



2002

A•N•N•U•A•L R•E•P•O•R•T

Recognized worldwide as an innovative industry leader, NBTY is proud to boast of its more than 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, 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.

During this past fiscal year, NBTY generated record results and reaffirmed its position as the dominant force in the nutritional supplement industry. I am pleased to report that revenues for fiscal 2002 increased nearly 20% to \$964 million and net income for the year rose 129% to \$96 million. Our results reflect overall growth in our wholesale, retail and direct response/e-commerce operations.

Wholesale Division-The Success of Nature's Bounty

We remain firmly committed to our wholesale business. To this end, we devote substantial advertising, resources and personnel to fully serve our wholesale customers. Our wholesale division continues to outperform competitors and generate greater market share in sales to drug store chains, supermarkets, health food stores and major mass merchandisers. As part of our continuing focus, we recently completed the acquisition of FSC, a United Kingdom-based wholesale operation, to further expand our wholesale business.

Revenues for the Nature's Bounty wholesale division increased approximately 48% to \$291 million from \$197 million for fiscal 2001. The increase in revenues reflects greater sales of core products and a strong response to new product introductions and promotions.

Nature's Bounty's expertise in utilizing consumer sales information received from our retail and direct response/e-commerce operations, responding to consumer preferences and monitoring the market for trends and ideas continues to generate increased sales for the mass market and drug chains.

The Nature's Bounty brand continues to be recognized for its ability to provide the highest quality nutritional supplements at competitive prices to our wholesale customers. We are proud to say that, in 2002, Nature's Bounty wholesale

division was named Supplier of the Year for the nutrition category by Wal-Mart Stores, the largest retail chain in the world.

Acquisitions

Since the beginning of fiscal 2002, NBTY has continued to implement its strategy of acquiring companies that complement and enhance operations. In August 2002, NBTY acquired the Synergy Plus® trademark along with related assets. Synergy Plus® is a line of nutritional supplement products that has been selling exclusively to the health food store market for over 30 years and is well recognized as one of the more prestigious brands in this arena.

NBTY continues to make strategic acquisitions both in the United States and internationally and remains at the forefront of the nutritional supplement industry consolidation. Most recently, in addition to the FSC wholesale acquisition, we acquired the Health & Diet Group Ltd., which operates 49 GNC stores in the United Kingdom and 7 GNC stores in Germany. We believe that the strength of our balance sheet and proven expertise in successfully integrating acquisitions makes NBTY a natural choice for sellers of nutritional supplement businesses.

Other Operations

Vitamin World, which operated 544 retail stores nationwide at the end of 2002, generated sales for fiscal 2002 of \$199 million, an increase of 14%. This increase reflects, in part, the success of our savings passport program that targets customers and increases store traffic.

We continue to implement measures intended to increase sales in existing Vitamin World stores. To this end, we opened 24 Vitamin World stores in fiscal 2002 and closed 5 underperforming Vitamin World Stores. These efforts are part of our strategic

plan for Vitamin World to achieve and maintain profitability.

The Company's Savings Passport Card, a customer loyalty program, had enrolled more than 2.8 million retail customers at the end of the 2002 fiscal year. This program offers incentives for the consumer to shop at Vitamin World and provides an additional tool for the Company to track customer preferences and purchasing trends.

Revenues from Puritan's Pride direct response/e-commerce operations increased 7% to \$183 million for fiscal 2002. We are the leader in the direct response and e-commerce sector, and the number of products available via our catalog and website continues to increase, to a total of 5,220 today.

NBTY continues to strengthen its Puritan's Pride direct response/e-commerce operation's sales by upgrading its automated technology to fulfill sale order requests with greater speed and accuracy. This increased manufacturing capability allows us to quickly introduce and deliver new products in response to consumer demand, using more frequent promotions to further improve response rates and promote the Internet website.

With 468 retail stores at the end of fiscal 2002, our Holland & Barrett operation continues to be the leader in the vitamin and health food market in the United Kingdom. Holland & Barrett sales for fiscal 2002 increased 11% to \$291 million. In fiscal 2002, Holland & Barrett opened 7 new stores in the United Kingdom and Ireland. We remain firmly committed to expanding our business into the European market. Our successes include our expansion into Germany with 7 GNC stores and

greater penetration of the United Kingdom marketplace with 49 GNC stores.

Looking Forward

NBTY continues to increase efforts to enhance our strategy of delivering the highest quality nutritional supplements with the best value to consumers. This strategy has generated greater sales and consumer acceptance of our products and contributed significantly to our overall success.

NBTY will continue expanding its leadership position in the marketing of nutritional supplements. We expect to generate increased sales from our wholesale division as we continue to implement our strategic plan to improve operations. Through the advertising, special promotions and carefully managed growth of new stores, we are working to increase sales and sustain profitability for our Vitamin World stores. We are optimistic about the future of NBTY and confident in our vision and strategic plans.



On behalf of the Board of Directors and management of our Company, we wish to thank our shareholders for their continued support. We are grateful for the dedication of our more than 8,000 associates worldwide and for the continued patronage of our customers. We look forward to sharing our future successes with you.

Sincerely,

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

Scott Rudolph
Chairman and CEO
March 31, 2003

FINANCIAL HIGHLIGHTS

NBTY, Inc. and Subsidiaries

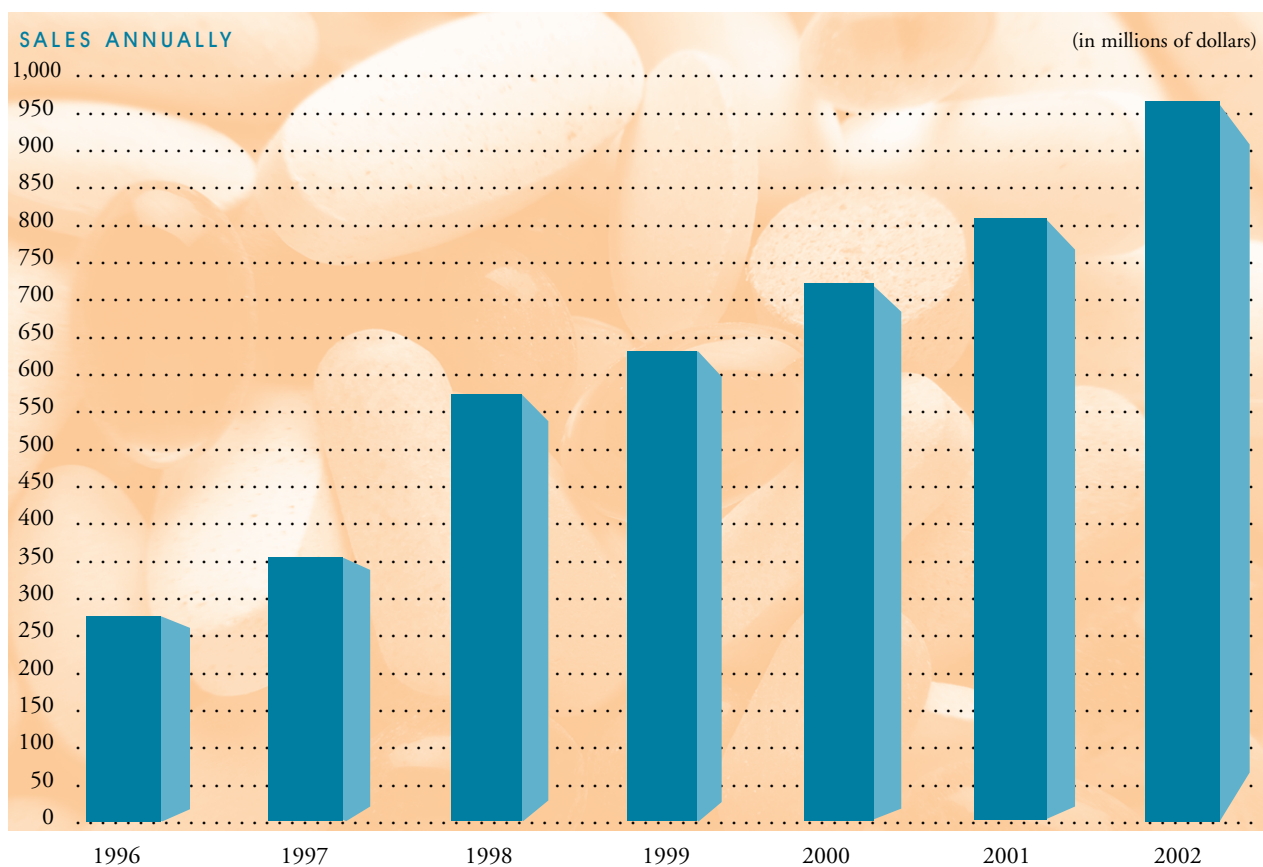
Dollars and shares in thousands, except per share amounts

	Years ended September 30,	
	2002	2001
Sales	\$ 964,083	\$ 806,898
Net income	\$ 95,791	\$ 41,925
Net income per share ⁽¹⁾ :		
Basic	\$ 1.45	\$ 0.64
Diluted	\$ 1.41	\$ 0.62
Current assets	\$ 316,084	\$ 280,568
Total assets	\$ 734,677	\$ 708,462
Current liabilities	\$ 130,374	\$ 149,460
Total liabilities	\$ 315,420	\$ 406,056
Increase in working capital	\$ 54,602	\$ 30,994
Stockholders' equity	\$ 419,257	\$ 302,406
Weighted average common shares outstanding ⁽¹⁾ :		
Basic	65,952	65,774
Diluted	67,829	67,125

FIVE YEAR SUMMARY

	Years ended September 30,				
	2002	2001	2000	1999	1998
Sales	\$ 964,083	\$ 806,898	\$ 720,856	\$ 630,894	\$ 572,124
Income before income taxes	\$ 138,707	\$ 67,883	\$ 82,952	\$ 45,602	\$ 62,314
Provision for income taxes	\$ 42,916	\$ 25,958	\$ 31,444	\$ 18,323	\$ 23,474
Net income	\$ 95,791	\$ 41,925	\$ 51,508	\$ 27,279	\$ 38,840
Net income per share ⁽¹⁾ :					
Basic	\$ 1.45	\$ 0.64	\$ 0.77	\$ 0.39	\$ 0.59
Diluted	\$ 1.41	\$ 0.62	\$ 0.74	\$ 0.39	\$ 0.56
Weighted average common shares outstanding ⁽¹⁾ :					
Basic	65,952	65,774	67,327	69,640	65,563
Diluted	67,829	67,125	69,318	70,826	69,847

(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.



<i>Dollars and shares in thousands</i>	<i>September 30,</i>	
<i>Assets:</i>	<u>2002</u>	<u>2001</u>
Current assets:		
Cash and cash equivalents	\$ 26,229	\$ 34,434
Investments in bonds	8,194	-
Accounts receivable, less allowance for doubtful accounts of \$4,194 in 2002 and \$3,222 in 2001	41,362	34,730
Inventories	204,402	184,745
Deferred income taxes	11,206	5,318
Prepaid expenses and other current assets	24,691	21,341
Total current assets	<u>316,084</u>	<u>280,568</u>
Property, plant and equipment, net	216,245	229,216
Goodwill, net	144,999	137,818
Intangible assets, net	48,413	47,910
Other assets	8,936	12,950
Total assets	<u>\$ 734,677</u>	<u>\$ 708,462</u>
 <i>Liabilities and Stockholders' Equity:</i>		
Current liabilities:		
Current portion of long-term debt and capital lease obligations	\$ 23,044	\$ 34,911
Accounts payable	48,616	50,673
Accrued expenses and other current liabilities	58,714	63,876
Total current liabilities	<u>130,374</u>	<u>149,460</u>
Long-term debt	163,874	237,236
Deferred income taxes	16,928	16,761
Other liabilities	4,244	2,599
Total liabilities	<u>315,420</u>	<u>406,056</u>
 Commitments and contingencies (Notes 12 and 16)		
 Stockholders' equity:		
Common stock, \$.008 par; authorized 175,000 shares in 2002 and 2001; issued and outstanding 66,133 shares in 2002 and 65,724 shares in 2001	529	526
Capital in excess of par	126,283	122,513
Retained earnings	287,868	193,184
	<u>414,680</u>	<u>316,223</u>
Stock subscriptions receivable	-	(839)
Accumulated other comprehensive income (loss)	4,577	(12,978)
Total stockholders' equity	<u>419,257</u>	<u>302,406</u>
Total liabilities and stockholders' equity	<u>\$ 734,677</u>	<u>\$ 708,462</u>

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

CONSOLIDATED STATEMENTS OF INCOME

NBTY, Inc. and Subsidiaries

Dollars and shares in thousands, except per share amounts

	Years ended September 30,		
	2002	2001	2000
Net sales	<u>\$ 964,083</u>	<u>\$ 806,898</u>	<u>\$ 720,856</u>
Costs and expenses:			
Cost of sales	433,611	355,167	312,960
Catalog printing, postage and promotion	47,846	49,410	33,709
Selling, general and administrative	348,334	315,228	279,379
Recovery of raw material costs	(21,354)		(2,511)
	<u>808,437</u>	<u>719,805</u>	<u>623,537</u>
Income from operations	<u>155,646</u>	<u>87,093</u>	<u>97,319</u>
Other income (expense):			
Interest	(18,499)	(21,958)	(18,858)
Miscellaneous, net	1,560	2,748	4,491
	<u>(16,939)</u>	<u>(19,210)</u>	<u>(14,367)</u>
Income before income taxes	138,707	67,883	82,952
Provision for income taxes	<u>42,916</u>	<u>25,958</u>	<u>31,444</u>
Net income	<u><u>\$ 95,791</u></u>	<u><u>\$ 41,925</u></u>	<u><u>\$ 51,508</u></u>
Net income per share:			
Basic	\$ 1.45	\$ 0.64	\$ 0.77
Diluted	\$ 1.41	\$ 0.62	\$ 0.74
Weighted average common shares outstanding:			
Basic	65,952	65,774	67,327
Diluted	67,829	67,125	69,318

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

Dollars and shares in thousands

Years ended September 30, 2002, 2001, 2000	Common stock		Capital in excess of par	Retained earnings	Treasury stock		Stock subscriptions receivable	Accumulated other comprehensive income (loss)	Total stockholders' equity	Total comprehensive income
	Number of shares	Amount			Number of shares	Amount				
Balance, September 30, 1999	66,096	\$ 529	\$ 106,332	\$ 111,792	-	\$ -	\$ (839)	\$ 6,135	\$ 223,949	\$ 22,101
Components of comprehensive income:										
Net income				51,508					51,508	\$ 51,508
Foreign currency translation adjustment								(18,987)	(18,987)	(18,987)
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	
Balance, September 30, 2000	68,524	548	123,798	163,300	235	(1,512)	(839)	(12,852)	272,443	\$ 32,521
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)	
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	65,724	526	122,513	193,184	-	-	(839)	(12,978)	302,406	\$ 41,799
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)	
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	66,133	\$ 529	\$ 126,283	\$ 287,868	-	\$ -	\$ -	\$ 4,577	\$ 419,257	\$ 113,346

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

Dollars in thousands

Years ended September 30,

	2002	2001	2000
Cash flows from operating activities:			
Net income	\$ 95,791	\$ 41,925	\$ 51,508
Adjustments to reconcile net income to net cash provided by operating activities:			
Loss on disposal/sale of property, plant and equipment	102	385	1,119
Depreciation and amortization	42,192	44,946	38,501
Amortization of deferred financing costs	782	782	787
Amortization of bond discount	124	124	124
Allowance for doubtful accounts	972	1,995	21
Deferred income taxes	(5,829)	(2,036)	4,827
Tax benefit from exercise of stock options	1,815	1,259	1,833
Changes in assets and liabilities, net of acquisitions:			
Accounts receivable	(7,011)	(3,652)	5,803
Inventories	(14,277)	(34,723)	8,039
Prepaid expenses and other current assets	(3,432)	343	1,914
Other assets	(586)	119	417
Accounts payable	(3,442)	(11,959)	6,093
Accrued expenses and other current liabilities	(3,891)	23,500	2,643
Other liabilities	221	(223)	(211)
Net cash provided by operating activities	<u>103,531</u>	<u>62,785</u>	<u>123,418</u>
Cash flows from investing activities:			
Cash paid for acquisitions, net of cash acquired	(7,702)	(63,010)	(45,119)
Purchase of property, plant and equipment	(21,489)	(37,197)	(51,786)
Purchase of short term investments	(8,242)	-	-
Proceeds from sale of property, plant and equipment	1,004	4,232	256
Proceeds from sale of intangibles	53	-	-
Increase in intangible assets	-	(159)	-
Net cash used in investing activities	<u>(36,376)</u>	<u>(96,134)</u>	<u>(96,649)</u>
Cash flows from financing activities:			
Principal payments under long-term debt agreements and capital leases	(85,353)	(12,780)	(17,667)
Net borrowings under Credit & Guarantee Agreement	-	71,502	2,800
Cash held in escrow	-	(10,000)	-
Release of cash held in escrow	4,600	-	-
Purchase of treasury stock	-	(15,699)	(1,512)
Proceeds from stock options exercised	1,899	2,604	4,408
Net cash (used in) provided by financing activities	<u>(78,854)</u>	<u>35,627</u>	<u>(11,971)</u>
Effect of exchange rate changes on cash and cash equivalents	3,494	692	(1,603)
Net (decrease) increase in cash and cash equivalents	(8,205)	2,970	13,195
Cash and cash equivalents at beginning of year	34,434	31,464	18,269
Cash and cash equivalents at end of year	<u>\$ 26,229</u>	<u>\$ 34,434</u>	<u>\$ 31,464</u>
Supplemental disclosure of cash flow information:			
Cash paid during the period for interest	<u>\$ 18,513</u>	<u>\$ 23,019</u>	<u>\$ 20,224</u>
Cash paid during the period for income taxes	<u>\$ 55,101</u>	<u>\$ 22,269</u>	<u>\$ 16,116</u>

Non-cash investing and financing information:
 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.
 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, the Company entered into capital leases for computer equipment for approximately \$1,000.
 In July 2000, the Company sold certain assets for approximately \$650 in exchange for a note to be paid over five years.*

The accompanying notes are an integral part of these 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 where 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, but not identical 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. The Company's fiscal year ends on September 30. 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 of the Company for the fiscal years ended

September 30, 2002, 2001 and 2000. One customer accounted for 21% and 16% of the Company's accounts receivable at September 30, 2002 and 2001, respectively.

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 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.

To manage credit risk with regard to trade accounts receivable, the Company performs ongoing credit evaluations of its customers' financial condition.

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 2002, 2001 and 2000, no one supplier provided more than 10% of the Company's overall 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 two months.

Advertising

All media and advertising costs are generally expensed as incurred. Total expenses relating to advertising and promotion for fiscal 2002, 2001 and 2000 were \$26,019, \$28,747 and \$17,046, respectively. Included in prepaid expenses and other current assets is approximately \$1,044 and \$417 relating to prepaid advertising at September 30, 2002 and 2001, respectively.

In thousands, except per share amounts

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 No. 142, "Goodwill and Intangible Assets" ("SFAS 142") 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. 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 15 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. During fiscal 2002 and 2001, the Company recognized impairment losses of \$700 and \$500, respectively, on assets to be held and used. The Company did not recognize an impairment loss during fiscal 2000. The impairment losses related primarily to leasehold improvements and furniture and fixtures for retail operations and were recorded in selling, general and administrative expense.

In August 2001, the SFAS 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 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, effective October 1, 2002, to have a material impact on its 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.

During fiscal 2002, 2001 and 2000, the Company recognized foreign currency transaction gains (losses) of \$(1,556), \$(481) and \$415, respectively.

Comprehensive income

Comprehensive income represents the change in stockholders' equity resulting from transactions other than stockholder investments and distributions. Included in accumulated other comprehensive income (loss) are net gains on foreign currency translation of \$4,625 and unrealized holding losses of \$48 on available-for-sale securities.

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 \$23,985, \$19,799 and \$19,277 for the fiscal years ended September 30, 2002, 2001 and 2000, 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.

In thousands, except per share amounts

New accounting developments

In February 2002, the Emerging Issues Task Force (“EITF”) reached a consensus on Issue No. 01-09, “Accounting for Consideration Given by a Vendor to a Customer (Including a Reseller of the Vendor’s Products),” effective no later than periods beginning after December 15, 2001. EITF Issue No. 01-09 addresses the following items:

- a. The income statement characterization of consideration given by a vendor to a customer, specifically whether that consideration should be presented in the vendor’s income statement as a reduction of revenue or as a cost or expense.
- b. Whether a vendor should recognize consideration given to a customer as an asset in certain circumstances rather than as an immediate charge in the income statement.
- c. When to recognize the “cost” of a sales incentive and how to measure it.

The Company has determined that the impact of adoption and subsequent application of EITF Issue No. 01-09 did not have a material effect on its consolidated financial position or results of operations.

In April 2002, the FASB issued Statement No. 145, “Rescission of FASB Statements No. 4, 44 and 64, Amendment of FASB Statement No. 13, and Technical Corrections.” Under SFAS 145, gains and losses on extinguishments of debt are to be classified as income or loss from continuing operations rather than extraordinary items. Adoption of this statement is required for fiscal years beginning after May 15, 2002. The Company does not expect the adoption of this statement to have a material impact on its consolidated financial position or results of operations.

In July 2002, the FASB issued Statement No. 146, “Accounting for Costs Associated with Exit or Disposal Activities,” which requires that a liability for a cost associated with an exit or disposal activity be recognized when incurred. This Statement also establishes that fair value is the objective for initial measurement of the liability. Severance pay under SFAS 146, in many cases, would be recognized over time rather than up-front. The provisions of this Statement are effective for exit or disposal activities that are initiated after December 31, 2002, with early application encouraged.

2. Acquisitions:

Fiscal 2002 acquisitions:

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 1.8 million names, which has been merged into the existing customer base of the Puritan’s Pride/Direct Response business.

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

\$4,500 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 million 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 million 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 2002, the Company received \$4,600 from an escrow account and anticipates approximately \$1,850 to be received. The remaining excess has been classified as goodwill.

NatureSmart

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.

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.

Both 2001 transactions were funded by borrowings under the Credit and Guarantee Agreement (“CGA”).

These two acquisitions contributed \$29 million of sales and a marginal operating profit for the Company’s 2001 fiscal year.

In thousands, except per share amounts

Fiscal 2000 acquisitions:

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 CGA.

3. Divestitures:

In July 2000, the Company sold certain assets of Bio Nutritional Formulas, Inc. for a note in principal amount of approximately \$650 which is being repaid over five years. No gain or loss was recognized on the sale.

4. Investments in bonds:

The Company classifies its debt securities as available for sale and are reported at fair market value (based on quoted market prices), with net unrealized gains or losses on the securities recorded as accumulated other comprehensive income (loss) in stockholders' equity. Unrealized losses are charged against income when a decline in the fair market value of an individual security is determined to be other-than-temporary. Realized gains and losses are included in earnings and are derived using the specific identification method for determining the cost of the securities. There were no realized gains or losses in fiscal 2002.

At September 30, 2002, the Company held \$8,242, net of reserves, of high yield, less than investment grade corporate debt securities with an aggregate market value of \$8,194. Investments in less than investment grade corporate debt securities have greater risks than other investments in corporate debt securities rated investment grade. Risk of loss upon default by the borrower is significantly greater with respect to such corporate debt securities than with other corporate debt securities because these securities are generally unsecured and are often subordinated to other creditors of the issuer. Further, issuers of less than investment grade securities usually have high levels of indebtedness and are more sensitive to adverse

economic conditions, such as recession or increasing interest rates, than are investment grade issuers. There is only a thinly traded market for such securities and recent market ratings of such debt are as follows: Moody's Investors Service, Inc. currently rates these debt securities as Caa2 and Standard & Poor's currently rates these debt securities as a CCC-. Both credit agencies' ratings remained unchanged from the prior period. Market quotes may not represent firm bids of such dealers or prices for actual sales.

The cost and estimated fair value for these available-for-sale investments in debt securities at September 30, 2002 by contractual maturity was \$8,242 and \$8,194, respectively, due beyond 1 year and within 5 years.

5. Inventories:

	September 30,	
	2002	2001
Raw materials	\$ 77,051	\$ 66,519
Work-in-process	8,527	4,558
Finished goods	118,824	113,668
	<u>\$ 204,402</u>	<u>\$ 184,745</u>

6. Property, Plant and Equipment:

	September 30,		Depreciation and Amortization period (years)
	2002	2001	
Land	\$ 10,781	\$ 10,549	
Buildings and leasehold improvements	94,360	87,627	5-40
Machinery and equipment.	95,961	91,651	3-10
Furniture and fixtures	142,026	140,627	5-10
Transportation equipment . .	5,411	5,013	4
Computer equipment	43,494	37,376	5
	<u>392,033</u>	<u>372,843</u>	
Less accumulated depreciation and amortization	175,788	143,627	
	<u>\$216,245</u>	<u>\$229,216</u>	

Depreciation and amortization of property, plant and equipment for the fiscal years ended September 30, 2002, 2001 and 2000 was approximately \$37,863, \$34,866 and \$29,275, respectively.

Property, plant and equipment includes approximately \$6,010 for assets recorded under capital leases at September 30, 2002 and 2001. Accumulated depreciation of these capital leases at September 30, 2002 and 2001 was approximately \$3,541 and \$2,808, respectively.

In thousands, except per share amounts

7. Goodwill and Intangible Assets:

The carrying amount of acquired intangible assets is as follows:

	September 30, 2002		September 30, 2001		Amortization period (years)
	Gross carrying amount	Accumulated amortization	Gross carrying amount	Accumulated amortization	
Amortized intangible assets:					
Customer lists	\$ 64,283	\$ 18,668	\$ 61,511	\$ 15,107	6 - 15
Trademark and licenses.....	2,429	2,188	2,404	1,763	2 - 3
Covenants not to compete	2,605	1,848	2,405	1,540	5 - 7
	<u>69,317</u>	<u>22,704</u>	<u>66,320</u>	<u>18,410</u>	
Unamortized intangible asset:					
Trademark.....	1,800	-	-	-	
Total intangible assets.....	<u>\$ 71,117</u>	<u>\$ 22,704</u>	<u>\$ 66,320</u>	<u>\$ 18,410</u>	

The changes in the carrying amount of goodwill by segment for the fiscal year ended September 30, 2002 are as follows:

	Puritan's Pride/ Direct Resonse	Retail United States	Retail United Kingdom/ Ireland	Wholesale	Consolidated
Balance at September 30, 2001	\$ 16,202	\$ 7,588	\$ 110,536	\$ 3,492	\$ 137,818
Purchase price adjustments	(1,005)	-	-	1,400	395
Foreign currency translation.	-	-	6,786	-	6,786
Balance at September 30, 2002 . . .	\$ 15,197	\$ 7,588	\$ 117,322	\$ 4,892	\$ 144,999

The Company currently has unamortized goodwill remaining from the acquisition of Holland & Barrett (\$113,089), NatureSmart (\$15,164), NW (\$7,510), Nature's Way (\$4,234), Feeling Fine (\$3,069), Global Group (\$1,640), and other (\$293), and the Company currently owns one trademark, Knox (\$1,800), all of which are subject to the provisions of SFAS 142. The Company did not record any transition intangible asset impairment loss upon adoption of SFAS 142. The changes in the carrying amount of goodwill for the year ended September 30, 2002 primarily related to the translation of the Company's international subsidiaries into U.S. dollars.

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 2002, 2001 and 2000 was approximately \$4,329, \$3,862 and \$2,932, respectively.

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

For the fiscal year ending September 30,	
2003	\$ 4,140
2004	\$ 3,862
2005	\$ 3,714
2006	\$ 3,656
2007	\$ 3,594

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, 2002, 2001 and 2000, exclusive of amortization expense that is related to goodwill that is not being amortized:

Fiscal year ended September 30,			
	2002	2001	2000
Reported net income	\$ 95,791	\$ 41,925	\$ 51,508
Addback: goodwill amortization .	-	6,082	6,294
Adjusted net income	<u>\$ 95,791</u>	<u>\$ 48,007</u>	<u>\$ 57,802</u>
<i>Basic earnings per share</i>			
Reported net income	\$ 1.45	\$ 0.64	\$ 0.77
Addback: goodwill amortization	-	0.09	0.09
Adjusted net income	<u>\$ 1.45</u>	<u>\$ 0.73</u>	<u>\$ 0.86</u>
<i>Diluted earnings per share</i>			
Reported net income	\$ 1.41	\$ 0.62	\$ 0.74
Addback: goodwill amortization	-	0.09	0.09
Adjusted net income	<u>\$ 1.41</u>	<u>\$ 0.71</u>	<u>\$ 0.83</u>

In thousands, except per share amounts

8. Accrued Expenses and other current liabilities:

	September 30,	
	2002	2001
Payroll and related taxes	\$ 11,117	\$ 7,713
Customer deposits	10,114	13,220
Accrued purchases	12,770	4,206
Accrued interest	970	983
Income taxes payable	7,525	20,568
Other	16,218	17,186
	<u>\$ 58,714</u>	<u>\$ 63,876</u>

9. Long-Term Debt:

	September 30,	
	2002	2001
Senior debt:		
8-5/8% Senior subordinated notes due 2007, net of unamortized discount of \$624 in 2002 and \$748 in 2001 (a)	\$ 149,376	\$ 149,252
Note payable due in monthly payments of \$2, including interest at 4%, maturing May 2009	142	162
Mortgages:		
First mortgage payable in monthly principal and interest (9.73%) installments of \$25, maturing November 2009	1,555	1,713
First mortgage payable in monthly principal and interest (7.375%) installments of \$55, maturing May 2011	4,232	4,569
First mortgage payable in monthly principal and interest (9.0%) installments of \$3, maturing June 2011	183	197
Credit and Guarantee Agreement (b):		
Term loan payable in quarterly principal and interest installments of \$2,700	-	31,200
Term loan payable in quarterly principal and interest installments of \$5,563 maturing June 2005	31,188	83,438
	<u>186,676</u>	<u>270,531</u>
Less current portion	<u>22,806</u>	<u>33,564</u>
	<u>\$ 163,870</u>	<u>\$ 236,967</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) The CGA is comprised of two term loans and a revolving credit facility. At September 30, 2002, there were borrowings of \$31,188 under one term loan. This term loan has an annual borrowing rate of 4.422% and is payable in quarterly installments of \$5,563. The current portion of this term loan at September 30, 2002 was \$22,250. The Company repaid the other term loan during the third quarter 2002. The \$50,000 revolving credit facility expires on September 30, 2003 and was unused at September 30, 2002. A stand-by letter of credit of \$600 was outstanding under such facility at September 30, 2002. 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.

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

	Fiscal year ending September 30,
2003	\$ 22,806
2004	9,540
2005	653
2006	707
2007	150,142
Thereafter	2,828
	<u>\$ 186,676</u>

The fair value of the Company's long-term debt at September 30, 2002 and 2001, based upon current market rates, approximates the amounts disclosed above.

10. 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, 2002 are as follows:

	Fiscal year ending September 30,
2003	\$ 242
2004	4
2005	1
	<u>247</u>
Less, amount representing interest	5
Present value of minimum lease payments (including \$238 due within one year)	<u>\$ 242</u>

11. Income Taxes:

Provision for income taxes consists of the following:

	Fiscal year ended September 30,		
	2002	2001	2000
Federal			
Current	\$ 26,835	\$ 14,713	\$ 12,640
Deferred	(4,386)	(1,682)	4,551
State			
Current	2,760	1,513	1,300
Deferred	(451)	(172)	468
Foreign provision	18,158	11,586	12,485
Total provision	<u>\$ 42,916</u>	<u>\$ 25,958</u>	<u>\$ 31,444</u>

In thousands, except per share amounts

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,					
	2002		2001		2000	
	Amount	Percent of pretax income	Amount	Percent of pretax income	Amount	Percent of pretax income
Income tax expense at statutory rate	\$48,548	35.0%	\$23,759	35.0%	\$29,033	35.0%
State income taxes, net						
of federal income tax benefit	1,501	1.1%	2,444	3.6%	2,986	3.6%
Amortization of goodwill	-	-	2,277	3.3%	2,155	2.6%
Foreign income taxed at different rates	(4,411)	(3.2%)	(1,596)	(2.4%)	(1,443)	(1.7%)
Foreign tax credit	(12,975)	(9.4%)	-	-	-	-
Valuation allowance	8,275	6.0%	-	-	-	-
Other, individually less than 5%	1,978	1.4%	(926)	(1.3%)	(1,287)	(1.6%)
	<u>\$ 42,916</u>	<u>30.9%</u>	<u>\$ 25,958</u>	<u>38.2%</u>	<u>\$ 31,444</u>	<u>37.9%</u>

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

	September 30,	
	2002	2001
Current:		
Inventory capitalization	\$ 954	\$ 770
Accrued expenses and reserves not currently deductible	6,316	4,394
Intangibles	-	13
Tax credits	13,375	13,375
Valuation allowance	(8,275)	(12,975)
Total deferred income tax assets	<u>12,370</u>	<u>5,577</u>
Deferred tax liabilities:		
Property, plant and equipment	(17,731)	(17,020)
Intangibles	(361)	-
Total deferred income tax liabilities	<u>(18,092)</u>	<u>(17,020)</u>
Total net deferred income tax liabilities	(5,722)	(11,443)
Less current deferred income tax assets	(11,206)	(5,318)
Long-term deferred income taxes	<u>\$ (16,928)</u>	<u>\$ (16,761)</u>

Deferred tax assets, net of valuation allowances, have been recognized to the extent that, as of September 30, 2002, the likelihood of their realization is more likely than not. The valuation allowance of \$8,275 relates to foreign tax credits, which are not more likely than not realizable. The decrease in the valuation allowance during fiscal 2002 resulted from the realization of foreign tax credits due to tax planning strategies identified in fiscal 2002. The amount of deferred tax assets considered realizable could be adjusted in the future as further tax planning strategies are identified. The change in the valuation allowance for the fiscal years ended September 30, 2002 and 2001 is as follows:

	Fiscal year ended September 30,	
	2002	2001
Balance at October 1	\$ (12,975)	\$ (12,975)
Utilization of foreign tax credit carryforwards	4,700	-
Balance at September 30	<u>\$ (8,275)</u>	<u>\$ (12,975)</u>

12. Commitments:

Operating Leases

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, 2002 are as follows:

Fiscal year ending September 30,	
2003	\$ 52,173
2004	47,024
2005	42,065
2006	38,715
2007	34,591
Thereafter	<u>136,854</u>
	<u>\$ 351,422</u>

Operating lease rental expense (including real estate taxes and maintenance costs) and leases on a month to month basis were approximately \$68,104, \$62,355 and \$54,749 for the years ended September 30, 2002, 2001 and 2000, respectively.

Purchase commitments

The Company was committed to make future purchases under various purchase arrangements with fixed price provisions aggregating approximately \$13,304 at September 30, 2002.

Capital commitments

The Company had approximately \$744 in open capital commitments at September 30, 2002, primarily related to manufacturing equipment as well as to computer hardware and software. Also, the Company has a \$15,800 commitment for the construction of an automated warehouse over the next 18 months.

In thousands, except per share amounts

Employment and consulting agreements

The Company has employment agreements with two of its executive officers. The agreements, initially entered into in October 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, 2002 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, 2002, in exchange for a consulting fee of \$400 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.

Four members of H&B'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, 2002 was approximately \$700.

Other

In the ordinary course of business, the Company has entered into a \$600 stand-by letter of credit agreement under the CGA.

13. 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:

	<i>Fiscal year ended September 30,</i>		
	<u>2002</u>	<u>2001</u>	<u>2000</u>
Numerator:			
Numerator for basic EPS-			
income available to			
common stockholders	<u>\$ 95,791</u>	<u>\$ 41,925</u>	<u>\$ 51,508</u>
Numerator for diluted EPS-			
income available to			
common stockholders	<u>\$ 95,791</u>	<u>\$ 41,925</u>	<u>\$ 51,508</u>
Denominator:			
Denominator for basic EPS-			
weighted-average shares . . .	65,952	65,774	67,327
Effect of dilutive securities:			
Stock options.	<u>1,877</u>	<u>1,351</u>	<u>1,991</u>
Denominator for diluted EPS-			
weighted-average shares . . .	<u>67,829</u>	<u>67,125</u>	<u>69,318</u>
Net EPS:			
Basic EPS.	<u>\$ 1.45</u>	<u>\$ 0.64</u>	<u>\$ 0.77</u>
Diluted EPS.	<u>\$ 1.41</u>	<u>\$ 0.62</u>	<u>\$ 0.74</u>

14. Stock Option Plans:

On March 11, 1992, the Board approved the issuance of an aggregate of 5,400 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 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 closing price on NASDAQ 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. The Company did not grant any stock options during fiscal 2002.

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.

During fiscal 2000, options for 1,422 shares of common stock were exercised, with an aggregate exercise price of \$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.

In thousands, except per share amounts

A summary of stock option activity is as follows:

	2002		2001		2000	
	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	4,853	\$ 5.62	4,536	\$ 5.71	3,720	\$ 4.53
Exercised	(480)	\$ 4.32	(458)	\$ 5.67	(1,422)	\$ 2.87
Forfeited			(30)	\$ 5.13	(50)	\$ 4.75
Granted			805	\$ 5.47	2,288	\$ 5.88
Outstanding at end of year	4,373	\$ 5.77	4,853	\$ 5.62	4,536	\$ 5.71
Exercisable at end of year	4,373	\$ 5.77	4,853	\$ 5.62	4,536	\$ 5.71
Fair value of options granted during year . . .				\$ 3.80		\$ 3.64

The following table summarizes information about stock options outstanding at September 30, 2002:

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	4,373	7.2 years	\$5.77	4,373	\$5.77

The Company applies APB Opinion 25 and related interpretations in accounting for stock options; accordingly, no compensation cost has been recognized in the year of grant. 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 and 2000 would have been reduced to the following pro forma amounts indicated. There were no grants during fiscal 2002. Therefore, the pro forma and actual net income and related EPS are the same as amounts reported.

	Fiscal year ended September 30,		
	2002	2001	2000
Net income attributable to common stockholders as reported	\$ 95,791	\$ 41,925	\$ 51,508
Pro forma net income	\$ 95,791	\$ 40,034	\$ 46,428
Basic EPS as reported	\$ 1.45	\$.64	\$.77
Diluted EPS as reported	\$ 1.41	\$.62	\$.74
Pro forma basic EPS	\$ 1.45	\$.61	\$.69
Pro forma diluted EPS	\$ 1.41	\$.60	\$.67

Under SFAS No. 123, 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 2000 and 2001: (a) expected life of option of 4.8 years and 6.7 years; (b) dividend yield of 0%; (c) expected volatility of 70%; and (d) risk-free interest rate of 6% and 5%, respectively.

15. Employee Benefit Plans

The Company sponsors a 401(k) plan covering substantially all employees with more than 6 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 1% to 50% of their annual compensation to the Plan, limited to a maximum annual amount as set periodically by the Internal Revenue Service. Company contributions are 2% of the participant's gross earnings to an annual maximum contribution of \$4 per participant. Employees become fully vested in employer contributions after 3 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 1,000 hours 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 5 years of service, provided the Plan is not considered top-heavy. If the Plan is considered top-heavy, employees will become vested after 3 years of service. For more information regarding the plan, please refer to the Company's annual Form 11-K filings of the Plan.

The accompanying financial statements reflect contributions to these plans in the approximate amount of \$1,429, \$1,480 and \$1,670 for the fiscal years ended September 30, 2002, 2001 and 2000, respectively.

In thousands, except per share amounts

16. Litigation:

A consolidated stockholder derivative action was filed in 2000 in the Chancery Court in Delaware against certain officers and directors of the Company. The derivative claim alleged that the named officers and directors failed to disclose material facts during the period from January 27, 2000 to June 15, 2000, which purportedly resulted in a decline in the price of the Company's stock after June 15, 2000. The derivative action was voluntarily dismissed in December 2002. A consolidated stockholder class action complaint filed in the Eastern District of New York in 2000, predicated on the same facts, was dismissed by that court on September 28, 2002, and the case formally closed on October 31, 2002.

On July 25, 2002, a purported consumer class action was filed in New York State Court against several manufacturers and retailers of so-called prohormone supplements including the U.S. retail subsidiary of the Company. Prohormones are substitutes such as androstenedione that plaintiffs allege are hormone precursors ingested to promote muscle growth. Plaintiffs allege that the advertising and labeling of certain pro hormone 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 the U.S. retail subsidiary of the Company that purported to elaborate on the claims initially alleged. The Company believes that this action is without merit, and intends to move to dismiss the amended pleading and 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.

On August 28, 2001, the Company was also named as a defendant, along with other companies, in a purported class action commenced in an Alabama state court. Plaintiffs allege that NBTY manufactured and marketed misbranded nutrition bars and seek class certification, injunctive declaratory, and monetary relief. Class discovery is being taken, and a hearing is currently scheduled for the spring of 2003 to determine whether a class should be certified. NBTY is vigorously defending class certification on the basis that the plaintiffs were not damaged as alleged as a result of any action by NBTY. In addition, NBTY contends that this matter is not appropriate for class certification because the named plaintiffs are inadequate class representatives and not typical of persons who purchased the nutrition bars in these proceedings.

On October 3, 2002, the Company was named as a defendant in a second purported class action commenced in the same Alabama state court as the above-identified litigation. Plaintiffs, in an attempt to pursue several retailers, including NBTY, 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. The Company believes that both Alabama suits are without merit. However, no determination can be made as of the date of this report as to the final outcome of these suits.

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

The Company is a plaintiff in a vitamin antitrust litigation brought in the United States District Court in the District of Columbia against F. Hoffman-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 2002 and 2000, the Company received \$21,354

and \$2,511, respectively, in partial settlement of ongoing price fixing litigation.

17. 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 or loss (prior to corporate allocations) of each segment. The Company's segment reporting disclosures have been changed to exclude corporate general and administrative allocations, as this is the key performance indicator reviewed by management. Prior periods presented have been reclassified to conform to the current year presentation. 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 in the corporate segment. The U.K./Ireland retail operations do not include any transfer pricing absorption.

The Company reports four worldwide segments: Puritan's Pride/Direct Response, Retail: United States, Retail: 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 the Internet. Catalogs are strategically mailed to customers who order by mail or phoning customer service representatives in New York, Illinois or the United Kingdom. The Retail United States segment generates revenue through the sale of proprietary brand and third-party products through its 544 Company-operated stores. The Retail United Kingdom/Ireland segment generates revenue through the sale of proprietary brand and third-party products in 468 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):

	<i>Fiscal year ended September 30,</i>		
	<u>2002</u>	<u>2001</u>	<u>2000</u>
<i>Puritan's Pride /Direct Response:</i>			
Revenue	\$ 183,313	\$ 172,203	\$ 182,693
Operating income	66,273	67,264	67,714
Depreciation and amortization	5,347	4,991	4,019
Identifiable assets	67,337	71,821	69,513
Capital expenditures	925	407	1,980
<i>Retail:</i>			
<i>United States</i>			
Revenue	\$ 198,602	\$ 174,987	\$ 149,055
Operating loss	(4,975)	(12,737)	(7,722)
Depreciation and amortization	13,235	13,820	11,314
Identifiable assets	73,278	79,401	78,672
Capital expenditures	4,633	9,118	25,173
Locations open at end of year	544	525	476
<i>United Kingdom/Ireland</i>			
Revenue	\$ 290,881	\$ 262,876	\$ 248,602
Operating income	79,420	59,654	45,459
Depreciation and amortization	8,295	12,564	12,282
Identifiable assets	225,471	220,662	200,373
Capital expenditures	3,773	7,829	13,949
Locations open at end of year	468	461	427

In thousands, except per share amounts

	Fiscal year ended September 30,		
	2002	2001	2000
<i>Wholesale:</i>			
Revenue	\$ 291,287	\$ 196,832	\$ 140,506
Operating income	60,197	27,234	31,060
Depreciation and amortization	1,155	1,434	1,100
Identifiable assets	36,123	51,451	17,003
Capital expenditures . .	1,370	1,310	1,486
<i>Corporate:</i>			
Recovery of raw material costs	\$ 21,354	\$ -	\$ 2,511
Corporate expenses	(66,623)	(54,322)	(41,703)
Depreciation and amortization - manufacturing	9,909	8,291	6,950
Depreciation and amortization - other . . .	4,251	3,846	2,836
Corporate manufacturing identifiable assets	332,468	285,127	238,052
Capital expenditures- manufacturing	5,677	9,916	4,439
Capital expenditures- other	5,111	8,617	4,759
<i>Consolidated totals:</i>			
Revenue	\$ 964,083	\$ 806,898	\$ 720,856
Operating income	155,646	87,093	97,319
Depreciation and amortization	42,192	44,946	38,501
Identifiable assets	734,677	708,462	603,613
Capital expenditures . .	21,489	37,197	51,786
<i>Revenue by location of customer:</i>			
United States	\$ 658,732	\$ 530,361	\$ 458,543
United Kingdom/Ireland	290,881	262,876	248,602
Other foreign countries	14,470	13,661	13,711
Consolidated totals . .	\$ 964,083	\$ 806,898	\$ 720,856
<i>Long-lived assets:</i>			
United States	\$ 257,308	\$ 267,690	\$ 238,019
United Kingdom	152,349	147,254	148,269
Consolidated totals . .	\$ 409,657	\$ 414,944	\$ 386,288

18. Related Party Transactions:

An entity owned by a relative of a director received sales commissions of \$585, \$501 and \$520 in fiscal 2002, 2001 and 2000, respectively, and had trade receivable balances approximating \$3,632 and \$3,142 at September 30, 2002 and 2001, respectively.

An entity owned by a relative of a director performed landscaping and maintenance on the Company's properties and received compensation of \$93, \$128 and \$80 in 2002, 2001 and 2000, respectively.

19. Quarterly Results of Operations (Unaudited):

The following is a summary of the unaudited quarterly results of operations for fiscal 2002 and 2001:

	Quarter ended			
	Dec. 31,	Mar. 31,	June 30,	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 (b)
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)

(a) A year-end adjustment resulted in an increase to pre-tax income of approximately \$3,900 in 2001. This adjustment was due to the Company utilizing 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.

20. Subsequent Event

On December 11, 2002, the Company signed a letter of intent to purchase a chain of health food stores located throughout the Netherlands for approximately €16,500 (approximately \$16,620) in cash. The chain has annual net sales of approximately \$30,219. The transaction, which is subject to certain Dutch approvals, is expected to be completed in the first quarter of 2003.

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, 2002 and 2001, and the results of their operations and their cash flows for each of the three years in the period ended September 30, 2002 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.

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 5, 2002, except as to notes 16 and 20, which are as of December 11, 2002

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 ("NASDAQ/NMS") 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, 2002		
First Quarter ended December 31, 2001	\$ 13.50	\$ 7.20
Second Quarter ended March 31, 2002	\$ 17.45	\$ 10.70
Third Quarter ended June 30, 2002	\$ 19.07	\$ 14.96
Fourth Quarter ended September 30, 2002	\$ 17.07	\$ 12.57
Fiscal Year ended September 30, 2001		
First Quarter ended December 31, 2000	\$ 6.97	\$ 3.94
Second Quarter ended March 31, 2001	\$ 8.50	\$ 4.38
Third Quarter ended June 30, 2001	\$ 13.40	\$ 8.00
Fourth Quarter ended September 30, 2001	\$ 17.76	\$ 10.55

On December 9, 2002, the closing sale price of the Common Stock was \$16.53. There were approximately 690 record holders of Common Stock as of December 9, 2002. The Company

believes that there were approximately 13,600 beneficial holders of Common Stock as of December 9, 2002.

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 30 companies and/or businesses engaged in the direct response, retail and manufacturing of nutritional supplements sector, including Holland & Barrett in fiscal 1997, Nutrition Headquarters Group in fiscal 1998, Nutrition Warehouse Group in fiscal 2000, Global Health Sciences and NatureSmart in fiscal 2001, and Healthcentral.com, Knox®, and Synergy Plus® product lines/operations in fiscal 2002.

NBTY markets its products through four distribution channels: (i) Puritan's Pride/direct response, (ii) Vitamin World and Nutrition Warehouse 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, Nutrition Warehouse, Holland & Barrett and wholesale operations were approximately 19%, 21%, 30% and 30%, respectively, for the year ended September 30, 2002.

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

Financial Reporting Release No. 60, which was recently released by the Securities and Exchange Commission, requires all companies to include a discussion of critical accounting policies or

methods used in the preparation of financial statements. 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. Significant accounting policies are described in Note 1 to the consolidated financial statements, which are included in Item 8 in this Form 10-K filing. Certain accounting policies are deemed "critical", as they require management's highest degree of judgment, estimates and assumptions. A discussion of critical accounting policies, the judgments and uncertainties affecting their application, and the likelihood that materially different amounts could be reported under different conditions or using different assumptions follows:

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 sale of products. The Company's net sales represent gross sales invoiced to customers, less certain related charges, including discounts, returns, rebates and other allowances.

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 and an allowance for doubtful accounts is maintained which is based upon historical experience and any 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. At September 30, 2002, and September 30, 2001, one customer accounted for 21% and 16%, respectively, of the Company's accounts receivable.

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.

Goodwill and Intangible assets:

On October 1, 2001, the Company adopted Statement of Financial Accounting Standards No. 142 "Goodwill and Intangible Assets" (SFAS 142). SFAS 142 includes requirements to annually test goodwill and indefinite lived intangible assets for impairment rather than amortize them; accordingly, the Company no longer amortizes goodwill and indefinite lived intangibles, thereby eliminating an annual amortization charge of approximately \$6,100, which is not deductible for tax purposes. Definite lived intangibles are amortized on a straight-line basis over periods not exceeding 15 years.

Goodwill represents the excess of purchase price over the fair value of identifiable net assets of companies acquired. The Company currently has unamortized goodwill remaining from the acquisition of Holland & Barrett (\$113,089), NatureSmart (\$15,164), Nutrition Warehouse (\$7,510), Nature's Way (\$4,234), Feeling Fine (\$3,069), Global Health Sciences (\$1,640), and other (\$293).

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. During fiscal 2002 and 2001, the Company recognized impairment losses of \$700 and \$500, respectively, on assets to be held and used. The Company did not recognize an impairment loss during fiscal 2000. The impairment losses related primarily to leasehold improvements and furniture and fixtures for retail operations and were recorded in selling, general and administrative expense.

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, 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, effective October 1, 2002, to have a material impact on its consolidated financial position or results of operations.

Foreign Currency:

Foreign subsidiaries account for approximately 30% of net revenues, 31% of assets and 13% of total liabilities as of September 30, 2002.

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 United States 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 (loss)."

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 any 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 (loss). However, if the functional currency is deemed to be the United States 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 United States 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. Accordingly, cumulative translation gains (losses) of approximately \$4,625 and (\$12,978) were included as part of accumulated other comprehensive income (loss) within the balance sheet at September 30, 2002 and September 30, 2001, respectively. During the fiscal years of 2002 and 2001, translation gains (losses) of \$17,603 and (\$126), respectively, were included under accumulated other comprehensive income (loss). Had the Company determined that the functional currency of its subsidiaries was the United States 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 United States dollar. These currencies include the Euro and the United Kingdom Pound Sterling. 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, then the Company would be required to include any translation gains or losses from the date of change in the statement of operations.

General

Operating results in all periods presented reflect the impact of acquisitions. The timing of those acquisitions and the changing mix of businesses as acquired companies are integrated into the Company may affect 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:

	<i>Fiscal Years ended September 30,</i>		
	<u>2002</u>	<u>2001</u>	<u>2000</u>
Net sales	100.0 %	100.0 %	100.0 %
Costs and expenses:			
Cost of sales	45.0 %	44.0 %	43.3 %
Catalog printing, postage, and promotion	5.0 %	6.1 %	4.7 %
Selling, general and administrative	36.1 %	39.1 %	38.8 %
Recovery of raw material costs	(2.2)%	—	(0.3)%
	<u>83.9 %</u>	<u>89.2 %</u>	<u>86.5 %</u>
Income from operations	16.1 %	10.8 %	13.5 %
Other income (expense):			
Interest	(1.9)%	(2.7)%	(2.6)%
Miscellaneous, net	0.2 %	0.3 %	0.6 %
	<u>(1.7)%</u>	<u>(2.4)%</u>	<u>(2.0)%</u>
Income before income taxes	14.4 %	8.4 %	11.5 %
Income taxes	4.5 %	3.2 %	4.4 %
Net income	<u>9.9 %</u>	<u>5.2 %</u>	<u>7.1 %</u>

Fiscal Year Ended September 30, 2002 Compared to 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. Of the \$157,185 increase, \$94,455 was attributable to wholesale, \$23,615 was attributable to US retail sales, \$28,005 was attributable to U.K./Ireland retail sales, and \$11,110 was attributable to Puritan's Pride direct response/e-commerce. 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 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 the Knox NutraJoint® products continue to help the Company strengthen its leading market position. By obtaining new customer accounts, the Company has expanded its distribution channel for its products. Sales growth in the US retail channel 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 last 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). Puritan's Pride direct response/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. As a percentage of sales, cost of sales increased and, correspondingly, gross profit decreased to 55% for 2002 from 56% for 2001. Such decrease was primarily due to the Puritan's Pride direct response segment's gross profit, which decreased from 66.3% to 61.5% as a percentage of sales. Reduced gross margins associated with price reductions on certain products and the type of catalog promotions the Company ran in fiscal 2002 versus fiscal 2001 were major factors in such decrease. This gross profit decrease was mitigated by gross profit increases in the Company's other segments. The wholesale segment's gross profit increased from 38.7% to 40.8% as a percentage of sales, primarily due to higher gross margins on new product introductions. The U.S. retail gross profit increased as a percentage of sales from 58% to 58.5%. The U.K./Ireland retail gross profit increased from 60.8% to 62.9% as a percentage of sales. 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. Included in fiscal 2002 and fiscal 2001 costs of sales was under-absorbed factory overhead 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.

Recovery of Raw Materials Costs.

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

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

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 repaying bank debt during the year. 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 the amount of taxable earnings derived in foreign jurisdictions with tax rates that are lower than the federal statutory rate, state tax rates in the jurisdictions where the Company conducts business, and the Company's ability to utilize various tax credits and foreign tax credits. 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 one-time recognition of a foreign tax credit. 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, and lower overall effective tax rates in foreign jurisdictions (approximately 30%).

Net Income.

Net income for fiscal 2002 was \$95,791, compared with \$41,925 in fiscal 2001, an increase of \$53,866, of which \$21,354 was attributable to the partial settlement of ongoing price fixing litigation against certain raw material vitamin suppliers.

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

Net Sales.

Net sales for fiscal 2001 were \$806,898, an increase of \$86,042 or 11.9% compared with net sales of \$720,856 in fiscal 2000. Of the \$86,042 increase, \$25,932 was attributable to U.S. retail sales, \$14,274 was attributable to U.K./Ireland retail sales, and \$56,326 was attributable to wholesale, offset by a decrease of \$10,490 in Puritan's Pride direct response/e-commerce. During 2001, the Company opened 50 stores, which contributed \$8,393 in increased sales in the U.S., and 26 stores in the U.K., which contributed \$2,294 in sales. The acquisition of Global Health Sciences and NatureSmart accounted for \$29,415 of the increase in sales.

Cost of Sales.

Cost of sales for fiscal 2001 was \$355,167, an increase of \$42,207 compared with the cost of sales of \$312,960 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 \$18,017 on sales of \$16,765. The increase was mitigated by a decrease in the Puritan's Pride direct response/e-commerce segment's cost of sales, which 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 U.S. retail segment's 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 \$3,900 for 2001 and \$5,400 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 \$49,410 and \$33,709 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(r) advertising campaign.

Selling, General and Administrative.

Selling, general and administrative expenses for fiscal 2001 were \$315,228, an increase of \$35,849, compared with \$279,379 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 \$35,849 increase, \$6,846 was attributable to rent expense, \$18,814 to payroll costs mainly associated with the Vitamin World expansion program and \$4,386 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 \$2,511 in partial settlement of ongoing price fixing litigation brought by the Company against certain raw material vitamin suppliers.

Interest Expense.

Interest expense was \$21,958 in fiscal 2001, an increase of \$3,100, compared with net interest expense of \$18,858 million in fiscal 2000. 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 CGA Agreement used for acquisitions and capital expenditures.

Miscellaneous, Net.

Miscellaneous, net was \$2,748 and \$4,491 for fiscal 2001 and 2000, respectively. The \$1,743 decrease was primarily attributable to exchange rate fluctuations (\$897), and a gain on disposal of certain businesses and related fixed assets (\$577) 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 \$41,925, compared with \$51,508 in fiscal 2000, a decrease of \$9,583.

Seasonality

The Company's business is not seasonal in nature.

Liquidity and Capital Resources

The Company's primary sources of liquidity and capital resources are cash generated from operations and borrowings under its Credit & Guarantee Agreement ("CGA"). Cash and cash equivalents totaled \$26,229 and \$34,434 at September 30, 2002 and 2001, respectively. The Company generated cash from operating activities of \$103,531, \$62,785, and \$123,418 in fiscal 2002, 2001 and 2000, respectively. The overall increase in cash from operating activities during fiscal 2002 was mainly attributable to an increase in earnings. The increase in earnings was a result of increased sales, continued effort to control selling, general and administrative expenses, the recovery of raw material costs, lower interest expense due to the pay down of debt, and a decrease in income tax expense as a result of tax planning strategies implemented during the current year. Such increase was offset slightly by the Company experiencing an increase in its accounts receivable and inventory levels over the prior year. The increase in accounts receivable was primarily due to increased sales, offset by an increase in collections. Inventory increased due to the Company trying to respond to customer orders quickly, thereby eliminating and/or decreasing the number of products on backorder. 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 Stockholder Matters" above.

The overall decline in cash from operating activities during fiscal 2001 was attributable to a significant increase in inventories, accounts receivable and deferred tax assets, which were offset by an increase in non-cash charges for depreciation and amortization, and an increase in accounts payable.

Cash used in investing activities was \$36,376, \$96,134, and \$96,649 in fiscal 2002, 2001 and 2000, respectively. Fiscal 2002 cash flows used in investing activities consisted primarily of the purchase of property, plant and equipment (\$21,489), cash paid for asset acquisitions (\$7,702), offset by 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). There is only a thinly traded market for such securities and recent market ratings of such debt are Caa2 from Moody's Investors Service, Inc. and CCC- from Standard & Poor's. Both credit agencies' ratings remained unchanged from the prior period. Market quotes may not represent firm bids of such dealers or prices for actual sales. The estimated fair value for these debt securities at September 30, 2002 was \$8,194.

Cash used in investing activities in fiscal 2001 primarily related to the cash paid for the business acquisitions of Global Health Sciences and NatureSmart (\$63,010), and the purchase of property, plant and equipment (\$37,197), offset by proceeds from the sale of property, plant and equipment (\$4,232). Fiscal 2000 net

cash used in investing activities consisted 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 and property, plant and equipment in fiscal 2000 were (\$51,786) and (\$45,119), respectively.

Cash (used in) provided by financing activities was (\$78,854), \$35,627 and (\$11,971) in fiscal 2002, 2001 and 2000, respectively. Fiscal 2002 net cash flows used in financing activities included principal payments under long-term debt agreements (\$85,353), offset by proceeds from the exercise of stock options (\$1,899), and cash received that was previously held in escrow for the acquisition of Global Health Sciences (\$4,600). Net cash provided by financing activities during fiscal 2001 included borrowings under the CGA of \$71,502, proceeds from the exercise of stock options of \$2,604, which were offset by principal payments under long-term debt agreements (\$12,780), purchase of treasury stock (\$15,699) and cash held in escrow (\$10,000). Net cash used in financing activities during fiscal 2000 included principal payments under long-term debt agreements (\$17,667) and the purchase of treasury stock (\$1,512) offset by borrowings under the CGA (\$2,800) and proceeds from the exercise of stock options (\$4,408).

The Company's financial position continues to be solid. Working capital increased \$54,602 to \$185,710 in fiscal 2002. This increase was primarily attributable to the Company repaying its bank debt under the CGA and increasing its current assets, specifically accounts receivable and inventories. Continued growth of the Company's principal promoted products during the period, as noted above, contributed to such increases in accounts receivable and inventories. Presently, the CGA is comprised of one term loan and a revolving credit facility. At September 30, 2002, there were borrowings of \$31,188 under the term loan. This term loan has an annual borrowing rate of 4.422% and is payable in quarterly installments of \$5,563. The current portion of this term loan at September 30, 2002 was \$22,250. The Company repaid the other term loan during the third quarter 2002. The \$50,000 revolving credit facility expires on September 30, 2003 and was unused at September 30, 2002. A standby letter of credit of \$600 was outstanding under such facility at September 30, 2002. 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 (each as defined in the CGA), 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 connection with the August 1997 acquisition of Holland & Barrett, the Company issued \$150,000 of 8-5/8% Senior Subordinated Notes (the "Notes") due in 2007. The Notes are unsecured and subordinated in right of payment to all existing and future senior indebtedness of the Company. Interest expense relating to such debt during fiscal 2002 amounted to \$13,819.

A summary of contractual cash obligations as of September 30, 2002 is as follows:

	Total	<i>Payments Due By Period</i>			
		Less Than 1 Year	1-3 Years	4-5 Years	After 5 Years
Long-term debt	\$ 186,676	\$ 22,806	\$ 10,193	\$ 150,849	\$ 2,828
Operating leases	351,422	52,173	89,089	73,306	136,854
Purchase commitments	13,304	13,304			
Capital commitments	16,544	12,594	3,950		
Employment & consulting agreements	6,650	1,970	2,340	2,340	
Standby letter of credit	600	600			
Capital leases	242	238	4		
Total contractual cash obligations	\$ 575,438	\$ 103,685	\$ 105,576	\$ 226,495	\$ 139,682

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, 2002 are noted in the above table.

The Company was committed to make future purchases under various purchase arrangements with fixed price provisions aggregating approximately \$13,304 at September 30, 2002.

The Company had approximately \$744 in open capital commitments at September 30, 2002, primarily related to manufacturing equipment as well as to computer hardware and software. Also, the Company has a \$15,800 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, initially entered into in October 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, 2002 was approximately \$1,170. In addition, four 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, 2002 was approximately \$700.

The Company maintains a consulting agreement with Rudolph Management Associates, Inc. for the services of Arthur Rudolph, a director of the Company. See "Related Party Transactions" below for further discussion of such agreement.

The Company believes that existing cash balances, internally-generated funds from operations, and amounts available under the 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 the fiscal year ended September 30, 2002, the following transactions occurred:

A. Gail Radvin, Inc., a corporation wholly-owned by Gail Radvin, received commissions from the Company totaling approximately \$585 on account of sales in certain foreign countries and had trade receivable balances of approximately \$3,632 as of September 30, 2002. 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 \$400 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. See "Employment Agreements with Executive Officers and Directors" below.

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 \$93 in compensation during fiscal 2002.

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 2002, these immediate family members received aggregate compensation from the Company totaling approximately \$937 for services rendered by them as employees of the Company.

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.

Financial Covenants and Credit Rating

The Company's credit arrangements 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.

Financial Covenants and Credit Rating (cont.)

Moody's Investors Service, Inc. currently rates the Notes as a B1, and the CGA has an implied rating of Ba2. Standard & Poor's currently rates the Notes as a B+, the CGA as a BB+, and gives the Company an overall corporate credit rating as BB. Both credit agencies' ratings remained unchanged from the prior period.

New Accounting Developments

In February 2002, the Emerging Issues Task Force ("EITF") reached a consensus on Issue No. 01-09, "Accounting for Consideration Given by a Vendor to a Customer (Including a Reseller of the Vendor's Products)" effective no later than periods beginning after December 15, 2001. EITF Issue No. 01-09 addresses the following items:

1) The income statement characterization of consideration given by a vendor to a customer, specifically whether that consideration should be presented in the vendor's income statement as a reduction of revenue or as a cost or expense.

2) Whether a vendor should recognize consideration given to a customer as an asset in certain circumstances rather than as an immediate charge in the income statement.

3) When to recognize the "cost" of a sales incentive and how to measure it.

The Company has determined that the impact of adoption and subsequent application of EITF Issue No. 01-09 did not have a material effect on its consolidated financial position or results of operations.

In April 2002, the FASB issued Statement No. 145, "Rescission of FASB Statements No. 4, 44 and 64, Amendment of FASB Statement No. 13, and Technical Corrections." Under SFAS 145, gains and losses on extinguishments of debt are to be classified as income or loss from continuing operations rather than extraordinary items. Adoption of this statement is required for fiscal years beginning after May 15, 2002. The Company does not expect the adoption of this statement to have a material impact on its consolidated financial position or results of operations.

In July 2002, the FASB issued Statement 146, "Accounting for Costs Associated with Exit or Disposal Activities," which addresses financial accounting and reporting for costs associated with exit or disposal activities. SFAS 146 requires that a liability for a cost associated with an exit or disposal activity be recognized when the liability is incurred. This Statement also establishes that fair value is the objective for initial measurement of the liability. Severance pay under SFAS 146, in many cases, would be recognized over time rather than up front. The provisions of this Statement are effective for exit or disposal activities that are initiated after December 31, 2002, with early application encouraged.

Forward Looking Statements

This Annual Report (the "Report") contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Discussions containing such forward-looking statements may be found in Form 10-K in Items 1, 2, 3, 7 and 7A hereof, as well as within this Report generally. In addition, when used in this Report, the words "subject to," "believe," "expect," "plan," "estimate," "intend," "may," "will," "should," or "anticipate," or the negative thereof, or variations thereon, or similar expressions are intended to identify forward-looking statements. 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 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; (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 wholesale and retail customers; (xii) loss or reduction in ephedra sales; (xiii) unavailability of electricity in certain geographical areas; (xiv) exposure to and expense of defending and resolving, product liability claims and other litigation; (xv) the ability of the Company to successfully implement its business strategy; (xvi) the inability of the Company to manage its retail, wholesale, manufacturing and other operations efficiently; (xvii) consumer acceptance of the Company's products; (xviii) the inability of the Company to renew leases on its retail locations; (xix) inability of the Company's retail stores to attain or maintain profitability; (xx) the absence of clinical trials for many of the Company's products; (xxi) sales and earnings volatility and/or trends; (xxii) the effect on Company sales of the rapidly changing nature of the Internet and on-line commerce; (xxiii) fluctuations in foreign currencies, and more particularly the British Pound; (xxiv) import-export controls on sales to foreign countries; (xxv) the inability of the Company to secure favorable new sites for, and delays in opening, new retail locations; (xxvi) 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; (xxvii) the mix of the Company's products and the profit margins thereon; (xxviii) the availability and pricing of raw materials; (xxix) risk factors discussed in the Company's filings with the U.S. Securities and Exchange Commission (the "SEC"); and (xxx) 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 Garabedian
Director

Bernard G. Owen
Director

Nathan Rosenblatt
Director

Arthur Rudolph
Director

Alfred Sacks
Director

Michael C. Slade
Director

Peter White
Director

Subsidiaries

Nature's Bounty, Inc.

Albert Anastasi
President

Barry Drucker
Senior Vice President, Sales

Richard Scoza
Senior Vice President, Sales and Marketing

Omni Pak

Scott Slade
Senior Vice President

NBTY Manufacturing

Dan Parkhideh
Senior Vice President, Manufacturing Worldwide

James H. Taylor
Vice President, Construction

Abraham J. Kleinman
Vice President, Purchasing-Technical Services

Michael Oliveri
*Vice President of Purchasing and
Planning North America*

Tony Camerlengo
*Vice President, Warehousing and
Distribution, North America*

Richard Bartole
Vice President, Nutro

Linda Penett
Vice President, Nutro

Dynamic Essentials (DE), Inc.

Gary J. Raser
President

Kevin Jones
Vice President

Shareholder Information

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

Transfer Agent

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

Independent Accountants

*PricewaterhouseCoopers LLP
Certified Public Accountants
1301 Avenue of The Americas
New York, New York 10019*

Common Stock Listing

NASDAQ Symbol NBTY

Vitamin World, Inc.

Jeff Schneider
President

William D. Doherty
Senior Vice President, Merchandising

Benjamin Rifkin
Vice President, Real Estate

Robert Silverman
Vice President, New Product Development

Puritan's Pride

Glenn Schneider
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

General Counsel

Irene Fisher

NBTY, Inc.

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

www.NBTY.com

Investor Inquiries

Securities analysis, 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 report, please write or call:

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90 Orville Drive
Bohemia, New York 11716
631-567-9500