

**NATURAL ALTERNATIVES INTERNATIONAL, INC.  
CODE OF BUSINESS BEHAVIOR AND CONDUCT**

**Policy Statement:**

It is the policy of Natural Alternatives International, Inc. (“NAI” or the “Company”) to conduct its business ethically. The Company believes it is responsible to its employees and directors, its clients, its shareholders, and the community to follow corporate supported guidelines and demonstrate ethical behavior in all areas of business operations. NAI policies and procedures are intended to reflect the Company’s commitment to equal employment opportunity, legal compliance, fair business practices, a healthy and safe work environment, and distribution of quality nutritional supplements which can improve the quality of life for the ultimate consumer.

**Code of Conduct:**

All employees, including but not limited to managerial, clerical, operational, supervisory and executives, and all directors are held accountable for abiding by the standards which apply within the Company. The Company’s Code of conduct is based upon the following three (3) general principals:

- 1) **Compliance with the Law.** The Company and its employees and directors will abide by the letter and the spirit of all applicable laws and regulations, and in addition will act in such a manner that the full disclosure of all facts related to any corporate activity will always reflect favorably upon the Company.
- 2) **Adherence to High Ethical Standards.** The Company and its employees and directors will adhere to the highest ethical standards of conduct in all business activities, and will act in a manner that enhances the Company’s standing as a vigorous and ethical competitor within the business community.
- 3) **Responsible Business Citizenship.** The Company and its employees and directors will act as responsible citizens in the communities where the Company does business.

The following specific issues are not meant to be totally inclusive or to cover all aspects of Company and employee and director conduct. It is intended to illustrate application of the three (3) controlling principles to commonly occurring situations. Violation of these guidelines is an activity outside the scope of employment of any Company employee and may result in disciplinary action up to and including termination.

**I. Internal Accounting Controls**

Internal accounting controls have been established to manage the Company’s financial transactions. The Company adopted these controls to satisfy internal needs, and to assure compliance with generally accepted accounting principles, the guidelines of the Financial Accounting Standards Board, and the requirements of applicable laws and regulations.

## **A. Foreign Corrupt Practices Act - Description and Anti-bribery Provisions**

The Foreign Corrupt Practices Act (“FCPA”) became U.S. federal law in 1977. It applies to U.S. individuals, companies, and businesses, including their controlled international subsidiaries.

The FCPA has two basic parts: (1) the anti-bribery provisions and (2) accounting and record-keeping requirements. The anti-bribery section prohibits payment of a bribe to a non-U.S. official or non-U.S. political party, party official, or candidate for political office. The FCPA defines a bribe as anything of value given or offered to a non-U.S. official for the purpose of influencing an act or decision to obtain, retain, or direct business. Anything of value can include things other than cash.

Despite the reference to “foreign” practices, the FCPA’s accounting and record-keeping provisions apply to domestic and international operations of publicly traded U.S. companies. These rules originally were intended to prevent the creation of unreported slush funds or illegal payments to non-U.S. officials. But the government also uses them to challenge a wide range of record-keeping practices unrelated to illegal payments or non-U.S. operations.

While the FCPA’s accounting provisions basically restate generally accepted accounting principles, it is important to understand that strict accuracy in documentation and reporting is required. These provisions can be interpreted to include relatively small sums from petty cash funds.

The Company is committed to compliance with all applicable laws and employees and directors are prohibited from using any corporate funds or assets for any unlawful purpose.

Any director, officer, employee or agent of the Company, or any stockholder acting on behalf of the Company, who is convicted of violating the FCPA is subject to substantial fines and/or imprisonment. If convicted, the Company is also subject to substantial fines.

## **B. Foreign Corrupt Practices Act - Internal Control Guidelines**

The Company has established systems, controls, and records for authorizing, executing, and recording transactions involving assets and liabilities. The Company also controls access to assets and periodically reconciles recorded and existing assets. The following is a summary of some of the more significant internal policies and controls:

1. **Compliance.** No officer, director, employee, or other person acting on behalf of the Company will engage in any activity that circumvents the Company’s systems of internal controls, or results in any misrepresentation of or material omission from the Company’s financial reports.

2. **Illegal Payments.** No officer, director, employee, or other person acting

on behalf of the Company will in any way offer, make or cause to be offered or made an illegal payment, contributions, or gift of any kind.

3. **Cash Disbursements.** Company policy prohibits cash disbursements except for nominal amounts drawn from established and properly recorded petty cash accounts. All checks will be drawn only to the ultimate payee. No checks will be made payable to cash or bearer. Exceptions can be made to this policy but only with the prior approval of the Company's Chief Financial Officer, and Controller.

4. **Use of Company Assets.** Use of a company credit card or any other form of company assets, credit or funds by an employee or director for personal expenditures is prohibited.

5. **Consulting Services and Review Procedures.** Problems relating to the FCPA are most likely to occur in the use of consultants who perform services outside the United States. For this reason, the Company has adopted mandatory procedures which must be followed before a consultant can be retained. A "consultant" is any person or entity that provides business, professional, or technical advice to the Company or that facilitates relationships between the Company and any other person.

A consultant cannot be hired without the prior approval of the Company's Chief Executive Officer, and the President, or the prior approval of the Board of Directors, unless the services being provided will be performed solely in the United States or Canada. Before this approval will be granted, the proposed written contract must be submitted and an a reasonable inquiry conducted to confirm the consultant is not a government official, and has the skill and experience to perform the desired services.

6. **Reporting and Review Procedure.** Any officer, director, employee, or other agent of the Company who thinks a transaction may be illegal must report this to the Company's President. If the President or the reporting person believes a review of the transaction is necessary, either may request such a review by writing to the Board of Directors.

When a review is requested, the acting chairman of the Board of Directors will inform management and those involved in the transaction that the transaction cannot proceed until the issue has been resolved. The Board will then proceed with the review.

All appropriate persons, including the reporting individual, will be informed as to how the issue is resolved. If the review procedure results in a favorable decision, the transaction may proceed.

## II. Antitrust

Antitrust laws are designed to preserve and foster fair and honest competition within the free enterprise system. To accomplish this goal, the language of these laws is deliberately broad, prohibiting such activities as “unfair methods of competition” and agreements “in restraint of trade.” Such language gives enforcement agencies the right to examine many different business activities to judge their effect on competition.

#### **A. Policy.**

Company policy requires full compliance with the letter and spirit of all antitrust laws. No director or employee, under any circumstances, has the authority to authorize a violation of the law. Anyone who violates the law, or knowingly permits a subordinate to do so, is subject to disciplinary action, including dismissal.

It is important for you to have a basic knowledge of the U.S. federal and state antitrust requirements. Many countries outside of the United States, such as the member countries of the European Economic Community, Canada, and Australia, also have adopted antitrust laws.

Penalties for antitrust violations are severe. They include the following:

- imprisonment of individuals;
- fines against the Company and the individual, for each violation of the Sherman Act or the Federal Trade Commission Act;
- payment of triple damages, plus attorneys’ fees and litigation costs, to the government or any firm or individual injured by the violation; and
- injunctions or consent decrees prohibiting certain activities. Consent decrees can seriously limit a firm’s freedom to engage in business activity and can be applied across a broader scope than was involved in the original violation.

#### **B. Areas of Potential Exposure**

Two areas where antitrust violations frequently occur are in relations with competitors and with customers.

##### **1. Relations with Competitors**

The greatest danger for violations of the antitrust laws rests in contacts with competitors. The laws make illegal any agreement or understanding, expressed or implied, written or oral, that unreasonably restricts competition or interferes with the ability of the free market system to function properly. In the eyes of the law, good intentions or customer or consumer benefits do not justify or excuse violations.

A formal agreement with a competitor need not exist to prove a conspiracy. A general discussion followed by common action often is enough to show an implied agreement. In an investigation, every communication, written or oral, is subject to intense scrutiny.

Communications with competitors should be avoided unless they concern a true customer-supplier relationship, other legitimate business ventures, or permitted trade association activities. You must not engage in any communications with competitors that could result, or even appear to result, in any of the following: price-fixing, bid-rigging (including “complementary bidding”), allocation of customers or markets, boycotts, or production limits to restrain trade.

The antitrust laws recognize your need to be aware of market conditions, and you may discuss these with customers, suppliers, retailers, wholesalers, and brokers, if they are not your competitors.

## **2. Relations with Customers and Suppliers**

Generally speaking, you have an unrestricted right to choose your customers and suppliers. But, there are antitrust pitfalls in this area. The biggest danger is an allegation that, through an understanding or threat, you have improperly restricted a customer’s (including a jobber’s or distributor’s) freedom to establish its own prices or terms of sale. You must also avoid any agreement with a supplier that sets the price or terms of sale for your products. In addition, you should avoid complaining to your supplier about the prices charged by that supplier’s other customers who are your competitors. Further, avoid discussions with customers who complain to you regarding the Company’s supplying another customer or the prices charged by other customers.

Antitrust laws prohibit selling the same product to different customers at different prices, terms, or conditions of sale if the result would be harmful to one of the customers and to competition. While there are some exceptions to these laws, such as charging differing prices to meet a competitor’s lower price, these exceptions are very complex, and you should consult with upper management personnel concerning specific proposed transactions.

Tie-in sales and reciprocal dealing are other potential danger areas where caution should rule. Tie-in sales occur when a customer must purchase one product or service to be able to purchase another product or service. Reciprocal sales can be described as “you buy from me because I buy from you.”

This is by no means an exhaustive list of areas where antitrust laws apply. If you have any questions about a specific business activity, consult with your supervisor.

## **III. Political Participation**

The Company believes participation in the political process is one of every individual’s most basic rights. But federal and state laws in the United States and many other countries distinguish between individual and corporate participation. For example, U.S. federal law and the laws of many states prohibit corporate contributions to political candidates or officeholders.

### **A. Personal Political Participation**

The Company encourages directors and employees to participate in the political process as they may desire. They may make personal political contributions or communicate their personal beliefs to elected officials. Within the limits of Company policy regarding leaves of absence, employees may run for political office. Employees should check with human resources representatives regarding leave of absence policy.

It is important, however, to distinguish between personal and corporate political activities. As a responsible corporate citizen, the Company occasionally will speak out on issues of importance to the Company. Senior management is responsible for developing the Company's position on relevant legislative and regulatory issues, and they or the Company's government relations representatives are solely responsible for communicating these positions to government officials.

Unless you are specifically requested by the Company to represent it before legislative or other government bodies, be sure you clearly label any personal communication with legislators as your own beliefs. If you are contacted by legislators or regulators regarding the Company's position on public issues, you should refer them to the President.

#### **B. Corporate Participation**

It is against Company policy to use Company funds or other assets to make political contributions to or expenditures on behalf of political candidates, officeholders, or public officials, unless approved in writing by the CEO or the President, and that any contribution in excess of \$1,000 shall require approval by the Board of Directors. Prohibited expenditures may include things as small as providing meals, beverages or entertainment to officeholders or public officials. This policy applies even in states where the law permits corporate political contributions or expenditures. U.S. federal law and Company policy also state that no one will be reimbursed for personal political contributions. Personal compensation will not be altered in any way under any circumstances to reflect political contributions.

#### **C. Gratuities and Government Employees**

U.S. federal and state laws and the laws in some countries outside the United States restrict the ability to give gifts or gratuities to government employees, including politicians. These laws specifically prohibit making a gift to a government employee in connection with a business transaction. These laws could be violated if anything of value is given to a government employee even if there is no intent to influence an official action or decision.

Therefore, no employee or director should entertain or make a gift to a public official or otherwise engage in lobbying efforts without authorization from the Chief Executive Officer and the President, or from the Board of Directors.

### **IV. Media Relations**

Employees or directors may be asked by representatives of the news media for information concerning the Company's position on public issues. Employees and directors should coordinate any responses to the media with the appropriate senior management and any public relations staff.

In addition, employees and directors may not release information to the news media about Company activities or the activities of other employees or directors. If an activity merits or requires public disclosure, its release will be coordinated by senior management and any public relations staff.

## **V. Employee Loyalty**

The Company expects its employees to serve it with undivided business loyalty. You should put the Company's interests ahead of any other business and commercial interests you may have as an individual.

### **A. Conflict of Interest**

A conflict of interest exists when there is a conflict between an individual's obligation to the Company and personal self-interest. Employees should avoid any relationship with other businesses that could impair or unduly influence their ability to discharge their duties properly. The appearance of a conflict often can be as damaging as an actual conflict. A good general rule is to avoid any action or association that would be embarrassing to you or the Company if it were disclosed to the public.

Generally speaking, employees should not provide service or assistance to a competitor or engage in activities that compete with any of the Company's lines of business. Employees should not own or acquire any ownership or other interest in any competitor, supplier or customer, other than a passive stock investment in public entities consisting of less than 5% of the outstanding shares of such competitor, supplier or customer. In addition, you should not use Company assets for your personal gain. Work you do for the Company belongs to the Company. You may not exploit for your personal gain inventions, patents, or copyrights belonging to the Company. If a business opportunity should belong to the Company, taking it for your personal gain is similar to misappropriating a corporate asset.

### **B. Gifts and Entertainment**

The Company desires to treat fairly and impartially all persons and companies with whom it has business relationships, including its customers, distributors, jobbers, and suppliers. Giving or accepting gifts and entertainment can be construed as an attempt to unduly influence the relationship. Generally, you should not provide or accept gifts of more than nominal value or entertainment of greater than usual or customary expense. Gifts of money are never permissible. Your judgment should tell you when a gift is improper and should be refused to prevent embarrassment to everyone and to avoid what may be an unintentional violation of the law. Business entertainment is an ambiguous area. Picking up the check (or letting someone else pay the tab) for a business lunch or dinner or a trip to a sporting event or the theater is

usually permissible. A clear business purpose should be involved, and repetitive payment for expensive entertainment expenses should not occur.

If in doubt about whether a gift or entertainment is appropriate, ask your supervisor. Employees will be reimbursed for reasonable business-related travel and entertainment expenses. The expenses must be necessary, legally incurred, and properly authorized, reported, and approved.

## **VI. Insider Information and Securities Trading**

In the normal course of business, employees and directors may have access to information that is not known to the public and if it was public information it could affect the value of the Company's stock, options, or other securities. Since the Company is a publicly held corporation, the Securities and Exchange Commission regulates when this information must be disclosed to the investing public. Until it is publicly disclosed, it is considered "inside" information and must be kept confidential. Acting on this information for personal gain or disclosing it to anyone else before it has been released to the public violates U.S. federal law and Company policy.

"Material" inside information is confidential corporate information that could influence a reasonable person's decision to buy, sell, or hold the Company's stock, options, or other securities. It includes not only information about earnings and possible dividend changes, but also such things as stock splits, new stock or bond offerings, significant acquisitions or divestitures, new product development, new customers or material non-public information about NAI customers, and major changes in management, corporate structure, or policy. You may not buy, sell, acquire, gift, or dispose of any NAI security (including exercise of options), while in possession of material non-public "inside" information, or disclose such information to anyone else, including relatives, friends, co-workers, or stockbrokers, until the information has been released publicly and the public has had time to react to it.

Trading NAI securities while in possession of material non-public information creates an unfair advantage over investors who do not have access to it. Federal securities laws are designed to protect the investing public by prohibiting anyone with access to material non-public information from exploiting this advantage. Penalties for violations are severe and include criminal fines and imprisonment, payment to damaged investors of any profits made from trading on the information, and payment of civil penalties of up to three times the amount of profits made or losses avoided. In addition, the Company may be penalized for violations by its employees or directors.

While the nature of their duties means that some employees have greater access to inside information than others, the rules apply to anyone who obtains or has direct or indirect access to non-public information. This includes everyone from officers and directors of the Company to secretaries who may type confidential memoranda or technical personnel who may work on new projects. At NAI it includes all employees, directors and consultants.

Trading by any NAI employee of NAI securities or the securities of NAI's customers



while in possession of material non-public information regarding NAI or its customers is grounds for immediate termination.

## **Guidelines**

The following guidelines are intended to help you comply with the rules regarding inside information. However, this information is summary in nature and its application is further governed and limited by reference to the Company's Securities Trading Policy.

1. Inside information should be shared only with those people inside the Company whose jobs require them to have the information.
2. Do not disclose sensitive or non-public information to anyone outside the Company. The Company has standard procedures for the release of material information. No disclosure should be made except through these procedures.
3. You should not buy or sell Company stock, options, or other Company securities, or direct someone else to buy or sell these for you, when you have knowledge of material inside information that has not been made public. After it has been made public, you cannot act on the information until the public has had time to react to it. In all cases (whether you have information or not) you may only acquire or dispose of NAI securities in conformance with the Company's Securities Trading Policy. There are no exceptions.
4. You should not trade in another company's stock, options, or other securities if you believe their value will be affected by the Company's plans or activities, or if you are aware of material non-public information about that company including but not limited to information about that company you learn as a result of that company's dealings with NAI.
5. If you have any questions about any of these matters you should direct them to NAI's Controller.

## **VII. Human Resources**

The Company recognizes that its greatest strength lies in the talent and the ability of its employees. Employees and directors are expected to hold themselves accountable to the highest professional standards, with mutual respect being the basis of all professional relationships. It is the Company's policy:

- to provide equal opportunity for all in recruiting, hiring, developing, promoting, and compensating without regard to race, religion, color, age, gender, disability, veteran status, or national origin;
- to maintain a professional, safe, and discrimination-free work environment; and
- to recognize and compensate employees based on their performance and to provide a competitive array of benefits.

Sexual, racial, ethnic, religious, or any other types of harassment has no place in the Company's work environment. Racial, ethnic, and religious harassment includes such conduct as slurs, jokes, intimidation, or any other verbal or physical attack upon or mistreatment of a person because of race, religion, or national origin. Sexual harassment includes unwelcome sexual advances or other verbal or physical conduct of a sexual nature. Questions or complaints about potential harassment should be directed to your supervisor.

Fraternalization among employees within a department is discouraged. Any personal relationship between individuals in a direct reporting line of command or supervision, or in circumstances likely to conflict with the best interests of the Company or to expose the Company to any liability is prohibited.

Each employee who holds a position of managing or supervising other employees is also accountable for the ethical behavior within the business setting of employees who he or she manages or supervises. When an employee is hired, promoted, or changes job duties, the employee who is assigned to begin or continue the management or supervision of such employee is responsible for ensuring the employee is informed of, understands, and operates within the Company's Code of Business Behavior and Conduct.

### **VIII. Substance Abuse**

The Company does not condone nor will it tolerate illegal drug use or abuse of alcohol or other legally controlled substances by its employees. To protect the health and welfare of its employees, directors, customers, shareholders, and neighbors, the Company has adopted the following practices and procedures:

- The unlawful manufacture, distribution, dispensing, possession, use, sale, or purchase of unauthorized or illegal drugs, contraband (e.g., drug paraphernalia) or substances, or the abuse or misuse of legal drugs or alcohol at any time while on Company property, or while on Company business or during working hours is prohibited. Any violation is grounds for disciplinary action, including immediate termination.
- Any employee under the influence of drugs or alcohol while on Company premises, or conducting Company business, or during working hours is subject to disciplinary action, including immediate termination.
- Unlawful actions by employees which discredit the Company involving illegal drugs or contraband, controlled substances, or alcohol during nonworking hours are grounds for disciplinary action, including termination.
- A medical screen for drugs may be included as a condition of employment in any medical examination provided by the Company. This includes post-hire, executive, and work-related physical examinations. In addition, employees performing safety-sensitive work or directly supervising safety-sensitive work are

subject to random and post-accident testing for drug and/or alcohol use. Confirmed positive test results are grounds for disciplinary action, including termination.

- The Company may require medical screens for drugs or alcohol as a condition of continued employment if reasonable suspicion exists that an employee is under the influence of drugs and/or alcohol.
- The Company may inspect or search employees' possessions on Company premises to assure a drug- and alcohol-free work environment. Entry upon the Company's premises will be deemed to constitute consent to such searches.
- Employees who refuse to cooperate fully with the Company's medical screens or search procedures will be terminated. All other policy violations will result in discipline, up and to including discharge. In addition, the Company may require that an employee undergo a professional assessment, complete a rehabilitation program, and meet the requirements of a return-to-work agreement as conditions of continued employment.
- All employees must notify the Company of any criminal drug statute conviction within five (5) days after such conviction. Employees regulated by Department of Transportation or Food and Drug Administration requirements may be subject to additional reporting requirements.

Employees who suffer from a substance abuse problem are urged to acknowledge the problem and seek assistance. The results of drug and alcohol tests will be kept confidential, except to the extent disclosure is required by law.

## **IX. Environment, Health, and Safety**

The Company is committed to protecting and maintaining the quality of the environment and to promoting the health and safety of employees, customers, and the communities where it operates.

Reports of any actual or potential environmental, health, or safety problems, or any questions about employees' responsibilities or Company policies in these areas should be immediately directed to your supervisor.

## **X. Consumer Affairs, Product Quality, Packaging Standards and Product Labeling**

The Company and its Employees will make every reasonable effort to protect and satisfy the consumers of products we produce or market. Product quality will be maintained at a level geared to providing the best value possible consistent with product price. Product labels will be informative, accurate, and in conformity with applicable regulations.

All products manufactured and shipped must match label specifications. No employee

shall have the authority to adulterate, direct adulteration or conceal any discovered adulteration of the Company's products for any reason. Products will be produced to the highest standard of excellence.

It is the responsibility of management at all levels to respond promptly and positively to any consumer complaint concerning our products or services. In no event will product quality standards be compromised nor will our advertising, packaging or product labeling misrepresent the nature or content of our products and services.

## **XI. Confidentiality of Corporate Information**

One of the Company's most valuable assets is its body of business information. The widespread use of computer terminals and systems and cellular phones has caused this information to be potentially accessible by many individuals. Failure to adequately protect this corporate information can lead to the loss of highly confidential data which may place the Company at a disadvantage in the marketplace.

As an employee or director, you are responsible and accountable for the integrity and protection of all business information (including your electronic mail and voice mail) and you must take steps to protect information that has been entrusted to you. For example, you must not make inappropriate modifications of information or destroy, disfigure, or disclose information to people outside of the Company, or to people working in the Company when such person does not need to know the information to perform their duties. Product information, customer lists, property records, vendors, sources of, and other information about raw material, and other business information - even if compiled from public sources - are Company property and cannot be taken or used for personal benefit.

Documents containing sensitive data should be handled carefully during working hours and must be properly secured at the end of the business day. Particular attention must be paid to the security of the data stored on the computer system.

In addition, you should be aware that all electronic and/or voice mail communications are considered records and property of the Company. The Company reserves the right to monitor the contents of messages sent or received over its systems.

## **XII. Use of Company Software**

The Company's employees use software programs for word processing, spreadsheets, data management, and many other applications. Most of the software products purchased by the Company are covered by some form of licensing agreement that describes the terms, conditions, and allowed uses.

It is the Company's policy to respect copyright laws and observe the terms and conditions of any license agreement. U.S. copyright law imposes civil and criminal penalties for illegal reproductions and use of licensed software. Each user must be aware of the restrictions on the use of software and must abide by those restrictions.

### **XIII. Records Management**

The Company's corporate records are important assets. Corporate records include essentially everything you produce as an employee, regardless of its format. A corporate record may be in the form of paper, digital storage in any form, disks, tapes, microfilm, electronic mail, or voice mail. It may be something as obvious as a memorandum, a contract, or a proposal, or something not as obvious, such as a desk calendar, an appointment book, or an expense record.

The Company is required by law to maintain certain types of corporate records, usually for a specified period of time. Failure to retain such documents for such minimum periods could subject the Company to penalties and fines, cause the loss of rights, obstruct justice, place the Company in contempt of court, or place the Company at a serious disadvantage in litigation.

Accordingly, the Company has established controls to assure retention for required periods and timely destruction of retrievable records, such as paper copies and records on computers, electronic systems, microfiche, and microfilm. Even if a document is retained for the legally required period, liability could still result if a document is destroyed before its scheduled destruction date.

You are expected to become familiar with and fully comply with the records retention/destruction schedule for the department in which you work.

### **XIV. Community Involvement**

The Company strives to be a responsible corporate citizen in the communities and areas in which it operates. In this effort, the Company may provide support to various education, cultural, and civic endeavors. The Company encourages employees to become active citizens in their communities. You should use your good judgment to assure that your participation does not conflict with your responsibilities to the Company. No employee is required to participate in any activity outside of their Company duties if they do not wish to participate. The Company encourages civic and community participation by its employees to improve the communities in which it operates, not in an effort to control the activities of its employees outside of the Company.