

NATURAL ALTERNATIVES INTERNATIONAL, INC.



**Annual Report 2000**



#### MILESTONES

- Successful start-up of our new Swiss manufacturing facility.
- Expanded our capabilities with the installation of an in-house packaging facility.
- Diversified our sales channels with the launch of our first direct-to-consumer physician branded product line.
- Improved our long-term financial position through the termination of the Carlsbad lease obligation and the realignment of our operating structure.

## DEAR SHAREHOLDERS,

The past year has been a time of repositioning Natural Alternatives International. We are taking the necessary steps to return NAI to profitability. We recognize certain challenges remain. However, as a management team, it is our priority to bring NAI to the forefront of our industry, where the science of nutrition gets down to business.

### CORPORATE GOALS

This year we strengthened our board, management team and manufacturing capabilities for future growth and earnings. We made critical changes to achieve our corporate goals, including diversifying our revenue base; improving quality control and customer service; and restoring our financial position.

**“Where the science  
of nutrition gets  
down to business.”**

We opened a new facility in Switzerland, introduced a direct-to-consumer physician’s branded product line, enhanced production capabilities for better efficiency and control, instituted higher levels of quality control and developed a profit restoration plan. We believe these initiatives position NAI to meet its goals of reducing overall costs, diversifying revenues, and increasing the efficiency of operations, bringing us closer to profitability. We are now positioned to focus our resources on our core business; expanding our customer base, streamlining expenses, and expand-

ing new channels of distribution, while continuing to produce innovative customized nutritional supplements for the benefit of people around the world.

### ADDRESSING CHALLENGES

In response to losing a major customer in December 1999, NAI initiated a cost containment program in January 2000 aimed at reducing overall company expenses. After much deliberation, we aggressively reduced executive compensation and cut the work force by 47% to a level commensurate with our current operating levels. These cost containment initiatives, completed in May 2000, substantially reduced our compensation expenses and were an integral part of our profit restoration plan.

Additionally, in an effort to strengthen our balance sheet, we terminated our long-term lease obligation for the Carlsbad office and manufacturing facility in June 2000. Initially, we subleased the entire premises for five years. Shortly thereafter, we completed a buyout of the 15-year lease obligation from the landlord. The agreement provided for the sale of our leasehold interests to the landlord for essentially the same cost of performing our obligations pursuant to the sublease agreements. The buyout terminated NAI’s interests and obligations in the facility that extended beyond the subleases, saving NAI occupancy costs of approximately \$1.5 million per year and the risk of continuing to sublease the premises over the remaining life of the lease. This transaction eliminated a significant financial burden to NAI.





**“We believe the ability to offer in-house packaging will help control and reduce manufacturing costs, improve inventory and quality control, simplify production logistics and provide more dependable customer service.”**

#### **BUILDING NAI GLOBALLY**

In September 1999, we opened Natural Alternatives International Europe S.A. (NAIE) in Switzerland to diversify our geographic presence and sales channels globally. NAIE is a full-service operation that includes a complete manufacturing plant, testing laboratory, packaging facility, warehouse and local administration. Over the last six months, NAIE has been profitable and sales are continually growing. We are proud of this achievement for a \$1.5 million investment to date.

In addition to our European expansion, the development of a sales presence in Japan has facilitated NAI's ability to offer products to the Asian markets. In Japan, NAI has established an excellent reputation as one of the first companies authorized to introduce encapsulated nutritional supplements.

#### **EXPANDING OUR CAPABILITIES**

In March 2000, we completed our Vista, California manufacturing expansion initiatives including warehousing, distribution, weighing and blending operations. Additionally, we installed a new state-of-the-art finished goods packaging facility. This new capability substantially eliminates the need to use outside packaging services for finished goods manufactured by NAI. We believe the ability to offer in-house packaging will help control and reduce manufacturing costs, improve inventory and quality control, simplify production logistics and provide more dependable customer service. The Vista facility enables us to package tablets, capsules, powders, blister cards, and packettes. These improvements increase our capacity and efficiency levels, reduce manufacturing costs, streamline production logistics and enable us to deliver products to our clients in a more

timely and cost-effective manner. We believe this \$2 million dollar investment in integrated packaging capabilities will realize several million dollars in annual savings, plus additional soft cost savings in quality and inventory control, as well as in providing dependable customer service.

#### **MAINTAINING STRINGENT STANDARDS**

In October 1999, the prestigious Therapeutic Goods Administration of Australia (TGA) certified NAI's encapsulating and tableting operations. In March 2000, NAI was re-certified TGA compliant in all areas including its new packaging operations. The TGA evaluates new therapeutic products, prepares standards, develops testing methods and conducts testing programs to ensure that products are high quality, safe and effective.

During the past year, NAI also passed Good Manufacturing Practices audit compliances by certain of its current and prospective customers. Adherence to these stringent standards ensures standardized manufacturing and quality in all products manufactured and sold worldwide. Compliance with GMP standards facilitates access to over 30 countries around the world, greatly enhancing the ease with which registration and sales into key global markets can be achieved.



**NAI is certified TGA compliant in all manufacturing areas including its new packaging operations. Additionally, NAI meets all Good Manufacturing Practices (GMP) audit compliances which ensures standardized manufacturing and quality in all products sold worldwide. Compliance with GMP facilitates access to over 30 countries all around the world.**



## **DIVERSIFYING CORE BUSINESS**

Over the past year, we diversified NAI's sales channels and implemented new growth strategies to further develop our core customer base. These channels include: fitness and health clubs; physician branding; direct mail; E-Commerce; as well as traditional methods of retail and direct sales.

In November 1999, NAI entered into a joint venture agreement with Fitness Age, Inc., a company in San Diego, working to develop novel fitness assessment measurement software for both consumers and healthcare professionals. Jointly we created a new company, Custom Nutrition LLC, where NAI has a 40% equity interest in the operating profits derived from the retail revenues of mass customized nutritional supplements anticipated to be marketed in health and fitness markets, E-Commerce and other consumer health channels. NAI is also the exclusive supplier to this new company.

In March 2000, NAI launched its first direct-to-consumer physician-branded product line, licensed

exclusively from Dr. Reginald Cherry M.D., offering an innovative basic nutritional support product through television and direct sales mailings. NAI will be formulating additional physician-branded lines and is seeking to expand its customized line of products sold through direct-to-consumer channels in the upcoming year.

## **NEW MANAGEMENT TEAM**

NAI's management team was strengthened this year with the addition of Peter C. Wulff as our CFO and Treasurer in November 1999. We also welcomed Joe E. Davis as a new member of the Board of Directors in February 2000. Mr. Davis replaced Bill Kellas who resigned in November 1999 after providing many years of service to NAI.

We remain dedicated to providing innovative, high quality products and services to our esteemed clients and the consumer. We believe the many changes to NAI's foundation and infrastructure over the past year will position us for profitability. We appreciate your continued confidence, support and patience.



**NAI Management Team: (left to right) David Lough, Peter Wulff, Doug Flaker, John Wise.**



Sincerely,

MARK A. LE DOUX  
FOUNDER, PRESIDENT AND CHIEF EXECUTIVE OFFICER

## **BOARD OF DIRECTORS**

**Mark A. LeDoux, J.D.**  
Founder, President and Chief Executive Officer

**Marie A. LeDoux**  
Director

**Joe E. Davis**  
Director

**J. Scott Schmidt**  
Director

**Lee G. Weldon**  
Director

## **MANAGEMENT**

**Mark A. LeDoux, J.D.**  
Founder, President and Chief Executive Officer

**Peter C. Wulff**  
Chief Financial Officer and Treasurer

**R. David Lough**  
Executive Vice President

**Dr. John A. Wise, Ph.D.**  
Vice President, Science and Technology

**Douglas E. Flaker**  
Vice President, Marketing

**Robert K. Clausen**  
Vice President, Operations

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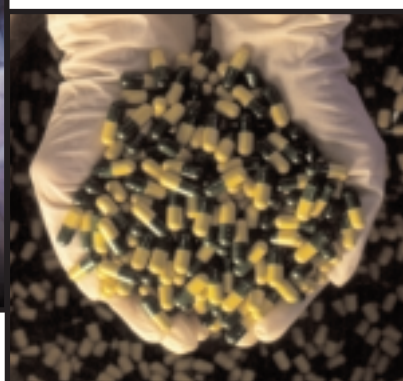
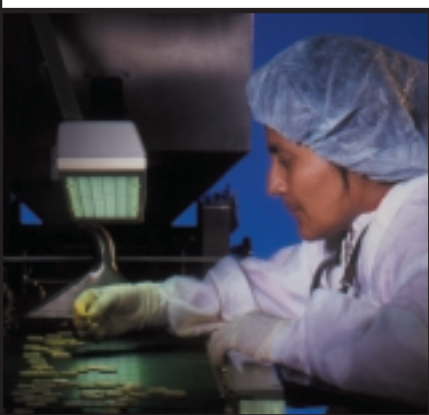
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## **INVESTOR AND PUBLIC RELATIONS**

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*NAI<sup>®</sup>, NAIE<sup>™</sup> are registered trademarks of Natural Alternatives International, Inc.*

*This report includes forward-looking statements that reflect management's current views of future events. Actual results may differ materially from the forward-looking statements due to a number of important factors described in the most recent Forms 10-K and 10-Q.*



# NAI

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