2003 ANNUAL REPORT

Rexall®

NATURE'S BOUNTY®

NBTY INC.

BIGGER. BETTER. STRONGER.

Sundown®

AMERICAN HEALTH®

Osteo Bi-Flex®

Flex-a-min®

MET-Rx® ENGINEERED NUTRITION®

Knox®

Carb Solutions®

Delicious Crispy CARBWISE™

2003

A•N•N•U•A•L R•E•P•O•R•T

Bigger • Better • Stronger

With the acquisition of Rexall Sundown in July 2003, NBTY continues its long-standing tradition of recognizing and pursuing opportunities for continued growth and prosperity.

Rexall's portfolio of highly-recognizable nutritional supplement brands, including Sundown®, Osteo Bi-Flex®, CarbSolutions®, MET-Rx® and Worldwide Sport Nutrition®, provides a solid complement to NBTY's existing wholesale business as well as an enhanced sales infrastructure and additional manufacturing capacity.

Rexall Sundown joins NBTY's impressive roster of premium nutritional supplement brands including Nature's Bounty®, Puritan's Pride®, Vitamin World®, Holland & Barrett®, American Health®, Natural Wealth®, Good 'N Natural® and Home Health. Together they form a dynamic, multi-brand powerhouse recognized worldwide as the premier manufacturer and distributor of high quality nutritional supplements for health-conscious consumers and profit-minded retailers.

NBTY
Bigger • Better • Stronger

The fiscal year ended September 30, 2003 was a year of unprecedented growth and transformation for NBTY. We generated record results and solidified our position as a dominant force in the nutritional supplement industry. I am pleased to report revenues for fiscal 2003 increased nearly 24% to $1.2 billion. These record results reflect overall growth in our wholesale operations as well as our other distribution channels.

Wholesale Division-Integrating Rexall and Our Continued Success

Our wholesale division continues to outperform competitors and generate greater market share in sales to chain drug stores, supermarkets, health food stores and major mass merchandisers.

Our commitment to our wholesale business has never been stronger. In July 2003, we acquired one of our largest wholesale competitors, Rexall Sundown, for $250 million. We quickly proceeded to combine Rexall with Nature's Bounty to form our new wholesale division, US Nutrition. We focused our efforts to re-energize Rexall and to return it to its former glory days of rapid product innovation.

Our efforts have already yielded positive results. Revenues for our wholesale operations increased approximately 43% to $417 million from $291 million for fiscal 2002. This increase in revenues reflects revenues contributed by Rexall, as well as greater sales of core products and a strong response to new product introductions and promotions.

The fiscal 2003 financial information included in this Annual Report reflects only two months of our ownership of Rexall. Since September 30, 2003 our results have continued to improve. Integrating Rexall's business required an across-the-board strategy, similar to our efforts in prior acquisitions. We analyzed all aspects of Rexall's operations, seeking synergy opportunities. To this end, we have rationalized our combined manufacturing operations, closing facilities in Colorado and Illinois. We streamlined staffing through substantial headcount reductions. In addition, we have reviewed every Rexall product and marketing campaign. This process has enabled us to leverage acquired shelf space and advertising to better target customer segments with our broader array of products. We scrutinized Rexall's distribution channels, terminating unsuccessful distributors and transferring their territories to more efficient, reliable companies. We terminated unsuccessful Rexall products, redirecting the resources to manufacture, develop and promote more popular and profitable products. In short, we examined all facets of Rexall's business. The integration of Rexall is on schedule and has already contributed significantly to our revenue growth; however, we expect to realize additional synergies in fiscal 2004. Fiscal 2003 was a year of transformation for us, and we look forward to reaping the future rewards of our Rexall integration plan.

US Nutrition continues to generate increased sales for the mass market and drug chains through consumer sales information collected from our retail and direct response/e-commerce operations, fast response to consumer preferences and monitoring the market for trends and ideas to increase the sales of its wholesale customers.

The Nature's Bounty®, Rexall® and Osteo Bi-Flex® brands continue to be recognized for their ability to provide the highest quality nutritional supplements at competitive prices to our wholesale customers.

Acquisitions

In fiscal 2003, NBTY continued to implement its strategy of acquiring companies that complement and enhance operations, both domestically and internationally.

In March 2003, we acquired Health & Diet Group Ltd., operating 49 GNC retail stores in the U.K., as well as the U.K.-based FSC wholesale operations. FSC products include a comprehensive range of multivitamins, single vitamins and minerals, herbal formulas and tinctures, sold to health food stores and pharmacies throughout the U.K.

In May 2003, we acquired the De Tuinen chain of retail stores, which operates 41 stores and franchises an additional 24 stores throughout the Netherlands. De Tuinen represents our entry into the continental European retail market.

In July 2003, NBTY acquired Rexall Sundown, a nationwide wholesaler of such brands as Rexall®, Sundown®, Osteo Bi-Flex®, Carb Solutions®,

MET-Rx® and Worldwide Sport Nutrition®. This acquisition provides NBTY with broader access to wholesale customers and enlarges our portfolio of nationally-recognized brand name products.

NBTY continues to make strategic acquisitions both in the U.S. and internationally and remains at the forefront of the nutritional supplement industry consolidation. We believe that the strength of our balance sheet and proven expertise in successfully integrating acquired businesses makes NBTY a preferred choice for sellers of nutritional supplement businesses.

Other Operations

Revenues from Puritan's Pride direct response/e-commerce operations increased 9% to $200 million for fiscal 2003. We remain the leader in the direct response and e-commerce sector and the number of products available via our catalog and website continues to increase.

NBTY continues to strengthen its Puritan's Pride direct response/e-commerce sales by improving the speed and accuracy of automated order fulfillment technology, quickly introducing and delivering new products in response to customer demand, using frequent, well-targeted promotions to further improve response rates and promoting our 23 product and Company internet websites. In addition, the Company intends to continue to refine its mail order lists and acquire the customer lists, brand names and inventory of other mail order companies with similar or complementary products.

Vitamin World operated 533 retail stores nationwide at the end of fiscal 2003 which generated sales for fiscal 2003 of $212 million, an increase of 7%. This increase reflects, in part, the continuing success of our Savings Passport Card, a customer loyalty program. This program offers incentives for the consumer to shop at Vitamin World and provides an additional tool to target certain market segments, track customer preferences and remain at the forefront of purchasing trends.

We continue to implement measures intended to increase sales in existing Vitamin World stores. As part of our commitment to maintain Vitamin World's profitability, we closed 20 underperforming Vitamin World stores in fiscal 2003. We continue to leverage valuable consumer sales information from Vitamin World in order to provide our mass-market customers with data and analyses to drive their sales.

Our European retail sales increased by 25% to $364 million, reflecting both organic growth and strong acquisitions of De Tuinen and GNC (U.K.). At the end of fiscal 2003, we operated 589 retail stores in the U.K., Ireland and the Netherlands, under the Holland & Barrett, GNC (U.K.), Nature's Way and De Tuinen names. We continue to be a leader in the vitamin and health food markets in the U.K. and Ireland and remain committed to expanding our European business.

Looking Forward

NBTY will continue to deliver the highest quality nutritional supplements with the best value to its customers. This strategy has generated greater market share and consumer acceptance of our products and contributed significantly to our overall success.

NBTY will further improve its leadership position in the marketing of nutritional supplements. Fiscal 2003 results include just the beginnings of the benefits that we expect to see from our Rexall integration efforts. We expect to generate increased sales from our wholesale division as we integrate Rexall and continue to implement our strategic plan to improve all facets of our operations. We are optimistic about the future of NBTY and are confident in our vision and strategic plans.

On behalf of our Board of Directors and management, we wish to thank you for your continued support. We are grateful for the dedication of our more than 10,000 associates worldwide and for the continued patronage of our customers. We look forward to sharing our future successes with you.

Sincerely,

Scott Rudolph
Chairman and CEO
March 1, 2004

FINANCIAL HIGHLIGHTS

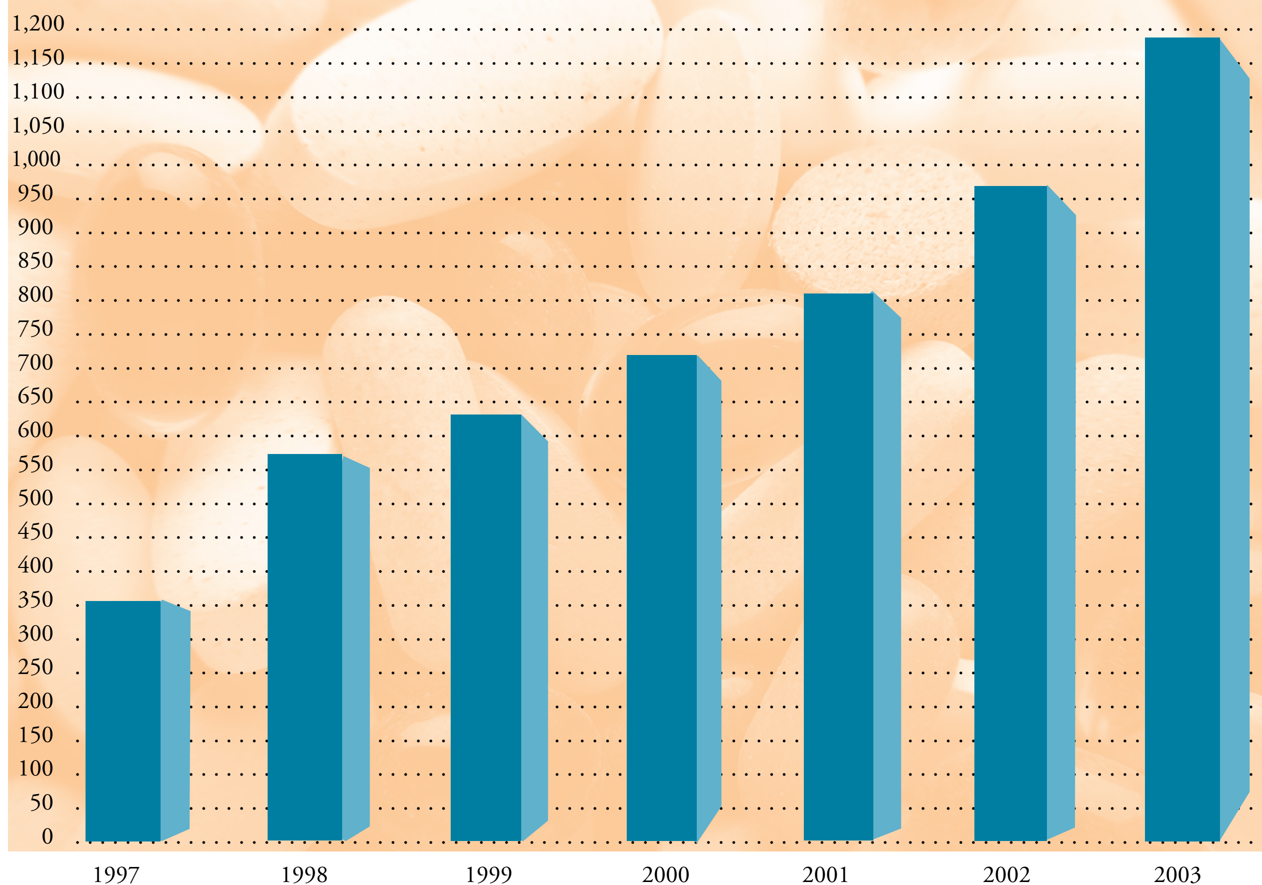
Dollars and shares in thousands, except per share amounts

	Years ended September 30, 2003	2002
Net sales	**$ 1,192,548**	$ 964,083
Net income	**$ 81,585**	$ 95,791
Net income per share:		
Basic	**$ 1.23**	$ 1.45
Diluted	**$ 1.19**	$ 1.41
Current assets	**$ 538,785**	$ 311,547
Total assets	**$ 1,204,383**	$ 730,140
Current liabilities	**$ 224,510**	$ 125,837
Total liabilities	**$ 689,584**	$ 310,883
Increase in working capital	**$ 128,565**	$ 54,602
Stockholders' equity	**$ 514,799**	$ 419,257
Weighted average common shares outstanding:		
Basic	**66,452**	65,952
Diluted	**68,538**	67,829

FIVE YEAR SUMMARY

Years ended September 30,

	2003	2002	2001	2000	1999
Net sales	**$ 1,192,548**	$ 964,083	$ 806,898	$ 720,856	$ 630,894
Income before income taxes	**$ 114,997**	$ 138,707	$ 67,883	$ 82,952	$ 45,602
Provision for income taxes	**$ 33,412**	$ 42,916	$ 25,958	$ 31,444	$ 18,323
Net income	**$ 81,585**	$ 95,791	$ 41,925	$ 51,508	$ 27,279
Net income per share:					
Basic	**$ 1.23**	$ 1.45	$ 0.64	$ 0.77	$ 0.39
Diluted	**$ 1.19**	$ 1.41	$ 0.62	$ 0.74	$ 0.39
Weighted average common shares outstanding:					
Basic	**66,452**	65,952	65,774	67,327	69,640
Diluted	**68,538**	67,829	67,125	69,318	70,826



Dollars and shares in thousands

Assets:	*September 30,* 2003	2002
Current assets:		
Cash and cash equivalents	**$ 49,349**	$ 26,229
Investments in bonds	**4,158**	8,194
Accounts receivable, less allowance for doubtful accounts of $7,100 in 2003 and $4,194 in 2002	**89,430**	36,825
Inventories	**314,091**	204,402
Deferred income taxes	**37,021**	11,206
Prepaid expenses and other current assets	**44,736**	24,691
Total current assets	**538,785**	311,547
Property, plant and equipment, net	**298,344**	216,245
Goodwill	**213,362**	144,999
Intangible assets, net	**137,469**	48,413
Other assets	**16,423**	8,936
Total assets	**$ 1,204,383**	$ 730,140
Liabilities and Stockholders' Equity:		
Current liabilities:		
Current portion of long-term debt and capital lease obligations	**$ 12,841**	$ 23,044
Accounts payable	**87,039**	48,616
Accrued expenses and other current liabilities	**124,630**	54,177
Total current liabilities	**224,510**	125,837
Long-term debt	**413,989**	163,874
Deferred income taxes	**40,213**	16,928
Other liabilities	**10,872**	4,244
Total liabilities	**689,584**	310,883
Commitments and contingencies (Notes 11 and 17)		
Stockholders' equity:		
Common stock, $.008 par; authorized 175,000 shares in 2003 and 2002; issued and outstanding 66,620 shares in 2003 and 66,322 shares in 2002	**533**	529
Capital in excess of par	**130,208**	126,283
Retained earnings	**369,453**	287,868
	500,194	414,680
Accumulated other comprehensive income	**14,605**	4,577
Total stockholders' equity	**514,799**	419,257
Total liabilities and stockholders' equity	**$ 1,204,383**	$ 730,140

The accompanying notes are an integral part of these consolidated financial statements.

Dollars and shares in thousands, except per share amounts

	Years ended September 30,		
	2003	2002	2001
Net sales	**$ 1,192,548**	$ 964,083	$ 806,898
Costs and expenses:			
Cost of sales	**554,804**	433,611	355,167
Discontinued product charge	**4,500**	-	-
Catalog printing, postage and promotion	**66,455**	47,846	49,410
Selling, general and administrative	**435,748**	348,334	315,228
Litigation recovery of raw material costs	**-**	(21,354)	-
	1,061,507	808,437	719,805
Income from operations	**131,041**	155,646	87,093
Other income (expense):			
Interest	**(17,384)**	(18,499)	(21,958)
Investment write down	**(4,084)**	-	-
Miscellaneous, net	**5,424**	1,560	2,748
	(16,044)	(16,939)	(19,210)
Income before income taxes	**114,997**	138,707	67,883
Provision for income taxes	**33,412**	42,916	25,958
Net income	**$ 81,585**	$ 95,791	$ 41,925
Net income per share:			
Basic	**$ 1.23**	$ 1.45	$ 0.64
Diluted	**$ 1.19**	$ 1.41	$ 0.62
Weighted average common shares outstanding:			
Basic	**66,452**	65,952	65,774
Diluted	**68,538**	67,829	67,125

The accompanying notes are an integral part of these consolidated financial statements.

Dollars and shares in thousands

Years ended September 30, 2003, 2002, 2001	Common stock Number of shares	Common stock Amount	Capital in excess of par	Retained earnings	Treasury stock Number of shares	Treasury stock Amount	Stock subscriptions receivable	Accumulated other comprehensive income (loss)	Total stockholders' equity	Total comprehensive income
Balance, September 30, 2000	68,713	$ 548	$ 123,798	$ 163,300	235	$ (1,512)	$ (839)	$ (12,852)	$ 272,443	
Components of comprehensive income:										
Net income				41,925					41,925	$ 41,925
Foreign currency translation adjustment								(126)	(126)	(126)
Purchase of treasury shares, at cost					3,023	(15,699)			(15,699)	$ 41,799
Treasury stock retired	(3,258)	(26)	(5,144)	(12,041)	(3,258)	17,211			-	
Exercise of stock options	458	4	2,600						2,604	
Tax benefit from exercise of stock options			1,259						1,259	
Balance, September 30, 2001	65,913	526	122,513	193,184	-	-	(839)	(12,978)	302,406	
Components of comprehensive income:										
Net income				95,791					95,791	$ 95,791
Foreign currency translation adjustment								17,603	17,603	17,603
Change in net unrealized gain on available-for-sale investments								(48)	(48)	(48)
Treasury stock retired	(71)	(1)	(113)	(1,107)					(1,221)	$ 113,346
Exercise of stock options	480	4	2,068						2,072	
Repayment of stock subscriptions receivable							839		839	
Tax benefit from exercise of stock options			1,815						1,815	
Balance, September 30, 2002	66,322	529	126,283	287,868	-	-	-	4,577	419,257	
Components of comprehensive income:										
Net income				81,585					81,585	$ 81,585
Foreign currency translation adjustment								9,980	9,980	9,980
Change in net unrealized gain on available-for-sale investments								48	48	48
Shares issued and contributed to ESOP	100	1	1,710						1,711	**$ 91,613**
Exercise of stock options	198	3	1,143						1,146	
Tax benefit from exercise of stock options			1,072						1,072	
Balance, September 30, 2003	**66,620**	**$ 533**	**$ 130,208**	**$ 369,453**	**-**	**$ -**	**$ -**	**$ 14,605**	**$ 514,799**	

The accompanying notes are an integral part of these consolidated financial statements.

Dollars and shares in thousands

	Years ended September 30,		
	2003	2002	2001
Cash flows from operating activities:			
Net income	**$ 81,585**	$ 95,791	$ 41,925
Adjustments to reconcile net income to net cash provided by operating activities:			
(Gain) loss on disposal/sale of property, plant and equipment	**(711)**	102	385
Depreciation and amortization	**46,884**	42,192	44,946
Foreign currency exchange rate (gain) loss	**(334)**	1,556	482
Amortization of deferred financing costs	**1,003**	782	782
Amortization of bond discount	**124**	124	124
Investment write down	**4,084**	-	-
Discontinued product charge	**4,500**	-	-
Allowance for doubtful accounts	**(2,906)**	972	1,995
Deferred income taxes	**6,033**	(5,829)	(2,036)
Compensation expense for ESOP	**1,711**	-	-
Tax benefit from exercise of stock options	**1,072**	1,815	1,259
Changes in assets and liabilities, net of acquisitions:			
Accounts receivable	**(1,466)**	(7,011)	(3,652)
Inventories	**(28,379)**	(14,277)	(34,723)
Prepaid expenses and other current assets	**(15,855)**	(3,432)	343
Other assets	**616**	(586)	119
Accounts payable	**(2,773)**	(3,442)	(11,959)
Accrued expenses and other current liabilities	**16,344**	(3,670)	23,277
Net cash provided by operating activities	**111,532**	105,087	63,267
Cash flows from investing activities:			
Cash paid for acquisitions, net of cash acquired	**(289,676)**	(7,702)	(63,010)
Purchase of property, plant and equipment	**(37,510)**	(21,489)	(37,197)
Purchase of short-term investments	**-**	(8,242)	-
Cash held in escrow	**-**	-	(10,000)
Release of cash held in escrow	**2,403**	4,600	-
Proceeds from sale of property, plant and equipment	**1,498**	1,004	4,232
Proceeds from sale of intangibles	**-**	53	-
Increase in intangible assets	**-**	-	(159)
Net cash used in investing activities	**(323,285)**	(31,776)	(106,134)
Cash flows from financing activities:			
Proceeds from borrowings under long-term agreements	**275,000**	-	-
Payments for debt issuance costs	**(7,500)**	-	-
Principal payments under long-term debt agreements and capital leases	**(35,211)**	(85,353)	(12,780)
Net borrowings under Credit & Guarantee Agreement	**-**	-	71,502
Purchase of treasury stock	**-**	-	(15,699)
Proceeds from stock options exercised	**1,146**	1,899	2,604
Net cash provided by (used in) financing activities	**233,435**	(83,454)	45,627
Effect of exchange rate changes on cash and cash equivalents	**1,438**	1,938	210
Net increase (decrease) in cash and cash equivalents	**23,120**	(8,205)	2,970
Cash and cash equivalents			
Beginning of year	**26,229**	34,434	31,464
End of year	**$ 49,349**	$ 26,229	$ 34,434
Supplemental disclosure of cash flow information:			
Cash paid during the period for interest	**$ 17,709**	$ 18,513	$ 23,019
Cash paid during the period for income taxes	**$ 34,698**	$ 55,101	$ 22,269
Non-cash investing and financing information:			
Acquisitions accounted for under the purchase method are summarized as follows:			
Fair value of assets acquired	**$ 411,981**	$ 7,702	$ 69,165
Liabilities assumed	**(119,479)**	-	(4,728)
Less: Cash acquired	**(2,826)**	-	(1,427)
Net cash paid	**$ 289,676**	$ 7,702	$ 63,010

During fiscal 2003, the Company issued 100 shares of NBTY stock (having a total then market value of approximately $1,711) as a contribution to the ESOP plan .

During fiscal 2002, certain officers surrendered 61 shares as consideration for stock subscriptions receivable plus interest, aggregating $1,048. Such shares were retired by the Company during 2002.

The accompanying notes are an integral part of these consolidated financial statements.

In thousands, except per share amounts and number of locations

1. Business Operations and Summary of Significant Accounting Policies:

Business operations
The Company (as defined below) manufactures and sells vitamins, food supplements, and health and beauty aids primarily in the United States ("U.S."), the United Kingdom ("U.K."), Ireland and Holland. The processing, formulation, packaging, labeling and advertising of the Company's products domestically are subject to regulation by one or more federal agencies, including the Food and Drug Administration, the Federal Trade Commission, the Consumer Product Safety Commission, the United States Department of Agriculture, the United States Environmental Protection Agency and the United States Postal Service.

Within the United Kingdom and Ireland, the manufacturing, advertising, sales and marketing of food products is regulated by a number of governmental agencies, including the Ministry of Agriculture, Fisheries and Food, the Department of Health, the Food Advisory Committee and the Committee on Toxicity. In addition, there are various statutory instruments and European Community ("E.C.") regulations governing specific areas such as the use of sweeteners, coloring and additives in food. Trading standards officers under the control of the Department of Trade and Industry also regulate matters such as the cleanliness of the properties where food is produced and sold.

In the U.K., the Medicines and Healthcare Products Regulatory Agency ("MHRA") now has responsibility for the implementation and enforcement of the 1968 Medicines Act, and is the licensing authority for medicinal products. The MHRA directly employs enforcement officers from a wide range of backgrounds, including the police, and with a wide range of skills, including information technology. The MHRA is an Executive Agency of the Department of Health and is responsible for the safety of herbal medicines. The MHRA decides whether a product is a medicine or not and, if so, considers whether it can be licensed. It determines the status of a product by considering whether it is medicinal by "presentation" or by "function." Many, though not all, herbal remedies are considered "medicinal" by virtue of these two tests.

In Ireland, the sale of nutritional supplements and herbal products falls under the jurisdiction of the Irish Medicines Board ("IMB"). Its role is similar in nature, but not identical to that of the MHRA in the U.K. as described above.

In Holland, the regulatory environment is similar to the U.K. in terms of availability of products. Holland currently has the same liberal market, with no restrictions on potency of nutrients. Licensed herbal medicines are available. However, there are some herbal medicines which are sold freely as in the U.K. without the need to be licensed, depending on the claims made for them. Holland is also more liberal regarding certain substances, for which unlicensed sales are allowed. The Government department dealing with this sector is the Ministry for Health, Welfare and Sport. Responsibility for food safety falls to the Keuringsdienst van Waren (Inspectorate for Health Protection and Veterinary Public Health). This authority deals with all nutritional products. The Medicines Evaluation Board, which is the equivalent of the U.K.'s MHRA, is charged with the responsibility for the safety of medicines which are regulated under the Supply of Medicines Act. Overall, the market prospects for Holland are, in general, similar to those outlined for the U.K. above.

Principles of consolidation and basis of presentation
The consolidated financial statements of NBTY, Inc. and Subsidiaries (the "Company" or "NBTY") include the accounts of the Company and its wholly owned subsidiaries. The Company's fiscal year ends on September 30. All intercompany accounts and transactions have been eliminated.

Revenue recognition
The Company applies the provisions of Staff Accounting Bulletin 101, *Revenue Recognition in Financial Statements,* ("SAB 101"). The Company recognizes revenue from products shipped when title and risk of loss has passed to its customers, and with respect to its own retail store operations, upon the sale of its products. The Company's net sales represent gross sales invoiced to customers, less certain related charges, including discounts, returns, rebates and other allowances. The Company has no single customer that represents more than 10 percent of annual net sales of the Company for each of the fiscal years ended September 30, 2003, 2002 and 2001. For the fiscal years ended September 30, 2003, 2002 and 2001, one customer, two customers and one customer, respectively, represented, individually, more than 10 percent of the wholesale division's net sales.

Upon adoption of SAB 101, effective October 1, 2000, the impact for the year ended September 30, 2001 were reductions to sales of approximately $4,000 and to net income of approximately $1,400.

Estimates
The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. The most significant estimates include the valuation of inventories, the allowance for doubtful accounts receivable and returns and discounts, income taxes, litigation reserves and the recoverability of long-lived assets. Actual results could differ from those estimates.

Concentration of credit risk
Financial instruments which potentially subject the Company to credit risk consist primarily of cash and cash equivalents and accounts receivable. Cash balances may, at times, exceed FDIC limits on insurable amounts. The Company mitigates its risk by investing in or through major financial institutions.

The Company performs on-going credit evaluations of its customers and adjusts credit limits based upon payment history and the customer's current credit worthiness, as determined by the review of their current credit information. Collections and payments from customers are continuously monitored. The Company also maintains an allowance for doubtful accounts, which is based upon historical experience as well as specific customer collection issues that have been identified. While such bad debt expenses have historically been within expectations and allowances established, the Company cannot guarantee that it will continue to experience the same credit loss rates that it has in the past. One customer accounted for 20 percent and 24 percent of the Company's accounts receivable at September 30, 2003 and 2002, respectively. Additionally, a new customer for fiscal 2003 accounted for 10 percent of the Company's accounts receivable at September 30, 2003. The loss of one or more of these customers is not expected to have a material impact on the Company's consolidated financial position or results of operations.

Inventories
Inventories are stated at the lower of cost or market. Cost is primarily determined on the first-in, first-out (FIFO) method. The cost elements of inventory include materials, labor and overhead. In fiscal 2003, 2002 and 2001, no one supplier provided more than ten percent of the Company's overall purchases. In fiscal 2002, one supplier provided more than ten percent of the Company's raw material purchases. No one supplier provided more than ten percent of the Company's raw material purchases in the other fiscal years presented.

In thousands, except per share amounts and number of locations

Prepaid catalog costs
Mail order production and mailing costs are capitalized as prepaid catalog costs within other assets and charged to expense over the catalog period, which typically approximates two months.

Advertising
All media and advertising costs are generally expensed as incurred. Total expenses relating to advertising and promotion for fiscal 2003, 2002 and 2001 were $40,832, $26,019 and $28,747, respectively. Included in prepaid expenses and other current assets is approximately $3,409 and $1,044 relating to prepaid advertising at September 30, 2003 and 2002, respectively.

Property, plant and equipment
Property, plant and equipment are carried at cost. Depreciation is provided on a straight-line basis over the estimated useful lives of the related assets. Expenditures, which significantly improve or extend the life of an asset are capitalized. Amortization of leasehold improvements is computed using the straight-line method over the shorter of the estimated useful lives of the related assets or lease term.

Maintenance and repairs are charged to expense in the year incurred. Cost and related accumulated depreciation for property, plant and equipment are removed from the accounts upon sale or disposition, and the resulting gain or loss is reflected in earnings.

Goodwill and intangible assets
Goodwill represents the excess of purchase price over the fair value of identifiable net assets of companies acquired. The Company adopted Statement of Financial Accounting Standards ("SFAS") No. 142, *Goodwill and Intangible Assets* as of October 1, 2001. This statement requires that goodwill and intangible assets with indefinite useful lives no longer be amortized, but instead tested for impairment at least annually. The Company measures impairment based on a projected discounted cash flow method using a discount rate determined by management to be commensurate with the risk inherent in its current business model or another valuation technique. Prior to fiscal 2002, goodwill was amortized over periods not exceeding 40 years. Other definite lived intangibles are amortized on a straight-line basis over periods not exceeding 20 years.

Impairment of long-lived assets
The Company follows the provisions of SFAS No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets.* SFAS No. 144 requires recognition of impairment of long-lived assets whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. An impairment charge is recognized in the event the net book value of such assets exceeds the future undiscounted cash flows attributable to such assets. During fiscal 2003, 2002 and 2001, the Company recognized impairment losses of $1,117, $700 and $500 respectively, on assets to be held and used. The impairment losses related primarily to leasehold improvements and furniture and fixtures for U.S. retail operations and were included in the Consolidated Statements of Income under the caption "selling, general and administrative" expenses.

Stock-based compensation
In December 2002, the Financial Accounting Standards Board ("FASB") issued SFAS No. 148, *Accounting for Stock-Based Compensation - Transition and Disclosure - an Amendment of FASB Statement No. 123.* SFAS No. 148 amends SFAS No. 123, *Accounting for Stock-Based Compensation,* to provide alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based employee compensation. In addition, SFAS No. 148 amends the disclosure requirements of SFAS No. 123 to require prominent disclosures in both annual and interim financial statements about the method of accounting for stock-based employee compensation and the effect of the method used on reported results. SFAS No. 148 is effective for annual and interim periods beginning after December 15, 2002. The Company has adopted the disclosure requirements of SFAS No. 123 and SFAS No. 148. The adoption of SFAS No. 148 did not have a material impact on the Company's consolidated financial position or results of operations.

The Company has elected to continue to measure compensation for stock options issued to its employees and outside directors pursuant to APB No. 25 under the intrinsic value method. All stock options are granted with an exercise price at or above fair market value at date of grant. Accordingly, no compensation expense has been recognized in connection with the issuance of stock options. Had compensation cost been determined based upon the fair value of the stock options at grant date, consistent with the method under SFAS No. 123, the Company's net income and earnings per share for fiscal 2001 would have been reduced to the following pro forma amounts indicated. There were no grants during fiscal 2003 or 2002. Therefore, the pro forma and actual net income and related EPS are the same as amounts reported.

Fiscal year ended September 30,

	2003	2002	2001
Net income, as reported	**$ 81,585**	$ 95,791	$ 41,925
Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects.	-	-	(1,891)
Pro forma net income	**$ 81,585**	$ 95,791	$ 40,034
Basic earnings per share			
Basic-as reported	**$ 1.23**	$ 1.45	$ 0.64
Basic-pro forma	**$ 1.23**	$ 1.45	$ 0.61
Diluted earnings per share			
Diluted-as reported	**$ 1.19**	$ 1.41	$ 0.62
Diluted-pro forma	**$ 1.19**	$ 1.41	$ 0.60

The fair value of each option is estimated on the date of grant using the Black-Scholes option pricing model with the following assumptions used for grants in 2001: (a) expected life of option of 6.7 years; (b) dividend yield of zero percent; (c) expected volatility of 70 percent; and (d) risk-free interest rate of 5 percent.

Foreign currency
The financial statements of international subsidiaries are translated into U.S. Dollars using the exchange rate at each balance sheet date for assets and liabilities and an average exchange rate for each period for revenues, expenses, gains and losses. Where the local currency is the functional currency, translation adjustments are recorded as a separate component of stockholders' equity. During fiscal 2003, 2002 and 2001, the Company recognized foreign currency transaction gains (losses) of $334, $(1,556) and $(482), respectively.

Comprehensive income
In accordance with SFAS No. 130, *Reporting Comprehensive Income,* the Company is required to display comprehensive income and its components as part of its complete set of financial statements. Comprehensive income represents the change in stockholders' equity resulting from transactions other than stockholder investments and distributions. Other comprehensive income includes certain changes in equity that are excluded from the Company's net income, specifically, the unrealized gains and losses on foreign currency translation adjustments.

Income taxes

The Company recognizes deferred tax liabilities and assets for the expected future tax consequences of events that have been included in the financial statements or tax returns. Deferred tax liabilities and assets are determined based on the difference between the financial statement and tax basis of assets and liabilities using enacted tax rates in effect for the year in which the differences are expected to reverse. The Company estimates the degree to which tax assets and loss carryforwards will result in a benefit based on expected profitability by tax jurisdiction. A valuation allowance for such tax assets and loss carryforwards is provided when it is determined that such assets will more likely than not go unused. If it becomes more likely than not that a tax asset or loss carryforward will be used, the related valuation allowance on such assets would be reversed. If actual future taxable income by tax jurisdiction varies from estimates, additional allowances or reversals of reserves may be necessary.

Cash and cash equivalents

The Company considers all highly liquid debt instruments purchased with an original maturity of three months or less to be cash equivalents.

Shipping and handling costs

The Company incurs shipping and handling costs in all divisions of its operations. These costs are included in selling, general and administrative costs and are $32,860, $23,985 and $19,799 for the fiscal years ended September 30, 2003, 2002 and 2001, respectively.

Change in accounting estimate

During fiscal 2001, the Company changed its accounting estimate for the useful lives of certain long-lived assets, primarily leasehold improvements and furniture and fixtures, based upon the terms of the lease agreements which approximate the useful lives of the assets. The effect of this change in estimate has been accounted for on a prospective basis and resulted in a decrease in depreciation and amortization expense of approximately $1,248 for the year ended September 30, 2001.

Reclassifications

Certain reclassifications have been made to conform prior year amounts to the current year presentation.

New accounting developments

In May 2003, the FASB issued SFAS No. 150, *Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity.* SFAS No. 150 requires that certain financial instruments, which under previous guidance were accounted for as equity, must now be accounted for as liabilities. The financial instruments affected include mandatorily redeemable stock, certain financial instruments that require or may require the issuer to buy back some of its shares in exchange for cash or other assets and certain obligations that can be settled with shares of stock. SFAS No. 150 is effective for all financial instruments entered into or modified after May 31, 2003 and must be applied to the Company's existing financial instruments effective July 1, 2003, the beginning of the first fiscal period after June 15, 2003. The Company has not entered into any financial instruments within the scope of SFAS No. 150 since May 31, 2003, nor does it currently hold any financial instruments within its scope.

In May 2003, the Emerging Issues Task Force ("EITF") reached a consensus on EITF Issue 01-8, *Determining Whether an Arrangement is a Lease,* which provides guidance on identifying leases that may be embedded in contracts or other arrangements that sell or purchase products or services. The evaluation of whether an arrangement contains a lease within the scope of SFAS No. 13, *Accounting for Leases,* should be based on an evaluation of whether the arrangement conveys the right to use and control specific property or equipment. The consensus requires sellers to report revenues from the leasing component of these arrangements as leasing or rental income rather than revenues from product sales or services, and requires purchasers to report the costs from these arrangements as costs under capital leases. This could affect the timing and amount of recognition of revenues and expenses and the classification of assets and liabilities on the balance sheet, and it could require additional footnote disclosure of lease terms and future minimum lease commitments. This consensus is effective for contracts entered into or significantly modified after July 1, 2003. The Company does not have relationships with customers that meet the EITF 01-8 definition of a lease arrangement. As such, the adoption of this issue did not impact the Company's consolidated financial position, results of operations, or disclosure requirements.

In January 2003, the FASB issued Interpretation No. 46, ("FIN") *Consolidation of Variable Interest Entities,* an interpretation of Accounting Research Bulletin ("ARB") No. 51. FIN 46 addresses consolidation by business enterprises of variable interest entities. FIN 46 applies immediately to variable interest entities created after January 31, 2003 and to variable interest entities in which an enterprise obtains an interest after that date. It applies in the first reporting period ending after December 15, 2003, to variable interest entities in which an enterprise holds a variable interest that it acquired before February 1, 2003. The Company believes that the provisions of FIN 46 will not have any impact on the Company's consolidated financial position or results of operations.

In November 2002, the FASB issued FIN No. 45, *Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness to Others,* which addresses the disclosure to be made by a guarantor in its interim and annual financial statements about its obligations under guarantees. FIN 45 also requires the guarantor to recognize a liability for the non-contingent component of the guarantee, which is the obligation to stand ready to perform in the event that specified triggering events or conditions occur. The recognition and measurement provisions of FIN 45 are effective for all guarantees entered into or modified after December 31, 2002. The Company does not enter into such transactions. Therefore the adoption of this standard did not impact its consolidated financial position, results of operations, or disclosure requirements.

In November 2002, the EITF issued EITF Issue No. 00-21, *Revenue Arrangements with Multiple Deliverables.* EITF No. 00-21 addresses certain aspects of the accounting by a company for arrangements under which it will perform multiple revenue-generating activities. EITF No. 00-21 addresses when and how an arrangement involving multiple deliverables should be divided into separate units of accounting. EITF No. 00-21 provides guidance with respect to the effect of certain customer rights due to company nonperformance on the recognition of revenue allocated to delivered units of accounting. EITF No. 00-21 also addresses the impact on the measurement and/or allocation of arrangement consideration of customer cancellation provisions and consideration that varies as a result of future actions of the customer or the company. Finally, EITF No. 00-21 provides guidance with respect to the recognition of the cost of certain deliverables that are excluded from the revenue accounting arrangement. The provisions of EITF No. 00-21 apply to revenue arrangements entered into in fiscal periods beginning after June 15, 2003. The adoption of EITF No. 00-21 did not have a material effect on its consolidated financial position or results of operations.

In thousands, except per share amounts and number of locations

2. Acquisitions:

Fiscal 2003 acquisitions:

Rexall

On July 25, 2003, NBTY acquired all of the issued and outstanding capital stock of Rexall Sundown, Inc. ("Rexall") for $250,000 in cash (subject to adjustment based upon finalization of working capital balances at date of closing) from Numico USA, Inc., an indirect subsidiary of Royal Numico N.V., through the acquisition of certain partnership and limited liability company interests. The acquisition was financed by a new senior credit facility (see Note 8). The Company also incurred approximately $6,000 of direct transaction costs as well as approximately $5,000 in insurance and other indirect costs for a total purchase price of approximately $261,000. Additionally, finance related costs of approximately $7,500 were paid to secure the financing for this acquisition which will be amortized until its maturity, which approximates six years.

The Company has retained essential Rexall employees consisting of product development, sales and service personnel. The transaction will complement NBTY's existing wholesale products and provide NBTY with an enhanced sales infrastructure and additional manufacturing capacity. Rexall's portfolio of nutritional supplement brands includes Rexall®, Sundown®, Osteo Bi-Flex®, Carb Solutions®, MET-Rx® and WORLDWIDE Sport Nutrition®. This acquisition contributed $72,815 in sales and an operating profit of $7,796 to NBTY's wholesale segment for the fiscal year 2003.

The Company accounted for the acquisition under the purchase method of accounting in accordance with SFAS No. 141, *Business Combinations.* Under the purchase method of accounting, the total purchase price was allocated to the tangible and intangible assets acquired and the liabilities assumed based on their estimated fair values. The excess of the purchase price over those fair values was recorded as goodwill. The fair value assigned to the tangible and intangible assets acquired and liabilities assumed were based on estimates and assumptions provided by management, and other information compiled by management, including a valuation, prepared by an independent valuation specialist that utilized established valuation techniques appropriate for the industry. Upon completion of the valuation of the fair value of the net assets acquired (which the Company expects to finalize by the end of fiscal 2004), actual results may differ from those presented herein. The total goodwill recognized in connection with this acquisition was $34,037, all of which relates to the wholesale segment. None of this goodwill is expected to be deductible for tax purposes.

Although management believes that the preliminary fair values and allocation of the estimated purchase price are reasonable, final valuations and appraisals may differ significantly from the amounts reflected in the unaudited pro forma condensed consolidated financial information.

The preliminary purchase price allocation is as follows:

Assets acquired	
Cash	$ 906
Accounts receivable, net	41,821
Inventories	71,781
Other current assets	3,220
Property, plant and equipment	76,115
Deferred tax assets	32,501
Other assets	2,638
Goodwill	34,037
Intangibles	94,500
Total assets acquired	$ 357,519
Liabilities assumed	
Accounts payable	$ 18,358
Accrued liabilities	47,890
Deferred tax liabilities	24,679
Other liabilities	5,400
Total liabilities assumed	96,327
Net assets acquired	$ 261,192

The estimated fair value of property, plant and equipment acquired is as follows:

	Fair Value	Useful Life (Years)
Land	$ 10,137	
Buildings	32,620	39
Machinery and equipment	22,232	3-10
Leasehold improvements	1,765	5
Furniture and fixtures	3,510	3-15
Computer equipment	5,851	3
Total property, plant and equipment	$ 76,115	

The estimated fair value of identifiable intangible assets acquired is as follows:

	Fair Value	Useful Life (Years)
Brands	$ 78,000	20
Private label relationships	11,500	20
Small tablet patent	5,000	19
Total intangible assets	$ 94,500	

The acquisition gave rise to the consolidation and elimination of certain Rexall personnel positions and the Company provided certain balance sheet adjustments for the same in accordance with EITF No. 95-3, *Recognition of Liabilities in Connection with a Purchase Business Combination.* At the closing of the acquisition, the Company anticipated headcount reductions across all areas of Rexall and, as such, included an estimated accrual for workforce reductions of approximately $12,000 comprised of severance, employee benefits and outplacement support.

The Company's statements of income include Rexall's results from the acquisition date. The following unaudited condensed pro forma information presents a summary of consolidated results of operations of the Company and Rexall as if the acquisition had occurred at the beginning of fiscal 2002, with pro forma adjustments to give effect to the amortization of definite lived intangibles, adjustments in depreciation, interest expense on acquisition debt, elimination of impairment charges on intangibles recorded by Rexall, as well as the elimination of the cumulative effect of accounting change resulting from the adoption of SFAS No. 142, elimination of trademark fees, and certain other adjustments, together with related income tax effects. The pro forma information does not give effect to anticipated intercompany product sales, or any incremental direct costs or adjustments for liabilities resulting from integration plans that may be recorded in connection with the acquisition, or potential cost savings, which may result from the consolidation of certain operations of NBTY and Rexall.

The unaudited pro forma condensed consolidated financial information is based on estimates and assumptions and includes intercompany charges paid to Rexall's former parent company, Royal Numico N.V. These estimates and assumptions have been made solely for purposes of developing this pro forma information, which is presented for illustrative purposes only and is not necessarily indicative of the consolidated financial position or results of operations of future periods or the results that actually would have been realized had the entities been a single entity during these periods. The unaudited pro forma condensed consolidated financial information does not reflect future events that may occur after the acquisition has been completed.

The unaudited pro forma condensed consolidated statement of operations data for the fiscal year ended September 30, 2003 has been derived by combining the audited historical consolidated statement of operations of NBTY for the year ended September 30, 2003 with the unaudited historical consolidated statement of operations of Rexall (a subsidiary of the Dutch company, Royal Numico N.V.) for the period October 1, 2002 through July 24, 2003. The unaudited pro forma condensed consolidated statement of operations data for the year ended September 30, 2002 has been derived by combining the audited historical consolidated statement of operations of NBTY for the year ended September 30, 2002 with the audited historical consolidated statement of operations of Rexall for the year ended December 31, 2002.

	Fiscal year ended September 30,	
	2003 Pro Forma Consolidated	2002 Pro Forma Consolidated
Net sales	**$ 1,534,154**	$ 1,414,494
Net income before the cumulative effect of accounting change	**$ 32,528**	$ 73,328
Net income	**$ 32,528**	$ 73,328
Net income per share before the cumulative effect of accounting change		
Basic	**$ 0.49**	$ 1.11
Diluted	**$ 0.47**	$ 1.08
Net income per share		
Basic	**$ 0.49**	$ 1.11
Diluted	**$ 0.47**	$ 1.08
Weighted average common shares outstanding		
Basic	**66,452**	65,952
Diluted	**68,538**	67,829

Included in Rexall's loss from operations for the fiscal years 2003 and 2002 were non-recurring pre-tax expenses of $51,027 ($36,178 after-tax or $0.53 per diluted share) and $37,872 ($26,170 after-tax or $0.39 per diluted share), respectively. These expenses relate to charges incurred for inter-company expenses for such items as product mark-ups, litigation settlements, management stock purchase plan expenses and discontinued product charges related to ephedra. Excluding these non-recurring expenses, pro forma condensed consolidated net income for the fiscal years ended September 30, 2003 and 2002 would have been $68,706 (or $1.00 diluted earnings per share) and $99,498 (or $1.47 diluted earnings per share), respectively.

De Tuinen

On May 20, 2003, the Company acquired the De Tuinen chain of retail stores from Royal Ahold N.V. The De Tuinen chain operates 41 company owned stores and 24 franchised stores located throughout the Netherlands. This operation had total revenue of approximately 30,000 Euro ($30,200 U.S. Dollars) during 2002 and has been a wholly owned subsidiary of the Ahold group of companies since 1991. The purchase price for this business was approximately $14,551 in cash. Assets acquired and liabilities assumed include cash ($622), accounts receivable ($1,629), inventories ($3,103), property, plant and equipment ($4,991) and current liabilities ($1,513). The excess cost of investment over the net book value amounted to $5,719 and is classified as goodwill. None of this goodwill is expected to be deductible for tax purposes. This acquisition contributed $13,245 in sales and an insignificant operating loss for the fiscal year 2003.

Health & Diet Group ("GNC (UK)") and FSC Wholesale ("FSC")

On March 10, 2003, the Company acquired Health & Diet Group Ltd. and the FSC wholesale business from Royal Numico N.V. At the time of the acquisition, Health & Diet Group owned and operated 49 GNC stores in the U.K. FSC is a Manchester, U.K.-based wholesale operation whose products are sold to health food stores and pharmacies. The FSC branded products include comprehensive ranges of multivitamins, single vitamins and minerals, herbal formulas, and tinctures. These consolidated operations had total sales of approximately $57,000 during 2002. The purchase price for these businesses was approximately $16,759 in cash. Assets acquired and liabilities assumed include cash ($1,298), accounts receivable ($3,691), inventories ($8,081), property, plant and equipment ($4,121), and current liabilities ($21,639). The excess cost of investment over the net book value amounted to $21,207 and is classified as goodwill. None of this goodwill is expected to be deductible for tax purposes. This transaction stipulates adjustments to the purchase price for agreed upon working capital requirements and inventory valuation procedures to be performed. The Company is still in the process of finalizing its purchase price allocation and therefore the assets and liabilities allocated above are subject to change. Upon completion of the valuation of the fair value of the net assets acquired which the Company expects to finalize by the end of fiscal 2004, actual results may differ from those presented herein. This acquisition contributed $27,468 in sales and an insignificant operating loss for the fiscal year 2003.

Pro forma financial information related to De Tuinen, GNC (UK) and FSC are not provided as their operations were not significant individually or in the aggregate to NBTY as a whole. Such acquisitions were funded with internally generated cash

Fiscal 2002 acquisitions:

Healthcentral.com

On December 6, 2001, the Company acquired out of bankruptcy certain assets of HealthCentral.com for approximately $2,800 in cash. The assets include the customer list of the mail order operation, L&H Vitamins, and the customer list and URLs of Vitamins.com and WebRx.com. Assets acquired were classified as intangibles, specifically as a customer list ($2,800) which is being amortized over 15 years. These operations had sales for the 12 month period ended November 2001 of approximately $15,000 and a combined customer list of approximately 1,800 names, which has been merged into the existing customer base of the Puritan's Pride/Direct Response business.

Knox NutraJoint®

On December 13, 2001, the Company acquired certain assets of the Knox NutraJoint® and Knox for Nails nutritional supplement business from Kraft Foods North America, Inc. for approximately $4,456 in cash. Assets acquired include inventory ($2,456) and intangibles ($2,000). Approximately $1,800 of the $2,000 has been classified as a trademark with an indefinite life. Kraft's revenues for these brands were approximately $15,000 in 2001. NBTY has licensed the Knox trademark at no charge to Kraft Foods North America, Inc. for use in the Knox gelatine business, which was not part of the acquisition.

All 2002 acquisitions were funded with internally generated cash.

Fiscal 2001 acquisitions:

Global Group

On May 25, 2001, the Company acquired certain assets and liabilities of the business of Global Health Sciences, Inc. and certain of its affiliated companies ("Global Group"). NBTY was the successful bidder in an auction ordered by a bankruptcy court in California. The purchase price was approximately $40,000 in cash, less adjustments. The Global Group is located in Anaheim, California and is a leading manufacturer of nutritional powders used for meal replacements, weight control and protein powders formulated to improve physical performance. Global Group also produces formulations for herbal, vitamin and mineral tablets.

Assets acquired and liabilities assumed include cash ($1,427), accounts receivable ($8,569), inventory ($7,894), other current assets ($1,663), property, plant and equipment ($14,000) and current liabilities ($241). Global Group had sales of $171,000 for the 12-month period ended April 2001. The excess cost of investment over the net book value of Global Group at the date of acquisition amounted to $6,923, of which $6,681 was classified by the Company as other long-term assets in 2001. In fiscal 2003 and 2002, the Company received $4,600 and $1,850, respectively, from an escrow account relating to this acquisition. The remaining excess has been classified as goodwill.

NatureSmart

On May 15, 2001, the Company acquired certain assets and liabilities of WFM NatureSmart, LLC from Whole Foods Market, Inc. for approximately $29,000 in cash. NatureSmart, through its four divisions, manufactures and markets nutritional supplements, including vitamins, minerals, herbs and personal care products through mail order operations having approximately 350 active customers. It also manufactures private label vitamins for mass market, specialty retailers and healthcare professionals.

Assets acquired and liabilities assumed include accounts receivable ($607), inventory ($10,882), other current assets ($618), property, plant and equipment ($3,462), intangibles ($1,893), and current liabilities ($4,487). The excess cost of investment over the net book value of NatureSmart at the date of acquisition resulted in an increase in goodwill of $16,395. NatureSmart's annual sales for the year ended September 24, 2000 were approximately $59,000.

Both 2001 transactions were funded by borrowings under the Company's then existing Credit and Guarantee Agreement ("CGA").

These two acquisitions contributed $29,000 of sales and an insignificant operating profit for the Company's 2001 fiscal year.

3. Investments in bonds:

In 2002, the Company purchased $8,242 high yield, less-than-investment-grade corporate debt securities. The Company did not intend to sell the shares in the near term and therefore classified them as available-for-sale securities. The investment was reported at fair value, with unrealized losses reported in accumulated other comprehensive income in stockholders' equity. The Company reviews marketable securities for impairment based on criteria that include the extent to which cost exceeds market value, the duration of the market decline, and the financial condition and near-term prospects for the issuer. Based on this review, the Company determined that the decline in fair value was other-than-temporary. On September 4, 2003, the bond issuer declared bankruptcy. During the fiscal year ended September 30, 2003 other-than-temporary impairment writedowns charged against income were $4,084 and have been included in "Other income (expense)" in the Consolidated Statements of Income.

The cost and estimated fair value for these available-for-sale investments in debt securities at September 30, 2003 by contractual maturity was $8,242 and $4,158, respectively, due beyond one year and within five years.

4. Inventories:

The components of inventories are as follows:

	September 30,	
	2003	2002
Raw materials	**$ 118,371**	$ 77,051
Work-in-process	**9,555**	8,527
Finished goods	**186,165**	118,824
	$ 314,091	$ 204,402

5. Property, Plant and Equipment:

Property, plant and equipment is as follows:

	September 30,		Depreciation and Amortization
	2003	2002	period (years)
Land	**$ 21,129**	$ 10,781	
Buildings and leasehold improvements	**180,521**	94,360	5-40
Machinery and equipment	**121,556**	95,961	3-10
Furniture and fixtures	**103,287**	142,026	3-15
Transportation equipment	**9,579**	5,411	4
Computer equipment	**58,944**	43,494	3-5
	495,016	392,033	
Less accumulated depreciation and amortization	**196,672**	175,788	
	$298,344	$216,245	

Depreciation and amortization of property, plant and equipment for the fiscal years ended September 30, 2003, 2002 and 2001 was approximately $41,406, $37,863 and $34,866, respectively.

Property, plant and equipment includes approximately $6,010 for assets recorded under capital leases at September 30, 2003 and 2002. Accumulated amortization of these capital leases at September 30, 2003 and 2002 was approximately $4,273 and $3,541, respectively.

In thousands, except per share amounts and number of locations

6. Goodwill and Intangible Assets:

The carrying amount of acquired intangible assets is as follows:

	September 30, 2003		September 30, 2002		
	Gross carrying amount	Accumulated amortization	Gross carrying amount	Accumulated amortization	Amortization period (years)
Definite lived intangible assets:					
Brands	**$ 78,000**	**$ 650**	$ -	$ -	20
Customer lists	**61,368**	**19,843**	64,283	18,668	6 - 15
Customer relations	**11,500**	**96**	-	-	20
Trademark and licenses	**2,414**	**2,399**	2,429	2,188	2 - 3
Patents	**5,000**	**44**	-	-	19
Covenants not to compete	**2,605**	**2,186**	2,605	1,848	3 - 5
	160,887	**25,218**	69,317	22,704	
Indefinite lived intangible assets:					
Trademark	**1,800**	-	1,800	-	
Total intangible assets	**$ 162,687**	**$ 25,218**	$ 71,117	$ 22,704	

The changes in the carrying amount of goodwill by segment for the fiscal year ended September 30, 2003 are as follows:

	Wholesale	Retail: United States	Retail: Europe	Direct Response/ Puritan's Pride	Consolidated
Balance at September 30, 2002	$ 4,892	$ 7,588	$ 117,322	$ 15,197	$ 144,999
Acquisitions during period	34,037	-	26,926	-	60,963
Foreign currency translation	-	-	7,400	-	7,400
Balance at September 30, 2003	**$ 38,929**	**$ 7,588**	**$ 151,648**	**$ 15,197**	**$ 213,362**

The Company currently has unamortized goodwill remaining from the acquisition of Holland & Barrett ($119,061), Rexall ($34,037), GNC (UK) ($22,019), NatureSmart ($15,164), Nutrition Warehouse ($7,510), De Tuinen ($5,852), Nature's Way ($4,748), Feeling Fine ($3,069), Global Group ($1,640), and other ($262), and the Company currently owns one trademark, Knox ($1,800), all of which are subject to the provisions of SFAS No. 142. The Company did not record any transition intangible asset impairment loss upon adoption of SFAS No. 142. The changes in the carrying amount of goodwill for the year ended September 30, 2003 primarily related to acquisitions.

Aggregate amortization expense of definite lived intangible assets included in the Consolidated Statements of Income under the caption "selling, general and administrative" expenses in fiscal 2003, 2002 and 2001 was approximately $5,478, $4,329 and $3,862, respectively.

Estimated amortization expense for the next five fiscal years is as follows:

For the fiscal year ending September 30,

2004	$ 7,188
2005	$ 6,979
2006	$ 7,220
2007	$ 8,488
2008	$ 8,443

As required by SFAS 142, the results of prior fiscal years have not been restated. A reconciliation of net income, as if SFAS 142 had been adopted, is presented below for the fiscal years ended September 30, 2003, 2002 and 2001, exclusive of amortization expense related to goodwill that is not being amortized:

Fiscal year ended September 30,

	2003	2002	2001
Reported net income	**$ 81,585**	$ 95,791	$ 41,925
Addback: goodwill amortization	-	-	6,082
Adjusted net income	**$ 81,585**	$ 95,791	$ 48,007
Basic earnings per share			
Reported net income	**$ 1.23**	$ 1.45	$ 0.64
Addback: goodwill amortization	-	-	0.09
Adjusted net income	**$ 1.23**	$ 1.45	$ 0.73
Diluted earnings per share			
Reported net income	**$ 1.19**	$ 1.41	$ 0.62
Addback: goodwill amortization	-	-	0.09
Adjusted net income	**$ 1.19**	$ 1.41	$ 0.71

In thousands, except per share amounts and number of locations

7. Accrued Expenses and other current liabilities:

The components of accrued expenses and other current liabilities are as follows:

	September 30, 2003	2002
Payroll and related taxes	**$ 19,869**	$ 11,117
Accrued purchases	**17,644**	12,770
Rent	**13,912**	3,272
Customer deposits	**12,951**	5,854
Severance	**12,049**	-
Litigation	**10,207**	-
Income taxes payable	**8,257**	7,525
Co-op/coupons	**6,275**	949
Accrued interest	**644**	970
Other	**22,822**	11,720
	$ 124,630	$ 54,177

8. Long-Term Debt:

	September 30, 2003	2002
Senior debt:		
8-5/8% Senior subordinated notes due 2007, net of unamortized discount of $500 in 2003 and $624 in 2002 (a)	**$ 149,500**	$ 149,376
Note payable due in monthly payments of $2, including interest at 4%, maturing May 2009	**121**	142
Mortgages:		
First mortgage payable in monthly principal and interest (9.73%) installments of $25, maturing November 2009	**1,395**	1,555
First mortgage payable in monthly principal and interest (7.375%) installments of $55, maturing May 2011	**3,870**	4,232
First mortgage payable in monthly principal and interest (9.0%) installments of $3	**-**	183
Credit and Guarantee Agreement (b):		
Term loan B payable in quarterly principal and interest installments of $2,738, maturing July 2009	**224,438**	-
Term loan A payable in quarterly principal and interest installments of $2,950, maturing July 2008	**47,500**	-
Credit and Guarantee Agreement (refinanced July 25, 2003) (c):		
Term loan payable in quarterly principal and interest installments of $5,563	**-**	31,188
	426,824	186,676
Less current portion	**12,837**	22,806
	$ 413,987	$ 163,870

(a) The 8-5/8 percent Senior Subordinated Notes (the "Notes") are unsecured and subordinated in right of payment for all existing and future indebtedness of the Company. The Notes provide for the payment of interest semi-annually at the rate of 8-5/8 percent per annum.

(b) In connection with the Rexall acquisition, the Company entered into a new Credit and Guarantee Agreement ("CGA") comprised of $375,000 Senior Secured Credit Facilities. The CGA consists of a $100,000 Revolving Credit Facility, a $50,000 Term Loan A and a $225,000 Term Loan B. The Company utilized term loans aggregating $275,000 to finance the purchase price. At September 30, 2003, the borrowings under the Term Loan A and Term Loan B were $47,500 and $224,438, respectively. At September 30, 2003 there were no borrowings outstanding under the revolving credit facility. The Company is required to make quarterly principal installments under Term Loan A and Term Loan B of approximately $2,500 and $563, respectively, at the end of each quarter beginning on September 30, 2003. The Term Loan B also requires the last four quarterly principal installments to be balloon payments of approximately $53,435 beginning September 30, 2008. The term loans annual borrowing rates vary depending on the interest rate option utilized. Options for the rate can either be the Alternate Base Rate or LIBOR plus applicable margin. At September 30, 2003 the annual borrowing rates for Term Loan A and Term Loan B were 3.375 and 3.625 percent, respectively. The current portion of Term Loan A and Term Loan B at September 30, 2003 was $10,000 and $2,250, respectively. The revolving credit facility and term loans are scheduled to mature on the earlier of (i) fifth anniversary of the closing date for the Revolving Credit Facility and Term Loan A, and the sixth anniversary date for Term Loan B; or (ii) March 15, 2007 if the Company's 8-5/8% senior subordinated Notes due September 15, 2007 are still outstanding. The proceeds were used to fund the Rexall acquisition, to refinance the existing CGA ($14,500), and to pay fees, commissions, and expenses associated therewith. Following the closing date, the proceeds of loans borrowed under the new Revolving Facility shall be used for general corporate purposes. Virtually all of the company's assets are pledged as collateral under the new CGA and are subject to normal banking terms and conditions and the maintenance of various financial ratios and covenants.

(c) At September 30, 2002, the prior credit agreement was comprised of two term loans and a revolving credit facility. Borrowings outstanding under that credit agreement were $31,188 and had an annual borrowing rate of 4.422 percent payable in quarterly installments of $5,563. The current portion of this credit agreement at September 30, 2002 was $22,250. The Company refinanced this credit agreement during the third quarter 2003. See (b) above.

The Company's credit arrangements, generally the indenture governing the Notes and the new CGA, impose certain restrictions on the Company regarding capital expenditures and limit the Company's ability to do any of the following: incur additional indebtedness, dispose of assets, make repayments of indebtedness or amendments of debt instruments, pay distributions, create liens on assets and enter into sale and leaseback transactions, investments, loans or advances and acquisitions. Such restrictions are subject to certain limitations and exclusions.

In addition, a default under certain covenants in the Indenture and the CGA, respectively, could result in the acceleration of the Company's payment obligations under the CGA and the Indenture, as the case may be, and, under certain circumstances, in cross-defaults under other debt obligations. These defaults may have a negative effect on the Company's liquidity.

Required principal payments of long-term debt are as follows:

Fiscal year ending September 30,	
2004	$ 12,837
2005	12,885
2006	12,938
2007	162,495
2008	63,432
Thereafter	162,237
	$ 426,824

The fair value of the Company's long-term debt at September 30, 2003 and 2002, based upon current market rates, approximates the amounts disclosed above.

9. Capital Lease Obligations:

The Company enters into various capital leases for machinery and equipment, which provide the Company with bargain purchase options at the end of such lease terms. Future minimum payments under capital lease obligations as of September 30, 2003 are as follows:

Fiscal year ending September 30,	
2004	$ 5
2005	2
	7
Less, amount representing interest	1
Present value of minimum lease payments (including $4 due within one year)	$ 6

10. Income Taxes:

Income before income taxes consists of the following components:

	Fiscal year ended September 30, 2003	2002	2001
United States	**$ 59,529**	$ 74,216	$ 28,047
Foreign	**55,468**	64,491	39,836
	$114,997	$138,707	$ 67,883

Provision for income taxes consists of the following:

	Fiscal year ended September 30, 2003	2002	2001
Federal			
Current	**$ 9,358**	$ 26,835	$ 14,713
Deferred	**5,864**	(4,386)	(1,682)
State			
Current	**1,334**	2,760	1,513
Deferred	**170**	(451)	(172)
Foreign			
Current	**17,493**	19,150	11,767
Deferred	**(807)**	(992)	(181)
Total provision	**$ 33,412**	$ 42,916	$ 25,958

In thousands, except per share amounts and number of locations

The following is a reconciliation of the income tax expense computed using the statutory Federal income tax rate to the actual income tax expense and its effective income tax rate.

	Fiscal year ended September 30,					
	2003		2002		2001	
	Amount	Percent of pretax income	Amount	Percent of pretax income	Amount	Percent of pretax income
Income tax expense at statutory rate	**$ 40,249**	**35.0%**	$ 48,548	35.0%	$ 23,759	35.0%
State income taxes, net of federal income tax benefit	**1,504**	**1.3%**	1,501	1.1%	2,444	3.6%
Amortization of goodwill	**-**	**-**	-	-	2,277	3.3%
Change in valuation allowance	**(8,275)**	**(7.1%)**	(4,700)	(3.4%)	-	-
Other, individually less than 5%	**(66)**	**(0.1%)**	(2,433)	(1.8%)	(2,522)	(3.7%)
	$ 33,412	**29.1%**	$ 42,916	30.9%	$ 25,958	38.2%

The components of deferred tax assets and liabilities are as follows:

	September 30,	
	2003	2002
Deferred tax assets:		
Inventory reserves	**$ 8,684**	$ 1,935
Accrued expenses and reserves not currently deductible	**33,957**	5,335
Tax credits	**9,876**	18,827
Valuation allowance	**(5,452)**	(13,727)
Total deferred income tax assets, net of valuation allowance	**47,065**	12,370
Deferred tax liabilities:		
Property, plant and equipment	**(17,079)**	(17,731)
Intangibles	**(26,552)**	(361)
Undistributed foreign earnings	**(6,340)**	-
Other	**(286)**	-
Total deferred income tax liabilities	**(50,257)**	(18,092)
Total net deferred income tax liabilities	**(3,192)**	(5,722)
Less current deferred income tax assets	**(37,021)**	(11,206)
Long-term deferred income taxes	**$(40,213)**	$(16,928)

Deferred tax assets have been recognized to the extent that it is more likely than not that they will be realized. For the year ended September 30, 2003, the Company has foreign tax credit and NYS Investment tax credit carryforwards of $4,424 and $5,452, respectively. During 2003, the Company determined that sufficient evidence existed to allow for a release of $8,275 of valuation allowance with regards to the foreign tax credit carryforwards. A valuation allowance of $5,452 is still maintained against the NYS investment tax credits that will begin to expire in 2013. The amount of deferred tax assets considered realizable could be adjusted in the future as the Company continues to monitor the future realization of such deferred tax assets in addition to identifying additional tax planning strategies. The change in the valuation allowance for the fiscal years ended September 30, 2003 and 2002 is as follows:

	Fiscal year ended September 30,	
	2003	2002
Balance at October 1	**$ (13,727)**	$ (18,427)
Utilization of foreign tax credit carryforwards	**8,275**	4,700
Balance at September 30	**$ (5,452)**	$ (13,727)

11. Commitments:

Operating Leases

The Company conducts retail operations under operating leases, which expire at various dates through 2027. Some of the leases contain renewal options and provide for contingent rent based upon sales plus certain tax and maintenance costs.

Future minimum rental payments (excluding real estate tax and maintenance costs) for retail locations and other leases that have initial or noncancelable lease terms in excess of one year at September 30, 2003 are as follows:

Fiscal year ending September 30,	
2004	$ 68,409
2005	62,638
2006	57,080
2007	52,029
2008	46,160
Thereafter	159,472
	$ 445,788

Operating lease rental expense (including real estate taxes and maintenance costs) and leases on a month to month basis were approximately $83,559, $68,104 and $62,355 during fiscal 2003, 2002 and 2001, respectively.

Purchase commitments

The Company was committed to make future purchases under various purchase arrangements with fixed price provisions aggregating approximately $22,287 at September 30, 2003.

Capital commitments

The Company had approximately $1,665 in open capital commitments at September 30, 2003, primarily related to manufacturing equipment as well as to computer hardware and software. Also, the Company has a $13,310 commitment for the construction of an automated warehouse over the next 18 months.

Employment and consulting agreements

The Company has employment agreements with two of its executive officers. The agreements, effective October 1, 2002, have a term of five years and are automatically renewed each year thereafter unless either party notifies the other to the contrary. These agreements provide for minimum salary levels and contain provisions regarding severance and changes in control of the Company. The annual commitment for salaries to these two officers as of September 30, 2003 was approximately $1,170.

The Company maintains a consulting agreement with Rudolph Management Associates, Inc. for the services of Arthur Rudolph, a director of the Company. The agreement requires Mr. Rudolph to provide consulting services to the Company through December 31, 2003, in exchange for a consulting fee of $450 per year, payable monthly. In addition, Mr. Rudolph receives certain fringe benefits accorded to other executives of the Company. The Company currently intends to renew this consulting agreement for a period of one year on substantially similar terms.

Five members of the Company's European senior executive staff have service contracts terminable by the Company upon twelve months notice. The annual aggregate commitment for such executive staff as of September 30, 2003 was approximately $1,080.

12. Earnings Per Share:

Basic earnings per share ("EPS") computations are calculated utilizing the weighted average number of common shares outstanding during the fiscal years. Diluted EPS include the weighted average number of common shares outstanding and the effect of common stock equivalents. The following is a reconciliation between basic and diluted EPS:

	Fiscal year ended September 30,		
	2003	2002	2001
Numerator:			
Numerator for basic and diluted EPS-income available to common stockholders	**$ 81,585**	$ 95,791	$ 41,925
Denominator:			
Denominator for basic EPS-weighted-average shares	**66,452**	65,952	65,774
Effect of dilutive securities			
Stock options	**2,086**	1,877	1,351
Denominator for diluted EPS-weighted-average shares	**68,538**	67,829	67,125
Net EPS:			
Basic EPS	**$ 1.23**	$ 1.45	$ 0.64
Diluted EPS	**$ 1.19**	$ 1.41	$ 0.62

13. Stock Option Plans:

During fiscal 1999, the Board of Directors (the "Board") approved the issuance of 3,000 options expiring at varying dates in 2008 and 2009 with exercise prices ranging from $4.75 to $6.19 per share. During fiscal 2000, the Board approved the issuance of 2,288 options expiring in 2010 with an exercise price of $5.88 per share. During fiscal 2001, the Board approved the issuance of 805 options expiring in 2011 with an exercise price of $5.47 per share. The exercise price of each of the aforementioned issuances was at or in excess of the market closing price at the date such options were granted. Since September 19, 2003, the Common Stock has traded on the New York Stock Exchange (the "NYSE"). Prior to that date, the Common Stock was included for quotation on the National Association of Securities Dealers National Market System ("NASDAQ/NMS"). Stock options granted under the plans generally become exercisable on grant date and have a maximum term of ten years. The Company did not grant any stock options during fiscal 2003 or 2002.

During fiscal 2003, options for 198 shares of common stock were exercised, with an aggregate exercise price of $1,146. As a result of the exercise of those options, the Company received a compensation deduction for tax purposes of approximately $2,650. Accordingly, a tax benefit of approximately $928 was credited to capital in excess of par. Also during fiscal 2003, the Company received an additional compensation deduction of approximately $412 due to the early disposition of certain incentive stock options exercised by employees. Accordingly, a tax benefit of approximately $144 was credited to capital in excess of par.

During fiscal 2002, options for 480 shares of common stock were exercised, with an aggregate exercise price of $2,072 for which the Company received cash proceeds of $1,899 and surrendered shares with a fair value of $173. As a result of the exercise of those options, the Company received a compensation deduction for tax purposes of approximately $3,882. Accordingly, a tax benefit of approximately $1,409 was credited to capital in excess of par. Also during fiscal 2002, the Company received an additional compensation deduction of approximately $1,118 due to the early disposition of certain incentive stock options exercised by employees. Accordingly, a tax benefit of approximately $406 was credited to capital in excess of par.

During fiscal 2001, options for 458 shares of common stock were exercised, with an aggregate exercise price of $2,604. As a result of the exercise of those options, the Company received a compensation deduction for tax purposes of approximately $1,990. Accordingly, a tax benefit of approximately $759 was credited to capital in excess of par. Also during fiscal 2001, the Company received an additional compensation deduction of approximately $1,299 due to the early disposition of certain incentive stock options exercised by employees. Accordingly, a tax benefit of approximately $500 was credited to capital in excess of par.

In thousands, except per share amounts and number of locations

A summary of stock option activity is as follows:

	Fiscal year ended September 30,					
	2003		2002		2001	
	Number of shares	Weighted average exercise price	Number of shares	Weighted average exercise price	Number of shares	Weighted average exercise price
Outstanding at beginning of year	**4,373**	**$ 5.77**	4,853	$ 5.62	4,536	$ 5.71
Exercised	**(198)**	**$ 5.79**	(480)	$ 4.32	(458)	$ 5.67
Forfeited	-	$ -	-	$ -	(30)	$ 5.13
Granted	-	$ -	-	$ -	805	$ 5.47
Outstanding at end of year	**4,175**	**$ 5.77**	4,373	$ 5.77	4,853	$ 5.62
Exercisable at end of year	**4,175**	**$ 5.77**	4,373	$ 5.77	4,853	$ 5.62
Fair value of options granted during year						$ 3.80

The following table summarizes information about stock options outstanding at September 30, 2003:

	Options Outstanding			Options Exercisable	
Range of Exercise Prices	Shares Outstanding	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Shares Exercisable	Weighted Average Exercise Price
$4.75 - $6.19	4,175	6.2 years	$5.77	4,175	$5.77

14. Employee Benefit Plans:

The Company sponsors a 401(k) plan covering substantially all employees with more than six months of service. As allowed under Section 401(k) of the Internal Revenue Code, the Plan provides tax-deferred salary deductions for eligible employees. Employees may contribute from one percent to 50 percent of their annual compensation to the Plan, limited to a maximum annual amount as set periodically by the Internal Revenue Service. Company contributions are two percent of the participant's gross earnings to an annual maximum contribution of $4 per participant. Employees become fully vested in employer contributions after three years of service.

The Company also sponsors an Employee Stock Ownership Plan and Trust (ESOP) which covers substantially all employees who are employed at calendar year end and have completed one year of service (providing they worked at least the minimum number of hours as required by the terms of the plan during such plan year). The ESOP is designed to comply with Section 4975(e)(7) and the regulations thereunder of the Internal Revenue Code of 1986, as amended (Code) and is subject to the applicable provisions of the Employee Retirement Income Security Act of 1974 (ERISA). Contributions are made on a voluntary basis by the Company. There is no minimum contribution required in any one year. There are no contributions required or permitted to be made by an employee. All contributions are allocated to participant accounts as defined. Employees become vested in their respective accounts after five years of service, provided the ESOP is not considered top-heavy. If the ESOP is considered top-heavy, employees will become vested after three years of service.

The accompanying financial statements reflect contributions to these plans in the approximate amount of $3,111, $1,429 and $1,480 during fiscal 2003, 2002 and 2001, respectively.

Certain international subsidiaries of the Company (mainly in the U.K.) have company sponsored defined contribution plans to comply with local statutes and practices. The accompanying financial statements reflect contributions to these plans by such subsidiaries in the approximate amount of $464, $461 and $462 during fiscal 2003, 2002 and 2001, respectively.

15. Discontinued Product Charge:

Effective March 15, 2003, the Company voluntarily discontinued sales of products that contain ephedra. Income from operations for the fiscal year ended September 30, 2003 includes a charge of approximately $4,500 ($3,191 or $0.05 diluted earnings per share, after tax) associated with such discontinued product sales. The Company's belief that its ephedra products were safe when used as directed has been supported by credible scientific evidence. However, in light of adverse publicity surrounding ephedra and the current environment in the U.S., the Company believed it was in its best interest to voluntarily cease selling ephedra products, which represented an insignificant portion of the Company's overall business.

16. Litigation Recovery of Raw Material Costs:

The Company was a plaintiff in a vitamin antitrust litigation matter brought in the United States District Court in the District of Columbia against F. Hoffmann-La Roche Ltd. and others for alleged price fixing. Settlements with certain defendants were made, and the Company received $21,354 ($14,756 or $0.22 diluted earnings per share, after tax) in settlement of price fixing litigation during fiscal 2002.

17. Litigation:

Pseudoephedrine Products

On April 14, 2003, a complaint was filed by the United States of America against the Company arising from certain pseudoephedrine sales by the Company from November 2000 through December 2002. The complaint, filed in U.S. District Court for the Eastern District of New York, alleges technical recordkeeping and reporting violations of the Controlled Substances Act, 21 U.S.C. Sections 801-904, and Controlled Substances Import and Export Act, 21 U.S.C. Sections 951-971, in a small fraction of the Company's sales of over-the-counter antihistamine and decongestant products containing pseudoephedrine. Total sales of such products generated approximately $160, or only 0.0002 percent, of the Company's total sales for the fiscal years ended September 30, 2002 and 2001, respectively. The Company has cooperated in all respects with the Drug Enforcement Administration in its investigation of sales identified in the complaint. Accordingly, the Company believes that there is no valid basis nor precedent for the penalties sought (which consist of monetary fines), and has launched a vigorous defense. However, because this action is in its early stages, no determination can be made at this time as to the final outcome of this action, nor can its materiality be accurately ascertained.

Prohormone Products
On July 25, 2002, a putative consumer class action was filed in New York state court against several manufacturers and retailers of so-called prohormone supplements naming Vitamin World as a defendant. Prohormones are substances such as androstenedione that plaintiffs allege are hormone precursors ingested to promote muscle growth. Plaintiffs allege that the advertising and labeling of certain prohormone supplements overstate their efficacy and do not fully disclose their risks, and seek class certification and injunctive and monetary relief. The action was severed into separate class actions against each of the defendants. On December 6, 2002, an amended class action complaint was filed against Vitamin World that purported to elaborate on the claims initially alleged. The court has not yet certified a class and the matter is currently in discovery. The Company believes that this action is without merit and intends to vigorously defend against the claims asserted. However, because this action is in its early stages, no determination can be made at this time as to the final outcome of this action, nor can its materiality be accurately ascertained.

In addition to the foregoing prohormone case in which the Company is a defendant, there are two other cases filed in 2002 naming MET-Rx as a defendant. On July 25, 2002, one putative consumer class action was filed in California state court and one putative consumer class action was filed in Florida state court. Plaintiffs in each of these cases allege that the advertising and labeling of certain prohormone supplements overstate their efficacy and do not fully disclose their risks, and seek class certification, injunctive and monetary relief. In the Florida action, plaintiffs allege in the alternative that if the prohormone products were effective as advertised, they were anabolic steroids, controlled substances under Florida law. On this alternative theory, plaintiffs seek treble damages under the Florida Civil RICO statute. The cases are currently in the discovery phase. The Company believes that these actions are without merit and intends to vigorously defend against the claims asserted. However, because these actions are in their early stages, no determination can be made at this time as to their final outcome, nor can their materiality be accurately ascertained.

Nutrition Bars
On August 28, 2001, the Company was also named as a defendant, along with other companies, in a putative class action commenced in an Alabama state court. Plaintiffs allege that NBTY manufactured and marketed misbranded nutrition bars which understated carbohydrate content. Plaintiffs seek class certification, injunctive, declaratory, and monetary relief. Class discovery is being taken, and no class has been certified. NBTY is vigorously opposing class certification on the basis that the plaintiffs were not damaged as alleged as a result of any action by NBTY.

On October 3, 2002, the Company was named as a defendant in a second putative class action commenced in the same Alabama state court as the above-identified litigation. Plaintiffs, in an attempt to pursue several retailers, including Vitamin World, and not manufacturers of nutrition bars, allege that NBTY marketed misbranded nutrition bars. In November 2002, NBTY filed a motion to dismiss or abate the lawsuit based on the principle that the court lacks subject-matter jurisdiction because the earlier-filed lawsuit, which seeks identical relief for the same purported class action against the manufacturers, preempts this second attempt to certify a class against NBTY.

In addition to the foregoing nutrition bar cases in which the Company is a defendant, there are six other cases filed in 2002 naming Rexall or a subsidiary of Rexall as a defendant, each making substantially the same allegations. NBTY acquired these cases with the purchase of Rexall. Three cases were brought in California state court, on August 8, 2002, June 21, 2002 and August 29, 2002, respectively. One case was brought in Florida state court on December 23, 2002, one case in Oklahoma state court on December 31, 2002 and one case in Arkansas state court on December 31, 2002. Plaintiffs allege misbranding of nutrition bars and violations of state unfair trade and practices statutes, unjust enrichment, misleading advertising, unfair competition and other similar causes of action. Plaintiffs seek disgorgement of profits, restitution, declaratory and injunctive relief. NBTY contends that the California action is not appropriate for class certification because the named plaintiffs are inadequate class representatives and not typical of persons who purchased the nutrition bars.

The Company believes that all of the above described nutrition bar suits are without merit and intends to vigorously defend against the claims asserted. Based upon the information available at this time, the Company believes that its accrual is adequate for the exposure in the nutrition bar litigation. However, because these actions are in their early stages, no determination can be made at this time as to their final outcome, nor can their materiality or the adequacy of reserves be accurately ascertained.

In addition to the foregoing, other claims, suits, complaints and regulatory inquiries (including product liability claims) arise in the ordinary course of the Company's business. The Company believes that such other claims, suits, complaints and inquiries would not have a material adverse effect on the Company's consolidated financial condition or results of operations, if adversely determined against the Company.

18. Segment Information:
The Company is organized by sales segments on a worldwide basis. The Company's management reporting system evaluates performance based on a number of factors; however, the primary measures of performance are the sales and pretax operating income or loss (prior to corporate allocations) of each segment, as this is the key performance indicator reviewed by management. Operating income or loss for each segment does not include corporate general and administrative expenses, interest expense and other miscellaneous income/expense items. Such unallocated expenses remain within corporate. Corporate also includes the manufacturing assets of the Company and, accordingly, items associated with these activities, such as the discontinued product charge and the litigation recovery of raw material costs, remain unallocated in the corporate segment. The Company's segment reporting disclosures for the prior periods presented have been reclassified to conform to the current year presentation. The European Retail operations does not include the impact of any intercompany transfer pricing. The accounting policies of all of the operating segments are the same as those described in the summary of significant accounting policies in Note 1.

The Company reports four worldwide segments: Wholesale; Retail: United States; Retail: Europe; and Direct Response/Puritan's Pride. All of the Company's products fall into one of these four segments. The Wholesale segment is comprised of several divisions each targeting specific market groups which include wholesalers, distributors, chains, pharmacies, health food stores, bulk and international customers. The Retail: United States segment generates revenue through its 533 Company-operated stores of proprietary brand and third-party products. The Retail: Europe segment generates revenue through its 563 Company-operated stores and 26 franchise stores. Such revenue consists of sales of proprietary brand and third-party products as well as franchise fees. The Direct Response/Puritan's Pride segment generates revenue through the sale of its products primarily through mail order catalog and the Internet. Catalogs are strategically mailed to customers who order by mail or by phoning customer service representatives in New York, Illinois and the United Kingdom.

In thousands, except per share amounts and number of locations

The following table represents key financial information of the Company's business segments:

	Fiscal year ended September 30,		
	2003	2002	2001
Wholesale:			
Revenue	**$ 416,627**	$ 291,287	$ 196,832
Operating income	**76,933**	60,197	27,234
Depreciation and amortization	**2,184**	1,155	1,434
Identifiable assets	**400,429**	31,586	51,451
Capital expenditures	**288**	1,370	1,310
Retail:			
United States			
Revenue	**$ 212,380**	$ 198,602	$ 174,987
Operating loss	**(1,643)**	(4,975)	(12,737)
Depreciation and amortization	**12,733**	13,235	13,820
Identifiable assets	**62,577**	73,278	79,401
Capital expenditures	**3,335**	4,633	9,118
Locations open at end of year	**533**	544	525
Europe			
Revenue	**$ 363,597**	$ 290,881	$ 262,876
Operating income	**83,345**	79,420	59,654
Depreciation and amortization	**9,872**	8,295	12,564
Identifiable assets	**330,028**	225,471	220,662
Capital expenditures	**13,009**	3,773	7,829
Locations open at end of year	**589**	468	461
Direct Response/Puritan's Pride:			
Revenue	**$ 199,944**	$ 183,313	$ 172,203
Operating income	**62,184**	66,273	67,264
Depreciation and amortization	**5,779**	5,347	4,991
Identifiable assets	**77,848**	67,337	71,821
Capital expenditures	**1,050**	925	407
Corporate:			
Corporate expenses	**$ (85,278)**	$ (66,623)	$ (54,322)
Discontinued product charge	**(4,500)**	-	-
Litigation recovery of raw material costs	**-**	21,354	-
Depreciation and amortization - manufacturing	**10,966**	9,909	8,291
Depreciation and amortization - other	**5,350**	4,251	3,846
Corporate manufacturing identifiable assets	**333,501**	332,468	285,127
Capital expenditures-manufacturing	**3,693**	5,677	9,916
Capital expenditures-other	**16,135**	5,111	8,617

	Fiscal year ended September 30,		
	2003	2002	2001
Consolidated totals:			
Revenue	**$ 1,192,548**	$ 964,083	$ 806,898
Operating income	**131,041**	155,646	87,093
Depreciation and amortization	**46,884**	42,192	44,946
Identifiable assets	**1,204,383**	730,140	708,462
Capital expenditures	**37,510**	21,489	37,197
Revenue by location of customer:			
United States	**$ 788,645**	$ 633,911	$ 530,361
United Kingdom/Holland /Ireland	**369,476**	290,881	262,876
Other foreign countries	**34,427**	39,291	13,661
Consolidated totals	**$1,192,548**	$ 964,083	$ 806,898
Long-lived assets:			
United States	**$ 447,715**	$ 257,308	$ 267,690
United Kingdom Holland /Ireland	**201,460**	152,349	147,254
Consolidated totals	**$ 649,175**	$ 409,657	$ 414,944

19. Related Party Transactions:

An entity owned by a relative of a director received sales commissions of $643, $585 and $501 in fiscal 2003, 2002 and 2001, respectively, and had trade receivable balances approximating $3,598 and $3,632 at September 30, 2003 and 2002, respectively.

An entity owned by a relative of a director performed landscaping and maintenance on the Company's properties and received compensation of $83, $93 and $128 in 2003, 2002 and 2001, respectively.

20. Quarterly Results of Operations (Unaudited):

The following is a summary of the unaudited quarterly results of operations for fiscal 2003 and 2002:

	Quarter ended			
	Dec. 31, 2002	Mar. 31, 2003	June 30, 2003	Sept. 30, 2003
Net sales	$ 241,403	$ 277,824	$ 308,474	$ 364,847
Gross profit	134,723	147,145	167,278	184,098
Income before income taxes	24,687	29,693	39,109	21,508
Net income	16,624	19,611	29,468	15,882
Net income per diluted share	$0.24	$0.29	$0.43	$0.23 (a)

	Quarter ended			
	Dec. 31, 2001	Mar. 31, 2002	June 30, 2002	Sept. 30, 2002
Net sales	$ 215,090	$ 251,544	$ 251,987	$ 245,462
Gross profit	114,180	138,555	140,080	137,657
Income before income taxes	18,153	41,581	49,286	29,687
Net income	11,164	25,571	29,707	29,349
Net income per diluted share	$0.17	$0.38	$0.44	$0.43 (a)

(a) Amounts may not equal fiscal year totals due to rounding.

To the Board of Directors and Stockholders of NBTY, Inc. and Subsidiaries:

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of income, stockholders' equity and comprehensive income and of cash flows present fairly, in all material respects, the financial position of NBTY, Inc. and its subsidiaries at September 30, 2003 and 2002, and the results of their operations and their cash flows for each of the three years in the period ended September 30, 2003 in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America, which 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, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Note 1, the Company changed the manner in which it accounts for goodwill and other intangible assets upon adoption of Statement of Financial Accounting Standards No. 142, "Goodwill and Other Intangible Assets", on October 1, 2001.

PRICEWATERHOUSECOOPERS LLP

New York, New York
November 11, 2003

PRICE RANGE OF COMMON STOCK

Since September 19, 2003, the Common Stock has traded on the New York Stock Exchange (the "NYSE") under the trading symbol "NTY". Prior to that date, the Common Stock was included for quotation on the National Association of Securities Dealers National Market System ("NASDAQ/NMS") under the trading symbol "NBTY". The following table sets forth, for the periods indicated, the high and low sale prices for the Common Stock, as reported on NASDAQ/NMS until September 19, 2003 and thereafter on the NYSE:

	High	Low
Fiscal Year ended September 30, 2003		
First Quarter ended December 31, 2002	$ 18.63	$ 11.48
Second Quarter ended March 31, 2003	$ 20.00	$ 16.10
Third Quarter ended June 30, 2003	$ 21.75	$ 14.75
Fourth Quarter ended September 30, 2003	$ 27.45	$ 20.25
Fiscal Year ended September 30, 2002		
First Quarter ended December 31, 2001	$ 14.07	$ 6.70
Second Quarter ended March 31, 2002	$ 18.00	$ 10.61
Third Quarter ended June 30, 2002	$ 19.55	$ 14.37
Fourth Quarter ended September 30, 2002	$ 17.32	$ 12.35

On December 8, 2003, there were approximately 650 record holders of Common Stock. The Company believes that there were approximately 12,275 beneficial holders of Common Stock as of December 8, 2003.

Readers are cautioned that forward-looking statements contained herein should be read in conjunction with the Company's disclosures under the heading "Forward Looking Statements" contained in this report. This discussion should also be read in conjunction with the Notes to the Company's Consolidated Financial Statements contained in this Report. Dollar amounts are in thousands, unless otherwise noted.

Background

NBTY is a leading vertically integrated manufacturer, marketer and retailer of a broad line of high quality, value-priced nutritional supplements. NBTY has continued to grow through its marketing practices and through a series of strategic acquisitions. Since 1986, the Company has acquired and integrated approximately 34 companies and/or businesses engaged in the manufacturing, retail and direct response sale of nutritional supplements, including:

_ Fiscal 1997: Holland & Barrett;
_ Fiscal 1998: Nutrition Headquarters Group;
_ Fiscal 2000: Nutrition Warehouse Group;
_ Fiscal 2001: Global Health Sciences (the "Global Group"), NatureSmart, and Nature's Way;
_ Fiscal 2002: Healthcentral.com, Knox NutraJoint ®, and Synergy Plus® product lines/ operations; and
_ Fiscal 2003: Rexall Sundown Inc., Health and Diet Group Ltd.("GNC (UK)") and FSC Wholesale, and the DeTuinen chain of retail stores.

NBTY markets its products through four distribution channels: (i) Wholesale: wholesale distribution to drug store chains, supermarkets, discounters, independent pharmacies, and health food stores, (ii) U.S. Retail: Vitamin World and Nutrition Warehouse retail stores in the U.S., (iii) European Retail: Holland & Barrett, Nature's Way, GNC (UK), and DeTuinen retail stores in the U.K., Ireland, and Netherlands, and (iv) Direct Response: Puritan's Pride. NBTY's net sales from wholesale operations, U.S. Retail, European Retail, and Direct Response were approximately 35%, 18%, 30% and 17%, respectively, of total sales for the fiscal year ended September 30, 2003.

The Company recognizes revenues from products shipped when risk of loss and title transfers to its customers, and with respect to its own retail stores, upon the sale of products. Net sales are net of all discounts, allowances, returns and credits. Cost of sales includes the cost of raw materials and all labor and overhead associated with the manufacturing and packaging of the products. Gross margins are affected by, among other things, changes in the relative sales mix among the Company's four distribution channels. Historically, gross margins from the Company's direct response/e-commerce and retail sales have typically been higher than gross margins from wholesale sales.

Critical Accounting Policies and Estimates

The preparation of financial statements in conformity with generally accepted accounting principles ("GAAP") in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. The most significant estimates include:

* revenue recognition and estimating allowance for doubtful accounts;
* inventory valuation and obsolescence;
* valuation of long-lived and intangible assets and goodwill including the values assigned to acquired intangible assets;
* income tax valuation allowance;
* foreign currency; and
* estimating accruals for, and probability of, the outcome of current litigation.

The Company continually evaluates its accounting policies and the estimates it uses to prepare the consolidated financial statements. In general, the estimates are based on historical experience, on information from third party professionals and on various other sources and assumptions that are believed to be reasonable under the facts and circumstances at the time such estimates are made. Management considers an accounting estimate to be critical if:

* it requires assumptions to be made that were uncertain at the time the estimate was made; and
* changes in the estimate, or the use of different estimating methods, could have a material impact on the Company's consolidated results of operations or financial condition.

Actual results could differ from those estimates. Significant accounting policies are described in Note 1 to the consolidated financial statements. In many cases, the accounting treatment of a particular transaction is specifically dictated by GAAP. There are also areas in which management's judgment in selecting any available alternative would not produce a materially different result.

Certain of the Company's accounting policies are deemed "critical", as they require management's highest degree of judgment, estimates and assumptions. The following critical accounting policies are not intended to be a comprehensive list of all of the Company's accounting policies or estimates.

Revenue Recognition:

The Company applies the provisions of Staff Accounting Bulletin 101 "Revenue Recognition". The Company recognizes revenue from products shipped when title and risk of loss has passed to its customers, and with respect to its own retail store operations, upon the sale of its products. The Company's net sales represent gross sales invoiced to customers, less certain related charges, including discounts, returns, rebates and other allowances. Most of the Company's sales require judgments principally in the areas of returns, rebates and other allowances. The provision for estimated sales returns and other allowances and deferrals requires significant judgment whereby the Company must estimate, based on historical trends and individual agreements with customers, the reduction of revenue at the time of revenue recognition. If these estimates, which are based on historical experience, are significantly below the actual amounts, revenue could be adversely affected. The Company has no single customer that represents more than ten percent of annual net sales of the Company for the fiscal years ended September 30, 2003, 2002 and 2001. For the fiscal years ended

2003, 2002 and 2001, one customer, two customers and one customer, respectively, represented, individually, more than 10% of the wholesale division net sales.

Accounts Receivable:

The Company performs on-going credit evaluations of its customers and adjusts credit limits based upon payment history and the customer's current credit worthiness, as determined by the review of their current credit information. Collections and payments from customers are continuously monitored. The Company also maintains an allowance for doubtful accounts, which is estimated based upon historical experience as well as specific customer collection issues that have been identified. While such bad debt expenses have historically been within expectations and allowances established, the Company cannot guarantee that it will continue to experience the same credit loss rates that it has in the past. One customer accounted for 20% and 24% of the Company's accounts receivable at September 30, 2003 and 2002, respectively. Additionally, a new customer accounted for 10% of the Company's accounts receivable at September 30, 2003. The loss of either or both of these customers is not expected to have a material impact on the Company's consolidated financial position or results of operations.

Inventories:

Inventories are stated at the lower of cost or market. The cost elements of inventory include materials, labor and overhead. The Company regularly reviews inventory quantities on hand and records a provision for excess and obsolete inventory based primarily on estimated forecasts of product demand and production requirements for the next twelve months. In assessing the realization of inventories, the Company is required to make judgments as to future demand requirements and compare that with inventory levels. It is possible that changes in consumer demand could cause a reduction in the net realizable value of inventory.

Goodwill and Intangible Assets:

Goodwill and indefinite-lived intangibles are tested for impairment annually or more frequently if impairment indicators arise in accordance with Statement of Financial Accounting Standards ("SFAS") No. 142, *"Goodwill and Other Intangible Assets"*. These evaluations require the use of judgment as to the effects of external factors and market conditions on the Company's conduct of its operations, and they require the use of estimates in projecting future operating results. If actual external conditions or future operating results differ from the Company's judgments, impairment charges may be necessary to reduce the carrying value of the subject assets.

Pursuant to SFAS No. 142, the Company performs an annual goodwill impairment review for each business segment, as defined in Note 6, "Goodwill and Intangible Assets" to the Consolidated Financial Statements, or when events or changes in circumstances indicate the carrying value may not be recoverable. The Company considers the following to be some examples of important indicators that may trigger an impairment review: (i) significant under-performance or loss of key contracts acquired in an acquisition relative to expected historical or projected future operating results; (ii) significant changes in the manner or use of the acquired assets or in the Company's overall strategy with respect to the manner or use of the acquired assets or changes in the Company's overall business strategy; (iii) significant negative industry or economic trends; (iv) increased competitive pressures; (v) a significant decline in the Company's stock price for a sustained period of time; and (vi) regulatory changes. In assessing the recoverability of the Company's goodwill and intangibles, the Company must make assumptions regarding estimated future cash flows and other factors to determine the fair value of the respective assets. The fair value of an asset could vary, depending upon the estimating method employed, as well as assumptions made. This may result in a possible impairment of the intangible assets and/or goodwill, or alternatively an acceleration in amortization expense. An impairment charge would reduce operating income in the period it was determined that the charge was needed. As a result of the September 30, 2003 impairment testing, no impairment adjustments were deemed necessary.

Purchase Price Allocation:

During fiscal 2003, the Company acquired all of the issued and outstanding capital stock of Rexall for $250,000 in cash (subject to adjustment based upon finalization of working capital balances on the closing date). Prior to this acquisition, Rexall was owned by Numico USA, Inc., an indirect subsidiary of Royal Numico N.V. This acquisition was accomplished through purchase by the Company of certain partnership and limited liability company interests. The Company also incurred approximately $6,000 of direct transaction costs as well as approximately $5,000 in insurance and other indirect costs for a total purchase price of approximately $261,000. Additionally, finance related costs of approximately $7,500 were paid to secure the financing for this acquisition, which costs will be amortized until its approximate 6 year maturity. The total purchase price was allocated to the tangible and intangible assets acquired and the liabilities assumed based on their estimated fair value. The excess of the purchase price over the fair value was recorded as goodwill. The fair value assigned to the tangible and intangible assets acquired and liabilities assumed was based upon estimates and assumptions developed by management and other information compiled by management, including a valuation, prepared by an independent valuation specialist that utilized established valuation techniques appropriate for the industry. Upon completion of the valuation of the fair value of the net assets acquired (which the Company expects to finalize by end of fiscal 2004), actual results may differ from those presented herein.

Impairment of Long-Lived Assets:

The Company follows the provisions of SFAS No. 144, *"Accounting for the Impairment or Disposal of Long-Lived Assets."* This statement requires that certain assets be reviewed for impairment and, if impaired, remeasured at fair value whenever events or changes in circumstances indicate that the carrying amount of the asset may not be recoverable. Impairment loss estimates are primarily based upon management's analysis and review of the carrying value of long-lived assets at each balance sheet date, utlizing an undiscounted future cash flow calculation. During fiscal years 2003, 2002 and 2001, the Company recognized impairment losses of $1,117, $700 and $500, respectively, on assets to be held and used. The impairment losses related primarily to leasehold improvements and furniture and fixtures for U.S. Retail operations and were recorded in selling, general and administrative expense.

Income Taxes:

The Company estimates the degree to which tax assets and loss carryforwards will result in a benefit based on expected profitability by tax jurisdiction. A valuation allowance for such tax assets and loss carryforwards is provided when it is determined that such assets will more likely than not go unused. If it becomes more likely than not that a tax asset or loss carryforward will be used, the related valuation allowance on such assets is reversed. If actual future taxable income by tax jurisdiction varies from estimates, additional allowances or reversals of reserves may be necessary.

Foreign Currency:

Foreign subsidiaries account for approximately 31% of net revenues, 27% of assets and 11% of total liabilities of the Company as of September 30, 2003.

In preparing the consolidated financial statements, the financial statements of the foreign subsidiaries are translated from the currency in which they keep their accounting records, generally the local currency, into U.S. Dollars. This process results in exchange gains and losses, which, under the relevant accounting guidance, are either included within the statement of operations or as a separate component of stockholders' equity under the caption "Accumulated other comprehensive income."

Under the relevant accounting guidance, the treatment of these translation gains or losses is dependent upon management's determination of the functional currency of each subsidiary. The functional currency is determined based on management's judgment and involves consideration of all relevant economic facts and circumstances affecting the subsidiary. Generally, the currency in which the subsidiary transacts a majority of its transactions, including billings, financing, payroll and other expenditures would be considered the functional currency but any dependency upon the parent and the nature of the subsidiary's operations must also be considered.

If a subsidiary's functional currency is deemed to be the local currency, then any gain or loss associated with the translation of that subsidiary's financial statements is included in accumulated other comprehensive income. However, if the functional currency is deemed to be the U.S. Dollar, then any gain or loss associated with the translation of these financial statements would be included within the statement of operations. If the Company disposes of subsidiaries, then any cumulative translation gains or losses would be recorded into the statement of operations. If the Company determines that there has been a change in the functional currency of a subsidiary to the U.S. Dollar, any translation gains or losses arising after the date of change would be included within the statement of operations.

Based on an assessment of the factors discussed above, the Company considers the relevant subsidiary's local currency to be the functional currency for each of its foreign subsidiaries. During fiscal years 2003, 2002 and 2001, translation gains (losses) of $9,980, $17,603 and ($126), respectively, were included under accumulated other comprehensive income (loss). Accordingly, cumulative translation gains of approximately $14,605 and $4,625 were included as part of accumulated other comprehensive income within the balance sheet at September 30, 2003 and September 30, 2002, respectively. Had the Company determined that the functional currency of its subsidiaries was the U.S. Dollar, these gains (losses) would have increased (reduced) net income for each of the periods presented.

The magnitude of these gains or losses is dependent upon movements in the exchange rates of the foreign currencies against the U.S. Dollar. These currencies include the Euro and the British Pound. Any future translation gains or losses could be significantly higher than those noted in each of these years. In addition, if a change in the functional currency of a foreign subsidiary has occurred at any point in time, the Company would be required to include any translation gains or losses from the date of such change in the statement of operations.

Contingencies:

As discussed in Note 17 of the Notes to the Consolidated Financial Statements, NBTY is unable to make a reasonable estimate of the liabilities that may result from the final resolution of certain contingencies disclosed. Assessments of each potential liability will be made as additional information becomes available. NBTY currently does not believe that these matters will have a material adverse affect on its consolidated financial position or results of operations.

General

Operating results in all periods presented reflect the impact of acquisitions, beginning with the date acquired. The timing of those acquisitions and the changing mix of businesses as acquired companies are integrated into the Company impacts the comparability of results from one period to another.

Results of Operations

The following table sets forth income statement data of the Company as a percentage of net sales for the periods indicated:

	Fiscal Year ended September 30,			*Increase/(Decrease)*	
	2003	2002	2001	**2003 vs.** 2002	2002 vs 2001
Net sales	**100.0%**	100.0 %	100.0 %	23.7 %	19.5 %
Costs and expenses:					
Cost of sales	**46.5 %**	45.0 %	44.0 %	27.9 %	22.1 %
Discontinued product charge	**0.4 %**	-	-	100.0 %	-
Catalog printing, postage, and promotion	**5.6 %**	5.0 %	6.1 %	38.9 %	(3.2)%
Selling, general and administrative	**36.5 %**	36.1 %	39.1 %	25.1 %	10.5 %
Litigation recovery of raw material costs	-	(2.2)%	-	(100.0%)	100.0 %
	89.0 %	83.9 %	89.2 %	31.3 %	12.3%
Income from operations	**11.0 %**	16.1 %	10.8 %	(15.8%)	78.7 %
Other income (expense):					
Interest	**(1.5)%**	(1.9)%	(2.7)%	(6.0)%	(15.8)%
Investment write down	**(0.3)%**	-	-	100.0 %	-
Miscellaneous, net	**0.5 %**	0.2 %	0.3 %	247.7 %	(43.2)%
	(1.3)%	(1.7)%	(2.4)%	(5.3)%	(11.8)%
Income before income taxes	**9.7 %**	14.4 %	8.4 %	(17.1%)	104.3 %
Provision for income taxes	**2.8 %**	4.5 %	3.2 %	(22.2%)	65.3 %
Net income	**6.9 %**	9.9 %	5.2 %	(14.8%)	128.5 %

Fiscal Year Ended September 30, 2003 Compared to Fiscal Year Ended September 30, 2002

Net Sales.

Net sales for fiscal 2003 were $1,192,548, an increase of $228,465, or 23.7%, compared with net sales of $964,083 in fiscal 2002. The $228,465 increase is comprised of the following:

	Fiscal Year ended September 30,		*Dollar Increase*	*Percent Increase*
			2003 vs.	2003 vs.
	2003	2002	2002	2002
Wholesale	**$ 416,627**	$ 291,287	$ 125,340	43.0 %
U.S. Retail/Vitamin World	**212,380**	198,602	13,778	6.9 %
European Retail/Holland & Barrett/GNC	**363,597**	290,881	72,716	25.0 %
Direct Response/ Puritan's Pride	**199,944**	183,313	16,631	9.1 %
Total	**$1,192,548**	$ 964,083	$ 228,465	23.7 %

Wholesale sales were $416,627, compared to $291,287 in the prior year, an increase of $125,340, or 43%. Such increase in the wholesale segment's sales was primarily due to the acquisition of Rexall ($72,815), an increase in sales to the mass market, drug chains and supermarkets ($46,646), and sales contributed by the FSC acquisition ($5,879). Products such as Coral Calcium, Flex-a-min®, and the Knox NutraJoint® products continue to help the Company strengthen its leading market position. In addition, increases in the wholesale segment can be attributed to the Company expanding its distribution channel with new customer accounts. U.S. Retail sales were $212,380, compared to $198,602 in the prior year, an increase of $13,778, or 6.9%. Such increase was a direct result of the Savings Passport Program, a customer loyalty program. Same store sales for stores open more than one year increased 5.4% or $10,192. European Retail sales were $363,597, compared to $290,881, an increase of $72,716, or 25%. Such increase was attributable to an increase in same store sales for stores open more than one year of 11.8% (or $34,018) and sales contributed by the GNC (UK) and De Tuinen acquisitions ($21,589 and $13,245, respectively). These results include the positive effect of a strong British Pound ($25,887 or 8.9%). There were 533 retail stores located within the U.S. and 589 retail stores located within Europe as of September 30, 2003, compared to 544 stores in the U.S. and 468 in the U.K./Ireland as of September 30, 2002. Direct Response/Puritan's Pride sales were $199,944, compared to $183,313, an increase of $16,631, or 9.1%. Such increase was a result of the Company's catalog promotion strategy, enhancement of the appearance of the catalog, and improved customer service.

Cost of Sales/Discontinued product charge.

Cost of sales (including the discontinued product charge) for fiscal 2003 was $559,304, an increase of $125,693, compared with the cost of sales of $433,611 for fiscal 2002. Overall, gross profit, as a percentage of sales, decreased 1.9% to 53.1% during the fiscal year ended September 30, 2003 as compared to 55% for the prior comparable period. Included in the current period's cost of sales is a $4,500 charge (or 0.4% as a percentage of sales) for the Company's voluntary discontinuance of sales of products containing ephedra. Without this charge, as a percentage of sales, gross profit would have decreased 1.5% to 53.5% during fiscal 2003 as compared to 55% for the prior comparable period. The Company's belief that its ephedra products were safe when used as directed has been supported by credible scientific evidence. However, in light of adverse publicity surrounding ephedra and the current environment in the U.S., the Company believed it was in its best interest to voluntarily cease selling ephedra products, effective March 15, 2003. Historically, ephedra products represented an insignificant portion of the Company's overall business.

The Wholesale segment's gross profit, as a percentage of sales, for fiscal 2003 was 40% as compared to 41% for fiscal 2002. Such gross profit was impacted by the product sales mix of existing product lines, such as the increase in Private Label sales (at a 34% gross margin level), and lower gross margins contributed by the FSC (European wholesale) acquisition. These factors were partially offset by higher gross margins on new product introductions and improvements in manufacturing efficiencies. Direct Response/Puritan's Pride's gross profit, as a percentage of sales, was 62% for fiscal 2003 as compared to 61% for fiscal 2002. The gross profit was affected by varied catalog pricing promotions the Company ran during fiscal 2003. The U.S. Retail gross profit, as a percentage of sales, for fiscal 2003 was 60% as compared to 59% for fiscal 2002. Margin improvement was primarily due to the Company's introduction of new higher gross margin items in such segment. The European Retail gross profit decreased 2%, as a percentage of sales, to 61% from 63% primarily as a result of the recent acquisitions of GNC (UK) and De Tuinen. These operations reported gross profit of 43% and 38%, respectively, thereby affecting the total European Retail gross profit margin during fiscal 2003. Without these newly acquired operations, gross profit as a percentage of sales would have remained unchanged from the prior period. The Company's overall strategy is to improve margins by introducing new products which traditionally have a higher gross profit and by continuing to increase in-house manufacturing while decreasing the use of outside suppliers. During fiscal 2003 and 2002, cost of sales included charges for under-absorbed factory overhead relating to certain underutilized manufacturing facilities of $8,261 and $11,375, respectively.

Catalog, Printing, Postage and Promotion.

Catalog printing, postage, and promotion expenses were $66,455 for fiscal 2003, compared with $47,846 for fiscal 2002, an increase of $18,609. Such advertising expenses as a percentage of sales were 5.6% during fiscal 2003 and 5% for the prior comparable period. Of the $18,609 increase, $19,367 was attributable to the increase in promotions for products, mainly via television, magazines, newspapers and mailing programs, offset by a decrease in catalog printing costs of $758. Direct Response/Puritan's Pride's promotion and media expenses increased $6,263; Wholesale's advertising expenses increased $10,919 (of which $6,438 related to Rexall product related advertising); and European Retail promotion and media increased $2,156. Such increase was offset by a $729 decrease in the U.S. Retail's advertising costs. Increased advertising costs primarily related to promoting new products recently introduced as well as existing core products. Investments in additional advertising and sales promotions are part of the Company's strategic effort to increase long-term growth.

Selling, General and Administrative.

Selling, general and administrative expenses were $435,748 during fiscal 2003, an increase of $87,414, as compared with $348,334 for the prior comparable period. As a percentage of sales, selling, general and administrative expenses were 36.5% and 36.1% in fiscal 2003 and fiscal 2002, respectively. Of the $87,414 increase, $36,671 was attributable to increased payroll costs mainly associated with new business acquisitions and general salary increases, $16,639 to increased rent expense and additional U.S. Retail and European Retail stores, $8,876 to increased freight costs mainly resulting from the Company's efforts to generate faster product delivery to customers, $5,961 to increased insurance costs mainly associated with an increase in general insurance rates, $3,603 was

Selling, General and Administrative. (cont.)
attributable to increased depreciation and amortization expense as a result of acquisitions and an increase in capital expenditures, $2,520 to broker commissions, which was directly associated with the increase in wholesale sales, and $2,517 to increased professional fees for the implementation and integration of new software purchased. Of the $87,414 increase in selling, general and administrative cost, $8,859 is attributed to the foreign exchange translation of the British Pound.

Litigation Recovery of Raw Materials Costs.
In fiscal 2002, the Company received $21,354 for the settlement of price fixing litigation brought by the Company against certain raw material vitamin suppliers.

Interest Expense.
Interest expense was $17,384 in fiscal 2003, a decrease of $1,115, compared with interest expense of $18,499 in fiscal 2002. Interest expense decreased due to the Company's continued repayment of bank debt, offset in part by interest rate increases associated with the new financing completed by the Company on July 25, 2003. The major components of interest expense are interest on Senior Subordinated Notes, and interest on the Credit and Guarantee Agreement used for acquisitions, capital expenditures, and other working capital needs. On July 25, 2003, the Company entered into a new Credit and Guarantee Agreement ("CGA") comprised of $375,000 Senior Secured Credit Facilities. The new CGA consists of a $100,000 Revolving Credit Facility, a $50,000 Term Loan A and a $225,000 Term Loan B. Terms of the new CGA are generally similar to the previous one. Interest rates charged on borrowings can vary depending on the interest rate option utilized. Options for the rate can either be the Alternate Base Rate or LIBOR plus applicable margin.

Investment Write Down.
During fiscal 2003 other-than-temporary impairment write downs of $4,084 were charged against income and related to the Company's investment in high yield, less than investment grade corporate debt securities. On September 4, 2003, the bond issuer declared bankruptcy and the Company determined that the decline in fair value was permanent.

Miscellaneous, net.
Miscellaneous, net was $5,424 and $1,560 for fiscal 2003 and fiscal 2002, respectively. The $3,864 increase was primarily attributable to exchange rate fluctuations ($1,889), increases in investment income ($1,418), increases in net gains on sale of property, plant and equipment ($885), offset by other miscellaneous decreases ($328).

Income Taxes.
The Company's income tax expense is impacted by a number of factors, including state tax rates in the jurisdictions where the Company conducts business, and the Company's ability to utilize tax credits that will begin to expire in 2013. The effective income tax rate for fiscal 2003 was 29.1%, compared to 30.9% for fiscal 2002. The effective tax rates were less than the U.S. federal statutory tax rates primarily because the Company recorded $8,275 in fiscal 2003 and $7,800 in fiscal 2002 for after-tax benefits related to foreign tax credits. Such benefits resulted from certain tax saving strategies implemented in fiscal 2002. These tax planning activities may also benefit future fiscal years and therefore may further reduce the Company's overall effective income tax rate.

Net Income.
Net income for fiscal 2003 was $81,585 (or basic and diluted earnings per share of $1.23 and $1.19, respectively), compared with $95,791(or basic and diluted earnings per share of $1.45 and $1.41, respectively), a decrease of $14,206.

Excluding the one-time investment write down in fiscal 2003 (as noted above), net income would have been $84,481 for fiscal year 2003, or $1.23 per diluted share. Excluding the one-time litigation recovery of raw material costs payment received in fiscal 2002 (resulting from price fixing litigation noted above), net income would have been $81,035 for fiscal 2002 or $1.19 per diluted share.

Fiscal Year Ended September 30, 2002 Compared to Fiscal Year Ended September 30, 2001

Net Sales.
Net sales for fiscal 2002 were $964,083, an increase of $157,185, or 19.5%, compared with net sales of $806,898 in fiscal 2001. The $157,185 increase is comprised of the following:

	Fiscal Year ended September 30,		*Dollar Increase*	*Percent Increase*
	2002	2001	2002 vs. 2001	2002 vs. 2001
Wholesale	**$ 291,287**	$ 196,832	$ 94,455	48.0 %
U.S. Retail/Vitamin World	**198,602**	174,987	23,615	13.5 %
U.K. Retail/Holland & Barrett	**290,881**	262,876	28,005	10.7 %
Direct Response/ Puritan's Pride	**183,313**	172,203	11,110	6.5 %
Total	**$ 964,083**	$ 806,898	$ 157,185	19.5 %

The increase in wholesale segment sales was primarily due to an increase in sales of its core products to the mass market, drug chains and supermarkets and sales generated by the newly acquired businesses ($39,489, of which $35,522 was attributable to Global Health Sciences). Products such as Apple Cider Vinegar, Flex-a-min®, and Knox NutraJoint® continued to help the Company strengthen its leading market position. By obtaining new customer accounts, the Company expanded its distribution channel for its products. Sales growth in the U.S. Retail channel in fiscal 2002 reflected an increase in same store sales for stores open more than one year (8.5% or $13,485) and the greater number of stores compared to the prior year (24 new stores contributed $4,001). U.K./Ireland retail sales increases were attributable to an increase in same store sales for stores open more than one year (7% or $18,035) and the opening of 7 new U.K. stores (contributed $1,056) in fiscal 2002. Direct Response/Puritan's Pride/e-commerce sales increased as a result of increased mailing distribution from customer lists acquired and as a result of an increase in the number of products available via catalog and website. At September 30, 2002, 544 retail stores in the U.S. and 468 retail stores in the U.K./Ireland were operated under the NBTY/Holland & Barrett banner, compared to 525 stores in the U.S. and 461 in the U.K./Ireland as of September 30, 2001.

Cost of Sales.
Cost of sales for fiscal 2002 was $433,611, an increase of $78,444 compared with the cost of sales of $355,167 for fiscal 2001. Overall, gross profit, as a percentage of sales, decreased 1% to 55% during fiscal 2002 as compared to 56% for fiscal 2001. Such decrease was primarily due to the Direct Response/Puritan's Pride segment's gross profit, which decreased 4.8%, as a percentage of sales (from 66.3% to 61.5%). These reduced gross margins resulted primarily from price reductions on certain products and the type

Fiscal Year Ended September 30, 2002 Compared to Fiscal Year Ended September 30, 2001 (cont.)

Cost of Sales. (cont.)

of catalog pricing promotions the Company ran in fiscal 2002 versus fiscal 2001. This gross profit decrease was mitigated by gross profit increases in the Company's other segments. The wholesale segment's gross profit increased 2.1%, as a percentage of sales (from 38.7% to 40.8%) primarily due to higher gross margins on new product introductions. The U.S. Retail gross profit increased 0.5%, as a percentage of sales (from 58% to 58.5%). The U.K./Ireland retail gross profit increased 2.1%, as a percentage of sales (from 60.8% to 62.9%). The Company's strategy is to improve margins by continuing to increase in-house manufacturing while decreasing the use of outside suppliers in both the U.S. and the U.K. In fiscal 2001, cost of sales included a year end adjustment to inventory of approximately $3,900, which was principally the result of the Company utilizing the gross profit method for interim reporting, and the year-end valuation of the Company's annual physical inventory. Fiscal 2002 and fiscal 2001 costs of sales included charges for under-absorbed factory overhead relating to certain underutilized manufacturing facilities of $11,375 and $5,752, respectively.

Catalog, Printing, Postage and Promotion.

Catalog, printing, postage and promotion expenses were $47,846 and $49,410 for fiscal 2002 and 2001, respectively. Such costs as a percentage of net sales were 5% for 2002 and 6.1% for 2001. The $1,564 decrease was primarily attributable to a decrease in direct response advertising promotion and media ($1,080) and catalog printing ($1,183). Such decrease was offset by an increase in wholesale advertising for new products introduced and existing core products ($603). The Company also had a small increase in retail advertising and promotion ($51).

Selling, General and Administrative.

Selling, general and administrative expenses for fiscal 2002 were $348,334, an increase of $33,106, compared with $315,228 for fiscal 2001. As a percentage of sales, selling, general and administrative expenses were 36.1% and 39.1% in 2002 and 2001, respectively. Of the $33,106 increase, $4,489 was attributable to increase in rent expense, $14,880 to increase in payroll costs mainly associated with business acquisitions and the Vitamin World expansion program, $5,871 to increased insurance costs mainly associated with an increase in general insurance rates, $4,186 to increased freight and $3,418 to increased broker commissions, which was directly associated with the increase in wholesale sales, and $1,259 was attributable to increased depreciation expense as a result of an increase in capital expenditures. Such expenses were offset by a $5,624 decrease in selling, general, and administrative goodwill amortization expense resulting from the Company's adoption of SFAS 142, effective October 1, 2001.

Litigation Recovery of Raw Materials Costs.

In fiscal 2002, the Company received $21,354 for the settlement of price fixing litigation brought by the Company against certain raw material vitamin suppliers.

Interest Expense.

Interest expense was $18,499 in fiscal 2002, a decrease of $3,459, compared with interest expense of $21,958 in fiscal 2001. Interest expense decreased due to the Company's continued repayment of bank debt. The major components are interest on Senior Subordinated Notes associated with the Holland & Barrett acquisition, and the CGA used for acquisitions and capital expenditures.

Miscellaneous, Net.

Miscellaneous, net was $1,560 and $2,748 for fiscal 2002 and 2001, respectively. The $1,188 decrease was primarily attributable to exchange rate fluctuations ($1,074).

Income Taxes.

The Company's income tax expense is impacted by a number of factors, including state tax rates in the jurisdictions where the Company conducts business, and the Company's ability to utilize various tax credits that will begin to expire in 2013. The effective income tax rate for fiscal 2002 was 30.9%, compared to 38.2% for fiscal 2001. The change in the effective rate was due to tax saving strategies implemented in fiscal 2002, primarily the decrease in the valuation allowance on after tax benefits related to foreign tax credits. These tax planning activities may also benefit future fiscal years and therefore may further reduce the Company's overall effective income tax rate. In addition, the effective rate decreased due to ceasing the amortization of goodwill in fiscal 2002, most of which was not deductible for income tax purposes.

Net Income.

Net income for fiscal 2002 was $95,791, compared with $41,925 in fiscal 2001, an increase of $53,866, of which $14,756 was attributable to the partial settlement of ongoing price fixing litigation against certain raw material vitamin suppliers.

Seasonality

The Company believes that its business is not seasonal in nature. The Company may have higher net sales in a quarter depending upon when it has engaged in significant promotional activities.

Liquidity and Capital Resources

The Company's primary sources of liquidity and capital resources are cash generated from operations and availability of borrowings under its new CGA. Cash and cash equivalents totaled $49,349 and $26,229 at September 30, 2003 and 2002, respectively. The Company generated cash from operating activities of $111,532, $105,087, and $63,267 in fiscal 2003, 2002 and 2001, respectively. The overall increase in cash from operating activities during fiscal 2003 was mainly attributable to increased non-cash charges for depreciation and amortization, deferred taxes, the investment write down, the discontinued product charge, and an increase in accrued expenses, partially offset by investments in inventories, increases in accounts receivable and prepaid expenses. Inventory levels increased over the prior comparable period in order to maintain high fulfillment shipment levels and to assure quick response to customer orders and anticipated increased demand. Increases in inventory are also attributable to the new CVS supply contract and the recent addition of the Marc's store chain to the wholesale segment. The increase in prepaid expenses and other current assets is mainly attributable to a change in insurance carriers (dates of coverage do not correspond with the prior like period, increasing the prepaid cost) and increases in general insurance rates. Increases in rent deposits and the timing of advertising promotions also contributed to such increase.

Cash used in investing activities was $323,285, $31,776, and $106,134 in fiscal 2003, 2002 and 2001, respectively. Fiscal 2003 cash used in investing activities consisted primarily of net cash paid for the Rexall, De Tuinen, FSC and GNC (UK) businesses ($289,676), as well as the purchase of property, plant and equipment ($37,510), partially offset by proceeds from the sale of property, plant and equipment ($1,498), and cash received that was previously held in escrow from the fiscal 2001 acquisitions of Global Health Sciences ($1,850) and NatureSmart ($553).

Liquidity and Capital Resources (cont.)

Fiscal 2002 cash flows used in investing activities consisted primarily of the purchase of property, plant and equipment ($21,489) and cash paid for asset acquisitions ($7,702), offset by cash received that was previously held in escrow for the acquisition of Global Health Sciences ($4,600), and proceeds from the sale of property, plant and equipment and intangibles ($1,057). In addition, the Company made a strategic investment in high yield, less-than-investment-grade corporate bonds ($8,242), which became impaired in 2003.

Cash used in investing activities in fiscal 2001 primarily related to cash paid for the business acquisitions of Global Health Sciences and NatureSmart ($63,010), cash held in escrow for the acquisition of Global Health Sciences ($10,000) and the purchase of property, plant and equipment ($37,197), partially offset by proceeds from the sale of property, plant and equipment ($4,232).

Net cash provided by (used in) financing activities was $233,435, ($83,454) and $45,627 in fiscal 2003, 2002 and 2001, respectively. Fiscal 2003 net cash flows provided by financing activities included proceeds from borrowing under long-term debt agreements ($275,000) and proceeds from the exercise of stock options ($1,146), partially offset by principal payments under long-term debt agreements ($35,211), and payments for debt issuance costs ($7,500).

Net cash used in financing activities during fiscal 2002 included principal payments under long-term debt agreements ($85,353), offset by proceeds from the exercise of stock options ($1,899). Net cash provided by financing activities during fiscal 2001 included borrowings under the CGA ($71,502) and proceeds from the exercise of stock options ($2,604), which were partially offset by principal payments under long-term debt agreements ($12,780) and the purchase of treasury stock ($15,699).

Working capital increased $128,565 to $314,275 at the end of fiscal 2003. This increase was primarily attributable to the Company increasing its current assets, specifically cash, accounts receivable, inventory, and prepaid expenses and other current assets. Acquisitions and continued growth in sales of the Company's principal promoted products during the period, as noted above, contributed to such increases in cash, accounts receivable and inventory. The Company continues to respond to consumer preferences and to monitor the market for trends and ideas, and these efforts have translated into increased sales. The number of average days' sales outstanding (on wholesale sales) at September 30, 2003, was 49 days, compared with 46 days at September 30, 2002. The inventory turnover rate was approximately 2.25 times during fiscal 2003 compared with 2.23 times during fiscal 2002.

On July 25, 2003, the Company entered into the new Credit Agreement (the "CGA") which is comprised of $375,000 in Senior Secured Credit Facilities. The new CGA consists of a $100,000 Revolving Credit Facility, a $50,000 Term Loan A and a $225,000 Term Loan B. Interest rates charged on borrowings can vary depending on the interest rate option utilized. Options for the rate can either be the Alternate Base Rate or LIBOR plus applicable margin. The revolving credit facility and term loans are scheduled to mature on the earlier of (i) fifth anniversary of the closing date for the Revolving Credit Facility and Term Loan A, and the sixth anniversary date for Term Loan B; or (ii) March 15, 2007 if the Company's 8-5/8% senior subordinated Notes due September 15, 2007 are still outstanding. The proceeds were used to fund the Rexall acquisition, to refinance the existing CGA, and to pay fees, commissions, and expenses therewith. Following the closing date, the proceeds of loans borrowed under the new Revolving Facility shall be used for general corporate purposes. Virtually all of the company's assets are collateralized under the new CGA and are subject to normal banking terms and conditions and the maintenance of various financial ratios and covenants. The Company's ability to comply with covenants contained in the CGA and the Indenture may be affected by events beyond the Company's control, including (without limitation) prevailing economic, financial and industry conditions. Failure to comply with such debt-related covenants could result in an acceleration of payment obligations under that debt and, under certain circumstances, in cross-defaults under other debt obligations of the Company, which may have a negative effect on the Company's liquidity. The Company is currently in compliance with all of its covenants set forth in the CGA and the Indenture. For additional information regarding the ability of the Company's subsidiaries to transfer funds or assets to the Company, see Item 5, "Market for Registrant's Common Equity and Related Stockholders Matters."

At September 30, 2003, amounts outstanding under such term loans were as follows: $47,500 and $224,438 under Term Loan A and Term Loan B, respectively. At September 30, 2003 the annual borrowing rates for Term Loan A and Term Loan B approximated 3.375 and 3.625 percent, respectively. Commencing September 30, 2003, the Company is required to make quarterly principal installments under Term Loan A and Term Loan B of approximately $2,500 and $563, respectively. The Term Loan B also requires the last four quarterly principal installments to be balloon payments of approximately $53,435 beginning September 30, 2008. The current portion of Term Loan A and Term Loan B at September 30, 2003 was $10,000 and $2,250, respectively. The $100,000 revolving credit facility expires on July 25, 2008 and was unused at September 30, 2003.

In 1997, the Company issued $150,000 of 8-5/8% senior subordinated Notes ("Notes") due in 2007. The Notes are unsecured and subordinated in right of payment for all existing and future indebtedness of the Company.

A summary of contractual cash obligations as of September 30, 2003 is as follows:

	Payments Due By Period				
	Total	Less Than 1 Year	1-3 Years	4-5 Years	After 5 Years
Long-term debt and capital leases	$ 426,830	$ 12,840	$ 25,826	$ 225,927	$ 162,237
Operating leases	445,788	68,409	119,718	98,189	159,472
Purchase commitments	22,287	22,287	-	-	-
Capital commitments	14,975	10,565	4,410	-	-
Employment & consulting agreements	6,210	2,700	2,340	1,170	-
Total contractual cash obligations	$ 916,090	$ 116,801	$ 152,294	$ 325,286	$ 321,709

The Company conducts retail operations under operating leases, which expire at various dates through 2029. Some of the leases contain renewal options and provide for contingent rent based upon sales plus certain tax and maintenance costs. Future minimum rental payments (excluding real estate tax and maintenance costs) for retail locations and other leases that have initial or noncancelable lease terms in excess of one year at September 30, 2003 are noted in the above table.

The Company was committed to make future purchases under various purchase arrangements with fixed price provisions aggregating approximately $22,287 at September 30, 2003.

The Company had approximately $1,665 in open capital commitments at September 30, 2003, primarily related to manufacturing equipment as well as to computer hardware and software. Also, the Company has a $13,310 commitment for the construction of an automated warehouse over the next 18 months.

The Company has employment agreements with two of its executive officers. The agreements, effective October 1, 2002, have a term of 5 years and are automatically renewed each year thereafter unless either party notifies the other to the contrary. These agreements provide for minimum salary levels and contain provisions regarding severance and changes in control of the Company. The annual commitment for salaries to these two officers as of September 30, 2003 was approximately $1,170. In addition, five members of Holland & Barrett's senior executive staff have service contracts terminable by the Company upon twelve months notice. The annual aggregate commitment for such H&B executive staff as of September 30, 2003 was approximately $1,080.

The Company maintains a consulting agreement with Rudolph Management Associates, Inc. for the services of Arthur Rudolph, a director of the Company and father of Scott Rudolph. The consulting fee (which is paid monthly) is fixed by the Board of Directors of the Company, provided that in no event will the consulting fee be at a rate lower than $450 per year. In addition, Mr. Arthur Rudolph receives certain fringe benefits accorded to other executives of the Company.

The Company believes that existing cash balances, internally-generated funds from operations, and amounts available under the new CGA will provide sufficient liquidity to satisfy the Company's required interest payments, working capital needs for the next 12 months and to finance anticipated capital expenditures incurred in the normal course of business and potential acquisitions.

NBTY has grown through acquisitions, and expects to continue seeking to acquire entities in similar or complementary businesses. Such acquisitions are likely to require the incurrence and/or assumption of indebtedness and/or obligations, the issuance of equity securities or some combination thereof. In addition, NBTY may from time to time determine to sell or otherwise dispose of certain of its existing businesses. NBTY cannot predict if any such transactions will be consummated, nor the terms or forms of consideration which might be required in any such transactions.

Related Party Transactions

The Company has had, and in the future may continue to have, business transactions with individuals and firms affiliated with certain of the Company's directors. Each such transaction has been in the ordinary course of the Company's business.

During fiscal 2003, the following transactions occurred:

A. Gail Radvin, Inc., a corporation wholly-owned by Gail Radvin, received commissions from the Company totaling $643 on account of sales in certain foreign countries and had trade receivable balances of approximately $3,598 as of September 30, 2003. Gail Radvin is the sister of Arthur Rudolph (a director of the Company) and the aunt of Scott Rudolph (Chairman and Chief Executive Officer).

B. The Company paid approximately $453 to Rudolph Management Associates, Inc., pursuant to the Consulting Agreement between the Company and Rudolph Management Associates, Inc. Mr. Arthur Rudolph, a director of the Company, is the President of Rudolph Management Associates, Inc.

C. Glenn-Scott Landscaping & Design, a company owned by the brother of Glenn Cohen, a director of the Company, performed landscaping and maintenance on the Company's properties and received approximately $83 in compensation during fiscal 2003.

D. Certain members of the immediate families (as defined in Rule 404 of Regulation S-K) of Arthur Rudolph, Scott Rudolph and Michael Slade (each a director of the Company) are employed by the Company. During fiscal 2003, these immediate family members received aggregate compensation from the Company totaling approximately $1,068 for services rendered by them as employees of the Company.

Inflation

Inflation affects the cost of raw materials, goods and services used by the Company. In recent years, inflation has been modest. The competitive environment somewhat limits the ability of the Company to recover higher costs resulting from inflation by raising prices. Overall, product prices have generally been stable. The Company seeks to mitigate the adverse effects of inflation primarily through improved productivity and cost containment programs. The Company does not believe that inflation has had a material impact on its results of operations for the periods presented, except with respect to payroll-related costs, insurance premiums, and other costs arising from or related to government imposed regulations.

Financial Covenants and Credit Rating

The Company's credit arrangements, namely the indenture governing the Notes and the new CGA, impose certain restrictions on the Company regarding capital expenditures and limit the Company's ability to do any of the following: incur additional indebtedness, dispose of assets, make repayments of indebtedness or amendments of debt instruments, pay distributions, create liens on assets and enter into sale and leaseback transactions, investments, loans or advances and acquisitions. Such restrictions are subject to certain limitations and exclusions. Such provisions could limit the Company's ability to respond to market conditions, to provide for unanticipated capital investments or to take advantage of business or acquisition opportunities.

At September 30, 2003, Moody's Investors Service, Inc. rated the Company's Notes as a B1; Standard & Poor's rated the Notes as a B+ and gave the Company an overall corporate credit rating as BB. Both credit agencies' ratings related to the aforementioned debt remained unchanged from the prior period. Standard & Poor's assigned a BB rating to the new CGA and Moody's Investors Service, Inc. rated the new CGA as a Ba2.

New Accounting Developments

In May 2003, the Financial Accounting Standards Board ("FASB") issued SFAS No. 150, *Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity.* SFAS No. 150 requires that certain financial instruments, which under previous guidance were accounted for as equity, must now be accounted for as liabilities. The financial instruments affected include mandatorily redeemable stock, certain financial instruments that require or may require the issuer to buy back some of its shares in exchange for cash or other assets and certain obligations that can be settled with shares of stock. SFAS No. 150 is effective for all financial instruments entered into or modified after May 31, 2003 and must be applied to the Company's existing financial instruments effective July 1, 2003, the beginning of the first fiscal period after June 15, 2003. The Company has not entered into any financial instruments within the scope of SFAS No. 150 since May 31, 2003, nor does it currently hold any financial instruments within its scope.

In May 2003, the Emerging Issues Task Force ("EITF") reached a consensus on EITF Issue 01-8, *Determining Whether an Arrangement is a Lease,* which provides guidance on identifying leases that may be embedded in contracts or other arrangements that sell or purchase

New Accounting Developments (cont.)

products or services. The evaluation of whether an arrangement contains a lease within the scope of SFAS No. 13, *Accounting for Leases,* should be based on an evaluation of whether the arrangement conveys the right to use and control specific property or equipment. The consensus requires sellers to report revenues from the leasing component of these arrangements as leasing or rental income rather than revenues from product sales or services, and requires purchasers to report the costs from these arrangements as costs under capital leases. This could affect the timing and amount of recognition of revenues and expenses and the classification of assets and liabilities on the balance sheet, and it could require additional footnote disclosure of lease terms and future minimum lease commitments. This consensus is effective for contracts entered into or significantly modified after July 1, 2003. The Company does not have relationships with customers that meet the EITF 01-8 definition of a lease arrangement. As such, the adoption of this issue did not impact the Company's consolidated financial position, results of operations, or disclosure requirements.

In January 2003, the FASB issued Interpretation No. 46, ("FIN") *Consolidation of Variable Interest Entities,* an interpretation of Accounting Research Bulletin ("ARB") No. 51. FIN 46 addresses consolidation by business enterprises of variable interest entities. FIN 46 applies immediately to variable interest entities created after January 31, 2003 and to variable interest entities in which an enterprise obtains an interest after that date. It applies in the first reporting period ending after December 15, 2003, to variable interest entities in which an enterprise holds a variable interest that it acquired before February 1, 2003. The Company believes that the provisions of FIN 46 will not have any impact on the Company's consolidated financial position or results of operations.

In November 2002, the FASB issued FIN No. 45, *Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness to Others,* which addresses the disclosure to be made by a guarantor in its interim and annual financial statements about its obligations under guarantees. FIN 45 also requires the guarantor to recognize a liability for the non-contingent component of the guarantee, which is the obligation to stand ready to perform in the event that specified triggering events or conditions occur. The recognition and measurement provisions of FIN 45 are effective for all guarantees entered into or modified after December 31, 2002. The Company does not enter into such transactions. Therefore the adoption of this standard did not impact its consolidated financial position, results of operations, or disclosure requirements.

In November 2002, the EITF issued EITF Issue No. 00-21, *Revenue Arrangements with Multiple Deliverables.* EITF No. 00-21 addresses certain aspects of the accounting by a company for arrangements under which it will perform multiple revenue-generating activities. EITF No. 00-21 addresses when and how an arrangement involving multiple deliverables should be divided into separate units of accounting. EITF No. 00-21 provides guidance with respect to the effect of certain customer rights due to company nonperformance on the recognition of revenue allocated to delivered units of accounting. EITF No. 00-21 also addresses the impact on the measurement and/or allocation of arrangement consideration of customer cancellation provisions and consideration that varies as a result of future actions of the customer or the company. Finally, EITF No. 00-21 provides guidance with respect to the recognition of the cost of certain deliverables that are excluded from the revenue accounting arrangement. The provisions of EITF No. 00-21 apply to revenue arrangements entered into in fiscal periods beginning after June 15, 2003. The adoption of EITF No. 00-21 did not have a material effect on its consolidated financial position or results of operations.

Forward Looking Statements

This Annual Report (the "Report") contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995 with respect to the financial condition, results of operations and business of NBTY, Inc. All of these forward-looking statements which can be identified by the use of terminology such as "subject to," "believe," "expect," "plan," "estimate," "intend," "may," "will," "should," "can," or "anticipate," or the negative thereof, or variations thereon, or similar expressions are intended to identify forward-looking statements, which are inherently uncertain. Similarly, discussions of strategy, although believed to be reasonable, are also forward-looking statements and are inherently uncertain. All forward-looking statements are subject to a number of risks and uncertainties that could cause actual results to differ materially from projected results. Factors which may materially affect such forward-looking statements include: (i) slow or negative growth in the nutritional supplement industry; (ii) interruption of business or negative impact on sales and earnings due to acts of war, terrorism, bio-terrorism, civil unrest or disruption of mail service; (iii) adverse publicity regarding the consumption of nutritional supplements; (iv) inability to retain customers of companies (or mailing lists) recently acquired; (v) increased competition; (vi) increased costs; (vii) loss or retirement of key members of management; (viii) increases in the cost of borrowings and/or unavailability of additional debt or equity capital; (ix) unavailability of, or inability to consummate, advantageous acquisitions in the future, including those that may be subject to bankruptcy approval or the inability of the Company (as defined below) to integrate acquisitions into the mainstream of its business, or unanticipated fees and expenses associated with the same; (x) changes in general worldwide economic and political conditions in the markets in which the Company may compete from time to time; (xi) the inability of the Company to gain and/or hold market share of its customers; (xii) unavailability of electricity in certain geographical areas; (xiii) exposure to and expenses of defending and resolving product liability claims and other litigation; (xiv) the ability of the Company to successfully implement its business strategy; (xv) the inability of the Company to manage its retail, wholesale, manufacturing and other operations efficiently; (xvi) consumer acceptance of the Company's products; (xvii) the inability of the Company to renew leases on its retail locations; (xviii) inability of the Company's retail stores to attain or maintain profitability; (xix) the absence of clinical trials for many of the Company's products; (xx) sales and earnings volatility and/or trends; (xxi) the efficacy of the Company's Internet and online marketing and sales efforts; (xxii) fluctuations in foreign currencies, especially the British Pound and the Euro; (xxiii) import-export controls on sales to foreign countries; (xxiv) the inability of the Company to secure favorable new sites for, and delays in opening, new retail locations; (xxv) introduction of new federal, state, local or foreign legislation or regulation or adverse determinations by regulators, and more particularly the Food Supplements Directive and the Traditional Herbal Medicinal Products Directive in Europe; (xxvi) the mix of the Company's products and the profit margins thereon; (xxvii) the availability and pricing of raw materials; (xxviii) risk factors discussed in the Company's filings with the U.S. Securities and Exchange Commission (the "SEC"); and (xxix) other factors beyond the Company's control.

Consequently, such forward-looking statements should be regarded solely as the Company's current plans, estimates and beliefs. Readers are cautioned not to place undue reliance on forward-looking statements. The Company cannot guarantee future results, events, and levels of activity, performance or achievements. The Company does not undertake and specifically declines any obligation to update, republish or revise forward-looking statements to reflect events or circumstances after the date hereof or to reflect the occurrences of unanticipated events.

Industry data used throughout this Report was obtained from industry publications and internal Company estimates. While the Company believes such information to be reliable, its accuracy has not been independently verified and cannot be guaranteed.

NBTY, INC. CORPORATE OFFICERS

Scott Rudolph
Chairman of the Board,
Chief Executive Officer

Harvey Kamil
President,
Chief Financial Officer

Michael C. Slade
Senior Vice President,
Strategic Planning

James P. Flaherty
Senior Vice President,
Marketing and Advertising

William J. Shanahan
Vice President,
Information Systems

BOARD OF DIRECTORS

Scott Rudolph
Chairman of the Board

Michael Ashner
Director

Glenn Cohen
Director

Murray Daly
Director

Aram G. Garabedian
Director

Bernard G. Owen
Director

Nathan Rosenblatt
Director

Arthur Rudolph
Director

Alfred Sacks
Director

Michael C. Slade
Director

Peter White
Director

Shareholder Information
If you require assistance with your account, such as change of address, changes in registration or lost stock certificates, please contact:

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American Stock Transfer & Trust Company
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New York, New York 10038

Common Stock Listing
NYSE Symbol NTY

Investor Inquiries
Securities analysts, investment managers and others seeking information about the Company should contact:

Harvey Kamil, President
631-244-2020

Form 10-K
To obtain a copy of the Company's Form 10-K, please write or call:

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