

HEALTH & NUTRITION SYSTEMS INTERNATIONAL INC
Form 10QSB
November 14, 2003

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-QSB

QUARTERLY REPORT UNDER SECTION 13 OR 15(D) OF THE
SECURITIES EXCHANGE ACT OF 1934

FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2003

TRANSITION REPORT UNDER SECTION 13 OR 15(D) OF
THE EXCHANGE ACT

FOR THE TRANSITION PERIOD FROM _____ TO _____

COMMISSION FILE NO. 000-29245

HEALTH & NUTRITION SYSTEMS INTERNATIONAL, INC.

(Exact name of small business issuer as specified in its charter)

FLORIDA

(State or other jurisdiction of incorporation or organization)

65-0452156

(I.R.S. Employer Identification Number)

3750 INVESTMENT LANE, SUITE 5, WEST PALM BEACH, FLORIDA 33407

(Address of principal executive offices)

(561) 863-8446

(Issuer's telephone number)

There were 3,832,813 shares of common stock, \$0.001 par value, of the registrant
outstanding at September 30, 2003.

Transitional Small Business Disclosure Format: Yes No

HEALTH AND NUTRITION SYSTEMS INTERNATIONAL, INC.

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PART I

ITEM 1. FINANCIAL STATEMENTS

HEALTH & NUTRITION SYSTEMS INTERNATIONAL, INC.
CONDENSED BALANCE SHEET
(UNAUDITED)

=====	
	SEPTEMBER 30, 2003

Current assets:	
Cash	\$ 91,907
Accounts receivable, net	248,467
Inventory	1,372,254

Total current assets	1,712,628

Property and equipment, net	24,319

Other assets, net	7,986
Prepaids	21,003

Total assets	\$ 1,765,936
	=====

LIABILITIES AND STOCKHOLDERS' DEFICIT

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Current liabilities:	
Accounts payable	\$ 1,054,495
Accrued expenses	68,487
Notes payable, current portion	500,000

Total current liabilities	1,622,982

Notes payable, less current portion	419,893

Total liabilities	2,042,875

Stockholders' deficit:	
Common stock, \$0.001 par value, authorized 30,000,000 shares; 3,832,813 shares issued and outstanding	3,830
Additional paid-in capital	858,612
Accumulated deficit	(1,139,381)

Total stockholders' deficit	(276,939)

Total liabilities and stockholders' deficit	\$ 1,765,936

See accompanying notes to condensed financial statements.

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HEALTH & NUTRITION SYSTEMS INTERNATIONAL, INC.
CONDENSED STATEMENTS OF OPERATIONS
(UNAUDITED)

	THREE MONTHS ENDED SEPTEMBER 30		NINE MONTHS ENDED SEPTEMBER 30	
	2003	2002	2003	2002
	-----	-----	-----	-----
Revenue	\$ 1,867,887	\$ 859,348	\$ 4,369,984	\$ 2,720,000
Cost of sales	767,375	399,898	1,772,077	1,030,000
	-----	-----	-----	-----
Gross profit	1,100,512	459,450	2,597,907	1,680,000
	-----	-----	-----	-----
Operating expense:				
General and administrative expense	493,590	374,874	1,302,135	1,140,000
Advertising and promotion	553,949	154,288	1,050,261	400,000
Depreciation and amortization	4,495	7,617	16,821	20,000
	-----	-----	-----	-----
Total operating expense	1,052,034	536,779	2,369,217	1,570,000
	-----	-----	-----	-----

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Income from operations	48,478	(77,329)	228,690	11
	-----	-----	-----	-----
Other income (expense):				
Gain on sale of Trademark	279,308	--	279,308	
Interest expense	(14,951)	(17,505)	(34,519)	(3)
	-----	-----	-----	-----
Income before income taxes	312,835	(94,834)	473,479	8
	=====	=====	=====	=====
Benefit (provision) for income taxes	--	--	--	
Net income (loss)	\$ 312,835	\$ (94,834)	\$ 473,479	\$ 8
	=====	=====	=====	=====
Net income (loss) per share - basic	\$ 0.08	\$ (0.03)	\$ 0.13	\$
	=====	=====	=====	=====
Net income (loss) per share - diluted	\$ 0.08	\$ (0.03)	\$ 0.13	\$
	=====	=====	=====	=====
Weighted average number of shares - basic	3,772,813	3,632,813	3,679,480	3,63
	=====	=====	=====	=====
Weighted average number of shares - diluted	3,786,813	3,632,813	3,693,480	3,63
	=====	=====	=====	=====

See accompanying notes to condensed financial statements.

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HEALTH & NUTRITION SYSTEMS INTERNATIONAL, INC.
CONDENSED STATEMENTS OF CASH FLOWS
(UNAUDITED)

	NINE MONTHS ENDED SEPTEMBER 30,	
	2003	2002
Net cash provided by operating activities	\$ 349,216	\$ 161,843
	-----	-----
Cash flows from investing activities:		
Proceeds from sale of trademark	300,000	--
	-----	-----
Net cash provided by investing activities	300,000	--
	-----	-----
Cash flows from financing activities:		
Repayments on notes payable	(571,373)	(170,900)
Repayments on capital leases	(714)	(14,888)
	-----	-----
Net cash used in financing activities	(572,087)	(185,788)
	-----	-----
Net increase (decrease) in cash	77,129	(23,945)
Cash, beginning of period	14,778	81,932

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	-----	-----
Cash, end of period	\$ 91,907	\$ 57,987
	=====	=====

SUPPLEMENTAL CASH FLOW INFORMATION

Conversion of accounts payable to notes payable	\$ 1,000,000	\$ 700,000
	=====	=====
Interest paid	\$ 7,500	\$ --
	=====	=====

See accompanying notes to condensed financial statements.

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

NOTE 1 - BASIS OF PRESENTATION

The accompanying unaudited condensed financial statements of Health & Nutrition Systems International, Inc. (the "Company") have been prepared in accordance with generally accepted accounting principles for interim financial information and Regulation S-B. Accordingly, they do not include all of the information and footnotes required for complete financial statements.

In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation of the results for the interim periods presented have been included.

These results have been determined on the basis of generally accepted accounting principles and practices applied consistently with those used in the preparation of the Company's Annual Financial Statements for the year ended December 31, 2002. Operating results for the nine months ended September 30, 2003 are not necessarily indicative of the results that may be expected for the year ending December 31, 2003.

It is recommended that the accompanying condensed financial statements be read in conjunction with the financial statements and notes for the year ended December 31, 2002, found in the Company's Form 10-KSB.

NOTE 2 - LEGAL MATTERS

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 3 - MANAGEMENT'S PLANS AND ISSUES AFFECTING LIQUIDITY

The Company's condensed financial statements have been prepared assuming that the Company will continue as a going concern. During the nine months ended September 30, 2003, the Company has successfully controlled costs and attained profitability, including net income of \$473,479 and cash flow from operations of \$349,216. However, at September 30, 2003, the Company has a working capital of

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\$89,646 and adverse liquidity ratios.

Management intends to continue controlling costs and monitoring financial capabilities. Management believes these factors will contribute toward achieving sustained profitability.

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.

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NOTE 4 - STOCK OPTIONS

The non-qualified stock option plan adopted by the Company in May 1998 authorized the Company to grant 1,250,000 of its common shares.

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."

During the nine months ended September 30, 2003, 50,000 new options were granted to an officer of the Company, as per his employment agreement.

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 September 30, the Company's net income and earnings per share would have been reduced to the proforma amounts indicated below:

	SEPT 30, 2003

Net income	
As reported	\$ 473,479
	=====
Pro forma	\$ 468,506

Earnings per share	
As reported	0.13

Pro forma	0.13
	=====

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

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

NOTE 5 - RECLASSIFICATION AND CORRECTION OF AN ERROR

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Certain reclassifications have been made to the 2002 financial statements to conform to the 2003 financial statement presentation. These reclassifications have the effect of reducing revenue and reducing expense. Slotting fees expense and new store discounts, charged back by customers were previously recorded as marketing expense. In order to correct the accounting principle, the Company has reclassified these costs as a reduction of gross sales. These reclassifications have no effect on reported net income.

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NOTE 6 - STOCK ISSUED

On July 30, 2003, 200,000 shares of Health & Nutrition Systems were issued to two board members of the Company, for services performed. The fair value of the common stock at the time of issue was \$0.12 per share, and the Company recorded compensation expense of \$24,000.

NOTE 7 - NOTES PAYABLE

In July 2003, the Company issued an amended promissory note to Garden State Nutrition in the principal amount of \$1,300,000. The note provides for \$300,000 to be paid before December 31, 2003, with the balance due in quarterly installments of \$131,410 commencing November 1, 2003 at 4.5% per annum. The \$300,000 was paid in August, 2003.

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ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OR PLAN OF OPERATION.

This Quarterly Report on Form 10-QSB contains forward-looking statements. 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 contained in our Form 10-KSB filed with the Securities and Exchange Commission. We do not undertake any obligation to update any such factors or to publicly announce the result of any revision to any of the forward looking statements contained herein to reflect future events or developments.

The following discussion of our results of operations and financial condition should be read together with our unaudited Financial Statements contained in Part I, Item 1 and the related Notes in this Form 10-QSB, and our audited Financial Statements and the related Notes contained in our Form 10-KSB filed with the Securities and Exchange Commission.

CRITICAL ACCOUNTING POLICIES

Financial Reporting Release No. 60, which was 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.

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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, except for two customers that have pay on scan terms with respect to which revenue is recognized at time of sale by the customer. The Company records revenues once the customer reports the sales through periodic sales reports.

Included in the net sales in the accompanying financial statements for the nine months and the three months ended September 30, 2003 and 2002 are returns and allowances, sales discounts, new store opening discounts and coop advertising and promotions in the amounts of \$1,510,491 and \$967,732 and \$525,499 and \$300,385 respectively. The increase in sales reductions in year 2003 was primarily due to the sales returns and allowances associated with the return of discontinued ephedra products. Freight expenses are included in cost of sales.

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

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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.

CUSTOMER LIABILITY ESTIMATES

The company estimates and accrues expenses and liabilities for co-op advertising and promotions and expenses for discontinued products as a reduction of sales. The liability is maintained until the customer takes the deduction against payments due. This liability is netted against the accounts receivable account on the balance sheet. The amount at September 30, 2003 was \$1,154,927 and September 30, 2002 was \$414,395.

OVERVIEW

We continued to implement the Company's strategic plan to diversify our product line by developing and promoting new products. This strategy is aimed at minimizing the impact of a shift in consumer preferences with regard to any one of our products, a change in retailer attitude with respect to any of our products, or any other cause of reduced sales either for a particular product or in a particular geographical area.

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NET SALES

Gross revenues for the nine months ended September 30, 2003 and three months ended September 30, 2003 were \$5,880,465 an increase of \$2,186,905 or 59% and \$2,393,387 an increase of \$1,233,653 or 106% respectively, as compared to gross revenue for the nine months ended September 30, 2002 of \$3,693,560 and for the three months ended September 30, 2002 of \$1,159,733.

Net sales for the three months ended September 30, 2003 were \$1,867,888, an increase of \$1,008,540 or 117%, as compared to net sales of \$859,348 for the three months ended September 30, 2002. For the three months ended September 30, 2003, the revenues with respect to our largest customers were as follows: (i) Eckerd accounted for \$201,048 or 8% of sales; (ii) GNC accounted for \$630,630 or 26% of sales; (iii) Rite Aid accounted for \$125,128 or 5% of sales; (iv) Walgreen accounted for \$139,836 or 6% of sales; (v) CVS accounted for \$215,568 or 9% of sales and Wal-Mart accounted for \$641,340 or 27% of sales. No other account represented more than 5% of sales during the quarter.

Net sales for the nine months ended September 30, 2003 were \$4,369,984, an increase of \$1,644,155 or 60%, as compared to net sales of \$2,725,828 for the nine months ended September 30, 2002.

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For the nine months ended September 30, 2003, the revenues with respect to our largest customers were as follows: (i) Eckerd accounted for \$334,793 or 6% of sales; (ii) GNC accounted for \$1,353,420 or 23% of sales; (iii) Rite Aid accounted for \$307,665 or 5% of sales; (iv) Walgreen accounted for \$376,788 or 6% of sales; (v) CVS accounted for \$580,273 or 10% of sales and Wal-Mart accounted for \$1,605,342 or 27% of sales. No other account represented more than 5% of sales during the six months.

The increase in gross revenues and net sales for the nine months and three months period attributable to an increase in advertising expenditures during the nine month period ended September 30, 2003, and the introduction of new products, Eat Less, Phase 2.

During the three months ended September 30, 2003, the Company sold the Acutrim brand for \$300,000 which resulted in a gain of \$279,308. The impact on the company's sales by this brand had been decreasing. The Acutrim brand was acquired in January 2001 and comprised 22% of the Company's sales for the year 2001 at \$1,028,000. For the year 2002, Acutrim sales were 18% of the Company's sales at \$646,763. For the nine months ended September 30, 2003, the sales were 4.8% of the Company's sales at \$210,782.

COST OF SALES

Cost of sales for the three months ended September 30, 2003 was \$767,375 or 41% of net sales as compared to \$399,898 or 47% of net sales for the three months ended September 30, 2002. Cost of sales for the nine months ended September 30, 2003 was \$1,772,377 or 41% of net sales as compared to \$1,038,972 or 38% of net sales for the nine months ended September 30, 2002. The cost of sales as a percentage of gross revenues was 32% and 30% for the three months ended September 30, 2003 and nine months ended September 30, 2003, respectively. The dollar amount is higher due to the increased sales during the period. The increased percentage as it relates to net sales is due to new products having a higher cost of goods.

GROSS PROFIT

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Gross profit for the three months ended September 30, 2003 was \$1,100,512 an increase of \$641,062 or 140% compared to gross profit of \$459,450 for the three months ended September 30, 2002. As a percent of net sales, gross profit was 59% for the three months ended September 30, 2003, compared to 54% for the three months ended September 30, 2002. The increase in gross profit of \$1,134,285 was primarily due to sales increases in the Carb Cutter product and the introduction of our new Eat Less and Phase2 products. Gross profit for the Nine months ended September 30, 2003 was \$2,597,907 an increase of \$911,050 or 54% compared to gross profit of \$1,686,857 for the nine months ended September 30, 2002. As a percent of net sales, gross profit was 59% for the nine months ended September 30, 2003, compared to 62% for the nine months ended September 30, 2002. The increase in gross profit was primarily due to the sales increases in the Carb Cutter, Eat Less and Phase2 in the aggregate amount of \$2,911,930. The decrease in gross profit percentage is due to the increase of sales reductions of coop advertising and sales returns and allowances.

OPERATING EXPENSES

Operating expenses were \$1,052,034 for the three months ended September 30, 2003, representing an increase of \$515,255, compared to \$536,778 for the three months ended

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September 30, 2002. As a percent of net sales, operating expenses were 56% for the three months ended September 30, 2003, compared to 63% for the three months ended September 30, 2002. Advertising and promotion expenses for the three months ended September 30, 2003, were \$553,949 representing an increase of \$399,661, compared to \$154,288 for the three months ended September 30, 2002. The general and administrative expenses were \$493,590 for the three months ended September 30, 2003 compared to \$374,874 for the three months ended September 30, 2002 or an increase of \$118,716. Operating expenses were \$2,369,217 for the nine months ended September 30, 2003, representing an increase of \$797,643, compared to \$1,571,573 for the nine months ended September 30, 2002. As a percent of net sales, operating expenses were 54% for the nine months ended September 30, 2003, compared to 58% for the nine months ended September 30, 2002. Advertising and promotion expenses for the nine months ended September 30, 2003, were \$1,050,261 representing an increase of \$645,920, compared to \$404,341 for the nine months ended September 30, 2002. The general and administrative expenses were \$1,302,135 for the nine months ended September 30, 2003 compared to \$1,144,383 for the nine months ended September 30, 2002 or an increase of \$157,752.

INCOME FROM OPERATIONS

Income from operations was \$48,479 for the three months ended September 30, 2003, compared to a loss from operations of \$(77,329) for the three months ended September 30, 2002. Income from operations was \$228,690 for the nine months ended September 30, 2003, compared to income from operations of \$115,283 for the nine months ended September 30, 2003. Net income was \$312,835 or \$0.08 per share for the three months ended September 30, 2003, as compared to a net loss of \$(94,833) or \$(0.03) per share for the three months ended September 30, 2002. Net income was \$473,479 or \$0.13 per share for the nine months ended September 30, 2003, as compared to a net income of \$84,399 or \$0.02 per share for the nine months ended September 30, 2002. The increase in net income was primarily due to the gain on sale of Acutrim of \$279,308.

LIQUIDITY & CAPITAL RESOURCES

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At September 30, 2003, the Company had a positive working capital of \$89,646 compared to a \$592,944 working capital deficit at September 30, 2002.

Net cash provided by operating activities for the nine months ended September 30, 2003 was \$349,216 compared to \$161,843 provided by operating activities for the nine months ended September 30, 2002. The resulting increase in cash is primarily due to a net profit realized during the nine months ended September 30, 2003, due to higher sales.

Cash from investing activities was \$300,000 from the sale of Acutrim for the nine months ended September 30, 2003 and there was no activity for the nine months ended September 30, 2002.

The Acutrim brand was acquired in January 2001, and comprised 22% of the Company's sales for the year 2001 at \$1,028,000. For the year 2002, Acutrim sales were 18% of the Company's

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sales at \$646,763. For the nine months ended September 30, 2003, the sales were 4.8% of the Company's sales at \$210,782.

Net cash used in financing activities for the nine months ended September 30, 2003 was \$572,087 compared to net cash used by financing activities of \$185,788 for the nine months ended September 30, 2002. This is primarily attributable to the repayment of a portion of the note to Garden State Nutritionals.

On April 11, 2002, the Company entered into an agreement with Garden State Nutritionals (GSN), sole manufacturer, to repay \$700,000 owed to GSN as of the date of the agreement. The repayment schedule requires equal quarterly payments, without interest, over the next eight quarters, starting June 1, 2002. In connection with this agreement, the Company granted to GSN a blanket second priority in 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 occurrence of any of the following events constitute a default under this promissory note: (i) the failure of Company to pay when due any payment of principal and such failure continues for fifteen (15) days after Lender notifies the Company in writing; (ii) the Company files for or is granted certain relief pursuant to or within the meaning of the United States Bankruptcy Code or any other federal or state law relating to insolvency or relief of debtors (a "Bankruptcy Law") and (iii) Christopher Tisi ceases to be the President and Chief Executive Officer of the Company (unless a replacement reasonably acceptable to Lender is obtained within thirty days).

Also, on April 11, 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 September 30, 2003, the balance owed to GSN under this line of credit is \$803,260.

In July 2003, the Company amended its manufacturing agreement with Garden State Nutritionals to provide for a line of credit of \$450,000 on both finished goods and work in process. The terms of the amended agreement expire July 17, 2005.

In July 2003, the Company issued an amended promissory note to Garden State Nutritionals in the principal amount of \$1,300,000. The note provides for \$300,000 to be paid before December 31, 2003, with the balance due in quarterly installments of \$131,410 commencing November 1, 2003 at 4.5% per annum. The \$300,000 was paid in August, 2003.

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COMMITMENTS AND CONTINGENCIES

REGULATORY MATTERS

Our discontinued products Fat Cutter Plus(TM), ThinTab(R) and our formally owned Carbolizer(TM) product, contain ephedra, also known as Ma Huang, an herb that contains naturally occurring ephedrine. These products represented approximately 19% of our gross revenue, for Fat Cutter Plus(TM) -\$605,000, Carbolizer(TM) - \$244,000, and ThinTab(R) - \$116,000, for the twelve months ended December 31, 2002. Ephedra containing products have been the subjects of adverse

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publicity in the United States and other countries relating to alleged harmful effects. The company has discontinued all sales of products containing ephedra.

PRODUCT LIABILITY

The Company, like other marketers of products that are intended to be ingested, faces the inherent risk of exposure to product liability claims in the event that the use of our products results in injury. The Company maintains product liability insurance coverage of \$6,000,000. It may become increasingly difficult to obtain and maintain product liability insurance coverage for products containing ephedra at premiums that the Company can afford.

Although no material product liability claims have been asserted against us, if they are in the future, our product liability insurance coverage could prove to be inadequate and these claims could result in material losses.

GOING CONCERN QUALIFICATION

The Company's condensed financial statements have been prepared assuming that the Company will continue as a going concern. During the nine months ended September 30, 2003, the Company has successfully controlled costs and attained profitability, including net income of \$473,479 and cash flow from operations of \$349,216. However, at September 30, 2003, the Company has a working capital of only \$89,646 and adverse liquidity ratios.

The Company's continuation is dependent upon its ability to control costs and attain a satisfactory level of profitability with sufficient financing capabilities or equity investment.

There is 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.

ITEM 3. CONTROLS AND PROCEDURES

Evaluation of disclosure controls and procedures

As of the end of the period, the Company carried out an evaluation of the effectiveness of the design and operation of its disclosure controls and procedures pursuant to Exchange Act Rule 13a-14. This evaluation was done under the supervision and with the participation of the Company's President and its Controller. Based upon that evaluation, they concluded that the Company's

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disclosure controls and procedures are effective in gathering, analyzing and disclosing information needed to satisfy the Company's disclosure obligations under the Exchange Act.

Change in internal controls

There were no significant changes in the Company's internal controls or in other factors that could significantly affect those controls since the most recent evaluation of such controls.

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PART II - OTHER INFORMATION -----

ITEM 1. LEGAL PROCEEDINGS.

The Company, from time to time, is a party to 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.

ITEM 2. CHANGES IN SECURITIES.

During the three months ended September 30, 2003, we issued an aggregate of 200,000 restricted common shares of the Company to two directors for their services on our Board of Directors. This transaction was approved by the Board of Directors on July 30, 2003 and consummated on August 13, 2003. The shares were issued without registration in reliance of the exemption provided by Section 4(2) of the Securities Act of 1933, as amended and Rule 506 of Regulation D promulgated thereunder. The market value of the common stock at the time the Board of Directors approved its issuance was \$24,000 which we have recorded as compensation expense.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES.

None.

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

None.

ITEM 5. OTHER INFORMATION.

None

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K.

(a) Exhibits

Exhibit 31.1 Certification Pursuant to Item 601(b)(31) of Regulation S-B, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

Exhibit 31.2 Certification Pursuant to Item 601(b)(31) of Regulation S-B, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

Exhibit 32.1 Certification Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

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(furnished pursuant to Item 601(b)(32) of Regulation S-B).

Exhibit 32.2 Certification Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (furnished pursuant to Item 601(b)(32) of Regulation S-B).

(b) Reports on Form 8-K during the fiscal quarter ended September 30, 2003.

None

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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: November 14, 2003

Health & Nutrition Systems International, Inc.
(The "Registrant")

By: /s/Chris Tisi

Chris Tisi
Chief Executive Officer and President
(Principal executive officer and duly
authorized officer)

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Exhibit Index

EXHIBIT NUMBER	DESCRIPTION
31.1	Certification Pursuant to Item 601(b)(31) of Regulation S-B, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification Pursuant to Item 601(b)(31) of Regulation S-B, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (furnished pursuant to Item 601(b)(32) of Regulation S-B).
32.2	Certification Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (furnished pursuant to Item 601(b)(32) of Regulation S-B).

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