

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

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(D) OF  
THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended September 30, 1995

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d)  
OF THE SECURITIES EXCHANGE ACT OF 1934

Commission file number 0-15701

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

Delaware  
(State or other jurisdiction of incorporation or organization)

84-1007839  
(IRS Employer Identification No.)

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

(619) 744-7340  
(Registrant's telephone number, including area code)

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                No              
-----                      -----

5,279,875

(Number of shares of common stock of the registrant outstanding as of October 31, 1995)  
</PAGE>

NATURAL ALTERNATIVES INTERNATIONAL, INC.

PART I - FINANCIAL INFORMATION

CONSOLIDATED BALANCE SHEETS - ASSETS

September 30, 1995	June 30, 1995
-----	-----

(Unaudited)

Current Assets:

Cash and cash equivalents	\$ 1,375,840	\$ 2,526,839
Accounts receivable - less allowance for doubtful accounts of \$199,000 at September 30, 1995 and \$215,000 at June 30, 1995	5,272,805	5,590,165
Inventory	6,638,559	5,229,585
Notes receivable - current portion	154,301	183,255
Deferred income taxes	141,000	326,000
Other current assets	893,984	867,085
	-----	-----
Total Current Assets	14,476,489	14,722,929
Property and equipment, at cost, less accumulated depreciation and amortization of \$3,864,000 at September 30, 1995 and \$3,698,000 at June 30, 1995	5,715,843	5,774,732
	-----	-----
Other Assets:		
Investments	58,768	50,254
Notes receivable, less current portion	336,108	365,871
Other non-current assets	269,341	279,994
	-----	-----
Total Other Assets	664,217	696,119
	-----	-----
TOTAL ASSETS	\$20,856,549	\$21,193,780
	=====	=====

(continued)

<\page>

NATURAL ALTERNATIVES INTERNATIONAL, INC  
PART I - FINANCIAL INFORMATION

CONSOLIDATED BALANCE SHEETS (continued)

LIABILITIES AND STOCKHOLDERS' EQUITY

	September 30, 1995	June 30, 1995
	-----	-----
	(Unaudited)	
Current Liabilities:		
Accounts payable	\$ 4,897,537	\$ 4,974,845
Current installments of long-term debt	200,567	213,812
Current installments of capital lease obligations	21,450	20,786
Accrued compensation and employee benefits	136,795	528,704
Income taxes payable	204,575	738,075

Other current liabilities	37,378	39,475
	-----	-----
Total Current Liabilities	5,498,302	6,515,697
Deferred income taxes	283,000	285,000
Long-term debt, less current installments	977,840	1,043,179
Capital lease obligations, less current installments	65,998	71,649
	-----	-----
Total Liabilities	6,825,140	7,915,525
	-----	-----
Stockholders' Equity:		
Preferred stock; \$.01 par value; 500,000 shares authorized; none issued or outstanding	---	---
Common stock; \$.01 par value; 8,000,000 shares authorized; issued and outstanding 5,279,875 at September 30, 1995 and 5,257,875 at June 30, 1995	52,799	52,579
Additional paid-in capital	5,742,289	5,586,759
Retained earnings	8,267,666	7,678,776
Net unrealized losses on investments	(31,345)	(39,859)
	-----	-----
Total Stockholders' Equity	14,031,409	13,278,255
	-----	-----
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$20,856,549	\$21,193,780
	=====	=====

See accompanying notes to consolidated financial statements  
<\PAGE>

NATURAL ALTERNATIVES INTERNATIONAL, INC.  
PART I - FINANCIAL INFORMATION

CONSOLIDATED STATEMENTS OF OPERATIONS

	For the Three Months Ended September 30	
	(Unaudited)	
	1995	1994
	----	----
Net sales	\$10,353,801	\$ 5,873,747
Cost of goods sold	7,659,586	4,169,537
	-----	-----
GROSS PROFIT	2,694,215	1,704,210
Selling, general & administrative expenses	1,717,545	1,501,234
	-----	-----
OPERATING INCOME	976,670	202,976
	-----	-----
Other income (expense):		
Interest income	26,789	17,813
Interest expense	(28,279)	(24,938)
Other, net	2,710	(678)
	-----	-----
	1,220	(7,803)
	-----	-----
EARNINGS BEFORE INCOME TAXES	977,890	195,173
Income taxes	389,000	85,000
	-----	-----
NET EARNINGS	\$ 588,890	\$ 110,173
	=====	=====

NET EARNINGS PER COMMON SHARE:

Primary	\$ .11	\$ .02
	====	====
Fully Diluted	\$ .11	\$ .02
	====	====

See accompanying notes to consolidated financial statements

<\PAGE>

NATURAL ALTERNATIVES INTERNATIONAL, INC.  
PART I - FINANCIAL INFORMATION

CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY (Unaudited)

	Common Shares	Stock Amount	Additional Paid-in Capital	Retained Earnings	Net Unrealized Losses	Total
	-----	-----	-----	-----	-----	-----
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 for employee stock options	22,000	220	107,740	---	---	107,250
Income tax benefit from employee stock options	---	---	48,500	---	---	48,500
Net unrealized gains on investments	---	---	---	---	8,514	8,514
Net earnings	---	---	---	588,890	---	588,890
Balance at September 30, 1995	5,279,875	\$ 52,799	\$ 5,742,289	\$ 8,267,666	\$ (31,345)	\$ 14,031,409

See accompanying notes to consolidated financial statements

<\PAGE>

NATURAL ALTERNATIVES INTERNATIONAL, INC.  
PART I - FINANCIAL INFORMATION

CONSOLIDATED STATEMENTS OF CASH FLOWS

	For the Three Months Ended September 30	
	-----	
	(Unaudited)	
	1995	1994
	----	----
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net earnings	\$ 588,890	\$ 110,173
Adjustments to reconcile net earnings to net cash provided by (used in) operating activities:		
Bad debt expense	47,000	40,802
Tax benefit on option exercise	48,500	1,000
Depreciation and amortization	249,157	245,592
Deferred income taxes	183,000	133,000
Gain on disposal of assets	(2,497)	---

Changes in operating assets and liabilities:

(Increase) decrease in:		
Accounts receivable	333,150	3,283,254
Inventory	(1,408,974)	(1,432,458)
Prepaid taxes	---	(49,000)
Other assets	(25,660)	191,682
(Decrease) increase in:		
Accounts payable	(77,308)	(1,357,482)
Accrued compensation and employee benefits	(391,909)	(116,173)
Income taxes payable	(533,500)	---
Other current liabilities	(2,097)	5,956
	-----	-----
Net Cash Provided by (Used in) Operating Activities:	(992,248)	1,056,346
	-----	-----

CASH FLOWS FROM INVESTING ACTIVITIES:

Proceeds from sale of investments	17,000	---
Investments	(11,000)	---
Proceeds from sale of property and equipment	53,837	---
Capital expenditures	(246,194)	(956,360)
Issuance of notes receivable	(21,502)	(13,550)
Repayment of notes receivable	25,429	14,219
	-----	-----
Net Cash Used in Investing Activities	(182,430)	(955,691)

(continued)

<\PAGE>

NATURAL ALTERNATIVES INTERNATIONAL, INC.  
PART I - FINANCIAL INFORMATION

CONSOLIDATED STATEMENTS OF CASH FLOWS (continued)

	For the Three Months Ended September 30	
	----- (Unaudited)	
	1995	1994
CASH FLOWS FROM FINANCING ACTIVITIES:		
Payments on line of credit	\$ ---	\$ (350,000)
Payments on long-term debt and capital leases	(83,571)	(38,306)
Proceeds from issuance of common stock	107,250	2,440
	-----	-----
Net Cash Used in Financing Activities	23,679	(385,866)
Net Decrease in Cash and Cash Equivalents	(1,150,999)	(285,211)
Cash and Cash Equivalents at Beginning of Period	2,526,839	813,754
	-----	-----
Cash and Cash Equivalents at End of Period	\$1,375,840	\$ 528,543
	=====	=====

See accompanying notes to consolidated financial statements

</PAGE>

NATURAL ALTERNATIVES INTERNATIONAL, INC.  
PART I - FINANCIAL INFORMATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 - BASIS OF PRESENTATION

The accompanying unaudited consolidated financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments, consisting of a normal recurring nature considered necessary for a fair presentation, have been included. It is suggested that these consolidated financial statements be read in conjunction with the financial statements and notes thereto included in the Company's annual report on Form 10-K for the year ended June 30, 1995. The results of operations for the periods ended September, 1995 and 1994 are not necessarily indicative of the operating results for the full year.

Certain amounts in prior period financial statements have been reclassified to conform to the current period financial statements.

NOTE 2 - PRINCIPLES OF CONSOLIDATION

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries, Pro-Lean, Inc. (formerly Sonergy, Inc.), CellLife International, Inc. and CellLife Pharmaceuticals International, Inc. All significant intercompany accounts and transactions have been eliminated.

NOTE 3 - INVENTORIES

Inventories are comprised of:

	September 30, 1995	June 30, 1995
	-----	-----
Raw materials	\$ 3,207,512	\$ 2,419,083
Work in process	2,828,276	2,240,173
Finished goods	602,771	570,329
	-----	-----
	\$ 6,638,559	\$ 5,229,585
	=====	=====

</PAGE>

NATURAL ALTERNATIVES INTERNATIONAL, INC.  
PART I - FINANCIAL INFORMATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

NOTE 4 - NET EARNINGS PER SHARE

Primary earnings per share is computed based upon the weighted average number of shares outstanding during the period plus (in periods in which they have a dilutive effect) the effect of common shares contingently issuable from stock options. 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.

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

	For the Three Months Ended September 30,	
	1995	1994
	-----	-----
Primary	5,539,187	5,257,837
Fully Diluted	5,593,334	n/a

NOTE 5 - MAJOR CUSTOMERS

The Company had substantial sales to four customers for the three months ended September 30, 1995 and 1994, respectively. The loss of any of these customers would have an adverse impact on the Company's revenues and earnings in the short-term. Sales to these customers were as follows:

	Three Months Ended September 30,			
	1995		1994	
	-----	-----	-----	-----
Industry Segment	Total Revenue	% of Total Revenue	Total Revenue	% of Total Revenue
Weight Loss & Nutrition	\$1,078,030	10%	\$ 774,552	13%
Multi-level Distribution	6,328,131	61%	4,125,941	70%
	-----	----	-----	----
Totals	\$7,406,161	71%	\$4,900,493	83%
	=====	====	=====	====

</PAGE>

NATURAL ALTERNATIVES INTERNATIONAL, INC.  
PART I - FINANCIAL INFORMATION

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION  
AND RESULTS OF OPERATIONS

RESULTS OF OPERATIONS

FIRST QUARTER OF FISCAL 1995 AND 1994

The Company's consolidated revenues for the quarter ending September 30, 1995, amounted to \$10.4 million, an increase of \$4.5 million from the \$5.9 million generated during the quarter ending September 30, 1994. The 76% increase in revenue is directly attributable to increases in sales from new and existing customers, with 65% of the entire increase being attributable to new customers acquired during the fourth quarter of fiscal 1995.

On an unconsolidated basis, Natural Alternatives reported revenues of \$9.9 million for the quarter ending September 30, 1995, compared to \$5.3 million for the quarter period ending September 30, 1994, an 87% increase. The Company's wholly-owned subsidiaries Pro-Lean, Inc. (Pro-Lean) and CellLife International, Inc. (CellLife) generated sales of \$.5 million and \$.4 million, respectively, for the quarter ending September 30, 1995, compared to \$.4 million and \$.3 million for the quarter ending September 30, 1994.

The Company's gross margins decreased to 26.0%, a historically normal margin, for the quarter ending September 30, 1995, compared to a relatively high level of 29.0% for the quarter ending September 30, 1994. The decrease in margins was due to a normal sales mix for the quarter ending September 30, 1995, as compared to an unusually high profit sales mix for the quarter ending September 30, 1994. Gross profits increased in real dollars by \$990,000, or 58.1% as a result of the 76% increase in sales. Consolidated selling, general and administrative expenses as a percentage of revenues were 16.7% during the quarter ending September 30, 1995, compared to 25.6% for the quarter ending September 30, 1994, with the decrease being attributable to

both sales growth and more effective means of controlling costs.

Net earnings for the quarter ending September 30, 1995, amounted to \$.6 million, a \$.5 million increase from the \$.1 million in net income produced for the quarter ending September 30, 1994. The increase in net earnings was due primarily to the 58.1% increase in gross profit, noted above, while selling, general and administrative expenses increased by just 14.4%. Primary earnings per share for the quarter ending September 30, 1995, was \$.11 compared to \$.02 for the quarter ending September 30, 1994. The increase was due to the reasons discussed above and was only slightly impacted by the increase in the Company's weighted average number of shares outstanding and the dilutive effect of common stock equivalents on the current quarter.

On an unconsolidated basis for the quarter ending September 30, 1995, Natural Alternatives reported net earnings of \$.6 million compared to \$.2 million for the quarter ending September 30, 1994. Pro-Lean reported a net loss of \$.1 million for each of the quarters ending September 30, 1995 and 1994. CellLife reported a break even position for each of the quarters ending September 30, 1995 and 1994.

</PAGE>

NATURAL ALTERNATIVES INTERNATIONAL, INC.  
PART I - FINANCIAL INFORMATION

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION  
AND RESULTS OF OPERATIONS

LIQUIDITY AND CAPITAL RESOURCES

At September 30, 1995, the Company had working capital of \$8,978,187 compared to \$8,207,232 as of June 30, 1995. The working capital item which represented the most significant increase was inventory with a partially offsetting decrease in cash. Inventory levels at September 30, 1995, compared to sales, increased moderately relative to historical levels, due principally to broader stocking requirements to cover additional products for new and existing customers.

The Company has purchase commitments approximating \$400,000 for additional production equipment which is expected to be placed in service in the third quarter. The Company will also be expending approximately \$125,000 in the second quarter for leasehold improvements to expand office facilities. These expenditures are expected to be funded from a combination of cash flow from operating activities and draws on the Company's lines of credit.

The company has entered into an agreement with its two principal stockholders, Marie A. LeDoux and Mark A. LeDoux, to acquire for \$545,000 the offices and production facilities which the Company is presently leasing from them. The properties have been independently appraised at \$580,000. The company expects to fund the acquisition through conventional mortgage financing and to consummate the transaction during the third quarter.

The Company believes it has sufficient sources of funds to finance its ongoing operations and meet its capital asset purchases, as well as future growth through a combination of internally generated cash flow, revolving lines of credit and equipment financing. The Company has revolving line of credit agreements permitting borrowings up to \$3,000,000, which are secured by business assets and bear interest at rates ranging from the bank's prime rate to 1/2 percent over the bank's prime rate. The bank's prime rate at September 30, 1995 was 9.0%. The lines of credit expire on December 1, 1995; management expects such lines to be renewed in the normal course of business. As of September 30, 1995 and June 30, 1995, there were no borrowings under these credit lines.

</PAGE>

NATURAL ALTERNATIVES INTERNATIONAL, INC.  
PART II - OTHER INFORMATION

ITEM 1. 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 impact on the Company's consolidated financial position, operations or cash flows.

ITEM 2. CHANGES IN SECURITIES

None.

ITEM 3. DEFAULTS BY THE COMPANY ON ITS SENIOR SECURITIES

None.

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

None.

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits: The following exhibits are filed herewith:

- 11.1. Computation of per share earnings for the quarter ended September 30, 1995.
- 11.2. Computation of per share earnings for the quarter ended September 30, 1994.

(b) No reports on Form 8-K were filed during the quarter ended September 30, 1995.

</PAGE>

SIGNATURES

Pursuant to the requirements 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.

:/s MARK A. LE DOUX Date: November 7, 1995  
-----  
President

:/s WILLIAM P. SPENCER Date: November 7, 1995  
-----  
Executive Vice President

</PAGE>

NATURAL ALTERNATIVES INTERNATIONAL, INC.

STATEMENT RE: COMPUTATION OF PER SHARE EARNINGS  
(unaudited)

For the Three Months Ended September 30, 1995

	Outstanding		Days Out- stand- ing	Shares	Primary	Fully Diluted
	From	To			Weighted Average Shares Outstanding	Weighted Average Shares Outstanding
	----	--	---	-----	-----	-----
Beginning shares	07/01/95	09/30/95	92	5,257,875	5,257,875	5,257,875
Dilutive effect of common stock equivalents:						
At average price per share					278,209	
At closing price per share						332,356
Exercise of employee stock options	08/21/95	09/30/95	40	1,500	652	652
Exercise of employee stock options	09/19/95	09/30/95	11	20,500	2,451	2,451
Ending shares				5,279,875	5,539,187	5,593,334
Net Earnings					\$ 588,890	\$ 588,890
Net Earnings Per Share					=====	=====
					\$ .11	\$ .11
					=====	=====

</page>  
</document>

## NATURAL ALTERNATIVES INTERNATIONAL, INC.

STATEMENT RE: COMPUTATION OF PER SHARE EARNINGS (continued)  
(unaudited)

For the Three Months Ended September 30, 1994

	Outstanding -----		Days Out- stand- ing	Shares	Weighted Average Shares Outstanding -----
	From ----	To --	---	-----	
Beginning shares	07/01/94	09/30/94	92	5,257,375	5,257,375
Exercise of employee stock options	07/07/94	09/30/94	85	500	462
Ending shares				5,257,875	5,257,837
Net Earnings					\$ 110,173
					=====
Net Earnings Per Share					\$ .02
					=====