NBTY, Inc.

Quarterly Report
For The Period Ended March 31, 2011

Following its acquisition by certain investment funds affiliated with The Carlyle Group ("Carlyle") on October 1, 2010, NBTY, Inc. ("NBTY", and together with its subsidiaries, the "Company," "we," or "us") is not subject to the reporting requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). Consequently, this report has not been, and will not be, filed with the Securities and Exchange Commission ("SEC"). However, NBTY is obligated under the indenture, dated as of October 1, 2010, among NBTY, Alphabet Merger Sub, Inc., certain guarantor subsidiaries of NBTY named therein, and The Bank of New York Mellon, as trustee (the "Indenture"), governing NBTY's 9% Senior Notes due 2018 (the "Notes"), to post on its corporate website and otherwise make available financial and other information that it would be required to file with the SEC were it subject to Section 13 or 15(d) of the Exchange Act, subject to exceptions consistent with the terms of the Indenture. The Company is making this report available to satisfy these obligations. The Indenture permits the Company to omit certain information from this report that otherwise would be required on the forms promulgated by the SEC under the Exchange Act. For example, the Indenture does not require the Company to present in this report certain information required by the SEC rules relating to non-GAAP financial measures.

This report speaks as of May 16, 2011, the date of this report. The Company undertakes no obligation to update this report, to update any forward looking statements, or to reflect any developments subsequent to such date.

NBTY, INC.
QUARTERLY REPORT
FOR THE PERIOD ENDED MARCH 31, 2011
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PART I
Item 1. Financial Statements

NBTY, Inc.
Condensed Consolidated Balance Sheets
(Unaudited)
(in thousands)

	Successor March 31, 2011	Predecessor September 30, 2010
Assets		
Current assets:		
Cash and cash equivalents	$ 223,984	$ 346,483
Accounts receivable, net	137,648	135,377
Inventories	676,855	668,896
Deferred income taxes	27,501	40,130
Other current assets	55,122	66,990
Total current assets	1,121,110	1,257,876
Property, plant and equipment, net	495,331	391,899
Goodwill	1,230,400	335,159
Intangible assets, net	2,038,852	194,521
Other assets	111,891	21,313
Total assets	$4,997,584	$2,200,768
Liabilities and Stockholders' Equity		
Current liabilities:		
Current portion of long-term debt	$ 17,604	$ 78,158
Accounts payable	146,463	158,349
Accrued expenses and other current liabilities	183,561	172,031
Total current liabilities	347,628	408,538
Long-term debt, net of current portion	2,378,126	341,128
Deferred income taxes	762,823	38,175
Other liabilities	42,962	32,974
Total liabilities	3,531,539	820,815
Commitments and contingencies		
Stockholders' equity:		
Common stock, successor, $0.01 par; one thousand shares authorized, issued and outstanding at March 31, 2011	—	508
Capital in excess of par	1,551,086	186,248
(Accumulated deficit) Retained earnings	(91,045)	1,198,467
Accumulated other comprehensive income (loss)	6,004	(5,270)
Total stockholders' equity	1,466,045	1,379,953
Total liabilities and stockholders' equity	$4,997,584	$2,200,768

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

NBTY, Inc.
Condensed Consolidated Statements of Income
(Unaudited)
(in thousands)

	Successor	Predecessor
	Three months ended March 31, 2011	Three months ended March 31, 2010
Net sales	$706,542	$705,160
Costs and expenses:		
Cost of sales	377,992	380,668
Advertising, promotion and catalog	51,364	50,937
Selling, general and administrative	207,677	194,593
Merger expenses	4,991	—
Total costs and expenses	642,024	626,198
Income from operations	64,518	78,962
Other income (expense):		
Interest	(70,188)	(7,616)
Miscellaneous, net	569	790
Total other income (expense)	(69,619)	(6,826)
(Loss) income before income taxes	(5,101)	72,136
Provision for income taxes	15,060	25,480
Net (loss) income	$ (20,161)	$ 46,656

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

NBTY, Inc.
Condensed Consolidated Statements of Income
(Unaudited)
(in thousands)

	Successor	Predecessor
	Six months ended March 31, 2011	Six months ended March 31, 2010
Net sales	$1,448,705	$1,456,311
Costs and expenses:		
Cost of sales	888,057	792,116
Advertising, promotion and catalog	80,052	79,679
Selling, general and administrative	411,063	383,324
Merger expenses	43,865	—
Total costs and expenses	1,423,037	1,255,119
Income from operations	25,668	201,192
Other income (expense):		
Interest	(116,788)	(15,672)
Miscellaneous, net	2,258	2,545
Total other income (expense)	(114,530)	(13,127)
(Loss) income before income taxes	(88,862)	188,065
(Benefit) provision for income taxes	(5,264)	65,823
Net (loss) income	$ (83,598)	$ 122,242

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

NBTY, Inc.
Condensed Consolidated Statements of Stockholders' Equity and Comprehensive (Loss) Income
Six Months Ended March 31, 2011 and 2010
(Unaudited)
(in thousands)

	Common Stock		Capital in Excess of Par	(Accumulated deficit) Retained Earnings	Accumulated Other Comprehensive (Loss) Income	Total Stockholders' Equity
	Number of Shares	Amount				
Predecessor balance, September 30, 2010	63,444	$ 508	$ 186,248	$ 1,198,467	$ (5,270)	$ 1,379,953
Purchase accounting adjustments	(63,444)	(508)	(186,248)	(1,198,467)	5,270	(1,379,953)
Components of comprehensive loss:						
Net loss				(83,598)		(83,598)
Foreign currency translation adjustment and other, net of taxes					16,000	16,000
Change in fair value of interest rate and cross currency swaps, net of taxes					(9,996)	(9,996)
Comprehensive loss:						$ (77,594)
Opening equity of Merger Sub	1	—		(7,447)		(7,447)
Capital contribution from Holdings			1,550,400			1,550,400
Stock-based compensation			686			686
Successor balance, March 31, 2011	1	$ —	$1,551,086	$ (91,045)	$ 6,004	$ 1,466,045
Predecessor balance, September 30, 2009	61,874	$ 495	$ 145,885	$ 984,797	$ (3,352)	$ 1,127,825
Components of comprehensive income:						
Net income				122,242		122,242
Foreign currency translation adjustment and other, net of taxes					(17,848)	(17,848)
Change in fair value of interest rate swaps, net of taxes					1,161	1,161
Comprehensive income:						$ 105,555
Exercise of stock options	1,428	11	9,714			9,725
Excess tax benefit from exercise of stock options			4,787			4,787
Stock-based compensation			3,611			3,611
Predecessor balance, March 31, 2010	63,302	$ 506	$ 163,997	$ 1,107,039	$(20,039)	$ 1,251,503

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

NBTY, Inc.
Condensed Consolidated Statements of Cash Flows
(Unaudited)
(in thousands)

	Successor Six months ended March 31, 2011	Predecessor Six months ended March 31, 2010
Cash flows from operating activities:		
Net (loss) income	$ (83,598)	$122,242
Adjustments to reconcile net (loss) income to net cash and cash equivalents provided by operating activities:		
Impairments and disposals of assets	640	6,196
Depreciation and amortization	50,813	33,758
Foreign currency transaction (gain) loss	(1,314)	130
Amortization of deferred charges	7,444	774
Write off of financing fees	20,824	—
Stock-based compensation	686	3,611
Allowance for doubtful accounts	5,467	1,866
Amortization of incremental inventory fair value	122,104	—
Inventory reserves	21,753	1,699
Deferred income taxes	(36,559)	1,447
Excess income tax benefit from exercise of stock options	—	(4,787)
Changes in operating assets and liabilities:		
Accounts receivable	(5,680)	(15,717)
Inventories	(32,824)	16,286
Other assets	14,456	4,173
Accounts payable	(11,492)	(18,341)
Accrued expenses and other liabilities	10,079	4,099
Net cash provided by operating activities	82,799	157,436
Cash flows from investing activities:		
Purchase of property, plant and equipment	(28,763)	(24,437)
Proceeds from sale of investments	—	2,000
Cash paid for acquisitions	(3,985,628)	(573)
Net cash used in investing activities	(4,014,391)	(23,010)
Cash flows from financing activities:		
Principal payments under long-term debt agreements and capital leases	(5,078)	(35,777)
Payments for financing fees	(138,227)	—
Proceeds from borrowings	2,400,000	—
Capital contribution	1,550,400	—
Excess income tax benefit from exercise of stock options	—	4,787
Proceeds from stock options exercised	—	9,725
Net cash provided by (used in) financing activities	3,807,095	(21,265)
Effect of exchange rate changes on cash and cash equivalents	1,998	(5,257)
Net (decrease) increase in cash and cash equivalents	(122,499)	107,904
Cash and cash equivalents at beginning of period	346,483	106,001
Cash and cash equivalents at end of period	$ 223,984	$213,905

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

NBTY, Inc.
Notes to Condensed Consolidated Financial Statements
(Unaudited)
(in thousands, except per share amounts)

1. Nature of Business

We are the leading global vertically integrated manufacturer, marketer, distributor and retailer of high-quality vitamins, nutritional supplements and related products in the United States, with operations worldwide. We market over 25,000 individual stock keeping units ("SKUs") under numerous owned and private-label brands, including Nature's Bounty®, Ester-C®, Solgar®, MET-Rx®, American Health®, Osteo Bi-Flex®, Flex-A-Min®, SISU®, Knox®, Sundown®, Rexall®, Pure Protein®, Body Fortress®, WORLDWIDE Sport Nutrition®, Natural Wealth®, Puritan's Pride®, Holland & Barrett®, GNC (UK)®, Physiologics®, Le Naturiste®, De Tuinen®, Julian Graves® and Vitamin World®.

2. Basis of Presentation

On October 1, 2010, pursuant to an Agreement and Plan of Merger, dated as of July 15, 2010, among NBTY, Alphabet Holding Company, Inc., a Delaware corporation ("Holdings") formed by an affiliate of TC Group, L.L.C. (d/b/a The Carlyle Group) and Alphabet Merger Sub, Inc., a Delaware corporation and a wholly owned subsidiary of Holdings ("Merger Sub") formed solely for the purpose of entering into the merger, Merger Sub merged with and into NBTY with NBTY as the surviving corporation (also referred herein as the "Merger" or the "Acquisition"). As a result of the Merger, NBTY became a wholly owned subsidiary of Holdings. The Acquisition was completed on October 1, 2010 (see Note 3 for further information).

Merger Sub was determined to be the acquirer for accounting purposes and therefore, the Acquisition was accounted for using the acquisition method of accounting in accordance with the accounting guidance for business combinations and non-controlling interests. Accordingly, the purchase price of the Acquisition has been allocated to the Company's assets and liabilities based upon their estimated fair values at the acquisition date. Periods before October 1, 2010 reflect the financial position, results of operations, and changes in financial position of the Company before the Acquisition (the "Predecessor") and periods after October 1, 2010 reflect the financial position, results of operations, and changes in financial position of the Company after the Acquisition (the "Successor"). For accounting purposes, the purchase price allocation was applied on October 1, 2010.

We have prepared these financial statements in conformity with U.S. generally accepted accounting principles ("GAAP") applicable to interim financial information and on a basis that is consistent with the accounting principles applied in our Annual Report for the fiscal year ended September 30, 2010 ("2010 Annual Report"). In our opinion, these financial statements reflect all adjustments (including normal recurring items) necessary for a fair presentation of our results for the interim periods presented. These financial statements do not include all information or notes necessary for a complete presentation of financial position, results of operations and cash flows in conformity with GAAP. Accordingly, these financial statements should be read in conjunction with the financial statements and notes thereto contained in our 2010 Annual Report. Results for interim periods are not necessarily indicative of results which may be achieved for a full year.

The Company has performed an evaluation of subsequent events through May 16, 2011, which is the date the financial statements were available to be issued.

2. Basis of Presentation (Continued)

Reclassifications

Certain reclassifications were made to the prior period amounts to conform to the current period presentation. Specifically, accrued inventory purchases of $17,348 at September 30, 2010, previously included in accrued expenses and other current liabilities, were reclassified to accounts payable.

Estimates

The preparation of financial statements in conformity with GAAP requires that we make estimates and assumptions that affect the reported amounts of assets, liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. These judgments can be subjective and complex, and consequently actual results could differ materially from those estimates and assumptions. We base our estimates on historical experience and on various other assumptions we believe 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. Our most significant estimates include: sales returns, promotions and other allowances; inventory valuation and obsolescence; valuation and recoverability of long-lived assets; income taxes; and accruals for the outcome of current litigation.

Accounts Receivable Reserves

Accounts receivable are presented net of the following reserves:

	Successor	Predecessor
	March 31, 2011	September 30, 2010
Allowance for sales returns	$14,169	$ 9,457
Promotional programs incentive allowance	69,104	56,968
Allowance for doubtful accounts	5,467	5,575
	$88,740	$72,000

Recent Accounting Developments

In December 2010, the Financial Accounting Standards Board ("FASB") issued authoritative guidance that updates existing disclosure requirements related to supplementary pro forma information for business combinations. Under the updated guidance, a public entity that presents comparative financial statements should disclose revenue and earnings of the combined entity as though the business combination that occurred during the current year had occurred as of the beginning of the comparable prior annual reporting period only. The guidance also expands the supplemental pro forma disclosures to include a description of the nature and amount of material, nonrecurring pro forma adjustments directly attributable to the business combination included in the reported pro forma revenue and earnings. This guidance became effective for us on January 1, 2011 and applies to future business combinations.

2. Basis of Presentation (Continued)

In December 2010, the FASB issued authoritative guidance that provides additional guidance on when to perform the second step of the goodwill impairment test for reporting units with zero or negative carrying amounts. Under this guidance, an entity is required to perform the second step of the goodwill impairment test for reporting units with zero or negative carrying amounts if qualitative factors indicate that it is more likely than not that a goodwill impairment exists. The qualitative factors are consistent with the existing guidance, which requires that goodwill of a reporting unit be tested for impairment between annual tests if an event occurs or circumstances change that would more likely than not reduce the fair value of a reporting unit below its carrying amount. This guidance became effective for us on January 1, 2011 and did not have an impact on our consolidated financial statements.

3. Carlyle Merger

On October 1, 2010, an affiliate of Carlyle completed its Acquisition of NBTY for $55.00 per share of NBTY's common stock, or $3,570,191, plus the repayment of NBTY's historical debt of $427,367 (which includes accrued interest and a redemption premium on the notes) and net of cash acquired of $361,609 (which includes restricted cash collateral of $15,126) for a total net purchase price of $3,635,949. The purchase price was funded through the net proceeds from our $1,750,000 senior credit facilities, the issuance of $650,000 senior notes and a cash equity contribution from Holdings.

In connection with the Acquisition, the following transactions occurred:

- investment funds affiliated with Carlyle and certain co-investors capitalized Holdings with an aggregate equity contribution of $1,550,000;
- Merger Sub, a subsidiary of Holdings formed solely for the purpose of completing the Acquisition, issued $650,000 aggregate principal amount of 9% senior notes due 2018 and entered into senior credit facilities consisting of (1) senior secured term loan facilities of $1,750,000 and (2) a senior secured revolving credit facility with commitments of $250,000. (See Note 8 for information related to the subsequent refinancing of the senior credit facilities);
- the Merger became effective;
- at the effective time of the Merger, each share of NBTY's common stock outstanding and each restricted stock unit outstanding immediately before the effective time of the Merger was cancelled and converted into the right to receive $55.00 per share in cash, without interest, less applicable withholding tax;
- at the effective time of the Merger, each outstanding and unexercised option to purchase shares of NBTY's common stock, whether or not then vested, was cancelled and entitled the holder thereof to receive a cash amount equal to the excess of $55.00 over the per-share exercise price of such option, without interest, less applicable withholding tax;

3. Carlyle Merger (Continued)

- NBTY's existing 7⅛% senior subordinated notes due 2015 were satisfied and discharged and certain indebtedness of NBTY was repaid, including its existing credit facilities, its multi-currency term loan facility and mortgage; and
- approximately $182,314 of fees and expenses were incurred related to the foregoing, which included capitalized financing costs of $113,144.

We refer to the Merger, the Acquisition, the equity contribution from Holdings, the borrowings under our senior credit facilities, the issuance of the 9% senior notes and the other transactions described above collectively as the "Transactions."

The following provides the allocation of the purchase price of the Acquisition:

Cash consideration	$3,982,432
Allocated to:	
Cash and cash equivalents	346,483
Accounts receivable	135,377
Inventories	782,354
Deferred income taxes	7,457
Prepaids and other current assets	51,078
Property, plant, and equipment	493,115
Intangibles	2,053,000
Other assets	18,404
Accounts payable	(141,001)
Accrued expenses and other current liabilities	(190,459)
Deferred income taxes	(762,774)
Other liabilities	(27,601)
Debt and Capital leases	(803)
Net assets acquired	$2,764,630
Goodwill	$1,217,802

The following provides the fair value of property, plant and equipment acquired (as of the date of the Acquisition):

	Fair Value	Depreciation and amortization period (years)
Land	$ 67,832	
Building and leasehold improvements	216,571	4 - 40
Machinery and equipment	119,405	3 - 13
Furniture and fixtures	53,109	3 - 10
Computer equipment	18,113	3 - 5
Transportation equipment	5,844	3 - 4
Construction in progress	12,241	
Total property, plant and equipment	$493,115	

3. Carlyle Merger (Continued)

The following provides the fair value of identifiable intangible assets acquired (as of the date of the Acquisition):

	Fair Value	Amortization period (years)
Definite lived intangible assets:		
Brands and customer relationships	$ 885,000	17 - 25
Tradenames and other	171,000	20 - 30
	1,056,000	
Indefinite lived intangible asset:		
Tradenames	997,000	
Total intangible assets	$2,053,000	

The following unaudited pro forma financial information presents a summary of our consolidated net sales and net income for the three and six months ended March 31, 2010, assuming the Acquisition took place October 1, 2009:

	Three months ended March 31, 2010	Six months ended March 31, 2010
Net Sales	$705,160	$1,456,311
Net Income	$ 14,468	$ 8,839

The above unaudited pro forma financial information has been prepared for comparative purposes only and includes certain adjustments to actual financial results, such as imputed interest costs, and estimated additional depreciation and amortization expense as a result of property, plant and equipment and intangible assets acquired. The pro forma financial information does not purport to be indicative of the results of operations that would have been achieved had the Acquisition taken place on the date indicated or the results of operations that may result in the future.

Pro forma net income for the three months ended March 31, 2010 includes non-recurring Merger expenses of $4,991. Pro forma net income for the six months ended March 31, 2010 includes an increase in cost of sales of $122,104 relating to an increase in acquired inventory to its fair value as required under purchase accounting, which was sold during the period, as well as non-recurring Merger expenses of $89,768 which consisted of legal and professional advisory services, the acceleration of vesting of all unvested stock-based compensation, fees related to an unused bridge loan and a portion of the transaction fee paid to Carlyle.

4. Inventories

The components of inventories are as follows:

	Successor	Predecessor
	March 31, 2011	September 30, 2010
Raw materials	$151,024	$142,228
Work-in-process	21,476	23,654
Finished goods	504,355	503,014
Total	$676,855	$668,896

5. Goodwill and Intangible Assets

Goodwill

The changes in the carrying amount of goodwill by segment for the six months ended March 31, 2011, are as follows:

	Wholesale/ U.S. Nutrition	European Retail	Direct Response/ E-Commerce	North American Retail	Consolidated
Predecessor balance at September 30, 2010	$ 182,414	$ 136,640	$ 16,105	$ —	$ 335,159
Elimination of predecessor goodwill	(182,414)	(136,640)	(16,105)	—	(335,159)
Purchase accounting adjustments	609,996	282,077	317,985	7,744	1,217,802
Successor balance October 1, 2010	609,996	282,077	317,985	7,744	1,217,802
Acquisition	1,419				1,419
Foreign currency translation	5,168	6,011	—	—	11,179
Successor balance at March 31, 2011	$ 616,583	$ 288,088	$317,985	$7,744	$1,230,400

Intangible Assets

The carrying amounts of intangible assets are as follows:

	Successor March 31, 2011		Predecessor September 30, 2010		
	Gross carrying amount	Accumulated amortization	Gross carrying amount	Accumulated amortization	Amortization period (years)
Definite lived intangible assets:					
Brands and customer relationships	$ 886,666	$19,239	$282,198	$ 99,026	17 - 25
Tradenames and other	172,676	3,044	20,860	11,311	20 - 30
	1,059,342	22,283	303,058	110,337	
Indefinite lived intangible assets:					
Tradenames	1,001,793	—	1,800	—	
Total intangible assets	$2,061,135	$22,283	$304,858	$110,337	

5. Goodwill and Intangible Assets (Continued)

Aggregate amortization expense of definite lived intangible assets included in the consolidated statements of income in selling, general and administrative expenses for the three months ended March 31, 2011 and 2010 was $10,948 and $3,987, respectively. Amortization expense for the six months ended March 31, 2011 and 2010 was $22,400 and $7,987, respectively.

Assuming no changes in our definite lived intangible assets, estimated amortization expense for each of the five succeeding fiscal years is $44,652 per year.

6. Merger Expenses

For the six months ended March 31, 2011, Merger expenses consist of $15,660 in financing costs associated with an unused bridge loan, $14,324 for a portion of the transaction fee paid to Carlyle and $13,881 of other Merger related costs.

7. Accrued Expenses and Other Current Liabilities

The components of accrued expenses and other current liabilities are as follows:

	Successor	Predecessor
	March 31, 2011	September 30, 2010
Accrued compensation and related taxes	$ 32,883	$ 42,235
Interest	29,290	6,774
Income taxes payable	28,553	14,513
Accrued audit and professional fees	1,861	23,298
Other	90,974	85,211
	$183,561	$172,031

Accrued audit and professional fees at September 30, 2010 includes $21,647 related to the Merger.

8. Long-Term Debt

The components of long-term debt are as follows:

	Successor	Predecessor
	March 31, 2011	September 30, 2010
Senior Credit Facilities:		
Term loan B-1	$1,745,625	$ —
Revolving credit facility	—	—
Notes	650,000	189,014
$300 million, five-year Term loan	—	214,343
Multi-currency Term loan	—	15,126
Mortgage and Capital leases	105	803
	2,395,730	419,286
Less: current portion	17,604	78,158
Total	$2,378,126	$341,128

8. Long-Term Debt (Continued)

Senior credit facilities

On October 1, 2010 (the "Closing Date"), we entered into our senior credit facilities consisting of a $250,000 revolving credit facility, a $250,000 term loan A and a $1,500,000 term loan B. The term loan facilities were used to fund, in part, the Transactions.

On March 1, 2011 (the "Refinancing Date"), NBTY, Holdings, Barclays Bank PLC, as administrative agent, and several other lenders entered into the First Amendment and Refinancing Agreement to the Credit Agreement (the "Refinancing") pursuant to which we repriced our loans and amended certain other terms under our existing Credit Agreement. Under the terms of the Refinancing, the original $250,000 term loan A and $1,500,000 term loan B were replaced with a new $1,750,000 term loan B-1 and the $250,000 revolving credit facility was modified to $200,000. Borrowings under term loan B-1 bear interest at a floating rate which can be, at our option, either (i) Eurodollar rate plus an applicable margin, or (ii) base rate plus an applicable margin, in each case, subject to a Eurodollar rate floor of 1.00% or a base rate floor of 2.00%, as applicable. The applicable margin for term loan B-1 and the revolving credit facility is 3.25% per annum for Eurodollar loans and 2.25% per annum for base rate loans, with a step-down in rate for the revolving credit facility upon the achievement of a certain total senior secured leverage ratio. Substantially all other terms are consistent with the original term loan B, including the amortization schedule of term loan B-1 and maturity dates. The revolving portion of our senior credit facilities was undrawn during the six months ended March 31, 2011. We intend to fund working capital and general corporate purposes, including permitted acquisitions and other investments, with cash flows from operations as well as borrowings under our revolving credit facility.

The following fees are applicable under the revolving credit facility: (i) an unused line fee of 0.50% per annum, based on the unused portion of the revolving credit facility; (ii) a letter of credit participation fee on the aggregate stated amount of each letter of credit available to be drawn equal to the applicable margin for Eurodollar rate loans; (iii) a letter of credit fronting fee equal to 0.25% per annum on the daily amount of each letter of credit available to be drawn; and (iv) certain other customary fees and expenses of our letter of credit issuers.

The revolving credit facility matures five years after the Closing Date and term loan B-1 matures seven years after the Closing Date.

Commencing with the third quarter ending after the Closing Date, term loan B-1 amortizes in equal quarterly installments in an amount equal to 1.00% per annum of the original principal amount thereof, with the balance due at final maturity. We may voluntarily prepay loans or reduce commitments under our senior credit facilities, in whole or in part, subject to minimum amounts, with prior notice but without premium or penalty, except that certain refinancings of the term loan B-1 credit facility within one year after the Refinancing Date will be subject to a prepayment premium of 1.00%.

We must prepay term loan B-1 with the net cash proceeds of asset sales, casualty and condemnation events, the incurrence or issuance of indebtedness (other than indebtedness permitted to be incurred under our senior credit facilities unless specifically incurred to refinance a portion of our senior credit facilities) and 50% of excess cash flow (such percentage subject to reduction based on

8. Long-Term Debt (Continued)

achievement of specified senior secured leverage ratios), in each case, subject to certain reinvestment rights and other exceptions. We are also required to make prepayments under our revolving credit facility at any time when, and to the extent that, the aggregate amount of the outstanding loans and letters of credit under the revolving credit facility exceeds the aggregate amount of commitments in respect of the revolving credit facility.

Our obligations under our senior credit facilities are guaranteed by Holdings and each of our current and future direct and indirect subsidiaries other than (i) foreign subsidiaries, (ii) unrestricted subsidiaries, (iii) non-wholly owned subsidiaries, (iv) certain receivables financing subsidiaries, (v) certain immaterial subsidiaries and (vi) certain holding companies of foreign subsidiaries, and will be secured by a first lien on substantially all of their assets, including capital stock of subsidiaries (subject to certain exceptions).

Our senior credit facilities contain customary negative covenants, including, but not limited to, restrictions on our and our restricted subsidiaries' ability to merge and consolidate with other companies, incur indebtedness, grant liens or security interests on assets, make acquisitions, loans, advances or investments, pay dividends, sell or otherwise transfer assets, optionally prepay or modify terms of certain junior indebtedness, enter into transactions with affiliates, amend organizational documents, or change our line of business or fiscal year. We were in compliance with all covenants under the senior credit facilities at March 31, 2011. In addition, our senior credit facilities require the maintenance of a maximum total senior secured leverage ratio on a quarterly basis, calculated with respect to Consolidated EBITDA, as defined therein, if at any time amounts are outstanding under the revolving credit facility, including swingline loans and letters of credit. During the six months ended March 31, 2011, no amounts were outstanding under the revolving credit facility. All other financial covenants required by the original senior credit facility were removed as part of the Refinancing.

Our senior credit facilities provide that, upon the occurrence of certain events of default, our obligations thereunder may be accelerated and the lending commitments terminated. Such events of default include payment defaults to the lenders, material inaccuracies of representations and warranties, covenant defaults, cross-defaults to other material indebtedness, voluntary and involuntary bankruptcy proceedings, material money judgments, material ERISA/pension plan events, certain change of control events and other customary events of default.

As a result of the Refinancing, $20,823 of previously capitalized deferred financing costs were expensed. In addition, $2,394 of the call premium on term loan B and termination costs on interest rate swap contracts of $1,525 were expensed. Financing costs capitalized in connection with the Refinancing of $24,320, consisting of bank fees of approximately $11,714 and the remaining portion of the call premium on term loan B of $12,606, will be amortized over the remaining term using the effective interest rate method.

Notes

On October 1, 2010, NBTY issued $650,000 senior notes bearing interest at 9% in a private placement. The Notes are senior unsecured obligations and will mature on October 1, 2018. Interest on the Notes will be paid on April 1 and October 1 of each year, and commenced on April 1, 2011.

8. Long-Term Debt (Continued)

On and after October 1, 2014, we may redeem the Notes, at our option, in whole at any time or in part from time to time, at the following redemption prices (expressed as a percentage of principal amount), plus accrued and unpaid interest and additional interest, if any, to the redemption date (subject to the right of holders of record on the relevant record date to receive interest due on the relevant interest payment date), if redeemed during the 12-month period commencing on October 1 of the years set forth below:

Period	Redemption Price
2014	104.50%
2015	102.25%
2016 and thereafter	100.00%

In addition, at any time prior to October 1, 2014, we may redeem the Notes at our option, in whole at any time or in part from time to time, at a redemption price equal to 100% of the principal amount of the Notes redeemed plus the Applicable Premium (as defined in the indenture governing the Notes) as of, and accrued and unpaid interest and additional interest, if any, to the applicable redemption date (subject to the right of holders of record on the relevant record date to receive interest due on the relevant interest payment date).

The Notes are jointly and severally irrevocably and unconditionally guaranteed by each of our subsidiaries that is a guarantor under the Credit Agreement and subordinated and uncollateralized in right of payment of all indebtedness of the Company, except any future indebtedness that is expressly subordinated to the Notes. The Notes contain certain customary covenants including, but not limited to, restrictions on our and our restricted subsidiaries' ability to merge and consolidate with other companies, incur indebtedness, grant liens or security interests on assets, make acquisitions, loans, advances or investments, or pay dividends. We were in compliance with all covenants under the Notes at March 31, 2011.

9. Litigation Summary

Sale of the Company

On July 22, 2010 and on August 10, 2010, respectively, plaintiffs filed two actions, captioned *Philip Gottlieb v. NBTY, Inc., et al,* ("Gottlieb"), and *Bredthauer v. NBTY, Inc., et al.,* ("Bredthauer"), each as a purported class action against the Company, the members of its Board of Directors, The Carlyle Group and certain Carlyle-related entities (The Carlyle Group and the Carlyle-related entities, collectively, the "Carlyle Group"), challenging the Board of Directors' decision to sell the Company to the Carlyle Group for the price of $55 per share. The complaint, in each of these cases, alleged that this price per share did not represent fair value for the Company and sought to enjoin the anticipated sale and to invalidate certain related transactions. The *Bredthauer* lawsuit, filed in the Supreme Court of the State of New York, County of Suffolk, was dismissed by Plaintiff. Plaintiff then joined in the *Gottlieb* lawsuit, filed in the Supreme Court of the State of New York, County of Nassau. On January 11, 2011, the parties entered into a stipulation of settlement providing for the proposed settlement and dismissal with prejudice of the remaining action, which was subject to, among other things, court approval following notice to the members of the putative class. Following notice to the class, the court approved the

9. Litigation Summary (Continued)

settlement on April 27, 2011, dismissing the action with prejudice and directing the payment of certain attorneys' fees and expenses.

Stock Purchases

On May 11, 2010, a putative class-action, captioned *John F. Hutchins v. NBTY, Inc., et al*, was filed in the United States District Court, Eastern District of New York, against NBTY and certain officers, claiming that the defendants made false material statements, or concealed adverse material facts, for the purpose of causing members of the class to purchase NBTY stock at allegedly artificially inflated prices. An amended complaint was served on February 1, 2011. The Company moved to dismiss the amended complaint on March 18, 2011 and that motion is pending. We believe the claims to be without merit and intend to vigorously defend this action. At this time, however, no determination can be made as to the ultimate outcome of the litigation or the amount of liability, if any, on the part of any of the defendants.

Nutrition Bars

Our subsidiary, Rexall Sundown, Inc. (''Rexall''), and certain of its subsidiaries, are defendants in a class-action lawsuit, captioned *Jamie Pesek, et al. v. Rexall Sundown, Inc., et al.,* brought in California Superior Court, County of San Francisco in 2002 on behalf of all California consumers who bought various nutrition bars. Plaintiffs allege misbranding of nutrition bars and violations of California unfair competition statutes, misleading advertising and other similar causes of action. Plaintiffs seek restitution, legal fees and injunctive relief. We believe this lawsuit to be without merit and have defended this action vigorously. In December 2007, with Rexall's and the other defendants' renewed motion for judgment on the pleadings pending, the Court stayed the case for all purposes, pending rulings on relevant cases before the California Supreme Court. Following resolution of such cases, the Court lifted the stay and discovery has resumed. Based upon the information currently available, no determination can be made at this time as to the final outcome of this case, nor can its materiality be accurately ascertained.

FTC Investigation of Certain Children's Multi Vitamin and Mineral Products

In letters dated July 22, 2010, the Division of Advertising Practices of the FTC informed us of a non-public FTC investigation of certain allegedly false or unsubstantiated, or both, advertising statements regarding certain children's multiple vitamin and mineral products sold by us. The letters, which included a proposed Complaint and Judgment and Order for Permanent Injunction and Other Relief, indicated that the FTC may seek injunctive and other relief against us. On October 26, 2010, NBTY signed a proposed agreement with the FTC to resolve this matter. On March 22, 2011, the FTC issued a Decision and Order approving that proposed settlement. Pursuant to that Order, NBTY subsequently paid $2,100 (which we accrued as of September 30, 2010) to the FTC. The money paid is to be used in the first instance for equitable relief, including restitution to consumers. The Order also required NBTY to agree to certain advertising restrictions and requirements.

9. Litigation Summary (Continued)

Employment Class Actions

On or about July 7, 2010, a putative class action captioned *Hamilton and Taylor v. Vitamin World, Inc.* was filed against one of our subsidiaries in the Alameda Superior Court, California. Plaintiffs seek to represent a class of employees in connection with several causes of action alleges: (1) failure to pay overtime and regular wages; (2) failure to provide meal periods; (3) failure to provide rest periods; (4) unfair competition; (5) failure to pay wages due upon termination; and (6) failure to furnish accurate itemized wage statements. Plaintiffs describe the class as all non-exempt current and former employees of Vitamin World Stores in California. To date, the Plaintiffs have filed an amended complaint and discovery has been initiated. The Company challenges the validity of the claims and intends to vigorously defend this action. At this time, however, no determination can be made as to the ultimate outcome of the litigation or the amount of liability, if any, on the part of the defendant. In addition, on or about October 27, 2010, a different set of plaintiffs filed an action captioned *Hickman v. Vitamin World, Inc.* in Solano County Superior Court, California. Vitamin World filed a demurrer and motion to abate that action because it is identical to the instant *Hamilton* complaint and the parties have agreed to dismiss the *Hickman* action.

On or about April 8, 2010, a putative class action captioned *Dirickson v. NBTY Acquisition, LLC, NBTY Manufacturing, LLC, NBTY, Inc., and Volt Management Corporation* ("Volt") was filed against the Company and certain subsidiaries in the Superior Court of California, County of Los Angeles. Volt is not related to the Company. Plaintiff seeks to represent a class of employees in connection with several causes of action: (1) alleged failure to pay missed meal periods; (2) alleged failure to pay wages when due; (3) alleged failure to furnish accurate itemized wage statements; and (4) alleged unfair competition. The Complaint seeks damages on behalf of all non-exempt employees within the State of California who worked for Volt or any of the NBTY entities between April 8, 2006 and April 8, 2010 (the "Class Period"). In June 2010, Volt filed a motion to compel arbitration, and the NBTY entities joined the motion insofar as it sought to arbitrate Dirickson's claims against Volt. On August 11, 2010, the Court issued an order regarding Volt's Motion to Compel Arbitration, directing arbitrations of the claims against Volt, and of only those claims against the NBTY entities as to which the Volt arbitration agreement applied. The remaining claims against NBTY entities were to go forward in the civil case. The NBTY entities have entered into settlement discussions with the plaintiffs, and those discussions are ongoing. Until such settlement is finalized, however, no determination can be made as to the ultimate outcome of the litigation or the amount of liability, if any, on the part of the defendant.

Claims in the Ordinary Course

In addition to the foregoing, other regulatory inquiries, claims, suits and complaints (including product liability, intellectual property and Proposition 65 claims) arise from time to time in the ordinary course of our business. We believe that such other inquiries, claims, suits and complaints would not have a material adverse effect on our consolidated financial condition or results of operations, if adversely determined against us.

10. Income Taxes

Our provision for income taxes is impacted by a number of factors, including federal taxes, our international tax structure, state tax rates in the jurisdictions where we conduct business, and our ability

10. Income Taxes (Continued)

to utilize state tax credits that expire between 2013 and 2016. Therefore, our overall effective income tax rate could vary as a result of these factors.

The effective income tax rate for the three months ended March 31, 2011 was (295.2%). The effective income tax rate for the six months ended March 31, 2011 was 5.9%, which reflects the current estimate of our full year projected effective income tax rate, net of items that only impact the current or prior quarters. The effective income tax rate for the three and six months ended March 31, 2010 was 35.3% and 35.0%, respectively. Our effective income tax rate for the three and six months ended March 31, 2011 is lower than the statutory rate and the prior comparable periods primarily due to the worldwide pre-tax loss for the six months ended March 31, 2011, which included a domestic loss for which federal and state tax benefits have been recognized as well as our international tax structure.

We accrue interest and penalties related to unrecognized tax benefits in income tax expense. This methodology is consistent with previous periods. At March 31, 2011, we had $1,494 and $551 accrued for the potential payment of interest and penalties, respectively. As of March 31, 2011, we were subject to U.S. federal income tax examinations for the tax years 2007-2010, and to non-U.S. examinations for the tax years of 2005-2010. In addition, we are generally subject to state and local examinations for fiscal years 2007-2010.

At March 31, 2011, we had a liability of $9,626 for unrecognized tax benefits, the recognition of which would have an effect of $7,004 on income tax expense and the effective income tax rate. We do not believe that the amount will change significantly in the next 12 months. At this time, we are unable to make a reasonably reliable estimate of the timing of payments in individual years beyond 12 months due to uncertainties in the timing of tax audit outcomes.

11. Stockholder's Equity

In connection with the Merger, each of the outstanding shares of NBTY common stock was converted into the right to receive cash consideration of $55.00 per share (see Note 3 for further information). As of October 1, 2010, Holdings owns 100% of NBTY's issued and outstanding common stock.

During December 2010, Holdings made an additional capital contribution of $400.

The opening accumulated deficit of Merger Sub consists of acquisition related expenses incurred prior to October 1, 2010.

12. Comprehensive Income (Loss)

	Successor	Predecessor	Successor	Predecessor
	Three months ended March 31,	Three months ended March 31,	Six months ended March 31,	Six months ended March 31,
	2011	2010	2011	2010
Net (loss) income, as reported	$(20,161)	$ 46,656	$(83,598)	$122,242
Foreign currency translation adjustments, net of taxes	29,520	(19,012)	16,000	(17,848)
Change in fair value of swaps, net of taxes	(6,408)	361	(9,996)	1,161
Total comprehensive income (loss)	$ 2,951	$ 28,005	$(77,594)	$105,555

13. Fair Value of Financial Instruments

GAAP establishes a framework for measuring fair value and expands disclosures about fair value measurements. Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. GAAP also establishes a fair value hierarchy, which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. There are three levels of inputs that may be used to measure fair value:

- Level 1 – Quoted prices in active markets for identical assets or liabilities.
- Level 2 – Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.
- Level 3 – Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

The following table summarizes liabilities measured at fair value on a recurring basis at March 31, 2011:

Assets (liabilities):	Level 1	Level 2	Level 3
Interest rate swaps receivable (included in other assets)	$—	$56	$ —
Cross currency swaps (included in other liabilities)	$—	$—	$(16,337)

The Company's swap contracts are measured at fair value based on a market approach valuation technique. With the market approach, fair value is derived using prices and other relevant information generated by market transactions involving identical or comparable assets or liabilities. Although non-performance risk of the Company and the counterparty is present in all swap contracts and is a component of the estimated fair values, we do not view non-performance risk to be a significant input to the fair value for the interest rate swap contracts. However, with respect to our cross currency swap contracts, we believe that non-performance risk is higher; therefore the Company classifies these swap contracts as "level 3" in the fair value hierarchy and, accordingly, records estimated fair value adjustments based on internal projections and views of those contracts.

The following table shows the activity related to net investment hedges for the three and six months ended March 31, 2011:

	Successor	Successor
	Three months ended March 31, 2011	Six months ended March 31, 2011
Beginning balance:	$ (3,215)	$ —
Unrealized (loss) on hedging instruments	(13,122)	(16,337)
Ending balance:	$(16,337)	$(16,337)

13. Fair Value of Financial Instruments (Continued)

Interest Rate Swaps

To manage the potential risk arising from changing interest rates and their impact on long-term debt, our policy is to maintain a combination of available fixed and variable rate financial instruments. During December 2010, we entered into three interest rate swap contracts that were subsequently terminated in connection with the Refinancing, resulting in a termination payment of $1,525. During March 2011, we entered into three interest rate swap contracts to fix the LIBOR indexed interest rates on a portion of our senior credit facility until the indicated expiration dates of these swap contracts. Each swap contract has an initial notional amount of $333,333 (for a total of one billion dollars), with a fixed interest rate of 1.92% for a four-year term. The notional amount of each swap decreases to $266,666 in December 2012 and decreases to $166,666 in December 2013 and has a maturity date of December 2014. Under the terms of the swap contracts, variable interest payments for a portion of our senior credit facility are swapped for fixed interest payments. These interest rate swap contracts were designated as a cash flow hedge of the variable interest payments on a portion of our term loan debt. Hedge effectiveness will be assessed based on the overall changes in the fair value of the interest rate swap contracts. Any potential ineffectiveness is measured using the hypothetical derivative method. Any ineffectiveness will be recognized in current earnings. Hedge ineffectiveness from inception to March 31, 2011 was insignificant.

Cross Currency Swaps

To manage the potential exposure from adverse changes in currency exchange rates, specifically the British pound, arising from our net investment in British pound denominated operations, during December 2010, we entered into three cross currency swap contracts to hedge a portion of the net investment in our British pound denominated foreign operations. The aggregate notional amount of the swap contracts is 194,200 British pounds (approximately $301,000 U.S. dollars), with a forward rate of 1.56, and a termination date of September 30, 2017.

These cross currency contracts were designated as a net investment hedge to the net investment in our British pound denominated operations. Hedge effectiveness is assessed based on the overall changes in the fair value of the cross currency swap contracts. Any potential hedge ineffectiveness is measured using the hypothetical derivative method and is recognized in current earnings. Hedge ineffectiveness from inception to March 31, 2011 was insignificant.

13. Fair Value of Financial Instruments (Continued)

The following table shows the effect of the Company's derivative instruments designated as cash flow and net investment hedging instruments for the three and six months ended March 31, 2011:

	Amount of Gain or (Loss) Recognized in OCI on Derivative (Effective Portion)		Amount of Gain or (Loss) Reclassified from Accumulated OCI into Income (Effective Portion)	
	Successor	Successor	Successor	Successor
	Three months ended March 31, 2011	Six months ended March 31, 2011	Three months ended March 31, 2011	Six months ended March 31, 2011
Cash Flow Hedges:				
Interest rate swaps	$ 10	$ (2,990)	$(25)	$(3,025)
Net Investment Hedges:				
Cross currency swaps	$(8,057)	$(10,031)	$ —	$ —
Total	$(8,047)	$(13,021)	$(25)	$(3,025)

Notes

The fair value of the Notes, based on then quoted market prices, was $708,500 at March 31, 2011.

14. Business and Credit Concentration

Financial Instruments

Financial instruments that potentially subject us to credit risk consist primarily of cash and cash equivalents (the amounts of which may, at times, exceed Federal Deposit Insurance Corporation limits on insurable amounts), investments and trade accounts receivable. We mitigate our risk by investing in or through major financial institutions.

Customers

We perform on-going credit evaluations of our customers and adjust credit limits based upon payment history and the customers' current creditworthiness, as determined by review of their current credit information. Customers' account activity is continuously monitored. As a result of this review process, we record bad debt expense, which is based upon historical experience as well as specific customer collection issues that have been identified, to adjust the carrying amount of the related receivable to its estimated realizable value. While such bad debt expenses historically have been within expectations and the allowances established, if the financial condition of one or more of our customers were to deteriorate, additional bad debt provisions may be required.

One customer represented 27% and 30% of the Wholesale/U.S. Nutrition segment's net sales for the three months ended March 31, 2011 and 2010, respectively. It also represented 15% and 18% of consolidated net sales for the three months ended March 31, 2011 and 2010, respectively. This customer also represented 26% and 28% of the Wholesale/U.S. Nutrition segment's net sales for the six months ended March 31, 2011 and 2010, respectively. It also represented 15% and 17% of consolidated net sales for the six months ended March 31, 2011 and 2010, respectively. The loss of this customer, or any one of our other major customers, would have a material adverse effect on our results of operations if we were unable to replace that customer.

14. Business and Credit Concentration (Continued)

The following customers accounted for the following percentages of the Wholesale/U.S. Nutrition segment's gross accounts receivable as of March 31, 2011 and September 30, 2010, respectively:

	Successor	Predecessor
	March 31, 2011	September 30, 2010
Customer A	20%	21%
Customer B	10%	9%

15. Supplemental Disclosure of Cash Flow Information

	Successor	Predecessor
	Six months ended March 31, 2011	Six months ended March 31, 2010
Non-cash investing and financing information:		
Property, plant and equipment additions included in accounts payable	$1,258	$1,717

16. Segment Information

We are organized by sales segments on a worldwide basis. We evaluate performance based on a number of factors; however, the primary measures of performance are the net sales and income or loss from operations (before corporate allocations) of each segment, as these are the key performance indicators that we review. Operating income or loss for each segment does not include the impact of any intercompany transfer pricing mark-up, corporate general and administrative expenses, interest expense and other miscellaneous income/expense items. Corporate general and administrative expenses include, but are not limited to: human resources, legal, finance, and various other corporate level activity related expenses. Such unallocated expenses remain within Corporate.

All our products fall into one or more of these four segments:

- Wholesale/U.S. Nutrition – This segment sells products under various brand names and third-party private labels, each targeting specific market groups which include virtually all major mass merchandisers, club stores, drug store chains and supermarkets. This segment also sells products to independent pharmacies, health food stores, the military and other retailers.
- European Retail – This segment generates revenue through its 638 Holland & Barrett stores (including seven franchised stores in Singapore, one franchised store in each of South Africa, Malta, Hungary and United Arab Emirates and four franchised stores in Cyprus), 255 Julian Graves stores and 48 GNC (UK) stores in the U.K., 98 De Tuinen stores (including 11 franchised locations) in the Netherlands and 39 Nature's Way stores in Ireland. Such revenue consists of sales of proprietary brand and third-party products as well as franchise fees.
- Direct Response/E-Commerce – This segment generates revenue through the sale of proprietary brand and third-party products primarily through mail order catalog and internet. Catalogs are strategically mailed to customers who order by mail, internet, or by phone.
- North American Retail – This segment generates revenue through its 446 owned and operated Vitamin World stores selling proprietary brand and third-party products and through its Canadian operation of 81 owned and operated Le Naturiste stores.

16. Segment Information (Continued)

The following table represents key financial information of our business segments:

	Wholesale/ U.S. Nutrition	European Retail	Direct Response/ E-Commerce	North American Retail	Corporate/ Manufacturing	Consolidated
Successor						
Three months ended March 31, 2011:						
Net sales	$404,104	$179,007	$ 65,608	$ 57,823	$ —	$ 706,542
Income (loss) from operations	42,572	29,071	14,156	2,038	(23,319)	64,518
Depreciation and amortization	9,766	4,313	2,652	898	8,035	25,664
Capital expenditures	206	5,676	—	220	10,320	16,422
Six months ended March 31, 2011:						
Net sales	$861,067	$350,556	$125,723	$111,359	$ —	$1,448,705
Income (loss) from operations	136,624	57,612	29,056	3,913	(201,537)	25,668
Depreciation and amortization	18,637	7,867	5,326	1,658	17,325	50,813
Capital expenditures	341	11,985	27	781	15,629	28,763
Predecessor						
Three months ended March 31, 2010:						
Net sales	$426,575	$159,013	$ 64,803	$ 54,769	$ —	$ 705,160
Income (loss) from operations	55,454	25,880	18,013	451	(20,836)	78,962
Depreciation and amortization	3,659	3,458	1,206	622	7,866	16,811
Capital expenditures	947	9,276	11	659	3,661	14,554
Six months ended March 31, 2010:						
Net sales	$897,688	$335,008	$117,388	$106,227	$ —	$1,456,311
Income (loss) from operations	141,692	60,524	34,401	2,523	(37,948)	201,192
Depreciation and amortization	7,331	7,084	2,412	1,331	15,600	33,758
Capital expenditures	1,086	13,380	41	1,094	8,836	24,437

16. Segment Information (Continued)

Net sales by location of customer:

	Successor Three months ended March 31, 2011	Predecessor Three months ended March 31, 2010	Successor Six months ended March 31, 2011	Predecessor Six months ended March 31, 2010
United States	$441,055	$463,883	$ 930,107	$ 960,138
United Kingdom	170,650	152,809	330,215	318,522
Canada	25,659	25,909	52,612	54,484
Netherlands	19,903	16,577	40,192	34,861
Ireland	8,575	6,301	16,453	12,142
Other foreign countries	40,700	39,681	79,126	76,164
Consolidated net sales	$706,542	$705,160	$1,448,705	$1,456,311

Total assets by segment:

	Successor March 31, 2011	Predecessor September 30, 2010
Wholesale/U.S. Nutrition	$2,529,076	$ 917,026
European Retail	878,482	424,065
Direct Response/E-Commerce	783,120	54,404
North American Retail	106,393	32,782
Corporate/Manufacturing	700,513	772,491
Consolidated assets	$4,997,584	$2,200,768

Approximately 32% and 30% of our net sales during the six months ended March 31, 2011 and 2010, respectively, were denominated in currencies other than U.S. dollars, principally the British pound, the euro and the Canadian dollar. A significant weakening of such currencies versus the U.S. dollar could have a material adverse effect on our results of operations.

Foreign subsidiaries accounted for the following percentages of total assets and total liabilities:

	Successor March 31, 2011	Predecessor September 30, 2010
Total Assets	25%	26%
Total Liabilities	3%	16%

17. Condensed Consolidating Financial Statements of Guarantors

The 9% senior notes due 2018 were issued by NBTY and are guaranteed by each of its current and future direct and indirect subsidiaries, subject to certain exceptions. These guarantees are full,

17. Condensed Consolidating Financial Statements of Guarantors (Continued)

unconditional and joint and several. The following condensed consolidating financial information presents:

1. Condensed consolidating financial statements as of March 31, 2011 and September 30, 2010 and for the three and six months ended March 31, 2011 and 2010 of (a) NBTY, Inc., the parent and issuer, (b) the guarantor subsidiaries, (c) the non-guarantor subsidiaries and (d) the Company on a consolidated basis; and
2. Elimination entries necessary to consolidate NBTY, Inc., the parent, with guarantor and non-guarantor subsidiaries.

The condensed consolidating financial statements are presented using the equity method of accounting for investments in wholly-owned subsidiaries. Under this method, the investments in subsidiaries are recorded at cost and adjusted for our share of the subsidiaries' cumulative results of operations, capital contributions, distributions and other equity changes. The principal elimination entries eliminate investments in subsidiaries and intercompany balances and transactions. This financial information should be read in conjunction with the financial statements and other notes related thereto.

17. Condensed Consolidating Financial Statements of Guarantors (Continued)

Successor
Condensed Consolidating Balance Sheet
As of March 31, 2011

	Parent Company	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Assets					
Current assets:					
Cash and cash equivalents	$ 133,984	$ —	$ 90,000	$ —	$ 223,984
Accounts receivable, net	—	107,603	30,045	—	137,648
Intercompany	1,636,007	—	89,458	(1,725,465)	—
Inventories	—	514,411	162,444	—	676,855
Deferred income taxes	—	26,847	654	—	27,501
Other current assets	—	28,660	26,462	—	55,122
Total current assets	1,769,991	677,521	399,063	(1,725,465)	1,121,110
Property, plant and equipment, net	50,715	296,357	148,259	—	495,331
Goodwill	—	813,724	416,676	—	1,230,400
Intangible assets, net	—	1,664,797	374,055	—	2,038,852
Other assets	—	111,831	60	—	111,891
Intercompany loan receivable	346,580	40,733	—	(387,313)	—
Investments in subsidiaries	2,482,755	—	—	(2,482,755)	—
Total assets	$4,650,041	$3,604,963	$1,338,113	$(4,595,533)	$4,997,584
Liabilities and Stockholders' Equity					
Current liabilities:					
Current portion of long-term debt	$ 17,499	$ —	$ 105	$ —	$ 17,604
Accounts payable	—	92,668	53,795	—	146,463
Intercompany	—	1,725,465	—	(1,725,465)	—
Accrued expenses and other current liabilities	—	151,581	31,980	—	183,561
Total current liabilities	17,499	1,969,714	85,880	(1,725,465)	347,628
Intercompany loan payable	—	—	387,313	(387,313)	—
Long-term debt, net of current portion	2,378,126	—	—	—	2,378,126
Deferred income taxes	758,354	—	4,469	—	762,823
Other liabilities	30,017	1,129	11,816	—	42,962
Total liabilities	3,183,996	1,970,843	489,478	(2,112,778)	3,531,539
Commitments and contingencies					
Stockholders' Equity:					
Common stock	—	—	—	—	—
Capital in excess of par	1,551,086	352,012	301,273	(653,285)	1,551,086
Accumulated deficit	(91,045)	1,282,108	528,065	(1,810,173)	(91,045)
Accumulated other comprehensive loss	6,004	—	19,297	(19,297)	6,004
Total stockholders' equity	1,466,045	1,634,120	848,635	(2,482,755)	1,466,045
Total liabilities and stockholders' equity	$4,650,041	$3,604,963	$1,338,113	$(4,595,533)	$4,997,584

17. Condensed Consolidating Financial Statements of Guarantors (Continued)

Predecessor
Condensed Consolidating Balance Sheet
As of September 30, 2010

	Parent Company	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Assets					
Current assets:					
Cash and cash equivalents	$ 281,457	$ —	$ 65,026	$ —	$ 346,483
Accounts receivable, net	—	107,007	28,370	—	135,377
Intercompany	—	459,164	777,375	(1,236,539)	—
Inventories	—	533,360	135,536	—	668,896
Deferred income taxes	—	39,488	642	—	40,130
Other current assets	—	19,162	47,828	—	66,990
Total current assets	281,457	1,158,181	1,054,777	(1,236,539)	1,257,876
Property, plant and equipment, net	34,850	231,865	125,184	—	391,899
Goodwill	—	197,701	137,458	—	335,159
Intangible assets, net	—	171,164	23,357		194,521
Other assets	—	20,376	937		21,313
Intercompany loan receivable	336,310	40,733	—	(377,043)	—
Investments in subsidiaries	2,388,648	—	—	(2,388,648)	—
Total assets	$3,041,265	$1,820,020	$1,341,713	$(4,002,230)	$2,200,768
Liabilities and Stockholders' Equity					
Current liabilities:					
Current portion of long-term debt	$ 62,658	$ —	$ 15,500	$ —	$ 78,158
Accounts payable	—	105,073	53,276	—	158,349
Intercompany	1,236,539	—	—	(1,236,539)	—
Accrued expenses and other current liabilities	—	130,965	41,066	—	172,031
Total current liabilities	1,299,197	236,038	109,842	(1,236,539)	408,538
Intercompany loan payable	—	—	377,043	(377,043)	—
Long-term debt, net of current portion	317,252	—	23,876	—	341,128
Deferred income taxes	33,897	—	4,278	—	38,175
Other liabilities	10,966	3,010	18,998	—	32,974
Total liabilities	1,661,312	239,048	534,037	(1,613,582)	820,815
Commitments and contingencies					
Stockholders' Equity:					
Common stock	508	—	—	—	508
Capital in excess of par	186,248	352,016	301,271	(653,287)	186,248
Retained earnings	1,198,467	1,228,956	513,456	(1,742,412)	1,198,467
Accumulated other comprehensive loss	(5,270)	—	(7,051)	7,051	(5,270)
Total stockholders' equity	1,379,953	1,580,972	807,676	(2,388,648)	1,379,953
Total liabilities and stockholders' equity	$3,041,265	$1,820,020	$1,341,713	$(4,002,230)	$2,200,768

17. Condensed Consolidating Financial Statements of Guarantors (Continued)

Successor
Condensed Consolidating Statement of Income
Three Months Ended March 31, 2011

	Parent Company	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Net sales	$ —	$505,557	$233,369	$(32,384)	$706,542
Costs and expenses:					
Cost of sales	—	308,944	101,432	(32,384)	377,992
Advertising, promotion and catalog	—	43,177	8,187	—	51,364
Selling, general and administrative	18,284	98,568	90,825	—	207,677
Merger expenses	4,983	—	8	—	4,991
	23,267	450,689	200,452	(32,384)	642,024
(Loss) income from operations	(23,267)	54,868	32,917	—	64,518
Other income (expense):					
Equity in income of subsidiaries	57,701	—	—	(57,701)	—
Intercompany interest	2,574	—	(2,574)	—	—
Interest	(70,184)	—	(4)	—	(70,188)
Miscellaneous, net	101	2,060	(1,592)	—	569
	(9,808)	2,060	(4,170)	(57,701)	(69,619)
(Loss) income before income taxes	(33,075)	56,928	28,747	(57,701)	(5,101)
(Benefit) provision for income taxes	(12,915)	19,926	8,049	—	15,060
Net (loss) income	$(20,160)	$ 37,002	$ 20,698	$(57,701)	$ (20,161)

17. Condensed Consolidating Financial Statements of Guarantors (Continued)

Predecessor
Condensed Consolidating Statement of Income
Three Months Ended March 31, 2010

	Parent Company	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Net sales	$ —	$516,392	$206,568	$(17,800)	$705,160
Costs and expenses:					
Cost of sales	—	307,432	91,036	(17,800)	380,668
Advertising, promotion and catalog	—	44,345	6,592	—	50,937
Selling, general and administrative	20,836	90,843	82,914	—	194,593
	20,836	442,620	180,542	(17,800)	626,198
Income from operations	(20,836)	73,772	26,026	—	78,962
Other income (expense):					
Equity in income of subsidiaries	64,966	—	—	(64,966)	—
Intercompany interest	2,106	—	(2,106)	—	—
Interest	(7,488)	—	(128)	—	(7,616)
Miscellaneous, net	198	1,098	(506)	—	790
	59,782	1,098	(2,740)	(64,966)	(6,826)
Income before provision for income taxes	38,946	74,870	23,286	(64,966)	72,136
(Benefit)/ provision for income taxes	(7,710)	26,204	6,986	—	25,480
Net income	$ 46,656	$ 48,666	$ 16,300	$(64,966)	$ 46,656

17. Condensed Consolidating Financial Statements of Guarantors (Continued)

Successor
Condensed Consolidating Statement of Income
Six Months Ended March 31, 2011

	Parent Company	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Net sales	$ —	$1,049,016	$456,393	$(56,704)	$1,448,705
Costs and expenses:					
Cost of sales	—	707,101	237,660	(56,704)	888,057
Advertising, promotion and catalog	—	65,212	14,840	—	80,052
Selling, general and administrative	35,526	198,518	177,019	—	411,063
Merger expenses	43,857	—	8	—	43,865
	79,383	970,831	429,527	(56,704)	1,423,037
(Loss) income from operations	(79,383)	78,185	26,866	—	25,668
Other income (expense):					
Equity in income of subsidiaries	67,761	—	—	(67,761)	—
Intercompany interest	5,169	—	(5,169)	—	—
Interest	(116,773)	—	(15)	—	(116,788)
Miscellaneous, net	62	3,588	(1,392)	—	2,258
	(43,781)	3,588	(6,576)	(67,761)	(114,530)
(Loss) income before income taxes	(123,164)	81,773	20,290	(67,761)	(88,862)
(Benefit) provision for income taxes	(39,566)	28,621	5,681	—	(5,264)
Net (loss) income	$ (83,598)	$ 53,152	$ 14,609	$(67,761)	$ (83,598)

17. Condensed Consolidating Financial Statements of Guarantors (Continued)

Predecessor
Condensed Consolidating Statement of Income
Six Months Ended March 31, 2010

	Parent Company	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Net sales	$ —	$1,059,690	$430,974	$ (34,353)	$1,456,311
Costs and expenses:					
Cost of sales	—	636,749	189,720	(34,353)	792,116
Advertising, promotion and catalog	—	67,589	12,090	—	79,679
Selling, general and administrative	37,950	176,754	168,620	—	383,324
	37,950	881,092	370,430	(34,353)	1,255,119
Income from operations	(37,950)	178,598	60,544	—	201,192
Other income (expense):					
Equity in income of subsidiaries	156,713	—	—	(156,713)	—
Intercompany interest	4,359	—	(4,359)	—	—
Interest	(15,315)	—	(357)	—	(15,672)
Miscellaneous, net	176	2,281	88	—	2,545
	145,933	2,281	(4,628)	(156,713)	(13,127)
Income before provision for income taxes	107,983	180,879	55,916	(156,713)	188,065
(Benefit)/ provision for income taxes	(14,259)	63,308	16,774	—	65,823
Net income	$122,242	$ 117,571	$ 39,142	$(156,713)	$ 122,242

17. Condensed Consolidating Financial Statements of Guarantors (Continued)

Successor
Condensed Consolidating Statement of Cash Flows
Six Months Ended March 31, 2011

	Parent Company	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Cash flows from operating activities:					
Net (loss) income	$ (83,598)	$ 53,152	$ 14,609	$(67,761)	$ (83,598)
Adjustments to reconcile net (loss) income to net cash & cash equivalents provided by operating activities:					
Equity in earnings of subsidiaries	(67,761)	—	—	67,761	—
Impairments and disposals of assets	—	224	416	—	640
Depreciation and amortization	2,399	38,006	10,408	—	50,813
Foreign currency transaction (gain) loss	(1,912)	—	598	—	(1,314)
Amortization of deferred charges	7,444	—	—	—	7,444
Write off of financing fees	20,824	—	—	—	20,824
Stock-based compensation	686	—	—	—	686
Allowance for doubtful accounts	—	5,467	—	—	5,467
Amortization of incremental inventory fair value	—	83,952	38,152	—	122,104
Inventory reserves	—	21,753	—	—	21,753
Deferred income taxes	—	(36,559)	—	—	(36,559)
Changes in operating assets and liabilities:					
Accounts receivable	—	(4,273)	(1,407)	—	(5,680)
Inventories	—	(9,004)	(23,820)	—	(32,824)
Other assets	—	7,112	7,344	—	14,456
Accounts payable	—	(10,191)	(1,301)	—	(11,492)
Accrued expenses and other liabilities	—	21,625	(11,546)	—	10,079
Net cash (used in) provided by operating activities	(121,918)	171,264	33,453	—	82,799
Cash flows from investing activities:					
Intercompany accounts	150,115	(153,592)	3,477	—	—
Purchase of property, plant and equipment	(1,037)	(14,382)	(13,344)	—	(28,763)
Cash paid for acquisitions, net of cash acquired	(3,982,431)	(3,197)	—		(3,985,628)
Net cash used in investing activities	(3,833,353)	(171,171)	(9,867)	—	(4,014,391)
Cash flows from financing activities:					
Principal payments under long-term debt agreements and capital leases	(4,375)	(429)	(274)	—	(5,078)
Payments for financing fees	(138,227)	—	—	—	(138,227)
Proceeds from borrowings	2,400,000	—	—	—	2,400,000
Capital contribution	1,550,400	—	—	—	1,550,400
Net cash provided by (used in) financing activities	3,807,798	(429)	(274)	—	3,807,095
Effect of exchange rate changes on cash and cash equivalents	—	336	1,662	—	1,998
Net (decrease) increase in cash and cash equivalents	(147,473)	—	24,974	—	(122,499)
Cash and cash equivalents at beginning of period	281,457	—	65,026	—	346,483
Cash and cash equivalents at end of period	$ 133,984	$ —	$ 90,000	$ —	$ 223,984

17. Condensed Consolidating Financial Statements of Guarantors (Continued)

Predecessor
Condensed Consolidating Statement of Cash Flows
Six Months Ended March 31, 2010

	Parent Company	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Cash flows from operating activities:					
Net income	$ 122,242	$ 117,571	$ 39,142	$(156,713)	$122,242
Adjustments to reconcile net income to net cash & cash equivalents provided by operating activities:					
Equity in earnings of subsidiaries	(156,713)	—	—	156,713	—
Impairments and disposals of assets	—	5,756	440	—	6,196
Depreciation and amortization	2,585	22,492	8,681	—	33,758
Foreign currency transaction loss	(142)	—	272	—	130
Amortization of deferred charges	774	—	—	—	774
Stock-based compensation	2,970	317	324	—	3,611
Allowance for doubtful accounts	—	1,866	—	—	1,866
Inventory reserves	—	1,699	—	—	1,699
Deferred income taxes	—	1,483	(36)	—	1,447
Excess income tax benefit from exercise of stock options	(4,787)	—	—	—	(4,787)
Changes in operating assets and liabilities:					
Accounts receivable	—	(14,508)	(1,209)	—	(15,717)
Inventories	—	15,827	459	—	16,286
Other assets	—	5,704	(1,531)	—	4,173
Accounts payable	—	(23,936)	5,595	—	(18,341)
Accrued expenses and other liabilities	—	2,364	1,735	—	4,099
Net cash (used in) provided by operating activities	(33,071)	136,635	53,872	—	157,436
Cash flows from investing activities:					
Intercompany accounts	137,174	(127,246)	(9,928)	—	—
Purchase of property, plant and equipment	(503)	(8,966)	(14,968)	—	(24,437)
Proceeds from sale of investments	2,000	—	—	—	2,000
Cash paid for acquisitions	—	—	(573)	—	(573)
Net cash provided by (used in) investing activities	138,671	(136,212)	(25,469)	—	(23,010)
Cash flows from financing activities:					
Principal payments under long-term debt agreements and capital leases	(35,354)	(423)	—	—	(35,777)
Excess income tax benefit from exercise of stock options	4,787	—	—	—	4,787
Proceeds from stock options exercised	9,725	—	—	—	9,725
Net cash used in financing activities	(20,842)	(423)	—	—	(21,265)
Effect of exchange rate changes on cash and cash equivalents	—	—	(5,257)	—	(5,257)
Net increase in cash and cash equivalents	84,758	—	23,146	—	107,904
Cash and cash equivalents at beginning of period	46,169	—	59,832	—	106,001
Cash and cash equivalents at end of period	$ 130,927	$ —	$ 82,978	$ —	$213,905

NBTY, Inc.
Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations
(Dollar amounts in thousands)

Forward-Looking Statements

This Quarterly Report (this "Report") contains "forward-looking statements" within the meaning of the securities laws. You should not place undue reliance on these statements. Forward-looking statements include information concerning our liquidity and our possible or assumed future results of operations, including descriptions of our business strategies. These statements often include words such as "believe," "expect," "anticipate," "intend," "plan," "estimate," "seek," "will," "may," or similar expressions. These statements are based on certain assumptions that we have made in light of our experience in the industry as well as our perceptions of historical trends, current conditions, expected future developments and other factors we believe are appropriate in these circumstances. As you read and consider this Report, you should understand that these statements are not guarantees of performance or results. They involve risks, uncertainties and assumptions. Many factors could affect our actual financial results and could cause actual results to differ materially from those expressed in the forward-looking statements. Some important factors include:

- potential slow or negative growth in the vitamin, mineral and supplement market;
- consumer perception of our products due to adverse scientific research or findings, regulatory investigations, litigation, national media attention and other publicity regarding nutritional supplements;
- the loss of significant customers;
- compliance with new and existing federal, state, local or foreign legislation or regulation, or adverse determinations by regulators anywhere in the world (including the banning of products) and, in particular, Good Manufacturing Practices ("GMPs") in the United States, the Food Supplements Directive and Traditional Herbal Medicinal Products Directive (the "Herbal Products Directive") in Europe and greater enforcement by federal, state, local or foreign governmental entities;
- increases in the cost of borrowings or unavailability of additional debt or equity capital, or both;
- prolonged economic downturn or recession;
- instability in financial markets;
- dependency on retail stores for sales;
- material product liability claims and product recalls;
- our inability to obtain or renew insurance, or to manage insurance costs;
- international market exposure;
- legal proceedings initiated by regulators in the United States or abroad;
- unavailability of, or our inability to consummate, advantageous acquisitions in the future, or our inability to integrate acquisitions into the mainstream of our business;
- difficulty entering new international markets;
- loss of executive officers and other key personnel;
- the availability and pricing of raw materials;

- disruptions in manufacturing operations that produce nutritional supplements and loss of manufacturing certifications;
- increased competition and failure to compete effectively;
- our inability to respond to changing consumer preferences;
- interruption of business or negative impact on sales and earnings due to acts of God, acts of war, sabotage, terrorism, bio-terrorism, civil unrest or disruption of delivery service;
- work stoppages at our facilities;
- increased raw material, utility or fuel costs;
- fluctuations in foreign currencies, including the British pound, the euro, the Canadian dollar and the Chinese yuan;
- interruptions in information processing systems and management information technology, including system interruptions and security breaches;
- our inability to protect our intellectual property rights;
- our exposure to, and the expense of defending and resolving, product liability claims, intellectual property claims and other litigation;
- adverse tax determinations;
- other factors disclosed in this Report; and
- other factors beyond our control.

In light of these risks, uncertainties and assumptions, the forward-looking statements contained in this Report might not prove accurate. You should not place undue reliance upon them. All forward-looking statements attributable to us, or persons acting on our behalf, are expressly qualified in their entirety by the foregoing cautionary statements. All such statements speak only as of the date of this Report, and we undertake no obligation to update or revise publicly any forward-looking statements, whether as a result of new information, future events or otherwise.

Carlyle Transaction

On October 1, 2010, NBTY consummated the Merger with an affiliate of Carlyle under which the Carlyle affiliate acquired 100% of NBTY for a net purchase price of $3,635,949. The purchase price was funded through the net proceeds of our $1,750,000 senior credit facilities, the issuance of $650,000 senior notes and a cash equity contribution of $1,550,000 from an affiliate of Carlyle. For a detailed discussion of the Transactions, see Note 3 and Note 8 to our Condensed Consolidated Financial Statements.

As a result of the Acquisition and the application of purchase accounting, our assets and liabilities have been adjusted to their fair market values as of October 1, 2010, the closing date of the Transactions. In addition, we incurred certain acquisition related expenses during the six months ended March 31, 2011.

Specifically, our cost of sales increased due to the increased carrying value of our fixed assets and inventory and our selling, general and administrative expenses increased due to the increased amortization of our intangible assets. Additionally, the excess of the total purchase price over the

preliminary fair value of our assets and liabilities at closing was allocated to goodwill. As a result of our assessment of the fair value of our assets, the values of our intangible assets and goodwill increased significantly. The indefinite-lived intangible assets will be subject to annual impairment testing. Additionally, as discussed below in "Liquidity and Capital Resources," we incurred significant indebtedness in connection with the consummation of the Acquisition, and our total indebtedness and related interest expense is significantly higher than prior to the Acquisition.

Overview

The following discussion and analysis of our financial condition and results of operations covers periods before and after the Transactions. Accordingly, the discussion and analysis of periods before October 1, 2010 do not reflect the significant impact that the Transactions have had on us, including increased levels of indebtedness and the impact of purchase accounting. In addition, the statements in the discussion and analysis regarding industry outlook, our expectations regarding the performance of our business and the forward-looking statements are subject to numerous risks and uncertainties, including, but not limited to, the risks and uncertainties described in our 2010 Annual Report under the heading, "Risk Factors." Our actual results may differ materially from those contained in or implied by any forward-looking statements. You should read the following discussion together with the condensed consolidated financial statements, including the related notes, contained elsewhere herein and with our 2010 Annual Report posted on our website, www.nbty.com. All references to years, unless otherwise noted, refer to our fiscal years, which end on September 30. All dollar values in this section, unless otherwise noted, are denoted in thousands. Numerical figures have been subject to rounding adjustments. Accordingly, numerical figures shown as totals in various tables may not be arithmetic aggregations of the figures that precede them.

We are the leading vertically integrated manufacturer, marketer and retailer of high-quality vitamins, nutritional supplements and related products in the United States, with operations worldwide. We currently market approximately 25,000 SKUs under numerous brands, including Nature's Bounty®, Ester-C®, Solgar®, MET-Rx®, American Health®, Osteo Bi-Flex®, Flex-A-Min®, SISU®, Knox®, Sundown®, Rexall®, Pure Protein®, Body Fortress®, Worldwide Sport Nutrition®, Natural Wealth®, Puritan's Pride®, Holland & Barrett®, GNC (UK)®, Physiologics®, Le Naturiste®, De Tuinen®, Julian Graves® and Vitamin World®. Our vertical integration includes purchasing raw materials and formulating and manufacturing products, which we then market through the following four channels of distribution:

- Wholesale/U.S. Nutrition – This segment sells products under various brand names and third-party private labels, each targeting specific market groups which include virtually all major mass merchandisers, club stores, drug store chains and supermarkets. This segment also sells products to independent pharmacies, health food stores, the military and other retailers.
- European Retail – This segment generates revenue through its 638 Holland & Barrett stores (including seven franchised stores in Singapore, one franchised store in each of South Africa, Malta, Hungary and United Arab Emirates and four franchised stores in Cyprus), 255 Julian Graves stores and 48 GNC (UK) stores in the U.K., 98 De Tuinen stores (including 11 franchised locations) in the Netherlands and 39 Nature's Way stores in Ireland. Such revenue consists of sales of proprietary brand and third-party products as well as franchise fees.

- Direct Response/E-Commerce – This segment generates revenue through the sale of proprietary brand and third-party products primarily through mail order catalog and the internet. Catalogs are strategically mailed to customers who order by mail, internet, or phone.
- North American Retail – This segment generates revenue through its 446 owned and operated Vitamin World stores selling proprietary brand and third-party products and through its Canadian operation of 81 owned and operated Le Naturiste stores.

Operating data for each of the four distribution channels does not include the impact of any intercompany transfer pricing mark-up, corporate general and administrative expenses, interest expense and other miscellaneous income/expense items. Corporate general and administrative expenses include, but are not limited to, the following: human resources, legal, finance and various other corporate-level activity related expenses. We attribute such unallocated expenses to corporate.

Results of Operations

Periods before October 1, 2010 reflect the results of operations of the Company before the Acquisition (the "Predecessor") and periods after October 1, 2010 reflect the results of operations of the Company after the Acquisition (the "Successor").

Three Months Ended March 31, 2011 Compared to the Three Months Ended March 31, 2010:

Net Sales

Net sales by segment for the three months ended March 31, 2011 as compared with the prior comparable period were as follows:

	Successor		Predecessor			
	Three months ended March 31, 2011		Three months ended March 31, 2010			
	Net Sales	% of total	Net Sales	% of total	$ change	% change
Wholesale/U.S. Nutrition	$404,104	57.2%	$426,575	60.5%	$(22,471)	(5.3)%
European Retail	179,007	25.3%	159,013	22.5%	19,994	12.6%
Direct Response/ E-Commerce	65,608	9.3%	64,803	9.2%	805	1.2%
North American Retail	57,823	8.2%	54,769	7.8%	3,054	5.6%
Net sales	$706,542	100.0%	$705,160	100.0%	$ 1,382	0.2%

Wholesale/U.S. Nutrition

Net sales for the Wholesale/U.S. Nutrition segment decreased $22,471, or 5.3%, to $404,104 for the three months ended March 31, 2011 as compared to the prior comparable period. This decrease was attributable to lower net sales of private label products (including contract manufacturing), which decreased $40,841 as a result of the highly competitive environment in the private label business as well as lower sales from certain contract manufacturing agreements. Higher net sales of our branded products offset a portion of the decrease. Domestic branded net sales increased $9,083 and international branded net sales increased $9,288 for the three months ended March 31, 2011, as compared to the prior comparable period.

We continue to adjust shelf space allocation among our numerous wholesale brands to provide the best overall product mix and to respond to changing market conditions. Wholesale/U.S. Nutrition continues to leverage valuable consumer sales information obtained from our North American Retail and Direct Response/E-Commerce operations to provide its mass-market customers with data and analyses to drive mass market sales.

We use targeted promotions to grow overall sales. Promotional programs and rebates were $72,204, or 14.8% of sales, for the three months ended March 31, 2011, as compared to $62,323, or 12.6% of sales, for the prior comparable period. We expect promotional programs and rebates as a percentage of sales to fluctuate on a quarterly basis.

Product returns were $10,008, or 2.1% of sales, for the three months ended March 31, 2011, as compared to $5,437, or 1.1% of sales, for the prior comparable period. Product returns for the three months ended March 31, 2011 and 2010 are primarily attributable to returns in the ordinary course of business. We expect returns relating to normal operations to trend between 1% to 2% of Wholesale/U.S. Nutrition sales in future quarters.

One customer represented 27% and 30% of the Wholesale/U.S. Nutrition segment's net sales for the three months ended March 31, 2011 and 2010, respectively. It also represented 15% and 18% of consolidated net sales for the three months ended March 31, 2011 and 2010, respectively. The loss of this customer, or any one of our other major customers, would have a material adverse effect on our results of operations if we were unable to replace that customer.

European Retail

Net sales for this segment increased $19,994, or 12.6%, to $179,007 for the three months ended March 31, 2011. This increase is attributable to higher promotional activity and a 3% increase in the average exchange rate in the British pound as compared to the prior comparable period. In local currency, net sales increased 9.5% and sales for stores open more than one year (same store sales) increased 5.5% as compared to the prior comparable period.

The following is a summary of European Retail store activity for the three months ended March 31, 2011 and 2010:

European Retail stores:	Successor Three months ended March 31, 2011	Predecessor Three months ended March 31, 2010
Company-owned stores		
Open at beginning of the period	1,048	1,014
Opened during the period	10	9
Acquired during the period	—	3
Closed during the period	(6)	(6)
Open at end of the period	1,052	1,020
Franchised stores		
Open at beginning of the period	23	33
Opened during the period	4	2
Closed during the period	(1)	(3)
Open at end of the period	26	32
Total company-owned and franchised stores		
Open at beginning of the period	1,071	1,047
Opened during the period	14	11
Acquired during the period	—	3
Closed during the period	(7)	(9)
Open at end of the period	1,078	1,052

Direct Response/E-Commerce

Direct Response/E-Commerce net sales increased $805, or 1.2%, for the three months ended March 31, 2011 as compared to the prior comparable period due to stronger E-Commerce net sales, which were partially offset by a decline in catalog net sales. E-Commerce net sales comprised 62% of total Direct Response/E-Commerce net sales for the three months ended March 31, 2011 as compared to 54% in the prior comparable period. We believe that we remain the vitamin and nutritional supplements leader in the direct response and e-commerce sectors, and we continue to increase the number of products available via our catalog and websites.

This segment continues to vary its promotional strategy throughout the fiscal year, utilizing highly promotional catalogs which are not offered in every quarter. Historical results reflect this pattern and therefore this division should be viewed on an annual, and not quarterly, basis.

North American Retail

Net sales for this segment increased $3,054, or 5.6%, to $57,823 for the three months ended March 31, 2011 as compared to the prior comparable period. Same store sales growth was 4.3%, which was the primary reason for the increase in net sales.

The following is a summary of North American Retail store activity for the three months ended March 31, 2011 and 2010:

North American Retail stores:	Successor Three months ended March 31, 2011	Predecessor Three months ended March 31, 2010
Vitamin World		
Open at beginning of the period	457	448
Opened during the period	—	1
Closed during the period	(11)	(3)
Open at end of the period	446	446
Le Naturiste		
Open at beginning of the period	81	86
Opened during the period	—	—
Closed during the period	—	(1)
Open at end of the period	81	85
Total North American Retail		
Open at beginning of the period	538	534
Opened during the period	—	1
Closed during the period	(11)	(4)
Open at end of the period	527	531

Cost of Sales

Cost of sales for the three months ended March 31, 2011 as compared with the prior comparable period was as follows:

	Successor Three months ended March 31, 2011	Predecessor Three months ended March 31, 2010	$ change	% change
Cost of sales	$377,992	$380,668	$ (2,676)	(0.7)%
Percentage of net sales	53.5%	54.0%		

The decrease in cost of sales as a percentage of net sales is attributable to a higher proportion of branded product sales, which traditionally have higher gross profit margins than private label product sales, as compared to the prior comparable period. This decrease in cost of sales was partially offset by higher costs of raw materials.

Due to the competitive pressure in the private label business, we anticipate that cost of sales for our private label business as a percentage of net sales will increase in future quarters. This should adversely affect gross profits during the affected periods. To address this issue, we are in the process of implementing additional improvements in supply chain management and we are also increasing our focus on our branded sales.

Advertising, Promotion and Catalog Expenses

Total advertising, promotion and catalog expenses for the three months ended March 31, 2011 as compared with the prior comparable period were as follows:

	Successor	Predecessor		
	Three months ended March 31,	Three months ended March 31,		
	2011	2010	$ change	% change
Advertising, promotion and catalog	$51,364	$50,937	$427	0.8%
Percentage of net sales	7.3%	7.2%		

Advertising, promotion and catalog expense was relatively unchanged, as the increase in website and internet search engine advertising was partially offset by a decrease in television advertising.

Selling, General and Administrative Expenses

Selling, general and administrative expenses ("SG&A") for the three months ended March 31, 2011 as compared with the prior comparable period were as follows:

	Successor	Predecessor		
	Three months ended March 31,	Three months ended March 31,		
	2011	2010	$ change	% change
Selling, general and administrative	$207,677	$194,593	$13,084	6.7%
Percentage of net sales	29.4%	27.6%		

SG&A increased $7,357 due to higher amortization expense associated with the increased value of trade-names and customer relationship intangible assets recorded in purchase accounting as a result of the Acquisition. In addition, payroll and payroll related costs (including benefits) increased approximately $4,766 primarily due to sales commissions, increased medical benefits and severance.

Income from Operations

Income from operations for the three months ended March 31, 2011 as compared to the prior comparable period was as follows:

	Successor	Predecessor		
	Three months ended March 31,	Three months ended March 31,		
	2011	2010	$ change	% change
Wholesale/U.S. Nutrition	$ 42,572	$ 55,454	$(12,882)	(23.2)%
European Retail	29,071	25,880	3,191	12.3%
Direct Response / E-Commerce	14,156	18,013	(3,857)	(21.4)%
North American Retail	2,038	451	1,587	351.9%
Corporate	(23,319)	(20,836)	(2,483)	(11.9)%
Total	$ 64,518	$ 78,962	$(14,444)	(18.3)%
Percentage of net sales	9.1%	11.2%		

The decrease in Wholesale/U.S. Nutrition income from operations was primarily due to lower sales volume and higher SG&A costs (primarily increased amortization of intangibles resulting from the Acquisition). The increase in the European Retail segment was the result of higher sales volume partially offset by increased SG&A costs (primarily occupancy costs). The decrease in the Direct Response/E-Commerce segment income from operations was primarily due to increased advertising and amortization expenses. The increase in the North American Retail segment income from operations was primarily due to higher sales and lower advertising expense. The increase in the Corporate segment loss from operations was caused by Merger related expenses, partially offset by lower legal costs.

Interest Expense

Interest expense increased due to the senior credit facilities and Notes entered into in connection with the Merger. Also, during March 2011, we refinanced our senior credit facilities. As a result, $20,823 of previously capitalized deferred financing costs were expensed. In addition, $2,394 of the call premium on term loan B and termination costs on interest rate swap contracts of $1,525 were expensed.

Provision for Income Taxes

Our provision for income taxes is impacted by a number of factors, including federal taxes, our international tax structure, state tax rates in the jurisdictions where we conduct business, and our ability to utilize state tax credits that expire between 2013 and 2016. Therefore, our overall effective income tax rate could vary as a result of these factors. The effective income tax rate for the three months ended March 31, 2011 and 2010 was (295.2%) and 35.3%, respectively. The effective income tax rate was lower for the three months ended March 31, 2011 primarily due to the worldwide pre-tax loss for the three months ended March 31, 2011, which included a domestic loss for which federal and state tax benefits have been recognized as compared to worldwide pre-tax income for the three months ended March 31, 2010 which included domestic income for which federal and state tax was provided for.

Six Months Ended March 31, 2011 Compared to the Six Months Ended March 31, 2010:

Net Sales

Net sales by segment for the six months ended March 31, 2011 as compared with the prior comparable period were as follows:

	Successor		Predecessor			
	Six months ended March 31, 2011		Six months ended March 31, 2010			
	Net Sales	% of total	Net Sales	% of total	$ change	% change
Wholesale/U.S. Nutrition	$ 861,067	59.4%	$ 897,688	61.6%	$(36,621)	(4.1)%
European Retail	350,556	24.2%	335,008	23.0%	15,548	4.6%
Direct Response/E-Commerce	125,723	8.7%	117,388	8.1%	8,335	7.1%
North American Retail	111,359	7.7%	106,227	7.3%	5,132	4.8%
Net sales	$1,448,705	100.0%	$1,456,311	100.0%	$ (7,606)	(0.5)%

Wholesale/U.S. Nutrition

Net sales for the Wholesale/U.S. Nutrition segment decreased $36,621, or 4.1%, to $861,067 for the six months ended March 31, 2011 as compared to the prior comparable period. This decrease was attributable to lower net sales of private label products (including contract manufacturing), which decreased $69,674. This decrease is attributable to the highly competitive environment in the private label business as well as lower sales from certain contract manufacturing agreements. Higher net sales of our branded products offset a portion of the decrease. Domestic branded net sales increased $17,506 and international branded net sales increased $15,547 for the six months ended March 31, 2011, as compared to the prior comparable period.

We continue to adjust shelf space allocation among our numerous wholesale brands to provide the best overall product mix and to respond to changing market conditions. Wholesale/U.S. Nutrition continues to leverage valuable consumer sales information obtained from our North American Retail and Direct Response/E-Commerce operations to provide its mass-market customers with data and analyses to drive mass market sales.

We use targeted promotions to grow overall sales. Promotional programs and rebates were $137,793, or 13.6% of sales, for the six months ended March 31, 2011, as compared to $118,987, or 11.6% of sales, for the prior comparable period. We expect promotional programs and rebates as a percentage of sales to fluctuate on a quarterly basis.

Product returns were $16,466, or 1.6% of sales, for the six months ended March 31, 2011, as compared to $10,687 or 1.0% of sales for the prior comparable period. Product returns for the six months ended March 31, 2011 and 2010 are primarily attributable to returns in the ordinary course of business. We expect returns relating to normal operations to trend between 1% to 2% of Wholesale/U.S. Nutrition sales in future quarters.

One customer represented 26% and 28% of the Wholesale/U.S. Nutrition segment's net sales for the six months ended March 31, 2011 and 2010, respectively. It also represented 15% and 17% of consolidated net sales for the six months ended March 31, 2011 and 2010, respectively. The loss of this customer, or any one of our other major customers, would have a material adverse effect on our results of operations if we were unable to replace that customer.

European Retail

Net sales for this segment increased $15,548 or 4.6% to $350,556 for the six months ended March 31, 2011. The average exchange rate in the British pound declined 0.3% as compared to the prior comparable period. In local currency, net sales increased 5.1% as compared to the prior comparable period and same store sales increased 1.8% as compared to the prior comparable period.

The following is a summary of European Retail store activity for the six months ended March 31, 2011 and 2010:

European Retail stores:	Successor Six months ended March 31, 2011	Predecessor Six months ended March 31, 2010
Company-owned stores		
Open at beginning of the period	1,035	1,004
Opened during the period	23	19
Acquired during the period	—	3
Closed during the period	(6)	(6)
Open at end of the period	1,052	1,020
Franchised stores		
Open at beginning of the period	22	28
Opened during the period	6	7
Closed during the period	(2)	(3)
Open at end of the period	26	32
Total company-owned and franchised stores		
Open at beginning of the period	1,057	1,032
Opened during the period	29	26
Acquired during the period	—	3
Closed during the period	(8)	(9)
Open at end of the period	1,078	1,052

Direct Response/E-Commerce

Direct Response/E-Commerce net sales increased $8,335 or 7.1% for the six months ended March 31, 2011 as compared to the prior comparable period resulting from stronger E-Commerce net sales, which were partially offset by a decline in catalog net sales. E-Commerce net sales comprised 60% of total Direct Response/E-Commerce net sales for the six months ended March 31, 2011 as compared to 54% in the prior comparable period. We believe that we remain the vitamin and nutritional supplements leader in the direct response and e-commerce sectors, and we continue to increase the number of products available via our catalog and websites.

This segment continues to vary its promotional strategy throughout the fiscal year, utilizing highly promotional catalogs which are not offered in every quarter. Historical results reflect this pattern and therefore this division should be viewed on an annual, and not quarterly, basis.

North American Retail

Net sales for this segment increased $5,132 or 4.8% to $111,359 for the six months ended March 31, 2011. An increase in same store sales of 3.1% was the primary reason for the increase in net sales.

The following is a summary of North American Retail store activity for the six months ended March 31, 2011 and 2010:

North American Retail stores:	Successor Six months ended March 31, 2011	Predecessor Six months ended March 31, 2010
Vitamin World		
Open at beginning of the period	457	442
Opened during the period	2	7
Closed during the period	(13)	(3)
Open at end of the period	446	446
Le Naturiste		
Open at beginning of the period	81	86
Opened during the period	—	—
Closed during the period	—	(1)
Open at end of the period	81	85
Total North American Retail		
Open at beginning of the period	538	528
Opened during the period	2	7
Closed during the period	(13)	(4)
Open at end of the period	527	531

Cost of Sales

Cost of sales for the six months ended March 31, 2011 as compared with the prior comparable period was as follows:

	Successor Six months ended March 31, 2011	Predecessor Six months ended March 31, 2010	$ change	% change
Cost of sales	$888,057	$792,116	$95,941	12.1%
Percentage of net sales	61.3%	54.4%		

The increase in cost of sales relates to an adjustment of $122,104 to acquired inventory to its fair value as required under purchase accounting in connection with the Acquisition, resulting in a one-time increase in cost of sales as the acquired inventory was sold during the quarter. Excluding this adjustment, the net decrease in cost of sales is attributable to efficiencies generated in manufacturing and supply chain management brought about by economies of scale, partially offset by higher costs of raw materials. In addition, the six months ended March 31, 2011 had a higher proportion of branded product sales, which traditionally have higher gross profit margins than private label product sales, as compared to the prior comparable period.

Due to the competitive pressure in the private label business, we anticipate that cost of sales for our private label business as a percentage of net sales will increase in future quarters. This should adversely affect gross profits during the affected periods. To address this issue, we are in the process of implementing additional improvements in supply chain management and we are also increasing our focus on our branded sales.

Advertising, Promotion and Catalog Expenses

Total advertising, promotion and catalog expenses for the six months ended March 31, 2011 as compared with the prior comparable period were as follows:

	Successor	Predecessor		
	Six months ended March 31,	Six months ended March 31,		
	2011	2010	$ change	% change
Advertising, promotion and catalog	$80,052	$79,679	$373	0.5%
Percentage of net sales	5.5%	5.5%		

Advertising, promotion and catalog expense was relatively unchanged, as the increases in website and internet search engine advertising were largely offset by a decrease in television and customer co-operative advertising.

Selling, General and Administrative Expenses

SG&A for the six months ended March 31, 2011 as compared with the prior comparable period were as follows:

	Successor	Predecessor		
	Six months ended March 31,	Six months ended March 31,		
	2011	2010	$ change	% change
Selling, general and administrative	$411,063	$383,324	$27,739	7.2%
Percentage of net sales	28.4%	26.3%		

SG&A increased $14,413 due to higher amortization expense associated with the increased value of trade-names and customer relationship intangible assets recorded in purchase accounting resulting from the Acquisition. In addition, payroll and payroll related costs (including fringe benefits) increased $6,956 as compared to the prior comparable year primarily due to sales commissions, increased medical benefits and severance. Occupancy costs increased $3,267 and freight costs increased approximately $3,062 primarily due to fuel surcharges.

Merger Expenses

Merger expenses consist of $15,660 in bank financing costs associated with an unused bridge loan, $14,324 for a portion of the transaction fee paid to Carlyle and $13,881 of other Merger related costs.

Income from Operations

Income from operations for the six months ended March 31, 2011 as compared to the prior comparable period was as follows:

	Successor	Predecessor		
	Six months ended March 31, 2011	Six months ended March 31, 2010	$ change	% change
Wholesale/U.S. Nutrition	$ 136,624	$141,692	$ (5,068)	(3.6)%
European Retail	57,612	60,524	(2,912)	(4.8)%
Direct Response/E-Commerce	29,056	34,401	(5,345)	(15.5)%
North American Retail	3,913	2,523	1,390	55.1%
Corporate	(201,537)	(37,948)	(163,589)	(431.1)%
Total	$ 25,668	$201,192	$(175,524)	(87.2)%
Percentage of net sales	1.8%	13.8%		

The decrease in Wholesale/U.S. Nutrition income from operations was primarily due to higher SG&A costs (primarily increased amortization of intangibles resulting from the Acquisition) partially offset by higher gross profits and a decrease in advertising expense. The decrease in the European Retail segment was the result of higher SG&A costs (primarily occupancy costs) partially offset by higher gross profits. The decrease in the Direct Response/E-Commerce income from operations was primarily due to increased advertising, amortization and freight expenses. The increase in the Corporate segment was caused by the acquired inventory adjustment to cost of sales and the Merger expenses described above.

Interest Expense

Interest expense increased due to the senior credit facilities and Notes entered into in connection with the Merger. Also, during March 2011, we refinanced our senior credit facilities. As a result, $20,823 of previously capitalized deferred financing costs were expensed. In addition, $2,394 of the call premium on term loan B and termination costs on interest rate swap contracts of $1,525 were expensed.

Provision for Income Taxes

Our provision for income taxes is impacted by a number of factors, including federal taxes, our international tax structure, state tax rates in the jurisdictions where we conduct business, and our ability to utilize state tax credits that expire between 2013 and 2016. Therefore, our overall effective income tax rate could vary as a result of these factors. The effective income tax rate for the six months ended March 31, 2011 and 2010 was 5.9% and 35.0%, respectively. The effective income tax rate was lower for the six months ended March 31, 2011 primarily due to the worldwide pre-tax loss for the six months ended March 31, 2011, which included a domestic loss for which federal and state tax benefits have been recognized as compared to worldwide pre-tax income for the six months ended March 31, 2010 which included domestic income for which federal and state tax was provided for.

Liquidity and Capital Resources

Our primary sources of liquidity and capital resources are cash generated from operations and funds available under our revolving credit facility. We expect that ongoing requirements for debt service and capital expenditures will be funded from these sources of funds.

On October 1, 2010 we entered into senior credit facilities totaling $2,000,000, consisting of $1,750,000 term loan facilities and a $250,000 revolving credit facility. In addition, we issued $650,000 Notes with an interest rate of 9% and a maturity date of October 1, 2018.

On March 1, 2011, NBTY, Holdings, Barclays Bank PLC, as administrative agent and several other lenders entered into the First Amendment and Refinancing Agreement to the Credit Agreement (the "Refinancing") pursuant to which we repriced our loans and amended certain other terms under our existing Credit Agreement. Under the terms of the Refinancing, the original $250,000 term loan A and $1,500,000 term loan B were replaced with a new $1,750,000 term loan B-1 and the $250,000 revolving credit facility was modified to $200,000. Borrowings under term loan B-1 bear interest at a floating rate which can be, at our option, either (i) Eurodollar rate plus an applicable margin or, (ii) base rate plus an applicable margin, in each case, subject to a Eurodollar rate floor of 1.00% or a base rate floor of 2.00%, as applicable. The applicable margin for term loan B-1 and the revolving credit facility is 3.25% per annum for Eurodollar loans and 2.25% per annum for base rate loans, with a step-down in rate for the revolving credit facility upon the achievement of a certain total senior secured leverage ratio. Substantially all other terms are consistent with the original term loan B, including the amortization schedule of term loan B-1 and maturity dates.

In addition, the terms of the Refinancing require the maintenance of a maximum total senior secured leverage ratio on a quarterly basis, calculated with respect to Consolidated EBITDA, as defined therein, if at any time amounts are outstanding under the revolving credit facility (including swingline loans and letters of credit). During the six months ended March 31, 2011, no amounts were outstanding under the revolving credit facility. All other financial covenants required by the senior secured credit facility were removed as part of the Refinancing.

As a result of the Refinancing, $20,823 of previously capitalized deferred financing costs were expensed. In addition, $2,394 of the call premium on term loan B and termination costs on interest rate swap contracts of $1,525 were expensed. Financing costs capitalized in connection with the Refinancing of $24,320, consisting of bank fees of $11,714 and the remaining portion of the call premium on term loan B of $12,606, will be amortized over the remaining term using the effective interest rate method. We anticipate that cash interest over the twelve months following the Refinancing will be lower by an estimated $34,000.

The Indenture and the senior credit facilities contain a number of covenants imposing significant restrictions on our business. These restrictions may affect our ability to operate our business and may limit our ability to take advantage of potential business opportunities as they arise. The restrictions these covenants place on us include limitations on our ability to:

- incur or guarantee additional indebtedness;
- make certain investments;
- pay dividends or make distributions on our capital stock;

- sell assets, including capital stock of restricted subsidiaries;
- agree to payment restrictions affecting our restricted subsidiaries;
- consolidate, merge, sell or otherwise dispose of all or substantially all of our assets;
- enter into transactions with our affiliates;
- incur liens; and
- designate any of our subsidiaries as unrestricted subsidiaries.

Our ability to make payments on and to refinance our indebtedness, including the Notes, will depend on our ability to generate cash in the future. We believe that our cash on hand, together with cash from operations and, if required, borrowings under the revolving portion of our senior credit facilities, will be sufficient for our cash requirements for the next twelve months.

The following table sets forth, for the periods indicated, cash balances and working capital:

	Successor	Predecessor
	As of March 31, 2011	As of September 30, 2010
Cash and cash equivalents	$223,984	$346,483
Working capital (including cash and cash equivalents)	$773,482	$849,338

The following table sets forth, for the periods indicated, net cash flows provided by (used in) operating, investing and financing activities and other operating measures:

	Successor	Predecessor
	For the six months ended March 31, 2011	For the six months ended March 31, 2010
Cash flow provided by operating activities	$ 82,799	$157,436
Cash flow used in investing activities	$(4,014,391)	$ (23,010)
Cash flow provided by (used in) financing activities	$ 3,807,095	$ (21,265)
Inventory turnover	2.3	2.4
Days sales (Wholesale) outstanding in accounts receivable	30	35

We monitor current and anticipated future levels of cash and cash equivalents in relation to anticipated operating, financing and investing requirements. Cash and cash equivalents held by our foreign subsidiaries are subject to U.S. income taxes upon repatriation to the U.S. We generally repatriate all earnings from our foreign subsidiaries where permitted under local law. However, during fiscal 2010, we permanently reinvested a portion of our foreign earnings outside of the U.S.

The decrease in working capital of $75,856 at March 31, 2011 as compared to September 30, 2010 was primarily due to decreased cash balances partially offset by decreases in payables and the current portion of debt.

Cash provided by operating activities during the six-month period ended March 31, 2011 was mainly attributable to income from operations excluding depreciation and amortization and other non-cash charges.

During the six-month period ended March 31, 2011, cash flows used in investing activities consisted of cash paid for acquisitions and the purchases of property, plant and equipment.

For the six-month period ended March 31, 2011, cash flows provided by financing activities related to proceeds from borrowings and capital contributions, offset by payments for financing fees and principal payments under capital lease obligations.

Consolidated EBITDA

EBITDA consists of earnings before interest expense, taxes, depreciation and amortization. Consolidated EBITDA, as defined in our senior credit facility, eliminates the impact of a number of items we do not consider indicative of our ongoing operating performance. You are encouraged to evaluate each adjustment and the reasons we consider it appropriate for supplemental analysis. Consolidated EBITDA is a component of certain covenants under our senior credit facility. We present EBITDA and Consolidated EBITDA because we consider these items to be important supplemental measures of our performance and believe these measures are frequently used by securities analysts, investors and other interested parties in the evaluation of companies in our industries with similar capital structures. We believe issuers of debt securities also present EBITDA and Consolidated EBITDA because investors, analysts and rating agencies consider it useful in measuring the ability of those issuers to meet debt service obligations. We believe that these items are appropriate supplemental measures of debt service capacity, because cash expenditures for interest are, by definition, available to pay interest, and tax expense is inversely correlated to interest expense because tax expense goes down as deductible interest expense goes up; and depreciation and amortization are non-cash charges.

EBITDA and Consolidated EBITDA have limitations as analytical tools, and you should not consider these items in isolation, or as a substitute for analysis of our results as reported under U.S. GAAP. Some of these limitations are:

- EBITDA and Consolidated EBITDA:
  - exclude certain tax payments that may represent a reduction in cash available to us;
  - do not reflect our cash expenditures, or future requirements, for capital expenditures or contractual commitments;
  - do not reflect changes in, or cash requirements for, our working capital needs; and
  - do not reflect the significant interest expense, or the cash requirements necessary to service interest or principal payments on our debt, including the Notes;
- although depreciation and amortization are non-cash charges, the assets being depreciated and amortized will often have to be replaced in the future, and EBITDA and Consolidated EBITDA do not reflect any cash requirements for such replacements; and
- other companies in our industry may calculate EBITDA and Consolidated EBITDA differently than we do, limiting their usefulness as comparative measures.

Because of these limitations, EBITDA and Consolidated EBITDA should not be considered as measures of discretionary cash available to us to invest in the growth of our business. We compensate for these limitations by relying primarily on our U.S. GAAP results and using EBITDA and Consolidated EBITDA only supplementally.

In addition, in calculating Consolidated EBITDA, we make certain adjustments that are based on assumptions and estimates that may prove to have been inaccurate.

In addition, in evaluating Consolidated EBITDA, you should be aware that in the future we may incur expenses similar to those eliminated in this presentation. Our presentation of Consolidated EBITDA should not be construed as an inference that our future results will be unaffected by unusual or non-recurring items.

The following table reconciles net loss to EBITDA and Consolidated EBITDA for the three and six months ended March 31, 2011:

	Three months ended March 31, 2011	Six months ended March 31, 2011
Net loss	$(20,161)	$(83,598)
Interest expense	70,188	116,788
Income tax	15,060	(5,264)
Depreciation and amortization	25,664	50,813
EBITDA	90,751	78,739
Merger related costs(a)	4,991	43,865
Inventory fair value adjustment(b)	—	122,104
Severance costs(c)	1,012	1,611
Stock-based compensation(d)	532	686
Management fee(e)	750	1,500
Other non-recurring items(f)	2,266	2,919
Consolidated EBITDA	$100,302	$251,424

(a) Reflects the exclusion of costs incurred in connection with the Merger. For the three months ended March 31, 2011, amounts included general Merger expenses. For the six months ended March 31, 2011, amounts included $15,660 of financing costs associated with an unused bridge loan, $14,324 representing the portion of the one-time sponsor transaction fee and $13,881 relating to other Merger related costs.

(b) Reflects the exclusion of the sell-through of the increased fair value of opening inventory at acquisition required under purchase accounting.

(c) Reflects the exclusion of severance costs incurred at various subsidiaries of the Company.

(d) Reflects the exclusion of non-cash expenses related to stock options.

(e) Reflects the exclusion of the Carlyle management fee.

(f) Reflects the exclusion of non-recurring items that were not material.

Off-Balance Sheet Arrangements

We have no off-balance sheet arrangements. For additional information relating to certain contractual cash obligations see below.

Contractual Obligations

A summary of contractual obligations as of March 31, 2011 is as follows:

	Payments Due By Period				
	Total	Less Than 1 Year	1-3 Years	4-5 Years	After 5 Years
Long-term debt, excluding interest	$2,395,730	$ 17,604	$ 35,001	$ 35,000	$2,308,125
Interest	950,963	142,583	279,954	270,288	258,138
Operating leases	742,680	119,234	196,281	142,989	284,176
Purchase commitments	180,808	180,808	—	—	—
Capital commitments	9,064	9,064	—	—	—
Total contractual cash obligations	$4,279,245	$469,293	$511,236	$448,277	$2,850,439

Future interest expense included in the above table on our variable rate debt is calculated based on the current rate in effect after the Refinancing. Variable interest on our senior secured credit facilities, included in the above table, is calculated assuming the current interest rate following the Refinancing of 4.25% (which assumes a 3.25% spread over the LIBOR floor of 1.00%) remains in effect for all future periods. To the extent future LIBOR rates are greater than 1.00%, actual future interest expense will be greater than noted in the above table.

We conduct retail operations under operating leases, which generally have lease terms between 5-15 years, with the longest lease term expiring in 2039. Some of the leases contain escalation clauses, as well as renewal options, and provide for contingent rent based upon sales plus certain tax and maintenance costs. At March 31, 2011, we had $742,680 in future minimum rental payments (excluding real estate tax and maintenance costs) for retail locations and other leases that have initial or noncancelable lease terms in excess of one year.

We were committed to make future purchases for inventory related items, such as raw materials and finished goods, under various purchase arrangements, some of which extend beyond one year, with fixed price provisions aggregating $180,808 at March 31, 2011. Generally, most of our purchase commitments are cancelable at our discretion until the order has been shipped, but require repayment of all expenses incurred through the date of cancellation.

We had $9,064 in open capital commitments at March 31, 2011, primarily related to new stores, building improvements and manufacturing equipment.

At March 31, 2011, we had a liability of $9,626 for unrecognized tax benefits, the recognition of which would have an effect of $7,004 on income tax expense and the effective income tax rate. We do not believe that the amount will change significantly in the next 12 months. At this time, we are unable to make a reasonably reliable estimate of the timing of payments in individual years beyond 12 months due to uncertainties in the timing of tax audit outcomes.

Seasonality

Although we believe that our business is not seasonal in nature, historically, we have experienced, and expect to continue to experience, a substantial variation in our net sales and operating results from quarter to quarter. The factors that influence this variability of quarterly results include general economic and industry conditions affecting consumer spending, changing consumer demands and

current news on nutritional supplements, the timing of our introduction of new products, promotional program incentives offered to customers, the timing of catalog promotions, the level of consumer acceptance of new products and actions of competitors. Accordingly, a comparison of our results of operations from consecutive periods is not necessarily meaningful, and our results of operations for any period are not necessarily indicative of future performance. Additionally, we may experience higher net sales in a quarter depending upon when we have engaged in significant promotional activities.

Foreign Currency

Approximately 32% and 30% of our net sales during the six months ended March 31, 2011 and 2010, respectively, were denominated in currencies other than U.S. dollars, principally British pounds and to a lesser extent euros, Canadian dollars and Chinese yuan. A significant weakening of such currencies versus the U.S. dollar could have a material adverse effect on us, as this would result in a decrease in our consolidated operating results.

Foreign subsidiaries accounted for the following percentages of total assets and total liabilities:

	Successor	Predecessor
	March 31, 2011	September 30, 2010
Total Assets	25%	26%
Total Liabilities	3%	16%

In preparing the consolidated financial statements, the financial statements of the foreign subsidiaries are translated from the functional currency, generally the local currency, into U.S. dollars. This process results in exchange rate gains and losses, which are included as a separate component of stockholders' equity under the caption "Accumulated other comprehensive income."

During the six months ended March 31, 2011 and 2010, translation gains (losses) of $16,000 and ($17,848), respectively, were included in determining other comprehensive income. Accordingly, cumulative translation gains (losses) of approximately $16,000 and ($1,730) were included as part of accumulated other comprehensive income within the consolidated balance sheet at March 31, 2011 and September 30, 2010, respectively.

The magnitude of these gains or losses is dependent upon movements in the exchange rates of the foreign currencies against the U.S. dollar. These currencies include the British pound, the euro, the Canadian dollar and the Chinese yuan. Any future translation gains or losses could be significantly different than those noted in each of these years.

Inflation

Inflation affects the cost of raw materials, goods and services we use. High energy costs and fluctuations in commodity prices can affect the cost of all raw materials and components. The competitive environment limits our ability to recover higher costs resulting from inflation by raising prices. However, we anticipate passing these costs to our customers, to the extent possible. We seek to mitigate the adverse effects of inflation primarily through improved productivity and strategic buying initiatives.

Recent Accounting Developments

In December 2010, the FASB issued authoritative guidance that updates existing disclosure requirements related to supplementary pro forma information for business combinations. Under the updated guidance, a public entity that presents comparative financial statements should disclose revenue and earnings of the combined entity as though the business combination that occurred during the current year had occurred as of the beginning of the comparable prior annual reporting period only. The guidance also expands the supplemental pro forma disclosures to include a description of the nature and amount of material, nonrecurring pro forma adjustments directly attributable to the business combination included in the reported pro forma revenue and earnings. This guidance became effective for us on January 1, 2011 and applies to future business combinations.

In December 2010, the FASB issued authoritative guidance that provides additional guidance on when to perform the second step of the goodwill impairment test for reporting units with zero or negative carrying amounts. Under this guidance, an entity is required to perform the second step of the goodwill impairment test for reporting units with zero or negative carrying amounts if qualitative factors indicate that it is more likely than not that a goodwill impairment exists. The qualitative factors are consistent with the existing guidance, which requires that goodwill of a reporting unit be tested for impairment between annual tests if an event occurs or circumstances change that would more likely than not reduce the fair value of a reporting unit below its carrying amount. This guidance became effective for us on January 1, 2011 and did not have an impact on our consolidated financial statements.

Critical Accounting Policies and Estimates

We describe our significant accounting policies in Note 2 of the Notes to Consolidated Financial Statements included in our 2010 Annual Report. We discuss our critical accounting estimates in Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations", in our 2010 Annual Report. There have been no significant changes in our significant accounting policies or critical accounting estimates since the end of fiscal 2010.

Quantitative and Qualitative Disclosures About Market Risk

We are subject to currency fluctuations, primarily with respect to the British pound, the euro, the Canadian dollar and the Chinese yuan, and interest rate risks that arise from normal business operations. We regularly assess these risks.

We have subsidiaries whose operations are denominated in foreign currencies (primarily the British pound, the euro, the Canadian dollar and the Chinese yuan). We consolidate the earnings of our international subsidiaries by translating them into U.S. dollars at the average exchange rates in each applicable period. To the extent the U.S. dollar weakens against foreign currencies, the remeasurement of these foreign currency denominated transactions results in increased net sales, operating expenses and net income. Similarly, our net sales, operating expenses and net income will decrease when the U.S. dollar strengthens against foreign currencies.

To manage the potential exposure from adverse changes in currency exchange rates, specifically the British pound, arising from our net investment in British pound denominated operations, on December 16, 2010, we entered into three cross currency swap contracts to hedge a portion of the net investment in our British pound denominated foreign operations. The aggregate notional amount of the swap contracts is 194,200 British pounds (approximately $301,000 U.S. dollars), with a forward rate of 1.56, and a termination date of September 30, 2017.

Net sales denominated in foreign currencies were approximately $456,393, or 31.5% of total net sales, for the six months ended March 31, 2011. A majority of our foreign currency exposure is denominated in British pounds and Canadian dollars. For the six months ended March 31, 2011, as compared to the prior comparable period, the British pound declined by less than one percent as compared to the U.S. dollar and the Canadian dollar increased 5% as compared to the U.S. dollar. The combined effect of the changes in these currency rates resulted in a net increase of $1,291 in net sales and a net decrease of $244 in operating income.

To manage the potential risk arising from changing interest rates and their impact on long-term debt, our policy is to maintain a combination of available fixed and variable rate financial instruments. During December 2010, we entered into three interest rate swap contracts that we subsequently terminated in connection with the Refinancing, resulting in a termination payment of $1,525. During March 2011, we entered into three interest rate swap contracts to fix the LIBOR indexed interest rates on a portion of our senior credit facilities until the indicated expiration dates of these swap contracts. Each swap contract has an initial notional amount of $333,333 (for a total of one billion dollars), with a fixed interest rate of 1.92% for a four-year term. The notional amount of each swap decreases to $266,666 in December 2012 and decreases to $166,666 in December 2013 and has a maturity date of December 2014. Under the terms of the swap contracts, variable interest payments for a portion of our senior credit facilities are swapped for fixed interest payments.

To manage the potential risk arising from changing interest rates and their impact on long-term debt, our policy is to maintain a combination of available fixed and variable rate financial instruments. Assuming our senior credit facility is fully drawn, each one eighth percentage point increase or decrease in the applicable interest rates would correspondingly change our interest expense on our senior credit facilities by approximately $1,200 per year.

Item 1. Legal Proceedings

Sale of the Company

On July 22, 2010 and on August 10, 2010, respectively, plaintiffs filed two actions, captioned *Philip Gottlieb v. NBTY, Inc., et al,* ("Gottlieb"), and *Bredthauer v. NBTY, Inc., et al.,* ("Bredthauer"), each as a purported class action against the Company, the members of its Board of Directors, The Carlyle Group and certain Carlyle-related entities (The Carlyle Group and the Carlyle-related entities, collectively the "Carlyle Group"), challenging the Board of Directors' decision to sell the Company to the Carlyle Group for the price of $55 per share. The complaint, in each of these cases, alleged that this price per share did not represent fair value for the Company and sought to enjoin the anticipated sale and to invalidate certain related transactions. The *Bredthauer* lawsuit, filed in the Supreme Court of the State of New York, County of Suffolk, was dismissed by Plaintiff. Plaintiff then joined in the *Gottlieb* lawsuit, filed in the Supreme Court of the State of New York, County of Nassau. On January 11, 2011, the parties entered into a stipulation of settlement providing for the proposed settlement and dismissal with prejudice of the remaining action, which was subject to, among other things, court approval following notice to the members of the putative class. Following notice to the class, the court approved the settlement on April 27, 2011, dismissing the action with prejudice and directing the payment of certain attorneys' fees and expenses.

Stock Purchases

On May 11, 2010, a putative class-action, captioned *John F. Hutchins v. NBTY, Inc., et al*, was filed in the United States District Court, Eastern District of New York, against NBTY and certain officers, claiming that the defendants made false material statements, or concealed adverse material facts, for the purpose of causing members of the class to purchase NBTY stock at allegedly artificially inflated prices. An amended complaint was served on February 1, 2011. The Company moved to dismiss the amended complaint on March 18, 2011 and that motion is pending. We believe the claims to be without merit and intend to vigorously defend this action. At this time, however, no determination can be made as to the ultimate outcome of the litigation or the amount of liability, if any, on the part of any of the defendants.

Nutrition Bars

Our subsidiary, Rexall Sundown, Inc. ("Rexall"), and certain of its subsidiaries, are defendants in a class-action lawsuit, captioned *Jamie Pesek, et al. v. Rexall Sundown, Inc., et al.*, brought in California Superior Court, County of San Francisco in 2002 on behalf of all California consumers who bought various nutrition bars. Plaintiffs allege misbranding of nutrition bars and violations of California unfair competition statutes, misleading advertising and other similar causes of action. Plaintiffs seek restitution, legal fees and injunctive relief. We believe this lawsuit to be without merit and have defended this action vigorously. In December 2007, with Rexall's and the other defendants' renewed motion for judgment on the pleadings pending, the Court stayed the case for all purposes, pending rulings on relevant cases before the California Supreme Court. Following resolution of such cases, the Court lifted the stay and discovery has resumed. Based upon the information currently available, no determination can be made at this time as to the final outcome of this case, nor can its materiality be accurately ascertained.

FTC Investigation of Certain Children's Multi Vitamin and Mineral Products

In letters dated July 22, 2010, the Division of Advertising Practices of the FTC informed us of a non-public FTC investigation of certain allegedly false or unsubstantiated, or both, advertising statements regarding certain children's multiple vitamin and mineral products sold by us. The letters, which included a proposed Complaint and Judgment and Order for Permanent Injunction and Other Relief, indicated that the FTC may seek injunctive and other relief against us. On October 26, 2010, NBTY signed a proposed agreement with the FTC to resolve this matter. On March 22, 2011, the FTC issued a Decision and Order approving that proposed settlement. Pursuant to that Order, NBTY subsequently paid $2.1 million (which we accrued as of September 30, 2010) to the FTC. The money paid is to be used in the first instance for equitable relief, including restitution to consumers. The Order also required NBTY to agree to certain advertising restrictions and requirements.

Employment Class Actions

On or about July 7, 2010, a putative class action captioned *Hamilton and Taylor v. Vitamin World, Inc.* was filed against one of our subsidiaries in the Alameda Superior Court, California. Plaintiffs seek to represent a class of employees in connection with several causes of action alleges: (1) failure to pay overtime and regular wages; (2) failure to provide meal periods; (3) failure to provide rest periods; (4) unfair competition; (5) failure to pay wages due upon termination; and (6) failure to furnish accurate itemized wage statements. Plaintiffs describe the class as all non-exempt current and former employees of Vitamin World Stores in California. To date, the Plaintiffs have filed an amended complaint and discovery has been initiated. The Company challenges the validity of the claims and intends to vigorously defend this action. At this time, however, no determination can be made as to the ultimate outcome of the litigation or the amount of liability, if any, on the part of the defendant. In addition, on or about October 27, 2010, a different set of plaintiffs filed an action captioned *Hickman v. Vitamin World, Inc.* in Solano County Superior Court, California. Vitamin World filed a demurrer and motion to abate that action because it is identical to the instant *Hamilton* complaint and the parties have agreed to dismiss the *Hickman* action.

On or about April 8, 2010, a putative class action captioned *Dirickson v. NBTY Acquisition, LLC, NBTY Manufacturing, LLC, NBTY, Inc., and Volt Management Corporation* ("Volt") was filed against the Company and certain subsidiaries in the Superior Court of California, County of Los Angeles. Volt is not related to the Company. Plaintiff seeks to represent a class of employees in connection with several causes of action: (1) alleged failure to pay missed meal periods; (2) alleged failure to pay wages when due; (3) alleged failure to furnish accurate itemized wage statements; and (4) alleged unfair competition. The Complaint seeks damages on behalf of all non-exempt employees within the State of California who worked for Volt or any of the NBTY entities between April 8, 2006 and April 8, 2010 (the "Class Period"). In June 2010, Volt filed a motion to compel arbitration, and the NBTY entities joined the motion insofar as it sought to arbitrate Dirickson's claims against Volt. On August 11, 2010, the Court issued an order regarding Volt's Motion to Compel Arbitration, directing arbitrations of the claims against Volt, and of only those claims against the NBTY entities as to which the Volt arbitration agreement applied. The remaining claims against NBTY entities were to go forward in the civil case. The NBTY entities have entered into settlement discussions with the plaintiffs, and those discussions are ongoing. Until such settlement is finalized, however, no determination can be made as to the ultimate outcome of the litigation or the amount of liability, if any, on the part of the defendant.

Claims in the Ordinary Course

In addition to the foregoing, other regulatory inquiries, claims, suits and complaints (including product liability, intellectual property and Proposition 65 claims) arise from time to time in the ordinary course of our business. We believe that such other inquiries, claims, suits and complaints would not have a material adverse effect on our consolidated financial condition or results of operations, if adversely determined against us.

NBTY, Inc.
Item 1A. Risk Factors

Risk Factors

In addition to the other information set forth in this Report, you should carefully consider the risk factors disclosed under Part 1—Item 1A, "Risk Factors" in our 2010 Annual Report, which could materially adversely affect our business, financial condition, operating results and cash flows. The risks and uncertainties described in our 2010 Annual Report are not the only ones we face. Risks and uncertainties not currently known to us or that we currently deem immaterial also may materially adversely affect our business, financial condition operating results or cash flows. Since the date of our 2010 Annual Report, there have been no significant changes relating to risk factors.

NBTY, Inc.
Item 6. Exhibits

Exhibit No.	Description
3.1	Restated Certificate of Incorporation of NBTY, Inc. (Incorporated by reference to exhibit 3.1 to the 2010 Annual Report).
3.2	Second Amended and Restated By-Laws of NBTY, Inc. (Incorporated by reference to exhibit 3.2 to the 2010 Annual Report).
4.1	Indenture, dated as of October 1, 2010, among NBTY, Inc., certain guarantor subsidiaries of the Company named therein, and The Bank of New York Mellon, as trustee, governing the 9% Senior Notes due 2018. (Incorporated by reference to exhibit 4.1 to the 2010 Annual Report).
4.2	Registration Rights Agreement, dated October 1, 2010, by and among Alphabet Merger Sub, Inc., NBTY, Inc., the Guarantors party thereto, Banc of America Securities LLC, Barclays Capital Inc. and Credit Suisse Securities (USA) LLC. (Incorporated by reference to exhibit 4.2 to the 2010 Annual Report).
4.3	Form of 9% Senior Notes due 2018 (included as Exhibit A to Exhibit 4.1)
10.1	First Amendment and Refinancing Agreement dated March 1, 2011, among NBTY, Inc., Alphabet Holding Company, Inc., Barclays Bank PLC and the other lenders party thereto. (Incorporated by reference to exhibit 10.13 to NBTY, Inc.'s Registration Statement on Form S-4, file no. 333-172973, filed with the Securities and Exchange Commission on March 21, 2011).