



2001

A•N•N•U•A•L R•E•P•O•R•T

LEADING THE WAY IN
HIGH-QUALITY, VALUE PRICED
NUTRITIONAL SUPPLEMENTS







2001

ANNUAL REPORT

Recognized worldwide as an innovative industry leader, NBTY is proud to boast it has over 30 years of nutritional supplement experience and expertise. Enhanced by our state-of-the-art research and development capabilities, and supported by our superior manufacturing technology and superior quality assurance and control, NBTY stands alone as the premier manufacturer and distributor of over 1,000 premium-quality nutritional supplements for discriminating consumers and retailers alike.



The fiscal year which ended September 30, 2001 presented many unique challenges to our Company. We are pleased to report that our Company has met these challenges head-on as it continues to improve upon its leadership position in the nutritional supplement industry. As previously reported, net sales for the fiscal year were \$807 million and net income was \$42 million.

Strength of Our Wholesale Division - Nature's Bounty

Despite difficult economic conditions which have adversely affected many of our competitors, our Company has maintained its financial strength due, in large part, to the success we have had by focusing on our wholesale operations. We continue to increase our market share in this highly competitive segment of our business by creating innovative ways to provide the highest quality nutritional supplements at competitive prices to our wholesale customers.

As a result of the recent acquisitions of the Global Health Sciences and NatureSmart businesses, our Company now has manufacturing facilities in New York, New Jersey, Illinois, Colorado and California. Our expanded facilities provide us with a wider base of distribution for our products to our wholesale customers throughout the country. The utilization of this additional manufacturing capacity will enable us to better meet the needs of our wholesale customers and we expect that it will translate into greater profitability for our Company. We are proud that the Nature's Bounty brand is well recognized for its ability to generate greater sales than competing brands, and we are dedicated to continuing that momentum and to gaining additional market share. The wholesale division has benefited from its Flex-A-Min product which has maintained a broad distribution since its

successful advertising campaign last year.

Nature's Bounty has benefited by utilizing consumer sales information received from our retail and direct response/e-commerce operations to deliver the tools needed by our wholesale customers to quickly address consumer preferences and drive sales. We constantly monitor the nutritional supplement market for trends and ideas that can benefit our Company and our customers. Since we are vertically integrated, we are able to more quickly and efficiently respond to our wholesale customers' needs. As in the past, we are aggressively seeking additional acquisitions which will benefit our wholesale operations.

Acquisitions

In May 2001, we acquired the business of Global Health Sciences located in Anaheim, California. Global is a leading manufacturer of nutritional powders used for meal replacements, weight control and protein powders formulated to improve physical performance and formulations for herbal, vitamin and mineral tablets. Our Company has utilized the increased capacities of the West Coast manufacturing facilities to better serve our wholesale customers by giving them the availability of our broad range of products at competitive prices.

Also, in May 2001, we completed the acquisition of NatureSmart from Whole Foods Market, Inc. NatureSmart, located in Thornton, Colorado, manufactures and markets nutritional supplements under private label to wholesale customers. NatureSmart also manufactures and sells nutritional supplements to health care professionals and mail order customers.

Most recently, in December 2001, the Company acquired the Knox NutraJoint and Knox for Nails nutritional supplement business from Kraft Foods, Inc. This acquisition has broadened our product base and has provided us with an introduction to new wholesale customers.

Other Operations

Vitamin World currently operates 533 retail stores nationwide. While this operation is still not profitable, losses before corporate overhead allocations have been reduced significantly. An important function served by this operation is its role as a laboratory for new ideas for the benefit of our wholesale customers. By having exposure directly with the consumer, we are able to more quickly identify and act upon consumer preferences and trends. We are then able to offer our wholesale customers the latest and most current products preferred by the consumer.

Our Puritan's Pride/Direct Response division continues to be the foremost operation of its kind in the United States. We intend to continue our strategy of acquiring the customer lists, brand names and inventory of other mail order companies which have similar or complementary products which we believe can be efficiently integrated into our own operations.

Holland & Barrett, which now operates 463 retail stores, continues to be the leader in the vitamin and health food industry the United Kingdom. It recently expanded its operations through the acquisition of a chain of twelve stores in Ireland operating under the name "Nature's Way."

Looking Forward

Our Company continues to maintain its financial strength. We are gratified with the progress we have made during the past year and look forward to sustaining our momentum. In 2002, we are further emphasizing the efforts of our wholesale division in making additional inroads into the mass merchandising market, with the goal of increasing our leadership position in this sector.

While we expect to be further challenged this year in light of the current economic conditions generally, and the nutritional supplement industry in particular, we believe that our Company is well positioned to meet these challenges and continue to succeed. We are confident that our mission of delivering the highest quality nutritional supplements with the best value to our customers is the right formula for continued success.



On behalf of the Board of Directors and management of our Company, we wish to thank you, our stockholders, for your continued support, our valued customers for their encouragement and our associates for their dedication in helping our Company succeed in the realization of its goals.

Sincerely,

A handwritten signature in black ink that reads "Scott Rudolph". The signature is fluid and cursive.

Scott Rudolph
Chairman and Chief Executive Officer.

FINANCIAL HIGHLIGHTS

NBTY, Inc. and Subsidiaries

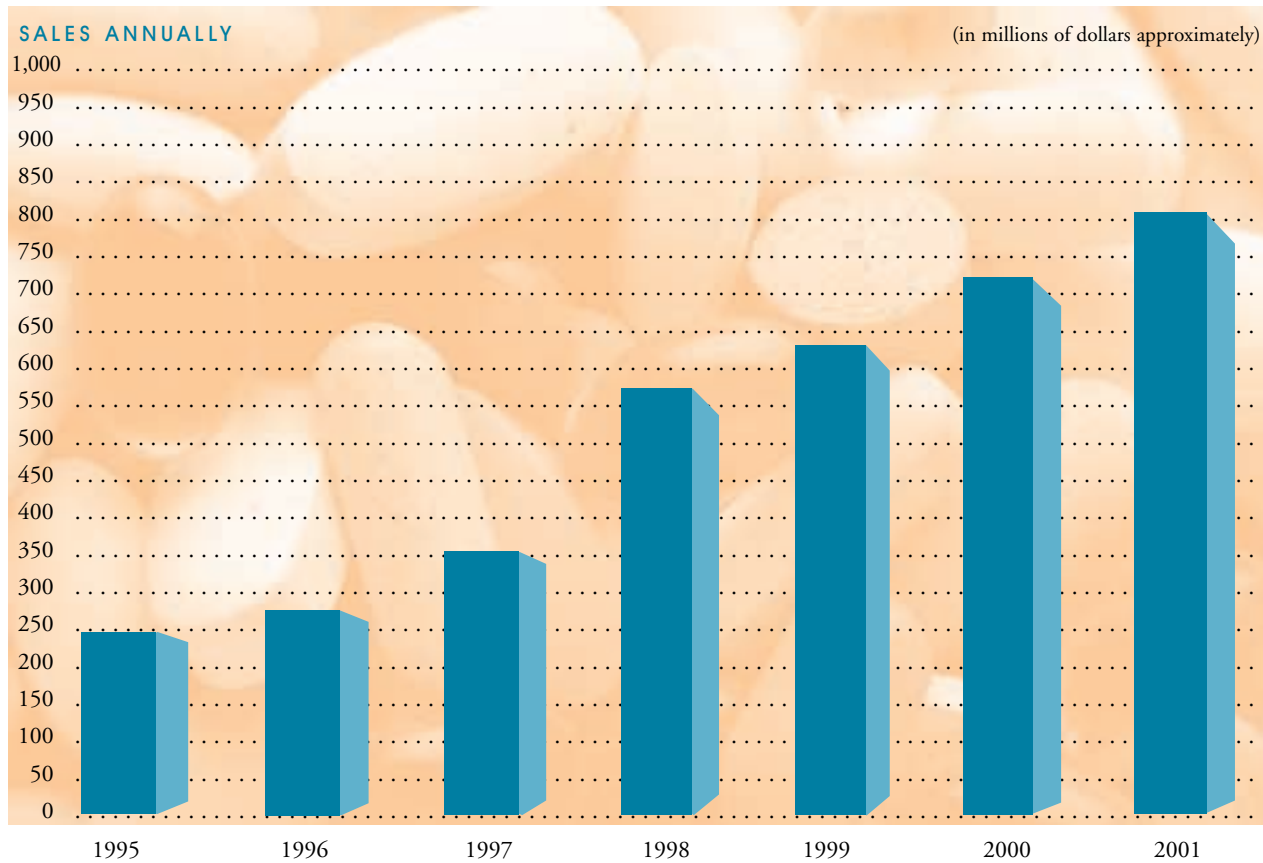
Dollars and shares in thousands, except per share amounts

	Years ended September 30,	
	2001	2000
Sales	\$ 806,898	\$ 720,856
Net income	\$ 41,925	\$ 51,508
Net income per common share ⁽¹⁾ :		
Basic	\$ 0.64	\$ 0.77
Diluted	\$ 0.62	\$ 0.74
Current assets	\$ 280,568	\$ 210,936
Total assets	\$ 708,462	\$ 603,613
Current liabilities	\$ 149,460	\$ 110,822
Total liabilities	\$ 406,056	\$ 331,170
Increase, (decrease) in working capital	\$ 30,994	\$ (20,989)
Stockholders' equity	\$ 302,406	\$ 272,443
Weighted average common shares outstanding ⁽¹⁾ :		
Basic	65,774	67,327
Diluted	67,125	69,318

FIVE YEAR SUMMARY

	Years ended September 30,				
	2001	2000	1999	1998	1997
Sales	\$ 806,898	\$ 720,856	\$ 630,894	\$ 572,124	\$ 355,336
Income before income taxes	\$ 67,883	\$ 82,952	\$ 45,602	\$ 62,314	\$ 40,820
Income taxes	\$ 25,958	\$ 31,444	\$ 18,323	\$ 23,474	\$ 11,694
Net income	\$ 41,925	\$ 51,508	\$ 27,279	\$ 38,840	\$ 29,126
Net income per common share ⁽¹⁾ :					
Basic	\$ 0.64	\$ 0.77	\$ 0.39	\$ 0.59	\$ 0.45
Diluted	\$ 0.62	\$ 0.74	\$ 0.39	\$ 0.56	\$ 0.42
Weighted average common shares outstanding ⁽¹⁾ :					
Basic	65,774	67,327	69,640	65,563	64,611
Diluted	67,125	69,318	70,826	69,847	68,935

(1) All common share and per share amounts have been retroactively restated to account for a three-for-one stock split effective March 9, 1998.



CONSOLIDATED BALANCE SHEETS

NBTY, Inc. and Subsidiaries

<i>Dollars and shares in thousands</i>	<i>September 30,</i>	
<i>Assets:</i>	<u>2001</u>	<u>2000</u>
Current assets:		
Cash and cash equivalents	\$ 34,434	\$ 31,464
Accounts receivable, less allowance for doubtful accounts of \$3,222 in 2001 and \$1,227 in 2000	34,730	24,913
Inventories	184,745	130,741
Deferred income taxes	5,318	3,549
Prepaid expenses and other current assets	21,341	20,269
Total current assets	<u>280,568</u>	<u>210,936</u>
Property, plant and equipment, net	229,216	214,164
Intangible assets, net	185,728	172,124
Other assets	12,950	6,389
Total assets	<u>\$ 708,462</u>	<u>\$ 603,613</u>
 <i>Liabilities and Stockholders' Equity:</i>		
Current liabilities:		
Current portion of long-term debt and capital lease obligations	\$ 34,911	\$ 12,829
Accounts payable	50,673	61,100
Accrued expenses	63,876	36,893
Total current liabilities	<u>149,460</u>	<u>110,822</u>
Long-term debt	236,967	199,095
Obligations under capital leases	269	1,383
Deferred income taxes	16,761	17,050
Other liabilities	2,599	2,820
Total liabilities	<u>406,056</u>	<u>331,170</u>
Commitments and contingencies (Notes 11 and 15)		
Stockholders' equity:		
Common stock, \$.008 par; authorized 175,000 shares in 2001 and 2000; issued 65,724 shares in 2001 and 68,524 shares in 2000 and outstanding 65,724 shares in 2001 and 68,289 shares in 2000	526	548
Capital in excess of par	122,513	123,798
Retained earnings	193,184	163,300
	<u>316,223</u>	<u>287,646</u>
Less, 235 treasury shares at cost, in 2000	-	(1,512)
Stock subscriptions receivable	(839)	(839)
Accumulated other comprehensive loss	(12,978)	(12,852)
Total stockholders' equity	<u>302,406</u>	<u>272,443</u>
Total liabilities and stockholders' equity	<u>\$ 708,462</u>	<u>\$ 603,613</u>

See notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF INCOME

NBTY, Inc. and Subsidiaries

Dollars and shares in thousands, except per share amounts

	Years ended September 30,		
	2001	2000	1999
Net sales	<u>\$ 806,898</u>	<u>\$ 720,856</u>	<u>\$ 630,894</u>
Costs and expenses:			
Cost of sales	355,167	312,960	293,521
Catalog printing, postage and promotion	49,410	33,709	32,895
Selling, general and administrative	315,228	279,379	236,367
Recovery of raw material costs		(2,511)	
Litigation settlement costs			4,952
	<u>719,805</u>	<u>623,537</u>	<u>567,735</u>
Income from operations	<u>87,093</u>	<u>97,319</u>	<u>63,159</u>
Other income (expense):			
Interest, net	(21,958)	(18,858)	(18,945)
Miscellaneous, net	2,748	4,491	1,388
	<u>(19,210)</u>	<u>(14,367)</u>	<u>(17,557)</u>
Income before income taxes	67,883	82,952	45,602
Provision for income taxes	<u>25,958</u>	<u>31,444</u>	<u>18,323</u>
Net income	<u><u>\$ 41,925</u></u>	<u><u>\$ 51,508</u></u>	<u><u>\$ 27,279</u></u>
Net income per common share:			
Basic	\$ 0.64	\$ 0.77	\$ 0.39
Diluted	\$ 0.62	\$ 0.74	\$ 0.39
Weighted average common shares outstanding:			
Basic	65,774	67,327	69,640
Diluted	67,125	69,318	70,826

See notes to consolidated financial statements.

Dollars and shares in thousands

<i>Years ended September 30, 2001, 2000, 1999</i>	Common stock		Capital in excess of par	Retained earnings	Treasury stock		Stock subscriptions receivable	Accumulated Other		Total stockholders' equity	Total comprehensive income
	Number of shares	Amount			Number of shares	Amount		Comprehensive income (loss)			
Balance, September 30, 1998.	72,714	\$ 582	\$ 115,661	\$ 105,989	4,511	\$ (3,206)	\$ -	\$ 11,313		\$ 230,339	
Net income for year ended											
September 30, 1999				27,279						27,279	\$ 27,279
Purchase of treasury shares, at cost					5,702	(34,438)				(34,438)	
Treasury stock retired	(10,213)	(82)	(16,086)	(21,476)	(10,213)	37,644				-	
Exercise of stock options	3,595	29	888				(839)			78	
Tax benefit from exercise of stock options			5,869							5,869	
Foreign currency translation adjustment								(5,178)	(5,178)		(5,178)
Balance, September 30, 1999.	66,096	529	106,332	111,792	-	-	(839)	6,135	223,949	\$ 22,101	
Net income for year ended											
September 30, 2000				51,508						51,508	\$ 51,508
Purchase of treasury shares, at cost					288	(2,511)				(2,511)	
Acquisition of Nutrition Warehouse.	1,059	8	12,235							12,243	
Treasury stock retired	(53)		(999)		(53)	999				-	
Exercise of stock options	1,422	11	4,397							4,408	
Tax benefit from exercise of stock options			1,833							1,833	
Foreign currency translation adjustment								(18,987)	(18,987)		(18,987)
Balance, September 30, 2000	68,524	548	123,798	163,300	235	(1,512)	(839)	(12,852)	272,443	\$ 32,521	
Net income for year ended											
September 30, 2001				41,925						41,925	\$ 41,925
Purchase of treasury shares, at cost					3,023	(15,699)				(15,699)	
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	
Foreign currency translation adjustment								(126)	(126)		(126)
Balance, September 30, 2001	65,724	\$ 526	\$ 122,513	\$ 193,184	-	\$ -	\$ (839)	\$ (12,978)	\$ 302,406	\$ 41,799	

See notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

NBTY, Inc. and Subsidiaries

Dollars in thousands

	Years ended September 30,		
	2001	2000	1999
Cash flows from operating activities:			
Net income	\$ 41,925	\$ 51,508	\$ 27,279
Adjustments to reconcile net income to net cash provided by operating activities:			
Loss on disposal/sale of property, plant and equipment	385	1,119	401
Depreciation and amortization	44,946	38,501	29,228
Amortization of deferred financing costs	782	787	683
Amortization of bond discount	124	124	124
Allowance for doubtful accounts	1,995	21	11
Deferred income taxes	(2,036)	4,827	2,892
Tax benefit from exercise of stock options	1,259	1,833	5,869
Changes in assets and liabilities, net of acquisitions:			
Accounts receivable	(3,652)	5,803	11,155
Inventories	(34,723)	8,039	(16,785)
Prepaid expenses and other current assets	343	1,914	(7,870)
Other assets	119	417	1,323
Accounts payable	(11,959)	6,093	(16,588)
Accrued expenses	23,500	2,643	1,193
Other liabilities	(223)	(211)	
Net cash provided by operating activities	<u>62,785</u>	<u>123,418</u>	<u>38,915</u>
Cash flows from investing activities:			
Cash paid for acquisitions, net of cash acquired	(63,010)	(45,119)	
Purchase of property, plant and equipment	(37,197)	(51,786)	(45,810)
Increase in intangible assets	(159)		(513)
Proceeds from sale of property, plant and equipment	4,232	256	
Net cash used in investing activities	<u>(96,134)</u>	<u>(96,649)</u>	<u>(46,323)</u>
Cash flows from financing activities:			
Net borrowings under Credit & Guarantee Agreement	71,502	2,800	46,193
Cash held in escrow	(10,000)		
Principal payments under long-term debt agreements and capital leases	(12,780)	(17,667)	(1,365)
Purchase of treasury stock	(15,699)	(1,512)	(34,438)
Proceeds from stock options exercised	2,604	4,408	78
Net cash provided by (used in) financing activities	<u>35,627</u>	<u>(11,971)</u>	<u>10,468</u>
Effect of exchange rate changes on cash and cash equivalents	692	(1,603)	901
Net increase in cash and cash equivalents	2,970	13,195	3,961
Cash and cash equivalents at beginning of year	31,464	18,269	14,308
Cash and cash equivalents at end of year	<u>\$ 34,434</u>	<u>\$ 31,464</u>	<u>\$ 18,269</u>
Supplemental disclosure of cash flow information:			
Cash paid during the period for interest	\$ 23,019	\$ 20,224	\$ 18,320
Cash paid during the period for income taxes	\$ 22,269	\$ 16,116	\$ 8,785

Non-cash investing and financing information:

During fiscal 2001, the Company adjusted its goodwill related to the acquisition of Feeling Fine LLC (September 2000) for the write-off of uncollectible accounts receivable amounting to \$1,144.

In connection with the acquisition of Nutrition Warehouse, Inc. and its affiliated companies, on January 1, 2000, the Company issued 1,059 shares of NBTY stock having a total then market value of approximately \$12,200 (Note 2).

During fiscal 2000 and 1999, the Company entered into capital leases for computer equipment for approximately \$1,000 and \$1,600, respectively.

In July 2000, the Company sold certain assets for approximately \$650 in exchange for a note to be paid over five years.

See notes to consolidated financial statements.

In thousands, except per share amounts

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, the United Kingdom and Ireland. The processing, formulation, packaging, labeling and advertising of the Company's products 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 on which food is produced and sold.

Food that has medicinal properties may fall under the jurisdiction of the Medicine Control Agency ("MCA"), a regulatory authority whose responsibility is to ensure that all medicines sold or supplied for human use in the U.K. meet acceptable standards of safety, quality and efficacy. These standards are determined by the 1968 Medicines Act together with an increasing number of E.C. regulations and directives established by the European Union. The latter take precedence over national laws. The MCA has a "borderline department" which determines when food should be treated as a medicine and should therefore fall under the relevant legislation relating to medicines. The MCA is responsible, for example, for licensing, inspection and enforcement to ensure that legal requirements concerning manufacture, distribution, sale, labeling, advertising and promotion are upheld.

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 to that of the MCA in the U.K. as described 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. All intercompany accounts and transactions have been eliminated.

Revenue recognition

The Company recognizes revenue from products shipped when risk of loss and title transfers to its customers, and with respect to its own retail store operations, upon the sale of products. The Company has no single customer that represents more than 10% of annual net sales for the years ended September 30, 2001, 2000 and 1999. One customer accounted for 16% of the Company's accounts receivable at September 30, 2001. The Company had no single customer that represented more than 10% of accounts receivable as of September 30, 2000 and 1999.

In December 1999, the Securities and Exchange Commission staff issued Staff Accounting Bulletin No. 101, "Revenue Recognition in Financial Statements," ("SAB 101"). SAB 101 does not change existing revenue recognition rules, but rather addresses and clarifies existing rules and their application. The Company adopted SAB 101, effective October 1, 2000. The impact of SAB 101 for the year ended September 30, 2001 resulted in a reduction of sales of approximately \$4 million and net income of approximately \$1.4 million.

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles 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 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. Cash balances may, at times, exceed insurable amounts. The Company mitigates its risk by investing in or through major financial institutions.

Inventories

Inventories are stated at the lower of cost or market. Cost is determined on the weighted average method which approximates first-in, first-out basis. The cost elements of inventory include materials, labor and overhead. In fiscal 2001, 2000 and 1999, no one supplier provided more than 10% of purchases.

Prepaid catalog costs

Mail order production and mailing costs are capitalized as prepaid catalog costs and charged to expense over the catalog period, which typically approximates three months.

Advertising

All media and advertising costs are generally expensed as incurred. Total expenses relating to advertising and promotion for fiscal 2001, 2000 and 1999 were \$28,747, \$17,046 and \$13,323, respectively. Included in prepaid expenses and other current assets is approximately \$417 and \$1,471 relating to prepaid advertising at September 30, 2001 and 2000, 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.

In thousands, except per share amounts

Intangible assets

Goodwill represents the excess of purchase price over the fair value of identifiable net assets of companies acquired. Goodwill and other intangibles are amortized on a straight-line basis over periods not exceeding 40 years.

Impairment of long-lived assets

The Company follows the provisions of Statement of Financial Accounting Standards ("SFAS") No. 121, "Accounting for the Impairment of Long-Lived Assets and Long-Lived Assets to be Disposed of." 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.

In August 2001, the FASB issued SFAS No. 143, "Accounting for Asset Retirement Obligations," and SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets." SFAS No. 143 addresses financial accounting and reporting for obligations associated with the retirement of tangible long-lived assets and the associated asset retirement costs. SFAS No. 144 supersedes FASB Statement No. 121 and the accounting and reporting provisions of APB Opinion No. 30, "Reporting the Results of Operations - Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions," and addresses financial accounting and reporting for the impairment or disposal of long-lived assets. The Company does not expect the adoption of SFAS No. 143 and 144 to have a material impact on the Company's consolidated financial position or results of operations.

Stock-based compensation

The Company accounts for stock option grants in accordance with Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" and complies with the disclosure provisions of SFAS No. 123, "Accounting for Stock-Based Compensation."

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.

Comprehensive income

Comprehensive income represents the change in stockholders' equity resulting from transactions other than stockholder investments and distributions. The Company's foreign currency translation adjustments are included in accumulated comprehensive income (loss). The effect of deferred taxes on other comprehensive income (loss) is not material.

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.

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 \$19,799, \$19,277 and \$19,096 for the years ended September 30, 2001, 2000 and 1999, respectively.

Change in accounting estimate

Effective April 1, 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 approximates 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

Effective October 1, 2000, the Company adopted SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities." As the Company has determined it does not have any derivatives or hedging activities, the adoption of SFAS No. 133 did not affect the Company's consolidated financial position or results of operations as of and for the year ended September 30, 2001.

In June 2001, the Emerging Issues Task Force ("EITF") reached a consensus on Issue No. 00-14, "Accounting for Certain Sales Incentives" effective no later than periods beginning after December 15, 2001. EITF Issue No. 00-14 addresses the recognition, measurement and statement of earnings classification for certain sales incentives. The Company has determined that the impact of adoption or subsequent application of EITF Issue No. 00-14 will not have a material effect on its consolidated financial position or results of operations.

In March 2001, the EITF released Issue No. 00-22, "Accounting for 'Points' and Certain Other Time-Based or Volume-Based Sales Incentive Offers, and Offers for Free Products or Services to Be Delivered in the Future." The EITF reached a consensus addressing a vendor's accounting for offers to customers to rebate or refund specified amounts of cash redeemable only if the customer completes a specified cumulative level of revenue transactions or remains a customer for a specified time period. Issue No. 00-22 requires that the vendor recognize the cash rebate or refund obligation as a reduction of revenue based on a systematic and rational allocation of the cost of honoring rebates or refunds earned and claimed to each of the underlying revenue transactions that result in progress by the customer toward earning the rebate or refund. The Company has determined that the impact of application of this guidance will not have a material effect on its consolidated financial position or results of operations.

In thousands, except per share amounts

New accounting developments (continued)

In April 2001, the EITF reached a consensus on Issue No. 00-25, "Vendor Income Statement Characterization of Consideration Paid to a Reseller of the Vendor's Products." EITF Issue No. 00-25 requires that certain expenses included in marketing, administrative and research costs be recorded as a reduction of operating revenues and will be effective in the first quarter of fiscal 2002. The Company has determined that the impact of adoption of EITF Issue No. 00-25 will not have a material effect on the Company's consolidated financial position or results of operations.

In June 2001, the Financial Accounting Standards Board issued SFAS No. 141, "Business Combinations" and SFAS No. 142, "Goodwill and Other Intangible Assets." SFAS No. 141 requires the use of the purchase method of accounting for all business combinations initiated after June 30, 2001, thereby eliminating the pooling-of-interests methods of accounting. SFAS No. 141 also addresses the recognition and measurement of goodwill and other intangible assets acquired in a business combination. The adoption of SFAS No. 141 by the Company on July 1, 2001 did not significantly affect the Company's consolidated financial position or results of operations.

Upon adoption of SFAS No. 142, goodwill and intangible assets that have indefinite useful lives will not be amortized but rather will be tested at least annually for impairment. Other intangible assets will continue to be amortized over their estimated useful lives. The Company will adopt the provisions of SFAS No. 142 on October 1, 2001. Based upon the Company's current amount of goodwill and qualifying intangible assets, management expects the adoption to reduce its fiscal 2002 annualized amortization expense, which is not deductible for tax purposes, by approximately \$6.1 million.

2. Acquisitions:

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 million in cash, less adjustments. The Global Group is located in Anaheim, California, and is a leading manufacturer of nutritional powders with a reputation for high quality. It manufactures products used for meal replacements, weight control and protein powders formulated to improve physical performance, and it also produces formulations for herbal, vitamin and mineral tablets.

On May 15, 2001, the Company acquired certain assets and liabilities of NatureSmart, LLC from Whole Foods Market, Inc. for approximately \$29 million 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 350,000 active customers. It also manufactures private label vitamins for mass market, specialty retailers and healthcare professionals.

Each of these transactions stipulated adjustments to the purchase price for agreed upon working capital. The Company has determined that there are working capital deficiencies (approximately \$6.5 million for Global and \$1.5 million for NatureSmart) and therefore the amounts noted above as cash paid for the acquisitions are expected to be reduced upon resolution of these matters. Both transactions were funded by borrowings under the Credit and Guarantee Agreement ("CGA").

Global Group

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). 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 is classified by the Company as other assets. Once the above mentioned dispute is resolved, the Company will re-evaluate its classification of the \$6,681 included in other assets. Global Group had sales of \$171 million for the 12-month period ended April 2001.

NatureSmart

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 million.

These two acquisitions contributed \$29 million of sales and a marginal operating profit for the Company's current fiscal year.

In September 2000, the Company acquired certain assets and liabilities of Feeling Fine Company LLC for \$2,964. In June 2000, the Company acquired certain assets and liabilities of Longevity Formulas, Inc. (also known as "Healthwatchers System") and Martin Health Systems, Inc. for \$5,150. In April 2000, the Company acquired the mailing list of Rexall Sundown's SDV vitamin catalog and mail order list for \$16,500.

On January 1, 2000, the Company acquired Nutrition Warehouse, Inc. and its affiliated companies ("NW") for \$20,000 in cash and approximately 1,059 shares of NBTY stock having a total then market value of \$12,200. NW operated a direct response/e-commerce business as well as 14 retail stores in various locations in New York state. The e-commerce business has been combined with the Company's Puritan.com operations and the retail stores have been merged into the Company's U.S. retail operations. Annual revenues approximated \$14,000 for the e-commerce/direct response business as well as \$14,000 in retail sales for the year ended December 31, 1999. The cash portion of the acquisition was funded with \$20,000 in borrowings under the Company's CGA.

3. Divestitures:

In July 2000, the Company sold certain assets of Bio Nutritional Formulas, Inc. for approximately \$650 which is being paid in full over five years. Bio Nutritional Formulas had sales of approximately \$1,200 and operating income of approximately \$150 in fiscal 1999. No gain or loss was recognized on the sale.

4. Inventories:

	September 30,	
	<u>2001</u>	<u>2000</u>
Raw materials	\$ 66,519	\$ 42,982
Work-in-process	4,558	2,101
Finished goods	<u>113,668</u>	<u>85,658</u>
	<u>\$ 184,745</u>	<u>\$ 130,741</u>

In thousands, except per share amounts

5. Property, Plant and Equipment:

	September 30,		Depreciation & Amortization period
	2001	2000	
Land	\$ 10,549	\$ 10,571	
Buildings and leasehold improvements	87,627	72,314	5-40
Machinery and equipment	91,651	75,973	3-10
Furniture and fixtures	140,627	130,322	5-10
Transportation equipment	5,013	4,907	4
Computer equipment	37,376	31,923	5
	<u>372,843</u>	<u>326,010</u>	
Less accumulated depreciation and amortization	<u>143,627</u>	<u>111,846</u>	
	<u>\$229,216</u>	<u>\$214,164</u>	

Depreciation and amortization of property, plant and equipment for the years ended September 30, 2001, 2000 and 1999 was approximately \$34,866, \$29,275 and \$22,177, respectively.

Property, plant and equipment includes approximately \$6,010 for assets recorded under capital leases at September 30, 2001 and 2000. Accumulated depreciation of these capital leases at September 30, 2001 and 2000 was approximately \$2,808 and \$2,075, respectively.

6. Intangible Assets:

Intangible assets, at cost, acquired at various dates are as follows:

	September 30,		Amortization period
	2001	2000	
Goodwill	\$ 161,117	\$ 139,550	20-40
Customer lists	61,511	60,862	6-15
Trademark and licenses	2,404	1,661	2-3
Covenants not to compete	2,405	1,854	5-7
	<u>227,437</u>	<u>203,927</u>	
Less accumulated amortization	<u>41,709</u>	<u>31,803</u>	
	<u>\$ 185,728</u>	<u>\$ 172,124</u>	

Amortization included in the consolidated statements of income under the caption "selling, general and administrative expenses" in 2001, 2000 and 1999 was approximately \$10,080, \$9,226 and \$7,051, respectively.

7. Accrued Expenses:

	September 30,	
	2001	2000
Payroll and related taxes	\$ 7,713	\$ 6,953
Customer deposits	13,220	5,543
Accrued purchases and interest	5,189	1,522
Income taxes payable	20,568	11,405
Other	17,186	11,470
	<u>\$ 63,876</u>	<u>\$ 36,893</u>

8. Long-Term Debt:

	September 30,	
	2001	2000
Senior debt:		
8-5/8% Senior subordinated notes due 2007, net of unamortized discount of \$748 in 2001 and \$871 in 2000 (a)	\$ 149,252	\$ 149,129
Note payable due in monthly payments of \$2, including interest at 4%, maturing May 2009	162	205
Mortgages:		
First mortgage payable in monthly principal and interest (9.73%) installments of \$25, maturing in November 2009	1,713	1,844
First mortgage payable in monthly principal and interest (7.375%) installments of \$55 through 2011	4,569	4,881
First mortgage payable in monthly principal and interest (9.0%) installments of \$3 through 2011	197	209
Credit and Guarantee Agreement (b):		
Revolving Credit Agreement	-	7,500
Term loan payable in quarterly principal and interest installments of \$2,700 through March 2005	31,200	46,600
Term loan payable in quarterly principal and interest installments of \$5,562 through June 2005	83,438	-
	<u>270,531</u>	<u>210,368</u>
Less current portion	<u>33,564</u>	<u>11,273</u>
	<u>\$ 236,967</u>	<u>\$ 199,095</u>

(a) The 8-5/8% 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% per annum.

(b) On April 27, 2001, the Company entered into an amended and restated Credit and Guarantee Agreement ("CGA") which provides for aggregate borrowings up to \$188,400. The CGA is comprised of two revolving credit agreements of \$100,000 (increased by \$50,000 in April 2001) and \$50,000 and a term loan of \$38,400. On August 31, 2001, the outstanding balance of the \$100,000 facility converted to a term loan payable in 16 equal consecutive installments, commencing on September 30, 2001 and ending on June 30, 2005. The \$50,000 revolving credit facility expires on September 30, 2003. The \$38,400 term loan is payable in 16 equal consecutive installments commencing on June 30, 2001 with the balance payable on March 31, 2005. At September 30, 2001, there were borrowings of \$114,638 under this facility at an annual borrowing rate of 5.75%. The current portion of the CGA is \$33,050. The Company is required to pay a commitment fee, which varies between .25% and .50% per annum, depending on the Company's ratio of Debt to EBITDA, on any unused portion of the revolving credit facility. The CGA provides that loans be made under a selection of rate formulas, including prime or Euro currency rates. Virtually all of the Company's assets are collateralized under the CGA. In addition, the Company is subject to the maintenance of various financial ratios and covenants.

In thousands, except per share amounts

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

<i>Years ending September 30,</i>	
2002	\$ 33,564
2003	33,604
2004	32,451
2005	17,339
2006	705
Thereafter	<u>152,868</u>
	<u>\$270,531</u>

The fair value of the Company's long-term debt at September 30, 2001 and 2000, 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, 2001 are as follows:

<i>Years ending September 30,</i>	
2002	\$ 1,401
2003	270
2004	4
2005	<u>1</u>
	1,676
Less, amount representing interest	<u>60</u>
Present value of minimum lease payments (including \$1,347 due within one year)	<u>\$ 1,616</u>

10. Income Taxes:

Provision for income taxes consists of the following:

	<i>Year ended September 30,</i>		
	<u>2001</u>	<u>2000</u>	<u>1999</u>
Federal			
Current	\$ 14,713	\$ 12,640	\$ 6,214
Deferred	(1,682)	4,551	2,810
State			
Current	1,513	1,300	639
Deferred	(172)	468	289
Foreign provision	<u>11,586</u>	<u>12,485</u>	<u>8,371</u>
Total provision	<u>\$ 25,958</u>	<u>\$ 31,444</u>	<u>\$ 18,323</u>

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.

	<u>2001</u>		<i>Year ended September 30,</i> <u>2000</u>		<u>1999</u>	
	Amount	Percent of pretax income	Amount	Percent of pretax income	Amount	Percent of pretax income
Income tax expense at statutory rate	\$23,759	35.0%	\$29,033	35.0%	\$15,961	35.0%
State income taxes, net						
of federal income tax benefit	2,444	3.6%	2,986	3.6%	1,642	3.6%
Amortization of goodwill	2,277	3.3%	2,155	2.6%	2,155	4.7%
Other, individually less than 5%	(2,522)	(3.7%)	(2,730)	(3.3%)	(1,435)	(3.1%)
	<u>\$ 25,958</u>	<u>38.2%</u>	<u>\$ 31,444</u>	<u>37.9%</u>	<u>\$ 18,323</u>	<u>40.2%</u>

In thousands, except per share amounts

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

	September 30,	
	2001	2000
Deferred tax assets:		
Current:		
Inventory capitalization	\$ 770	\$ 637
Accrued expenses and reserves not currently deductible	4,148	2,512
Tax credits	400	400
Total current	<u>\$ 5,318</u>	<u>\$ 3,549</u>
Noncurrent:		
Intangibles	\$ 13	
Reserves not currently deductible	246	\$ 270
Total noncurrent	<u>\$ 259</u>	<u>\$ 270</u>
Deferred tax liabilities:		
Property, plant and equipment .	<u>(\$ 17,020)</u>	<u>(\$ 17,320)</u>

11. Commitments:

Operating Leases

The Company conducts retail operations under operating leases which expire at various dates through 2020. 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, 2001 are as follows:

Years ending September 30,	
2002	\$ 50,706
2003	47,500
2004	42,731
2005	37,774
2006	34,382
Thereafter	160,700
	<u>\$ 373,793</u>

Operating lease rental expense (including real estate taxes and maintenance costs) and leases on a month to month basis were approximately \$62,355, \$54,749 and \$44,299 for the years ended September 30, 2001, 2000 and 1999, respectively.

Purchase commitments

The Company was committed to make future purchases under various purchase arrangements with fixed price provisions aggregating approximately \$3,650 at September 30, 2001.

Capital commitments

The Company had approximately \$2,055 in open capital commitments at September 30, 2001, primarily related to manufacturing equipment as well as to computer hardware and software.

Employment and consulting agreements

The Company has employment agreements with two of its officers. The agreements, which expire in January 2004, provide for minimum salary levels, including cost of living adjustments, and also contain provisions regarding severance and changes in control of the Company. The commitment for salaries as of September 30, 2001 was approximately \$900 per year.

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 services to be provided to the Company through December 31, 2002 with the consulting fee fixed by the Board of Directors of the Company, provided that in no event will the consulting fee be at a rate lower than \$400 per year, payable monthly, with certain fringe benefits accorded to other executives of the Company.

Four members of H&B's senior executive staff have service contracts terminable by the Company upon twelve months notice. The commitment for H&B salaries as of September 30, 2001 was approximately \$600 per year.

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:

	Year ended September 30,		
	2001	2000	1999
Numerator:			
Numerator for basic EPS-			
income available to common stockholders . .	<u>\$ 41,925</u>	<u>\$ 51,508</u>	<u>\$ 27,279</u>
Numerator for diluted EPS-			
income available to common stockholders . .	<u>\$ 41,925</u>	<u>\$ 51,508</u>	<u>\$ 27,279</u>
Denominator:			
Denominator for basic EPS-			
weighted-average shares .	65,774	67,327	69,640
Effect of dilutive securities:			
Stock options	1,351	1,991	1,186
Denominator for diluted EPS-			
weighted-average shares .	<u>67,125</u>	<u>69,318</u>	<u>70,826</u>
Net EPS:			
Basic EPS	<u>\$ 0.64</u>	<u>\$ 0.77</u>	<u>\$ 0.39</u>
Diluted EPS	<u>\$ 0.62</u>	<u>\$ 0.74</u>	<u>\$ 0.39</u>

In thousands, except per share amounts

13. Stock Option Plans:

On March 11, 1992, the Board approved the issuance of an aggregate of 5,400 non-qualified stock options to directors and officers, exercisable at \$0.31 per share and expiring on March 10, 2002. During fiscal 1999, 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 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 price at the date such options were granted. Stock options granted under the plans generally become exercisable on grant date and have a maximum term of ten years.

During fiscal 2001, options were exercised with 458 shares of common stock issued for \$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.

During fiscal 2000, options were exercised with 1,422 shares of common stock issued to certain officers and directors for \$4,408. As a result of the exercise of those options, the Company received a compensation deduction for tax purposes of approximately \$4,700. Accordingly, a tax benefit of approximately \$1,833 was credited to capital in excess of par.

During fiscal 1999, options were exercised with 3,596 shares of common stock issued to certain officers and directors for \$78 and interest bearing notes aggregating \$839. As a result of the exercise of those options, the Company received a compensation deduction for tax purposes of approximately \$15,049. Accordingly, a tax benefit of approximately \$5,869 was credited to capital in excess of par.

A summary of stock option activity is as follows:

	2001		Year ended September 30, 2000		1999	
	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	4,536	\$ 5.71	3,720	\$ 4.53	4,316	\$ 0.26
Exercised	(458)	5.67	(1,422)	2.87	(3,596)	0.26
Forfeited	(60)		(50)			
Granted	805	5.47	2,288	5.88	3,000	5.55
Outstanding at end of year	4,823	\$ 5.62	4,536	\$ 5.71	3,720	\$ 4.53
Exercisable at end of year	4,823	\$ 5.62	4,536	\$ 5.71	3,650	\$ 4.53
Fair value of options granted during year . . .		\$ 3.80		\$ 3.64		

As of September 30, 2001, the weighted average remaining contractual life of outstanding options was 8 years.

The following table summarizes information about stock options outstanding at September 30, 2001:

Options Outstanding			Weighted Average Exercise Price	Options Exercisable	
Range of Exercise Prices	Shares Outstanding	Remaining Contractual Life		Shares Exercised	Weighted Average Exercise Price
\$0.31	120	less than 1 year	120	\$0.31	
\$4.75 - \$6.19	4,703	7-9 years	4,703	\$5.76	
	4,823		4,823		

The fair value of options granted during fiscal 2001 has been estimated on the date of grant using the Black-Scholes options pricing model with the following assumptions: no dividend yield; expected volatility of 70%; a risk-free interest rate of 5%; and a weighted average expected life of 6.7 years.

The Company applies APB Opinion 25 and related interpretations in accounting for stock options; accordingly, no compensation cost has been recognized. 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.

	Year ended September 30,		
	2001	2000	1999
Net income attributable to common stockholders as reported	\$41,925	\$ 51,508	\$ 27,279
Pro forma net income	\$ 40,034	\$ 46,428	\$ 21,676
Pro forma basic EPS	\$.61	\$.69	\$.31
Pro forma diluted EPS	\$.60	\$.67	\$.31

In thousands, except per share amounts

14. Employee Benefit Plans:

The Company maintains defined contribution retirement savings plans and an employee stock ownership plan. The accompanying financial statements reflect contributions to these plans in the approximate amount of \$1,480, \$1,670 and \$1,966 for the years ended September 30, 2001, 2000 and 1999, respectively.

15. Litigation:

Shareholder Litigation

A consolidated stockholder class action is pending against the Company and certain of its officers and directors in the U.S. District Court of the Eastern District of New York, on behalf of stockholders who purportedly purchased shares of the Company between January 27, 2000 and June 15, 2000 (the "Class Period"). The class action alleges that the Company and certain officers and directors failed to disclose material facts during the Class Period which purportedly resulted in a decline in the price of the Company's stock after June 15, 2000. In October 2001, the Company made an application to the court seeking dismissal of the lawsuit on the basis that it is legally deficient. That motion is presently pending.

In addition to the consolidated class action, two stockholder derivative actions were filed in 2000 in the Chancery Court in Delaware and in a Florida state court against certain officers and directors. The derivative claims are predicated upon the stockholder class actions pending in New York. Proceedings in the Delaware derivative action have been stayed pending the outcome of the Company's motion to dismiss the consolidated class action suit and a motion is pending to dismiss the Florida action on jurisdictional grounds.

The Company and the named individual defendants deny all claims of wrongdoing and are defending the actions vigorously. However, no determination can be made as to the final outcome. The Company maintains policies of directors and officers professional liability insurance.

The Company has also been named as a defendant, along with other companies, in a purported class action commenced in an Alabama state court. Plaintiffs allege that one of the Company's Vitamin World stores sold a misbranded nutritional supplement bar. In October 2001, the Company filed a motion to dismiss this lawsuit, which does not specify any monetary damages, on the basis that only the federal or state governments may bring an action of this nature and that the law does not provide for individual plaintiffs to maintain such a suit.

Gebe AG

In August 1997, the Company acquired Holland & Barrett Holdings Ltd. from German-based Gebe AG. A dispute arose over certain provisions of the purchase agreement. On July 30, 1999, the court rendered a decision in favor of Gebe AG. Accordingly, a litigation charge of \$4,952, which includes the amount of the judgment plus interest and plaintiff legal fees, was reflected separately in the statement of income for fiscal 1999.

Other litigation

The Company is also involved in miscellaneous claims and routine litigation which management believes, taken individually or in the aggregate, would not have a material adverse effect on the Company's consolidated financial position, results of operations or cash flows.

The Company is a plaintiff in a vitamin antitrust litigation brought in the United States District Court in the District of Columbia against F. Hoffmann-La Roche Ltd. and others for alleged price fixing. Certain of the defendants have pleaded guilty in criminal proceedings arising from the same set of facts. Partial settlements with certain defendants have been made and negotiations with other defendants are currently being held. In fiscal 2000, the Company received \$2,511 in partial settlement of ongoing price fixing litigation.

16. Segment Information:

The Company's segments are organized by sales market on a worldwide basis. The Company's management reporting system evaluates performance based on a number of factors; however, the primary measure of performance is the pre-tax operating income of each segment. Accordingly, the Company reports four worldwide segments: Puritan's Pride/Direct Response, Retail: United States and United Kingdom/Ireland and Wholesale. All of the Company's products fall into one of these four segments. The Puritan's Pride/Direct Response segment generates revenue through the sale of its products primarily through mail order catalog and 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. The Retail United States segment generates revenue through the sale of proprietary brand and third-party products through its 526 Company-operated stores. The Retail United Kingdom/Ireland segment generates revenue through the sale of proprietary brand and third-party products in 461 Company-operated stores. The Wholesale segment (including Network Marketing) is comprised of several divisions each targeting specific market groups. These market groups include wholesalers, distributors, chains, pharmacies, health food stores, bulk and international customers.

The following table represents key financial information of the Company's business segments (in thousands, except for number of locations):

	Year ended September 30,		
	2001	2000	1999
<i>Puritan's Pride /Direct Response:</i>			
Revenue	\$ 172,203	\$ 182,693	\$ 176,053
Operating income	51,550	53,865	43,496
Depreciation and amortization	4,672	3,682	2,074
Identifiable assets	71,821	69,513	29,926
Capital expenditures	407	1,980	320
<i>Retail:</i>			
United States			
Revenue	\$ 174,987	\$ 149,055	\$ 103,172
Operating loss	(29,605)	(19,782)	(12,147)
Depreciation and amortization	13,820	11,438	6,051
Identifiable assets	79,401	78,672	55,960
Capital expenditures	9,118	25,173	25,148
Locations open at end of year	526	476	352
United Kingdom/Ireland			
Revenue	\$ 262,876	\$ 248,602	\$ 220,405
Operating income	52,621	40,977	26,830
Depreciation and amortization	12,581	12,347	12,294
Identifiable assets	220,662	200,373	221,817
Capital expenditures	7,829	13,949	11,753
Locations open at end of year	461	427	423
<i>Wholesale:</i>			
Revenue	\$ 196,832	\$ 140,506	\$ 131,264
Operating income	24,704	29,542	18,243
Depreciation and amortization	1,743	1,240	498
Identifiable assets	51,451	17,003	18,209
Capital expenditures	1,310	1,486	1,134

In thousands, except per share amounts

	Year ended September 30,		
	2001	2000	1999
<i>Corporate:</i>			
Operating loss	\$ (12,177)	\$ (7,283)	\$ (13,263)
Depreciation and amortization	12,130	9,794	8,311
Manufacturing identifiable assets . . .	285,127	238,052	213,472
Capital expenditures- manufacturing	9,916	4,439	3,627
Capital expenditures- other	8,617	4,759	3,828
<i>Consolidated totals:</i>			
Revenue	\$806,898	\$ 720,856	\$ 630,894
Operating income	87,093	97,319	63,159
Depreciation and amortization	44,946	38,501	29,228
Identifiable assets	708,462	603,613	539,384
Capital expenditures . . .	37,197	51,786	45,810
<i>Revenue by location of customer:</i>			
United States	\$ 530,361	\$ 458,543	\$ 392,617
United Kingdom	262,876	248,602	224,364
Other foreign countries	13,661	13,711	13,913
Consolidated totals . . .	\$ 806,898	\$ 720,856	\$ 630,894
<i>Long-lived assets:</i>			
United States	\$ 267,690	\$ 238,019	\$ 167,120
United Kingdom	147,254	148,269	163,852
Consolidated totals . . .	\$ 414,944	\$ 386,288	\$ 330,972

17. Related Party Transactions:

An entity owned by a relative of an officer received sales commissions of \$501, \$520 and \$472 in 2001, 2000 and 1999, respectively, and had trade receivable balances approximating \$3,142 and \$2,529 at September 30, 2001 and 2000, respectively.

18. Quarterly Results of Operations (Unaudited):

The following is a summary of the unaudited quarterly results of operations for fiscal 2001 and 2000:

	Quarter ended			
	Dec. 31,	Mar. 31,	June 30,	Sept. 30,
2001:				
Net sales	\$ 166,829	\$ 224,775	\$ 203,926	\$ 211,368
Gross profit	92,324	126,971	116,466	115,970
Income before income taxes	1,038	29,183	21,734	15,928 (a)
Net income	639	17,948	13,366	9,972
Net income per diluted share	\$0.01	\$0.27	\$0.20	\$0.15 (b)
2000:				
Net sales	\$ 171,172	\$ 200,107	\$ 172,102	\$ 177,475
Gross profit	90,229	115,954	98,082	103,631
Income before income taxes	14,028	30,105	20,094	18,725 (a)
Net income	8,417	18,063	12,057	12,971
Net income per diluted share	\$0.12	\$0.26	\$0.17	\$0.19

(a) Year-end adjustments resulting in an increase to pre-tax income of approximately \$3,900 in 2001 and \$5,400 in 2000, primarily related to adjustments of inventory amounts. These adjustments principally result from the utilization of the gross profit method to value inventory during interim periods and the year-end valuation of the Company's annual physical inventory.

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

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

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of income, stockholders' equity and cash flows present fairly, in all material respects, the financial position of NBTY, Inc. and Subsidiaries (the "Company") at September 30, 2001 and 2000, and the consolidated results of their operations and their cash flows for each of the three years in the period ended September 30, 2001 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 audits 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.

PRICEWATERHOUSECOOPERS LLP

New York, New York
November 6, 2001

PRICE RANGE OF COMMON STOCK

The Common Stock is traded in the over-the-counter market and is included for quotation on the National Association of Securities Dealers National Market System under the trading

symbol "NBTY". The following table sets forth, for the periods indicated, the high and low closing sale prices for the Common Stock, as reported on NASDAQ/NMS:

	<u>High</u>	<u>Low</u>
Fiscal Year ended September 30, 2000		
First Quarter	\$ 12.50	\$ 6.75
Second Quarter	16.00	9.94
Third Quarter	19.06	5.94
Fourth Quarter	7.88	5.75
Fiscal Year ended September 30, 2001		
First Quarter	\$ 6.97	\$ 3.94
Second Quarter	8.50	4.38
Third Quarter	13.40	8.00
Fourth Quarter	17.76	10.55

On November 30, 2001, the closing sale price of the Common Stock was \$11.62. There were approximately 835 record holders of Common Stock as of November 30, 2001. The Company

believes that there were in excess of 13,000 beneficial holders of Common Stock as of such date.

Background

NBTY, founded in 1971, 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 27 companies and/or businesses engaged in the direct response, retail and manufacturing of the nutritional supplement sector, including Holland & Barrett in 1997, Nutrition Headquarters Group in 1998, Nutrition Warehouse Group in 2000 and Global Health Sciences and NatureSmart in 2001.

NBTY markets its products through four distribution channels: (i) Puritan's Pride/direct response, (ii) Vitamin World retail stores in the U.S., (iii) Holland & Barrett retail stores in the U.K. and Ireland, and (iv) wholesale distribution to drug store chains, supermarkets, discounters, independent pharmacies, and health food stores. NBTY's net sales from Puritan's Pride/direct response, Vitamin World, Holland & Barrett and wholesale operations were approximately 21%, 22%, 33% and 24%, respectively, for the year ended September 30, 2001.

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.

Fiscal Year Ended September 30, 2001 Compared to Year Ended September 30, 2000

Net Sales.

Net sales for fiscal 2001 were \$807 million, an increase of \$86 million or 11.9% compared with net sales of \$721 million in fiscal 2000. Of the \$86 million increase, \$26 million was attributable to Vitamin World sales, \$14 million was attributable to Holland & Barrett sales, and \$57 million to wholesale, offset by a decrease of \$11 million in direct response/e-commerce. During 2001, the Company opened 50 stores which contributed \$8 million in increased sales in the U.S. and 26 stores in the U.K. which contributed \$2.3 million in sales. The acquisition of Global Health Sciences and NatureSmart accounted for \$29.4 million in sales.

Cost of Sales.

Cost of sales for fiscal 2001 was \$355 million, an increase of \$42 million compared with the cost of sales of \$313 million for fiscal 2000. As a percentage of sales, cost of sales increased and, correspondingly, gross profit decreased to 56% for 2001 from 56.7% for 2000. Such decrease was primarily due to Global Health Sciences' cost of sales of \$18 million on sales of \$16.8 million. The increase was mitigated by a decrease in the Direct Response segment's cost of sales, which

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.

Results of Operations

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

	Year ended September 30,		
	1999	2000	2001
Net sales	100.0%	100.0%	100.0%
Costs and expenses:			
Cost of sales	46.5	43.3	44.0
Catalog printing, postage, and promotion.	5.2	4.7	6.1
Selling, general and administrative	37.5	38.8	39.1
Litigation	0.8	(0.3)	—
	<u>90.0</u>	<u>86.5</u>	<u>89.2</u>
Income from operations	10.0	13.5	10.8
Interest expense and other, net. . .	(2.8)	(2.0)	(2.4)
Income before income taxes.	7.2	11.5	8.4
Income taxes.	2.9	4.4	3.2
Net income	<u>4.3%</u>	<u>7.1%</u>	<u>5.2%</u>

decreased from 36.4% to 33.7% as a percentage of sales, primarily due to higher gross margins on new product introductions and improvements in manufacturing efficiencies. The increase was also mitigated by the Vitamin World cost of sales decreasing as a percentage of sales from 43% to 41.6%, primarily due to sales price increases on all product lines during the current year. The Company's strategy is to continue to increase in-house manufacturing while decreasing the use of outside suppliers in both the U.S. and the U.K. In addition, cost of sales includes a year end adjustment to inventory of approximately \$3.9 million for 2001 and \$5.4 million for 2000, which is 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.

Catalog, Printing, Postage and Promotion.

Catalog, printing, postage and promotion expenses were \$49 million and \$34 million for fiscal 2001 and 2000, respectively. Such costs as a percentage of net sales were 6.1% for 2001 and 4.7% for 2000. The increased percentage was due to an increase in printing and mailing costs per catalog, resulting from an increase in postage costs, and the change to a larger catalog order size and for radio and television advertisements relating to the Flex-A-Min advertising campaign.

Fiscal Year Ended September 30, 2001 Compared to Year Ended September 30, 2000 (cont.)

Selling, General and Administrative.

Selling, general and administrative expenses for fiscal 2001 were \$315 million, an increase of \$36 million, compared with \$279 million for fiscal 2000. As a percentage of sales, selling, general and administrative expenses were 39.1% and 38.8% in 2001 and 2000, respectively. Of the \$36 million increase, \$7 million was attributable to rent expense, \$19 million to payroll costs mainly associated with the Vitamin World expansion program and \$4 million was attributable to increased depreciation expense as a result of an increase in capital expenditures.

Recovery of Raw Materials Costs.

In fiscal 2000, the Company received \$2.5 million in partial settlement of ongoing price fixing litigation brought by the Company against certain raw material vitamin suppliers.

Interest Expense, Net.

Net interest expense was \$22 million in fiscal 2001, an increase of \$3 million, compared with net interest expense of \$19 million in

fiscal 2000. Net interest expense increased due to the additional borrowings to fund the two acquisitions completed in the third quarter of 2001. The major components are interest on Senior Subordinated Notes associated with the Holland & Barrett acquisition, and the Credit and Guarantee Agreement (CGA) used for acquisitions and capital expenditures.

Miscellaneous Net.

Miscellaneous, net was \$2.7 million and \$4.5 million for fiscal 2001 and 2000, respectively. The \$1.8 million decrease was primarily attributable to exchange rate fluctuations (\$.9 million), and a gain on disposal of certain businesses and related fixed assets (\$.6 million) in 2000.

Income Taxes

The Company's effective income tax rate was approximately 38% for fiscal years 2001 and 2000.

Net Income.

Net income for fiscal 2001 was \$42 million, compared with \$52 million in fiscal 2000, a decrease of \$10 million.

Fiscal Year Ended September 30, 2000 Compared to Year Ended September 30, 1999

Net Sales.

Net sales for fiscal 2000 were \$721 million, an increase of \$90 million or 14% compared with net sales of \$631 million in fiscal 1999. Of the \$90 million increase, \$46 million was attributable to Vitamin World sales, \$28 million was attributable to Holland & Barrett sales, \$9 million in wholesale and \$7 million direct response/e-commerce. During 2000, the Company opened 139 stores which contributed \$20 million in increased sales in the U.S. and 3 stores in the U.K. The acquisition of Nutrition Warehouse accounted for \$7 million of the increase in retail U.S. sales.

Cost of Sales.

Cost of sales for fiscal 2000 was \$313 million, an increase of \$19 million compared with the cost of sales of \$294 million for fiscal 1999. As a percentage of sales, cost of sales decreased and, correspondingly, gross profit increased to 56.7% for 2000 from 53.5% for 1999. This increase was attributable to the Company's Direct Response segment's cost of sales, which decreased from 40.1% to 36.4% as a percentage of sales, primarily due to an increase in sales of new products, which typically have higher gross margins, and lower manufacturing costs resulting from increased efficiency and productivity at the Company's manufacturing facilities. The Company's Vitamin World division's cost of sales decreased as a percentage of sales from 44.2% to 43%, primarily due to sales price increases on all product lines during the current year. In addition, as the Company generally experiences higher margins on products manufactured by NBTY and sold in H&B stores, H&B stores cost of sales decreased from 45.1% to 41.5% as a percentage of sales. The Company's strategy is to continue to increase in-house manufacturing while decreasing the use of

outside suppliers in both the U.S. and the U.K. In addition, cost of sales includes a year end adjustment to inventory of \$5.4 million for both 2000 and 1999, which is 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.

Catalog, Printing, Postage and Promotion.

Catalog, printing, postage and promotion expenses were \$34 million and \$33 million for fiscal 2000 and 1999, respectively. Such costs as a percentage of net sales were 4.7% for 2000 and 5.2% for 1999. The decreased percentage was due to more efficient printing and mailing methods of the Company's catalog operation and increased sales.

Selling, General and Administrative.

Selling, general and administrative expenses for fiscal 2000 were \$279 million, an increase of \$43 million, compared with \$236 million for fiscal 1999. As a percentage of sales, selling, general and administrative expenses were 38.8% and 37.5% in 2000 and 1999, respectively. Of the \$43 million increase, \$11 million was attributable to rent expense, \$17 million to payroll costs mainly associated with the retail-U.S. expansion program and \$5 million was attributable to an increased depreciation expense as a result of the increase in capital expenditures.

Recovery of raw materials costs.

The Company received \$2.5 million in partial settlement of ongoing price fixing litigation brought by the Company against certain raw material vitamin suppliers.

Interest Expense, Net.

Net interest expense was \$19 million in fiscal 2000, the same amount as in fiscal 1999.

Miscellaneous, net.

Miscellaneous, net was \$4.5 million and \$1.4 million for fiscal 2000 and 1999, respectively. The \$3.1 million increase was primarily attributable to an increase in rental income, net (\$1.1 million), exchange rate fluctuations (\$.9 million), and investment income (\$.5 million).

Income Taxes.

The Company's effective tax rate was approximately 38% in fiscal 2000 and 40% in fiscal 1999. Such reduction was principally due to an increase in retail sales at Holland & Barrett, which has a lower effective tax rate than domestic sales.

Net Income.

Net income for fiscal 2000 was \$52 million, compared with \$27 million in fiscal 1999, an increase of \$25 million.

Seasonality

The Company believes that its business is not seasonal. Historically, the Company has slightly lower net sales in its first and third fiscal quarters, and slightly higher net sales in its second and fourth fiscal quarters. The Company may have higher net sales in a quarter depending upon when it has engaged in significant promotional activities.

Liquidity and Capital Resources

As of September 30, 2001, the Company had cash and cash equivalents of \$34.4 million. Net cash provided by operating activities was \$62.8 million for fiscal 2001 compared to \$123.4 million in fiscal 2000. The overall decline in cash from operating activities was attributable to a significant increase in inventories, accounts receivable and deferred tax assets, which were offset by an increase in noncash charges for depreciation and amortization, and an increase in accounts payable. In fiscal 2000, net cash provided by operating activities increased \$84.5 million, to \$123.4 million, primarily due to decreases in inventories, accounts receivable and deferred tax assets, and increases in noncash charges for depreciation and amortization, and an increase in accounts payable.

In fiscal 2001 and 2000, the Company's investing activities consisted primarily of cash paid for business acquisitions and purchase of property, plant and equipment. Net cash used in investing activities was \$96.1 million for fiscal 2001, resulting primarily from the cash paid for the business acquisitions of Global Health Sciences and NatureSmart (\$63.0 million), and the purchase of property, plant and equipment (\$37.2 million), offset by proceeds from the sale of property, plant and equipment (\$4.2 million). In fiscal 2000, net cash used in investing activities was \$96.6

million, consisting primarily of cash paid for business acquisitions and a mailing list and the purchase of property and equipment. Net cash paid for business acquisitions/ mailing list (\$51.8 million) and property, plant and equipment (\$45.1 million).

Net cash provided by financing activities in fiscal 2001 was \$35.6 million and included borrowings under the Company's Credit & Guarantee Agreement ("CGA") of \$71.5 million, proceeds from the exercise of stock options of \$2.6 million, which were offset by principal payments under long-term debt agreements (\$12.8 million), purchase of treasury stock (\$15.7 million) and cash held in escrow (\$10 million). Cash used in financing activities of \$12 million during fiscal 2000 included principal payments under long-term debt agreements (\$17.7 million) and the purchase of treasury stock (\$1.5 million) offset by borrowings under the Company's Credit & Guarantee Agreement ("CGA") of \$2.8 million and proceeds from the exercise of stock options (\$4.4 million).

Working capital increased \$31 million to \$131 million in fiscal 2001. The Company believes that the cash flow generated from its operations and amounts available under the Revolving Credit Facility should be sufficient to fund its debt service requirements, working capital needs, anticipated capital expenditures and other operating expenses for the foreseeable future. On April 27, 2001, the Company entered into an amended and restated Credit and Guarantee Agreement ("CGA") which provides for aggregate borrowings up to \$188.4 million. The CGA is comprised of two revolving credit agreements of \$100 million (increased by \$50 million in April 2001) and \$50 million and a term loan of \$38.4 million. On August 31, 2001, the outstanding balance of the \$100 million facility converted to a term loan, payable in 16 equal consecutive installments commencing on September 30, 2001, and ending on June 30, 2005. The \$50 million revolving credit facility expires on September 30, 2003. The \$38.4 million term loan is payable in 16 equal consecutive installments commencing on June 30, 2001 with the balance payable on March 31, 2005. At September 30, 2001, there were borrowings of \$114.6 million under this facility at an annual borrowing rate of 5.75%. The current portion of the CGA is \$33 million. The Company is required to pay a commitment fee, which varies between .25% and .50% per annum, depending on the Company's ratio of Debt to EBITDA, on any unused portion of the revolving credit facility. The CGA provides that loans be made under a selection of rate formulas, including prime or Euro currency rates. Virtually all of the Company's assets are collateralized under the CGA. In addition, the Company is subject to the maintenance of various financial ratios and covenants.

The Company utilized the CGA to buy back 3,023,000 shares (\$15.7 million) during fiscal 2001 of its common stock under its stock purchase plan.

The Company's debt instruments impose certain restrictions on the Company regarding capital expenditures and limit the Company's ability to: 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 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.

Inflation

Inflation has not had a significant impact on the Company in the past three years nor is it expected to have a significant impact in the foreseeable future.

New Accounting Developments

Effective October 1, 2000, the Company adopted SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities." As the Company has determined it does not have any derivatives or hedging activities, the adoption of SFAS No. 133 did not affect the Company's consolidated financial position or results of operations as of and for the year ended September 30, 2001.

In June 2001, the Emerging Issues Task Force ("EITF") reached a consensus on Issue No. 00-14, "Accounting for Certain Sales Incentives" effective no later than periods beginning after December 15, 2001. EITF Issue No. 00-14 addresses the recognition, measurement and statement of earnings classification for certain sales incentives. The Company has determined that the impact of adoption or subsequent application of EITF Issue No. 00-14 will not have a material effect on its consolidated financial position or results of operations.

In March 2001, the EITF released Issue No. 00-22, "Accounting for 'Points' and Certain Other Time-Based or Volume-Based Sales Incentive Offers, and Offers for Free Products or Services to Be Delivered in the Future." The EITF reached a consensus addressing a vendor's accounting for offers to customers to rebate or refund specified amounts of cash redeemable only if the customer completes a specified cumulative level of revenue transactions or remains a customer for a specified time period. Issue No. 00-22 requires that the vendor recognize the cash rebate or refund obligation as a reduction of revenue based on a systematic and rational allocation of the cost of honoring rebates or refunds earned and claimed to each of the underlying revenue transactions that result in progress by the customer toward earning the rebate or refund. The Company has determined that the impact of application of this guidance will not have a material effect on its consolidated financial position or results of operations.

In April 2001, the EITF reached a consensus on Issue No. 00-25, "Vendor Income Statement Characterization of Consideration Paid to a Reseller of the Vendor's Products." EITF Issue No. 00-25 requires that certain expenses included in marketing, administrative and research costs be recorded as a reduction of operating revenues and will be effective in the first quarter of fiscal 2002. The Company has determined that the impact of adoption of EITF Issue No. 00-25 will not have a material effect on the Company's consolidated financial position or results of operations.

In June 2001, the Financial Accounting Standards Board issued SFAS No. 141, "Business Combinations" and SFAS No. 142, "Goodwill and Other Intangible Assets." SFAS No. 141 requires the use of the purchase method of accounting for all business combinations initiated after June 30, 2001, thereby eliminating the pooling-of-interests methods of accounting. SFAS No. 141 also addresses the recognition and measurement of goodwill and other intangible assets acquired in a business combination. The adoption of SFAS No. 141 by the Company on July 1, 2001, did not significantly affect the Company's consolidated financial position or results of operations.

Upon adoption of SFAS No. 142, goodwill and intangible assets that have indefinite useful lives will not be amortized but rather will be tested at least annually for impairment. Other intangible assets will continue to be amortized over their estimated useful lives. The Company will adopt the provisions of SFAS No. 142 on October 1, 2001. Based upon the Company's current amount of goodwill and qualifying intangible assets, management expects the adoption to reduce its fiscal 2002 annualized amortization expense, which is not deductible for tax purposes, by approximately \$6.1 million.

In August 2001, the Financial Accounting Standards Board issued SFAS No. 143, "Accounting for Asset Retirement Obligations," and SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets." SFAS No. 143 addresses financial accounting and reporting for obligations associated with the retirement of tangible long-lived assets and the associated asset retirement costs. SFAS No. 144 supersedes FASB Statement No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of," and the accounting and reporting provisions of APB Opinion No. 30, "Reporting the Results of Operations - Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions," and addresses financial accounting and reporting for the impairment or disposal of long-lived assets. The Company does not expect the adoption of SFAS No. 143 and 144 to have a material impact on its consolidated financial position or results of operations.

Forward Looking Statements

This annual report contains certain forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995 with respect to our financial condition, results of operations and business. All of these forward-looking statements, which can be identified by the use of terminology such as "subject to," "believe," "expects," "may," "will," "should," "can," or "anticipates," or the negative thereof, or variations thereon, or comparable terminology, or by discussions of strategy which, although believed to be reasonable, are inherently uncertain. Factors that may affect such forward-looking statements include (i) slow or negative growth in the nutritional supplement industry; (ii) disruptions of business or negative impact on sales and earnings due to acts of war, terrorism, bio-terrorism, or civil unrest; (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 unavailability of additional debt or equity capital; (ix) unavailability of, or inability to consummate, advantageous acquisitions in the future or the inability of the Company to assimilate acquisitions into the mainstream of its business or to successfully implement its business strategy; (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 /hold market share of its wholesale and retail customers; (xii) unavailability of electricity in certain geographical areas; (xiii) exposure to, expense of defending and resolving, product liability claims and other litigation; (xiv) the inability of the Company to obtain or renew adequate insurance for its operations and properties at reasonable rates, or any rates if available; (xv) the inability of the

Company to manage its retail operations efficiently; (xvi) consumer acceptance of the Company's products; (xvii) uncertainty in negotiating and consummating acquisitions which may be subject to bankruptcy court approval; (xviii) the inability of the Company to renew leases on its retail locations; (xix) inability of the Company's retail stores to attain profitability; (xx) the absence of clinical trials for many of the Company's products; (xxi) sales and earnings volatility; (xxii) the Company's ability to manufacture its products efficiently; (xxiii) the rapidly changing nature of the Internet and on-line commerce; (xxiv) fluctuations in foreign currencies, and more particularly the British Pound; (xxv) import-export controls on sales to foreign countries; (xxvi) the inability of the Company to secure favorable new sites for, and delays in opening, new retail locations; (xxvii) adverse federal, state or foreign legislation or regulation or adverse determinations by regulators; (xxviii) the mix of the Company's products and the profit margins thereon; (xxix) the availability and pricing of raw materials; (xxx) factors discussed in the Company's filings with the Securities and Exchange Commission; and (xxxi) other factors beyond the Company's control.

Readers are cautioned not to place undue reliance on forward-looking statements. The Company undertakes no obligation to republish or revise forward-looking statements to reflect events or circumstances after the date hereof or to reflect the occurrences of unanticipated events.

The Company cannot guarantee future results, events, and levels of activity, performance or achievements. The Company does not assume a duty to update or revise any of the forward-looking statements as a result of new information, future events or otherwise.

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

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Chairman of the Board

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Director

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Nathan Rosenblatt
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Director

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Director

Peter White
Director

Subsidiaries

Wholesale Divisions

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Nature's Bounty

Barry Drucker
Senior Vice President, Sales

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Dan Parkhideh
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*Vice President of Purchasing and
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Tony Camerlengo
*Vice President, Warehousing and
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Richard Bartole
Vice President, Nutro

Linda Penett
Vice President, Nutro

Dynamic Essentials

Gary J. Raser
President

Independent Accountants
*PricewaterhouseCoopers LLP
Certified Public Accountants
11 Madison Avenue
New York, New York 10010*

Common Stock
NASDAQ Symbol NBTY

Transfer Agent
*American Stock Transfer
& Trust Company
40 Wall Street - 46th Floor
New York, New York 10005*

Consumer Divisions

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Patricia Solt
Senior Vice President, Chief Operating Officer

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Senior Vice President, Merchandising

Benjamin Rifkin
Vice President, Real Estate

Robert Silverman
Vice President, New Product Development

Nutrition Warehouse

Glenn Schneider
Vice President

Puritan's Pride

Al Rubenstein
Senior Vice President, Direct Marketing

Holland and Barrett

Barry Vickers
Managing Director

Peter Aldis
Commercial Director

Gill Day
Financial Director

Roger Craddock
Administration Director

Internet Services

Joan Riley
Vice President

Advertising Agency
*Nabarco Advertising Associates
90 Orville Drive
Bohemia, New York 11716*

NBTY, Inc.
*Corporate Headquarters
90 Orville Drive
Bohemia, New York 11716
631-567-9500*

www.NBTY.com

