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

FORM 10-KSB

[X] Annual report pursuant to section 13 or 15(d) of the Securities Exchange Act of 1934 for the fiscal year ended December 31, 2001

[ ] 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	65-0452156
(State or other jurisdiction of incorporation or organization)	(IRS Employer Identification No.)

3750 INVESTMENT LANE, SUITE 5 WEST PALM BEACH, FLORIDA	33407
(Address of principal executive offices)	(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

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 [X] 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 or any amendment to this Form 10-KSB. [ ]

State issuer's revenues for its most recent fiscal year. $5,365,332.00

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 $180,624 (computed at the closing price of the common stock of the issuer outstanding on March 29, 2002)

State the number of shares outstanding of each of the issuer's classes of common equity, as of the latest practicable date: 3,629,813 shares of common stock were outstanding as of March 29, 2002.

Documents Incorporated by Reference: certain portions of the registrant's Definitive Proxy Statement relating to the 2002 Annual Meeting of Shareholders are incorporated by reference into Part III of this Form 10-KSB.

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

HEALTH & NUTRITION SYSTEMS INTERNATIONAL, INC.

FORM 10-KSB
INDEX

PART I....1

ITEM 1. DESCRIPTION OF BUSINESS....1

ITEM 2. DESCRIPTION OF PROPERTY....10

ITEM 3. LEGAL PROCEEDINGS....10

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS....12

PART II....12

ITEM 5. MARKET FOR COMMON EQUITY AND RELATED STOCKHOLDER MATTERS....12

ITEM 6. MANAGEMENT'S DISCUSSION AND ANALYSIS OR PLAN OF OPERATION....13

ITEM 7. FINANCIAL STATEMENTS.....24

ITEM 8. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON.....24

PART III.....24

ITEM 9. DIRECTORS, EXECUTIVE OFFICERS, PROMOTERS AND CONTROL PERSONS; COMPLIANCE WITH SECTION 16(a) OF THE EXCHANGE ACT...24

ITEM 10. EXECUTIVE COMPENSATION.....24

ITEM 11. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT.....25

ITEM 12. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS.....25

ITEM 13. EXHIBITS AND REPORTS ON FORM 8-K.....25

SIGNATURES.....28

FORWARD-LOOKING INFORMATION MAY PROVE INACCURATE

This annual report on Form 10-KSB contains forward-looking statements and information as defined in the Private Securities Litigation Reform Act of 1995 and is subject to the safe harbor created by that act. These forward looking statement 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 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, recent government action and the surrounding negative 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 and difficult to maintain our current levels of sales of our products containing ephedra. These factors, among others, could cause our actual results to differ materially from those indicated by such forward-looking statements.

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:

- 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.

- THIN TAB(R) -- Thin Tab(R) is a premium herbal diet supplement that helps promote weight loss by controlling cravings. Thin Tab(R) is our original diet formula and has been sold for more than eight years.

- THIN TAB(R)MAHUANG FREE -- Thin Tab(R)Mahuang Free offers the same benefits as Thin Tab(R)in an ephedra-free formula.

- CARBCUTTER(R) -- CarbCutter(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.

- CARBOLIZER(TM) -- Carbolizer(TM) was created to be used as a convenient pre- and post- Workout system for the active individual. Carbolizer(TM) is made up of a pre-workout ephedra/caffeine stack layer and a post-workout sustained release layer, which combine the ephedra/caffeine blend with our Cellular Transport technology.

- FAT CUTTER PLUS -- Fat Cutter Plus is a dietary supplement that contains a bi-layer timed released system that has been shown to help maximize weight loss efforts.

In 2001, Acutrim(R) Natural, Carbolizer(TM) and Fat Cutter Plus were introduced into our product line. 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. We internally developed the formulations for both Carbolizer(TM) and Fat Cutter Plus.

CERTIFICATES OF ANALYSIS

Garden State Nutritional (GSN), a division of Vitaquest International Inc., is our 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

In order to enhance consumer confidence in our products, during 2001, we initiated and completed independent clinical testing of each of our products. 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, such as CarbCutter(R), Fat Cutter Plus, Thin Tab(R), Carbolizer(TM) and Acutrim(R) Natural. We target print advertising to develop brand awareness and recognition. During 2001, we spent more than 16% 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 2001, we spent approximately $1,252,000, (or 52% of our total spent 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 gives 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

We obtain 100% of our manufacturing from Garden State Nutritional (GSN), a division of Vitaquest International Inc. 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 pursuant to which we will 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 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.

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 four trademarks registered with the United States Patent and Trademark Office for our Acutrim(R), Thin Tab(R) and CarbCutter(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. Additionally, we license certain intellectual property from third parties.

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 2001, 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 retailer. We estimate that CarbCutter(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 in the following mass retailers: 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), Long's (430 locations) and Vitamin Shoppe (78 locations).

In 2000, we derived $4,090,637 (or 76%) of revenues from drug, health food and mass retailer customers. In 2001, we derived $4,965,645 (or 93%) of revenues from these customers.

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 2000, we derived $1,023,377 (or 19%) of revenues from independent health and pharmacy accounts. In 2001, we derived $399,687 (or 7%) of revenues from independent health and pharmacy accounts. We believe that our revenue from the independent customers declined in 2001 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 18 drug, health food and mass retailer customers which collectively comprised 93% of our revenues in 2001. We depend on several significant customers for a large percentage of our net sales. Our largest customers are GNC, Walgreens, Rite Aid, Target, Eckerds and CVS. We do not have written agreements with any of these customers or any of our other customers.

During the fiscal year ending 2001, GNC represented approximately 21% of our net sales, Walgreens represented approximately 11% of our net sales, Rite Aid represented approximately 14% of our net sales, each of Target and Eckerds represented approximately 9% of our net sales, and CVS represented approximately 10% of our net 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, 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:

- the identification of dietary supplements and their nutrition and ingredient labeling;

- the wording used for claims about nutrients, health claims and statements of nutritional support;

- labeling requirements for dietary supplements for which "high potency" and "anti-oxidant" claims are made;

- notification procedures for statements on dietary supplements; and

- 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.

In addition, we cannot predict whether new legislation or regulations governing our activities will be enacted by legislative bodies or promulgated by agencies regulating our activities, or what the effect of any such legislation or regulations on our business would be. We may be subject to additional laws or regulations administered by the FDA or other federal, state or foreign regulatory authorities, the repeal of laws or regulations which we consider favorable, such as the DSHEA, or more stringent interpretations of current laws or regulations, from time to time in the future. We cannot predict the content of any future laws, regulations, interpretations or applications. We also cannot predict the future impact of the different governmental regulations; however, any or all of such requirements could be a burden and costly, to us. Future regulations could, however:

- require us to change the way we conduct business;
- require us to change the contents of our products;
- make us keep additional records;
- make us increase the available documentation of the properties of our products; or
- 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 SlimFast. 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 formulas 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. 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 "Carb Free Blend" in CarbCutter(R) and

the "cellular transport system" in Carbolizer(TM). 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.

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 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). 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.

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 them as of the date of the agreement which were approximately $700,000. Our repayment schedule requires equal quarterly 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. Although there is no stated rate of interest on the note, under generally accepted accounting principles, interest will be imputed at a rate of 9% per year and applied to original issue discount in the gross amount of $75,000 over the life of the loan.

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.

Vendor Financing

We consider our relationships with our vendors to be good. During 2001, 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 $10,000,000. While our products liability policy currently cover our products which contain ephedra, there can be no assurance that this coverage

will be available in the future at premium rates that were consider acceptable, or at all.

We are also an additional named insured on GSN's products liability policy which have 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 with lease payments of $1,767 per month. The lease expiries 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 CarbCutter(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 is currently involved in the following litigation adverse to J.C. Herbert Bryant, III ("Bryant") and KMS-Thin Tab 100, Inc. ("KMS"), a company which HNS believes is majority owned and controlled by Bryant. Bryant is a former Chief Financial Officer, Secretary and Treasurer of the Company and was a director of the Company until the third quarter of 1999. In addition, based upon his Schedule 13D filed with the Securities and Exchange Commission on June 28, 2001, Bryant is the beneficial owner of approximately 6.8% of the outstanding common stock of the Company.

In July 2000, the Company sued KMS and Bryant in the United States District Court for the Southern District of Florida for trademark infringement, unfair competition, cyberpiracy under the Anti-Cybersquatting Consumer Protection Act of 1999, and breach of his fiduciary duties as a director of the Company. The Company alleges that Bryant, while a director of the Company, registered, in his own name or in the name of his company, KMS, certain domain names which employ the Company's principal trademarks, "CarbCutter(R)" and "Thin Tab." The Company alleges that Bryant's continued use of the domain names and related websites is causing irreparable harm to the Company and to the goodwill of the trademarks. The Company alleges that Bryant breached his duty as an officer and director of the Company by usurping corporate opportunities and corporate property interests by registering the domain names while he was an officer or director and retaining those names for his own use and benefit while

an officer and director and thereafter. Bryant counterclaimed alleging, among other things, breach of a distribution agreement with the Company. In December 2000, Bryant's claims (and the breach of duty claim by the Company) were dismissed for lack of subject matter jurisdiction. Discovery and mediation in this case has been completed and the trial is tentatively scheduled for May 2002. The Company has filed its Motion for Summary Judgment seeking injunctive relief and an order of transfer for the domain names.

In December 2000, Bryant caused KMS to sue the Company and three of its officers and directors, Christopher Tisi, Anthony Musso (Mr. Musso has subsequently resigned as Director) and Steven Pomerantz in state court (the Fifteenth Judicial Circuit of Florida in and for Palm Beach County) alleging the same claims that were dismissed by the federal court earlier that month. KMS alleges that HNS breached a distribution agreement with KMS by selling HNS products (both directly and through distributors) in the area south of Orlando, Florida, which, according to KMS, and subject to certain exceptions, is its exclusive distribution territory. KMS also alleges that Tisi, Pomerantz and Musso tortiously interfered with the agreement between HNS and KMS by causing HNS to breach its contract with KMS and that Tisi, Pomerantz and Musso conspired among themselves and with unnamed others to interfere with the agreement. No formal discovery has yet been done on the merits, if any, of KMS's claims. Although the Company believes that Bryant's claims are wholly without merit, at this early state of the litigation, management cannot assess the likely outcome of the litigation or whether the outcome will materially impact the Company's financial condition or results of operations.

In June 2001, the Company sued J. C. Herbert Bryant, III, KMS Thin Tab 100, Inc., Anthony Dell'Aquila, Renate P. Dell'Aquila, Napoleon Paz and Tania Paz in the United States District Court for the Southern District Court of Florida seeking preliminary and permanent injunctive and other relief under Section 13(d) and (g) of the Securities Exchange Act of 1934, as amended. The lawsuit was intended to require defendants to immediately make a corrective disclosure as required by the federal securities laws. In response to the lawsuit, the defendants made the required disclosures in their Schedule 13D filings with the Securities and Exchange Commission, and in July 2001, the parties filed a joint stipulation for dismissal of the action.

The Company intends to vigorously prosecute its action against Bryant and KMS and to vigorously defend the actions against it by Bryant and KMS.

HEALTH AND NUTRITION SYSTEMS INTERNATIONAL, INC., STEVEN POMERANTZ AND ANTHONY F. MUSSO, PLAINTIFFS, VS. MILTON H. BARBAROSH, RICKI BARBAROSH, STENTON LEIGH GROUP, INC., STENTON LEIGH CAPITAL CORP. AND EAI PARTNERS, INC., DEFENDANTS.

As previously disclosed, on December 3, 2001, the Company reached a settlement in connection with its Complaint for Declaratory Relief in the Fifteenth Judicial Circuit of Florida in Palm Beach County seeking a judicial determination regarding the status of a large block of common stock of the Company. Pursuant to the settlement, the Company will pay to the defendants $75,000 in cash, $65,000 of which is personally guaranteed in equal proportions by Christopher Tisi, President of the Company, Steven Pomerantz, CEO of the Company, and Anthony Musso. In addition, Mr. Tisi and Mr. Pomerantz have agreed to salary reductions in the amount of $18,750 each, and Mr. Musso has agreed to provide services to HNSI in the amount of $18,750. The Company has paid and will continue to pay the $75,000 to the defendants as follows: $10,000 was paid on or

before December 24, 2001, $1,000 was paid on each of January 1, February 1 and March 1, 2002, and $4,000 will be paid each month thereafter until paid in full. If the entire amount, other than the $10,000 payment, is paid on or before June 30, 2002, a 10% discount will be applied.

The settlement agreement also provided that 275,000 shares of the Company's common stock would be delivered to EAI Partners, Inc., one of the affiliated defendants. Of that amount, Tony Musso transferred 115,000 shares beneficially owned by him to EAI Partners, Inc. and Steven Pomerantz transferred 115,000 shares beneficially owned by him to EAI Partners, Inc. Of the remaining 45,000 shares, 25,000 shares had been issued by the Company to EAI Partners, Inc. prior to the settlement, and the Company issued the remaining 20,000 shares to EAI Partners, Inc. during January 2002.

In Note 5 of the Notes to Condensed Financial Statements in the Company's Form 10-Q dated November 14, 2001, we disclosed that 325,000 shares to be issued by the Company were at subject to the litigation. As a result of the settlement, only 20,000 of those shares were issued by the Company to the defendants.

The Company has been sued by six unaffiliated plaintiffs alleging that the Company's Acutrim(R) products contain Phenylpropanolamine ("PPA") and that those products have caused damage to the plaintiffs. The Company's position on these matters is that none of the Company's Acutrim(R) products has ever contained, or currently contains, PPA. To date, one of these cases has been 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. While the Company does not believe that HNS has material liability based upon the substantive allegations set forth in these cases, the legal costs that the Company has incurred, and may incur in the future, in obtaining dismissals from these cases could have a material adverse effect on the Company.

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

During the fourth quarter of 2001, 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 2001	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

Fiscal Year 2000	High	Low
Fourth Quarter	1.56	0.56

As of March 30, 2002, there were 86 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 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.

RECENT SALES OF UNREGISTERED SECURITIES

On December 21, 2001, we issued 20,000 shares of our common stock to EAI Partners, Inc. in connection with the settlement of litigation.

On June 27, 2001, we issued 5,000 shares of our common stock to consultants for professional services rendered.

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

This annual report on Form 10-KSB 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.

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 have had short-term and may have long-term adverse effects on our revenues, results of operations, financial condition and prospects. The terrorist attacks had an immediate impact on our business as a result of the contraction in consumer confidence and a negative impact on the retail environment generally. We, as well as most other companies operating in the same market sector, saw a significant decline in sales in the fourth quarter 2001 due to a consumer perception that under the circumstances the purchase of diet-related products was less important than other household expenditures. Additional terrorist attacks or related events, such as bioterrorism, could adversely impact all consumer businesses, including ours. It is not possible at this time to predict the longer-term effects of the attacks, or the impacts of actions taken in response to the attacks, on general economic, political and public safety conditions or on our results of operations.

During 2001, we continued to implement our strategic plan to diversify our product line through the development and promotion of our three new products: Fat Cutter Plus, Carbolizer(TM) and Acutrim(R) Natural as well as the promotion and expansion of the distribution of CarbCutter(R). This strategy was 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. Although the acquisition of the Acutrim(R) trademark in the first quarter of 2001 allowed us to generate approximately $1.1 million in total revenue from Acutrim(R) product sales, our 2001 operating results show the impact of the significant development, marketing and other expenditures associated with the launch of these new products as well as the higher cost of goods associated with these new products.

In 2001, the FDA demonstrated a renewed interest with regard to the regulation of ephedra. This renewed interest has been accompanied by adverse publicity. As of December 31, 2001, 25% of our gross revenue was generated by sales of our products that contain ephedra. To date, no new regulations have been adopted. We cannot predict the effects of these events on our revenues, results of operations, financial condition and prospects. See "Commitments and Contingencies."

RESULTS OF OPERATIONS

NET SALES:

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

Revenues for the twelve months ended December 31, 2001 decreased by $38,921, to $5,365,332 versus the comparable period in 2000 of $5,404,253. The decrease was primarily due to the decrease in our in-house telemarketing revenue of $399,687 in fiscal year 2001 versus the comparable period in fiscal 2000 of $1,023,377. Revenues generated by chain stores sales during the twelve months ended December 31, 2001 increased by $640,196 to $4,730,833, or 15.7%, versus the comparable period in 2002 of $4,090,637. During the twelve months ended December 31, 2001, six companies accounted for 74.0% of the total chain store revenues. GNC, our largest account, accounted for 21% of total sales versus the comparable period in 2000 of 45.0%.

Year ended December 31, 2000 compared with Year ended December 31, 1999

Net sales for the twelve months ended December 31, 2000 were $5,404,253 an increase of $3,536,453 or 189%, compared to net sales of $1,867,800 for the twelve months ended December 31, 1999. The increase was due to growth in our in-house telemarketing accounts and new orders for our new product, CarbCutter(R), from chain store accounts CVS, Eckerd Drugs, Rite-aid, GNC, Phar-Mor and Albertsons. Our in-house telemarketing program, which targets the independent health food store and independent pharmacy market, generated $1,023,377 or 19% of sales for the twelve months ending December 31, 2000. Chain store sales accounted for $4,090,637 or 76% of sales for the twelve months ending December 31, 2000. Distributors accounted for $290,239 or 5% of sales. GNC, our single largest account, accounted for 45% of sales or $2,438,840 for the twelve months ending December 31, 2000. CVS accounted for 7% of sales or $414,396 for the twelve months ending December 31, 2000.

COST OF SALES

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 35% of net sales, compared to $1,472,528 or 27% 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 CarbCutter(R), which had a formula change increasing the cost of goods sold on this product in fiscal year 2001.

Year ended December 31, 2000 compared with Year ended December 31, 1999

Cost of sales for the twelve months ended December 31, 2000 was $1,472.528 or 27% of net sales, compared to $729,994 or 39% of net sales for the twelve months ended December 31, 1999. The decrease in cost of sales as a percentage of net sales is primarily attributable to higher sales of CarbCutter(R), which has a lower percentage cost of goods than our other products which results in a higher gross profit margin. We may not be able to

maintain the higher margin on CarbCutter(R) as our competitors introduce and promote similar products. Also, as we introduce new products, we do not believe we will maintain the lower cost of goods percentage we had with CarbCutter(R).

GROSS PROFIT:

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

Gross profit for the twelve months ended December 31, 2001 was $3,461,577 a decrease of $470,148, or 12%, compared to gross profit of $3,931,725 for the twelve months ended December 31, 2000. As a percent of net sales, gross profit was 65% for the twelve months ending December 31, 2001, as compared to 73% 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 CarbCutter(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.

Year ended December 31, 2000 compared with Year ended December 31, 1999

Gross profit for the twelve months ended December 31, 2000 was $3,931,725 an increase of $2,793,919 or 245%, compared to gross profit of $1,137,806 for the twelve months ended December 31, 1999. As a percent of net sales, gross profit was 73% for the twelve months ending December 31, 2000, as compared to 61% for the twelve months ended December 31, 1999. These increases are primarily attributable to increased sales and profit margins of CarbCutter(R) over the prior year's product mix.

OPERATING EXPENSES:

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

Operating expenses were $4,838,780 for the twelve months ended December 31, 2001, compared to $3,847,521 for the twelve months ended December 31, 2000, representing an increase of $991,259. As a percent of net sales, operating expenses were 90% for the twelve months ended December 31, 2001, compared to 71% for the twelve months ended December 31, 2000. Advertising and promotion expenses were $2,406,484 for the twelve months ended December 31, 2001, compared to $1,617,092 for the twelve months ended December 31, 2000, representing an increase of $789,393. This increase was primarily due to expenses associated with the new product launches of Fatcutter and Carbolizer as well as expenses associated with expanding the distribution of our other products. General and administration expenses were $2,395,033 for the twelve months ended December 31, 2001, compared to $2,217,971 for twelve months ended December 31, 2000, an increase of 8.0%. This increase was primarily a result of additional personnel expenditures and professional fees associated with litigation during 2001.

Year ended December 31, 2000 compared with Year ended December 31, 1999

Operating expenses were $3,847,521 for the twelve months ended December 30, 2000, compared to $1,120,654 for the twelve months ended December 31, 1999, representing an increase of $2,726,867. As a percent of net sales, operating expenses were 71% for the twelve months ended December 31, 2000, compared to 60% for the twelve months ended December 31,1999. The increase in operating expenses was primarily attributable to significantly higher advertising expenditures to

establish brand identification, general administrative and personnel costs associated with our increased sales, and higher in-store promotional expenses during the third and fourth quarter associated with our new chain store accounts for CarbCutter(R). We expect these in-store promotional expenses to decline as a percentage of sales in the first quarter 2001 for CarbCutter(R). Because we are introducing new products in 2001, however, there will be introductory expenses associated with those new products. The increase in operating expenses was also attributable to television advertising production costs during the third and fourth quarters of $210,053 related to planned future advertisements introducing consumers to CarbCutter(R).

NET INCOME FROM OPERATIONS

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 49% over the previous twelve months ended December 31, 2000.

Year ended December 31, 2000 compared with Year ended December 31, 1999

Net income from operations was $70,562 or $.02 per share for the twelve months ended December 31, 2000, compared to $28,279 or $ .01 per share for the twelve months ended December 31, 1999. The modest increase in income from operations was a direct result of our commitment to create brand awareness and establish more than 25,000 shelf positions for CarbCutter(R). Advertising, Slotting Fees, Co-ops, Free Goods and Promotion Expenditures increased over 1287% from last year alone.

CARRY FORWARD LOSS

We have a net operating loss carry forward, as of December 31, 2001, of $1,234,194 for tax purposes to affect future taxable income. The net operating loss carry forwards expire in 2020.

LIQUIDITY & CAPITAL RESOURCES

For the 12 months ended December 31, 2001, the Company had a working capital deficit of $900,663. 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. Accordingly, as of the date hereof, our working capital has improved by approximately $350,000 by deferring repayment of that amount until April 2003. 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. Net cash used in financing activities for the year ended December 31, 2000 was $(132,166) which includes repayment of loans of $115,600 and $21,533 capital lease payments.

Since December 31, 2001, we have reduced our current liabilities from $1,342,555 to approximately $850,000 as of the date hereof as a result of our repayment of approximately $150,000 to vendors and suppliers and the deferral of our obligation to repay $350,000 to Garden State Nutritionals until April 2003. In addition, in 2001, we implemented a cost reduction plan which has resulted in savings in the first quarter of 2002 of approximately $220,000 in total operating expenses over total operating expenses for the first quarter of 2001. Also, during the first quarter of 2002, we subleased a portion of our warehouse facilities and redesigned our product packaging to use a more effective and less labor intensive design and more cost-effective materials. Finally, during 2001, we settled all of our material litigation with the exception of the litigation adverse to Herbert Bryant. See "Item 3 - Legal Proceedings."

During 2001, despite our best efforts to settle the litigation adverse to Mr. Bryant, we spent in excess of $80,000 in legal fees and costs related to this litigation and settlement attempts. This continuous cash drain for professional fees, as well as the constant diversion of management time required by this litigation, has had in 2001 and, will continue to have, a material adverse effect on our operating results.

We are dependent on factoring our receivables in order to support our working capital needs. 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. Factoring our large pharmacy chain accounts and large health food accounts continues to play a crucial role in providing capital and liquidity for our operations. Our factoring arrangement provides us with revenue at the time of shipment of the product. Absent a factoring arrangement, we would be required to carry these accounts receivable for approximately 30 to 90 days. Other than as described below, factoring is the only available financing alternative available to us at this time.

As stated above, 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. 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.

During 2001, we were able to increase our credit limits, as well as improve our payment terms, with certain vendors for 2002.

At March 31, 2002, we have generated sufficient cash flow from normal operations through the end of the first quarter of 2002 to pay our ongoing current expenses. We are presently on target to meet our budgeted profit and loss projections for the first quarter of 2002. We believe that we can meet our budgeted operating expenses for the balance of fiscal year 2002 and that this will produce sufficient cash flow to continue our normal

operations. Except as described above, we currently have identified no other sources of capital or financing. If our future product sales are insufficient to support our internal cash flow needs, our vendor credit lines, including our arrangement with Garden State and our factoring arrangement with LSQ, may not be sufficient to fund our operations.

GOING CONCERN QUALIFICATION

Our auditors stated that our financial statements for the year ended December 31, 2001 were prepared on the going-concern basis. For the year ended Dec 31, 2001, we incurred a net annual loss of $1,399,533 and had an accumulated deficit of $1,640,466. In addition, we had negative cash flows from operations of $33,650 during the year ended December 31, 2001 and adverse liquidity ratios. There is substantial doubt about our ability to continue as a going concern. Our continuation is dependent upon our ability to control costs and attain a satisfactory level of profitability with sufficient financing capabilities or equity investment. 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. Our management has established plans intended to increase sales of our products and reduce operating costs to provide funds needed to increase liquidity and implement the business plan.

COMMITMENTS AND CONTINGENCIES

Regulatory Matters - Our products Fat Cutter Plus, Thin Tab(R), and Carbolizer(TM), contain ephedra, also known as "Ma Huang," an herb which contains naturally-occurring ephedrine. These products represented approximately 25% of our gross revenue for the twelve months ended December 31, 2001. Ephedra containing products have been the subject of adverse publicity in the United States and other countries relating to alleged harmful effects.

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, ThinTab and Carbolizer 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 has not publicly responded to this petition.

The FDA will, most likely, attempt to issue a new proposed rule with respect to dietary supplements that contain ephedrine alkaloids. However, it is uncertain what restrictions the new proposed rule might contain or when a new proposed rule will be issued. In our opinion, it is unlikely that a final regulation will be issued by the FDA during 2002. 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. In the event that these rules limit our ability to sell our products containing ephedra, we have already developed ephdrine-free formulae for those products. In addition, 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.

Product Liability - We, 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 $10,000,000. It may become increasingly difficult to obtain and maintain product liability insurance coverage for products containing ephedra at current premiums, or at all.

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.

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. The diet 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 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 six 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 products. 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 costs, 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.

A portion of our revenue is generated by several products which contain ephedrine. Certain countries, states and localities have enacted, or are considering enacting, restrictions on the sale of products that contain PPA, synthetic ephedrine or naturally-occurring sources of ephedrine. These restrictions include the prohibition of over-the-counter sales, required warnings or labeling statements, record-keeping and reporting requirements, the prohibition of sales to minors, per-transaction limits on the quantity of product that may be purchased and limitations on advertising and promotion. In such countries, states or localities, these restrictions could aversely affect the sale of our products which contain the naturally-occurring sources of ephedrine. Currently, these products represent approximately 25% of our revenue. Failure to comply with these restrictions could also lead to regulatory enforcement action, including the seizure of products, product recalls, civil or criminal fines or other penalties. The enactment of these restrictions, the perceived safety concerns relating to ephedrine and the possibility of further regulatory action increases the likelihood that claims relating to the existence of naturally-occurring sources of ephedrine will be filed against us. In late 2000, the FDA requested the National Institutes of Health to commission a review of the safety and efficacy of ephedrine in herbal products used to control weight. This review is assumed to be retrospective in nature and will be based on all adverse events, records and scientific data available to the reviewers. It is expected that the report will be issued in early Fall of 2002. On September 5, 2001, the Public Citizens Health Research Group petitioned the FDA to ban the production and sale of dietary supplements containing ephedrine alkaloids. To date, the FDA has taken no action in regard to this petition.

We depend on significant customers for a large percentage of our net sales. Our largest customers are GNC, Walgreens, Rite Aid, Target, Eckerds 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 2001, substantially all of our net sales were from products bearing proprietary brand names, including Acutrim(R) Natural A.M., Thin Tab(R) and CarbCutter(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 Chris 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 off 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, 2001, 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:

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

We retained as our independent auditors the firm Daszkal Bolton LLP (formerly Daszkal Bolton Manela Devlin & Co.) to replace the firm of Buthner & Kahle, CPAs, P.A. (B&K) who were dismissed as our auditors, effective July 12, 2000. This decision was approved by the Board of Directors at a meeting held on July 12, 2000.

In connection with the audits of our financial statements for each of the two fiscal years ended December 31, 1998 and December 31, 1999, and in the subsequent unaudited interim period ended March 31, 2000, there were no disagreements with B&K on any matters of accounting principles or practices, financial statement disclosure, or auditing scope and procedures which, if not resolved to the satisfaction of B&K would have caused B&K to make reference to the subject matter in their report. The Company has requested B&K to furnish it a letter addressed to the Commission stating whether it agrees with the above statements. A copy of B&K's letter dated September 6, 2000, has been filed as an exhibit to our Form 8-K dated September 6, 2000

PART III

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

The information required by this Item will be included in our Proxy Statement which will be filed with the Securities and Exchange Commission in connection with our 2002 Annual Meeting of Shareholders and is incorporated herein by reference.

ITEM 10. EXECUTIVE COMPENSATION

The information required by this Item will be included in our Proxy Statement which will be filed with the Securities and Exchange Commission in connection with our 2002 Annual Meeting of Shareholders and is incorporated herein by reference.

ITEM 11. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The information required by this Item will be included in our Proxy Statement which will be filed with the Securities and Exchange Commission in connection with our 2002 Annual Meeting of Shareholders and is incorporated herein by reference.

ITEM 12. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

The information required by this Item will be included in our Proxy Statement which will be filed with the Securities and Exchange Commission in connection with our 2002 Annual Meeting of Shareholders and is incorporated herein by reference.

ITEM 13. EXHIBITS AND REPORTS ON FORM 8-K

(a) Documents filed as part of this Form 10-KSB

FINANCIAL STATEMENTS:

- o Independent Auditors' Report
- o Balance Sheets as of December 31, 2001 and 2000
- o Statements of Operations for the years ended December 31, 2001 and 2000
- o Statements of Changes in Stockholders' Equity for the years ended December 31, 2001 and 2000
- o Statements of Cash Flows for the years ended December 31, 2001 and 2000
- o Notes to Financial Statements

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

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

3.1(a) Articles of Incorporation of the Registrant (incorporated by reference to Exhibit 3.1(A) of 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 0000-29245).

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, 2001; 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 Chris Tisi effective as of January 1, 2002 (incorporated by reference to Exhibit 10.1 of Registrant's Current Report on Form 8-K 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 8-K filed on February 13, 2002; Commission File Number 000-29245).

10.3 Factoring and Security Agreement between LSQ Funding Group L.C. and Health and Nutrition Systems International, Inc. effective as of March 15, 2002.

10.4 Indemnification Agreement dated March 15, 2002 between LSQ Funding Group L.C. and Christopher Tisi

10.5 Indemnification Agreement between the Company and Chris Tisi dated January 1, 2002 (incorporated by reference to Exhibit 10.2 of Registrant's Current Report on Form 8-K filed on February 13, 2002; Commission File Number 000-29245).

10.6 Indemnification Agreement between the Company and Steven Pomerantz dated January 1, 2002 (incorporated by reference to Exhibit 10.4 of Registrant's Current Report on Form 8-K filed on February 13, 2002; Commission File Number 000-29245).

10.7 Lease Agreement between the Company and Fred Keller, Trustee dated November 1, 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 1, 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 12, 2001 (incorporated by reference to Exhibit 10.1 of Registrant's Current Report on Form 8-K filed on January 26, 2001; Commission File Number 000-29245).

10.10 Trademark Assignment from Heritage Consumer Products, LLC to the Company dated January 12, 2001 (incorporated by reference to Exhibit 10.2 of Registrant's Current Report on Form 8-K 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 26, 2001; Commission File Number 000-29245).

10.12 Shareholders' Agreement among Tony D'Amato, Chris Tisi, and the Company 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 January February 14, 2001; Commission File Number 0-29245).

10.13 Irrevocable Proxy dated July 13, 2000 (incorporated by reference to Exhibit 2 of Christopher Tisi, Steven Pomerantz, Tony Musso, and Tony D'Amato's Schedule 13D, filed on January February 14, 2001; Commission File Number 0-29245).

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 February 14, 2001; Commission File Number 0-29245).

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 February 14, 2001; Commission File Number 0-29245).

10.16 Exclusive Manufacturing Agreement dated April 11, 2002 between the Company and Garden State Nutritionals, a division of VitaQuest International, Inc.

10.17 Security Agreement dated April 11, 2002 between the Company and Garden State Nutritionals, a division of VitaQuest International, Inc.

10.18 Health & Nutrition Systems International, Inc. 1998 Stock Option Plan

10.19 Promissory Note dated April 11, 2002 between the Company as borrower and Garden State Nutritionals as lender.

10.20 Subordination Agreement dated April 11, 2002 among the Company, LSQ Funding Group, L.C. and Garden State Nutritionals.

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)

(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.

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 11, 2002 Health & Nutrition Systems International, Inc.

By: /S/ Christopher Tisi

Christopher Tisi
Interim Chairman of the Board,
Chief Executive Officer and President
(Principal Executive Officer)

Each person whose signature appears below hereby constitutes and appoints Chris 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	DATE
/s/ Christopher Tisi - ---------------------------- Christopher Tisi	Interim Chairman of the Board, Chief Executive Officer and President (Principal Executive Officer)	April 11, 2002
/s/ Al Dugan - ---------------------------- Al Dugan	Controller (Principal Accounting Officer)	April 11, 2002
/s/Steven A. Pomerantz - ---------------------------- Steven A. Pomerantz	Director	April 11, 2002
/s/Ted Alflen - ---------------------------- Ted Alflen	Director	April 11, 2002
/s/ Darryl Green - ---------------------------- Darryl Green	Director	April 11, 2002

HEALTH & NUTRITION SYSTEMS INTERNATIONAL, INC.

FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2001 AND 2000

TABLE OF CONTENTS

Independent Auditor's Report F-1

Financial Statements:

Balance Sheets as of December 31, 2001 and 2000 .... F-2

Statements of Operations for the years ended December 31, 2001 and 2000 .... F-3

Statements of Changes in Stockholders' Equity (Deficit) for the years ended December 31, 2001 and 2000 .... F-4

Statements of Cash Flows for the years ended December 31, 2001 and 2000 .... F-5

Notes to Financial Statements .... F-6 to F-15

DASZKAL BOLTON LLP

INDEPENDENT AUDITOR'S 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, 2001 and 2000, and the related statements of operations, changes in stockholders' equity (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, 2001 and 2000, 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 and had negative cash flows from operations 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.

/S/ DASZKAL BOLTON LLP

Boca Raton, Florida
February 1, 2002

HEALTH & NUTRITION SYSTEMS INTERNATIONAL, INC.
BALANCE SHEETS
DECEMBER 31, 2001 AND 2000

ASSETS

	December 31, 2001	December 31, 2000
Current assets:		
Cash	$ 81,932	$ 125,585
Restricted cash related to notes payable	--	150,687
Accounts receivable, net	194,792	497,835
Inventory	165,168	299,556
Prepaids and other current assets	--	168,454
Total current assets	441,892	1,242,117
Property and equipment, net	66,949	92,219
Other assets:		
Due from related parties	--	4,967
Deferred tax asset	--	7,888
Other assets, net	33,335	9,329
Total other assets	33,335	22,184
Total assets	$ 542,176	$ 1,356,520

LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)

	2001	2000
Current liabilities:		
Accounts payable	$ 1,105,116	$ 447,604
Accrued expenses	183,887	122,377
Capital leases, current portion	19,152	19,819
Notes payable	34,400	150,000
Total current liabilities	1,342,555	739,800
Capital leases, less current portion	1,645	22,511
Total liabilities	1,344,200	762,311
Stockholders' equity:		
Common stock, $ 0.001 par value, authorized 30,000,000 shares; 3,629,813 and 3,604,813 shares issued and outstanding at December 31, 2001 and 2000, respectively	3,630	3,605
Additional paid-in capital	834,812	831,537
Accumulated deficit	(1,640,466)	(240,933)
Total stockholders' equity (deficit)	(802,024)	594,209
Total liabilities and stockholders' equity (deficit)	$ 542,176	$ 1,356,520

See accompanying notes to financial statements.

HEALTH & NUTRITION SYSTEMS INTERNATIONAL, INC.
STATEMENTS OF OPERATIONS
YEARS ENDED DECEMBER 31, 2001 AND 2000

	December 31, 2001	December 31, 2000
Revenue	$ 5,365,332	$ 5,404,253
Cost of sales	1,903,755	1,472,528
Gross profit	3,461,577	3,931,725
Operating expense:		
General and administrative expense	2,395,033	2,217,971
Advertising and promotion	2,406,484	1,617,092
Depreciation and amortization	31,616	28,951
Bad debts (recovery)	5,647	(16,493)
Total operating expense	4,838,780	3,847,521
Income (loss) from operations	(1,377,203)	84,204
Other income (expense):		
Interest income	5,902	2,060
Interest expense	(23,347)	(21,152)
Other income (expense)	3,003	(2,438)
Total other income (expense)	(14,442)	(21,530)
Income (loss) before income taxes	(1,391,645)	62,674
Benefit (provision) for income taxes	(7,888)	7,888
Net income (loss)	$(1,399,533)	$ 70,562
Net income per share - basic	$ (0.39)	$ 0.02
Net income per share - diluted	$ (0.39)	$ 0.02
Weighted average number of shares - basic	3,612,472	3,609,898
Weighted average number of shares - diluted	3,612,472	3,609,898

See accompanying notes to financial statements.

HEALTH & NUTRITION SYSTEMS INTERNATIONAL, INC.
STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY (DEFICIT)
YEARS ENDED DECEMBER 31, 2001 AND 2000

	Common Stock		Additional Paid-In Capital	Stock Subscription Receivable	Accumulated Deficit	Total
	Shares	Amount				
Balance, December 31, 1999	3,743,947	$ 3,744	$ 689,284	$ (700)	$ (311,495)	$ 380,833
Common stock retired	(353,000)	(353)	353	--	--	--
Common stock warrants exercised	25,366	25	25,339	--	--	25,364
Common stock cancelled and returned	(6,000)	(6)	(17,994)	--	--	(18,000)
Subscription received	--	--	--	700	--	700
Common stock issued for services to consultants and employees	194,500	195	134,555	--	--	134,750
Net income - December 31, 2000	--	--	--	--	70,562	70,562
Balance, December 31, 2000	3,604,813	3,605	831,537	--	(240,933)	594,209
Common stock issued for legal settlement	20,000	20	1,980	--	--	2,000
Common stock issued for services	5,000	5	1,295	--	--	1,300
Net loss - December 31, 2001	--	--	--	--	(1,399,533)	(1,399,533)
Balance, December 31, 2001	3,629,813	$ 3,630	$ 834,812	$ --	$(1,640,466)	$ (802,024)

See accompanying notes to financial statements.

HEALTH & NUTRITION SYSTEMS INTERNATIONAL, INC.
STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2001 AND 2000

	December 31,	
	2001	2000
Cash flows from operating activities:		
Net income	$(1,399,533)	$ 70,562
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Allowance for doubtful debts	(7,173)	(16,952)
Allowance for obsolete and slowmoving inventory	6,407	--
Depreciation and amortization	31,616	28,951
Deferred tax asset	7,888	(7,888)
Common stock issued for services	3,300	134,750
(Increase) decrease in:		
Accounts receivable	310,216	(232,919)
Inventory	127,981	(179,230)
Prepaids and other current assets	168,454	(102,215)
Other assets	(1,828)	(2,437)
Increase (decrease) in:		
Accounts payable	657,512	220,297
Accrued expenses	61,510	112,409
Net cash provided by (used in) operating activities	(33,650)	25,328
Cash flows from investing activities:		
Investment in trademarks	(25,000)	(2,194)
Proceeds from (investment in) certificates of deposit	150,687	(150,687)
Purchases of property and equipment	(3,524)	(32,628)
Net cash provided by (used in) investing activities	122,163	(185,509)
Cash flows from financing activities:		
Issuance of common stock, net	--	7,364
Subscription receivable	--	700
Proceeds from (repayments on) financing	(115,600)	150,000
Repayments on capital leases	(21,533)	(10,009)
Proceeds from (repayments on) related parties	4,967	(16,535)
Net cash provided by (used in) financing activities	(132,166)	131,520
Net decrease in cash	(43,653)	(28,661)
Cash, beginning of period	125,585	154,246
Cash, end of period	$ 81,932	$ 125,585

See accompanying 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 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(TM), Carbolizer(TM), Thin Tab Mahuang Free(TM), and Fat Cutter(R). The current markets are concentrated in North America and Puerto Rico. One manufacturer substantially 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. The restricted collateral deposits are invested in certificates of deposits, which mature within three months and are principally used as security for the note payable.

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 first-in, first-out basis, net of allowances for slow-moving or obsolete inventory. Inventory allowances at December 31, 2001 and 2000 was $18,014 and $11,607, respectively.

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.

Trademarks

The Company records the costs of trademarks as intangible assets and amortizes their value over their estimated economic life.

Revenue Recognition

Revenue is recognized at the date of shipment to customers. Provision is made for an estimate of product returns and doubtful accounts and is based on historical experience.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

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 years ending December 31, 2001 and 2000 were $2,259,545 and $1,617,092, 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.

New Accounting Pronouncements

On June 29, 2001, the Financial Accounting Standards Board unanimously approved the issuance of Statements of Financial Accounting Standards No. 141, Business Combinations (Statement 141), and No. 142, Goodwill and Other Intangible Assets (Statements 142). Statement 141 eliminates the pooling-of interests method of accounting for business combinations except for qualifying business combinations that were initiated prior to July 1, 2001. Statement 141 changes the criteria to recognize intangible assets apart form goodwill. The requirements of Statement 141 are effective for any business combination accounted for by the purchase method that is completed after June 30, 2001.

Under Statement 142, goodwill and indefinite lived intangible assets are no longer amortized but are reviewed annually, or more frequently if impairment indicators arise, for impairment. Identifiable intangible assets will continue to be amortized over their estimated useful lives. Early adoption is permitted for companies with fiscal years beginning after March 15, 2001, provided that their first quarter financial statements have not been issued. The Company plans to adopt Statement 142 beginning January 1, 2002. The adoption of Statement 142 is not expected to have a material impact on the Company's earnings 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. The Company has sustained significant losses during the year ended December 31, 2001. In addition, the Company has negative cash flows from operations of $33,650 during the year ended December 31, 2001 and has 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 form the outcome of this uncertainty.

NOTE 4 - FACTORING ARRANGEMENTS

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 maintains 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.

In 2000, the Company factored certain of its accounts receivable, without recourse, with a commercial finance company subsidiary of a bank. The factor purchased receivables for 97% of the face amount of certain invoices and the Company maintained a reserve account with the factor of 15% of the outstanding receivables held by the factor. The reserve account was charged additional fees from 1% to 3% on invoices paid beyond the agreed to terms.

NOTE 5 - ACCOUNTS RECEIVABLE

Accounts receivable consisted of the following at December 31, 2001 and 2000:

	2001	2000
Accounts receivable	$ 352,002	$ 542,219
Less: allowance for doubtful accounts	(37,210)	(44,384)
Less: allowance for sales returns	(120,000)	--
Accounts receivable, net	$ 194,792	$ 497,835

The allowance for sales returns of $120,000 results from expected returns of one product with expiration dates in March and May 2002.

NOTE 6 - RELATED PARTY TRANSACTIONS

For years ended December 31, 2001 and 2000, a certain related party made aggregate purchases of approximately $63,881 and $163,969, respectively.

At December 31, 2001 and 2000, the Company had outstanding receivables from stockholders/director in the amount of $0 and $4,967.

In 2001, a former officer of the Company and a member of the Board of Directors guaranteed a short term loan from a bank. See Note 10.

NOTE 7 - SUPPLEMENTAL CASH FLOW INFORMATION

	December 31, 2001	December 31, 2000
Cash paid for interest	$ 23,347	$ 21,152
Cash paid for income taxes	$ --	$ 50,000
Non-cash investing and financing activities:		
Capital lease obligations assumed	$ --	$ 39,018
Common stock issued for services	$ 3,300	$134,750

NOTE 8 - 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.

NOTE 9 - PROPERTY AND EQUIPMENT

Property and equipment consisted of the following at December 31, 2001 and 2000:

	2001	2000
Furniture and equipment	$ 38,713	$ 38,713
Office equipment	31,536	31,536
Warehouse equipment	24,349	24,349
Computer equipment	51,815	48,290
Software	40,126	40,126
Website development	2,155	2,155
Leasehold improvements	1,860	1,860
	190,554	187,029
Less: accumulated depreciation	(123,605)	(94,810)
Property and equipment, net	$ 66,949	$ 92,219

Depreciation expense for the years ended December 31, 2001 and 2000 was $28,795 and $27,853, respectively.

NOTE 10 - NOTES PAYABLE

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 the note was collateralized by two certificates of deposits totaling $150,687. This note was paid in full on December 15, 2001.

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 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 off on January 12, 2002.

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 is due on July 15, 2002, and is payable in monthly installments of $4,167.

NOTE 11 - LEASE COMMITMENTS

The Company leases office and warehouse space in Riviera Beach, Florida. Rent expense for the years ended December 31, 2001 and 2000 was $64,664 and $24,234, respectively. The Company also leases various equipment. Lease expense for the years ended December 31, 2001 and 2000 was $29,952 and $27,023, respectively.

In 2002, the Company sub-leased 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, 2001 and 2000 consisted of the following:

	2001	2000
Machinery and equipment	$ 59,902	$ 59,902
Less: accumulated amortization	(27,442)	(13,149)
Total	$ 32,460	$ 46,753

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

Year Ending December 31,	Capital Leases	Operating Leases
2002	$ 24,424	$ 96,188
2003	2,320	82,704
2004	--	23,008
2005	--	6,214
Total minimum lease obligation	26,744	208,114
Less: interest	5,947	--
Present value of total minimum lease payments	20,797	$208,114
Less: current portion	(19,152)	
Non-current portion	$ 1,645	

NOTE 12 - STOCKHOLDERS EQUITY

On August 25, 2000, the Company's Board of Directors authorized a 1-for-2 reverse stock split of its common stock, to stockholders of record on July 12, 2000. The par value per share of common stock remained unchanged, and the additional paid in capital was adjusted. All share and per-share amounts in the accompanying financial statements have been restated to give effect to the reverse stock split.

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 13, valued at $2,000.

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

During the year ended December 31, 2000, the Company issued its common stock for cash and in exchange of services as follows:

The Company issued 194,500 shares of common stock to consultants and employees for professional services rendered, valued at $134,750.

The Company retired and/or cancelled 359,000 shares of common stock, resulting in a net decrease in equity of $18,000.

25,366 warrants were exercised during 2000 valued at $25,364. In April 2000, 145,570 warrants exercisable at $0.50 per share of common stock expired.

NOTE 13 - LEGAL MATTERS

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. At December 31, 2001, $11,000 of the cash settlement amount had been paid, with the remaining amount included in accounts payable.

In 2000, the Company sued 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 cyberpiracy. The formed director and KMS counterclaimed alleging a breach of distribution agreement by the Company. In December 2000, this counter suit was dismissed as inappropriate for adjudication in a federal court.

In December 2000, KMS sued the Company and three of its officers and directors, in state court alleging that the Company breached a distribution agreement with KMS. The suit is in its early stages and management cannot assess the likely outcome of the litigation or determine if the outcome would materially impact the Company's financial condition or results of operations.

The Company has been sued by six unaffiliated plaintiffs alleging that the Company's Acutrim(R) products contain PPA and that those products have caused damage to the plaintiffs. The Company's position on these matters is that none of the Company's Acutrim(R) products has ever contained, or currently contains, PPA. To date, one of these cases has been dismissed after delivery to plaintiff's counsel of information substantiating the fact that the Company's products do not presently contain, and have not contained, PPA. While the Company does not believe that it has material liability based upon the substantive allegations set forth in these cases, the legal costs that the Company has incurred, and may incur in the future, in obtaining dismissals from these cases could have a material adverse effect on the Company.

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 14 - 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, 2001, no amounts exceeded the insured limit. At December 31, 2000, the amount that exceeded the insured limit was $137,935.

Product Liability

The Company is currently insured to the extent of $10 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

In the year ended December 31, 2001, sales to six customers represented seventy-four (74%) of the Company's revenue.

In the year ended December 31, 2000, two significant customers provided for fifty-two (52%) of the total revenues of the Company.

Significant Supplier

During the years ended December 31, 2001 and 2000, the Company received 100% of its products from one manufacturer of herbal and dietary supplements, located in Caldwell, New Jersey.

NOTE 15 - 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.

	2001	2000
Income tax (benefit) consists of:		
Current	$ --	$ --
Deferred	--	(7,888)
Provision (benefit) for income taxes	$ --	(7,888)

NOTE 15 - INCOME TAXES, CONTINUED

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

	2001	2000
Taxes computed at combined federal and state tax rate	$(473,159)	$ 12,535
Non-deductible expenses	3,835	6,297
State income taxes, net of federal income tax benefit	(50,107)	4,278
Other	(20,135)	9,859
Effect of change in income tax rate	6,953	--
Increase (decrease) in deferred tax asset valuation allowance	540,501	(40,857)
Provision (benefit) for income taxes	$ 7,888	$ (7,888)

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

	2001	2000
Deferred tax assets:		
Net operating loss carryforward	$ 464,427	$ 4,957
Allowance for receivables	69,295	--
Allowance for inventory	6,779	2,321
Litigation costs related to capital	--	4,000
Total deferred tax assets	540,501	11,278
Deferred tax liabilities:		
Allowance for receivables	--	(3,390)
Total deferred tax liabilities	--	(3,390)
Net deferred tax asset	540,501	7,888
Valuation allowance:		
Beginning of year	--	(40,857)
Decrease (increase) during year	(540,501)	40,857
Ending balance	(540,501)	--
Net deferred taxes	--	7,888

As of December 31, 2001, the Company has an unused net operating loss carryforward of $1,234,194 available for use on its future corporate income tax returns. This net operating loss carryforward expires in 2020.

NOTE 16 - STOCK OPTIONS

The non-qualified stock option plan adopted by the Company in May 1998, authorized the Company to grant up to 2,500,000 shares of common stock. Pursuant to the reverse stock split during the fiscal year 2000, the plan authorized the Company to grant 1,082,500 of its common shares.

During the year ended December 31, 2000, the Company granted 710,000 stock options to certain employees and consultants. The stock options were substantially granted prior to the Company trading on the Over the Counter Bulletin Board. The weighted average fair value of options granted during the year ended December 31, 2000 is estimated on the date of the grant, using the Black-Scholes option-pricing method. The weighted average grant-date fair value of the options is $0.14.

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 $847 and $703 in compensation expense at December 31, 2001 and 2000, respectively.

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

During the year ended December 31, 2000, 670,000 options were granted to officers, directors and employees of the Company at exercise prices ranging from $0.50 to $0.88 per share.

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," the Company's net earnings for the year ended December 31, 2001 would have been decreased by $17,653. The fair value of each option is estimated on the date of grant using the fair market option pricing model with the assumption:

Risk-free interest rate	6.5%
Expected life (years)	Various
Expected volatility	N/A
Expected dividends	None

A summary of options during the years ended December 31, 2001 and 2000 is shown below:

	December 31, 2001		December 31, 2000	
	Number of Shares	Weighted-Average Exercise Price	Number of Shares	Weighted-Average Exercise Price
Outstanding at beginning of year	710,000	$ 0.14	--	$ --
Granted	--	--	710,000	0.14
Exercised	--	--	--	--
Forfeited	(169,500)	(0.14)	--	--
Outstanding at December 31	540,500	$ 0.14	710,000	$ 0.14
Exercisable at December 31	252,750		275,850	
Available for issuance at December 31	372,000		372,000	

NOTE 16 - STOCK OPTIONS, CONTINUED

At December 31, the Company's net income and earnings per share would have been reduced to the proforma amounts indicated below:

	2001	2000
Net loss		
As reported	$ (1,399,533)	$ 70,562
Pro forma	$ (1,417,186)	$ 27,394
Earnings per share		
As reported	$ (0.39)	$ 0.02
Pro forma	$ (0.39)	$ 0.02

NOTE 17 - RECLASSIFICATIONS

Certain reclassifications have been made to the 2000 financial statements to conform to the 2001 financial statement presentation. These reclassifications have no effect on reported net income.

NOTE 18 - SUBSEQUENT EVENTS

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.

In early April 2002, the Company entered into an agreement with Garden State Nutrition (GSN), the sole manufacturer, to repay $700,000 owed to them as of the date of the agreement. The repayment schedule requires equal quarterly payments without interest, over the next eight quarters, starting from June 1, 2002. In connection with this agreement, the Company granted a blanket second priority lien on the assets to GSN.

Also in early April 2002, the Company entered into an exclusive manufacturing agreement with GSN pursuant to which GSN provided the Company with a $450,000 line of credit, on current invoices, with 60-day terms.

Index to Exhibits

Exhibit Number	Description of Exhibits
3.1(a)	Articles of Incorporation of the Registrant (incorporated by reference to Exhibit 3.1(A) of 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 0000-29245).
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, 2001; 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 Chris Tisi effective as of January 1, 2002 (incorporated by reference to Exhibit 10.1 of Registrant's Current Report on Form 8-K 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 8-K filed on February 13, 2002; Commission File Number 000-29245)
10.3	Factoring and Security Agreement between LSQ Funding Group L.C. and Health and Nutrition Systems International, Inc. effective as of March 15, 2002.
10.4	Indemnification Agreement dated March 15, 2002 between LSQ Funding Group L.C. and Christopher Tisi
10.5	Indemnification Agreement between the Company and Chris Tisi dated January 1, 2002 (incorporated by reference to Exhibit 10.2 of Registrant's Current Report on Form 8-K filed on February 13, 2002; Commission File Number 000-29245).

10.6	Indemnification Agreement between the Company and Steven Pomerantz dated January 1, 2002 (incorporated by reference to Exhibit 10.4 of Registrant's Current Report on Form 8-K filed on February 13, 2002; Commission File Number 000-29245).
10.7	Lease Agreement between the Company and Fred Keller, Trustee dated November 1, 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 1, 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 12, 2001 (incorporated by reference to Exhibit 10.1 of Registrant's Current Report on Form 8-K filed on January 26, 2001; Commission File Number 000-29245).
10.10	Trademark Assignment from Heritage Consumer Products, LLC to the Company dated January 12, 2001 (incorporated by reference to Exhibit 10.2 of Registrant's Current Report on Form 8-K 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 26, 2001; Commission File Number 000-29245).
10.12	Shareholders' Agreement among Tony D'Amato, Chris Tisi, and the Company 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 January February 14, 2001; Commission File Number 0-29245).
10.13	Irrevocable Proxy dated July 13, 2000 (incorporated by reference to Exhibit 2 of Christopher Tisi, Steven Pomerantz, Tony Musso, and Tony D'Amato's Schedule 13D, filed on January February 14, 2001; Commission File Number 0-29245).
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 February 14, 2001; Commission File Number 0-29245).
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 February 14, 2001; Commission File Number 0-29245).
10.16	Exclusive Manufacturing Agreement dated April 11, 2002 between the Company and Garden State Nutritionals, a division of VitaQuest International, Inc.

10.17	Security Agreement dated April 11, 2002 between the Company and Garden State Nutritionals, a division of VitaQuest International, Inc.
10.18	Health & Nutrition Systems International, Inc. 1998 Stock Option Plan
10.19	Promissory Note dated April 11, 2002 between the Company as borrower and Garden State Nutritionals as lender.
10.20	Subordination Agreement dated April 11, 2002 among the Company, LSQ Funding Group, L.C. and Garden State Nutritionals.
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)

(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.

Exhibit 10.3

FACTORING AND SECURITY AGREEMENT

THIS FACTORING AGREEMENT is made effective as of March 15, 2002 by and between Health & Nutrition Systems International, Inc., a Florida Corporation ("Seller") and LSQ FUNDING GROUP L.C., a Florida limited liability company ("Purchaser").

1. SALE; PURCHASE PRICE; BILLING; RESERVE

1.1. ASSIGNMENT AND SALE.

1.1.1. Seller shall offer to sell to Purchaser as absolute owner such of Seller's Accounts as are listed from time to time on a Schedule of Accounts.

1.1.2. Each Schedule of Accounts shall be accompanied by such documentation supporting and evidencing the Account as Purchaser shall from time to time request.

1.1.3. Purchaser shall purchase from Seller such Accounts as Purchaser determines to be Eligible Accounts, so long as the Balance Subject to Funds Usage Fee does not exceed, before and after such purchase, the Maximum Amount.

1.1.4. Purchaser shall pay the Purchase Price, less any amounts due to Purchaser from Seller, including, without limitation, any amounts due under Section 1.3.2 hereof, of any Purchased Account, to Seller's Deposit Account within one (1) Business Day of the Purchase Date, whereupon such Account shall be deemed purchased hereunder.

1.2. BILLING. Purchaser may send a monthly statement to all Account Debtors itemizing their account activity during the preceding billing period. All Account Debtors will be instructed to make payments to Purchaser.

1.3. RESERVE ACCOUNT

1.3.1. Purchaser may apply a portion of any Purchase Price to the Reserve Account in the amount of the Reserve Shortfall.

1.3.2. Seller shall pay to Purchaser on demand the amount of any Reserve Shortfall.

1.3.3. Purchaser shall pay to Seller upon Seller's request, any amount by which the Reserve Account exceeds the Required Reserve Amount.

1.3.4. Purchaser may charge the Reserve Account with any Obligation, including any amounts due from Seller to Purchaser hereunder.

1.3.5. Purchaser may pay any amounts due Seller hereunder by a credit to the Reserve Account.

2. AUTHORIZATION FOR PURCHASES Subject to the terms and conditions of this agreement, Purchaser is authorized to purchase Accounts upon telephonic, facsimile, or other instructions received from the officers of Seller whose signatures appear on the signature card delivered to Purchaser in connection herewith.

3. FEES AND EXPENSES. Seller shall pay to Purchaser:

3.1. FACTORING FEES.

3.1.1. Initial Fee. the Initial Fee, payable in consideration of the rendering of the Credit and Collection Services, which will be deducted from the Purchase Price.

3.1.2. Funds Usage Fee.

3.1.2.1. A Funds Usage Fee, earned daily, to be paid monthly on the last day of the month in which it accrues.

3.1.2.2. Notwithstanding Section 3.1.2.1, the Funds Usage Fee shall not accrue and be payable on any funds subject to the Default Charge.

3.2. OTHER FEES.

3.2.1. Misdirected Payment Fee. any Misdirected Payment Fee immediately upon its accrual.

3.2.2. Default Charge. the Default Charge, immediately upon its accrual, on:

3.2.2.1. all past due amounts due from Seller to Purchaser hereunder; and

3.2.2.2. the amount of any Reserve Shortfall.

3.2.3. Early Termination Fee. the Early Termination Fee if Seller terminates this agreement prior to a termination date set forth in Section 13.

3.2.4. Missing Notation Fee. The Missing Notation Fee on any Invoice

that is sent by Seller to an Account Debtor which does not contain the notice as required by Section 8.8 hereof.

3.3. REIMBURSABLE EXPENSES. The expenses directly incurred by Purchaser in the administration of this agreement such as wire transfer fees, overnight mail delivery, check certification, UCC filing and search fees, and audit fees. These fees shall be charged against Seller's Reserve Account. In the event that the Reserve Account is inadequate to cover such charges, Seller shall reimburse Purchaser within three business days after receipt by Seller of invoices from Purchaser.

4. REPURCHASE OF ACCOUNTS.

4.1. Purchaser may require that Seller repurchase, by payment of the unpaid Face Amount thereof together with any unpaid fees relating to the Purchased Account on demand, or, at Purchaser's option, by Purchaser's charge to the Reserve Account of:

4.1.1. any Purchased Account, the payment of which has been disputed by the Account Debtor obligated thereon, Purchaser being under no obligation to determine the bona fides of such dispute;

4.1.2. Any Purchased Account for with Seller has breached its warranty under Section 11 hereunder.

4.1.3. Any Purchased Account owing from an Account Debtor which in Purchaser's reasonable credit judgment has become insolvent.

4.1.4. all Purchased Accounts upon the occurrence of an Event of Default, or upon the effective date of termination of this agreement;

4.1.5. any Purchased Account which remains unpaid beyond the Late Payment Date.

4.2. The repurchase of a Purchased Account shall not constitute a reassignment thereof and Purchaser shall retain its security interest therein.

5. CLEARANCE DAYS. For all purposes under this agreement, Clearance Days will be added to the date on which any payment is received by Purchaser.

6. SECURITY INTEREST.

6.1. To secure payment and performance of the Obligations, Seller grants to Purchaser a continuing first priority security interest in and to the Collateral.

6.2. Notwithstanding the creation of the above security interest, the relationship of the parties shall be that of Purchaser and Seller of accounts, and not that of lender and borrower.

7. AUTHORIZATION TO PURCHASER.

7.1. Seller hereby irrevocably authorizes Purchaser and any designee of Purchaser, at Seller's sole expense, to exercise at any times in Purchaser's or such designee's discretion all or any of the following powers until all of the Obligations have been paid in full: (a) receive, take, endorse, assign, deliver, accept and deposit, in the name of Purchaser or Seller, any and all cash, checks, commercial paper, drafts, remittances and other instruments and documents relating to the Purchased Accounts, or after an Event of Default, the other Collateral or the proceeds thereof, (b) take or bring, in the name of Purchaser or Seller, all steps, actions, suits or proceedings deemed by Purchaser necessary or desirable to effect collection of or other realization upon the Purchased Accounts, and after an Event of Default, the other Collateral, (c) after an Event of Default, change the address for delivery of mail to Seller and to receive and open mail addressed to Seller, (d) after an Event of Default, extend the time of payment of, compromise or settle for cash, credit, return of merchandise, and upon any terms or conditions, any and all accounts or other Collateral which includes a monetary obligation and discharge or release any account debtor or other obligor (including filing of any public

record releasing any Lien granted to Seller by such account debtor), without affecting any of the Obligations, (e) execute in the name of Seller and file against Seller in favor of Purchaser financing statements or amendments with respect to the Collateral, (f) pay any sums necessary to discharge any Lien or encumbrance which is senior to Purchaser's security interest in the Collateral, which sums shall be included as Obligations hereunder, and in connection with which sums the Late Charge shall accrue and shall be due and payable, and (g) file in the name of Seller or Purchaser or both (1) mechanics lien or related notices, or (2) claims under any payment bond, in connection with goods or services sold by Seller in connection with the improvement of realty, (h) at any time, irrespective of whether an Event of Default has occurred, without notice to or the assent of Seller, notify any Account Debtor obligated with respect to any Purchased Account, that the underlying Purchased Account has been assigned to Purchaser by Seller and that payment thereof is to be made to the order of and directly and solely to Purchaser, or after an Event of Default, without notice or the assent of Seller, notify any Account Debtor obligated with respect to any account of Seller, that the underlying account has been assigned to Purchaser by Seller and that payment thereof is to be made to the order of and directly and solely to Purchaser, and (i) communicate directly with Seller's Account Debtors to verify the amount and validity of any Purchased Account created by Seller, or after an Event of Default, communicate directly with Seller's Account Debtors to verify the amount and validity of any account created by Seller.

7.2. Seller hereby releases and exculpates Purchaser, its officers, employees and designees, from any liability arising from any acts under this agreement or in furtherance thereof whether of omission or commission, and whether based upon any error of judgment or mistake of law or fact, except for willful misconduct. In no event will Purchaser have any liability to Seller for lost profits or other special or consequential damages. Without limiting the generality of the foregoing, Seller releases Purchaser from any claims which Seller may now or hereafter have arising out of Purchaser's endorsement and deposit of checks issued by Seller's customers stating that they were in full payment of an account, but issued for less than the full amount which may have been owed on the account.

7.3. Seller authorizes Purchaser to accept, endorse, and deposit on behalf of Seller any checks tendered by an account debtor "in full payment" of its obligation to Seller. Seller shall not assert against Purchaser any claim arising therefrom, irrespective of whether such action by Purchaser effects an accord and satisfaction of Seller's claims, under ss.3-311 of the UCC, or otherwise.

8. COVENANTS BY SELLER.

8.1. After written notice by Purchaser to Seller, and automatically, without notice, after an Event of Default, Seller shall not, without the prior written consent of Purchaser in each instance, (a) grant any extension of time for payment of any of the Purchased Accounts, (b) compromise or settle any of the Purchased Accounts for less than the full amount thereof, (c) release in whole or in part any Account Debtor, or (d) grant any credits, discounts, allowances, deductions, return authorizations, or the like with respect to any of the Purchased Accounts.

8.2. From time to time as requested by Purchaser, at the sole expense of Seller, Purchaser or its designee shall have access, during reasonable business hours if prior to an Event of Default and at any time if on or after an Event of Default, to all premises where Collateral is located for the purposes of inspecting (and removing, if after the occurrence of an Event of Default) any of the Collateral, including Seller's books and records, and Seller shall permit Purchaser or its designee to make copies of such books and records or extracts therefrom as Purchaser may request. Without expense to Purchaser, Purchaser may use any of Seller's personnel, equipment, including computer equipment, programs, printed output and computer readable media, supplies, and premises for

the collection of Purchased Accounts and realization on other Collateral as Purchaser, in its sole discretion, deems appropriate. Seller hereby irrevocably authorizes all accountants and third parties to disclose and deliver to Purchaser at Seller's expense all financial information, books and records, work papers, management reports, and other information in their possession relating to Seller.

8.3. Before sending any invoice evidencing a Purchased Account to the Account Debtor, Seller shall mark same with a notice of assignment as may be required by Purchaser.

8.4. Seller shall pay when due all payroll and other taxes and shall provide proof thereof to Purchaser in such form as Purchaser shall reasonably require.

8.5. Seller shall not create, incur, assume, or permit to exist any Lien upon or with respect to any Collateral now owned or hereafter acquired by Seller.

8.6. Seller shall maintain insurance on all insurable property owned or leased by Seller in the manner, to the extent and against at least such risks (in any event, including but not limited to fire and business interruption insurance) as usually maintained by owners of similar businesses and properties in similar geographic areas. All such insurance shall be in amounts and form and with insurance companies acceptable to Purchaser in its sole discretion. Seller shall furnish to Purchaser: (a) upon written request, any and all information concerning such insurance carried; (b) as requested by Purchaser, lender loss payable endorsements (or their equivalent) in favor of Purchaser. All policies of insurance shall provide for not less than thirty (30) days prior written cancellation notice to Purchaser.

8.7. Notwithstanding that Seller has agreed to pay the Misdirected Payment Fee pursuant to Section 3.2.1 hereof, Seller shall deliver in kind to Purchaser on the next Business Day following the date of receipt by Seller of the amount of any payment on account of a Purchased Account.

8.8. Before sending any Invoice to an Account Debtor, Seller shall mark same with a notice of assignment as may be required by Purchaser.

8.9. AVOIDANCE CLAIMS.

8.9.1. Seller shall indemnify Purchaser from any loss arising out of the assertion of any Avoidance Claims shall pay to Purchaser on demand the amount thereof.

8.9.2. Seller shall notify Purchaser within two Business Days of its becoming aware of the assertion of an Avoidance Claim.

8.9.3. This Section shall survive the termination of this agreement.

9. ACCOUNT DISPUTES. Seller shall notify Purchaser promptly of and, if requested by Purchaser, will settle all disputes concerning any Purchased Account, at Seller's sole cost and expense.

10. PERFECTION OF SECURITY INTEREST. Seller shall execute and deliver to Purchaser such documents and instruments, including, without limitation, UCC financing statements, as Purchaser may request from time to time in order to evidence and perfect its security interest in any collateral securing the Obligations.

11. REPRESENTATIONS AND WARRANTIES. To induce Purchaser to enter into this agreement and to purchase the Purchased Accounts hereunder, Seller hereby represents and warrants to Purchaser as follows (each of which representations and warranties shall be deemed to be continuing and to have been restated and reaffirmed on each occasion that Seller submits a Schedule of Accounts to Purchaser):

11.1. it is fully authorized to enter into this agreement and to perform hereunder;

11.2. this agreement constitutes a legal and valid obligation that is binding upon it and that is enforceable against it in accordance with the terms hereof.

11.3. Seller is solvent and in good standing in the state of its organization. Except as disclosed in Seller's periodic reports filed with the Securities and Exchange Commision, [sic]

11.4. there are no pending actions, suits, or other legal proceedings of any kind (whether civil or criminal) now pending (or, to Seller's knowledge, threatened) against Seller, the adverse result of which would in any material respect affect the property or financial condition, or threaten the continued operations, of Purchaser;

11.5. Seller has not conducted business under or used any other name, whether legal or fictitious;

11.6. each financial statement of Seller provided to Purchaser, whether provided prior to or after the date of this agreement, is true and correct in all material respects.

11.7. The Purchases Accounts are and will remain:

11.7.1. bona fide existing obligation created by the sale and delivery of goods or the rendition of services in the ordinary course of Seller's business; and

11.7.2. unconditionally owed and will be paid to Purchaser without defenses, disputes, offsets, counterclaims, or rights of return or cancellation;

11.8. Purchase has not received notice of actual or imminent bankruptcy, insolvency, or material impairment of the financial condition of any applicable Account Debtor regarding Purchased Accounts.

12. DEFAULT.

12.1. EVENTS OF DEFAULT. The occurrence or existence of any of the following events or conditions shall constitute an Event of Default hereunder: (a) Seller defaults in the payment of any of the Obligations or in the performance of any provision hereof or of any other agreement now or hereafter entered into with Purchaser, or any warranty or representation contained herein proves to be false, (b) Seller or any guarantor of any of the Obligations becomes subject to any debtor-relief proceedings, including by way of the commencement of any petition for relief filed by or against Seller or any guarantor under any chapter of the federal bankruptcy laws, (c) any such

guarantor fails to perform or observe any of such guarantor's obligations to Purchaser or shall notify Purchaser of its intention to rescind, modify, terminate, or revoke any guaranty of any of the Obligations, or any such guaranty shall cease to be in full force and effect for any reason whatever, (d) Purchaser for any reason, in good faith, deems itself insecure with respect to the prospect of repayment or performance of any Obligations of Purchaser to be repaid or performed by Purchaser pursuant to the terms of this Agreement.

12.2. WAIVER OF NOTICE. SELLER WAIVES ANY REQUIREMENT THAT PURCHASER INFORM SELLER BY AFFIRMATIVE ACT OR OTHERWISE OF ANY ACCELERATION OF SELLER'S OBLIGATIONS HEREUNDER. FURTHER, PURCHASER'S FAILURE TO CHARGE OR ACCRUE INTEREST OR FEES AT ANY "DEFAULT" OR "PAST DUE" RATE SHALL NOT BE DEEMED A WAIVER BY PURCHASER OF ITS CLAIM THERETO.

12.3. EFFECT OF DEFAULT.

12.3.1. Upon the occurrence of any Event of Default, in addition to any rights Purchaser has under this agreement or applicable law:

12.3.1.1. Purchaser may immediately terminate this agreement, at which time all Obligations shall immediately become due and payable without notice, and

12.3.1.2. the Default Charge shall accrue and be payable on any Obligation not paid when due.

13. TERMINATION; EFFECTIVE DATE. This agreement will be effective when executed by Purchaser, will continue in full force and effect for one (1) year thereafter, and shall be further annually extended automatically unless Seller shall have given Purchaser written notice of its intention to terminate at least sixty (60) days prior to each such anniversary, whereupon this agreement shall terminate on said anniversary. Either party can terminate the agreement at any time with sixty days written notice to the other party. Upon termination Seller shall pay the Obligations to Purchaser.

14. ENFORCEMENT. This agreement and all agreements relating to the subject matter hereof are the product of negotiation and preparation by and among each party and its respective attorneys, and shall be construed accordingly. Accordingly, no provision of this agreement shall be construed against or interpreted to the disadvantage of any party hereto by any court or other governmental or judicial party by reason of such party having, or being deemed to have, structured, drafted, or dictated such provision.

15. AMENDMENT. Neither this agreement nor any provisions hereof may be changed, waived, discharged, or terminated, nor may any consent to the departure from the terms hereof be given, orally (even if supported by new consideration), but only by an instrument in writing signed by all parties to this agreement. Any waiver or consent so given shall be effective only in the specific instance and for the specific purpose for which given.

16. NO LIEN TERMINATION WITHOUT RELEASE. In recognition of the Purchaser's right to have its attorneys' fees and other expenses incurred in connection with this agreement secured by the Collateral, notwithstanding payment in full of all Obligations by Seller, Purchaser shall not be required to record any terminations or satisfactions of any of Purchaser's Liens on the Collateral unless and until Seller has executed and delivered to Purchaser a general release in a form reasonably satisfactory to Purchaser. Seller understands that this provision constitutes a waiver of its rights under ss.ss.9-509(d)(2) and 9-513 of the UCC.

17. ACCOUNT STATED. Purchaser shall render to Seller a statement setting forth the transactions arising hereunder. Each statement shall be considered correct and binding upon Seller as an account stated, except to the extent that Purchaser receives, within thirty (30) days after the mailing of such statement, written notice from Seller of any specific exceptions by Seller to that statement, and then it shall be binding against Seller as to any items to which it has not objected.

18. CONFLICT. Unless otherwise specifically stated in any other agreement entered into between Purchaser and Seller hereafter, if a conflict exists between the provisions of this agreement and the provisions of such other agreement, the provisions of this agreement shall control.

19. SURVIVAL. All representations, warranties, and covenants contained in this agreement shall be and remain effective for so long as this agreement has not been terminated in accordance with its terms or any of the Obligations remain outstanding

20. NO WAIVER; CUMULATIVE NATURE OF RIGHTS AND REMEDIES. No failure to exercise and no delay in exercising any right, power, or remedy hereunder shall impair any right, power, or remedy which Purchaser may have, nor shall any such delay be construed to be a waiver of any of such rights, powers, or remedies, or any acquiescence in any breach or default hereunder; nor shall any waiver by Purchaser of any breach or default by Seller hereunder be deemed a waiver of any default or breach subsequently occurring. All rights and remedies granted to Purchaser hereunder shall remain in full force and effect notwithstanding any single or partial exercise of, or any discontinuance of action begun to enforce, any such right or remedy. The rights and remedies specified herein are cumulative and not exclusive of each other or of any rights or remedies which Purchaser would otherwise have. Any waiver, permit, consent or approval by Purchaser of any breach or default hereunder must be in writing and shall be effective only to the extent set forth in such writing and only as to that specific instance.

21. SEVERABILITY. In the event any one or more of the provisions contained in this agreement is held to be invalid, illegal, or unenforceable in any respect, then such provision shall be ineffective only to the extent of such prohibition or invalidity, and the validity, legality, and enforceability of the remaining provisions contained herein shall not in any way be affected or impaired thereby.

22. RELATIONSHIP OF PARTIES. The relationship of the parties hereto shall be that of Seller and Purchaser of Purchased Accounts, and Purchaser shall not be a fiduciary of the Seller, although Seller may be a fiduciary of Purchaser.

23. REIMBURSEMENT OF EXPENSES. Seller agrees to reimburse Purchaser on demand for the actual amount of all reasonable costs and expenses, including attorneys' fees, which Purchaser has incurred or may incur in (a) negotiating, preparing, or administering this agreement and any documents prepared in connection herewith, all of which shall be paid contemporaneously with the execution hereof, and (b) protecting, preserving, or enforcing any Lien, security interest, or other right granted by Seller to Purchaser or arising under applicable law, whether or not suit is brought. Any such costs and expenses incurred subsequent to the execution hereof shall become part of the Obligations when incurred and may be added to the outstanding principal amount due hereunder.

24. ENTIRE AGREEMENT. This agreement supersedes all prior or contemporaneous agreements and understandings between said parties, verbal or written, express or implied, relating to the subject matter hereof. No promises of any kind have been made by Purchaser or any third party to induce Seller to execute this agreement. No course of dealing, course of performance or trade usage, and no parole evidence of any nature, shall be used to supplement or modify any terms of this agreement.

25. CHOICE OF LAW. This agreement and all transactions contemplated hereunder and/or evidenced hereby shall be governed by, construed under, and enforced in accordance with the internal laws of the State of Florida.

26. CONSTRUCTION OF AGREEMENT. Notwithstanding anything to the contrary set forth in this agreement, in no event shall the rate or amount of fees or other charges that are deemed interest under applicable law and that are charged or collected hereunder exceed the maximum amount chargeable under applicable law (it being the intent hereof that Purchaser not contract or receive and Seller not pay interest in excess of the maximum authorized by applicable law); and, if a court of competent jurisdiction determines that Purchaser has charged or collected interest in excess of the highest lawful rate, Purchaser shall promptly refund such excess to Seller and shall not otherwise be penalized.

27. JURY TRIAL WAIVER. IN RECOGNITION OF THE HIGHER COSTS AND DELAY WHICH MAY RESULT FROM A JURY TRIAL, THE PARTIES HERETO WAIVE ANY RIGHT TO TRIAL BY JURY OF ANY CLAIM, DEMAND, ACTION, OR CAUSE OF ACTION (A) ARISING HEREUNDER, OR (B) IN ANY WAY CONNECTED WITH OR RELATED OR INCIDENTAL TO THE DEALINGS OF THE PARTIES HERETO OR ANY OF THEM WITH RESPECT HERETO, IN EACH CASE WHETHER NOW EXISTING OR HEREAFTER ARISING, AND WHETHER SOUNDING IN CONTRACT OR TORT OR OTHERWISE; AND EACH PARTY FURTHER WAIVES ANY RIGHT TO CONSOLIDATE ANY SUCH ACTION IN WHICH A JURY TRIAL HAS BEEN WAIVED WITH ANY OTHER ACTION IN WHICH A JURY TRIAL CANNOT BE OR HAS NOT BEEN WAIVED; AND EACH PARTY HEREBY AGREES AND CONSENTS THAT ANY SUCH CLAIM, DEMAND, ACTION OR CAUSE OF ACTION SHALL BE DECIDED BY COURT TRIAL WITHOUT A JURY, AND THAT ANY PARTY HERETO MAY FILE AN ORIGINAL COUNTERPART OR A COPY OF THIS SECTION WITH ANY COURT AS WRITTEN EVIDENCE OF THE CONSENT OF THE PARTIES HERETO TO THE WAIVER OF THEIR RIGHT TO TRIAL BY JURY.

28. VENUE; JURISDICTION. The parties agree that any suit, action, or proceeding arising out of the subject matter hereof, or the interpretation, performance, or breach of this agreement, shall, if Purchaser so elects, be instituted in the United States District Court for the Middle District of Florida or any court of the State of Florida located in Orange County (each an "Acceptable Forum"). Each party agrees that the Acceptable Forums are convenient to it, and each party irrevocably submits to the jurisdiction of the Acceptable Forums, irrevocably agrees to be bound by any judgment rendered thereby in connection with this agreement, and waives any and all objections to jurisdiction or venue that it may have under the laws of the State of Florida or otherwise in those courts in any such suit, action, or proceeding. Should such proceeding be initiated in any other forum, Seller waives any right to oppose any motion or application made by Purchaser as a consequence of such proceeding having been commenced in a forum other than an Acceptable Forum.

29. NOTICE.

29.1. All notices required to be given to any party other than Purchaser shall be deemed given upon the first to occur of (i) deposit thereof in a receptacle under the control of the United States Postal Service, properly addressed and postage prepaid, (ii) transmittal by electronic means to a receiver under the control of such party; or (iii) actual receipt by such party or an employee or agent of such party.

29.2. All notices required to be given to Purchaser hereunder shall be deemed given upon actual receipt by a responsible officer of Purchaser.

29.3. For the purposes hereof, notices hereunder shall be sent to the following addresses, or to such other addresses as each such party may in writing hereafter indicate:

SELLER

ADDRESS: 3750 Investment Lane, Suite 5
West Palm Beach, FL 33407

OFFICER: Mr. Christopher Tisi, President and Chief Executive Officer

FAX NUMBER: 888-478-8467

PURCHASER

ADDRESS: One South Orange Avenue
Suite 405
Orlando FL 32801

OFFICER: Mr. Paul Ellenbogen, Executive Vice President

FAX NUMBER: 407-206-0025

30. COUNTERPARTS. This agreement may be signed in any number of counterparts, each of which shall be an original, with the same effect as if all signatures were upon the same instrument. Delivery of an executed counterpart of the signature page to this agreement by facsimile shall be effective as delivery of a manually executed counterpart of this agreement, and any party delivering such an executed counterpart of the signature page to this agreement by facsimile to any other party shall thereafter also promptly deliver a manually executed counterpart of this agreement to such other party, provided that the failure to deliver such manually executed counterpart shall not affect the validity, enforceability, or binding effect of this agreement.

31. DEFINITIONS. The following terms used herein shall have the following meanings. All capitalized terms not herein defined shall have the meaning set forth in the UCC:

31.1. "AVOIDANCE CLAIM" - any claim that any payment received by Purchaser from or for the account of an Account Debtor is avoidable under the Bankruptcy Code or any other debtor relief statute.

31.2. "BALANCE SUBJECT TO FUNDS USAGE FEE" - the unpaid Face Amount of all Purchased Accounts minus the Reserve Account.

31.3. "BUSINESS DAY" - a day of the week other than a Saturday, Sunday, or a holiday under which banks located in the State of Florida are required or permitted to be closed.

31.4. "CLEARANCE DAYS" - five (5) Business Days for all payments.

31.5. "COLLATERAL" - all now owned and hereafter acquired personal property and fixtures, and proceeds thereof, (including proceeds of proceeds) including without limitation:

31.5.1. Accounts, including health-care insurance receivables;

31.5.2. Chattel Paper;

31.5.3. Inventory;

31.5.4. Equipment;

31.5.5. Instruments, including Promissory Notes;

31.5.6. Investment Property;

31.5.7. Documents;

31.5.8. Deposit Accounts;

31.5.9. Letter of Credit Rights;

31.5.10. General Intangibles; and

31.5.11. Supporting Obligations.

31.6. "CREDIT AND COLLECTION SERVICES" - shall include the following services performed by Purchaser on behalf of Seller as a result of the purchase of accounts hereunder:

31.6.1. All accounts receivable record keeping, including the recording of invoices and payments;

31.6.2. Collection of accounts;

31.6.3. Setting of such credit limits for sales by Seller as may be required.

31.7. "DEFAULT CHARGE" - Seven (7%) percent per day in excess of the Funds Usage Fee Rate.

31.8. "EARLY TERMINATION FEE" - NONE.

31.9. "ELIGIBLE ACCOUNT" - an Account which is acceptable for purchase as determined by Purchaser in its sole discretion.

31.10. "EVENTS OF DEFAULT" - See Section 12.1

31.11. "FACE AMOUNT" - the face amount due on an Account.

31.12. "FUNDS USAGE FEE" - the product of the Funds Usage Fee Rate and the Balance Subject to Funds Usage Fee.

31.13. "FUNDS USAGE FEE RATE" - two (2) percent in excess of the Prime Rate, calculated on the basis of the actual number of days elapsed in a year of 360 days.

31.14. "INITIAL FEE" - the fee earned by Purchaser in consideration of its performance of Credit and Collection Services, computed as the Initial Fee Percentage multiplied by the Face Amount of each Purchased Account.

31.15. "INITIAL FEE PERCENTAGE" - 2.125 percent.

31.16. "LATE PAYMENT DATE" - the date which is sixty (60) days from the date on which the Purchased Account was due; or in the case of Purchased Accounts relating to invoices to General Nutrition Companies, Inc., the date which is forty-five (45) days from the date on which such Purchased Account was due.

31.17. "LIEN" - any interest in property securing an Obligation owed to, or a claim by, a person other than the owner of the property, whether such interest is based upon common law, statute, or contract.

31.18. "MAXIMUM AMOUNT" - $750,000.

31.19. "MISDIRECTED PAYMENT FEE" - fifteen (15%) percent of the amount of any payment on account of a Purchased Account which has been received by Seller and not delivered in kind to Purchaser on the next Business Day following the date of receipt by Seller.

31.20. "MISSING NOTATION FEE" - 15% of the Face Amount.

31.21. "OBLIGATIONS" - all present and future obligations owing by Seller to Purchaser whether or not for the payment of money, whether or not evidenced by any note or other instrument, whether direct or indirect, absolute or contingent, due or to become due, joint or several, primary or secondary, liquidated or unliquidated, secured or unsecured, original or renewed or extended, whether arising before, during, or after the commencement of any bankruptcy case in which Seller is a Debtor, including but not limited to any obligations arising pursuant to letters of credit or acceptance transactions or any other financial accommodations.

31.22. "PRIME RATE" - The prime rate announced by SunTrust Bank, Central Florida, N.A., from time to time as its prime rate, whether or not such rate is the lowest or best rate quoted by such bank to its most creditworthy customers. Seller acknowledges that such bank charges interest at, above, and below its announced prime rate

31.23. "PURCHASE PRICE" - the unpaid Face Amount of an Account at the time of purchase.

31.24. "PURCHASED ACCOUNTS" - Accounts purchased hereunder which have not been Repurchased.

31.25. "PURCHASE DATE" - The date on which Seller has been advised in writing that Purchaser has agreed to purchase an Account.

31.26. "REPURCHASED" - an Account has been repurchased when Seller has paid to Purchaser the then unpaid Face Amount.

31.27. "REQUIRED RESERVE AMOUNT" - the Reserve Percentage multiplied by the unpaid Face Amount of Purchased Accounts.

31.28. "RESERVE ACCOUNT" - an account or accounts on the books of Purchaser reflecting transactions hereunder.

31.29. "RESERVE PERCENTAGE" - Fifteen percent (15%), which percentage may be revised at any time by Purchaser to protect Purchaser with regard to (i) any indebtedness owing by Seller hereunder, or (ii) possible returns, claims or defenses of any Account Debtor.

31.30. "RESERVE SHORTFALL" - the amount by which the Reserve Account is less than the Required Reserve Amount.

31.31. "SCHEDULE OF ACCOUNTS" - a form supplied by Purchaser from time to time wherein Seller lists such of its Accounts as it requests that Purchaser purchase under the terms of this agreement.

31.32. "SELLER'S DEPOSIT ACCOUNT" - any demand deposit account maintained by Seller, or represented by an employee of Seller to be maintained by Seller, wherever located.

31.33. "UCC" - the Uniform Commercial Code (or any successor statute) as adopted and in force from time to time in the State of Florida or, when the laws of any other state govern the method or manner of the perfection or enforcement of any security interest in any of the Collateral, the Uniform Commercial Code (or any successor statute) as adopted and in force from time to time in such state.

IN WITNESS WHEREOF, the Parties have executed this agreement on the day and year first above written.

SELLER:

By: /s/Christopher Tisi

Name: Christopher Tisi

Title: C.E.O.

PURCHASER: LSQ FUNDING GROUP L.C.

By: /s/Paul Ellenbogen

Name: Paul Ellenbogen

Title: EVP.

Exhibit 10.4

INDEMNIFICATION AGREEMENT

Date: March 15, 2002

LSQ FUNDING GROUP L.C.
One South Orange Avenue
Suite 405
Orlando FL 32801

Re: Health & Nutrition Systems International, Inc.

Ladies and Gentlemen:

In order to induce you to extend financial accommodations to the Client pursuant to the Factoring and Security Agreement (the "Agreement") between you and the Client of even date herewith, the undersigned hereby warrants and represents to you as follows:

1. All Client's accounts which have been or will be reported to you by or on behalf of the Client under the Agreement and in which you hold a security interest ("Accounts"), whether such reports are in the form of agings, borrowing base certificates, collateral reports or financial statements, are genuine and in all respects what they purport to be, represent bona fide obligations of Client's customers arising out of the sale and completed delivery of merchandise sold by the Client (the "Sold Goods") in the ordinary course of its business in accordance with and in full and complete performance of customer's (each, a "Customer") order thereof.

2. All original checks, drafts, notes, letters of credit, acceptances and other proceeds of the Accounts, received by the Client, will be held in trust for you and will immediately be forwarded to you upon receipt, in kind, in accordance with the terms of the Agreements.

3. None of the Accounts are or will be the subject of any offsets, defenses or counterclaims of any nature whatsoever other than those offsets, defenses and counterclaims disclosed in writing by Client or the undersigned prior to the sale to us of the invoices subject to the offsets, defenses or counterclaims, and Client will not in any way impede or interfere with the normal collection and payment of the Accounts. The disclosure of every offset, defense or counterclaim must state in writing the maximum potential dollar value of the offset, defense or counterclaim that could be taken by an account debtor against an invoice or series of invoices prior to submission for sale.

4. Client is presently solvent. Solvent means Client's assets exceed its liabilities and Client is able to pay its debts as they become due.

5. The Sold Goods are and will be up to the point of sale, the sole and absolute property of the Client, and the Accounts and Sold Goods will be free and clear of all liens and security interests, except your security interest and except for that certain security interest which may be granted to Garden State or an affiliate thereof in certain collateral (the "Garden Lien").

6. The due dates of the Accounts will be as reported to you by or on behalf of the Client.

7. Client will promptly report to you all disputes, rejections, returns and resales of Sold Goods and all credits allowed by the Client upon all Accounts.

8. All reports which you receive from the Client, including but not limited to those concerning its Accounts and its inventory, will be true and accurate except for minor inadvertent errors.

9. Client will not sell its inventory except in the ordinary course of business.

10. Client will not suffer any lien, security interest or other encumbrance on any of its present or future Accounts or inventory without your prior written consent in each instance other than the Garden Lien.

11. The undersigned hereby indemnifies you and holds you harmless from any direct, indirect, or consequential damage or loss which you may sustain as a result of the breach of any representation or warranty contained herein (all of which are continuing and irrevocable for so long as the Client is indebted to you), or of your reliance (whether such reliance was reasonable) upon any misstatement (whether or not intentional), fraud, deceit or criminal act on the part of any officer, employee, or agent of the Client, or any costs (including reasonable attorneys' fees and expenses) incurred by you in the enforcement of any rights granted to you hereunder. All such sums will be paid by the undersigned to you on demand.

12. Nothing herein contained shall be in any way impaired or affected by any change in or amendment of any of the Agreements. This agreement shall be binding upon the undersigned, and the undersigned's personal representative, successors, and assigns.

13. The responsibilities of the undersigned relative to this indemnification will extend only to invoices (and any costs and expenses associated therewith) purchased by you up to the date of the receipt by you of a certified letter notifying you that Guarantor's employment with Client has been terminated.

Very truly yours,

/s/
Guarantor

HOME ADDRESS:

[ADD NOTARIAL ACKNOWLEDGEMENT]

EXHIBIT 10.16

EXCLUSIVE MANUFACTURING AGREEMENT

This EXCLUSIVE MANUFACTURING AGREEMENT (this "Agreement") is entered into as of April 11, 2002, between Garden State Nutritionals, a division of Vitaquest International, Inc., a Delaware Corporation, with offices located at 8 Henderson Drive, West Caldwell, New Jersey 07006 ("Garden State"), and HEALTH & NUTRITION SYSTEMS INTERNATIONAL, INC., with offices located at 3750 Investment Lane, Suite 5, West Palm Beach, FL 33407 ("HNS").

Whereas, HNS desires that Garden State manufacture for HNS its requirements of dietary supplements as such term is defined by the Food, Drug and Cosmetic Act of 1938 and any amendments thereto ("Product(s)"), and Garden State desires to manufacture and supply such Products to HNS;

Now, therefore, in consideration of the mutual covenants and promises hereinafter set forth and other good and valuable consideration received, the parties hereto agree as follows:

GENERAL TERMS AND CONDITIONS

1) Supply and Purchase. During the Term (as hereinafter defined), Garden State shall manufacture and supply to HNS all of HNS's requirements of Products, and HNS agrees to exclusively purchase its Product requirements from Garden State; provided, however, that in the event that HNS requires a Product in a form which Garden State does not manufacture (including, for example, bars or gel caps), then HNS shall be entitled to purchase such Products from another source without restriction or limitation after giving Garden State the first right to manufacture such products in accordance with the terms hereof.

2) Product Pricing. Garden State shall supply the Products currently manufactured by Garden State for HNS at the Net Sale Prices set forth on Exhibit A attached hereto; provided, however, Garden State may unilaterally increase one or more prices listed on Exhibit A, from time to time, upon ten days (10) prior written notice to HNS, but only if (i) Garden State provides substantiation reasonably satisfactory to HNS that the market price of a component ingredient of the Product affected has increased, and (ii) the increase in the Price of the Product does not exceed the increase in the cost of the ingredient. All other price increases shall be mutually agreed to by the Parties. "Net Sale Price" shall mean the price at which the Products are sold by Garden State to HNS under this Agreement, excluding all freight and delivery charges, and all sales, excise or similar taxes which shall be the responsibility of HNS. Notwithstanding anything to the contrary contained herein, Garden State agrees that in no event at any time during the term of this Agreement shall the Prices for the Products to HNS exceed the best price for such Product (or a similarly formulated Product) offered by Garden State to any other Garden State customer based on like quantities and lead times. The parties hereto agree to negotiate in good faith prices for any new Products Garden State may manufacture for HNS in the future pursuant to the terms of this Agreement, and, once agreed upon, the prices of such new Products shall be added to an amendment to Exhibit A, which amendment shall be attached to this Agreement and deemed to be made a part hereof.

3) Payment Terms. Garden State will invoice HNS for the Products on the date such Products are shipped from Garden State FOB, East Caldwell, NJ. Terms will be net payment within sixty (60) days with a line of credit of Four Hundred and Fifty Thousand Dollars ($450,000), which shall include both finished goods and works in process; provided, however, in the event that HNS develops a new Product not in existence on the date of this Agreement, terms with respect to such new Product shall be net payment within ninety (90) days within the existing the credit line. Payment for the Products shall be F.O.B. West Caldwell, New Jersey. All Product sales shall be final; provided, however, Garden State shall accept Product returns if (i) such returned Products fail to meet the Specifications provided for in Section 4 hereof, or (ii) Garden State fails to ship such Products to HNS in accordance with the terms of Section 5 hereof.

4) Purchase Orders. HNS will submit from time to time to Garden State purchase orders for the Products along with requested time and place of delivery. Garden State shall be required to confirm in writing any such purchase orders within two (2) days from receipt thereof indicated its acceptance or otherwise of such purchase orders. Any purchase orders not confirmed within the time indicated above shall be deemed not accepted by Garden State.

5) Delivery; Title. Garden State agrees that it shall exercise its best efforts to ship Products to HNS within four weeks from the date that Garden State receives a purchase order from HNS for Products hereunder. Title to Products sold hereunder shall pass from Garden State to HNS at West Caldwell, New Jersey; and all risk of loss and damage to such Products shall thereafter be borne by HNS.

6) Specifications. Garden State hereby agrees that the Products will be manufactured in strict compliance with the specifications attached hereto as Exhibit B (the "Specifications").

7) Inspection. Based upon its inspection and testing, HNS may reject any shipment or part thereof which, in the reasonable discretion of HNS, does not materially meet (a) all of the Specifications, or (b) any other term or condition of this Agreement. HNS will not be deemed to have accepted any shipment of Products and HNS will be entitled to a pro-rata refund of the purchase price paid for any shipment of Products which fail to meet the Product specifications or the terms of this Agreement. If HNS rejects any Products, Garden State shall promptly provide replacement Products to HNS at Garden State's cost expeditiously.

8) Indemnification. Garden State shall hold harmless, defend and indemnify HNS and its affiliates and their respective officers, directors, stockholders, employees and agents from and against any and all loss, liability, cost and expense, including but not limited to attorneys' fees and costs of investigation, arising out of (i) the manufacture of the Products by Garden State, or (ii) any failure of Garden State to comply with the terms and conditions of this Agreement. Garden State shall not be responsible for any defects caused in whole or in part by HNS or its agents in connection with the storage of the Product. HNS shall promptly notify Garden State of any event for which HNS is indemnified hereunder. If Garden State has not assumed the defense, HNS may defend this matter and any and all costs and expenses, including but not limited to attorneys' fees and costs of investigation, shall be the responsibility of Garden State. Garden State's selection of counsel to defend the indemnified event shall be reasonably acceptable to HNS. Garden State shall not settle any claim without the prior written consent of HNS which may be withheld in HNS's sole discretion.

HNS shall hold harmless, defend and indemnify Garden State and its affiliates and their respective officers, directors, stockholders, employees and agents and its customers from and against any and all loss, liability, cost and expense, including but not limited to attorneys' fees and costs of investigation, arising out of Product labels or other intellectual property issues or the marketing or distribution from the HNS warehouse of the Product.

This provision shall survive any termination of this Agreement.

9) Packaging. HNS shall bear full responsibility for the text of its Product labels, the legitimacy of its intellectual property, all actions of its employees and agents in connection with the marketing, advertising, and distribution of the Products, and the Product formulation's compliance with all applicable law and regulatory requirements. HNS shall defend, indemnify and hold Garden State its agents and shareholders harmless in connection with such conduct. This provision shall survive any termination of this Agreement.

10) Insurance. Each party shall provide to the other party at execution of this Agreement certificates of insurance with minimum policy limits of $5,000,000 per occurrence and $5,000,000 annual aggregate, with respect to each of general liability insurance and product liability insurance naming the other party as an additional insured under such party's insurance policies relating to the manufacture of the Products. This provision shall survive any termination of this Agreement.

11) No Default. The parties mutually affirm that their performance hereunder is not in violation of any existing or past contractual obligation, judicial, governmental, or regulatory decree.

12) Confidentiality. The Parties shall treat as confidential all confidential information and materials exchanged during the term of this Agreement, including but not limited to customer lists, product formulation, pricing information, marketing concepts, and will not divulge such information, even upon the termination of this Agreement, unless such information is within the public domain prior to the date of this Agreement, becomes part of the public domain through a means that is not due to any action on the part of either party or is disclosed by a third party in lawful possession of such information. Upon the termination of this Agreement, all such confidential information and any copies of such information, shall be returned to the originating party. If any party breaches the provisions of this paragraph, the non-breaching Party may seek all means of legal redress, including injunctive relief, and shall be reimbursed for all expenses and legal costs if deemed successful on the merits. This provision shall survive any termination of this Agreement.

13) Warranties. Garden State warrants that the Products supplied hereunder shall be manufactured (i) to comply in all respects with the Specifications therefor, and (ii) to comply with good manufacturing practices.

14) Term. The term of this Agreement shall be for a period of two (2) years, commencing as of the date first above written and expiring on the second anniversary of such date (the "Term").

15) Termination.

(a) Automatic Termination. This Agreement will automatically terminate immediately upon the occurrence of any of the following events by either party: an assignment for the benefit of creditors, filing of a petition in bankruptcy, applying to or petitioning any tribunal for the appointment of a custodian, receiver, intervenor or trustee for either party or for a substantial part of its assets, or if either party shall commence any proceeding under any bankruptcy, arrangement, readjustment of debt, dissolution or liquidation law or statute of any jurisdiction, whether now or hereafter in effect, or if any such petition or application shall have been filed or proceeding commenced against either party and either party shall have not dismissed the same within sixty (60) days, or if any such custodian, receiver, intervenor or trustee shall have been appointed for either party or for it's properties or assets.

b) Termination in the Event of Breach. If either party fails to perform its obligations under this Agreement and such failure continues for a period of thirty (30) days after written notice thereof, the other party shall have the right to terminate this Agreement immediately. In addition, if HNS fails to make a payment when due hereunder, Garden State shall not be required to ship any additional product or accept or process any Product orders until such payment default has been cured by HNS.

16) Notice. Any notice required to be given hereunder will be in writing and sent by overnight courier, e.g., FedEx, (overnight delivery or the earliest delivery will be specified) or by facsimile (with confirmation of receipt) as set forth below:

If to HNS:

Health and Nutrition Systems International, Inc.
Attention: President
3750 Investment Lane, Suite 5
West Palm Beach, FL 33407
Facsimile: (888) 478-8467

Copy to:

Denise G. Reeder, Esq.
Greenberg Traurig, P.A.
777 S. Flagler Dr., Suite 300E
West Palm Beach, FL 33418
Facsimile: 561-655-6222

If to Garden State:

Garden State Nutritionals
President
8 Henderson Dr.
West Caldwell, NJ 07006
Facsimile:

17) Binding Effect; Assignment. This Agreement shall be binding upon both Parties, their predecessors and successors in interest, assigns, existing and future related entities under common ownership or control. This Agreement may not be assigned by either party without the prior written consent of the other party. Any attempted assignment in violation of this provision shall be void.

18) No Third Party Beneficiaries. Nothing contained in this Agreement, express or implied, shall confer upon any person who is not a party hereto any rights or remedies of any nature or kind whatsoever under or by reason of this Agreement.

19) HNS and Garden State are independent parties. This Agreement does not in any way create the relationship of principal and agent, joint-venture or partnership between the parties or any other form of association which would impose on any party liability for the act or failure to act of the other party or parties; and under no circumstances will one party be considered to be the agent of the other party. Neither party will act or attempt to act, or represent itself, directly or by implication, as an agent of the other party or in any manner assume or create, or attempt to assume or create, any obligation on behalf of, or in the name of, the other party.

20) Force Majeure. Except for the obligation to pay for the Products provided under this Agreement, neither party hereto will be liable for its failure to perform hereunder, in whole or in part, due to contingencies beyond its reasonable control, including strikes, riots, war, fire, explosions, acts of God, injunctions, compliance with any law, regulation or order, whether or not valid, of the United States of America or any governmental body or any instrumentality thereof, whether now existing or hereto created; provided, however, that the parties will use reasonable efforts to continue to meet their obligations for the duration of the force majeure condition; and provided further, that the party declaring force majeure will notify the other party promptly in writing of the commencement of the force majeure condition, the nature of such condition, and the termination of the such condition. In the event of a force majeure condition, HNS will have the right to immediately purchase Products from another source during the force majeure event.

21) Entire Agreement; Amendments. This Agreement represents the entire Agreement between the parties and supersedes any prior oral or written agreements or negotiations between the parties. Any modification to this Agreement shall be in writing and signed by both parties.

22) Governing Law. This Agreement shall be governed by the laws of the State of Florida. Any controversy or claim arising out of or relating to this Agreement, except injunctive relief discussed, shall be settled by arbitration administered by the American Arbitration Association in Palm Beach County, Florida, under its Commercial Arbitration Rules, and judgment on the award rendered by the arbitrator(s) may be entered in any court having jurisdiction with respect to this Agreement.

23) Severability. In the event that for any reason any section or provision of this Agreement should be held invalid or otherwise unenforceable, it is agreed that such invalidity or unenforceability shall not effect the other sections of this Agreement, and the remaining provisions of this Agreement shall remain in full force and effect.

24) Counterparts. This Agreement may be executed in one or more counterparts, each of which shall constitute an original, and all of which together shall constitute a single agreement.

25) Attorneys Fees. In the event that any suit or proceeding is brought for the enforcement of any of the provisions of this Agreement, the parties hereto agree that the prevailing party or parties shall be entitled to recover from the other party or parties upon final judgment on the merits reasonably attorneys' fees, including attorneys' fees for any appeal, and costs incurred in bringing such suit or proceeding.

[The remainder of this page has been left blank intentionally. The signature page follows.]

IN WITNESS WHEREOF, the Parties hereto have executed this Agreement, effective as of the date first above written.

GARDEN STATE NUTRITIONALS, a
division of Vitaquest International, Inc.

/s/ Keith Frankel

By: Keith Frankel
Its: President and C.E.O.

HEALTH & NUTRITION SYSTEMS INTERNATIONAL, INC.

/s/ Christopher Tisi

By: Christopher Tisi
Its: Chief Executive Officer

Exhibit 10.17

SECURITY AGREEMENT

THIS SECURITY AGREEMENT (this "Security Agreement") is made on this 11 day of April, 2002 by Health & Nutrition Systems International, Inc., a Florida corporation ("HNS") in favor of Garden State Nutritionals, a division of Vitaquest International Inc., a Delaware corporation located at 8 Henderson Drive, West Caldwell, New Jersey ("GSN") under that certain Promissory Note (as hereinafter defined).

WHEREAS, HNS has delivered to GSN that certain promissory note with an aggregate principal amount of Seven Hundred Thousand Dollars ($700,000) of even date herewith, a copy of which is attached hereto as Exhibit "A" (the "Promissory Note"); and has agreed to enter into an Exclusive Manufacturing Agreement, appended hereto as Exhibit "B".

WHEREAS, HNS has agreed to provide security for the obligations under the Promissory Note;

NOW, THEREFORE, in consideration of the promises and the mutual covenants herein contained, and for other good and valuable consideration, the receipt and adequacy of which are hereby acknowledged, the parties hereto, intending to be legally bound, hereby agree as follows:

1. GRANT OF SECURITY INTEREST.

(a) As security for the repayment of sums due under the Promissory Note, HNS hereby grants to GSN a security interest under the Uniform Commercial Code (as in effect on the date hereof and as amended from time to time hereafter) of the State of Florida (the "UCC") in all tangible and intangible assets of the HNS and all intellectual property of HNS (all as more fully described on Schedule A to this Agreement) and (iii) proceeds of all or any of the items described in items (i) and (ii) of this Section 1 (collectively the "Collateral"). HNS shall not move the Collateral or HNS's headquarters offices outside the State of Florida without first giving GSN 30 days' prior notice.

(b) Notwithstanding anything herein to the contrary, HNS shall be entitled to, without consent from or notice to GSN, use and dispose of the Collateral in the ordinary course of its business, including but not limited to the granting of licenses to any third party.

2. DEFAULTS AND REMEDIES. HNS shall be in default hereunder upon, and only upon, the failure of Borrower to make three (3) consecutive quarterly principal payments in accordance with the terms of the Promissory Note (a "Default"). Upon the occurrence of a Default, GSN shall have and may exercise all rights and remedies available to GSN under the UCC, subject to the terms of this Security Agreement.

3. NOTICES. All notices, demands and other communications required or permitted hereunder shall be in a writing and shall be deemed to have been duly given, when delivered by hand or five (5) days after deposit in the United States mail, by registered or certified mail, return receipt requested, postage prepaid, as follows:

If to the HNS:	3750 Investment Lane, Suite 5 West Palm Beach, FL 33407 Attn: Chris Tisi, President and Chief Executive Officer
With copy to:	Greenberg Traurig, P.A. 777 South Flagler Drive, Suite 300E West Palm Beach, FL 33401 Attn: Denise G. Reeder, Esq.
or, if to the GSN	c/o Vitaquest International Inc. 8 Henderson Drive West Caldwell, New Jersey Attn: Scott Yagoda, General Counsel

or to such other address as any party hereto may from time to time designate in writing delivered in a like manner.

4. FINANCING STATEMENTS. HNS shall execute all appropriate financing statements, and amendments thereto, to be filed with the Secretary of State of Florida as GSN may reasonably request from time to time to evidence the security interest granted hereunder. Upon the full and final payment of all amounts due under the Promissory Note, the parties hereto will cause a termination statement to be prepared and filed terminating the security interest created hereunder.

5. MISCELLANEOUS.

a. This Security Agreement shall become effective as of the date hereof and shall continue in full force and effect so long as any balance remains outstanding under the Promissory Note.

b. No amendment, modification or waiver of any provision hereof shall be effective unless it is in a writing and signed by HNS, in the case it is to be enforced against the HNS, or GSN, in the case it is to be enforced against GSN.

c. This Security Agreement may be signed in counterparts, which taken together shall constitute one instrument.

d. No waiver of any provision hereunder shall act or be construed as a continuing waiver of any provision hereof.

e. This Agreement shall bind and inure to the benefit of the parties and their respective successors and assigns, heirs and personal representatives. Any provision hereof which is prohibited or unenforceable in any applicable jurisdiction shall, as to such jurisdiction, be ineffective to the extent of such prohibition or unenforceability without affecting the validity or enforceability of the remainder of this Security Agreement or the validity or enforceability of such provision in any other jurisdiction.

f. This Security Agreement shall be governed by and construed in accordance with the laws of the State of Florida.

IN WITNESS WHEREOF the undersigned has duly executed this Security Agreement as of the date first above written.

Health & Nutrition Systems International, Inc.,
a Florida corporation

/s/ Christoper Tisi

Christopher Tisi
President and Chief Executive Officer

SCHEDULE A

HEALTH & NUTRITION SYSTEMS, INTERNATIONAL, INC.
STATUS OF PENDING AND REGISTERED TRADEMARKS
APRIL 1, 2002

OUR REF.	MARK	SERIAL NO./ REG NO.	DATE FILED/ REG. DATE:	STATUS
2196.001	THIN TAB	75/367,999	10/093/97	U.S. Trademark Reg. No. 2,198,376, registered October 20, 1998
2196.003	THIN SHAKE AND DESIGN	75/626,392	01/25/97	Pending, approved for publication; await publication date from Trademark Office
2196,004	THIN TAB CARB BLOCKER	75/705,603	06/05/00	Pending, approved for publication; await publication date from Trademark Office
2196.005	ON THE MOVE	2,491,296	09/18/01	Registered
2196.006	CARB CUTTER	2,451,931	05/15/01	Registered
2196.007	COME TOGETHER	75/875,788	12/21/00	Notice of Allowance issued 01/16/01; registration imminent (Statement of use or further Ext. due by 7/16/02)
2196.008	I CHEAT	75/939,009	03/08/00	Pending, approved for publication; await publication date from Trademark Office
2196.010	JOINT LUBE	76/097~459	07/24/00	Office Action dated 10/29/01; Response to Office Action due: 4/29/02
2196.011	DO YOU CHEAT?	76/081,818	07/03/00	Published by Trademark Office on 1/22/02; if no opposition filed, mark will register
2196012	WE CHEAT	76/082,098	07/03/00	Pending, approved for publication; await publication date from Trademark Office
2(96.013	FAT DROPS	76/082,384	07/03/00	Exts. filed by other party to file Opposition against mark
2196.015	CARB BLOCKER	76/373,492	02/2202	Newly filed application; await correspondence from Trademark Office
2196.000	ACUTRIM	1,266,820	02/14/84	Registered / Ownership acquired by Contract dated 01/12/2001

Exhibit 10.18

HEALTH & NUTRITION SYSTEMS INTERNATIONAL, INC.

1998 STOCK OPTION PLAN

1. Purposes of Plan. This 1998 Stock Option Plan (the "Plan") is intended to encourage and enable selected employees, officers, directors and independent contractors of Health & Nutrition Systems International, Inc. (the "Company") to acquire or to increase their holdings of shares of the common stock of the Company (the "Common Stock") in order to promote a closer identification of their interests with those of the Company and its stockholders, thereby further stimulating their efforts to enhance the efficiency, soundness, profitability, growth and stockholder value of the Company. This purpose will be carried Out through the granting of incentive stock options ("Incentive Stock Options") and nonqualified stock options ("Nonqualified Stock Options"). Incentive Options and Nonqualified Options shall be collectively referred to herein as "Options."

2. Administration. The Plan shall be administered by the Board of Directors, or if appointed by the Board of Directors, by a committee, of not less than two (2) Directors (the Board sitting as such Committee or such Committee if appointed, is herein referred to as the "Committee"). The Committee will administer the Plan and execute award agreements or other documents subject to the express provisions of the Plan. In addition, the Committee shall have plenary authority, in its discretion, to determine the individuals to whom, and the time or times at which, awards of Options under the Plan shall be made, whether the awards are to be Incentive Stock Options, or otherwise, and the number of shares of Common Stock of the Company to be contained in each grant of option, and to establish the terms and conditions of each award (which need not be identical). Subject to the express provisions of the Plan, the Committee shall have plenary authority in its discretion to interpret the Plan, to prescribe, amend and rescind rules and regulations relating to the Plan, prescribe and amend the terms and provisions of the stock option agreements (which need not be identical) and to make all other determinations deemed necessary or advisable for the administration of the Plan. The determinations of the Committee on all matters with respect to the Plan shall be conclusive. All expenses and liabilities incurred by the Committee in the administration of the Plan shall be borne by the Company. The Committee may, with the approval of the Board (if applicable) employ attorneys, consultants, accountants or other persons to assist with the administration of the Plan.

3. Stock Reserved for the Plan. For purposes of the Plan, 2,500,000 shares of Common Stock may be issued pursuant to the exercise of options granted hereunder (subject to adjustment as provided in Section 11 below), and the Company has reserved sufficient authorized shares to provide for the exercise of such options. Such shares may consist, in whole or in part, of unissued or treasury shares. If any shares that have been optioned or granted under the Plan cease to be subject to option or grant or are later forfeited or reacquired by the Company, as the case may be, such shares may again be made subject to awards under the Plan.

4. Participation. Officers, directors and other employees of the Company, as well as independent contractors of and consultants to the Company, are eligible to participate in the Plan.

5. Eligibility for Incentive Stock Options. An Incentive Stock Option may be granted only to an individual who satisfies all of the following eligibility requirements on the Granting Date (as defined in Section 7(b) below):

(a) The individual is an employee of the Company. For this purpose, an individual is considered to be an "employee" only if there exists between the individual and the Company the legal and bona fide relationship of employer and employee. In determining whether such a relationship exists, the regulations of the United States Treasury Department relating to the determination of the employment relationship for the purpose of collection of income tax on wages at the source shall be applied.

(b) The individual is an employee of the Company who the Committee determines is in a position to affect the profits of the Company by reason of the nature and extent of such employee's duties, responsibilities, personal capabilities, performance and potential.

(c) With respect to the grant of an Incentive Stock Option, the individual does not own, immediately before the time that the Incentive Stock Option is granted, stock possessing more than ten percent of the total combined voting power of all classes of stock of the Company; provided, that a 10% Holder (as defined in Section 7 below) may be granted an incentive option if the price at which such option may be exercised is greater than or equal to one hundred ten percent (110%) of the fair market value of the shares of Common Stock of the fair market value of the Common Stock at the time of the grant of the option and the period of the option does not exceed five (5) years. For this purpose, an individual will be deemed to own stock which is attributed to him under Section 424(d) of the Internal Revenue Code of 1986, as amended (the "Code").

(d) The individual, being otherwise eligible under this Section 5, is selected by the Committee as an individual to whom an option shall be granted (a "Grantee").

6. Eligibility for Nonqualified Stock Options. A nonqualified stock option may be granted only to an individual who satisfies the following eligibility requirements on the Granting Date:

(a) The individual is an employee, officer or independent contractor or consultant of the Company. For this purpose, an individual is an considered to be an "employee" only if there exists between the individual and the Company or a related corporation the legal and bona fide relationship of employer and employee. In determining whether such a relationship exists, the regulations of the United States Treasury Department relating to the determination of the employment relationship for the purpose of collection of income tax on wages at the source shall be applied. For this purpose, an individual is considered an "independent contractor" if that individual performs services for the Company in a capacity other than as an employee.

(b) The individual, being otherwise eligible under this Section 6, is selected by the Committee as an Grantee.

7. Terms and Conditions of Options. All Options granted under this plan shall be subject to the following terms and conditions and any others as the Committee shall deem desirable:

(a) Option Price. The purchase price per share of Common Stock will be determined by the Committee but the purchase price for Incentive Stock Options will not be less than one hundred percent (100%) of the fair market value of the stock on the Granting Date. Such fair market value shall be determined by the Committee in such manner as it shall deem reasonable and in compliance with all applicable laws and regulations. The purchase price of the stock subject to an Incentive Stock Option granted to the holder of ten percent (10%) or more of the outstanding Common Stock (a "10% Holder") shall be equal to at least one hundred ten percent (110%) of the fair market value of the Common Stock at the time of the grant of the option. In no event shall the purchase price per share under any Option be less than the par value of such stock subject to the Option.

(b) Effective Date of Grant. The effective date of the grant of an Option (the "Granting Date") shall be the date specified by the Committee in its determination relating to the award of such Option, provided that such date shall not be prior to the date of such action by the Committee. The Committee shall promptly notify the Grantee of the grant of an Option, and a written Stock Option Agreement shall promptly be executed and delivered by and on behalf of the Company and the Grantee, provided that such grant of an Option shall expire if a written Stock Option Agreement is not signed by said Grantee (or his agent or attorney) and returned to the Company within ninety (90) days from the Granting Date.

(c) Option Period. The term of each Option, including the earliest date of exercise and the "vesting" periods for the exercise of the Options over time shall be fixed by the Committee; provided, however that no Option shall be exercisable after the expiration of ten years from the Granting Date (but no more than five (5) years from the Granting Date in the case of a 10% Holder). The aggregate fair market value (determined as of the time the Granting Date) of the Stock with respect to which Incentive Stock Options are exercisable for the first time by a grantee during any calendar year (under all plans of the Company and its subsidiaries) shall not exceed One Hundred Thousand Dollars ($100,000). To the extent Options which first become exercisable during a calendar year exceed One Hundred Thousand Dollars ($100,000) to one employee, such Options shall be deemed non-qualified stock Options.

(d) Exercise. An Option may be exercised by giving written notice of exercise to the Company specifying the number of shares to be purchased and by paying in full the purchase price in cash or certified check, except to the extent the participant is permitted to defer such payment pursuant to the Option Agreement with such participant or a separate agreement. The Committee may make provision for so-called `cashless exercise" pursuant to the Option Agreement or a separate agreement with the Grantee. The holder of an Option shall have none of the rights of a stockholder with respect to the shares subject thereto until such shares shall have been issued and registered on the Company's transfer books upon such exercise.

(e) Non-transferability of Options. No Option or other right granted under the Plan shall be transferable other than by will and laws of descent and distribution. An Option or other right shall be exercisable during a Grantee's lifetime only by the Grantee.

(f) Termination by Retirement. If a Grantee who is an employee retires pursuant to any retirement plan of the Company, his outstanding Options may be exercised (to the extent of the number of shares purchasable by such grantee at the time of his retirement) for up to three months after his retirement date or the stated period of the Option, whichever period is shorter.

(g) Termination by Disability. If a Grantee's employment is terminated due to a disability qualifying such Grantee for payments under any disability plan of the Company or a subsidiary, his outstanding Options may be exercised to the extent of the remaining shares covered by this Options for up to three months from the date of termination or the stated period of the Option, whichever period is shorter.

(h) Other Termination. If a Grantee ceases to be an officer, employee or director of the Company, or in the case of contractors and consultants, ceases to be a contractor or consultant to the Company, for any reason other than death, disability or retirement, his outstanding Options shall terminate and expire upon the termination of such relationship with the Company.

(i) Death of Optionee. In the event of the death of a Grantee while he is employed by the Company, or within the three month periods provided in Section 7(f) or 7(g) hereof, the Options granted to him may be exercised by a legatee or legatees of the Grantee under his last will, or by his personal representatives or distributees, at any time within a period of one year after his death (unless otherwise provided in his Stock Option Agreement), but not after the date on which the Options otherwise expires within such period.

(j) Stock Option Agreements. The grant of any Option under the Plan shall be evidenced by the execution of an agreement between the Company and the Grantee in such form as may be adopted by the Committee from time to time in its sole discretion (each a "Stock Option Agreement"). Stock Option Agreements between the Company and Grantees of options need not be identical, but each such agreement shall set forth the date of grant of the option, the Option Price, the Option period, the designation of the Option as an Incentive Stock Option or a Nonqualified Stock Option, and the time or times when and the conditions upon the happening of which the Option shall become exercisable. Such agreement shall also set forth the restrictions, if any, with respect to which the shares to be purchased thereunder shall be subject, and such other terms and conditions as the Committee shall determine, which are consistent with the provisions of the Plan and applicable law and regulations.

(k) Incentive Stock Options. It is the intent of the Company that certain Options granted under the Plan qualify as "incentive stock options" under Section 422A of the Internal Revenue Code. Accordingly, the Plan is also deemed to contain such other terms and conditions necessary (and not contain any terms and conditions inconsistent with said Section 422A) so that certain Options granted under the Plan shall qualify as Incentive Stock Options under said Section 422A.

(l) Lapse at the Discretion of the Committee. The Committee may at any time, in its sole discretion, accelerate the time at which any or all restrictions will lapse or remove any or all of such restrictions.

8. Terms and Conditions. Any Option awarded to the participant under the Plan shall be subject to the following terms and conditions and any others as the Committee shall deem desirable:

(a) Vesting Acceleration. Upon an acquisition of the Company, as evidenced by the purchase (other than through the issuance of stock by the Company) by an independent party of more than fifty percent (50%) of the outstanding shares, a merger as a result of which more than fifty percent (50%) of the outstanding capital stock of the Company is held by persons who were not previously stockholders of the Company, or a sale of all or substantially all of the Company's assets, all outstanding Options may immediately be exercised by the grantee thereof. Upon the closing of the sale of shares of Common Stock in a fully underwritten public offering (with underwriters approved by the Board of Directors of the Company) pursuant to an effective registration statement under the Securities Act of 1933, as amended, where the aggregate sales price of such shares of Common Stock is not less than $10,000,000, all outstanding Options may immediately be exercised by the grantee thereof.

(b) Forfeiture of Option. All unexercised Options shall be forfeited and all rights of the Grantee to such forfeited Options shall terminate upon the termination of the Grantee's employment (except in the case of death, disability, retirement or authorized leaves of absence) or, in the case of consultants or contractors, termination of the consulting or contracting arrangement.

(c) Delivery of Stock. The Company shall deliver stock certificates representing the number of shares of Common Stock that have been fully paid as soon as practicable after receipt of payment from a Grantee. If a Grantee is allowed under the terms of the Option to make payment of any part of the purchase price of the Common Stock on a deferred basis, then stock certificates representing shares of Common Stock shall be delivered to the Grantee only to the extent that such shares are fully paid.

(d) Right as a Shareholder. Upon the exercise of an Option, the payment in full of the Option price and the issuance of shares, the Grantee shall have all of the rights of a shareholder with respect to such Common Stock and the right to receive all dividends paid thereon.

9. No Right to Company Employment. Nothing in this Plan or as a result of any award pursuant to this Plan shall confer on any participant any right to continue in the employ of the Company or of a subsidiary or interfere in any way with the right of the Company or of a subsidiary to terminate a participant's employment at any time. Awards granted under the Plan shall not be affected by any change of employment so long as the participant continues to be an officer, director, or employee of the Company.

10. Right of First Refusal. Upon termination of employment or association with the Company by death, disability, retirement or any other reason, or in the event a Grantee desires to sell or transfer his shares of Common Stock, the Company shall have the right to purchase any shares owned by the participant at their then current fair market value. The calculation of fair market value will be determined by the Committee, in good faith, based upon relevant conditions and circumstances. If the Company declines to purchase the shares within 30 days after the date the Committee calculates and determines the fair market value, then the participant shall have the right to offer the shares

for sale to a third party for a period of thirty days following the lapse of the right of first refusal to the Company; thereafter such shares shall once again be subject to the right of first refusal herein provided. The right of first refusal shall terminate at any time a registration statement is filed by the Company under the Securities Act of 1933, as amended (the "1933 Act") and is declared effective by the Securities and Exchange Commission for the public issue of the Company's Common Stock; provided, however, that the Company has no obligation to the Grantee to register the Shares under the 1933 Act.

11. Adjustments Upon Changes in Capitalization. If there is any change in the outstanding shares of common stock of the Company as a result of a merger, consolidation, reorganization, stock dividend, stock split to holders of shares that is distributable in shares, or other change in the capital stock structure of the Company or a related corporation, the Committee shall make such adjustments to options, to the number of shares reserved for issuance under the Plan, and to any provisions of this Plan as the Committee deems equitable to prevent dilution or enlargement of options or otherwise advisable to reflect such change.

12. Amendments and Termination. The Committee may amend, alter, or discontinue the Plan in such respects as it shall deem advisable; provided, however, that the Committee may not, without approval by the holders of the majority of the outstanding shares of Common Stock of the Company; (i) increase the aggregate maximum number of shares as to which Options may be granted under the Plan; or (ii) change the class of participants eligible to receive awards under the Plan.

13. Effective Date of the Plan. The Plan shall become effective as of the date of adoption by the Board of Directors (the "Effective Date"), subject to approval by the shareholders within one (1) year thereafter.

14. Term of the Plan. No Options shall be granted pursuant to the Plan after the date that is ten (10) years after the Effective Date. However, unexpired options granted prior to such date will remain in effect.

15. Government and Other Regulations. The obligations of the Company to issue shares under the Plan, and the transferability of shares shall be subject to all applicable laws, rules and regulations, and such approvals by any governmental agencies as may be required, including, without limitation, if necessary or appropriate, the effectiveness of a registration statement under the Securities Act of 1933, as amended. All shares issued upon exercise of options will contain restrictive legends as deemed appropriate by counsel to the Company.

16. Tax Withholding. When any Option is exercised, the grantee shall pay the Company in cash, any amount of withholding taxes which the Company may be required by law to withhold.

17. Limited Liability. Neither the Company nor any of its officers, or employees, or any member of the Board of Directors or the Committee, or any other person participating in any determination of any question under the Plan, or in the interpretation, administration or applicable of the Plan, shall have any liability for any action taken, or not taken, in good faith under the Plan, or based on or arising out of the determination of any question under the Plan, made in good faith.

18. Non-Exclusivity of the Plan. Neither the adoption by the Board of Directors nor the submission of the Plan to the stockholders of the Company for approval shall be construed as creating any limitations on the power of the Board of Directors to adopt such other incentive arrangements as it may deem desirable, including without limitation, the granting of stock options otherwise than under the Plan, and such arrangements may be either generally applicable or applicable only in specific cases.

19. Applicable Law. The Plan shall be construed and enforced according to the laws of the State of Florida.

EXHIBIT 10.19

PROMISSORY NOTE

$700,000.00 April 11, 2002

A. LOAN

For Value Received, HEALTH & NUTRITION SYSTEMS INTERNATIONAL, INC., a Florida corporation (the "Borrower") unconditionally promises to pay to GARDEN STATE NUTRITIONALS, a division of VITAQUEST INTERNATIONAL, INC., a Delaware corporation (the "Lender"), at 8 Henderson Drive, West Caldwell, New Jersey 07006, or at such other place as may be designated by the Lender, in lawful money of the United States of America, the principal amount of SEVEN HUNDRED THOUSAND AND 00/100 DOLLARS ($700,000.00) (the "Loan") payable in accordance with the terms hereof.

B. RATE

The outstanding principal balance of the Loan shall not bear interest. Notwithstanding any other provision contained in this Promissory Note, the Lender does not intend to charge, and the Borrower shall not be required to pay, any amount of interest or other fees or charges in connection with the Loan.

C. PAYMENTS

The principal amount of this Promissory Note shall be due and payable in equal consecutive quarterly installments of EIGHTY SEVEN THOUSAND FIVE HUNDRED AND 00/100 DOLLARS ($87,500.00) commencing on June 1, 2002 and on the first Business Day of each September, December, March and June thereafter until the Maturity Date. All payments of principal shall be made by check or by wire transfer to an account designated by Lender in writing.

D. MATURITY DATE

All unpaid principal shall be due on March 1, 2004.

E. ADDITIONAL TERMS AND CONDITIONS

1. This Promissory Note shall be construed under the internal laws and judicial decisions of the State of Florida and the laws of the United States as the same might be applicable, without regard to conflicts-of-laws principles that would require the application of any other law.

2 Borrower agrees to promptly pay, indemnify and hold Lender harmless from any and all taxes (other than income taxes), if any, with respect to or resulting from the execution and delivery of this Promissory Note.

3 The occurrence of any of the following events shall constitute a default under this Promissory Note: (i) the failure of Borrower to pay when due any payment of principal under this Promissory Note and such failure continues for fifteen (15) days after Lender notifies Borrower thereof in writing; (ii) if, 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"), Borrower shall (a) commence a voluntary case or proceeding;

(b) consent to the entry of an order for relief against it in an involuntary case; (c) consent to the appointment of a trustee, receiver, assignee, liquidator, or similar official; (d) make an assignment for the benefit of its creditors; or (e) admit in writing its inability to pay its debts as they become due and (iii) Christopher Tisi shall cease to be and actively serve as the President and Chief Executive Officer of Borrower (unless a replacement reasonably acceptable to Lender is obtained within thirty (30) days of Mr. Tisi ceasing to be President and Chief Executive Officer). "Business Day" shall mean any day that banks are opened for business in the State of Florida, other than a Saturday, Sunday or a legal holiday.

4 Whenever there is a default under this Promissory Note, Lender may, at its option, (i) by written notice to Borrower, declare the entire unpaid principal balance of this Promissory Note immediately due and payable; and (ii) exercise any and all rights and remedies available to it under applicable law.

5 In the event any one or more of the provisions of this Promissory Note shall for any reason be held to be invalid, illegal or unenforceable, in whole or in part or in any respect, or in the event that any one or more of the provisions of this Promissory Note operate or would prospectively operate to invalidate this Promissory Note, then and in any of those events, such provision or provisions only shall be deemed null and void and shall not affect any other provision of this Promissory Note and the remaining provisions of this Promissory Note shall remain operative and in full force and effect and shall in no way be affected, prejudiced or disturbed thereby.

6 Borrower may prepay the outstanding principal balance due under this Promissory Note, in full at any time or in part from time to time, without premium or penalty. Any partial prepayments shall be applied to installments of principal in inverse order of their maturity.

7 Any notice required or permitted to be given hereunder shall be given to Borrower at 3750 Investment Lane, Suite 5, West Palm Beach, FL 33407, Attention: President.

IN WITNESS WHEREOF, Borrower has executed and delivered to Lender this Promissory Note on the date first above written.

BORROWER:

HEALTH & NUTRITION SYSTEMS INTERNATIONAL, INC.,
A FLORIDA CORPORATION

/s/ Christopher Tisi

By: Christopher Tisi
Its: President and Chief Executive Officer

EXHIBIT 10.20

LSQ FUNDING GROUP P.C.
SUBORDINATION AGREEMENT

THIS AGREEMENT is entered into as of this 11th day of April 2002 by and between LSQ FUNDING GROUP L.C., a Florida corporation, located at 1403 West Colonial Drive, Orlando, FL 32804 (hereinafter referred to as "LSQ") and GARDEN STATE NUTRITIONALS, a division of VITAQUEST INTERNATIONAL, INC. a Delaware corporation located at 8 Henderson Drive, West Caldwell, New Jersey (hereinafter referred to as "GSN"). (LSQ and GSN are sometimes hereinafter collectively called "Creditors" and individually, a "Creditor").

ARTICLE 1. BACKGROUND

1.01. Health & Nutrition Systems International, Inc, a Florida corporation located at 3750 Investment Lane, Suite 5, West Palm Beach, Florida 33407 (hereinafter referred to as the "Client") entered into a Factoring and Security Agreement with LSQ effective as of March 15, 2002, as same may be modified, extended, or amended from time to time (hereinafter referred to as the "Credit Agreement") pursuant to which the Client sells certain of its accounts receivable to LSQ which accounts receivable arise out of the ordinary course of business as more fully set forth in the Credit Agreement.

To secure its obligations to LSQ in connection with the Credit Agreement, the Client has provided LSQ with a first priority security interest in all of its accounts receivable, contract rights, documents, instruments, chattel paper, inventory, equipment, general intangibles, books, records, returns, repossessions, deposits and credit balances in relation thereto, and all increases, substitutions and accessions thereto, wherever situated, now owned by the Client or hereafter acquired together with the proceeds of such collateral (hereinafter referred to as the "Collateral").

1.02 GSN, as the manufacturer of the Client's products, has extended credit to the Client (the "GSN Loans"). In connection therewith, the Client has simultaneously with the execution hereof, granted to GSN a second priority security interest in the Collateral.

1.03 The Client and GSN have agreed with LSQ that in order for LSQ to provide the financing of the Client as referenced in the Credit Agreement, LSQ must have a first priority lien in the Collateral.

1.04 The Client and LSQ have agreed that GSN shall have a second priority security interest in the Collateral which security interest shall only be enforceable upon the occurrence of any of the following: (i) the Client has become insolvent or has failed to pay its debts generally as such debts become due (including its obligations to pay under the Credit Agreement) or has admitted in writing its inability to pay any of its indebtedness; (ii) has consented to or has petitioned or applied to any authority for the appointment of a receiver, liquidator, trustee or similar official for itself or for all or any substantial part of its properties or assets or that any such trustee, receiver, liquidator or similar official has been appointed; or (iii) that insolvency, reorganization, arrangement or liquidation proceedings (or similar proceedings) have been instituted by or against the Client.

1.05 Therefore, in consideration of the foregoing and the covenants set forth below, the Creditors have signed this Agreement to establish the relative priorities of their respective security interests in the Collateral and to memorialize certain other agreements with respect to the enforcement of their respective rights and remedies against the Client.

ARTICLE 2. PRIORITIES

LSQ and GSN agree that the priorities of their respective security interests in the Collateral shall be as follows:

2.01 LSQ's Senior Priority. GSN agrees that LSQ's security interest in the Collateral shall constitute a first and paramount security interest therein. GSN's security interest in the Collateral shall be inferior and subordinate to LSQ's security interest therein. Notwithstanding anything to the contrary set forth in the Credit Agreement, LSQ hereby consents to the granting by Client of a security interest in the Collateral to GSN.

ARTICLE 3. SUBORDINATION AND STAND-BY

3.01 GSN agrees that until LSQ has been paid in full for any and all Obligations (as defined in the Credit Agreement) due from the Client pursuant to the Credit Agreement, GSN will not, without LSQ's prior written consent from a duly authorized officer of LSQ, assert or seek to enforce by legal proceedings or otherwise, any security interest or other rights that it may have with respect to the Collateral, and GSN will not accept or receive delivery of any of the Collateral or payment of any proceeds thereof. In the event that GSN should directly or indirectly receive any proceeds of the Collateral, GSN shall immediately notify LSQ of same and promptly remit such proceeds to LSQ. In the event that GSN shall declare the Client to be in default of any term or condition pursuant to the GSN Loans, LSQ may, in its sole discretion, continue its financing arrangement with the Client pursuant to the Credit Agreement and GSN will not take any action to foreclose or realize upon any of the Collateral absent the express written consent of a duly authorized officer of LSQ until such time as the Client's obligations due LSQ under the Credit Agreement have been paid in full.

ARTICLE 4. AMENDMENTS TO DOCUMENTS

4.01 GSN agrees and acknowledges that LSQ, in accordance with the terms of the Credit Agreement, may at any time or times, in its discretion, (i) renew or extend the time of payment of any obligations or indebtedness owing to it by the Client; (ii) waive or release any collateral or guaranties which may be held therefor, or (iii) modify or amend the documents evidencing its financing arrangement with the Client (its "Documents") in any manner, in each case without further consent from the other Creditor or any other person, and without impairing or affecting this Agreement or any of its rights hereunder.

ARTICLE 5. REPRESENTATIONS CONCERNING THE CLIENT; LIABILITY OF CREDITORS.

5.01 No Creditor, nor any of its respective directors, officers, agents or employees, shall be responsible to the other Creditor or to any other person for (i) Client's solvency, financial condition or ability to repay its obligations or indebtedness to any Creditor, (ii) any oral or written statements of the Client or (iii) the validity, sufficiency or enforceability of such indebtedness, any of its Documents or the security interest and liens granted by the Client. Each Creditor has entered into its financing arrangements with the Client based upon its own independent investigation, and makes no warranty or representation to the other Creditor, nor does it rely on any warranty or representation of the other Creditor with respect to the matters referred to in this Article.

ARTICLE 6. MISCELLANEOUS

6.01 The validity of this Agreement, its construction, interpretation and enforcement, and the rights of the parties hereunder shall be determined under, governed by, and construed in accordance with the laws of the State of Florida.

6.02 GSN agrees with LSQ that LSQ shall be provided with simultaneous written notice of any notices pertaining to a default, demand for payment, or termination delivered to any party in connection with the GSN Loans as well as any contemplated amendments, modifications or revisions to the GSN Loans.

6.03 Any notice, declaration, demand, request or other communication which by any provision of this Agreement is required or permitted to be given to or served on any party hereto shall be given in writing and shall be deemed to have been sufficiently given or served for all purposes when (i) delivered personally; (ii) sent by overnight mail; or (iii) sent by registered or certified mail, return receipt requested, postage prepaid, to the address set forth or provided for such party below, or at such other address as one party may indicate from time to time in writing to the other:

If to LSQ: LSQ Funding Group L. C.,
1403 West Colonial Drive
Orlando, FL 32804
Attn: Paul Ellenbogen, Executive Vice President

If to GSN: Garden State Nutritionals
8 Henderson Drive
West Caldwell, New Jersey ______
Attn: Scott Yagoda, General Counsel

Notices sent in accordance with the foregoing shall be deemed effective when so delivered personally, the next business day if sent by overnight mail; or if mailed, five (5) days after being sent by United States mail.

6.04 GSN and LSQ represent and warrant that they have not assigned their respective security interests in the Collateral. Any assignment entered into after the date of this Agreement shall be made expressly subject to the terms of this Agreement, and the party so assigning shall give written notice to the other party to this Agreement at least five (5) business days prior to such an assignment.

6.05 This Agreement constitutes the entire agreement between the parties and supersedes all prior agreements and understandings between the parties relating to the subject matter hereof. This Agreement may not be changed orally, but only by an agreement in writing and signed by the party against whom enforcement of any waiver, change, modification or discharge is sought.

6.06 The headings of the various Articles of this Agreement have been inserted for convenience only and shall not be deemed to be part of this Agreement.

6.07 This Agreement shall be binding upon and inure to the benefit of each of the Creditors and its respective successors, permitted assigns and affiliates.

6.08 If any term, restriction or covenant of this Agreement is deemed illegal or unenforceable, all other terms, restrictions and covenants, and the application thereof to all persons and circumstances subject hereto, shall remain unaffected to the extent permitted by law; and if any application of any term, restriction or covenant to any person or circumstance is deemed illegal, the application of such term, restriction or covenant to the persons and circumstances shall remain unaffected to the extent permitted by law.

6.09 The knowledge by either Creditor of any breach or other non-observance by the other Creditor of the terms of this Agreement shall not constitute a waive thereof or of any obligations to be performed by the other Creditor hereunder.

6.10 Except as provided herein, the subordinations, agreements and priorities set forth hereinabove shall remain in full force and effect regardless of whether any party hereto in the future seeks to rescind, amend or terminate or reform by litigation or otherwise, its respective agreements with the Client until such time as any and all obligations due GSN and LSQ have been paid in full or until GSN and LSQ or their respective heirs or assigns shall have agreed to a written termination hereof.

6.11 The subordinations and priorities specified herein are applicable, irrespective of the time or order of attachment or perfection of the security interests referred to herein, the time or order of filing of financing statements, or the acquisition of or time of giving or failing to give notice of the acquisition or expected acquisition of purchase money or other security interests.

6.12 This Agreement may be executed in one or more counterparts, each of which shall constitute an original, but which when taken together shall be deemed one and the same instrument.

6.13 This Agreement is solely for the benefit of the parties hereto and nothing contained herein shall confer upon anyone other than the parties hereto and their permitted successors and assigns, any right to insist upon or to enforce the performance or observance of any of the obligations contained herein; provided, however, that notwithstanding the foregoing, it is acknowledged and agreed that the Client may rely on the consent set forth in Section 2.01 hereof.

IN WITNESS WHEREOF, the Creditors have signed this Agreement as of the date first written above.

Witnesses: "LSQ"

LSQ FUNDING GROUP L.C.
a Florida corporation

_______________________________ By: /s/ A. Maxwell Eliscu

A. Maxwell Eliscu
President

- ------------------------------

"GSN"

Garden State Nutritionals,
a _______________ corporation

/s/ Keith Frankel
- ------------------------------ ---
Keith Frankel

_______________________________ Name: Keith Frankel

Title: President and CEO

The Client hereby consents to all of the terms and conditions of the foregoing Subordination Agreement, and agrees to be bound in all respects thereby.

Health & Nutrition Systems International, Inc.,
a Florida corporation

- ------------------------------ -----------------------------
Name: Christopher Tisi

_______________________________ Title: President and Chief Executive Officer