

HEALTH & NUTRITION SYSTEMS INTERNATIONAL INC
Form 10KSB/A
April 30, 2004

U.S. SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-KSB/A-2

- Annual report pursuant to section 13 or 15(d) of the Securities Exchange Act of 1934 for the fiscal year ended December 31, 2002
- Transition report under section 13 or 15(d) of the Securities Exchange Act of 1934 for the transition period from _____ to _____

Commission file number 0-29245

Health & Nutrition Systems International, Inc.
(Name of small business issuer in its charter)

FLORIDA
(State or other jurisdiction of incorporation or organization)

65-0452156
(IRS Employer Identification No.)

3750 INVESTMENT LANE, SUITE 5
WEST PALM BEACH, FLORIDA
(Address of principal executive offices)

33407
(Zip Code)

Issuer's telephone number, including area code: (561) 863-8446

Securities registered under Section 12(b) of the Exchange Act:
NONE

Name of each exchange on which registered:
NONE

Securities registered under Section 12(g) of the Exchange Act:
COMMON STOCK, PAR VALUE \$.001 PER SHARE
(Title of Class)

Check whether the issuer (1) filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the past 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.
Yes No

Check if there is no disclosure of delinquent filers in response to Item 405 of Regulation S-B is not contained in this form, and no disclosure will be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference to Part III of this Form 10-KSB/A-2 or any amendment to this Form 10-KSB/A-2.

State issuer's revenues for its most recent fiscal year. \$3,567,848.00

State the aggregate market value of the voting and non-voting common equity held by non-affiliates computed by reference to the price at which the common equity was sold, or the average bid and asked price of such common equity, as of a specified date within the past 60 days. The aggregate market value of the voting stock held by non-affiliates on March 29, 2002 was \$145,193

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(computed at the closing price of the common stock of the issuer outstanding on March 17, 2002)

State the number of shares outstanding of each of the issuer's classes of common equity, as of the latest practicable date: 3,632,813 shares of common stock were outstanding as of March 20, 2003.

Transitional Small Business Disclosure Format: Yes [] No [X]

EXPLANATORY NOTE

This Form 10-KSB/A-2 is being filed in response to comments received from the Securities and Exchange Commission during their review of the Registrant's Preliminary Proxy Statement on Schedule 14A filed December 22, 2003.

HEALTH & NUTRITION SYSTEMS INTERNATIONAL, INC.

FORM 10-KSB/A-2

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FORWARD-LOOKING INFORMATION MAY PROVE INACCURATE

This annual report on Form 10-KSB/A-2 contains forward-looking statements. These forward looking statements concern the Company's operations, economic performance, and financial condition, including but not limited to, the information under the caption "Management's Discussion and Analysis or Plan of Operation." These statements are based on management's beliefs as well as assumptions made by and information currently available to management, including statements regarding future economic performance and financial condition, liquidity and capital resources, and management's plans and objectives. Any statements that are not statements of historical fact should be regarded as forward-looking statements. For example, the words "intends," "believes," "anticipates," "plans," and "expects" are intended to identify forward-looking statements. There are a number of important factors that could cause our actual results to differ materially from those indicated by such forward-looking statements. These factors include, without limitation, those factors described under "Certain Factors Which May Affect Future Results" in this annual report. In addition, the recent terrorist attacks on the United States, current and future responses by the U.S. government, the war in the Persian Gulf, the effects of these events on consumer confidence and demand, the introduction of products that compete with the Company's products, the loss of significant customers, and the availability to the Company and deployment by the Company of capital, increase the uncertainty inherent in forward-looking statements. In addition, the announcement by the Food and Drug Administration that it is considering banning the use of ephedra in nutraceutical products and the surrounding negative publicity regarding ephedra-containing products caused us to discontinue selling products containing ephedra. These factors, among others, could cause our actual results to differ materially from those indicated by such forward-looking statements.

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PART I

ITEM 1 DESCRIPTION OF BUSINESS

GENERAL

Health & Nutrition Systems International, Inc. (the "Company," "HNS," "we" or "us") was organized as a Florida corporation on October 25, 1993. Our fiscal year end is December 31. Our corporate offices are located at 3750 Investment Lane Building, Building #5, West Palm Beach, FL 33404. Our phone number is (561) 863-8446.

We develop, market and sell weight management, energy and sport nutrition products to national and regional, food, drug, health, pharmacy, and mass-market accounts, as well as to independent health and pharmacy accounts. Our product formulations are not proprietary and therefore, our strategy is to create market awareness and sales through the name branding each of our products as well as the "Health and Nutrition Systems" name.

PRODUCTS

We market and sell the following products:

- o ACUTRIM(R) NATURAL -- This is a dietary supplement that uses a special blend of natural ingredients to help the consumer burn fat by supporting healthy carbohydrate and fat metabolism.
- o THIN TAB(R) MAHUANG FREE -- Thin Tab(R) Mahuang Free offers the same benefits as Thin Tab(R) in an ephedra-free formula.
- o CARB CUTTER(R) -- Carb Cutter(R) helps convert carbohydrates into energy. The carb free blend activates a Cellular Transport System (CTS) that shuttles newly consumed carbohydrates into the cells where it then can be metabolized for energy instead of being stored as fat.

As of March 15, 2003, we stopped selling two products, ThinTab(R) and Fat Cutter Plus, which contained ephedra, because of negative publicity related to the use of ephedra. Retailers who purchased those products from us may, however, continue to sell them from their inventory. A third product, Carbolizer(TM), was transferred to KMS-Thin Tab 100, Inc. in September 2002 as part of a larger general settlement of pending litigation with KMS and J.C. Herbert Bryant, III. Carbolizer(TM) also contained ephedra. In 2002, these three products accounted for 19% of our total revenue.

Acutrim(R) Natural was introduced into our product line in 2001. The Acutrim(R) trademark was purchased by us in the first quarter of 2001. After we purchased the trademark, we completely reformulated the Acutrim(R) product to our current product, Acutrim(R) Natural.

CERTIFICATES OF ANALYSIS

Garden State Nutritional, a division of Vitaquest International Inc., is the only manufacturer of our products. See "Manufacturing and Shipping." GSN provides a certificate of analysis for each of our products which gives laboratory test results performed by GSN that verify product quality and ingredients. We deliver these certificates to our customers, and to consumers, upon request.

CLINICAL TESTING

No regulatory agency specifically requires that a marketer of dietary supplements perform clinical testing. However, the claims that are made with respect to our products' performance are subject to review by various state and local authorities, including, but not limited to, the Federal Trade Commission. As a result, in 2001, we initiated a practice of performing independent clinical trials of our principal products. These trials are meant to substantiate that our products work as described in our advertising, labeling, or other consumer-directed communications. These double blind placebo trials were conducted by Marshall-Blum LLC, an independent research company with twenty years of experience in product testing. Marshall-Blum follows strict clinical guidelines to assist with product compliance with applicable regulations and scientific standards.

MARKETING

We currently design and develop all of our products, marketing and advertising in house. We strive to create market awareness and sales through name-brand recognition of our trademarked products. We target print advertising to develop brand awareness and recognition. During 2002 and 2001, we spent 8.4%

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and 14.8%, respectively, of our total revenues advertising our products in consumer magazines such as Cosmopolitan, Mademoiselle, Glamour, Fitness, Redbook, Allure, Muscle and Fitness, and others. We intend to continue promoting our products through the print media.

In addition to print advertising, we have ongoing "co-op" programs with all of the major retailers who sell our products. These programs obligate us to spend a certain percentage of projected revenue to be generated by sales of our products on targeted advertising for that retailer through marketing vehicles such as Sunday newspaper inserts and 10-30 day price specials. We are obligated to spend these co-op dollars irrespective of the actual revenue generated by the sales of our products with that retailer. These co-op programs allow us to target several million consumers and drive sales to the specific retailer. In 2002 and 2001, we spent approximately \$823,481, 16.2% and \$1,252,000, 21.1%, respectively, of our total gross revenues on advertising and promotion, on these "co-op" programs.

All of our products are included in the "plan-o-gram" marketing programs of the major retailers who sell our products. These programs give our products identical shelf and aisle positions in all locations in a particular chain of stores using a pre-planned, in-store display format. The plan-o-gram program guarantees consistent distribution and location of our products in all stores. The major retailers periodically review the products that participate in their plan-o-gram programs, sometimes as often as quarterly. There can be no assurance that our products will remain in any given retailer's plan-o-gram program. If one of our products is removed from a retailer's plan-o-gram program, it is likely that the sales volume of that product by that retailer will decline.

MANUFACTURING AND SHIPPING

Garden State Nutritional, a division of Vitaquest International Inc., manufactures all of our products. GSN is a state-of-the-art supplement, liquid, and powder manufacturer, which owns a 200,000 square foot manufacturing facility in West Caldwell, New Jersey. GSN has been known as an industry leader for more than 25 years. GSN has the capacity to support the production of all of HNS's product line. During 2001, we did not have a term contract with GSN, but rather acquired our needed inventory on a purchase order basis. In early April 2002, we entered into a two year exclusive manufacturing contract with GSN under which we purchase all of our products' requirements from GSN. Although back-up suppliers are identified and available, the loss of this supplier would have a material

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adverse affect on us. GSN's research and development personnel, in conjunction with our in-house team, develop our product formulations. Pursuant to the terms of our exclusive manufacturing agreement with GSN, we have a \$450,000 line of credit with GSN with 60 day terms. GSN informally allowed the Company to purchase up to \$1,000,000 on the line of credit. At December 31, 2002, the balance owed to GSN under this line of credit is \$892,878.

Our production/assembly personnel package products received from GSN. Our production/assembly personnel fill out shipping documents and oversee quality control and inventory flow. Our large retailer orders are shipped on pallets using the preferred freight company of the retailer's choice.

INTELLECTUAL PROPERTY

Our policy is to pursue registration of all of the trademarks associated with our key products. We currently own trademarks registered with

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the United States Patent and Trademark Office for our Acutrim(R), and Carb Cutter(R) products and for our "On the Move(R)" advertising slogan. We have also applied for trademark protection in the United States relating to several of our advertising phrases, such as "I cheat," "We cheat," "Do you cheat?," Joint Lube, Fat Drops, Come Together, Thin Tab Carb Blocker, Thin Shake and Carb Blocker. Federally registered trademarks have a perpetual life, provided that they are renewed on a timely basis and are used properly as trademarks, subject to certain rights of third parties to seek cancellation of the marks.

We also rely on common law trademark rights to protect our unregistered trademarks. Common law trademark rights do not provide us with the same level of protection as afforded by a United States federal registration of a trademark. In addition, common law trademark rights are limited to the geographic area in which the trademark is actually used.

We regard our trademarks and other proprietary rights as valuable assets and believe that such rights have significant value in the marketing of our products. We have in the past, and intend to continue in the future to, vigorously protect our trademarks against infringement, both in the United States and in foreign countries.

EMPLOYEES

We currently have twelve (12) full-time employees; four (4) are managerial, four (4) are engaged in sales and marketing, two (2) are administrative personnel and two (2) are assembly personnel. We believe our relationship with our employees is good.

PRODUCT DISTRIBUTION

GENERAL

Our customers are predominantly drug, health food, and mass retailers who then sell our products to the retail consumer. We do not have contracts with our customers to purchase our products. All of our customers purchase our products on a purchase order basis.

DRUG, HEALTH FOOD AND MASS RETAILERS

During 2002, we continued to diversify our customer base by establishing one or more of our products in more than eighteen (18) different drug, health food, and mass retailers. Each of our products has achieved "full distribution" in each of the chains that sell it, which means that if one of our products is sold by a retailer, it is sold in every location operated by that

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retailer. We estimate that Carb Cutter(R) and Acutrim(R) Natural are now available in more than 25,000 store locations nationwide. Because our customers purchase our products on a purchase order basis, there can be no assurance that our products will continue to have "full distribution" (or any distribution) by the retailers that carry them.

One or more of our products are currently sold by the following mass retailers: Wal-Mart (2,048 locations), Walgreens (3,520 locations), Rite-Aid (3,631 locations), CVS (4,123 locations), Brooks (Maxi Drug) (330 locations), Vitamin World (600 locations), H. E. Butt Grocery Co. (280 locations), Wakefern (200 locations), Sav-On (1,300 locations), Giant Landover (180 locations), Giant Eagle (188 locations), Eckerd's (2,650 locations), GNC (4,000 locations), Target (968 locations), Albertsons (2,128 locations), Duane Reade (193 locations),

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Long's (430 locations) and Vitamin Shoppe (78 locations).

In 2002, we derived approximately \$4,835,691 (or 95.2%) of gross revenues from these customers. In 2001, we derived \$5,524,760 (or 92.9%) of gross revenues from drug, health food, and mass retailer customers. The term "gross revenues," as used in this document, relates to revenues excluding sales returns, allowances and discounts, slotting fees paid, co-op advertising and promotion expense.

INDEPENDENT RETAIL HEALTH AND PHARMACY STORES

Our in-house staff of telemarketers (HNS Direct) has opened 4,000 new accounts with independent retail health and pharmacy stores since we began this program in January, 1999. These stores are not owned by a chain but are independently owned and operated. We also participate in trade shows attended by buyers for these independent retail health and pharmacy stores. In 2002, we derived \$246,456 (or 4.8%) of revenues from independent health and pharmacy accounts. In 2001, we derived \$419,827 (or 7.1%) of revenues from independent health and pharmacy accounts. We believe that our revenue from the independent customers declined in 2002 in part due to many independents going out of business, our concentration of distribution efforts on our mass retailer distribution network, and our focus on re-orders with existing independent customers rather than on generating new accounts through special promotions. Although we intend to work to expand the HNS Direct program using our existing web site, HNSDirect.com and our in-house telemarketing program, we can offer no assurance that we will be able to maintain or expand our number of independent retail accounts in the future.

SIGNIFICANT CUSTOMERS

We currently have approximately 15 drug, health food, and mass retailer customers which collectively comprised 87.0% of our gross revenues in 2002. We depend on several significant customers for a large percentage of our sales. Our largest customers are GNC, Wal-Mart, Walgreens, Rite Aid, Target, and Eckerd Drugs. We do not have written agreements with any of these customers or any of our other customers.

During the fiscal year ending 2002, GNC represented approximately 20.5% of our gross sales, Wal-Mart represented approximately 12.2 % of our gross sales, Walgreens represented approximately 10.6% of our gross sales, Rite Aid represented approximately 10.1% of our gross sales, Target represented approximately 7.0% of our gross sales, and Eckerd's represented approximately 5.1% of our gross sales. The loss of any one or more of our significant customers would have a material adverse effect on our operations.

GOVERNMENT REGULATIONS

The processing, formulation, packaging, labeling, and advertising of our products are subject to regulation by one or more federal agencies, including the Food and Drug Administration ("FDA"), the Federal Trade Commission ("FTC"), the Consumer Product Safety Commission, the United States Department of

Agriculture and the United States Environmental Protection Agency. These activities are also regulated by various agencies of the states, localities, and countries in which its products are sold. In addition, we manufacture and market certain of our products in substantial compliance with the guidelines promulgated by the United States Pharmacopoeia Convention, Inc. ("USP") and other voluntary standard organizations.

The Dietary Supplemental Health and Education Act ("DSHEA") recognizes the importance of good nutrition and the availability of safe dietary supplements in preventive health care. DSHEA amends the Federal Food, Drug and Cosmetic Act ("FFD&CA") by defining dietary supplements, which include vitamins, minerals, nutritional supplements and herbs, as a new category of food, separate from conventional food. Under DSHEA, the FDA is generally prohibited from regulating such dietary supplements as food additives or drugs. It requires the FDA to regulate dietary supplements so as to guarantee consumer access to beneficial dietary supplements, allowing truthful and proven claims. Generally, dietary ingredients that were on the market before October 15, 1994 may be sold without FDA pre-approval and without notifying the FDA. However, new dietary ingredients (those not used in dietary supplements marketed before October 15, 1994) require pre-market submission to the FDA of evidence of a history of their safe use, or other evidence establishing that they are reasonably expected to be safe. There can be no assurance that the FDA will accept the evidence of safety for any new dietary ingredient that we may decide to use, and the FDA's refusal to accept such evidence could result in regulation of such dietary ingredients as food additives, requiring the FDA pre-approval based on newly conducted and costly safety testing. Also, while DSHEA authorizes the use of statements of nutritional support in the labeling of dietary supplements, the FDA is required to be notified of such statements, and there can be no assurance that the FDA will not consider particular labeling statements we use to be drug claims rather than acceptable statements of nutritional support, necessitating approval of a costly new drug application, or re-labeling to delete such statements. It is also possible that FDA could allege false statements were submitted to it if structure/function claim notifications was either non-existent or so lacking in scientific support as to be plainly false.

FFD&CA also authorizes the FDA to promulgate good manufacturing practice regulations ("GMP") for dietary supplements, which would require special quality controls for the manufacture, packaging, storage, and distribution of supplements. Although the final version of the GMP rules has not yet been issued, we anticipate we will be in substantial compliance with the proposed regulations once they are enacted. FFD&CA further authorizes the FDA to promulgate regulations governing the labeling of dietary supplements. Such rules, which were issued on September 23, 1997, entail specific requirements relative to the labeling of our dietary supplements. The rules, which took effect in March 1999, also require additional record keeping and claim substantiation, reformulation, or discontinuance of certain products. We believe we are in substantial compliance with these new requirements.

All of our products are classified as dietary supplements under the FFD&CA. In September 1997, the FDA issued regulations governing the labeling and marketing of dietary supplement products. These regulations cover:

- o the identification of dietary supplements and their nutrition and ingredient labeling;
- o the wording used for claims about nutrients, health claims and statements of nutritional support;
- o labeling requirements for dietary supplements for which "high potency" and "anti-oxidant" claims are made;

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- o notification procedures for statements on dietary supplements; and
- o pre-market notification procedures for new dietary ingredients

in dietary supplements.

The notification procedures became effective in October 1997. The labeling requirements became effective on March 23, 1999. Where required, we revised our product labels as necessary to reflect the requirements. We believe we substantially comply with these requirements. In addition, we are required to continue our ongoing program of providing evidence for our product performance claims, and notify the FDA of certain types of performance claims made for our products. Our substantiation program involves ongoing compilation and review of scientific literature pertinent to the ingredients contained in our products and the claims we make about them.

In certain markets, including the United States, claims made with respect to dietary supplements, personal care or any of our other products may change the regulatory status of our products. For example, in the United States, the FDA could possibly take the position that claims made for some of our products make those products new drugs requiring preliminary approval. The FDA could also place those products within the scope of its a Food and Drug Administration over-the-counter (OTC) drug regulations and require it to comply with a published FDA OTC monograph. OTC monographs dictate permissible ingredients, appropriate labeling language, and require the marketer or supplier of the products to register and file annual drug listing information with the Food and Drug Administration. We do not at present sell OTC drug products. If the FDA were to assert that our product claims cause them to be considered new drugs or fall within the scope of over-the-counter regulations, we would be required to either file a new drug application, comply with the applicable monographs, or change the claims made in connection with our products.

Additionally, dietary supplements are subject to the Nutrition, Labeling and Education Act (NLEA), which regulates health claims, ingredient labeling and nutrient content claims characterizing the level of a nutrient in a product. NLEA prohibits the use of any health claim for dietary supplements unless the health claim is supported by significant scientific agreement and is pre-approved by the FDA.

The FTC regulates the marketing practices and advertising of all our products. In the past several years, the FTC instituted enforcement actions against several dietary supplement companies for false and misleading marketing practices and advertising of certain products. These enforcement actions have resulted in consent decrees and monetary payments by the companies involved. Under FTC standards, the dissemination of any false advertising constitutes an unfair or deceptive act or practice actionable under Section 45 of the Fair Trade Commission Act and a false advertisement actionable under Section 52 of that act. A false advertisement is one that is "misleading in a material respect." In determining whether an advertisement or labeling information is misleading in a material respect, FTC determines not only whether overt representations and implied representations are false, but also whether the advertisement fails to reveal material facts. Under FTC's standard, any health benefit representation made in advertising must be backed by "competent and reliable scientific evidence" by which FTC means:

tests, analyses, research studies, or other evidence based upon the expertise of professionals in the relevant area, that have been conducted and evaluated in an objective manner by persons qualified to do so, using procedures generally accepted by the profession to yield accurate and reliable results.

The FTC has increased its review of the use of the type of testimonials we use in our business. The Federal Trade Commission requires competent and reliable evidence substantiating claims and testimonials at the time that such claims of health benefit are first made. The failure to have this evidence when

product claims are first made violates the Federal Trade Commission Act. Although the FTC has never threatened an enforcement action against us for the advertising of our products, there can be no assurance that the FTC will not question our advertising or other operations in the future.

We may be required to obtain an approval, license, or certification from a foreign country's ministry of health or comparable agency prior to entering a new foreign market. We work with local authorities in order to obtain the requisite approvals, license, or certification before entering a foreign market. The approval process generally requires us to present each of our products and product ingredients to appropriate regulators and, in some instances, arrange for testing of our products by local technicians for ingredient analysis. Such approvals may be conditioned on reformulation of our products or may be unavailable with respect to certain of our products or certain ingredients contained in our products. We must also comply with product labeling and packaging regulations that are different from country to country. In markets where a formal approval license or certification is not required, we will rely upon the advice of local counsel in each country, to help us ensure we comply with the law.

Although we cannot predict what new legislation or regulations governing our activities will be enacted by legislative bodies or promulgated by agencies regulating our activities. We do know that our industry has come under increased scrutiny, principally due to the FDA's investigation of the use of ephedra. We believe we will become subject to additional laws or regulations administered by the FDA or other federal, state, or foreign regulatory authorities. We also believe the laws or regulations which we consider favorable may be repealed, or more stringent interpretations of current laws or regulations will be implemented in the future. Any or all of such requirements could be a burden and costly, to us. Future regulations could:

- o require us to change the way we conduct business;
- o require us to change the contents of our products;
- o make us keep additional records;
- o make us increase the available documentation of the properties of our products; or
- o make us increase or use different labeling and scientific proof of product ingredients, safety or usefulness.

COMPETITION

The diet industry is highly competitive. We compete directly with the following companies who sell to our customers and their diet product brands: Atkins Nutritional, Twinlabs, Metabolife International, Inc, Rexall Sundown, Dexatrim, Natures Bounty (NBTY) and Slim Fast. We also compete indirectly with companies that use direct marketing to distribute diet products directly to the retail consumer without the use of an intermediary such as a mass retailer. These companies use television and radio advertising which can range from thirty second commercials to full length thirty minute infomercials. Many of these companies also attempt to bring their best selling brands to the retail market and such products then also compete directly with our products.

Our product formulae are not proprietary. Similar formulations are currently being developed and marketed by our competitors. Substantially all of

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our competitors have greater resources and name recognition than we do. Many of our competitors sell, in addition to diet products, a broad range of health and nutrition products. In addition, many of our competitors sell to the same

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customers as we do. In addition, GSN, our sole manufacturer, sells similar products to our competitors, often with similar formulations. We strive to differentiate our products through the mixture of ingredients in our products and the amounts of such ingredients contained in our products. We also trademark our proprietary brand names such as, the " Free Blend" in Carb Cutter(R) See "Intellectual Property." We believe that this allows us to maintain consumer loyalty to our brand rather than to a specific ingredient or combination of ingredients. We also strive to differentiate our products by providing distinctive packaging. Despite the introduction of new products, we remain significantly dependent on a single brand, the original Carb Cutter(R).

The most significant barrier to entry within our industry is the difficulty of establishing a new product. This involves a major capital commitment to advertise, participate in trade shows, build inventory, and pay the cost of entry with slotting fees and or free merchandise. Test marketing also requires a significant commitment of time and capital.

FINANCING

FACTORING

During 2002, we factored certain of our accounts receivable with Alliance Financial Capital, Inc. On March 15, 2002, we terminated our factoring agreement with Alliance and entered into a factoring agreement with LSQ Funding Group, L.C. (LSQ). We only factor certain large accounts, and we do not factor the accounts serviced through HNS Direct. The agreement with LSQ provides that LSQ will purchase certain of our receivables and advance to us 85% of the face amount of such receivables. The term of this agreement is one year. The maximum amount of receivables we may factor under our agreement with LSQ is \$750,000, and there is no minimum amount required to be factored. In connection with the factoring agreement, we granted to LSQ a blanket lien on our assets. In connection with the LSQ Factoring Agreement, our President and Chief Executive Officer was required to deliver a personal indemnity agreement to LSQ. The LSQ contract expired in March of 2003 and the Company did not renew it.

GSN FINANCING

In early April 2002, we entered into an agreement with GSN, our sole manufacturer, pursuant to which we agreed to repay to GSN amounts owed to it as of the date of the agreement which were approximately \$700,000. Our repayment schedule requires equal monthly payments over the next twenty four months, without interest. In connection with this agreement, we granted a blanket second priority lien on our assets to GSN.

Also, in early April 2002, we entered into an exclusive manufacturing agreement with GSN pursuant to which GSN has provided us with a \$450,000 line of credit, on current invoices, with 60 day terms. GSN informally allowed the Company to purchase up to \$1,000,000 on the line of credit. At December 31, 2002, the balance owed to GSN under this line of credit is \$892,878.

VENDOR FINANCING

We consider our relationships with our vendors to be good. During 2002, we were able to increase our credit limits as well as improve our payment terms

with certain vendors.

PRODUCTS LIABILITY INSURANCE

We are currently insured for products liability claims up to an aggregate of \$6,000,000. While our products liability policy currently covers our products which contain ephedra, there can be no assurance that this coverage will be available in the future at premium rates that were considered acceptable, or at all.

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We are also an additional named insured on GSN's products liability policy, which has an aggregate coverage of up to \$5,000,000.

ITEM 2. DESCRIPTION OF PROPERTY

Our corporate offices and finished product warehouse is located in a 6,000 square foot facility at 3750 Investment Lane, Building 5, West Palm Beach, Florida, 33404. This lease expires on October 31, 2003 and provides for lease payments of approximately \$2,172, per month. We also have leased a 4,000 square foot storage facility, also located at 3750 Investment Lane with lease payments of \$1,767 per month. The lease expires on October 31, 2003. All packaging and shipping is performed at this location.

During the first quarter of 2002, we entered into a sublease of 4,000 square feet of excess warehouse space for approximately \$1,800 per month.

ITEM 3. LEGAL PROCEEDINGS

NEW YORK CITY DEPARTMENT OF CONSUMER AFFAIRS

In January 2001, the New York City Department of Consumer Affairs ("DCA") issued a Notice of Violation ("NOV") relating to certain claims made by the Company relating to Carb Cutter(R). In January 2002, HNS reached a settlement with the DCA which provided for the payment to DCA of \$10,000 and no admission of guilt, liability or misconduct of any kind by HNS.

J.C. HERBERT BRYANT, III AND KMS-THIN TAB 100, INC.

The Company was involved in the litigation with J.C. Herbert Bryant, III, a former officer, director and one of our shareholders, and KMS-Thin Tab 100, Inc., which was settled in September 2002. The settlement agreement generally provided for Bryant and KMS to transfer the registration and ownership of the domain names Thintab.com, Thintab.CC, and Carbcutter.cc to HNS, and to take other action to eliminate confusion over the ownership of the Thin Tab(R) name. Additionally, each of the adverse parties generally released the others. As part of the settlement, HNS entered into a distribution agreement with Bryant, beginning on September 26, 2002 and ending on September 25, 2007, permitting Bryant to purchase certain of its products from HNS and to exclusively distribute those products in Florida from Orlando south. HNS also transferred its rights to the Carbolizer(TM) product to KMS. Carbolizer(TM) contained ephedra and in our judgment would have required a considerable investment of corporate attention and money to remanufacture, repack, and promote, to significantly increase its revenue share. The value of Carbolizer(TM) in facilitating settlement of the law suit, and recovering control over more valued HNS trademarks, was deemed of greater benefit to the Company.

Twenty-two (22) cases have been filed alleging that our Acutrim(R) products contain Phenylpropanolamine ("PPA") and that those products have caused

damage to the plaintiffs. Many of these cases have been consolidated in class action suits pending in the U.S. District Court for the Western District of Washington in Seattle, the Philadelphia County Court of Common Pleas or the Louisiana State Court. None of the Company's Acutrim(R) products has ever contained, or currently contains, PPA. Based on that defense, to date, ten cases have been voluntarily dismissed after delivery to plaintiff's counsel information substantiating the fact that HNS's products do not presently contain, and have not contained, PPA.

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ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS.

During the fourth quarter of 2002, we did not submit any matters to the vote of our security holders.

PART II

ITEM 5. MARKET FOR COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

The common stock of the Company trades on the OTC Bulletin Board under the trading symbol "HNNS." The prices set forth below reflect the quarterly high and low bid information for shares of our common stock during the last two fiscal years as reported by CSI, Inc. These quotations reflect inter-dealer prices, without retail markup, markdown or commission, and may not represent actual transactions.

There were no trades of our securities on the OTCBB prior to October 4, 2000.

Fiscal Year 2002	High	Low
-----	----	----
Fourth Quarter	0.08	0.04
Third Quarter	0.15	0.08
Second Quarter	0.17	0.05
First Quarter	0.55	0.05
Fiscal Year 2002	High	Low
-----	----	----
Fourth Quarter	0.28	0.10
Third Quarter	0.51	0.14
Second Quarter	1.03	0.23
First Quarter	2.06	0.63

As of March 20, 2002, there were 83 holders of record of our common stock.

Our common stock is covered by an SEC rule that imposes additional sales practice requirements on broker-dealers who sell such securities to persons other than established customers and accredited investors, which are generally institutions with assets in excess of \$5,000,000, or individuals with net worth in excess of \$1,000,000 or annual income exceeding \$200,000 or \$300,000 jointly with their spouse. For transactions covered by the rule, the broker-dealer must make a special suitable determination for the purchaser and transaction prior to the sale. Consequently, the rule may affect the ability of broker-dealers to sell our securities, and also may affect the ability of purchasers of our stock to sell their shares in the secondary market. It may also cause fewer broker-dealers to be willing to make a market in our common stock, and it may affect the level of news coverage we receive.

Prior to June 29, 2000, we were not a reporting company and were not

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required to file quarterly, annual, and other reports with the SEC.

We have not declared or paid any cash dividends on our common stock since our inception, and our Board of Directors currently intends to retain all earnings for use in the business for the foreseeable future. Any future payment of dividends will depend upon our results of operations, financial condition, cash requirements, and other factors deemed relevant by our Board of Directors.

The following table provides information as of December 31, 2002 about our common stock that may be issued upon the exercise of options under our 1998 Stock Option Plan for employees, officers, directors, and independent contractors.

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EQUITY COMPENSATION PLAN INFORMATION

PLAN CATEGORY	NUMBER OF SECURITIES TO BE ISSUED UPON EXERCISE OF OUTSTANDING OPTIONS, WARRANTS AND RIGHTS (A)	WEIGHTED-AVERAGE EXERCISE PRICE OF OUTSTANDING OPTIONS, WARRANTS AND RIGHTS	NUMBER OF SECURITIES REMAINING UNDER FUTURE COMPENSATION PLANS (B)
Equity compensation plans approved by security holders	506,500	\$.14	
Equity compensation plans not approved by security holders (1)			
TOTAL	506,500 =====	\$.14 ----	

(1) We do not maintain equity compensation plans that have not been approved by our stockholders.

ITEM 6. MANAGEMENT'S DISCUSSION AND ANALYSIS OR PLAN OF OPERATION.

This annual report on Form 10-KSB/A-2 contains forward-looking statements and information. Any statements that are not statements of historical fact should be regarded as forward-looking statements. For example, the words "intends," "believes," "anticipates," "plans," and "expects" are intended to identify forward-looking statements. There are a number of important factors that could cause our actual results to differ materially from those indicated by such forward-looking statements. These factors include, without limitation, those factors described under "Certain Factors That May Affect Future Operations" in this annual report. In addition, the recent terrorist attacks on the United States, possible responses by the U.S. government, the effects on consumer demand, the financial markets and other conditions increase the uncertainty inherent in forward-looking statements. Finally, recent government action and the surrounding publicity regarding ephedra-containing products may make it difficult for us to obtain and maintain product liability insurance for our products containing ephedra at current premiums. This could cause our actual results to differ materially from those indicated by such forward-looking

statements.

The following discussion of our results of operations and financial condition should be read along with our Consolidated Financial Statements listed in Item 7 and the Notes to them appearing elsewhere in this Form 10-KSB/A-2.

CRITICAL ACCOUNTING POLICIES

Financial Reporting Release No. 60, which was recently released by the U.S. Securities and Exchange Commission, encourages all companies to include a discussion of critical accounting policies or methods used in the preparation of financial statements. Our financial statements include a summary of the significant accounting policies and methods used in the preparation of our financial statements.

Management believes the following critical accounting policies affect the significant judgments and estimates used in the preparation of the financial statements.

REVENUE RECOGNITION

Revenues are recognized at the time of shipment of the respective merchandise. Included in the net sales in the accompanying financial statements for the twelve months ended December 31, 2002, and 2001 are returns and allowances and sales discounts in the amounts of \$612,700 and \$579,255, respectively.

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APPLICATION OF EIFT 01-9, "ACCOUNTING FOR CONSIDERATION GIVEN BY A VENDOR TO CUSTOMER (INCLUDING A RESELLER OF THE VENDOR'S PRODUCTS)'

In accordance with EITF 01-9, we reclassified expenses relating to slotting fees paid, co-op advertising and promotions, from operating expenses to revenues. The term "gross revenues" as used in this document relates to the revenues excluding the above mentioned advertising expenses and sales returns, allowances and discounts. Gross revenues for 2002 and 2001 are \$5,082,147 and \$5,944,587, respectively, and the co-op advertising expenses are \$901,599 and \$1,524,943, respectively.

USE OF ESTIMATES

Management's discussion and analysis of financial condition and results of operations is based upon our financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America. The preparation of these financial statements requires management to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues, and expenses, and related disclosure of contingent assets and liabilities. On an ongoing basis, management evaluates these estimates, including those related to valuation allowance for the deferred tax asset, estimated useful life of fixed assets and the carrying value of long-lived assets, intangible assets and allowances for sales returns, doubtful accounts, and obsolete and slow moving inventory and reserve for customer liabilities. Management bases these estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying value of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions.

OVERVIEW

Like most consumer businesses, our business is affected by general economic, political and public safety conditions that impact consumer confidence and spending. The impact of the terrorist attacks of September 11, 2001 and the government's response to them, including the commencement of the Persian Gulf war, have had short-term and also have had, and may continue to have, long-term adverse effects on our revenues, results of operations, financial condition, and prospects.

The industry revenues reported in year 2002 were down approximately 25% percent from those reported in year 2001. We believe that this trend will reverse itself in the year 2003 and result in an upturn in the industry. Particularly, because of the popularity of low carbohydrate diets, we expect increased consumer demand for low carbohydrate diet assisting products such as ours. However, our product formulae are not proprietary. Similar formulations are currently being developed and marketed by our competitors. Substantially all of our competitors have greater resources and name recognition than we do. Many of our competitors sell, in addition to diet products, a broad range of health and nutrition products. In addition, many of our competitors sell to the same customers as we do. We believe at least some of these potential competitors will also find low carbohydrate diet assisting products attractive and compete with us. We strive to differentiate our products through the mixture of ingredients in our products and the amounts of such ingredients contained in our products. We also trademark our proprietary brand names, such as, the "Carb Free Blend" in Carb Cutter(R). We believe that this allows us to maintain consumer loyalty to our brand rather than to a specific ingredient or combination of ingredients. We also strive to differentiate our products by providing distinctive packaging. In addition, GSN, our sole manufacturer, sells similar products to our competitors, often with similar formulations. None of our efforts in differentiating ourselves, however, will insure that existing or potential competitors will not erode our market share. We also expect that many customers will continue to want to purchase diet products containing ephedra which we discontinued selling early in 2002.

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The most significant barrier to entry within our industry is the difficulty of establishing a new product. This involves a major capital commitment to advertise, participate in trade shows, build inventory, and pay the cost of entry with slotting fees and or free merchandise. Test marketing also requires a significant commitment of time and capital. In this respect, the very popularity of the low carbohydrate diets may encourage additional stronger competitors to compete with us.

During 2002, we continued to implement our strategic plan to diversify our product line through the development and promotion of two new products: Fat Cutter Plus and Acutrim(R) Natural as well as the promotion and expansion of the distribution of Carb Cutter(R). This strategy is aimed at reducing the negative impact upon us of (i) a shift in consumer preferences with regard to any one of our products, (ii) a change in retailer preferences for our products, or (iii) any other cause of reduced sales either for a particular product or in a particular geographical region because of negative publicity. Despite the introduction of new products, we remain significantly dependent on a single brand, the original Carb Cutter(R).

The Company announced on December 19, 2002 that it had made a strategic decision to discontinue the sales of all ephedra-based products. As a result, the Company discontinued sales of Thin Tab(R) and Fat Cutter Plus in the first quarter of 2003. Our retail customers, however, may continue to sell those products from their inventory. Alternatively, they may return the products to us. In 2002, sales of those products were \$965,608, or 19% of total revenue. At

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December 31, 2002, the Company recorded an allowance for sales returns of \$317,600, including \$200,000 for returns of products containing ephedra expected in 2003.

We cannot predict the effects of the discontinuance of these products on our revenues, results of operations, financial condition, and prospects. See "Commitments and Contingencies."

GOVERNMENT REGULATIONS

The processing, formulation, packaging, labeling and advertising of our products are subject to regulation by one or more federal agencies, including the FDA, the FTC, the Consumer Product Safety Commission, the United States Department of Agriculture and the United States Environmental Protection Agency. These activities are also regulated by various agencies of the states, localities, and countries in which its products are sold.

Although we cannot predict what new legislation or regulations governing our activities will be enacted by legislative bodies or promulgated by agencies regulating our activities. We do know that our industry has come under increased scrutiny, principally due to the FDA's investigation of the use of ephedra. We believe we will become subject to additional laws or regulations administered by the FDA or other federal, state or foreign regulatory authorities. We also believe the laws or regulations which we consider favorable may be repealed or more stringent interpretations of current laws or regulations will be implemented in the future. Any or all of such requirements could be a burden and costly, to us. Future regulations could:

- o require us to change the way we conduct business;
- o require us to change the contents of our products;
- o make us keep additional records;
- o make us increase the available documentation of the properties of our products; or

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- o make us increase or use different labeling and scientific proof of product ingredients, safety or usefulness.

RESULTS OF OPERATIONS

NET REVENUES:

Gross revenue is the total dollars generated from the total amount of goods sold to a customer before any deductions. Net Revenue is gross revenue reduced by

- o returns and allowances;
- o cash discounts;
- o slotting fees and new store discounts; and
- o co-op advertising and promotions given to the customers to promote the product and improve sales.

Year ended December 31, 2002 compared with Year ended December 31, 2001

Gross revenues for the twelve months ended December 31, 2002 decreased by \$862,440, to \$5,082,147, versus the comparable period in 2001 of \$5,944,587. The decrease was due to the decrease in sales to our major customers of \$689,069 and a decrease in our in house telemarketing revenue of \$173,371. We believe

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these decreases were primarily based on a generally soft market and reduced advertising.

Net revenues for the twelve months-ended December 31, 2002 decreased by \$272,541 to \$3,567,848 versus the comparable period in 2001 of \$3,840,389, also because of a soft market and reduced advertising.

During the twelve months ended December 31, 2002, six companies accounted for 65.5% of our gross revenues. GNC, our largest account, accounted for 20.5% of gross revenues versus the comparable period in 2001 of 20.8%.

Year ended December 31, 2001 compared with Year ended December 31, 2000.

Gross revenues for the twelve months ended December 31, 2001 increased by \$298,943 to \$5,944,587 versus the comparable period in 2000 of \$5,645,644. Although we experienced a decrease in our in-house telemarketing revenue of \$603,550 in fiscal year 2001 versus the comparable period in fiscal 2000, the loss in telemarketing revenue was more than made up by increased gross revenue from the Company's large retail customers.

Net revenues for the twelve months ended December 31, 2001, however, decreased by \$954,000 to \$3,840,389 versus the comparable period in 2000 of \$4,794,854, because of increases in cooperative advertising, returns, and other allowances.

During the twelve months ended December 31, 2001, six companies accounted for 73.5% of the total Company's gross revenues. In 2001, GNC, our largest account, accounted for 20.8% of gross revenues versus the comparable period in 2000 of 45.0%.

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COST OF SALES

Year ended December 31, 2002 compared with Year ended December 31, 2001

Cost of sales for the twelve months ended December 31, 2002 was \$1,511,826, or 42.4% of net sales, compared to \$1,903,755, or 49.6% of net sales for the twelve months ended December 31, 2001. The decrease in cost of sales as a percentage of net sales is primarily attributed to higher sales of Carb Cutter(R), which had a formula change decreasing the cost of goods sold on this product in fiscal year 2002. Additionally, the cost of sales was reduced by \$73,747, which represents imputed interest on the Company's Note with GSN. The cost of sales as a percentage of net sales without this discount is 44.4%.

Year ended December 31, 2001 compared with Year ended December 31, 2000

Cost of sales for the twelve months ended December 31, 2001 was \$1,903,755 or 49.6% of net sales, compared to \$1,472,528, or 30.7% of net sales for the twelve months ended December 31, 2000. The increase in cost of sales as a percentage of net sales is primarily attributed to higher sales of Carb Cutter(R), which had a formula change increasing the cost of goods sold on this product in fiscal year 2001, and the reformulation of Acutrim Natural(R) that increased the cost of sales percentage.

GROSS PROFIT:

Year ended December 31, 2002 compared with Year ended December 31, 2001

Gross profit for the twelve months ended December 31, 2002 was \$2,056,022 an increase of \$119,388, or 6.2%, compared to gross profit of

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\$1,936,634 for the twelve months ended December 31, 2001. As a percent of net sales, gross profit was 57.6% for the twelve months ending December 31, 2002, as compared to 50.4% for the twelve months ended December 31, 2001. The increase in gross profit dollars is primarily attributed to the decrease in cost of goods as explained above.

Year ended December 31, 2001 compared with Year ended December 31, 2000

Gross profit for the twelve months ended December 31, 2001 was \$1,936,634 a decrease of \$1,385,691 or 41.7%, compared to gross profit of \$3,322,325 for the twelve months ended December 31, 2000. As a percent of net sales, gross profit was 50.4% for the twelve months ending December 31, 2001, as compared to 69.2% for the twelve months ended December 31, 2000. The decrease in gross profit is primarily attributed to the increase in cost of goods for the Carb Cutter(R) and also Acutrim(R) Natural, each of which were reformulated in 2001 and as a result of such reformulation, has a lower gross margin than the prior year.

OPERATING EXPENSES:

Year ended December 31, 2002 compared with Year ended December 31, 2001

Operating expenses were \$1,980,493 for the twelve months ended December 31, 2002, compared to \$3,313,837 for the twelve months ended December 31, 2001, representing a decrease of \$1,333,344. As a percent of net sales, operating expenses were 55.5% for the twelve months ended December 31, 2002, compared to 86.3% for the twelve months ended December 31, 2001. Advertising and promotion expenses were \$425,349 for the twelve months ended December 31, 2002, compared to \$881,541 for the twelve months ended December 31, 2001, representing a decrease of \$456,192. Expenditures of \$901,600 and \$1,523,943 for the years 2002 and 2001, respectively, which were previously classified as advertising and promotion expenses were classified to revenues. These expenses in 2001 were

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primarily due to expenses associated with the new product launches of Fat Cutter and Carbolizer(TM) as well as expenses associated with expanding the distribution of our other products. General and administration expenses were \$1,524,678 for the twelve months ended December 31, 2002, compared to \$2,400,680 for twelve months ended December 31, 2001, representing a decrease of \$876,002. This decrease was primarily a result of reductions in personnel expenditures, factoring expenditures offset in part by professional fees associated with litigation during 2002.

Year ended December 31, 2001 compared with Year ended December 31, 2000

Operating expenses were \$3,313,837 for the twelve months ended December 31, 2001, compared to \$3,238,121 for the twelve months ended December 31, 2000, representing an increase of \$75,716. As a percent of net sales, operating expenses were 86.3% for the twelve months ended December 31, 2001, compared to 67.5% for the twelve months ended December 31, 2000. Advertising and promotion expenses were \$881,541 for the twelve months ended December 31, 2001, compared to \$1,007,694 for the twelve months ended December 31, 2000, representing a decrease of \$126,153. General and administration expenses were \$2,400,680 for the twelve months ended December 31, 2001, compared to \$2,201,478 for the twelve months ended December 31, 2000, an increase of 9.0%. This increase was primarily a result of additional personnel expenditures and professional fees associated with litigation during 2001.

NET INCOME FROM OPERATIONS

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Year ended December 31, 2002 compared with Year ended December 31, 2001

Net income for the twelve months ended December 31, 2002 was \$27,606 or \$.01 per share, compared to a net loss of \$(1,399,533) or \$(-.39) per share for the twelve months ended December 31, 2001. The increase in income was a direct result of our commitment to reduce the operating expenses, resulting in a decrease of \$1,333,344 over the prior year.

Year ended December 31, 2001 compared with Year ended December 31, 2000

Net loss for the twelve months ended December 31, 2001 was \$(1,399,533) or (-.39) per share, compared to net income of \$70,562 or \$.02 per share for the twelve months ended December 31, 2000. The decrease in income was a direct result of our commitment to the advertising and promotion of our product lines. Advertising, Slotting Fees, Co-ops, Free Goods and Promotion Expenditures increased \$789,392, or 48.8%, over the previous twelve months ended December 31, 2000.

CARRY FORWARD LOSS

We have a net operating loss carryforward, as of December 31, 2002 of \$895,346 for tax purposes to affect future taxable income. The net operating loss carryforward expires in 2022.

LIQUIDITY & CAPITAL RESOURCES

At December 31, 2002, the Company had a working capital deficit of \$702,970, compared to the prior year end, at December 31, 2001, of \$900,663. This is an improvement of \$197,693. In early April 2002, we entered into an agreement with GSN, our sole manufacturer, pursuant to which we agreed to repay to GSN amounts we owed to them as of the date of the agreement which were approximately \$700,000 over the next twenty-four months. Our current liabilities from accounts payable and accrued expenses decreased during 2002 by \$106,916, primarily as a positive result of cash flow from operations and the financing arrangements with GSN described below.

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At December 31, 2002, the Company had inventory of \$438,375, compared to \$194,792 at December 31, 2001. The increased inventory was primarily the result of increased stocking and delivery requirements of a major new customer acquired in mid 2002.

Net cash provided by operating activities for the year ended December 31, 2002 was \$190,329 and resulted primarily from decreased operating expenses. Net cash provided by investing activities was \$0 for the year ended December 31, 2002. Net cash used in financing activities for the year ended December 31, 2002 was \$(257,483), which includes repayment of notes payable of \$237,400 and \$20,083 for capital lease payments. Net cash used in operating activities for the year ended December 31, 2001 was \$(33,650) and resulted primarily from increased operating expenses. Net cash provided by investing activities was \$122,163 for the year ended December 31, 2001, which resulted from purchases of trademarks for \$25,000 and the release of a certificate of deposit as collateral for a bank loan of approximately \$150,000.

During 2001, we factored certain of our accounts receivable with Alliance Financial Capital, Inc. On March 15, 2002, we terminated our factoring agreement with Alliance and entered into a factoring agreement with LSQ Funding Group, L.C. (LSQ). The term of this agreement is one year. The maximum amount of receivables we may factor under our agreement with LSQ is \$750,000, and there is

no minimum amount required to be factored. In connection with the factoring agreement, we granted to LSQ a blanket lien on our assets. Our factoring arrangement provides us with cash at the time of shipment of the product. The Company decided not to renew the LSQ agreement in March 2003.

In early April 2002, we entered into an agreement with GSN, our sole manufacturer, pursuant to which we agreed to repay over a two-year period to GSN amounts we owed to them as of the date of the agreement which were approximately \$700,000. In connection with this agreement, we granted to GSN a blanket second priority lien on our assets. Also, in early April 2002, we entered into an exclusive manufacturing agreement with GSN pursuant to which GSN has provided us with a \$450,000 line of credit with 60 day terms. At the same time, in order to finance sales to a new major customer, GSN informally allowed the Company to purchase up to \$1,000,000 on the line of credit.

In 2001, net loss was (\$1,391,645). The net cash flow from operations was (\$33,650). The 2002 net cash provided by operations was \$190,329, and we increased our average monthly inventory to approximately \$425,000 from approximately \$289,000 in 2001, primarily because of inventory levels necessary to facilitate the Wal-Mart ordering process.

Based on our improved results in 2002, our arrangements with GSN, and continued attention to expense reduction, we believe that our operations will provide sufficient cash to support our activities during 2003. However, if GSN determines to alter the informal arrangements extending our limit of credit to \$1,000,000 or our operations fail to generate positive cash flow, it is likely we would not be able to continue our operations.

In addition, our gross margins improved in 2002 to 58% from 50% in 2001. Operating and cost controls were put in place during 2002, which allowed us to reduce our General and Administrative expenses by almost \$900,000.

COMMITMENTS AND CONTINGENCIES

Regulatory Matters - Our discontinued products, Fat Cutter Plus, Thin Tab(R), and formally owned Carbolizer(TM) product, contain ephedra, also known as "Ma Huang," an herb which contains naturally-occurring ephedrine. These products represented approximately 19% of our gross revenue for the twelve

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months ended December 31, 2002. Ephedra containing products have been the subject of adverse publicity in the United States and other countries relating to alleged harmful effects. The company has discontinued all sales of products containing ephedra.

In April 2000, the FDA withdrew most of the provisions of its proposed rule regarding dietary supplements that contain ephedrine alkaloids. The proposed rule, which was published in 1997, would have significantly limited our ability to sell Fat Cutter Plus, Thin Tab(R) and Carbolizer(TM) if it had been made effective. The FDA's withdrawal of the provisions removed most, but not all, of the limitations. This action was prompted largely by a report issued by the United States General Accounting Office (GAO) in which the GAO criticized as faulty the scientific basis for the proposed rule and the FDA's evaluation of approximately 900 reports of adverse events supposedly related to the consumption of dietary supplements containing ephedrine alkaloids. The FDA made available for public inspection most of the adverse event reports on April 3, 2000.

On October 25, 2000, several trade organizations for the dietary

supplement industry submitted a petition to the FDA which concerned the remaining provisions of the proposed rule regarding dietary supplements that contain ephedrine alkaloids. The petition requested the FDA to: (1) withdraw the remaining provisions of the proposed rule, and (2) adopt new standards for dietary supplements that contain ephedrine alkaloids, which were set forth in the petition.

The FDA will, most likely, attempt to issue new rules with respect to dietary supplements that contain ephedrine alkaloids or ban them entirely. However, it is uncertain what restrictions the new proposed rule might contain or when a new proposed rule will be issued. Consequently, we are unable at the present time to predict the ultimate resolution of these issues, or their ultimate impact on our results of operations or financial condition. We have already developed ephedrine-free formulae for products. However, these formulations may not be popular with customers accustomed to products containing ephedra. On the other hand, to the extent that sales of ephedra-containing products of our competitors decline as a result of any new rules, sales of our current non-ephedra products may be positively affected.

Although we cannot predict what new legislation or regulations governing our activities will be enacted by legislative bodies or promulgated by agencies regulating our activities, we do know that our industry has come under increased scrutiny principally due to the FDA's investigation of the use of ephedra. We believe we will become subject to additional laws or regulations administered by the FDA or other federal, state, or foreign regulatory authorities. We also believe the laws or regulations which we consider favorable may be repealed or more stringent interpretations of current laws or regulations will be implemented in the future. Any or all of such requirements could be a burden and costly, to us. Future regulations could:

- o require us to change the way we conduct business;
- o require us to change the contents of our products;
- o make us keep additional records;
- o make us increase the available documentation of the properties of our products; or
- o make us increase or use different labeling and scientific proof of product ingredients, safety or usefulness.

PRODUCT LIABILITY

The Company, like other marketers of products that are intended to be ingested, face the inherent risk of exposure to product liability claims in the event that the use of our products results in injury. We currently maintain product liability insurance coverage of \$6,000,000. Because of the increased scrutiny of our industry arising out of the FDA's consideration of ephedra, or otherwise, it may become increasingly difficult to obtain and maintain product liability insurance coverage for products containing ephedra at current premiums, or at all. Our products liability coverage is on an occurrence basis and, even if we are unable to continue to secure product liability insurance on a claims made basis, would cover ephedra based claims. We believe that our insurance coverage would be adequate to cover any claims made against it relating to its products, whether based on ephedra or otherwise. We further believe that by ceasing to sell products containing ephedra and agreeing to accepting returns of its customers existing inventory, it has further reduced any potential liability relating to ephedra. We are not aware of any claims

similar to those relating to ephedra having been made with respect to any of the other ingredients contained in its products.

CERTAIN FACTORS WHICH MAY AFFECT FUTURE RESULTS

If Garden State Nutritionals, our sole manufacturer, fails to supply our products in sufficient quantities and in a timely fashion, our business may suffer. We currently obtain 100% of our manufactured product from a single source of supply, Garden State Nutritionals. In 2002, we entered into a two year contract with GSN to manufacture all of our products. In the event that GSN is unable or unwilling to provide us with the products in accordance with the terms of our contract, delays in securing alternative sources of supply would result in a material adverse effect upon our operations.

The dietary supplement industry is highly competitive. Many of our competitors, particularly manufacturers of nationally advertised brand name products, are larger and have resources substantially greater than we do. In the future, if not currently, one or more of these companies could seek to compete more directly with us by manufacturing and distributing their own or others' products, or by significantly lowering the prices of their existing national brand products. If one or more of our competitors significantly reduce their prices on existing products in an effort to gain market share or aggressively promote new products in an effort to enter a market, our results of operations or market position could be adversely affected. In addition, because the formulations of our products are not proprietary, similar formulations are currently being developed and marketed by these competitors.

Our products may also face competition in the future from diet-related drugs introduced by pharmaceutical companies.

We currently have a limited number of products. We currently market seven products. The loss of, or deterioration in the popularity of any one or more of our other brands will have a material adverse effect on our Company.

Our failure to develop and introduce new products could have an adverse effect on our Company. We believe our ability to grow in our existing market is partially dependent upon our ability to introduce new and innovative products into these markets. Although we seek to introduce additional products in our existing markets, the success of new products is subject to a number of variables, including developing products that will appeal to customers and competing with product launches by our competitors. We cannot assure you that our efforts to develop and introduce new products will be successful or that customers will accept new products.

We could be adversely affected if any of our products or any similar products distributed by other companies should prove or be asserted to be harmful to consumers or should scientific studies provide unfavorable findings regarding the effectiveness of our products. All of our products have certificates of analysis supplied by our manufacturer, and we have completed independent clinical testing of all of our principal products to insure they work as described. We are highly dependent upon our customers' and the retail consumers' perception of the overall integrity of our business, as well as the safety and quality of our products and similar products distributed by other companies, which may not adhere to our quality standards. Our ability to attract and retain customers who, in turn, attract retail consumers, could be adversely affected by negative publicity regarding our products or one or more ingredients in our products or by the announcement by any governmental agency of a regulatory initiative relating to ingredients in our products.

Our customers may discontinue use of our products at any time. Our customers order products on a purchase order basis and may discontinue the sale of our products at any time. If product sales are discontinued, we may not receive payment for units that are not paid for as of the time of discontinuation. Additionally, certain of our customers have the right to take a credit in an amount equal to the unpaid balance of the discontinued product against other products of ours that they may purchase.

Our success largely depends upon national media attention. We believe that the historical growth experienced by the nutritional supplement market is based in part on the national media attention regarding recent scientific research suggesting potential health benefits from regular consumption of certain vitamins and other nutritional products. Such research has been described in major medical journals, magazines, newspapers and television programs. The scientific research to date is preliminary, and there can be no assurance of future favorable scientific results and media attention or of the absence of unfavorable or inconsistent findings. While public awareness of the positive effects of vitamins and nutritional supplements on health was heightened by widely publicized reports of scientific findings supporting such claims during 1997-1998, we believe that negative media attention focusing on questions of efficacy, safety and label claim content have had a significant adverse impact on the supplement industry over the past two years. In particular, negative publicity with respect to ephedrine products has impacted our business. The lack of growth in the nutritional supplement industry has also been caused by the lack of new "blockbuster" products and increasing competition, including intense private label expansion. There can be no assurance that these factors will not be present in the future.

We, like other sellers of products that are ingested, face an inherent risk of exposure to product liability claims if, among other things, the use of our products results in injury. We currently have product liability insurance for our operations in amounts we believe are adequate for our operations. There can be no assurance, however, that such insurance will continue to be available at a reasonable cost, if at all, or, if available, will be adequate to cover such liabilities.

Restrictive governmental regulations govern the manufacturing and distribution of our products. We are subject to numerous governmental regulations, including, but not limited to, regulations promulgated by FDA, FTC, and the Consumer Product Safety Commission, regarding the distribution, labeling, and promotion of our products. All of the ingredients that we use in our products have been reviewed by the FDA upon submission of information by others. If we intend to use any ingredient in our products that has not already been reviewed by the FDA, we would be required to submit the new dietary ingredient to the FDA and to demonstrate a history of safe use. If the FDA does not accept the evidence of safety we present for the new dietary ingredient, the FDA could determine that such result ingredient should be regulated as a food additive and require time consuming and costly FDA approval. Additionally, under the FD&CA (including NLEA and DSHEA), the FDA has issued regulations regarding labeling and marketing of our products, and the NLEA regulates nutrient and ingredient labeling. The FTC regulates marketing practices and advertising of our products. Our business and financial results could be materially harmed by our failure to comply with these labeling and marketing regulations.

The laws and regulations relating to our products are subject to frequent and substantial changes resulting from legislation, adoption of rules and regulations and administrative and judicial interpretation of existing laws. These changes may have a dramatic effect on our business. Such changes may be applied retroactively. The ultimate timing or effect of such changes cannot be

predicted. Our failure to comply with such laws, requirements, and regulations could adversely affect our business and finances.

We depend on significant customers for a large percentage of our net sales. Our largest customers are GNC, Wal-Mart, Walgreens, Rite Aid, Target, Eckerd's and CVS. We do not have written agreements with any of these customers. We cannot assure you that these customers will continue as major customers of the Company. The loss of any of these customers, or a significant reduction in purchase volume by any of these customers, could have a material adverse effect on our results of operations or financial condition.

We believe that trademarks and other proprietary rights are among our most important assets. In fiscal 2002, substantially all of our net sales were from products bearing proprietary brand names, including Acutrim(R) Natural Thin Tab(R) and Carb Cutter(R). Accordingly, our future success depends upon the goodwill associated with these brand names. Although our principal brand names are registered in the United States, we cannot assure you that the steps we have taken to protect our proprietary rights in our brand names will be adequate to prevent the misappropriation of these registered brand names in the United States or abroad. In addition, the laws of some foreign countries do not protect proprietary rights in brand names to the same extent as do the laws of the United States. In addition, to the extent that we rely on common law trademark rights to protect our unregistered trademarks, such common law trademark rights do not provide us with the same level of protection as afforded by a United States federal registration of a trademark. In addition, common law trademark rights are limited to the geographic area in which the trademark is actually used. Additionally, the sales of certain of our products rely on our ability to maintain and extend our licensing agreements with third parties, and we cannot assure you that these third parties can successfully maintain their intellectual property rights or that we will be successful in maintaining these licensing agreements. If we lose the right to use these licenses, our business could be materially adversely affected.

Although we are committed to enforce our various trademarks and other intellectual property rights against infringement, we cannot assure you that we will be able to successfully do so. The loss of, or deterioration in, our intellectual property rights could adversely affect our business.

We depend substantially on the continued services and performance of our senior management. Our business may be hurt if Christopher Tisi, our President and Chief Executive Officer, leaves us. Although we have an employment agreement with Mr. Tisi, this does not guarantee that he will remain with us. If we lose his services, we may not be able to attract and retain additional qualified personnel to fill his position in the future.

Control of our company is concentrated among a limited number of stockholders who can exercise significant influence over all matters requiring stockholder approval. As of December 31, 2002, our present directors, executive officers and their respective affiliates and related entities beneficially owned approximately 33% of our outstanding common stock and common stock equivalents. In addition, our President and Chief Executive Officer has agreed with certain other significant shareholders to vote together on certain matters. These stockholders can exercise significant influence over all matters requiring stockholder approval, including the election of directors and the approval of significant corporate transactions. This concentration of ownership may also potentially delay or prevent a change in control of our company.

Our stock price is likely to remain volatile. The stock market has, from time to time, experienced significant price and volume fluctuations that

may be unrelated to the operating performance of particular companies. In addition, the market price of our common stock, like the stock price of many publicly traded dietary and nutritional product companies, has been, and will likely continue to be, volatile. Prices of our common stock may be influenced by many factors, including:

- o investor perception of us;
- o analyst recommendations;
- o market conditions relating to dietary and nutritional product companies;
- o announcements of new products by us or our competitors;
- o publicity regarding actual or potential developments relating to products under development by us or our competitors;
- o developments or disputes concerning proprietary rights;
- o regulatory developments;
- o period to period fluctuations in financial results of us and our competitors;
- o future sales of substantial amounts of common stock by shareholders; and
- o economic and other external factors.

We are not likely to pay dividends. We have not paid any cash dividends on our common stock and we do not plan to pay any cash dividends in the foreseeable future. We plan to retain any earnings for the operation of our business.

ITEM 7. FINANCIAL STATEMENTS

The financial statements are included beginning at F-1. See Index to the Financial Statements.

ITEM 8. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

PART III

ITEM 9. DIRECTORS, EXECUTIVE OFFICERS, PROMOTERS AND CONTROL PERSONS; COMPLIANCE WITH SECTION 16(A) OF THE EXCHANGE ACT

We have adopted a written code of ethics that applies to our senior financial officers and persons performing similar functions, which Code has been filed as Exhibit 14 hereto. We intend to disclose any amendments to, or waivers from, the Code on our website, www.hnsglobal.com. Upon written request to our corporate secretary by U.S. mail, we will provide, at no charge, a copy of such Code to any person requesting a copy.

DIRECTORS AND EXECUTIVE OFFICERS

As of April 29, 2003, our directors and executive officers are:

Name ----	Age ---	Position/Office -----
Christopher Tisi	33	Interim Chairman of the Board, Chief Executive Officer,

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President, Secretary

Steven Pomerantz	47	Director
Ted Alflen	56	Director

The following is a brief biographical summary of our officers and directors.

Christopher Tisi has been our Chief Executive Officer and Interim Chairman of the Board since December 2001. Mr. Tisi has been our President and Secretary since November 2000, and was our Chief Operating Officer from December 1999 until November 2000. From March 1998 until December 1999, Mr. Tisi was our Vice President of Sales and Marketing. From 1994 to March 1998, Mr. Tisi was our Vice President of Training.

Steve Pomerantz has been one of our directors since 1994. He has been the President of TDR Safety Products, a touch free, self-serve car wash, since 2002. From November 2000 to December 2001, Mr. Pomerantz was our Chairman of the Board and Treasurer, and he held the office of Chief Executive Officer from March 1998 until December 2001. He was our President from March 1998 until November 2000. From 1995 to March 1998, Mr. Pomerantz was our Vice President of Finance and Chief Operating Officer.

Ted Alflen has been one of our directors since October 2000. In March 1991, Mr. Alflen founded TCCD International Inc. and served as President from 1991 to present. TCCD manufactures and markets crystal deodorants. TCCD recently acquired Real Natural Products and the Moistic brand of all natural lip balms. Mr. Alflen has been in sales and marketing for over 29 years.

Each director holds his office until the next annual meeting of the shareholders unless he resigns or is removed.

SECTION 16(A) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE

Based solely upon a review of Forms 3 and 4 and amendments thereto furnished to us under Rule 16a-3(e) of the Securities Exchange Act of 1934 during the fiscal year ended December 31, 2002, we are not aware of any person that failed to file on a timely basis, as disclosed in the aforementioned forms, reports required by Section 16(a) of the Exchange Act during the fiscal year ended December 31, 2002.

AUDIT COMMITTEE FINANCIAL EXPERT

The board has determined that it does not have an audit committee financial expert serving on its audit committee. We do not have an audit committee financial expert on our audit committee because no individual on our Board possesses all of the attributes of an audit committee financial expert. Currently we have two vacancies on our board and plan to fill at least one of those vacancies with a financial expert.

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ITEM 10. EXECUTIVE COMPENSATION

The following table provides a summary of cash and non-cash compensation for each of the last three fiscal years ended December 31, 2002, 2001 and 2000 received by each of our chief executive officer and our other executive officers whose total annual salary and bonus exceeded \$100,000 during fiscal year 2002 (each a "Named Officer" and collectively the "Named Officers"). No other executive officers were paid salary and bonus compensation by us which exceeded \$100,000, during 2002.

SUMMARY COMPENSATION TABLE

NAME AND PRINCIPAL POSITION -----	YEAR ----	ANNUAL COMPENSATION -----			LONG-T COMPENSA AWARD
		SALARY (\$)(1) -----	BONUS (\$) ---	OTHER ANNUAL COMPENSATION (\$)(2) -----	SECURIT UNDERLY OPTIONS (
Christopher Tisi	2002	164,983	7,249	--	50,00
President, Chief	2001	100,703	7,524	--	-
Executive Officer And Secretary (4)	2000	118,169	18,169	--	102,0
Steve Pomerantz	2002	62,182	--	--	--
Director(4)	2001	114,321	3,762	--	--
	2000	100,000	11,642	--	50,00

-
- (1) Payment of \$23,443 of Steve Pomertanz's 2001 salary and \$32,578 of Christopher Tisi's 2001 salary was deferred in 2001 and was paid during 2002 in twelve equal monthly installments.
 - (2) The Named Officers did not receive any other annual compensation not categorized as salary or bonus except for perquisites and other personal benefits which in the aggregate did not exceed the lesser of \$50,000 or 10% of the total annual salary and bonus reported for such Named Officer.
 - (3) In 2000, Mr. Pomerantz was granted options under our 1998 Stock Option Plan for the purchase of 50,000 shares of common stock. Such options were granted at the then current market value of the shares. The options granted vested immediately on the date of grant. Also in 2000, Mr. Tisi was granted options under our 1998 Stock Option Plan for the purchase of 102,000 shares of common stock. In 2002, Mr. Tisi was granted options under our 1998 Stock Option Plan for the purchase of 50,000 shares of common stock. Such options were granted at the then current market value of the shares. The options granted vested immediately on the date of grant.
 - (4) Mr. Pomerantz resigned as Chief Executive Officer, Treasurer and Chairman of the Board on December 14, 2001, and Mr. Tisi assumed the position of Chief Executive Officer, Secretary and Interim Chairman of the Board on December 14, 2001. Mr. Tisi has served as President since October 1, 2000.
 - (5) Paid to Mr. Pomertanz as severance pursuant to the terms of his Severance Agreement effective as of January 1, 2002.

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STOCK OPTION GRANTS

The following table contains information concerning the grant of stock options under our 1998 Stock Option Plan to the Named Officers during 2002.

OPTION GRANTS IN 2002

Individual Grants

Name	Number of Securities Underlying Options Granted (#) (1)	% of Total Granted Exercise or to Employees in 2002	Base Price (\$/Sh)	Expiration Date (2)
Christopher Tisi(3) President, Chief Executive Officer, Secretary and Interim Chairman of the Board	50,000	100%	\$.12	02/11/06

-
- (1) All options granted in 2002 are non-qualified stock options and are not intended to qualify as an incentive stock option ("ISOs") under ss.422 of the Internal Revenue Code of 1986, as amended. The options are exercisable as of the date of grant. The options were granted at fair market value on the date of the grant.
 - (2) The term of the option is four (4) years from the date of grant unless terminated earlier due to termination of employment, disability or death.
 - (3) Mr. Tisi became President on October 1, 2000.

We do not currently have (and have not previously had) any plan pursuant to which any stock appreciation rights ("SARs") may be granted.

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STOCK OPTION EXERCISES AND HOLDINGS

The following table sets forth information relating to options exercised during 2002 by each of the Named Officers and the number and value of options held on December 31, 2002 by each of them.

AGGREGATE OPTION EXERCISES IN FISCAL YEAR ENDED DECEMBER 31, 2002 AND FISCAL YEAR-END OPTION VALUES

Name	Shares Acquired on Exercise (#)	Value Realized (\$)	Number of Securities Underlying Unexercised Options at Dec. 31, 2002 (#)		Exer
			Exercisable	Unexercisable	
Christopher Tisi(2) Secretary and President	--	--	152,000	--	

-
- (1) Total value of unexercised options is based upon the difference between the last sales price of our common stock on the Nasdaq National Market System on December 31, 2002, which was \$.04 per share, and the exercise price of

the options, multiplied by the number of option shares.

(2) Options granted under our 1998 Stock Option Plan.

No options to purchase common stock were exercised by our executive officer during the year ended December 31, 2002.

DIRECTOR AND OFFICER COMPENSATION

During 2002, we paid to each of our non-employee directors meeting fees of \$500 for attendance at each board meeting. Pursuant to the terms of the Stock Option Plan, a grant of a stock option for the purchase of common shares may be made to each non-employee director. Those options are granted at an exercise price equal to the fair market value of our common stock on the date of grant, and become 25% vested on each anniversary date of grant or, if earlier, upon a change of control as defined in the plan and expire ten years from the date of grant or earlier in the event service as a director ceases. We did not grant stock options to our non-employee directors in the last fiscal year.

EMPLOYMENT AGREEMENT AND CHANGE-IN-CONTROL ARRANGEMENTS

Effective January 1, 2002, we entered into a new employment agreement with Christopher Tisi, our Chief Executive Officer, President, Secretary and Interim Chairman of the Board. The agreement provides for a base salary of \$140,000 (\$18,750 of which will be used to pay certain amounts owing to third parties in connection with the settlement of litigation) as well as bonuses which are contingent upon increases in revenue over prior periods and net income results. The agreement provides that bonuses will be determined quarterly with 33% of such bonuses to be paid quarterly and the balance to be paid at year-end depending on the maintenance of previously achieved performance levels. The agreement also provides for an annual grant of 50,000 stock options under our 1998 Stock Option Plan. The options will have a four-year term and will be vested 100% on the date of grant. The agreement also provides for the payment of an amount equal to the lesser of (i) \$275,000 or (ii) the maximum "golden parachute" payment permitted to be deducted by us under the federal tax law in

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the event Mr. Tisi is terminated after a change of control. An amendment to the agreement provided that \$32,578 of Mr. Tisi's salary for 2001, which was not paid to him during 2001, would be paid in 2002 in twelve equal monthly installments.

Effective January 1, 2002, we entered into a severance agreement with Steve Pomerantz, our former Chairman of the Board, Chief Executive Officer, and Treasurer. The agreement provided for a severance payment of \$50,000 to be paid over the following year (\$18,750 of which was used to pay certain amounts owing to third parties in connection with the settlement of litigation). An amendment to the agreement provided that \$23,443 of Mr. Pomerantz's salary for 2001 which was not paid to him during 2001, would be paid in 2002 in twelve equal monthly installments.

In light of the fact that Mr. Pomerantz has in the past personally guaranteed certain obligations of the Company to third parties (the "Guaranteed Obligations"), the severance agreement provided that on the earlier to occur of (i) a Change in Control, or (ii) December 31, 2002, we would provide substitute collateral for the Guaranteed Obligations in exchange for a release from Mr. Pomerantz from any and all personal liability on the Guaranteed Obligations. The guarantee obligations were all satisfied prior to December 31, 2002.

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ITEM 11. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS
AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

The table below shows, as of April 29, 2003, the number of shares of common stock beneficially owned by:

- o each person whom we know beneficially owns more than 5% of the common stock;
- o each director;
- o each executive officer included in the Summary Compensation Table; and
- o all executive officers and directors as a group.

NAME AND ADDRESS OF BENEFICIAL OWNER (1)	NUMBER OF SHARES AND NATURE OF SHARES BENEFICIALLY OWNED (2)	SHARES OF COMMON STOCK BENEFICIALLY OWNED ----- PERCENT -----
Christopher Tisi	869,088 (4) (5)	
Steven Pomerantz	401,829 (4) (5)	
Ted Alflen	5,500 (5)	
Tony D'Amato 1526 Michigan Avenue, #1 Miami Beach, FL	255,000	
All executive officers and directors as a group (3 persons)	1,276,417 (3) (4) (6)	

Less than 1%		

(1) The address of each executive officer and director is c/o the Company, 3750 Investment Lane, #5, West Palm Beach, FL 33404.

(2) Unless otherwise noted, all persons named in the table have sole voting and dispositive power with respect to all shares of common stock beneficially owned by them.

- (3) Based upon 3,629,813 outstanding shares as of April 29, 2003, and, with respect to each holder of options exercisable, or notes convertible, within 60 days of March 30, 2003, the shares issuable under such instruments.
- (4) In 2000, Tony D'Amato ("D'Amato") executed and delivered to Christopher Tisi ("Tisi") and the Company a Shareholders' Agreement pursuant to which D'Amato granted to Tisi an irrevocable proxy (the "Irrevocable Proxy") authorizing Tisi to vote shares of the Company beneficially owned by D'Amato as of that date and any shares of the Company acquired by D'Amato thereafter. The Irrevocable Proxy had a two-year term. On January 31, 2001, Tisi relinquished his right to vote pursuant to the Irrevocable Proxy with respect to 125,000 shares beneficially owned by D'Amato as of that date. As disclosed in the 13D dated April 24, 2002 filed by Steve Pomerantz ("Pomerantz"), Tisi and D'Amato, on April 29, 2002, D'Amato executed and delivered to Tisi a First Amendment to the Shareholders' Agreement (the "First Amendment") pursuant to which D'Amato extended the term of the Shareholders' Agreement and the Irrevocable Proxy for an additional two-year period. In addition, Tisi and Pomerantz have entered into an oral understanding that each will vote the shares of common stock beneficially owned by him (or, in the case of Tisi, as to which he has voting power) together as a group, but only for the following purposes: (i) in favor of the same person or persons to be nominated and elected to serve on the

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board of directors to fill any vacancies on the board, if, and as such vacancies may arise from time to time (whether such vacancy occurs by removal, resignation or an increase in the size of the board of directors) at any time prior to our 2003 annual meeting of stockholders, or any adjournment thereof, and (ii) in favor of the same person or persons to be nominated and elected as the slate of nominees, and elected, to the board of directors to be voted upon by the shareholders at our 2003 annual meeting of shareholders, or any adjournment thereof. Accordingly, Tisi has sole voting power of 819,088 shares and sole dispositive power of 416,788 shares, and D'Amato has sole voting power of 125,000 shares and sole dispositive power of 308,502 shares.

- (5) Share ownership of the following persons includes shares subject to immediately exercisable options or options exercisable within 60 days of April 29, 2003, as follows: for Mr. Pomerantz - 50,000 shares, for Mr. Alflen - 2,500 shares, and for Mr. Tisi - 202,000 shares.
- (6) Includes an aggregate of 254,500 shares subject to immediately exercisable options or options exercisable within 60 days of April 29, 2003 held by executive officers and directors as a group.

EQUITY COMPENSATION PLAN INFORMATION

PLAN CATEGORY	NUMBER OF SECURITIES TO BE ISSUED UPON EXERCISE OF OUTSTANDING OPTIONS, WARRANTS AND RIGHTS (A)	WEIGHTED-AVERAGE EXERCISE PRICE OF OUTSTANDING OPTIONS, WARRANTS AND RIGHTS	NUMBER REMAINING FUTURE EQUITY CO (EXCLUD REFLECTED
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Equity compensation plans approved by security holders	506,500	\$.14
Equity compensation plans not approved by security holders (1)		
TOTAL	506,500	\$.14

(1) We do not maintain equity compensation plans that have not been approved by our stockholders.

ITEM 12. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

For the years ended December 31, 2001 and December 31, 2000, we sold \$63,881 and \$163,969, respectively, products to KMS-Thin Tab, an entity we believe is controlled by J.C. Herbert Bryant III, a beneficial owner of greater than five percent of our stock. These sales were on terms no more favorable than those given to unaffiliated third parties in arms-length transactions.

On January 12, 2002, we repaid a \$100,000 loan from SunTrust Bank which was collateralized by a certificate of deposit in the principal amount of \$100,000 pledged by Steve Pomerantz, our former Chief Executive Officer and Chairman of the Board. Accordingly, on that date, the collateral was released. On January 15, 2002, we obtained another short-term loan from SunTrust Bank in the amount of \$23,400. This loan is collateralized by a certificate of deposit in the amount of \$23,400 owned by Steve Pomerantz. The loan was due on July 15, 2002 and is payable in monthly installments of \$4,167. The loan was paid in full during 2002.

On March 15, 2002, the Company terminated their factoring agreement with Alliance Financial Capital, Inc. and entered into a factoring agreement with LSQ Funding Group, L.C. (LSQ). The agreement provided that LSQ would purchase certain receivables and advance 85% of the face amount of such receivables. The term of this agreement was for one year. The maximum amount of receivables the Company could factor under the agreement was \$750,000. In connection with the factoring agreement, the Company granted LSQ a blanket lien on Company assets and the President/Chief Executive Officer was required to deliver a personal guarantee. The LSQ contract expired in March 2003 and the Company did not renew it.

The Company was involved in the litigation with J.C. Herbert Bryant, III ("Bryant") and KMS-Thin Tab 100, Inc. ("KMS,") which was settled in September 2002. The settlement agreement generally provided for Bryant and KMS to transfer the registration and ownership of the domain names Thintab.com, Thintab.CC, and Carbcutter.cc to HNS and to take other action to eliminate confusion over the ownership of the Thin Tab@ name. Additionally, each of the adverse parties generally released the others. As part of the settlement, HNS entered into a distribution agreement with Bryant, beginning on September 26, 2002 and ending on September 25, 2007, permitting Bryant to purchase certain of its products from HNS and to exclusively distribute those products in Florida from Orlando south. HNS also has agreed not to sell its products directly to certain KMS customers. HNS booked a legal settlement expense of \$58,836 associated with this settlement.

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ITEM 13. EXHIBITS AND REPORTS ON FORM 8-K

- (a) Documents filed as part of this Form 10-KSB/A-2 FINANCIAL STATEMENTS:
 - o Independent Auditors' Report
 - o Balance Sheets as of December 31, 2002 and 2001
 - o Statements of Operations for the years ended December 31, 2002 and 2001
 - o Statements of Changes in Stockholders' Equity for the years ended December 31, 2002 and 2001
 - o Statements of Cash Flows for the years ended December 31, 2002 and 2001
 - o Notes to Financial Statements

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THE FOLLOWING EXHIBITS ARE FILED AS PART OF THIS FORM 10-KSB/A-2

The exhibits to this Form 10-KSB/A-2 appear following the Company's Financial Statements included in this report.

- 3.1(a) Articles of Incorporation of the Registrant (incorporated by reference to E Registrant's registration statement on Form 10-SB, filed on January 31, 2000 Number 000-29245).
- 3.1(b) Articles of Amendment to the Articles of Incorporation (incorporated by re 3.1(B) of Registrant's registration statement on Form 10-SB, filed on Janua Commission File Number 0000-29245).
- 3.1(c) Articles of Amendment to Articles of Incorporation (incorporated by referen 3.1(C) of Registrant's registration statement on Form 10-SB, filed on Janua Commission File Number 000-29245).
- 3.1(d) Articles of Amendment to Articles of Incorporation (incorporated by referen 3.1(D) of Registrant's Annual Report on Form 10-KSB, filed on April 16, 2000 Number 000-29245).
- 3.2 By-Laws of the Registrant (incorporated by reference to Exhibit 3.2 of Regi registration statement on Form 10-SB, filed on January 31, 2000; Commission 000-29245).
- 3.3 Amendment to the Restated Bylaws of the Company dated September 25, 2000 (i reference to Exhibit 3.3 of Registrant's Annual Report on Form 10-KSB, file 2000; Commission File Number 000-29245).
- 3.4 Amendment to the Restated Bylaws of the Company dated November 10, 2000 (in reference to Exhibit 3.4 of Registrant's Annual Report on form 10-KSB, file 2000; Commission File Number 000-29245).
- 10.1 Employment Agreement between the Company and Christopher Tisi effective as (incorporated by reference to Exhibit 10.1 of Registrant's Current Report of February 13, 2002; Commission File Number 000-29245).
- 10.2 Severance Agreement between the Company and Steven Pomerantz effective as o (incorporated by reference to Exhibit 10.3 of Registrant's Current Report of February 13, 2002; Commission File Number 000-29245).
- 10.3 Factoring and Security Agreement between LSQ Funding Group L.C. and Health Systems International, Inc. effective as of March 15, 2002 (incorporated by

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- Exhibit 10.3 of Registrant's Annual Report on Form 10-KSB, filed on April 12, 2002 (Commission File Number 000-29245).
- 10.4 Indemnification Agreement dated March 15, 2002 between LSQ Funding Group L.P. and Christopher Tisi (incorporated by reference to Exhibit 10.4 of Registrant's Annual Report on Form 10-KSB, filed on April 12, 2002; Commission File Number 000-29245).
- 10.5 Indemnification Agreement between the Company and Christopher Tisi dated January 15, 2002 (incorporated by reference to Exhibit 10.2 of Registrant's Current Report on Form 10-KSB, filed on February 13, 2002; Commission File Number 000-29245).
- 10.6 Indemnification Agreement between the Company and Steven Pomerantz dated January 15, 2002 (incorporated by reference to Exhibit 10.4 of Registrant's Current Report on Form 10-KSB, filed on February 13, 2002; Commission File Number 000-29245).

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- 10.7 Lease Agreement between the Company and Fred Keller, Trustee dated November 15, 2001 (incorporated by reference to Exhibit 10.5 of Registrant's Annual Report on Form 10-KSB, filed on April 16, 2001; Commission File Number 000-29245).
- 10.8 Lease Agreement between the Company and Fred Keller, Trustee dated January 15, 2001 (incorporated by reference to Exhibit 10.6 of Registrant's Annual Report on Form 10-KSB, filed on April 16, 2001; Commission File Number 000-29245).
- 10.9 Secured Party's Bill of Sale between Fleet National Bank and the Company dated January 26, 2001 (incorporated by reference to Exhibit 10.1 of Registrant's Current Report on Form 10-KSB, filed on January 26, 2001; Commission File Number 000-29245).
- 10.10 Trademark Assignment from Heritage Consumer Products, LLC to the Company dated January 26, 2001 (incorporated by reference to Exhibit 10.2 of Registrant's Current Report on Form 10-KSB, filed on January 26, 2001; Commission File Number 000-29245).
- 10.11 Agreement between the Company and Steven Pomerantz dated January 12, 2001 (incorporated by reference to Exhibit 10.3 of Registrant's Current Report on Form 8-K filed on January 12, 2001; Commission File Number 000-29245).
- 10.12 Shareholders' Agreement among Tony D'Amato, Christopher Tisi, and the Company dated January 14, 2001 (incorporated by reference to Exhibit 1 of Christopher Tisi, Steven Pomerantz, Tony Musso, and Tony D'Amato's Schedule 13D, filed on January 14, 2001; Commission File Number 000-29245).
- 10.13 Irrevocable Proxy dated July 13, 2000 (incorporated by reference to Exhibit 10.1 of Christopher Tisi, Steven Pomerantz, Tony Musso, and Tony D'Amato's Schedule 13D, filed on January 14, 2001; Commission File Number 000-29245).
- 10.14 Waiver dated January 31, 2001 (incorporated by reference to Exhibit 3 of Christopher Tisi, Steven Pomerantz, Tony Musso, and Tony D'Amato's Schedule 13D, filed on January 14, 2001; Commission File Number 000-29245).
- 10.15 Joint Filing Agreement dated February 13, 2001 (incorporated by reference to Exhibit 10.1 of Christopher Tisi, Steven Pomerantz, Tony Musso, and Tony D'Amato's Schedule 13D, filed on January 14, 2001; Commission File Number 000-29245).
- 10.16 Exclusive Manufacturing Agreement dated April 11, 2002 between the Company and VitaQuest Nutritionals, a division of VitaQuest International, Inc. (incorporated by reference to Exhibit 10.16 of Registrant's Annual Report on Form 10-KSB, filed on April 12, 2002; Commission File Number 000-29245).
- 10.17 Security Agreement dated April 11, 2002 between the Company and Garden State Nutritionals, a division of VitaQuest International, Inc. (incorporated by reference to Exhibit 10.17 of Registrant's Annual Report on Form 10-KSB, filed on April 12, 2002; Commission File Number 000-29245).
- 10.18 Health & Nutrition Systems International, Inc. 1998 Stock Option Plan (incorporated by reference to Exhibit 10.18 of Registrant's Annual Report on Form 10-KSB, filed on April 12, 2002; Commission File Number 000-29245).
- 10.19 Promissory Note dated April 11, 2002 between the Company as borrower and VitaQuest Nutritionals as lender (incorporated by reference to Exhibit 10.19 of Registrant's Annual Report on Form 10-KSB, filed on April 12, 2002; Commission File Number 000-29245).

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- 10.20 Subordination Agreement dated April 11, 2002 among the Company, LSQ Funding Garden State Nutritionals (incorporated by reference to Exhibit 10.20 of Report on Form 10-KSB, filed on April 12, 2002; Commission File Number 000-29245).
- 10.21 Amendment No. 1 dated April 29, 2002 to the Employment Agreement between the Company and Christopher Tisi effective as of January 1, 2002 (incorporated by reference to Exhibit 10.21 of Registrant's Annual Report on Form 10-KSB/A-1, filed on April 30, 2002; Commission File Number 000-29245).
- 10.22 Amendment No. 1 dated April 29, 2002 to the Severance Agreement between the Company and Steven Pomerantz effective as of January 1, 2002 (incorporated by reference to Exhibit 10.22 of Registrant's Annual Report on Form 10-KSB/A-1, filed on April 30, 2002; Commission File Number 000-29245).
- 10.23 First Amendment to Shareholders' Agreement among Tony D'Amato, Christopher Tisi and the Company dated April 24, 2002 (incorporated by reference to Exhibit 4 of Registrant's Annual Report on Form 10-KSB/A-1, filed on April 30, 2002; Commission File Number 000-29245).
- 10.24 Irrevocable Proxy dated April 24, 2002 (incorporated by reference to Exhibit 10.24 of Registrant's Annual Report on Form 10-KSB/A-1, filed on April 30, 2002; Commission File Number 000-29245).
- 10.25 Option Agreement effective as of February 12, 2002 between the Company and Christopher Tisi (incorporated by reference to Exhibit 10.25 of Registrant's Annual Report on Form 10-KSB/A-1, filed on April 30, 2002; Commission File Number 000-29245).
- 10.26 Indemnification Agreement between Ted Alflen and the Company dated as of January 1, 2002 (incorporated by reference to Exhibit 10.1 of Registrant's Quarterly Report on Form 10-Q, filed on November 14, 2002; Commission File Number 000-29245).
- 10.27 Indemnification Agreement between Darryl Green and the Company dated as of January 1, 2002 (incorporated by reference to Exhibit 10.2 of Registrant's Quarterly Report on Form 10-Q, filed on November 14, 2002; Commission File Number 000-29245).
- 14.1 Code of Ethics
- 16.1 Letter from Butner & Kahle, CPA dated September 6, 2000 (incorporated by reference to Exhibit 16.4 of Registrant's Current Report on Form 8-K filed on September 7, 2000; Commission File Number 000-29245).
- 24 Power of attorney (included on signature page)
- 99.1 Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to the Sarbanes-Oxley Act of 2002.
- 99.2 Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to the Sarbanes-Oxley Act of 2002.

(b) Reports on Form 8-K

1. Form 8-K filed on December 10, 2001 reporting an Item 5 event.
2. Form 8-K filed on December 18, 2001 reporting an Item 5 event.

ITEM 14. CONTROLS AND PROCEDURES

(a) Evaluation of disclosure controls and procedures.

Our principal executive officer and controller and principal accounting officers have participated in and supervised the evaluation of our disclosure controls and procedures that are designed to ensure that information required to be disclosed by us in the reports that we file is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that the

information required to be disclosed by us in the reports that we file or submit under the Act is accumulated and communicated to our management, including our principal executive officer or officers and principal financial officer, to allow timely decisions regarding required disclosure. Based on their evaluation of those controls and procedures as of a date within 90 days of the date of this filing, and of the filing of our original 10-KSB for the year ended December 31, 2002, our CEO and Controller and accounting officer determined that the controls and procedures are adequate and effective.

(b) Changes in internal controls.

There were no significant changes, including any corrective actions with regard to significant deficiencies and material weaknesses, in our internal controls or in other factors that could significantly affect internal controls since the date of the most recent evaluation of these controls by our chief executive officer and chief financial officer.

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SIGNATURES

In accordance with Section 13 or 15(d) of the Exchange Act, the registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Date: April 30, 2004 Health & Nutrition Systems International, Inc.

By: /s/ Christopher Tisi

Christopher Tisi
Chief Executive Officer, President, and Secretary
(Principal Executive Officer)

Each person whose signature appears below hereby constitutes and appoints Christopher Tisi his true and lawful attorney-in-fact and agent, with full power of substitution and resubstitution, for him and in his name, place and stead, in any and all capacities, to sign any and all amendments to this report, and to file the same, with exhibits thereto and other documents in connection therewith, with the Securities and Exchange Commission, hereby ratifying all that said attorney-in-fact and agent or his substitute or substitutes, or any of them, may lawfully do or cause to be done by virtue hereof.

In accordance with the requirements of the Exchange Act, this report has been signed by the following persons in the capacities and on the dates indicated.

SIGNATURE	TITLE
/s/ Christopher Tisi ----- Christopher Tisi	Chief Executive Officer, President, and Secretary (Principal Executive Officer)
/s/ Al Dugan ----- Al Dugan	Controller (Principal Accounting Officer)
/s/ James A. Brown ----- James A. Brown	Chairman of the Board
/s/ Steven A Pomerantz ----- Steven A. Pomerantz	Director
/s/ Ted Alflen ----- Ted Alflen	Director

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CERTIFICATIONS

I, Christopher Tisi, certify that:

1. I have reviewed this annual report on Form 10-KSB/A-2 of Health & Nutrition Systems International, Inc.;

2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;

3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this annual report;

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and have:

a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;

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b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this annual report (the "Evaluation Date"); and

c) presented in this annual report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date.

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):

a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls.

6. The registrant's other certifying officers and I have indicated in this annual report whether there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date April 30, 2004

/s/ Christopher Tisi

Christopher Tisi, Chief Executive Officer

CERTIFICATIONS

I, Al Dugan, certify that:

1. I have reviewed this annual report on Form 10-KSB/A-2 of Health & Nutrition Systems International, Inc.;

2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;

3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this annual report;

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in

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Exchange Act Rules 13a-14 and 15d-14) for the registrant and have:

a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;

b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this annual report (the "Evaluation Date"); and

c) presented in this annual report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date.

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):

a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls.

6. The registrant's other certifying officers and I have indicated in this annual report whether there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date April 30, 2004

/s/ Al Dugan

Al Dugan, Controller and Chief Accounting Officer

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors and Stockholders
Health & Nutrition Systems International, Inc.

We have audited the accompanying balance sheets of Health & Nutrition Systems International, Inc. as of December 31, 2002 and 2001, and the related statements of operations, changes in stockholders' deficit and cash flows for the years then ended. 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 in accordance with auditing standards generally accepted in the United States of America. Those standards 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. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Health & Nutrition Systems International, Inc. as of December 31, 2002 and 2001, and the results of its operations and its cash flows for the years then ended in conformity with auditing principles generally accepted in the United States of America.

The accompanying financial statements have been prepared assuming the Company will continue as a going concern. As discussed in Note 3 to the financial statements, the Company had a significant loss from operations, negative cash flows from operations and negative working capital, which raises substantial doubt about the Company's ability to continue as a going concern. Management's plans regarding those matters are also described in Note 3. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

As discussed in Note 19 to the financial statements, the accompanying 2002 and 2001 financial statements have been restated.

/s/DaszkalBolton LLP

Boca Raton, Florida

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February 17, 2003

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HEALTH & NUTRITION SYSTEMS INTERNATIONAL, INC.
BALANCE SHEETS
YEARS ENDED DECEMBER 31, 2002 AND 2001

=====

	ASSETS -----	2002 -----	2001 -----
Current assets			
Cash		\$ 14,778	\$ 81,932
Accounts receivable, net		344,700	194,792
Inventory		438,375	165,168
Prepays and other current assets		2,373	--
	Total current assets	800,226	441,892
Property and equipment, net		39,302	66,949
Other assets:			
Trademarks, net		24,092	26,911
Security deposit		6,424	6,424
	Total other assets	30,516	33,335
	Total assets	\$ 870,044	\$ 542,176
=====			
LIABILITIES AND STOCKHOLDERS' DEFICIT -----			
Current liabilities:			
Accounts payable		1,117,407	1,105,116
Accrued expenses		64,680	183,887
Capital leases, current portion		714	19,152
Notes payable		320,395	34,400
	Total current liabilities	1,503,196	1,342,555
Notes payable, less current portion		141,266	1,645
	Total liabilities	1,644,462	1,344,200
Stockholders' deficit:			
Common stock, \$ 0.001 par value, authorized 30,000,000 shares; 3,629,813 and 3,629,813 shares issued and outstanding at December 31, 2002 and			

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2001, respectively	3,630	3,630
Additional paid-in capital	834,812	834,812
Accumulated deficit	(1,612,860)	(1,640,466)
	-----	-----
Total stockholders' deficit	(774,418)	(802,024)
	-----	-----
Total liabilities and stockholders' deficit	\$ 870,044	\$ 542,176
	=====	=====

See accompanying notes to financial statements

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HEALTH & NUTRITION SYSTEMS INTERNATIONAL, INC.
STATEMENTS OF OPERATIONS
YEARS ENDED DECEMBER 31, 2002 AND 2001

	2002	2001
	-----	-----
Net revenue	\$ 3,567,848	\$ 3,840,389
Cost of Sales	1,511,826	1,903,755
	-----	-----
Gross profit	2,056,022	1,936,634
	-----	-----
Operating expense:		
General and administrative expense	1,524,678	2,400,680
Advertising and promotion	425,349	881,541
Depreciation and amortization	30,466	31,616
	-----	-----
Total operating expense	1,980,493	3,313,837
	-----	-----
Income (loss) from operations	75,529	(1,377,203)
	-----	-----
Other income (expense)		
Interest income	--	5,902
Interest expense	(47,923)	(23,347)
Other income (expense)	--	3,003
	-----	-----
Total other income (expense)	(47,923)	(14,442)
	-----	-----
Income (loss) before income taxes	27,606	(1,391,645)
Benefit (provision) for income taxes	--	(7,888)
	-----	-----
Net income (loss)	\$ 27,606	\$ (1,399,533)
	=====	=====
Net income per share - basic	\$ 0.01	\$ (0.39)
	=====	=====
Net income per share - diluted	\$ 0.01	\$ (0.39)
	=====	=====
Weighted average number of shares - basic	3,629,813	3,612,472
	=====	=====
Weighted average number of shares - diluted	3,629,813	3,612,472

See accompanying notes to financial statements

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HEALTH & NUTRITION SYSTEMS INTERNATIONAL, INC.
 STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY (DEFICIT)
 YEARS ENDED DECEMBER 31, 2002 AND 2001

Common Stock					
	Shares	Amount	Additional Paid-In Capital	Accumulated Deficit	Total
Balance, December 31, 2000	3,604,813	\$ 3,605	\$ 831,537	\$ (240,933)	\$ 594,2
Common stock issued for legal settlement	20,000	20	1,980	--	2,0
Common stock issued for services	5,000	5	1,295	--	1,3
Net loss	--	--	--	(1,399,533)	(1,399,5
Balance - December 31, 2001	3,629,813	3,630	834,812	(1,640,466)	(802,0
Net income	--	--	--	27,606	27,6
Balance - December 31, 2002	3,629,813	\$ 3,630	\$ 834,812	\$ (1,612,860)	\$ (774,4

See accompanying notes to financial statements

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HEALTH & NUTRITION SYSTEMS INTERNATIONAL, INC.
 STATEMENTS OF CASH FLOWS
 YEARS ENDED DECEMBER 31, 2002 AND 2001

	2002	2001
Cash flows from operating activities:		

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Net income (loss)	\$ 27,606	\$ (1,399,533)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Allowance for doubtful debts	(14,431)	(7,173)
Allowance for obsolete and slow moving inventory	(70,362)	6,407
Depreciation and amortization	30,466	31,616
Imputed interest expense on note payable	42,272	--
Deferred tax asset	--	7,888
Common stock issued for services	--	3,300
(Increase) decrease in:		
Accounts receivable	(135,477)	310,216
Inventory	(202,845)	127,981
Prepays and other current assets	(2,373)	168,454
Other assets	--	(1,828)
Increase (decrease) in:		
Accounts payable	634,680	657,512
Accrued expenses	(119,207)	61,510
	-----	-----
Net cash provided by (used in) operating activities	190,329	(33,650)
	-----	-----
Cash flows from investing activities:		
Investment in trademarks	--	(25,000)
Proceeds from certificates of deposit	--	150,687
Purchases of property and equipment	--	(3,524)
	-----	-----
Net cash provided by investing activities	--	122,163
	-----	-----
Cash flows from financing activities:		
Repayments on notes payable	(237,400)	(115,600)
Repayments on capital leases	(20,083)	(21,533)
Proceeds from related parties	--	4,967
	-----	-----
Net cash used in financing activities	(257,483)	(132,166)
	-----	-----
Net decrease in cash	(67,154)	(43,653)
Cash, beginning of year	81,932	125,585
	-----	-----
Cash, end of year	\$ 14,778	\$ 81,932
	=====	=====

See accompanying notes to financial statements

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HEALTH & NUTRITION SYSTEMS INTERNATIONAL, INC.
NOTES TO FINANCIAL STATEMENTS

NOTE 1 - DESCRIPTION OF BUSINESS

Health & Nutrition Systems International, Inc. ("HNS" or "the Company") markets and distributes weight management, energy and sports nutrition products to numerous national and regional health, food, drug and mass market accounts as

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well as independent health and pharmacy accounts. The Company was incorporated in Florida on October 25th, 1993. HNS product sales consist of six primary dietary supplements: Acutrim Natural(R), Thin Tab(R), Carb Cutter(R), Carbolizer(TM), Thin Tab Mahuang Free(TM), and Fat Cutter(R). The current markets are concentrated in North America and Puerto Rico. One manufacturer produces all of the HNS dietary supplements.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Cash and Cash Equivalents

The Company considers all highly liquid debt instruments with original maturities of three months or less to be cash equivalents. There were no cash equivalents at December 31, 2002 and 2001.

Use of Estimates

The preparation of financial statements in conformity with general accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Inventories

Inventories are stated at the lower of cost or market with cost being determined on a standard cost basis, net of allowances for slow-moving or obsolete inventory. Inventory allowances at December 31, 2002 and 2001 were \$88,376 and \$18,014, respectively. The increase in the inventory allowances were due to the Company establishing an allowance for Ephedra containing products. The allowances are based upon estimated returns and obsolete inventory.

Depreciation and Amortization

Property and equipment are carried at cost. Depreciation is provided using the straight-line or accelerated methods, over the estimated economic lives of the assets, which range from three to seven years. Leasehold improvements are amortized over the expected lease term. The Company reviews the valuation of fixed and other assets and their remaining economic lives annually and adjusts depreciation and amortization accordingly.

Revenue Recognition

The Company recognizes revenue when

- o Persuasive evidence of an arrangement exists
- o Shipment has occurred
- o Price is fixed or determinable, and
- o Collectability is reasonably assured

Subject to these criteria, the Company recognizes revenue at the time of shipment of the relevant merchandise.

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HEALTH & NUTRITION SYSTEMS INTERNATIONAL, INC.
NOTES TO FINANCIAL STATEMENTS

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

Included in the net sales in the accompanying financial statements are reductions for returns and allowances, sales discounts, new store opening discounts and coop advertising and promotions.

Advertising Costs

The Company expenses advertising production costs as they are incurred and advertising communication costs the first time the advertising event takes place. Advertising and promotion expenses for the years ending December 31, 2002 and 2001 were \$425,349 and \$881,541, respectively.

Basic Earnings Per Share

Basic income per common share is computed by dividing the net income by the weighted average number of shares of common stock outstanding during the year.

Diluted Earnings Per Shares

Diluted earnings per share reflect the potential dilution that could occur if dilutive securities (stock options and stock warrants) to issue common stock were exercised or converted into common stock that then shared in the earnings of the Company.

Stock Compensation

The company has adopted Statement of Financial Accounting Standards No. 123 ("SFAS 123"), "Accounting for Stock-Based Compensation." SFAS 123 encourages the use of a fair-value-based method of accounting for stock-based awards, under which the fair value of stock options is determined on the date of grant and expensed over the vesting period. Under SFAS 123, companies may, however, measure compensation costs for those plans using the method prescribed by Accounting Principles Board Opinion No. 25 ("APB No. 25"), "Accounting for Stock Issued to Employees." Companies that apply APB No. 25 are required to include pro forma disclosures of net earnings and earnings per share as if the fair-value-based method of accounting had been applied. The Company elected to account for such plans under the provisions of APB No. 25. The Company accounts for stock options granted to consultants under SFAS 123.

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The Company amortizes deferred stock-based compensation on the straight-line method over the vesting periods of the stock options, generally four years.

Had the compensation expense for the stock option plan been determined based on the fair value of the options at the grant date consistent with the methodology prescribed under Statement of Financial Standards No. 123, "Accounting for Stock Based Compensation," at December 31, the Company's net income and earnings per share would have been reduced to the proforma amounts indicated below:

	2002	2001
	-----	-----
Net income (loss)		
As reported	\$ 27,606	\$ (1,399,533)
	=====	=====
Pro forma	\$ 20,636	\$ (1,417,186)
	=====	=====
Earnings per share		
As report	\$ 0.01	\$ (0.39)
	=====	=====
Pro forma	\$ 0.01	\$ (0.39)
	=====	=====

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HEALTH & NUTRITION SYSTEMS INTERNATIONAL, INC.
NOTES TO FINANCIAL STATEMENTS

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

Intangible Assets

Intangible assets are stated at cost less amortization. Intangible assets are the trademarks that were acquired in 2000 and 2001 and are being amortized on a straight line basis over the estimated useful life of 15 years.

Accounting for Long-Lived Assets

The Company is required to periodically assess the impairment of long-lived assets. An impairment review is performed whenever events or changes in circumstances indicate that the carrying value may not be recoverable.

Factors considered important which could trigger an impairment review include, but are not limited to, significant underperformance relative to expected historical or projected future operating results, significant changes in the manner of the acquired assets or the strategy for the overall business, significant negative industry or economic trends, a significant decline in the stock price for a sustained period and the Company's market capitalization relative to net book value.

When management determines that the carrying value may not be recoverable based upon the existence of one or more of the above indicators of impairment, any

impairment measured is based on a projected discounted cash flow method using a discount rate commensurate with the risk inherent in the Company's current business model.

New Accounting Pronouncements

In April 2002, the FASB issued SFAS 145, "Rescission of FASB Statements No. 4, 44, and 64, Amendment of the FASB Statement No. 13, and Technical Corrections." SFAS 145 rescinds the provisions of SFAS No. 4 that requires companies to classify certain gains and losses from debt extinguishments as extraordinary items, eliminates the provisions of SFAS No. 44 regarding transition to the Motor Carrier Act of 1980 and amends the provisions of FASB No. 13 to require that certain lease modifications be treated as sale leaseback transactions. The provisions of FASB 145 related to classification of debt extinguishments are effective for fiscal years beginning after May 15, 2002. The provisions of SFAS 145 related to lease modifications is effective for transactions occurring after May 15, 2002. Earlier application is encouraged. The Company believes that the adoption of SFAS 145 will not have a material impact on its financial statements.

In July 2002, the FASB issued SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities." The standard requires companies to recognize costs associated with exit or disposal activities when they are incurred rather than at the date of a commitment to an exit or disposal plan. Examples of costs covered by the standard include lease termination costs and certain employee severance costs that are associated with a restructuring, discontinued operation, plant closing, or other exit or disposal activity. The Company believes that the adoption of SFAS 146 will not have a material impact on its financial statements.

In July 2002, the FASB issued SFAS No. 147, "Acquisitions of Certain Financial Institutions." The provisions of this Statement institute the application of the purchase method of accounting to all acquisitions of financial institutions, except transactions between two or more mutual enterprises. Further, the provisions of the Statement that relate to the application of Statement 144 apply to certain long-term customer-relationship intangible assets recognized in an acquisition of a financial institution, including those acquired in transactions between mutual enterprises. The Company believes that the adoption of SFAS 147 will not have a material impact on its financial statements.

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HEALTH & NUTRITION SYSTEMS INTERNATIONAL, INC.
NOTES TO FINANCIAL STATEMENTS

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

In April 2003, the FASB issued SFAS No. 149, "Amendment of Statement 13 on Derivative Instruments and Hedging Activities." SFAS No. 149 amends and clarifies financial accounting and reporting for derivative instruments, including certain derivative instruments embedded in other contracts (collectively referred to as derivatives) and for hedging activities under SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities." SFAS No. 149 is effective for contracts entered into or modified after June 30, 2003, except as specified and for hedging relationships designated after June 30,

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2003. The Company does not anticipate that the adoption of this statement will have any material impact on the balance sheet or statement of operations.

In May 2003, the FASB issued SFAS No. 150, "Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity." SFAS 150 requires that certain financial instruments, which under previous guidance were accounted for as equity, must now be accounted for as liabilities.

The financial instruments affected include mandatorily redeemable stock, certain financial instruments that require or may require the issuer to buy back some of its shares in exchange for cash or other assets and certain obligations that can be settled with shares of stock. SFAS 150 is effective for all financial instruments entered into or modified after May 31, 2003. Otherwise it will become effective at the beginning of the first interim period beginning after June 15, 2003. The Company does not anticipate that the adoption of this statement will have any material impact on the balance sheet or statement of operations.

November 2002, the financial Accounting Standards Board (the "FASB") issued the FASB Interpretation No. 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others" ("FIN 45"), which clarifies the requirements for a guarantor's accounting and disclosures of certain guarantees issued and outstanding. This interpretation elaborates on the disclosures to be made by a guarantor in its interim and annual financial statements about its obligations under certain guarantees that it has issued. It also clarifies that a guarantor is required to recognize, at its inception of guarantee, a liability for the fair value of the obligation undertaken in issuing the guarantee. The initial recognition and initial measurement provisions of this interpretation are applicable on a prospective basis to guarantees issued or modified after December 31, 2002, irrespective of the guarantor's fiscal year-end. The disclosure requirements in this interpretation are effective for financial statements of interim or annual periods ending after December 15, 2002. The adoption of FIN 45 did not have a material impact on the Company's consolidated results of operations or financial position.

In November 2002, the EITF issued EITF Issue No. 00-21, "Accounting for Revenue Arrangements with Multiple Deliverables" ("EITF 00-21"). EITF 00-21 addressed how to account for arrangements that may involve delivery or performance of multiple products, services, and/or rights to use assets, and when and, if so, how an arrangement involving multiple deliverables should be divided into separate units of accounting. It does not change otherwise applicable revenue recognition criteria. It applies to arrangements entered into in fiscal periods beginning after June 15, 2003, with early adoption permitted. The adoption of EITF 00-21 did not have a material impact on the Company's consolidated results of operations or financial position.

NOTE 3 - MANAGEMENT'S PLANS AND ISSUES AFFECTING LIQUIDITY

The Company's financial statements have been prepared assuming that the Company will continue as a going concern. During 2002, the Company has successfully controlled costs and attained profitability, including net income of \$27,606 and cash flow from operations of \$190,329. However, at December 31, 2002, the Company has a working capital deficit of \$702,970 and adverse liquidity ratios.

Management intends to continue control costs and monitor financing capabilities. Management believes these factors will contribute toward achieving sustained profitability.

HEALTH & NUTRITION SYSTEMS INTERNATIONAL, INC.
 NOTES TO FINANCIAL STATEMENTS

NOTE 3 - MANAGEMENT'S PLANS AND ISSUES AFFECTING LIQUIDITY, CONTINUED

There remains substantial doubt about the Company's ability to continue as a going concern. The financial statements do not include any adjustments to reflect the possible effects on the recoverability and classification of assets or the amounts and classification of liabilities that may result from the outcome of this uncertainty.

NOTE 4 - TRADEMARKS

In June 2001, the Financial Accounting Standards board approved the issuance of SFAS 142, "Goodwill and Other Intangible Assets," which establishes new accounting and reporting requirements for goodwill and other intangible assets. The new standards required that all intangible assets acquired that are obtained through contractual or legal right, or are capable of being separately sold, transferred, licensed, rented or exchanged, must be recognized as an asset apart from goodwill. Goodwill and intangibles with indefinite lives are no longer amortized, but are subject to an annual assessment for impairment by applying a fair value based test. The Company applied the provisions of SFAS 142 beginning on January 1, 2002 and performed a transitional fair value based impairment test. In connection with adopting SFAS 142, the Company also reassessed the useful lives and the classifications of its identifiable intangible assets and determined that they continue to be appropriate.

The components of the Company's intangible assets subject to amortization are as follows:

	December 31, 2002		December 31, 2001	
	Gross	Accumulated	Gross	Accumulated
	Carrying	Amortization	Carrying	Amortization
	Amount		Amount	
	-----	-----	-----	-----
Amortized intangible assets:				
Trademarks	\$32,228	\$ (8,137)	\$32,228	\$ (5,317)
	=====	=====	=====	=====

Amortization expense for the years ended December 31, 2002 and 2001 was approximately \$2,820 and \$2,822, respectively.

Estimated amortization of intangible assets is as follows:

2003	\$ 2,820
------	----------

2004	2,820
2005	2,820
2006	2,820
2007	2,820
Thereafter	12,812

	\$ 24,092
	=====

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HEALTH & NUTRITION SYSTEMS INTERNATIONAL, INC.
 NOTES TO FINANCIAL STATEMENTS

NOTE 4 - TRADEMARKS, CONTINUED

The following table adjusts earnings for the adoption of SFAS 142 for the years ended December 31, 2002 and 2001:

	2002	2001
	-----	-----
Net earnings:		
Reported net earnings (loss)	\$ 27,606	\$ (1,399,533)
Goodwill amortization	--	--
	-----	-----
Adjusted net earnings	\$ 27,606	\$ (1,399,533)
	=====	=====

NOTE 5 - FACTORING ARRANGEMENTS

In 2002, the Company factored certain of its accounts receivable, without recourse, with a commercial finance company. The factor purchases the receivables for the face amount of certain invoices, less a discount rate fee of 2.125%. The Company maintains a reserve account with the factor of 15%.

On March 15, 2002, the Company terminated their factoring agreement with Alliance Financial Capital, Inc. and entered into a factoring agreement with LSQ Funding Group, L.C. (LSQ). The agreement provides that LSQ will purchase certain receivables and advance 85% of the face amount of such receivables. The term of this agreement is one year. The maximum amount of receivables the Company may factor under the agreement is \$750,000, and there is no minimum amount required to be factored. In connection with the factoring agreement, the Company granted LSQ a blanket lien on Company assets and the President/Chief Executive Officer was required to deliver a personal guarantee. The LSQ contract expired in March 2003 and the Company did not renew it. At December 31, 2002 the Company had factored approximately \$10,000 of accounts receivable.

In 2001, the Company factored certain of its accounts receivable, without recourse, with a commercial finance company. The factor purchases the receivables for the face amount of certain invoices, less a discount rate fee of 1.75%. The Company maintained a reserve account with the factor of 20% to 50%, depending on the customer, of the outstanding receivables held by the factor. The reserve account may be charged additional fees from 3.35% to 4.75% on

invoices paid beyond the agreed to terms.

	2002	2001
	-----	-----
Receivables assigned to factor	\$ 10,118	\$ 272,868
Advances to (from) factor	(9,612)	(259,225)
Amounts due from factor	33,389	181,149
Unfactored accounts receivable, net	310,805	--
	-----	-----
	\$ 344,700	\$ 194,792
	=====	=====

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HEALTH & NUTRITION SYSTEMS INTERNATIONAL, INC.
NOTES TO FINANCIAL STATEMENTS

NOTE 6 - ACCOUNTS RECEIVABLE

Accounts receivable consisted of the following at December 31, 2002 and 2001:

	2002	2001
	-----	-----
Accounts receivable	\$ 685,078	\$ 352,002
Less: allowance for doubtful amounts	(22,778)	(37,210)
Less: allowance for sales returns	(317,600)	(120,000)
	-----	-----
Accounts receivable, net	\$ 344,700	\$ 194,792
	=====	=====

At December 31, 2002, the Company recorded an allowance for sales returns of \$317,600, including \$200,000 for returns of products containing ephedra expected in 2003.

At December 31, 2001, the Company recorded an allowance for sales returns of \$120,000 based upon expected returns from customers of one product with expiration dates in March and May 2002. During the year ended December 31, 2002, as product was returned, the related amounts were charged against the reserve.

NOTE 7 - RELATED PARTY TRANSACTIONS

For years ended December 31, 2002 and 2001, KMS-Thin Tabs 100, Inc., a corporation controlled by Herbert Bryant, III, who resigned as a director of the Company in 1999, made aggregate purchases of one of the Company's products of \$2,423 and \$63,881, respectively.

In 2001 and 2002, Steve Pomerantz, a former officer of the Company and a member of the Board of Directors guaranteed short-term working capital loans from a bank in the amount of \$100,000 and \$23,400, respectively. Those loans have been repaid. See Note 11.

NOTE 8 - SUPPLEMENTAL CASH FLOW INFORMATION

	2002	2001
	-----	-----
Cash paid for interest	\$ 9,514	\$ 23,347
	=====	=====
Cash paid for income taxes	\$ --	\$ --
	=====	=====
Non-cash investing and financing activities:		
Common stock issued for services	\$ --	\$ 3,300
	=====	=====
Conversion of accounts payable to notes payable	\$ 700,000	\$ --
	=====	=====

NOTE 9 - FAIR VALUE OF FINANCIAL INSTRUMENTS

The carrying value of cash, accounts receivables, loans receivable, accounts payable and other payables approximates fair value because of their short maturities.

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HEALTH & NUTRITION SYSTEMS INTERNATIONAL, INC.
NOTES TO FINANCIAL STATEMENTS

NOTE 10 - PROPERTY AND EQUIPMENT

Property and equipment consisted of the following at December 31, 2002 and 2001:

	2002	2001
	-----	-----
Furniture and equipment	\$ 38,713	\$ 38,713
Office equipment	31,536	31,536
Warehouse equipment	24,349	24,349
Computer equipment	51,815	51,815
Software	40,126	40,126
Website development	2,155	2,155
Leasehold improvements	1,860	1,860
	-----	-----
	190,554	190,554
Less: accumulated depreciation	(151,252)	(123,605)
	-----	-----
Property and equipment, net	\$ 39,302	\$ 66,949
	=====	=====

Depreciation expense for the years ended December 31, 2002 and 2001 was \$27,647 and \$28,795, respectively.

NOTE 11 - NOTES PAYABLE

On April 11, 2002, the Company entered into an agreement with Garden State Nutritionals (GSN), the Company's sole manufacturer, to repay \$700,000 owed to GSN as of the date of the agreement. The repayment schedule requires eight equal quarterly payments, without interest, starting June 1, 2002.

In connection with this agreement, the Company granted to GSN a blanket second priority lien on the Company's assets under a Security Agreement, which may only be, foreclosed upon the event the Company fails to make (3) consecutive quarterly principle payments in accordance with the terms of the promissory note. The GSN debt has been recorded as a note payable with an imputed interest rate of 9% per annum and with the interest calculated over the term on the loan in the amount of \$73,747. The cost of sales was reduced in the amount of \$73,747, which represents imputed interest on the note. GSN granted the Company a waiver on the first quarterly payment due June 1, 2002 of \$87,500. This amount shall be due and payable on March 1, 2004. At December 31, 2002, the balance owed to GSN is \$497,000.

Also, on April 11, 2002, the Company entered into an exclusive manufacturing agreement with GSN pursuant to which GSN has provided a \$450,000 line of credit with 60-day terms to the Company. During 2002, GSN informally allowed the Company to purchase up to \$1,000,000 on the line of credit. At December 31, 2002, the balance owed to GSN under this line of credit is \$892,878.

On January 15, 2002, the Company received a short-term loan from a bank in the amount of \$23,400. Interest accrues at a rate of 4.75% per annum and is collateralized by a certificate of deposit in the amount of \$23,400 owned by a former officer of the Company and member of the Board of Directors. The loan was paid in full on July 15, 2002.

On January 12, 2001, the Company received a short-term loan from a bank in the amount of \$100,000. Interest accrued at a rate of 7.73% per annum and was

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HEALTH & NUTRITION SYSTEMS INTERNATIONAL, INC.
NOTES TO FINANCIAL STATEMENTS

collateralized by a certificate of deposit in the amount of \$100,000 owned by a former officer of the Company and member of the Board of Directors. The loan was paid in full on January 12, 2002.

On December 15, 2000, the Company received a short-term loan from a bank in the amount of \$150,000. Interest accrued at a rate of 8.1% per annum and two certificates of deposits totaling \$150,687 collateralized the note. This note was paid in full on December 15, 2001.

NOTE 12 - LEASE COMMITMENTS

The Company leases office and warehouse space in Riviera Beach, Florida. Rent expense for the years ended December 31, 2002 and 2001 was \$54,044 and \$64,664,

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respectively. The Company also leases various equipment. Lease expense for the years ended December 31, 2002 and 2001 was \$34,340 and \$29,952, respectively.

In April 2002, the Company began sub-leasing part of its warehouse space for \$1,800 per month.

Certain non-cancelable leases are classified as capital leases, and the leased assets are included as part of property and equipment. Other leases are classified as operating leases and are not capitalized. The obligations under capital leases are at fixed rates ranging from 10% to 23% and are collateralized by the corresponding equipment.

Property under capital leases at December 31, 2002 and 2001 consisted of the following:

	2002	2001
	-----	-----
Machinery and equipment	\$ 59,902	\$ 59,902
Less: accumulated amortization	(40,977)	(27,442)
Total	-----	-----
	\$ 18,925	\$ 32,460
	=====	=====

Future minimum rentals for property under operating and capital leases at December 31 are as follows:

Year Ending December 31,	Capital Leases	Operating Leases
-----	-----	-----
2003	\$ 790	\$ 82,704
2004	--	23,008
2005	--	6,214
2006	--	--
	-----	-----
Total minimum lease obligation	790	111,926
Less: interest	76	--
	-----	-----
Present value of total minimum lease payments	714	\$ 111,926
		=====
Less: current portion	714	

Non-current portion	\$ --	
	=====	

NOTE 13 - STOCKHOLDERS' EQUITY

During the year ended December 31, 2002, the Company issued no common stock for cash or in exchange of services.

During the year ended December 31, 2001, the Company issued its common stock for cash and in exchange of services as follows:

The Company issued 20,000 shares of common stock as settlement of a lawsuit, as disclosed in Note 14, valued at \$2,000.

The Company issued 5,000 shares of common stock to consultants for professional services rendered, valued at \$1,300.

NOTE 14 - LEGAL MATTERS

Twenty-two (22) cases have been filed alleging that the Company's Acutrim(R) products contain Phenylpropanolamine ("PPA") and that those products have caused damage to the plaintiffs. Many of these cases have been consolidated in class action suits pending in the U.S. District Court for the Western District of Washington in Seattle, the Philadelphia County Court of Common Pleas or the Louisiana State Court. None of the Company's Acutrim(R) products has ever contained, or currently contains, PPA. Based on that defense, to date, ten cases have been voluntarily dismissed after delivery to plaintiff's counsel of information substantiating the fact that HNS's products do not presently contain, and have not contained, PPA.

In 2000, the Company sued J.C. Herbert Bryant, III, a former officer and director of the Company and KMS-Thin Tab 100, Inc., a corporation controlled by the former director, for trademark infringement, unfair competition and cyber piracy. Bryant and KMS-Thin-Tab 100, Inc. counterclaimed alleging a breach of distribution agreement with the Company. On September 19, 2002, the Company announced the settlement of all litigation between the Company, the former director and KMS-Thin-Tab 100, Inc.

The settlement agreement generally requires Bryant and KMS to transfer the registration and ownership of the domain names Thintab.com, Thintab.cc and Carbcutter.cc to HNS and to take other actions to eliminate confusion over the ownership of the Thin Tab(R) name. Additionally, it provides for each of the adverse parties to generally release the others.

As part of the settlement, HNS transferred its Carbolizer(TM) product to KMS and entered into a distribution agreement with Bryant, beginning on September 26, 2002 and ending September 25, 2007, permitting him to purchase certain products from HNS and to exclusively distribute those products in Florida from Orlando south. HNS has agreed not to sell its products directly to certain KMS customers. The Company recorded a legal settlement expense of \$58,836 associated with this settlement.

During the year ended December 31, 2000, the Company filed a Complaint for Declaratory Relief in reference to the effectiveness of various Stock Purchase Agreements among shareholders, the cancellation of certain shares and the rightful ownership of these shares. On December 21, 2001, a settlement agreement was reached in which the Company issued 20,000 shares of common stock, valued at \$2,000 and a net cash settlement of \$18,750.

The Company from time to time is a party of various legal proceedings. In the opinion of management, none of the proceedings are expected to have a material impact on its financial position or results of operations.

NOTE 15 - CONCENTRATIONS

Credit Risk

Financial instruments, which potentially expose the Company to concentrations of credit risk, as defined by Statement of Financial Accounting Standards No. 105, consist primarily of trade receivables. The Company's officers have attempted to minimize this risk by monitoring the companies for which it provided credit.

The Company maintains bank accounts at various financial institutions. At times during the year, balances in these accounts exceeded the amount insured by the FDIC. At December 31, 2002 and 2001, no amounts exceeded the insured limit.

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HEALTH & NUTRITION SYSTEMS INTERNATIONAL, INC.
NOTES TO FINANCIAL STATEMENTS

NOTE 15 - CONCENTRATIONS, CONTINUED

Product Liability

The Company is currently insured to the extent of \$6 million for product liability claims and uses vendors who are also insured. There is a risk that certain vendors may not have sufficient product liability insurance or may lose their insurance, or the Company may not be able to insure at reasonable cost. In any of these events, there could be a material adverse effect on the financial condition, results of operations or cash flows of the Company.

Significant Customers

We currently have approximately 15 drug, health food, and mass retailer customers which collectively comprised 87.0% of our gross revenues in 2002. We depend on several significant customers for a large percentage of our gross revenues. Our largest customers are GNC, Wal-Mart, Walgreens, Rite Aid, Target, and Eckerd Drugs. We do not have written agreements with any of these customers or any of our other customers.

During the fiscal year ending 2002, GNC represented approximately 20.5% of our gross revenues, Wal-Mart represented approximately 12.2% of our gross revenues, Walgreens represented approximately 10.6% of our gross revenues, Rite Aid represented approximately 10.1% of our gross revenues, Target represented approximately 7.0% of our gross revenues, Eckerd's represented approximately 5.1% of our gross revenues. The loss of any one or more of our significant customers would have material adverse effect on our operations.

The Company's gross revenue attributable to these customers for the years ended December 31, 2002 and 2001 are as follows:

	2002	2001
Walmart	\$ 619,000	\$ -

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GNC	1,040,000	1,237,000
CVS	under 10%	630,000
Walgreens	539,000	661,000
Rite Aid	514,010	840,000

Significant Supplier

During the years ended December 31, 2002 and 2001, the Company received 100% of its products from one manufacturer of herbal and dietary supplements, located in Caldwell, New Jersey. The Company is dependent on the ability of its supplier to provide products on a timely basis and on favorable pricing terms. The loss of the supplier or a significant reduction in product availability from the supplier could have a material adverse effect on the Company. The Company believes that its relationship with its supplier is satisfactory.

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HEALTH & NUTRITION SYSTEMS INTERNATIONAL, INC.
NOTES TO FINANCIAL STATEMENTS

NOTE 16 - INCOME TAXES

The Company's evaluation of the tax benefit of its net operating loss carryforward is presented in the following table. At December 31, the tax amounts have been calculated using the 34% federal and 5.5% state income tax rates.

	2002	2001
	-----	-----
Income tax (benefit) consists of:		
Current	\$ --	\$ 7,888
Deferred	--	--
	-----	-----
	\$ --	\$ 7,888
	=====	=====

Reconciliation of the Federal statutory income tax rate to the Company's effective tax rate is as follows:

	2002	2001
	-----	-----
Taxes computed at combine federal and state tax rate	\$ 9,386	\$ (473,159)
Non-deductible expenses	2,719	3,835
State income taxes, net of federal income tax benefit	1,292	(50,107)
Other	28,845	(20,135)
Effect of change in income tax rate	--	(6,953)
Increase (decrease) in deferred tax asset valuation allowance	(42,242)	540,501
	-----	-----
Provision (benefit) for income taxes	\$ --	\$ 7,888
	=====	=====

HEALTH & NUTRITION SYSTEMS INTERNATIONAL, INC.
NOTES TO FINANCIAL STATEMENTS

NOTE 16 - INCOME TAXES, CONTINUED

The components of the deferred tax asset were as follows at December 31:

	2002	2001
	-----	-----
Deferred tax assets:		
Net operating loss carryforward	\$ 336,919	\$ 464,427
Allowance for receivables	128,084	69,295
Allowance for inventory	33,256	6,779
Litigation costs related to capital	--	--
	-----	-----
Total deferred tax assets	498,259	540,501
	-----	-----
Deferred tax liabilities:		
Net deferred tax asset	498,259	540,501
	-----	-----
Valuation allowance:		
Beginning of yeuar	(540,501)	--
Decrease (increase) during year	42,242	(540,501)
	-----	-----
Ending balance	(498,259)	(540,501)
	-----	-----
Net deferred taxes	\$ --	\$ --
	=====	=====

As of December 31, 2002, the Company has an unused net operating loss carryforward of \$895,346 available for use on its future corporate income tax returns. This net operating loss carryforward expires in 2022.

NOTE 17 - STOCK OPTIONS

In May 1998 the Company adopted a stock option plan. The purpose of the stock option plan was to increase the employees and non-employee director's proprietary interest in HNS and to align more closely their interests with the interests of the shareholders of HNS, as well as to enable HNS to attract and retain the services of experienced and highly qualified employees and non-employees directors.

Options granted under this plan may either be options qualifying as incentive stock options under Section 422 of the Internal Revenue Code of 1986, as amended, or options that do not so qualify. Any incentive option must provide for an exercise price of not less than 100% of the fair market value of the underlying shares on the date of such grant, but the exercise price of any incentive option granted to an eligible employee owning more than 10% of the our common stock must be at least 110% of such fair market value as determined on the date of the grant.

The term of each option and the manner in which it may be exercised is

determined by the board of directors, provided that no option may be exercisable more than 10 years after the date of its grant and, in the case of an incentive option granted to an eligible employee owning more than 10% of the our common stock, no more than five years after the date of the grant. The board of directors shall determine the exercise price of non-qualified options.

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HEALTH & NUTRITION SYSTEMS INTERNATIONAL, INC.
NOTES TO FINANCIAL STATEMENTS

NOTE 17 - STOCK OPTIONS, CONTINUED

We reserved an aggregate of 1,250,000 shares of common stock for issuance of options under the stock option plan. As of December 31, 2002, options to purchase an aggregate of 506,500 shares of common stock had been granted, after giving effect to forfeitures. Therefore, options to purchase 743,500 shares of common stock remain available under the Plan. The board of directors or a committee of the board of directors will administer the plan including, without limitation, the selection of the persons who will be granted plan options under the plan, the type of plan options to be granted, the number of shares subject to each plan options and the plan option price.

The per share exercise price of shares granted under the plan may be adjusted in the event of certain changes in the total purchase price payable upon the exercise in full of options granted under the plan. Officers, directors and key employees of and consultants to HNS will be eligible to receive non-qualified options under the plan. Only officers, directors and employees of HNS who are employed by HNS or by any subsidiary thereof are eligible to receive incentive options.

The Company has elected to account for the stock options under the Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees," and related interpretations. Accordingly, no compensation expense has been recognized on the employee stock options. The Company accounts for stock options granted to consultants under Financial Accounting Standards Board Statement No. 123, "Accounting for Stock-Based Compensation." The Company recognized \$443 and \$847 in compensation expense at December 31, 2002 and 2001, respectively.

During the year ended December 31, 2002, 50,000 options were granted to officers, directors and employees of the Company.

During the year ended December 31, 2001, no options were granted to officers, directors and employees of the Company.

A summary of options during the years ended December 31, 2002 and 2001 is shown below:

	December 31, 2002		
	Number of Shares	Weighted-Average Exercise Price	Num S
Outstanding at beginning of year	540,500	\$ 0.50	
Granted	50,000	0	

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Exercised	-	--	
Forfeited	(84,000)	(0.50)	
	-----	-----	
Outstanding at December 31	506,500	\$ 0.47	
	=====	=====	
Exercisable at December 31	292,050		
	=====		
Available for issuance at December 31	743,500		
	=====		

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HEALTH & NUTRITION SYSTEMS INTERNATIONAL, INC.
NOTES TO FINANCIAL STATEMENTS

NOTE 17 - STOCK OPTIONS, CONTINUED

The fair value of each option is estimated on the date of grant using the fair market value option-pricing model with the assumptions:

Risk-free interest rate	4.5% - 6.5%
Expected life (years)	Various
Expected volatility	1.23
Expected dividends	None

NOTE 18 - RECLASSIFICATIONS

Certain reclassifications have been made to the 2001 financial statements to conform to the 2002 financial statement presentation. These reclassifications have no effect on reported net income. In 2002 and 2001, the Company reclassified \$901,599 and \$1,524,943, respectively, of promotion and co-operative advertising fees to revenues from the operating expense "Advertising and promotion."

NOTE 19 - SUBSEQUENT EVENTS

As of March 15, 2003, the Company discontinued the sale of ephedra based Thin Tab(R) and Fat Cutter Plus(R) products.

NOTE 20 - RESTATEMENTS

Subsequent to filing its Proxy Statement on January 5, 2004 the Securities and Exchange Commission requested additional disclosures to be included. These additional disclosures had no effect on the previously reported total assets or net income.

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NOTE 21 - EMPLOYMENT AGREEMENT

Effective January 1, 2002, we entered into a new employment agreement with Christopher Tisi, our Chief Executive Officer, President, Secretary and Interim Chairman of the Board. The agreement provides for a base salary of \$140,000 (\$18,750 of which will be used to pay certain amounts owing to third parties in connection with the settlement of litigation), as well as bonuses that are contingent upon increases in revenue over prior periods and net income results. The agreement provides that bonuses will be determined quarterly with 33% of such bonuses to be paid quarterly and the balance to be paid in succeeding quarters at which time the bonus is recalculated on cumulative year to year results for the relevant period. The agreement also provides for an annual grant of 50,000 stock options under our 1998 Stock Option Plan for two years. The options will have a four-year term and will be vested 100% on the date of grant. The agreement also provides for the payment of an amount equal to the lesser of (i) \$275,000 or (ii) the maximum "golden parachute" payment permitted to be deducted by us under the federal tax law in the event Mr. Tisi is terminated after a change of control. An amendment to the agreement provided that \$32,578 of Mr. Tisi's salary for the 2001 that was not paid to him during 2001 would be paid in 2002 in twelve equal monthly installments.

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Index to Exhibits

EXHIBIT NUMBER	DESCRIPTION OF EXHIBITS
3.1(a)	Articles of Incorporation of the Registrant (incorporated by reference to Registrant's registration statement on Form 10-SB, filed on January 31, 2000; Commission File Number 000-29245).
3.1(b)	Articles of Amendment to the Articles of Incorporation (incorporated by reference to Exhibit 3.1(B) of Registrant's registration statement on Form 10-SB, filed on January 31, 2000; Commission File Number 000-29245).
3.1(c)	Articles of Amendment to Articles of Incorporation (incorporated by reference to Exhibit 3.1(C) of Registrant's registration statement on Form 10-SB, filed on January 31, 2000; Commission File Number 000-29245).
3.1(d)	Articles of Amendment to Articles of Incorporation (incorporated by reference to Exhibit 3.1(D) of Registrant's Annual Report on Form 10-KSB, filed on April 16, 2000; Commission File Number 000-29245).
3.2	By-Laws of the Registrant (incorporated by reference to Exhibit 3.2 of Registrant's registration statement on Form 10-SB, filed on January 31, 2000; Commission File Number 000-29245).
3.3	Amendment to the Restated Bylaws of the Company dated September 25, 2000 (incorporated by reference to Exhibit 3.3 of Registrant's Annual Report on Form 10-KSB, filed on April 16, 2000; Commission File Number 000-29245).
3.4	Amendment to the Restated Bylaws of the Company dated November 10, 2000 (incorporated by reference to Exhibit 3.4 of Registrant's Annual Report on Form 10-KSB, filed on April 16, 2000; Commission File Number 000-29245).
10.1	Employment Agreement between the Company and Christopher Tisi effective as of January 1, 2002 (incorporated by reference to Exhibit 10.1 of Registrant's Current Report on Form 10-KSB, filed on February 13, 2002; Commission File Number 000-29245).
10.2	Severance Agreement between the Company and Steven Pomerantz effective as of January 1, 2002 (incorporated by reference to Exhibit 10.3 of Registrant's Current Report on Form 10-KSB, filed on February 13, 2002; Commission File Number 000-29245).

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- February 13, 2002; Commission File Number 000-29245).
- 10.3 Factoring and Security Agreement between LSQ Funding Group L.C. and Health Systems International, Inc. effective as of March 15, 2002 (incorporated by Exhibit 10.3 of Registrant's Annual Report on Form 10-KSB, filed on April 11, 2002; Commission File Number 000-29245).
- 10.4 Indemnification Agreement dated March 15, 2002 between LSQ Funding Group L.C. and Christopher Tisi (incorporated by reference to Exhibit 10.4 of Registrant's Annual Report on Form 10-KSB, filed on April 12, 2002; Commission File Number 000-29245).
- 10.5 Indemnification Agreement between the Company and Christopher Tisi dated January 15, 2002 (incorporated by reference to Exhibit 10.2 of Registrant's Current Report on Form 10-KSB, filed on February 13, 2002; Commission File Number 000-29245).
- 10.6 Indemnification Agreement between the Company and Steven Pomerantz dated January 15, 2002 (incorporated by reference to Exhibit 10.4 of Registrant's Current Report on Form 10-KSB, filed on February 13, 2002; Commission File Number 000-29245).
- 10.7 Lease Agreement between the Company and Fred Keller, Trustee dated November 15, 2000 (incorporated by reference to Exhibit 10.5 of Registrant's Annual Report on Form 10-KSB, filed on April 16, 2001; Commission File Number 000-29245).
- 10.8 Lease Agreement between the Company and Fred Keller, Trustee dated January 15, 2001 (incorporated by reference to Exhibit 10.6 of Registrant's Annual Report on Form 10-KSB, filed on April 16, 2001; Commission File Number 000-29245).
- 10.9 Secured Party's Bill of Sale between Fleet National Bank and the Company dated January 26, 2001 (incorporated by reference to Exhibit 10.1 of Registrant's Current Report on Form 10-KSB, filed on January 26, 2001; Commission File Number 000-29245).
- 10.10 Trademark Assignment from Heritage Consumer Products, LLC to the Company dated January 26, 2001 (incorporated by reference to Exhibit 10.2 of Registrant's Current Report on Form 10-KSB, filed on January 26, 2001; Commission File Number 000-29245).
- 10.11 Agreement between the Company and Steven Pomerantz dated January 12, 2001 (incorporated by reference to Exhibit 10.3 of Registrant's Current Report on Form 8-K filed on January 12, 2001; Commission File Number 000-29245).
- 10.12 Shareholders' Agreement among Tony D'Amato, Christopher Tisi, and the Company dated January 14, 2001 (incorporated by reference to Exhibit 1 of Christopher Tisi, Steven Pomerantz, Tony Musso, and Tony D'Amato's Schedule 13D, filed on January 14, 2001; Commission File Number 000-29245).
- 10.13 Irrevocable Proxy dated July 13, 2000 (incorporated by reference to Exhibit 1 of Christopher Tisi, Steven Pomerantz, Tony Musso, and Tony D'Amato's Schedule 13D, filed on July 14, 2001; Commission File Number 000-29245).
- 10.14 Waiver dated January 31, 2001 (incorporated by reference to Exhibit 3 of Christopher Tisi, Steven Pomerantz, Tony Musso, and Tony D'Amato's Schedule 13D, filed on January 14, 2001; Commission File Number 000-29245).
- 10.15 Joint Filing Agreement dated February 13, 2001 (incorporated by reference to Exhibit 4 of Christopher Tisi, Steven Pomerantz, Tony Musso, and Tony D'Amato's Schedule 13D, filed on January 14, 2001; Commission File Number 000-29245).
- 10.16 Exclusive Manufacturing Agreement dated April 11, 2002 between the Company and VitaQuest International, Inc. (incorporated by reference to Exhibit 10.16 of Registrant's Annual Report on Form 10-KSB, filed on April 12, 2002; Commission File Number 000-29245).
- 10.17 Security Agreement dated April 11, 2002 between the Company and Garden State International, Inc. (incorporated by reference to Exhibit 10.17 of Registrant's Annual Report on Form 10-KSB, filed on April 12, 2002; Commission File Number 000-29245).
- 10.18 Health & Nutrition Systems International, Inc. 1998 Stock Option Plan (incorporated by reference to Exhibit 10.18 of Registrant's Annual Report on Form 10-KSB, filed on April 12, 2002; Commission File Number 000-29245).
- 10.19 Promissory Note dated April 11, 2002 between the Company as borrower and Garden State International, Inc. as lender (incorporated by reference to Exhibit 10.19 of Registrant's Annual Report on Form 10-KSB, filed on April 12, 2002; Commission File Number 000-29245).

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- Registrant's Annual Report on Form 10-KSB, filed on April 12, 2002; Commission File Number 000-29245).
- 10.20 Subordination Agreement dated April 11, 2002 among the Company, LSQ Funding Garden State Nutritionals (incorporated by reference to Exhibit 10.20 of Registrant's Annual Report on Form 10-KSB, filed on April 12, 2002; Commission File Number 000-29245).
- 10.21 Amendment No. 1 dated April 29, 2002 to the Employment Agreement between the Company and Christopher Tisi effective as of January 1, 2002 (incorporated by reference to Exhibit 10.21 of Registrant's Annual Report on Form 10-KSB/A-1, filed on April 30, 2002; Commission File Number 000-29245).
- 10.22 Amendment No. 1 dated April 29, 2002 to the Severance Agreement between the Company and Steven Pomerantz effective as of January 1, 2002 (incorporated by reference to Exhibit 10.22 of Registrant's Annual Report on Form 10-KSB/A-1, filed on April 30, 2002; Commission File Number 000-29245).
- 10.23 First Amendment to Shareholders' Agreement among Tony D'Amato, Christopher Tisi and the Company dated April 24, 2002 (incorporated by reference to Exhibit 10.23 of Registrant's Annual Report on Form 10-KSB/A-1, filed on April 30, 2002; Commission File Number 000-29245).
- 10.24 Irrevocable Proxy dated April 24, 2002 (incorporated by reference to Exhibit 10.24 of Registrant's Annual Report on Form 10-KSB/A-1, filed on April 30, 2002; Commission File Number 000-29245).
- 10.25 Option Agreement effective as of February 12, 2002 between the Company and Steven Pomerantz (incorporated by reference to Exhibit 10.25 of Registrant's Annual Report on Form 10-KSB/A-1, filed on April 30, 2002; Commission File Number 000-29245).
- 10.26 Indemnification Agreement between Ted Alflen and the Company dated as of January 1, 2002 (incorporated by reference to Exhibit 10.1 of Registrant's Quarterly Report on Form 10-Q, filed on November 14, 2002; Commission File Number 000-29245).
- 10.27 Indemnification Agreement between Darryl Green and the Company dated as of January 1, 2002 (incorporated by reference to Exhibit 10.2 of Registrant's Quarterly Report on Form 10-Q, filed on November 14, 2002; Commission File Number 000-29245).
- 14.1 Code of Ethics
- 16.1 Letter from Butner & Kahle, CPA dated September 6, 2000 (incorporated by reference to Exhibit 16.4 of Registrant's Current Report on Form 8-K filed on September 7, 2000; Commission File Number 000-29245).
- 24 Power of attorney (included on signature page)
- 99.1 Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to the Sarbanes-Oxley Act of 2002.
- 99.2 Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to the Sarbanes-Oxley Act of 2002.

Exhibit 99.1

HEALTH & NUTRITION SYSTEMS INTERNATIONAL, INC.

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Annual Report of Health & Nutrition Systems International, Inc. (the "Company") on Form 10-KSB/A-2 for the fiscal period ending December 31, 2002 as filed with the Securities and Exchange Commission on

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the date hereof (the "Report"), I, Christopher Tisi, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. ss. 1350, as adopted pursuant to ss. 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

/s/ Christopher Tisi

Christopher Tisi
Chief Executive Officer
April 30, 2004

Exhibit 99.2

HEALTH & NUTRITION SYSTEMS INTERNATIONAL, INC.

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of Health & Nutrition Systems International, Inc. (the "Company") on Form 10-KSB/A-2 for the fiscal period ending December 31, 2002 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Al Dugan, Controller (Principal Accounting Officer) of the Company, certify, pursuant to 18 U.S.C. ss. 1350, as adopted pursuant to ss. 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

/s/ Al Dugan

Al Dugan
Controller (Principal Accounting Officer)
April 30, 2004