNATIVES INTERNATIONAL, INC.
CONSOLIDATED STATEMENTS OF EARNINGS
FOR THE YEARS ENDED JUNE 30, 1997, 1996 AND 1995

	1997	1996	1995
Net sales	$ 49,444,221	$ 47,621,804	$ 37,388,254
Cost of goods sold	39,019,224	35,182,059	27,554,623
GROSS PROFIT	10,424,997	12,439,745	9,833,631
Selling, general & administrative expenses	8,609,925	7,176,369	6,196,109
INCOME FROM OPERATIONS	1,815,072	5,263,376	3,637,522
Other income (expense):			
Interest income	163,368	92,926	85,236
Interest expense	(147,373)	(190,850)	(123,107)
Other, net	8,853	41,865	(14,592)
	24,848	(56,059)	(52,463)
EARNINGS BEFORE INCOME TAXES	1,839,920	5,207,317	3,585,059
Income taxes (Note H)	720,000	1,985,000	1,557,000
NET EARNINGS	$ 1,119,920	$ 3,222,317	$ 2,028,059
NET EARNINGS PER COMMON SHARE:			
Primary and fully diluted	$ 0.20	$ 0.58	$ 0.39

See accompanying notes to consolidated financial statements.

NATURAL ALTERNATIVES INTERNATIONAL, INC.
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
FOR THE YEARS ENDED JUNE 30, 1997, 1996 AND 1995

	Common Stock		Additional		Net Unrealized Gains	
	Shares	Amount	Paid-in Capital	Retained Earnings	(Losses) on Investments	Total
Balance at June 30, 1994	5,257,375	$ 52,574	$ 5,556,841	$ 5,650,717	($43,667)	$ 11,216,465
Issuance of common stock upon exercise of employee stock options	500	5	2,435	--	--	2,440
Income tax benefit from stock options exercised	--	--	1,000	--	--	1,000
Net unrealized gains on investments	--	--	--	--	3,808	3,808
Other (Note K)	--	--	26,483	--	--	26,483
Net earnings	--	--	--	2,028,059	--	2,028,059
Balance at June 30,1995	5,257,875	52,579	5,586,759	7,678,776	(39,859)	13,278,255
Issuance of common stock upon exercise of employee stock options	94,000	940	454,662	--	--	455,602
Income tax benefit from stock options exercised	--	--	178,775	--	--	178,775
Net unrealized gains on investments	--	--	--	--	24,637	24,637
Net earnings	--	--	--	3,222,317		3,222,317
Balance at June 30, 1996	5,351,875	53,519	6,220,196	10,901,093	(15,222)	17,159,586
Issuance of common stock upon exercise of employee stock options	77,889	779	369,630	--	--	370,409
Income tax benefit from stock options exercised	--	--	85,600	--	--	85,600
Net unrealized gains on investments	--	--	--	--	(36,028)	(36,028)
Net earnings	--	--	--	1,119,920	--	1,119,920
Balance at June 30, 1997	5,429,764	$ 54,298	$ 6,675,426	$ 12,021,013	($51,250)	$ 18,699,487

See accompanying notes to consolidated financial statements.

NATURAL ALTERNATIVES INTERNATIONAL, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 1997, 1996 AND 1995

	1997	1996	1995
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net earnings	$ 1,119,920	$ 3,222,317	$ 2,028,059
Adjustments to reconcile net earnings to net cash provided by operating activities:			
Bad debt expense	725,000	391,162	112,000
Tax benefit on option exercise	85,600	178,775	1,000

Depreciation and amortization	1,276,355	1,069,460	1,051,489
Deferred income taxes	(296,000)	(27,000)	99,000
Loss on disposal of assets	3,601	11,038	21,276
Gain on investments	--	(48,020)	--
Other	(18,105)	(32,005)	26,483
Changes in operating assets and liabilities:			
(Increase) decrease in:			
Accounts receivable	(1,747,544)	(686,338)	166,545
Inventory	708,742	(1,170,007)	(1,764,671)
Deposits	(221,756)	25,710	87,393
Tax refund receivable	(842,209)	--	257,917
Other assets	241,028	(12,673)	(81,900)
(Decrease) increase in:			
Accounts payable	3,249,101	(1,325,016)	498,361
Accrued compensation and employee benefits	40,997	(248,364)	243,083
Income taxes payable	(520,246)	(217,829)	738,075
Customer deposits	(2,606)	(27,801)	17,249
Net Cash Provided by Operating Activities	3,801,878	1,103,409	3,501,359
CASH FLOWS FROM INVESTING ACTIVITIES:			
Proceeds from sale of property and equipment	10,000	55,337	77,800
Proceeds from sale of investments	--	64,108	--
Capital expenditures	(2,236,165)	(2,064,524)	(1,773,362)
Capital expenditure-related party	--	(545,000)	
Investment purchases	(20,000)	(16,088)	(22,501)
Issuance of notes receivable	(183,909)	(60,605)	(26,475)
Repayment of notes receivable	109,262	135,259	112,256
Net Cash Used in Investing Activities	(2,320,812)	(2,431,513)	(1,632,282)

(continued)

NATURAL ALTERNATIVES INTERNATIONAL, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 1997, 1996 AND 1995

	1997	1996	1995
CASH FLOWS FROM FINANCING ACTIVITIES:			
Borrowings on lines of credit	$ 443,959	$ --	$ 650,000
Payments on line of credit	(443,959)	--	(500,000)
Payments on long-term debt and capital leases	(269,163)	(311,910)	(308,432)
Proceeds from long-term debt financing	--	545,000	--
Issuance of common stock	370,409	455,602	2,440
Net Cash Provided by (Used in) Financing Activities	101,246	688,692	(155,992)
Net Increase (Decrease) in Cash and Cash Equivalents	1,582,312	(639,412)	1,713,085
Cash and Cash Equivalents at Beginning of Year	1,887,427	2,526,839	813,754
Cash and Cash Equivalents at End of Year	$ 3,469,739	$ 1,887,427	$ 2,526,839
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:			
Cash paid during the year for:			
Interest	$ 147,373	$ 190,850	$ 123,107
Income Taxes	2,289,959	2,052,000	800,000
Disclosure of non-cash financing and investing activities:			
Issuance of note receivable on disposal of asset	$ --	$ 8,000	$ --
Assets acquired through debt financing	--	--	43,143
Notes payable refinanced with new debt	--	565,000	--
Conversion of accounts receivable to notes receivable	--	--	79,181
Conversion of other assets to notes receivable	--	1,500	38,175
Conversion of line of credit to notes payable	--	--	500,000
Conversion of inventory to notes receivable	--	--	80,108
Net unrealized gains (losses) on investments	(36,028)	24,637	3,808
Write-off of notes receivable through the allowance for doubtful accounts	15,504	62,790	13,000

See accompanying notes to consolidated financial statements.

NATURAL ALTERNATIVES INTERNATIONAL, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

A. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

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

Principles of Consolidation

The consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries: Millennium Health International, Inc. (formerly Pro-Lean, Inc. and prior to that Sonergy, Inc.), CellLife International, Inc. and CellLife Pharmaceuticals International, Inc., all of which had been administered and operated out of the Company's facilities. During fiscal 1997, the assets and liabilities of each of the subsidiaries were transferred to the Company and their operations were assumed by the Company. All significant intercompany accounts and transactions through the date of transfer have been eliminated.

Cash and Cash Equivalents

For purposes of the statements of cash flows, cash and cash equivalents include highly liquid investments purchased with an original maturity of three months or less.

Inventory

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

Property and Equipment

Property and equipment are stated at cost. Property and equipment under capital leases are recorded at the lower of fair market value or the present value of future minimum lease payments. These leases are amortized using the straight-line method over the shorter of the estimated useful life of the asset or the lease term. Depreciation and amortization of property and equipment are provided using the straight-line method over their estimated useful lives, generally ranging from 3 to 39 years. Leasehold improvements are amortized using the straight-line method over the shorter of the life of the improvement or the remaining term of the lease.

Impairment of Long-Lived Assets

The Company adopted the provisions of SFAS No. 121, Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of, on July 1, 1996. This Statement requires that long-lived assets and certain identifiable intangibles be 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. Adoption of the Statement did not have a material impact on the Company's financial position or results of operations.

(continued)

A. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments

Effective July 1, 1994, the Company adopted, on a prospective basis, Statement of Financial Accounting Standards No. 115, "Accounting for Certain Investments in Debt and Equity Securities." Prior to this, the Company carried its investments at the lower of cost or market. The Company's investments, which consist of equity securities, are classified as available for sale and are carried at fair value, with unrealized gains and losses excluded from earnings and reported as a separate component of stockholders' equity. Adoption of this statement had no material effect on the Company's consolidated financial statements.

Intangible Assets

Other non-current assets are composed of identifiable intangible assets including a customer list. The assets are amortized on a straight-line basis over five years. Accumulated amortization at June 30, 1997 and 1996 was $447,116 and $418,897, respectively.

Revenue Recognition

Revenue is recognized when products are shipped and title has transferred.

Marketing Costs

In order to attract and retain its customer base, the Company provides a wide range of marketing services to its customers. The Company does not generate fees or revenues from these services and the related costs are expensed as incurred.

Income Taxes

The Company accounts for income taxes using the asset and liability method in accordance with Statement of Financial Accounting Standards No. 109 "Accounting for Income Taxes." 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 income in the period that includes the enactment date.

Stock Option Plans

Prior to July 1, 1996, the Company accounted for its stock option plans in accordance with the provisions of Accounting Principles Board ("APB") Opinion No. 25, Accounting for Stock Issued to Employees, and related interpretations. As such, compensation expense would be recorded on the date of grant only if the current market price of the underlying stock exceeded the exercise price. On July 1, 1996, the Company adopted SFAS No. 123, "Accounting for Stock-Based Compensation" ("SFAS No. 123"), which permits entities to recognize as expense over the vesting period the fair value of all stock-based awards on the date of grant. Alternatively, SFAS No. 123 also allows entities to continue to apply the provisions of APB Opinion No. 25 and provide pro forma net earnings and pro forma net earnings per share disclosures for employee stock option grants made in fiscal 1996 and future years as if the fair-value-based method defined in SFAS No. 123 had been applied. The Company has elected to continue to apply the provisions of APB Opinion No. 25 and provide the pro forma disclosures required by SFAS No. 123.

(continued)

A. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fair Value of Financial Instruments

Because of their short maturities, the carrying amounts for cash and cash equivalents, accounts receivable, notes receivable, accounts payable, and accrued compensation and employee benefits approximate fair value. The carrying amounts for long-term debt approximate fair value as the interest rates and terms are substantially similar 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 generally accepted accounting principles. Actual results could differ from those estimates.

Net Earnings per Share

Primary earnings per share is computed based upon the weighted average number of shares outstanding during the period plus the dilutive effects of common shares contingently issuable from stock options and warrants. Fully diluted earnings per share reflect additional dilution related to common stock equivalents due to the use of the market price at the end of the period, when higher than the average price for the period. Common stock options and common stock purchase warrants are excluded from the computation of net earnings per share if their effect is anti-dilutive.

The weighted average number of shares outstanding and common stock equivalents are as follows:

	1997	1996	1995
Primary and fully diluted	5,640,311	5,585,442	5,257,865

Concentrations of Credit Risk

Financial instruments that subject the Company to concentrations of credit risk consist primarily of cash and accounts receivable. The Company places its cash investments with high credit qualified financial institutions. Credit risk with respect to receivables is concentrated with the Company's three largest customers (see Note L). These three customers' receivable balances collectively represent 44% and 54% of total accounts receivable at June 30, 1997 and 1996, respectively. Concentrations of credit risk related to the remaining accounts receivable balance are limited due to the large number of customers comprising the Company's remaining customer base and their dispersion across many different industries and geographies.

Reclassifications

Certain amounts in prior years' consolidated financial statements have been reclassified to conform to the 1997 presentation.

NATURAL ALTERNATIVES INTERNATIONAL, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

B. INVENTORY

Inventory, which includes labor and production overhead of $1,073,523 and $1,107,618 at June 30, 1997 and 1996, respectively, is comprised of the following at June 30:

	1997	1996
Raw materials	$2,747,451	$2,865,438
Work in progress	2,598,430	2,911,778
Finished goods	344,969	622,376
	$5,690,850	$6,399,592

C. PROPERTY AND EQUIPMENT

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

	Life Used For Depreciation	1997	1996
Land	NA	$392,600	$392,600
Building and building improvements	5 - 39 years	3,124,691	2,903,408
Machinery and equipment	3 - 15 years	7,649,609	6,139,145
Office equipment and furniture	5 to 7 years	2,103,479	1,845,083
Equipment under capital leases	5 Years	516,362	516,362
Vehicles	3 years	49,534	30,922
Leasehold improvements	5 to 39 years	268,968	92,198
Total property and equipment		14,105,243	11,919,718
Less accumulated depreciation and amortization		(5,845,538)	(4,641,640)

Property and equipment, net	$8,259,705	$7,278,078

At June 30, 1997 and 1996, accumulated depreciation and amortization includes $452,343 and $427,896, respectively, of amortization of capitalized leases. In June 1996, in connection with the acquisition of certain building suites (see Note K), the cost of related leasehold improvements was reclassified from leasehold improvements to building and building improvements.

D. INVESTMENTS

Investments consist of marketable securities. Securities held at June 30, 1997 and 1996 are considered "available for sale securities." Securities are valued at $58,862 and $74,890 as of June 30, 1997 and 1996, respectively. The security portfolio includes gross unrealized losses, net of tax, of $51,250 and $15,222 at June 30, 1997 and 1996, respectively.

E. LINE OF CREDIT AGREEMENTS

The Company has revolving lines of credit agreements permitting borrowings up to $3,000,000, which are secured by the Company's receivables, inventory, equipment, and vehicles and bear interest at the bank's prime rate, which was 8.25% at June 30, 1997. Advances against the revolving lines of credit cannot exceed 70% of eligible receivables. These agreements contain financial covenants concerning limitations on maintenance of debt, certain financial ratios and other matters. The lines of expire on December 5, 1997; management expects such lines to be renewed in the normal course of business. There were no amounts outstanding under these credit agreements at June 30, 1997 and 1996, respectively.

F. LONG-TERM DEBT

Long-term debt consisted of the following as of June 30:

	1997	1996
Note payable to bank, secured by building, interest at 8.25%, principal and interest payments of $10,769 monthly, due 2011	$1,066,644	$1,110,000
Note payable to bank, secured by UCC filing on receivables, inventory, equipment, and vehicles, interest at bank's prime plus .75%(an effective rate of 9.0% at June 30, 1997 and 1996), principal and payments of $10,417 monthly; due January 1999 in June 1997	197,907	312,494
Note payable to bank, paid in full in June 1997	---	88,360
	1,264,551	1,510,854
Less current installments	(164,266)	(234,736)

Long-term debt, less current installments	$1,100,285	$1,276,118
	==========	==========

Aggregate amounts of long-term debt maturities as of June 30, 1997 are as follows:

1998	$164,266
1999	119,086
2000	50,141
2001	54,438
2002	59,103
Thereafter	817,517

	$1,264,551
	==========

NATURAL ALTERNATIVES INTERNATIONAL, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

G. CAPITAL LEASE OBLIGATION

The Company leases certain equipment under capital leases, which expire during the next two years. The present values of the future minimum capital lease payments as of June 30 are as follows:

	1997	1996
Capital lease payable to AT&T Credit Corporation, secured by phone system, interest at 13%, principal and interest in monthly installments of $2,504 through May 1999	$ 55,078	$ 85,121
Other capital lease	--	780
	--------	--------
	55,078	85,901
Less amount representing interest	(6,276)	(14,239)
	--------	--------
Present value of net minimum lease payments	48,802	71,662
Less current installments	(25,189)	(22,860)
	--------	--------
Capital lease obligations - less current installments	$ 23,613	$ 48,802
	========	========

Future minimum annual lease payments under capital lease obligations at June 30, 1997 follow:

1998	$30,043
1999	25,035
Minimum lease payments	$55,078

NATURAL ALTERNATIVES INTERNATIONAL, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

H. INCOME TAXES

Income taxes consist of the following:

	Year Ended June 30		
	1997	1996	1995
Current:			
Federal	$ 850,000	$ 1,712,000	$ 1,129,000
State	166,000	300,000	329,000
	1,016,000	2,012,000	1,458,000
Deferred:			
Federal	(215,000)	(15,000)	66,000
State	(81,000)	(12,000)	33,000
	(296,000)	(27,000)	99,000
	$ 720,000	$ 1,985,000	$ 1,557,000

The provision (benefits) for deferred income taxes consists of the following:

	Year Ended June 30		
	1997	1996	1995
Accelerated depreciation and amortization for tax purposes	$ 95,000	$ 78,000	$ 54,000
Increase in valuation allowance	2,000	--	34,000
Accrued compensation	--	108,000	(68,000)
Inventory valuation reserve	(131,000)	(202,000)	--
Bad debt expense	(309,000)	(41,000)	(36,000)
Accrued vacation expense	(15,000)	(6,000)	(26,000)
Customer deposits	(1,000)	11,000	(6,000)
Write-down of investments	--	--	158,000

State income taxes	63,000	48,000	(34,000)
Other, net	--	(23,000)	23,000
	($296,000)	($ 27,000)	$ 99,000

(continued)

NATURAL ALTERNATIVES INTERNATIONAL, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

H. INCOME TAXES (continued)

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

	1997	1996
Deferred tax assets:		
Allowance for doubtful accounts	$436,000	$127,000
Accrued vacation expense	54,000	39,000
Customer deposits	--	1,000
Investment loss carryforward	36,000	34,000
State income taxes	25,000	88,000
Allowance for inventory valuation	333,000	202,000
Other, net	3,000	3,000
Total gross deferred tax assets	887,000	494,000
Less valuation allowance	36,000	34,000
Net deferred tax assets	851,000	460,000
Deferred tax liabilities:		
Accumulated depreciation and amortization	487,000	392,000
Net deferred tax asset	$364,000	$ 68,000

The valuation allowance for deferred tax assets was $36,000 and $34,000 at June 30, 1997 and 1996, respectively. In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. Management considers, among other things, the scheduled reversal of deferred tax liabilities, projected future taxable income, and other planning strategies. In making this assessment, management believes it more likely than not that the Company will realize the benefit of the deferred tax asset, net of the existing valuation allowance, at June 30, 1997.

(continued)

H. INCOME TAXES (continued)

A reconciliation of income taxes computed by applying the statutory federal income tax rate to earnings before income taxes is as follows:

	Year Ended June 30		
	1997	1996	1995
Income taxes computed at statutory federal income tax rate	$ 626,000	$ 1,770,000	$ 1,219,000
State income taxes, net of federal income tax benefit	56,000	190,000	224,000
Increase in valuation allowance	2,000	--	34,000
Adjustments for prior year tax estimates	--	--	60,000
Expenses not deductible for tax purposes	31,000	22,000	22,000
Other	5,000	3,000	(2,000)
Income taxes as reported	$ 720,000	$ 1,985,000	$ 1,557,000
Effective tax rate	39.1%	38.1%	43.4%

I. EMPLOYEE BENEFIT PLANS

The Company has a profit sharing plan pursuant to Section 401(k) of the Internal Revenue Code, whereby participants may contribute a percentage of compensation, but not in excess of the maximum allowed under the Code. All employees with twelve months and at least one thousand hours of service during the twelve-month period are eligible to participate in the plan. The Company may make contributions at the discretion of its Board of Directors. The Company contributed and expensed $114,206, $100,161 and $50,345 in 1997, 1996 and 1995, respectively.

The Company has a "Cafeteria Plan" pursuant to Section 125 of the Internal Revenue 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 $228,805, $217,375 and $194,087 for 1997, 1996 and 1995, respectively.

Effective January 1, 1997, the Company adopted a defined benefit pension plan (the "Plan") covering substantially all of its employees. The benefits are based on years of service and the employee's compensation during the five years before retirement. The Company will make annual contributions to the Plan equal to the maximum amount that can be deducted for income tax purposes.

(continued)

I. EMPLOYEE BENEFIT PLANS (continued)

The following table sets forth the plan's funded status and amount recognized in the Company's consolidated balance sheet at June 30, 1997.

Actuarial present value of benefit obligations:

Accumulated benefit obligation:	
Vested	$ 417,236
Non-vested	120,905
	$ 538,141
Projected benefit obligation	$ 1,207,944
Plan assets at fair value	0
Projected benefit obligation (in excess of) plan assets	1,207,944
Unrecognized net gain	3,753
Prior service cost not yet recognized in net periodic pension cost	(1,053,137)
Accrued pension cost	$ 158,560

Net pension cost for 1997 included the following components:

Service cost - benefits earned during the period	$ 91,934
Interest cost on projected benefit obligation	37,172
Actual return on plan assets	--
Net amortization and deferral	29,454
Net pension cost	$ 158,560

Assumptions used in accounting for the pension plan as of June 30, 1997 were as follows:

Discount rate	7.00%
Rates of increase in compensation levels	5.76%
Expected long-term rate of return on plan assets	7.50%

J. STOCKHOLDERS' EQUITY

Pursuant to a secondary offering in 1992, which generated net proceeds of $1,989,216, the Company issued common stock purchase warrants, which were exercised in 1994 generating net proceeds of $2,415,777.

Employee Stock Option Plans

Effective June 5, 1992, the Company adopted the 1992 Incentive Stock Option Plan for which 500,000 common shares 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. On September 9, 1993, 200,000 options were granted at the fair market value price of $4.875 per share.

(continued)

J. STOCKHOLDERS' EQUITY (continued)

Also effective June 5, 1992, the Company adopted the 1992 Nonqualified Stock Option Plan and reserved a total of 250,000 common shares for issuance to officers, employees, and consultants of the Company. On September 9, 1993, 250,000 options were granted at the fair market value price of $4.875 per share.

Effective December 9, 1994, the Board of Directors approved the 1994 Nonqualified Stock Option Plan for which 500,000 common shares were reserved for issuance to officers, employees, and consultants of the Company. On January 24, 1995, 500,000 options were granted at the fair market value price of $4.625 per share.

All stock options under each of the plans have five-year terms and all options became fully vested one year after their grant date.

Stock option activity during the periods indicated is summarized below:

	1992 Incentive Plan	1992 Nonqualified Plan	1994 Nonqualified Plan
Outstanding at June 30, 1994	198,584	242,416	--
Granted at $4.625 per share	--	--	500,000
Exercised	222	278	--
Outstanding at June 30, 1995	198,362	242,138	500,000
Exercised	74,360	8,640	11,000
Outstanding and exercisable at June 30, 1996	124,002	233,498	489,000
Exercised	27,833	12,556	37,500
Outstanding and exercisable at June 30, 1997	96,169	220,942	451,500
Weighted-average exercise price, June 30, 1997 and June 30, 1996	$ 4.875	$ 4.875	$ 4.625
Weighted-average remaining contractual life	One Year	One Year	Three Years
Available for grant at June 30, 1997	300,000	--	--

The Company applies APB Opinion No. 25 in accounting for its stock option plans as it relates to employee plans and, accordingly, no compensation cost has been recognized for its stock options in the financial statements. Under SFAS No. 123, options granted prior to the Company's 1996 fiscal year are not to be reflected in pro forma net earnings calculations. Since the Company has not granted any options since the beginning of the 1996 fiscal year, pro forma net earnings is not presented.

Other Stock Options

On January 24, 1995, the Board of Directors granted 100,000 options with an exercise price of $4.625 in exchange for consulting services and reserved 100,000 common shares. As of June 30, 1997, none of these options had been exercised or canceled. At June 30, 1997, the weighted-average remaining contractual life was three years.

On September 20, 1996, 45,000 options were granted pursuant to a consulting agreement at prices ranging from $9.00 to $15.00 per share. Consulting expense incurred as a result of these options was $84,000 for the year ended June 30, 1997. None of these options had been exercised as of June 30, 1997. At June 30, 1997, the weighted-average remaining contractual life was four years and the weighted-average exercise price was $12.00.

K. COMMITMENTS AND RELATED PARTY TRANSACTIONS

The Company leases part of its main facilities under leases that are classified as noncancelable operating leases.

Minimum rental commitments (exclusive of property tax, insurance and maintenance) under all noncancelable operating leases (with initial or remaining lease terms in excess of one year) are as follows:

1998	$137,306
1999	70,042
2000	60,492
2001	53,742
2002	9,228
	$330,810

Rental expense totaled $169,079, $193,340, and $209,735 for the years ended June 30, 1997, 1996 and 1995, respectively. These amounts include rental charges, pursuant to a lease agreement (the related party lease) with its two principal stockholders, Marie A. LeDoux and Mark A. LeDoux, of $55,000 for the year ended June 30, 1996 and $60,000 for the year ended June 30, 1995. Amounts paid under this agreement were $100,000 and $75,000 for the years ended June 30, 1996, and 1995, respectively. Amounts owed under the agreement were $0 and $45,000 for the years ended June 30, 1996 and 1995, respectively.

In June 1996, the Company acquired certain suites within a building occupied by certain of its offices and production facilities which, up to that time, were subject to the related party lease. The lease provided for rent payable in the amount of $60,000 per year. The purchase price of the building was $545,000 which, in the opinion of management and an independent certified appraiser who evaluated the property in April 1996, represented fair market value.

During 1997 and 1996, the Company had sales of $14,812 and $1,084,290, respectively, to a company in which a key employee and beneficial owner of 1% of the stock of the Company was formerly the president and part owner. The amount receivable from this company at June 30, 1997 was $775,302, and this amount has been fully reserved because the Company has determined the account to be doubtful of collection.

The Company entered into an agreement with the father-in-law and mother-in-law of the Chief Executive Officer of the Company in December, 1991, which provides commissions on sales to a particular customer. The agreement will expire in December, 2001. The commission equals 5% of sales, and is capped at $25,000 per calendar quarter, effective January 1, 1993. Amounts paid under this agreement were $100,000 for each of the years ended June 30, 1997, 1996 and 1995, respectively. There were no amounts owed under the agreement at June 30, 1997 or 1996.

During fiscal year 1993, the Company entered into an agreement that required future minimum royalty payments over the term of the contract, which expired December 31, 1996. Amounts paid under this agreement were $154,728 and $247,898 for the years ended June 30, 1997 and 1996, respectively. Amounts owed under the agreement were $0 and $21,297 at June 30, 1997 and 1996, respectively.

Included in notes receivable are notes from the Company's Chief Executive Officer and President. The balance of the notes, including accrued interest, was $74,444 and $89,824, respectively, as of June 30, 1997 and $70,119 and $84,606, respectively, at June 30, 1996.

(continued)

K. COMMITMENTS AND RELATED PARTY TRANSACTIONS (continued)

Additionally, during the year ended June 30, 1997, the Company made noninterest-bearing loans to the Chairman of the Board and the President in the amount of $50,000 and $13,802, respectively, bringing the aggregate amount of such loans to $219,012. Amounts owed on these loans, which are secured by proceeds from life insurance policies on their respective lives, were $150,000 and $100,000 for the Chairman of the Board and $69,012 and $55,210 for the President at June 30, 1997 and 1996, respectively.

In August 1997, the Company entered into a 15-year lease agreement under which the lessor is to construct a build-to-suit office and manufacturing facility in Carlsbad, California. The Company plans to move its administrative offices and expand its manufacturing capacity into these premises when the building is ready for occupancy, estimated to be in the latter half of calendar 1998. Annual lease payments, which will commence upon occupancy, are $1,222,000 and are subject to annual inflation adjustments. The Company has an option to acquire the facility during the sixth year of the lease.

During fiscal year 1995, the Company's Chief Executive Officer paid $26,483 for certain expenses on behalf of the Company. Also, the Company paid commissions during the years ended June 30, 1996 and 1995 in the amounts of $6,916 and $10,800, respectively, to the Chairman of the Board.

L. ECONOMIC DEPENDENCY

The Company had substantial sales to five separate customers during one or more of the periods shown in the following table. The loss of any of these customers could have an adverse impact on the Company's revenues and earnings in the short-term. Sales by customer, representing 10% or more of the respective year's total sales, are shown below by industry segment.

	1997		1996		1995	
Industry Segment	Sales by Customer	%(a)	Sales by Customer	%(a)	Sales by Customer	%(a)
Multi-level Distribution:						
Customer 1	$17,934,985	36%	$13,616,835	29%	$ 7,125,736	19%
Customer 2	6,851,560	14%	13,785,211	29%	12,167,095	33%
Customer 3	5,936,477	12%	(b)		(b)	
Customer 4	(b)		(b)		6,441,350	17%

	30,723,022	62%	27,402,046	58%	25,734,181	69%
Weight Loss:						
Customer 5	(b)		5,364,185	11%	3,889,860	10%
Total	$30,723,022	62%	$32,766,231	69%	$29,624,041	79%

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

Accounts receivable from these customers totaled $3,108,597 and $3,247,063 at June 30, 1997 and 1996, respectively.

NATURAL ALTERNATIVES INTERNATIONAL, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

M. CONTINGENCIES

The Company is involved in various claims and legal actions arising in the ordinary course of business. In the opinion of management, based in part on the advice of counsel, the ultimate disposition of these matters will not have a material adverse effect on the Company's consolidated financial position, results of operations or cash flows.

N. QUARTERLY DATA (unaudited)

The following is a summary of unaudited quarterly data:

	Year Ended June 30, 1997				
	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter	Total
Net sales	$ 11,437,022	$ 12,630,234	$ 11,406,325	$ 13,970,640	$ 49,444,221
Gross profit	3,260,640	3,215,954	2,866,067	1,082,336	10,424,997
Net earnings (loss)	900,373	849,292	560,637	(1,190,382)	1,119,920
Net earnings (loss) per common share:					
Primary and fully diluted	0.16	0.15	0.10	(0.22)	0.20

	Year Ended June 30, 1996				
	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter	Total
Net sales	$ 10,353,801	$ 11,753,954	$ 12,782,137	$ 12,731,912	$ 47,621,804
Gross profit	2,694,215	2,900,538	3,452,817	3,392,175	12,439,745
Net earnings	588,890	735,396	1,005,402	892,629	3,222,317
Net earnings per common share:					
Primary and fully diluted	0.11	0.13	0.18	0.16	0.58

SCHEDULE II

NATURAL ALTERNATIVES INTERNATIONAL, INC.
VALUATION AND QUALIFYING ACCOUNTS
FOR THE YEARS ENDED JUNE 30, 1997, 1996 AND 1995

Allowance for doubtful accounts	Balance at beginning of period	Expense	Deductions*	Balance at end of period
Year ended June 30, 1997	$ 319,000	$ 725,000	$ 38,000	$1,006,000
Year ended June 30, 1996	215,000	245,000	141,000	319,000
Year ended June 30, 1995	116,000	112,000	13,000	215,000

* Accounts written off

See accompanying independent auditors' report.

NATURAL ALTERNATIVES INTERNATIONAL, INC.

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

NATURAL ALTERNATIVES INTERNATIONAL, INC.
(Registrant)

Date: September 26, 1997 By: 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 the registrant and in the capacities and on the dates indicated.

Signature	Title	Date
Marie A. LeDoux --------------- (Marie A. LeDoux)	Chairperson of the Board, Secretary, and Director	September 26, 1997
Mark A. LeDoux -------------- (Mark A. LeDoux)	Chief Executive Officer and Director	September 26, 1997
William P. Spencer ------------------ (William P. Spencer)	President, and Chief Operating Officer, and Treasurer, and Chief Financial Officer, and Chief Accounting Officer, and Director	September 26, 1997
William R. Kellas ------------------- (William R. Kellas)	Director	September 26, 1997
Lee G. Weldon ------------------ (Lee G. Weldon)	Director	September 26, 1997

EXHIBIT INDEX

Exhibit 11 Re: Computation of Per Share Earnings

Exhibit 23 Re: Consent of KPMG Peat Marwick LLP

Exhibit 27 Re: Financial Data Schedule

EXHIBIT 11

NATURAL ALTERNATIVES INTERNATIONAL, INC.
STATEMENT RE: COMPUTATION OF PER SHARE EARNINGS

	From	To	Days Outstanding	Shares	Primary and Fully Diluted Weighted Average Shares Outstanding
Year Ended June 30, 1995:					
Beginning shares	7/1/94	6/30/95	365	5,257,375	5,257,375
Exercise of employee stock options	7/7/94	6/30/95	358	500	490
Ending shares				5,257,875	5,257,865
		Net earnings			$2,028,059
		Net earnings per share			$0.39
Year Ended June 30, 1996:					
Beginning shares	7/1/95	6/30/96	366	5,257,875	5,257,875
Exercise of employee stock options, by date:					
	8/21/95	6/30/96	315	1,500	1,291
	9/19/95	6/30/96	286	20,500	16,019
	11/9/95	6/30/96	235	15,000	9,631
	11/10/95	6/30/96	234	2,500	1,598
	3/25/96	6/30/96	101	1,000	276
	5/24/96	6/30/96	37	15,600	1,577
	6/5/96	6/30/96	25	12,900	881
	6/11/96	6/30/96	19	5,500	286
	6/14/96	6/30/96	16	14,000	612
	6/17/96	6/30/96	13	2,000	71
	6/21/96	6/30/96	9	2,000	49
	6/26/96	6/30/96	5	1,500	20
Dilutive effect of common stock equivalents: 946,500 stock options at average price per share	7/1/95	6/30/96	366	n/a	295,256
Ending shares				5,351,875	5,585,442
		Net earnings			$3,222,317
		Net earnings per share			$0.58

(continued)

EXHIBIT 11

NATURAL ALTERNATIVES INTERNATIONAL, INC.
STATEMENT RE: COMPUTATION OF PER SHARE EARNINGS (continued)

YEAR ENDED JUNE 30, 1997

	From	To	Days Outstanding	Shares	Primary and Fully Diluted Weighted Average Shares Outstanding
Beginning shares	7/1/96	6/30/97	365	5,351,875	5,351,875
Exercise of employee stock options, by date:					
	7/5/96	6/30/97	360	5,000	4,932
	7/22/96	6/30/97	343	4,000	3,759
	7/25/96	6/30/97	340	6,000	5,589
	8/7/96	6/30/97	327	2,000	1,792
	8/7/96	6/30/97	327	2,000	1,792
	8/13/96	6/30/97	321	5,000	4,397
	10/21/96	6/30/97	252	15,000	10,356
	11/4/96	6/30/97	238	1,000	652
	1/6/97	6/30/97	175	2,500	1,199
	2/7/97	6/30/97	143	2,000	784
	2/20/97	6/30/97	130	5,000	1,781
	3/6/97	6/30/97	116	3,000	953
	3/14/97	6/30/97	108	1,000	296
	3/18/97	6/30/97	104	1,500	427
	3/24/97	6/30/97	98	2,000	537
	4/15/97	6/30/97	76	20,000	4,164
	4/28/97	6/30/97	63	889	153
Dilutive effect of common stock equivalents: 868,611 stock options at average price per share	7/1/96	6/30/97	365	n/a	244,873
Ending shares				5,429,764	5,640,311
		Net earnings			$1,119,920
		Net earnings per share			$ 0.20

Exhibit 23

The Board of Directors
Natural Alternatives International, Inc.:

We consent to incorporation by reference in the registration statement (No. 33-00947) on Form S-8 of Natural Alternatives International, Inc. of our report dated September 18, 1997, relating to the consolidated balance sheets of Natural Alternatives International, Inc. and subsidiaries as of June 30, 1997 and 1996, and the related consolidated statements of earnings, stockholders' equity, and cash flows for each of the years in the three-year period ended June 30, 1997, and the related schedule, which report appears in the June 30, 1997, annual report on Form 10-K of Natural Alternatives International, Inc.

KPMG Peat Marwick LLP

San Diego, California
September 26, 1997

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This schedule contains summary financial information extracted from the audited consolidated financial statements for the year ended June 30, 1997, and is qualified in its entirety by reference to such financial statements.
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