

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

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

FORM 10-QSB

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

FOR THE QUARTERLY PERIOD ENDED JUNE 30, 2003

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

FOR THE TRANSITION PERIOD FROM _____ TO _____

COMMISSION FILE NO. 000-29245

HEALTH & NUTRITION SYSTEMS INTERNATIONAL, INC.

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

FLORIDA

(State or other jurisdiction of incorporation or organization)

65-0452156

(I.R.S. Employer Identification Number)

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

(Address of principal executive offices)

(561) 863-8446

(Issuer's telephone number)

State the number of shares outstanding of each of the issuer's classes of common equity, as of the latest practicable date: 3,632,813 shares of Common Stock as of August 10, 2003.

Transitional Small Business Disclosure Format: Yes No

HEALTH AND NUTRITION SYSTEMS INTERNATIONAL, INC.

INDEX

Edgar Filing: HEALTH & NUTRITION SYSTEMS INTERNATIONAL INC - Form 10QSB

Facing Sheet.....	Cover Page
Index.....	i
Part I - Financial Information	
Item 1. Financial Statements	1
Condensed Balance Sheet as of June 30, 2003 (Unaudited).....	1
Condensed Statements of Operations for the three and six months ended June 30, 2003 and 2002 (Unaudited).....	2
Condensed Statements of Cash Flows for the six months ended June 30, 2003 and 2002 (Unaudited).....	3
Notes to Condensed Financial Statements.....	4-6
Item 2. Management's Discussion and Analysis of Financial Conditions and Results of Operations.....	7-12
Item 3. Controls and Procedures.....	12
Part II - Other Information	
Item 1. Legal Proceedings.....	12
Item 2. Changes in Securities.....	13
Item 3. Defaults Upon Senior Securities.....	13
Item 4. Submission of Matters to a Vote of Security Holders.....	13
Item 5. Other Information.....	13
Item 6. Exhibits and Reports on Form 8-K.....	13
Signature.....	14

i

Part I - Financial Information

Item 1. Financial Statements

HEALTH & NUTRITION SYSTEMS INTERNATIONAL, INC.
 CONDENSED BALANCE SHEET
 JUNE 30, 2003
 (UNAUDITED)

=====

ASSETS

Current assets:

Cash	\$ 11,383
Accounts receivable, net	361,184
Inventory	581,778

Total current assets	954,345
----------------------	---------

Property and equipment, net	29,197
-----------------------------	--------

Other assets, net	29,106
Prepays	12,633

Total assets	\$ 1,025,281
--------------	--------------

LIABILITIES AND STOCKHOLDERS' DEFICIT

Current liabilities:

Accounts payable	\$ 1,220,626
Accrued expenses	134,780
Notes payable, current portion	283,649

Edgar Filing: HEALTH & NUTRITION SYSTEMS INTERNATIONAL INC - Form 10QSB

Total current liabilities	1,639,055
Notes payable, less current portion	--
Total liabilities	1,639,055
Commitments and contingencies	--
Stockholders' deficit:	
Common stock, \$ 0.001 par value, authorized 30,000,000 shares; 3,632,813 shares issued and outstanding	3,630
Additional paid-in capital	834,812
Accumulated deficit	(1,452,216)
Total stockholders' deficit	(613,774)
Total liabilities and stockholders' deficit	\$ 1,025,281

See accompanying notes to condensed financial statements.

1

HEALTH & NUTRITION SYSTEMS INTERNATIONAL, INC.
 CONDENSED STATEMENTS OF OPERATIONS
 FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2003 AND 2002
 (UNAUDITED)

	THREE MONTHS ENDED JUNE 30,		SIX MONTHS ENDED JUNE 30,	
	2003	2002	2003	2002
Revenue	\$ 1,436,549	\$ 1,027,386	\$ 2,502,096	\$ 1,86
Cost of sales	553,284	326,683	1,004,702	63
Gross profit	883,265	700,703	1,497,394	1,22
Operating expense:				
General and administrative expense	467,351	434,274	808,544	76
Advertising and promotion	333,901	108,251	496,312	25
Depreciation and amortization	4,883	7,617	12,326	1
Total operating expense	806,135	550,142	1,317,182	1,03
Income from operations	77,130	150,561	180,212	19
Other income (expense):				
Interest expense	(8,740)	(11,775)	(19,568)	(1
Income before income taxes	68,390	138,786	160,644	17

Edgar Filing: HEALTH & NUTRITION SYSTEMS INTERNATIONAL INC - Form 10QSB

Benefit (provision) for income taxes	----- -- -----	----- -- -----	----- -- -----	----- -- -----
Net income	\$ 68,390 =====	\$ 138,786 =====	\$ 160,644 =====	\$ 17 =====
Net income per share - basic	\$ 0.02 =====	\$ 0.04 =====	\$ 0.04 =====	\$ =====
Net income per share - diluted	\$ 0.02 =====	\$ 0.04 =====	\$ 0.04 =====	\$ =====
Weighted average number of shares - basic	3,632,813 =====	3,632,813 =====	3,632,813 =====	3,63 =====
Weighted average number of shares - diluted	3,632,813 =====	3,632,813 =====	3,632,813 =====	3,63 =====

See accompanying notes to condensed financial statements.

2

HEALTH & NUTRITION SYSTEMS INTERNATIONAL, INC.
CONDENSED STATEMENTS OF CASH FLOWS
FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2003 AND 2002
(UNAUDITED)

	2003 -----	2002 -----
Net cash provided by operating activities	\$ 194,319 -----	\$ 11,905 -----
Cash flows from financing activities:		
Repayments on notes payable	(197,000)	(68,834)
Repayments on capital leases	(714)	(14,480)
Net cash used in financing activities	(197,714) -----	(83,314) -----
Net decrease in cash	(3,395)	(71,409)
Cash, beginning of period	14,778	81,932
Cash, end of period	\$ 11,383 =====	\$ 10,523 =====

SUPPLEMENTAL CASH FLOW INFORMATION:

Conversion of accounts payable to notes payable	\$ -- =====	\$ 700,000 =====
---	----------------	---------------------

See accompanying notes to condensed financial statements.

3

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

=====

NOTE 1 - BASIS OF PRESENTATION

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

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

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

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

NOTE 2 - LEGAL MATTERS

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

NOTE 3 - MANAGEMENT'S PLANS AND ISSUES AFFECTING LIQUIDITY

The Company's condensed financial statements have been prepared assuming that the Company will continue as a going concern. During the six months ended June 30, 2003, the Company has successfully controlled costs and attained profitability, including net income of \$160,644 and cash flow from operations of \$194,319. However, at June 30, 2003, the Company has a working capital deficit of \$684,710 and adverse liquidity ratios.

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

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

NOTE 4 - STOCK OPTIONS

Edgar Filing: HEALTH & NUTRITION SYSTEMS INTERNATIONAL INC - Form 10QSB

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

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

During the six months ended June 30, 2003, no new options were granted to officers, directors and employees of the Company.

Had the compensation expense for the stock option plan been determined based on the fair value of the options at the grant date consistent with the methodology prescribed under Statement of Financial Standards No. 123, "Accounting for Stock-Based Compensation," at June 30, the Company's net income and earnings per share would have been reduced to the proforma amounts indicated below:

	June 30, 2003

Net income	
As reported	\$ 160,644
	=====
Pro forma	\$ 158,075
	=====
Earnings per share	
As reported	0.04
	=====
Pro forma	0.04
	=====

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

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

NOTE 5 - RECLASSIFICATION AND CORRECTION OF AN ERROR

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

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

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

6

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

This Quarterly Report on Form 10-QSB contains forward-looking statements. Any statements that are not statements of historical fact should be regarded as forward-looking statements. For example, the words "intends," "believes," "anticipates," "plans," and "expects" are intended to identify forward-looking statements. There are a number of important factors that could cause our actual results to differ materially from those indicated by such forward-looking statements. These factors include without limitation those factors contained in our Form 10-KSB filed with the Securities and Exchange Commission. We do not undertake any obligation to update any such factors or to publicly announce the result of any revision to any of the forward looking statements contained herein to reflect future events or developments.

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

CRITICAL ACCOUNTING POLICIES

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

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

REVENUE RECOGNITION

Revenues are recognized at the time of shipment of the respective merchandise. Included in the net sales in the accompanying financial statements for the six months and the three months ended June 31, 2003 and 2002 are returns and allowances, sales discounts, new store opening discounts and coop advertising and promotions in the amounts of \$984,983 and \$666,347 and \$433,744 and \$285,897 respectively. The increase in year 2003 was primarily due to the sales returns and allowances associated with the return of discontinued ephedra products. Freight expenses are included in cost of sales.

USE OF ESTIMATES

Edgar Filing: HEALTH & NUTRITION SYSTEMS INTERNATIONAL INC - Form 10QSB

Management's discussion and analysis of financial condition and results of operations is based upon our financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America. The preparation of these financial statements requires management to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues, and expenses, and related disclosure of contingent assets and liabilities. On an ongoing basis, management evaluates these estimates, including those related to valuation allowance for the deferred tax asset, estimated useful life of fixed assets and the carrying value of long-lived

7

assets, intangible assets and allowances for sales returns, doubtful accounts, and obsolete and slow moving inventory and reserve for customer liabilities. Management bases these estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying value of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions.

CUSTOMER LIABILITY ESTIMATES

The company estimates and accrues expenses and liabilities for co-op advertising and promotions and expenses for discontinued products as a reduction of sales. The liability is maintained until the customer takes the deduction. This liability is netted against the accounts receivable account on the balance sheet. The amount at June 30, 2003 was \$1,000,529 and June 30, 2002 was \$481,131.

OVERVIEW

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

NET SALES

Gross revenues (sales before co-op advertising and slotting fees) for the six months ended June 30, 2003 and three months ended June 30, 2003 were \$3,487,079 an increase of \$953,252 or a 38% and \$1,870,294 and increase of \$557,011 or 42% respectively, as compared to gross revenue for the six months ended June 30, 2002 of \$2,533,827 and for the three months ended June 30, 2002 of \$1,313,283.

Net sales for the three months ended June 30, 2003 were \$1,436,549, an increase of \$409,163 or 40%, as compared to net sales of \$1,027,386 for the three months ended June 30, 2002. The increase was primarily due to an increase in sales to several of our customers. For the three months ended June 30, 2003, the revenues with respect to our largest customers were as follows: (i) Eckerd accounted for \$129,150 or 9% of sales; (ii) GNC accounted for \$466,976 or 33% of sales; (iii) Rite Aid accounted for \$118,881 or 9% of sales; (iv) Walgreen accounted for \$42,768 or 3% of sales; (v) CVS accounted for \$152,280 or 11% of sales; (vi) Albertsons accounted for \$106,375 or 7% of sales and Wal-Mart accounted for \$535,296 or 37% of sales. No other account represented more than 5% of sales during the quarter.

Net sales for the six months ended June 30, 2003 were \$2,502,096, an increase of

Edgar Filing: HEALTH & NUTRITION SYSTEMS INTERNATIONAL INC - Form 10QSB

\$634,616 or 34%, as compared to net sales of \$1,867,480 for the six months ended June 30, 2002. The increase was primarily due to the increase in advertising expenditures during the first six months ended June 30, 2003. For the six months

8

ended June 30, 2003, the revenues with respect to our largest customers were as follows: (i) Eckerd accounted for \$133,745 or 5% of sales; (ii) GNC accounted for \$722,790 or 29% of sales; (iii) Rite Aid accounted for \$182,536 or 7% of sales; (iv) Walgreen accounted for \$236,952 or 9% of sales; (v) CVS accounted for \$364,705 or 15% of sales and Wal-Mart accounted for \$964,002 or 39% of sales. No other account represented more than 5% of sales during the six months.

COST OF SALES

Cost of sales for the three months ended June 30, 2003 was \$553,284 or 39% of net sales as compared to \$326,683 or 32% of net sales for the three months ended June 30, 2002. Cost of sales for the six months ended June 30, 2003 was \$1,004,702 or 40% of net sales as compared to \$639,074 or 34% of net sales for the three months ended June 30, 2002. The cost of sales as a percentage of gross revenues was 29% and 25% for the three months ended June 30, 2003 and six months ended June 30, 2003, respectively. The dollar amount is higher due to the increased sales and the percentage increase is due to the new products having a higher cost of goods.

GROSS PROFIT

Gross profit for the three months ended June 30, 2003 was \$883,264 an increase of \$182,561 or 26% compared to gross profit of \$700,703 for the three months ended June 30, 2002. As a percent of net sales, gross profit was 61% for the three months ended June 30, 2003, compared to 68% for the three months ended June 30, 2002. The increase in gross profit was primarily due to the sales increases in the Carb Cutter, Eat Less and Phase2 in the aggregate amount of \$1,012,420. Gross profit for the six months ended June 30, 2003 was \$1,497,394 an increase of \$268,988 or 22% compared to gross profit of \$1,228,406 for the six months ended June 30, 2002. As a percent of net sales, gross profit was 60% for the six months ended June 30, 2003, compared to 66% for the six months ended June 30, 2002. The increase in gross profit was primarily due to the sales increases in the Carb Cutter, Eat Less and Phase2 in the aggregate amount of \$1,778,644.

OPERATING EXPENSES

Operating expenses were \$806,135 for the three months ended June 30, 2003, representing an increase of \$255,993, compared to \$550,142 for the three months ended June 30, 2002. As a percent of net sales, operating expenses were 56% for the three months ended June 30, 2003, compared to 54% for the three months ended June 30, 2002. Advertising and promotion expenses for the three months ended June 30, 2003, were \$333,901 representing an increase of \$225,650, compared to \$108,251 for the three months ended June 30, 2002. The general and administrative expenses were \$467,351 for the three months ended June 30, 2003 compared to \$434,274 for the three months ended June 30, 2002 or an increase of \$33,077. Operating expenses were \$1,317,182 for the six months ended June 30, 2003, representing an increase of \$281,388, compared to \$1,035,794 for the six months ended June 30, 2002. As a percent of net sales, operating expenses were 53% for the six months ended June 30, 2003, compared to 55% for the six months ended June 30, 2002. Advertising and promotion expenses for the six months ended June 30, 2003, were \$496,312 representing an increase of \$245,259, compared to \$251,053 for the six months ended June 30, 2002. The general and administrative expenses were \$808,544 for the six months ended June 30, 2003 compared to

Edgar Filing: HEALTH & NUTRITION SYSTEMS INTERNATIONAL INC - Form 10QSB

\$769,508 for the six months ended June 30, 2002 or an increase of \$39,036.

9

INCOME FROM OPERATIONS

Income from operations was \$77,130 for the three months ended June 30, 2003, compared to an income from operations of \$150,561 for the three months ended June 30, 2002. Net profit from operations was \$180,212 for the six months ended June 30, 2003, compared to a income from operations of \$192,613 for the six months ended June 30, 2002. Income was \$68,390 or \$0.02 per share for the three months ended June 30, 2003, as compared to a net income of \$138,786 or \$0.04 per share for the three months ended June 30, 2002. Income was \$160,644 or \$0.04 per share for the six months ended June 30, 2003, as compared to a net income of \$179,233 or \$0.05 per share for the six months ended June 30, 2002.

LIQUIDITY & CAPITAL RESOURCES

At June 30, 2003, the Company had a working capital deficit of \$684,710 compared to a \$376,678 working capital deficit at June 30, 2002.

Net cash provided by operating activities for the six months ended June 30, 2003 was \$194,319 compared to \$11,905 provided by operating activities for the six months ended June 30, 2002. The resulting increase in cash is primarily due to a net profit realized during the six months ended June 30, 2003, due to higher sales.

Cash used in investing activities was \$0 for both the six months ended June 30, 2003 and 2002.

Net cash used in financing activities for the six months ended June 30, 2003 was \$197,714 compared to net cash used by financing activities of \$83,314 for the six months ended June 30, 2002.

On April 11, 2002, the Company entered into an agreement with Garden State Nutritionals (GSN), sole manufacturer, to repay \$700,000 owed to GSN as of the date of the agreement. The repayment schedule requires equal quarterly payments, without interest, over the next eight quarters, starting June 1, 2002. In connection with this agreement, the Company granted to GSN a blanket second priority in lien on the Company's assets under a Security Agreement, which may only be foreclosed upon the event the Company fails to make (3) consecutive quarterly principle payments in accordance with the terms of the promissory note. The occurrence of any of the following events shall constitute a default under this promissory note: (i) the failure of Company to pay when due any payment of principal and such failure continues for fifteen (15) days after Lender notifies the Company in writing; (ii) the Company files for or is granted certain relief pursuant to or within the meaning of the United States Bankruptcy Code or any other federal or state law relating to insolvency or relief of debtors (a "Bankruptcy Law") and (iii) Christopher Tisi ceases to be the President and Chief Executive Officer of the Company (unless a replacement reasonably acceptable to Lender is obtained within thirty days).

10

Also, on April 11, 2002, we entered into an exclusive manufacturing agreement with GSN pursuant to which GSN has provided us with a \$450,000 line of credit, on current invoices, with 60-day terms. GSN informally allowed the Company to purchase up to \$1,000,000 on the line of credit. At June 30, 2003, the balance owed to GSN under this line of credit is \$1,088,276.

Edgar Filing: HEALTH & NUTRITION SYSTEMS INTERNATIONAL INC - Form 10QSB

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

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

COMMITMENTS AND CONTINGENCIES

REGULATORY MATTERS

Our discontinued products Fat Cutter Plus(TM), ThinTab(R) and our formally owned Carbolizer(TM) product, contain ephedra, also known as "Ma Huang," an herb that contains naturally occurring ephedrine. These products represented approximately 19% of our gross revenue for the twelve months ended December 31, 2002. Ephedra containing products have been the subjects of adverse publicity in the United States and other countries relating to alleged harmful effects. The company has discontinued all sales of products containing ephedra.

OTHER

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

In July 2003, the Company amended its promissory note with Garden State Nutritionals to \$1,300,000. Only \$300,000 remains unpaid at June 30, 2003 of the original note. The original remaining amount of \$300,000 is due before December 31, 2003, reducing the amount of the new note to \$1,000,000 due in quarterly installments of \$131,410 commencing November 1, 2003 at 4.5% per annum.

PRODUCT LIABILITY

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

11

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

GOING CONCERN QUALIFICATION

The Company's condensed financial statements have been prepared assuming that the Company will continue as a going concern. During the six months ended June 30, 2003, the Company has successfully controlled costs and attained profitability, including net income of \$160,644 and cash flow from operations of \$194,319. However, at June 30, 2003, the Company has a working capital deficit of \$684,710 and adverse liquidity ratios.

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

Edgar Filing: HEALTH & NUTRITION SYSTEMS INTERNATIONAL INC - Form 10QSB

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

ITEM 3. CONTROLS AND PROCEDURES

Evaluation of disclosure controls and procedures -----

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

Change in internal controls -----

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

PART II - OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS.

J.C. Herbert Bryant, III and KMS-Thin Tab 100, Inc.

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 former director and KMS counterclaimed alleging a breach of distribution agreement with the Company. On September 19, 2002, the Company announced the settlement of all litigation between HNS and J.C. Herbert Bryant and KMS-Thin Tab 100, Inc.

12

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

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

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

ITEM 2. CHANGES IN SECURITIES.

None.

Edgar Filing: HEALTH & NUTRITION SYSTEMS INTERNATIONAL INC - Form 10QSB

ITEM 3. DEFAULTS UPON SENIOR SECURITIES.

None.

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

None.

ITEM 5. OTHER INFORMATION.

None

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

(a) Exhibits

Exhibit 31.1 Certification of Chief Executive Officer, pursuant to Exchange Act Rule 13a-14(a).

Exhibit 31.2 Certification of Principal Accounting Officer, pursuant to Exchange Act Rule 13a-14(a).

Exhibit 32.1 Certification pursuant to 18 U.S.C. Section 1350 and Exchange Act Rule 13a-14(b).

Exhibit 32.2 Certification pursuant to 18 U.S.C. Section 1350 and Exchange Act Rule 13a-14(b).

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

None

13

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: August 14, 2003

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

By: /s/ Chris Tisi

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

14

Exhibit Index

Exhibit Number	Description
31.1	Certification of Chief Executive Officer pursuant to Exchange Act

Edgar Filing: HEALTH & NUTRITION SYSTEMS INTERNATIONAL INC - Form 10QSB

Rule 13a-14(a).

31.2 Certification of Principal Accounting Officer pursuant to Exchange Act Rule 13a-14(a).

32.1 Certification pursuant to 18 U.S.C. Section 1350 and Exchange Act Rule 13a-14(b).

32.2 Certification pursuant to 18 U.S.C. Section 1350 and Exchange Act Rule 13a-14(b).