NANTUCKET INDUSTRIES INC
Form 10-K
June 12, 2003

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

Form 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended February 28, 2003

Commission File Number: 003-08955

NANTUCKET INDUSTRIES, INC.
(Exact name of registrant as specified in its charter)

Delaware	58-0962699
(State of other jurisdiction of incorporation or organization)	(IRS Employer Identification No.)

45 Ludlow Street, Suite 602, Yonkers, New York 10705
(Address of principal executive offices) (Zip Code)

(914) 375-7591
(Registrant's telephone number, including area code)

(Former Address, since last report)

Securities registered pursuant to Section 12(g) of the Act. Common Stock, $.10 par value

Name of each exchange on which registered.   NASD OTC Bulletin Board

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding twelve months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. |X| YES |_| NO

The aggregate market value of the outstanding Common Stock of the registrant held by non-affiliates of the registrant as of June 12, 2003, based on the average bid and asked price of the Common Stock on the NASD OTC Bulletin Board on said date was $657,741.

As of June 13, 2002, the Registrant had outstanding 8,590,524 shares of common stock.

ITEM 1. BUSINESS

Reorganization

On January 25, 2002, we effected a "reverse acquisition" pursuant to which we acquired all of the issued and outstanding capital stock of Accutone, Inc., a Pennsylvania corporation. The acquisition was made on a stock-for-stock basis pursuant to the terms of our Chapter 11 Plan of Reorganization. The assets of Accutone, which were acquired by us through our acquisition of the Accutone stock, include all facilities, contracts, service agreements, accounts receivable, patent rights, customer lists, and the like.

Our voluntary petition under Chapter 11 of the United States Bankruptcy Code was filed on March 3, 2000 in the U.S. Bankruptcy Court for the Southern District of New York. At the time such petition was filed until we acquired Accutone, we were a dormant Delaware corporation.

As a result of the above-described acquisition, Accutone Inc. (together with Accutone's wholly- owned subsidiary, Interstate Hearing Aid Service Inc.) is now our wholly owned subsidiary. We have had no business or assets other than those which we acquired through our acquisition of Accutone. With respect to our current business, history, and prospects, Accutone is the predecessor of Nantucket.

We are directly, and indirectly through our subsidiaries, Accutone Inc. and Interstate Hearing Aid Service Inc., in the business of distributing and dispensing custom hearing aids. Our predecessor, Accutone Inc. was formed under the laws of the State of Pennsylvania in October 1996 for the purpose of engaging in the manufacture, dispensing, and distribution of hearing aids. In 1998, Accutone acquired 100% ownership of Interstate, a Pennsylvania corporation and an FDA licensed hearing aid manufacturer which has been in the hearing aid business for approximately 35 years. In the Fall of 2000, Accutone discontinued all manufacturing operations and changed the focus of its marketing to include, not only the individual, self-pay patient, but health care entities and organizations which could serve as patient referral sources for us.

History

Until the end of October 1999, when we discontinued all business activities, we produced and distributed popular priced branded fashion undergarments for sale, throughout the United States, to mass merchandisers and national chains. We produced and sold our men's underwear products primarily under licensed labels including "Brittania" and "Arrow" and, until March 31, 1998, we also produced women's innerwear under the GUESS? label, for sale to department and specialty stores. From October 31, 1999 up to and including the period that we effectuated the reverse acquisition of Accutone we were a dormant corporation.

Subsequent to the reverse acquisition our only assets and business were those attributable to the Acctuone Group. Until the summer of 2000, a small portion of Accutone's business consisted of manufacturing operations. However, because of changes in the competitive climate of the hearing aid manufacturing industry and the comparatively small level of our operations, all manufacturing was discontinued on July 30, 2000. This marked the beginning of an ongoing change in our revised business plan, which now encompasses concentrating our marketing to nursing homes, hospitals, out-patient clinics, members of managed health care providers, such as health maintenance organizations ("HMO's"), Physician Provider Organizations (physician group practices known as "PPO's"), union health plans, medicare, and medicaid while considering the expansion of an advertising campaign aimed at individuals in the non-insured self- pay market. Since implementing our revised business plan in October 2000, we have entered into contracts with approximately 50 managed health care provider organizations, unions, local municipalities and secondary health care insurance providers and pediatric care organizations in the New York metropolitan area, including Medicare and Medicaid. We are continually in negotiations with other such organizations and we anticipate that the number of such organizations will continue to grow while we continue to understand the additional capital requirements of this anticipated growth. As an addition to our marketing plan, we have recently begun contracting with seven early intervention agencies.

In addition to marketing our services, we anticipate that when and if our capitalization improves we will expand our audiological staff and the level of our operations and the related potential profitability. Our long term goal is to expand all segments of our operations both in scope of services and in a wider geographic area.

We are also currently providing in-home fitting and dispensing services in the State of Pennsylvania where our customer base is located in a somewhat rural area, making home visits convenient for our customers. We have four Pennsylvania Registered Hearing Aid Fitters who are available to us for in-home, as well as office visits in Pennsylvania. To date because of our financial constraints, we have been unable to utilize these Hearing Aid Fitters to their fullest capacity. Through our offices and our in-home services, we offer a full range of audiological products and services for the hearing impaired.

In order to make our services acceptable to managed care and health insurance companies, we must address their particular concerns. This will require that we have:

* service locations which are conveniently accessible to their members;
* an adequate staff of highly qualified audiologists;
* a full range of high quality hearing aid products;
* competitive pricing; and
* adequate product liability and professional malpractice insurance coverage.

We are continually endeavoring to put all of these elements into place. Therefore our primary goals during the next eighteen months include:

* opening and establishing operations at additional fully equipped offices accessible to residents of all five boroughs of New York City (this will be undertaken in conjunction with the signing of new health care contracts with unions and other various health care organizations).
* opening and establishing operations at sales and dispensing offices on-site at additional nursing home facilities in the New York metropolitan area.
* increasing the number of audiologists on our staff to service these additional facilities;
* hiring a chief financial officer, a chief operations officer and a director of marketing.

Upon receipt of the necessary capital as set forth herein, we also intend to implement an aggressive advertising and marketing campaign aimed at individuals and managed health care organizations and to establish a professional advisory board consisting of from 4 to 6 individuals with high levels of experience in hearing health care, gerontology, and hearing aid product development and promotion.

We estimate that in order to achieve these goals, we will require financing from sources other than cash flow, within the next eighteen months, in an amount ranging from $1,000,000 to $1,500,000. Our present plan for financing focuses on raising funds through a private placement of our securities. To date our success in raising private placement funds and other financings have fallen short of our previous expectations. Although the capital markets have a perceived improvement, we are cautiously optimistic of our abilities to achieve these goals. Along these lines we are actively pursuing potential businesses alliances with privately held businesses in like and or compatible industries. We believe that the addition of both sales volume growth and profitability will greatly assist us in successfully raising additional capital.

Overview of the Industry

Hearing Loss

We continue to believe that hearing loss is one of the most prevalent chronic health conditions in the United States, and that its incidence is on the rise. Hearing loss occurs when there is damage to the auditory system, possibly caused by heredity, aging, noise exposure, illness, trauma, and/or some medications. Some hearing loss is temporary

and/or can be corrected with medical or surgical treatment. Other types of hearing loss can be effectively managed with hearing devices. Although hearing loss traditionally has been considered an "old person's" condition, On February 8, 1999, the Better Hearing Institute reported that hearing loss is becoming increasingly common among the "Baby Boomer" 40 to 65 year old segment of the population. This is widely believed to be the result of extreme noise exposure, possibly because of a history of excessive exposure to extremely high decibel rock-and-roll concerts and the widespread use of "walkman" type radios (which produce a concentrated level of noise in extremely close proximity to the ear). The degree of hearing loss is often directly related to the amount of exposure and the intensity of loud noise. However, damaging noise does not necessarily have to result from extreme situations. Even cumulative exposure to everyday noises, such as the sounds of daily traffic, construction work, or a noisy office can contribute to hearing loss.

Hearing loss can have serious implications, leading to communication disorders, isolation, depression, cognitive dysfunction, and overall decline in quality of life. While hearing loss has historically been considered an effecting of aging, recently some government agencies, health care organizations and insurance companies have begun increasing their scope of services and coverage's to include early interventions for children up to the age of 12. While a great many people suffering from hearing loss can be helped with the use of hearing aids, a 1999 survey by the National Council on the Aging (NCOA) indicated that older adults with hearing impairments, who do not wear hearing aids, are more likely to report sadness and depression, worry and anxiety, paranoia, diminished social activity, and greater insecurity than those who wear aids. We believe that the products and technologies currently available are broad and varied and in most instances can afford to the hearing impaired individual the amplification necessary to afford them the ability to have improved hearing and enjoy a full and normal lifestyle. In addition, we believe that these people could also benefit from the use of other assisted listening devices, such as telephone or television amplifiers (see "Products", below).

The Future of the Industry

While we recognize that in the past and still today, many members of the public have been reluctant to use hearing aids, we believe that this industry can be expected to experience substantial and continuing growth during the coming decades. Sergei Kochkin, PhD, an officer and board member of the Better Hearing Institute and a director of market development at Knowles Electronics, has written a market research article in which he concluded that, "With modern estimates of hearing loss ranging from 24 million to 28 million and hearing instrument penetration at only 21% to 22% historically, it is of interest to determine the extent to which the more than 20 million hearing- impaired individuals who do not use hearing instruments are, in fact, current or future candidates for hearing aids. In the past we have conservatively estimated that if even 25% of the non-owner market were convinced to purchase market were convinced to purchase hearing aids over the next five years that the market would double and retailers would realize an incremental $1 billion a year."

Some of the factors which we believe will contribute to an expansion of hearing aid use and audiological services include the following:

- A rapidly aging population (the "graying of America") accompanied by a natural, progressive deterioration in hearing acuity;
- Wide exposure to excessive noise, pollution among younger segments of the population resulting in ever increasing damage to hearing;
- A growing acceptance among all segments of the population of the use of hearing aids;
- The availability of smaller and less visible hearing aids;
- Advances in hearing aid technology, including computerized digital products;
- Decreasing prices of hearing aids;
- Increasing coverage of hearing aid products by HMO's, PPO's, unions, employer-sponsored groups, and Medicare and Medicaid to offset the costs to the end user; and
- Substantial increase in testing of pediatric patients since the medical profession has become aware of hearing losses in infants and toddlers.

As a result of the increase in early intervention, many health care organizations, managed care organizations and health care insurance companies (including medicaid) have begun to reimburse the costs of implementing early intervention testing procedures in their reimbursement schedules.

Our Sales and Dispensing Offices

We are currently operating three hearing aid sales and audiological testing facilities. These are retail sales and dispensing offices, which are located in medical arts buildings, independent store-fronts, and, in one case, on-site at a medical outpatient center. One of our retail offices is located in Yonkers, New York, one is in Mount Vernon, New York, and one is in Forty Fort, Pennsylvania. Our Mount Vernon facility is located on-site at The Wartburg Home of The Evangelical Lutheran Church in its 16,000 square foot outpatient facility.

Our Yonkers office and our Pennsylvania office are open and functioning on a full time basis. We had expected that another office in Yonkers which was recently closed, would provide full time services on an as needed basis. However, such offices was recently closed since it failed to meet our projected profitability. Our Wartburg out-patient office is currently open two days per week and our Wartburg Nursing Home office is currently open an average of four days per month, on an as-needed basis. Our Ludlow Street Yonkers office is staffed and supervised by a full-time, licensed and certified audiologist and one full-time patient care coordinator. Our Pennsylvania office operates on a full time basis and is staffed by a state licensed hearing aid dispenser, as required by applicable Pennsylvania law and at least one clerical employee.

Our current New York sales and dispensing offices range from 600 to 1,100 square feet in size. These include our Yonkers office and our on-site Wartburg Outpatient Facility office, all of which are fully equipped with:

* soundproof testing booths and state-of-the-art testing equipment that meets or exceeds all state standards; and
* a full range of diagnostic and auditory-vestibular tests that assist referring physicians in the treatment of patients with hearing and balance disorders.

Our on-site nursing home offices, which do not have their own existing on site testing booths and audiological equipment, are equipped with our portable electronic audiological equipment brought in by the audiologist at each visit.

This equipment meets or exceeds the requirements of all federal and state agencies as well as all third-party payers. We have found this equipment to be adequate to serve the needs of almost all patients at these facilities and continually upgrade all equipment to the latest industry standards.

Our Pennsylvania sales and dispensing office is equipped with portable audiological testing and fitting equipment and a sound-deadened room. This meets all applicable requirements of the State of Pennsylvania Department of Health Regulations regarding the sales and dispensing of hearing aids.

On-Site Offices

The Wartburg Adult Care Community Outpatient Clinic and The Wartburg Nursing Home

We have entered into lease and service agreements with The Wartburg Adult Care Community Outpatient Clinic and the Wartburg Nursing Home. These facilities are part of the Wartburg Adult Care Community which is located in a 36-acre campus in the town of Mount Vernon in Westchester County, New York. The Wartburg is a comprehensive senior health care complex which includes residential assisted living, nursing home, and critical care facilities as well as a 16,000 square foot Outpatient Health Services complex serving area residents as well as persons residing within the Wartburg facilities. Our contracts with the outpatient clinic and the nursing home provide for our:

* Operating an on-site dispensing and testing office in the Wartburg Diagnostic and Treatment Center (outpatient center). Under the terms of the contract, our office has use, at no cost, of a common reception and waiting room and reception personnel in the Wartburg, who will schedule and coordinate patient appointments. This facility is fully equipped, including a sound- proof booth, and all required electronic testing equipment as well as all other peripheral equipment necessary for appropriate audiological testing and the fitting and dispensing of hearing aids. This office is used for the treatment of both non-resident outpatients and Wartburg assisted living facility residents. We are currently in the process of expanding the patient base to include early intervention (pediatric testing and evaluation) as well as dispensing f hearing aids when deemed appropriate and necessary.

* Operating a separate on-site dispensing and testing facility in Wartburg nursing home (The Wartburg Home of the Evangelical Lutheran Church, Inc.). Wartburg provides treatment and waiting room areas within the nursing home to be used as an audiological testing, fitting, and dispensing facility for its nursing home patients, utilizing portable and mobile, state of the art, testing and fitting equipment.

Presently, the Wartburg outpatient facility handles six hundred patient visits per month. We expect that during the next six months, we will devote a total of approximately two to three days per week to patients at the Wartburg facilities. The Wartburg Diagnostic and Treatment Center had advised us that it intended to actively promote its outpatient services. Its agreements with us provide that it will include our audiological facility in its marketing efforts, at its expense. In addition, we intend to continue to expand our own marketing program as soon as the financial resources are available to us. We intend to coordinate such marketing program with the Wartburg so as to maximize promotion of our Wartburg outpatient facility, as well as our other facilities. Because of financial constraints, the Wartburg was unable to fully implement its projected marketing program. This has negatively impacted our projected growth of our audiological services and hearing aid sales. It is our belief that our coordinated marketing efforts and the physical presence of our facility on-site, will increase patient awareness of our services. In response to the expected growth in pediatric and early intervention services which are to be added to those services we already provide, the Wartburg is in the process of constructing 2 separate waiting rooms for its patients. One room is for senior and one is for pediatric patients. This construction is not being undertaken solely to accommodate our patients but also for the Wartburg's expected entrance into pediatric medical, psychiatric and physical rehabilitation services. As a result, we intend to increase our personnel and operating hours at the Wartburg Out-Patient Clinic in order to adequately service the non-resident outpatients that will be added as well as the full time residents/patients of the facility.

Existing Contracts with Nursing Home Facilities

We have presently entered into contracts with approximately forty nine nursing homes for the establishment of on-site offices and our appointment as sole provider of audiological services and products during the terms of the contracts. The following sets forth the nursing home facilities that we have entered into such contracts:

Daughters of Jacob Nursing & Rehabilitation Center	Bronx
Daughters of Jacob Adult Care	Bronx
Schervier Nursing Care Center	Bronx
Judith Lynn Adult Home	Bronx
Hebrew Hospital Home	Bronx
Laconia Nursing Home	Bronx
Hebrew Hospital Home	Greenburgh
Saint Joseph's Hospital Nursing Home	Yonkers
New Sans Souci Nursing Home	Yonkers
The Wartburg	Mount Vernon
Outpatient Health Services @ The Wartburg	Mount Vernon
Shalom Nursing Home	Mount Vernon
ICF	Mount Vernon
Dumont Masonic Home	New Rochelle
Bethel Nursing & Rehabilitation Center	Croton-on-Hudson
Bethel Nursing Home, Inc.	Ossining
Cortlandt Manor Nursing Care Center	Cortlandt Manor
Northern Manor Geriatric Care Center	Nanuet
Northern Metropolitan RHCF	Monsey
Northern Riverview Nursing & Rehabilitation Center	Haverstraw
Wingate at Duchess	Fishkill
Wingate at St. Francis	Beacon
Wingate at Ulster	Highland
The Fountains at RiverVue	Tuckahoe
Eden Park Nursing Home	Poughkeepsie
Eden Park Health Care Center	E. Greenbush (Rensselaer Co.)
Oakwood Care Center	Oakdale (Suffolk Co.)
Florence Nightingale Rehabilitation & Nursing Center	Manhattan
Somers Manor Nursing Home, Inc.	Somers
Laconia Nursing Home	Bronx
Schervier Nursing Home	Bronx
New San Souci Health Care	Yonkers
Fieldston Lodge	Bronx
Throgs Neck Extended Care*	Bronx
Pelham Parkway Nursing Home*	Bronx

Concourse Rehabilitation & Nursing Center	Bronx
Waterview Hills Nursing Home	Purdys
Northwoods Facilities (3 facilities)	Albany
Victory Lake Nursing Home	Hyde Park

In the past we have aggressively pursued contracts with new nursing home facilities (especially those that have been made available to us pursuant to the needs of our association with Park Avenue Medical Associates, PC as set forth herein). However, we have currently curtailed these efforts due to capital constraints which prevent us from adding to our professional staff of audiologists and therefore adding to the number of nursing home and senior care facilities we are currently able to service.

Contract With Park Avenue Health Care Management Inc.

On February 15, 2002, we executed an Agreement with Park Avenue Health Care Management Inc. and its affiliate, Park Avenue Medical Associates, P.C. (referred to herein, collectively, as "Park Avenue") which closed on February 28, 2002. Pursuant to this Agreement, Park Avenue contributed its entire Audiology business in consideration for the issuance of 1,200,000 of our shares to Park Avenue. Park Avenue is a health care management organization which services nursing homes, hospitals, assisted living facilities, adult day care centers, adult homes, and senior outpatient clinics. Park Avenue directly employs medical professional personnel, including physicians in both general and specialty practices and other health care professionals such as podiatrists, audiologists, and optometrists.

Nursing homes contract with Park Avenue for the services of its medical professionals, on a pre-determined schedule or on an as-needed basis. Park Avenue presently provides staff to approximately seventy-two nursing homes. We anticipate that with additional operating capital we will be able to service a majority of these nursing homes and senior care facilities.

In-Home Services

Because of the geographic dispersal of the population in much of the State of Pennsylvania (other than in urban areas), our subsidiary, Interstate Hearing Aid Service Inc. has, for the past thirty-five years, provided in-home visits by Registered Hearing Aid Fitters licensed by the Pennsylvania Department of Health. In-home services include testing, diagnosing, fitting, dispensing, and follow- up visits, as required.

Approximately seventy five per cent of the sales made in Pennsylvania are attributable to in-home visits.

Our Services

We provide all of our patients at our retail, nursing home, and out-patient clinic sales and dispensing offices with comprehensive hearing care services consisting of the following:

- an interview with one of our audiologists or patient care coordinators respecting the hearing problems and all factors which may contribute to or cause such problems;
- an internal and external examination of the patient's ear performed by one of our audiologists;
- an initial hearing screening to establish a permanent base-line hearing acuity and to determine whether the patient has a hearing problem;

- if the initial screening indicates that there is a hearing problem, the audiologist will then perform additional testing and do a complete audiological evaluation, including:

    * air conduction;
    * bone conduction;
    * speech recognition thresholds;
    * most comfortable hearing level;
    * uncomfortable hearing level;
    * site of lesion tests, if required;
    * tymponometry;
    * acoustic reflex testing; and
    * acoustic reflex decay.

The patient is then counseled with respect to the results of the audiological testing and evaluation, the nature and extent of any hearing defects found, the possible effects of such hearing aids on the patient's lifestyle, and the options for treatment with a hearing aid; and if it is determined that a hearing aid would be of benefit to the patient, an appropriate aid will be prescribed and fitted; the fitting process will include taking impressions of the affected ear or ears.

All hearing aids that we prescribe are custom made for the individual patient. Delivery is usually made within one week to ten days. When the patient receives the hearing aid, the audiologist explains the properties and capabilities of the hearing aid, and demonstrates proper insertion, removal, maintenance techniques, and the operation of all the features of the hearing aid. The patient is then re-tested wearing the hearing aid to enable the audiologist to determine whether the hearing aid is performing to prescribed standards and to evaluate the benefit to the patient. After one week, the patient care coordinator will contact the patient by telephone to discuss any problems or questions and to schedule a follow-up appointment if the patient or the patient care coordinator feels it is needed.

We provide follow-up services including, where necessary, additional personal contacts with the patient and/or the patient's family, for the purpose of monitoring and guiding the patient's progress in successfully utilizing the hearing aid and making all adjustments required to insure a successful outcome. We also have a family hearing counseling program to help the patient and his or her family understand the proper use of their hearing products and the nature of their disability.

In addition to all of the foregoing services, at the Wartburg Nursing Home, and at all on-site offices which we may establish at other nursing homes in the future:

* we work directly with the director of the facility and nursing staff to insure that all residents and patients are provided any required audiological assistance on a timely basis.
* patient's appointments are scheduled by the nursing home personnel at intervals of approximately one-half hour to forty-five minutes;
* all patients are seen at the direction and referral of his or her ear nose and throat specialist or primary care physician;
* we provide base-line hearing screening for all new admissions including residents and short-term rehab patients; and
* results of all procedures are reported to the attending physician and become a part of the patient's permanent medical records.

Early Intervention Services

While hearing loss has historically been considered an effecting of aging, recently health care professionals as well as some government agencies, health care organizations and insurance companies have begun increase their scope of services and coverage's to include early interventions for infants and children up to the age of 16. The reason for the rise in early intervention is due to that fact that many organizations now believe that pediatric hearing impairment may be the cause, or part of the reason, for such disorders as Attention Deficit Disorder, Dyslexia, disciplinary problems, educational underachievement and disfunctional behavior with a family setting, especially with siblings. Unfortunately, many of these problems have been deemed to be caused by alcohol and drug abuse by the child's mother or other prenatal problems which were not previously brought to light. We currently have referral contracts with and provide audiological services to the following agencies:

- Paxxon Healthcare Services, LLC
- First Step Services, Inc.
- Los Ninos Community Services
- Speech and communications Professionals
- Project Rainbow
- Secundino Services, Inc
- Early Achievement Services, Inc.

As a result of our providing such services for these companies, we have of late been approached by similar organizations and we believe that we can attain substantial growth in this new source of revenues to our company if our operating capital improves.

In addition to our current contracts, we are currently in negotiations to enter into a business combination with Paxxon Healthcare Services, Inc. To date no agreement has been reached but we believe, that we will enter into a letter of intent with Paxxon within sixty days. This represents a tremendous opportunity for our company to expand since speech pathology and early intervention are only some of the services provided by Paxxon. In addition, the current referral of business from Paxxon will provide invaluable referrals for us and Paxxon. Paxxon currently provides the following services:

1. Staffing for homecare companies with approximately fifty contracts currently in force;
2. Early intervention contracts with New York State, Westchester, Putnam and Orange Counties;
3. Facility Staffing in several nursing homes and hospitals;
4. Management contracts with nursing homes in Brooklyn and Queens; and
5. Physical therapy centers with a representation in a total of 21 offices in the Bronx, Southern New Jersey, Long Island and Queens.

Our Products

A hearing aid is an electronic, battery-operated device that amplifies and transforms sound to allow for improved communications. All hearing aids consist of three components: the microphone, the amplifier, and the loudspeaker. Sound is received through the microphone, which vibrates in response to sound waves and converts the sound waves to electrical signals. The amplifier enhances the intensity of these signals before transmitting them to the loudspeaker where they are converted back to sound waves for broadcast in the ear.

All hearing aids that we prescribe are custom made for the individual patient. We have selected a variety of major worldwide manufacturers' products, to make available through our offices, in order to provide the best possible hearing aid products for our patients. These include the latest digital technology available from Magnatone, Siemens, Phonak, Sonotome, Lori/Unitron, United Hearing Systems, and others. We are also able to make available, by special order, a large selection of other hearing enhancement devices including telephone and television amplifiers, telecaptioners and decoders, pocket talkers, specially adapted telephones, alarm clocks, doorbells and fire alarms.

Customers

To date, we have continued to expand our patient referral base by securing our appointment as the potential sole providers of hearing aids and audiological services to nursing homes, out-patient facilities, and adult group homes with whom we have contractual arrangements. We have also established relationships and have signed contacts with other types of health care organizations, such as HMO's and PPO's. Our affiliations with these types of health care organizations and facilities have grown rapidly to the extent that our current capital structure has allowed. Our customers include:

* word of mouth generated by our existing patient base;
* patients who are participating members of health care organizations, who come to us as a result of contractual (or in some cases, non-contractual) arrangements with such organizations, appointing us as an approved, preferred, or sole, provider of audiological care to their members. As a provider, we are listed in the organization's provider manual as a source for audiological services and products;
* patients who are referred to us by out-patient health care clinics and hospitals;
* patients who are referred to us, on an out-patient basis, by nursing homes and senior care facilities at which they reside;
* patients who are referred to us by area physicians with whom we have established relationships;
* patients who are treated on an in-patient basis in nursing homes or senior care facilities; and
* pediatric patients referred to us by local school districts, pediatric managed care organizations and local pediatric physicians.

Existing Contracts With Health Care Providers and Third-Party Payers

To date we have entered into contracts for the provision of audiological services with in excess of fifty health care provider organizations, as well as third-party payers such as Medicare and New York State Medicaid. We continually other organizations that we are negotiating with to enter into additional contracts. We expect these additional contracts to continue to grow as we progress. We believe that we currently have sufficient staff and facilities which are geographically accessible for all participants in organizations which we have contracted with. Some of these groups and organizations include:

Medicare Federal Health Care Program, Parts A and B;
New York State Medical Assistance (Title XIX) Program/Medicaid;
Independent Health Association;
Magnacare Health Care;
Empire Blue Cross Blue Shield Health P.P.O.;
Corvel Corporation;
Oxford Health Plans (New York, Inc.);
Health Insurance Plan of Greater New York and Group;
Community Choice Health Plan, Inc.;
Better Health Advantage, Inc.;
Fidelis Health Care, Inc.
Health Source Westchester Pre-Paid Health Services Plan, Inc.;
Workers Compensation Agreement;
Preferred Choice Management Systems;

Speech and Communications Professionals;
Los Ninos Services, Inc.
Genesis Health Care, Inc.

Pomco
National Ear Care Plan, Inc.
Paxxon Health Care Services
Visiting Nurse Services of Bronx/Westchester Counties
United Health Care
Local 1199
Blue Cross Senior Plans
Aetna US Health Care
Blue Cross Senior Plan
GHI (General Health Insurance) AARP (Secondary Pay) American Postal Workers Union United America Insurance Mutual of Omaha Cigna City of Yonkers First United (Secondary Payer) Westchester Community Health Plan Local 32 E Health Source Fidellis Oxford Genesis Health Care

Generally, our agreements with health insurance or managed care organizations provide for services to be offered on three different bases, including:

(a) fee for service basis based on a contractual rate which we offer to provider's members (all paid for by the patient); and
(b) an encounter basis where we are paid a fixed fee by the insurance or managed care organization for each hearing aid sold (with the balance paid to us by the individual member).
(c) a special Medicare/Medicaid encounter basis where we are paid a fixed fee by Medicare and/or Medicaid for particular audiological services, at a price preestablished by Medicare or Medicaid (other than the "deductible" amount, which is paid either by the patient or other third-party payers).

Requirement for Renewal of Agreements with Health Insurance and Managed Care Organizations

The terms of most agreements with health insurance and managed care organizations are subject to renegotiation annually. Moreover, most of these agreements may be terminated, at any time, by either party on 90-days notice. Even if we are successful in expanding our base of contracts with such organizations and institutions, the early termination or failure to renew such agreements could adversely affect our results of operations. To date we have not been terminated and in some instances new and updated contracts have been signed.

Nursing Homes

Approximately fourteen nursing homes, assisted living facilities and adult day care centers currently provide out- patient referrals and transportation of their residents to our Ludlow Street office. We also provide limited on-site testing and evaluations within these nursing homes for residents who are disabled or infirm. These nursing homes include:

Kings Terrace/Terrace Health Care	Bronx
Manhattanville Nursing Home	Bronx
Methodist Church Home	Riverdale
Riverdale Nursing Home	Bronx
Tarrytown Hall Care Center	Tarrytown
Classic Residence by Hyatt	Yonkers

St. Joseph's Nursing Home	Yonkers
Saint Joseph Geriday Care	Yonkers
Sutton Park Adult Care	Yonkers
Varian Woods Assisted Living	Riverdale
Sprain Brook Manor	Yonkers
Saint Michaels/Nursing Home	Westchester
Mary The Queen/Retired Nuns	Bronx
Saint Joseph's Long Term Care	Yonkers

Existing Referral Arrangements With Out-Patient Facilities

We have established relationships with four local out-patient facilities and these referrals continue to steadily increase. We believe that patient referrals from these sources will continue to grow based upon the positive feedback we receive from these out-patient facilities.

On-Site Offices

We have established an on-site office at The Wartburg Adult Care Community Outpatient Clinic, where our location makes us the sole on-site audiological services provider to patients being treated at the clinic. We have also established an on-site office at The Wartburg Nursing Home where we are the exclusive provider of audiological services to all residents at the Nursing Home. Our audiologist visits the out-patient clinic two half-days per week and the nursing home four half-days per month. On average, our audiologist see approximately six to eight patients, per half-day, at each of these facilities. We had expected that the amount of time our audiologists would spend at the out-patient clinic would increase to at least two full days per week. The current financials constraints taking place at this facility have negatively impacted this anticipated growth.

Area Hospitals

We have established relationships with five area hospitals who have been referring patients to our Ludlow Street office. We believe that if we receive the necessary infusion of additional capital, the growth in the number of our sales offices will put our services within the geographical reach of an increased number of the patients of these and other hospitals. We therefore, expect that these relationships will have a continuing impact on the volume of our out patient referrals. The hospitals with which we have established patient referral relationships are:

1. Saint Josephs Medical Center South Yonkers, NY
2. Yonkers General Hospital South Yonkers, NY
3. Montefiore Medical Center Northeast Bronx, NY
4. Westchester Medical Center White Plains, NY
5. Saint Johns Medical Center

Physician Referrals

Referrals from physicians are generally based upon personal contacts and established patient and physician satisfaction. We endeavor to maintain our relationships with referring physicians by using a timely comprehensive medical reporting system which provides each referring physician with a full audiological report on each of their patient visits to our offices.

Payments for Services

Our customer base includes self-pay patients, patients whose costs are covered by medicare or medicaid, patients whose costs are covered by private health care organizations; and patients whose costs are covered as union benefits). Treating

Medicare and Medicaid patients involves payment lag issues which are currently problematic for us because of our current capital constraints. Current Medicare and Medicaid payments for audiological services and hearing aids can take as long as 120 to 180 days after approved services are

provided and hearing aids are dispensed. In order to assist us with the cash flow lag we have been successful in obtaining from some of our suppliers, an extension of their normal payment term. We are hopeful that if the current domestic economic conditions improve in the near future, we will be able to put bank financing arrangements into place which will provide us with a credit line for working capital. Beginning in February 2002 we began billing Medicare directly on-line, we anticipate that this will continue to accelerate our collection time. Medicaid does not currently have an on-line billing system for audiological services or the billing for hearing aids dispersed, and we therefore continue to encounter the long payment lag from time of service to actual payments.

Sales and Marketing

Recognizing the vast untapped market of hearing impaired individuals we intend to continue to expand our marketing efforts to include, not only the self-pay patients who had previously been our principal customer base, to include:

- physicians in private or group practices;
- providers of group health care;
- unions;
- nursing homes;
- senior care facilities;
- out-patient health care clinics;
- hospitals;
- speech pathology groups;
- nursing home managed
- health care organizations; and
- third party payers, including Medicare and New York State Medicaid.

Marketing to these organizations and entities have consisted solely of personal contacts by our president, John H. Treglia, with all of the types of entities and organizations listed above. We have also utilized print media advertising on a limited basis to the self-pay patient market as well as to inform medicare and medicaid patients of our locations.

Proposed and Existing Advertising and Marketing Program

We intend to continue to try to bring our company and our services and products to the attention of managed care providers, which can promote our products and services to the hearing impaired, and to their participating members. In connection with this, we began a proposed but some what are limited a joint advertising campaign with the Wartburg Out-Patient Clinic that we intend to increase over the next twelve months if and when capital is available. We also intend to increase our marketing efforts to the self-pay, (uninsured patient) market. Our marketing plan contemplates implementing an aggressive advertising and marketing program focused on both of these markets, highlighting the quality of our services and products, as well as competitive pricing. In addition, to address the substantial growth in the number of assisted living facilities and nursing homes, we intend, when financial resources are available, to retain a director of senior care and nursing home marketing to promote and develop relationships with such establishments. At present, marketing to health care organizations is done by our CEO, Mr. Treglia and by patient care coordinator through personal contacts. Our marketing and advertising efforts in the last year have been hindered by our financial constraints.

It is our goal to establish ourselves as a provider of highly professional services, quality products, and comprehensive post-sale consumer education. Our marketing campaign, although currently limited, will emphasize company-operated, free seminars on hearing and hearing loss as well as direct consumer advertising in local radio, newspaper, and, eventually, television media.

United Hearing Solutions, Inc.

In April of 2002 we entered into a binding letter of intent with United Hearing Systems,

Inc. to purchase all of their assets. Our management devoted a substantial amount of time and resources into this potential acquisition during the 2002 year. However, after an exhaustive due diligence of United Hearing Systems, our management determined that the purchase of these assets would not have a positive impact on our potential profitability. This determination was based for the most part on the amount of new operating capital this would require had the funding been available. Has the acquisition been consummated it would have added several million dollars to our revenues, valuable assets including a state of the art manufacturing facility, a customer list generated over twenty five years of business and substantial bottom line profitability to us. Therefore, the purchase of these assets was never finalized. The amount of time that our management spent in negotiating and conducting the proper due diligence on this company impacted their ability to expand our business. Notwithstanding same, we still have ongoing discussions with this company in an attempt to negotiate a transaction that we believe is more favorable to us and it and when we raise the appropriate additional capital.

Business Strategy

Our business plan recognizes that increasing the number of our sales offices will make our services conveniently accessible to a greater number of participating members of health care organizations and other entities with which we have relationships or may establish relationships. Our plan is therefore to couple such an increase in offices with an expansion of our patient referral base. We expect this two-pronged approach to enable us to substantially increase the volume and profitability of our business. We believe that our success will be largely dependent upon our ability to raise capital and then use such funds to :

* expand and emphasize our marketing efforts to include the growing adult assisted living community nursing home and adult day care population;
* expand our existing operations, first in the New York metropolitan area and then on a regional basis;
* distinguish our company from its competitors as a provider of hearing healthcare services to not only the affluent private pay population;
* effectively market our products and services to service the growing pediatric patient base.

We believe that, in addition, the hearing aid industry, as a whole, must use customer satisfaction, advertising, and educational programs to strengthen consumer confidence in the industry and to educate the hearing impaired population with respect to:

* the importance of professional hearing testing;
* the availability, ease of use, and effectiveness of the newest hearing aid technologies; and

* the ability to arrange financing for hearing aids through an arrangement with several emerging lease financing organizations which arrange for lease-purchase financing of hearing aids on reasonable terms, especially directed to the senior citizen marketplace and other hearing impaired persons on fixed incomes.

Proposed Financing Plans

In order for us to implement our business plan, we will require financing in a minimum amount of $500,000 during the next twelve months. We intend to use our best efforts to generate between $500,000 and $1,000,000 in equity or convertible debt financing from a private placement of our securities within six to eighteen months. To date we have received limited financing which we believe is in part attributable because of the current years market conditions. At this time, we are unable to state what the terms of the anticipated private placement will be or the amount of shareholder dilution which will result from the intended financing.

If we are unable to raise these funds through a private placement, we will endeavor to raise the required financing from other sources such as lease financing for major equipment purchases and loans from banks or institutional lenders. We cannot be certain that we will be able to raise the required financing from any of the foregoing sources.

If we fail to do so, our growth will continue to be curtailed and we will and concentrate on increasing the volume and profitability of our existing outlets, using any surplus cash flow from operations to expand our business as quickly as such resources will support.

Dependence on Outside Manufacturers of Hearing Aids

We currently make available to our customers hearing aids supplied by approximately five major manufacturers, as well as hearing enhancement devices manufactured by other companies. There are currently approximately 40 manufacturers of these products world wide and few manufacturers offer dramatic product differentiation. We are therefore confident that, in the event of any disruption of supply from any of our current sources, we could obtain comparable products from other manufacturers on comparable terms. We have not experienced any significant disruptions in supply in the past.

Dependence on Qualified and Licensed Audiological Personnel

We employ New York State licensed, ASHA certified audiologists in our New York offices. In our Pennsylvania office and in-home services, Registered Hearing Aid Fitters provide primary services, with licensed audiologists available on a consulting basis. In our New York area operations, we currently have two full-time, and one part-time, New York State audiologist. In our Pennsylvania operation, we have four available Registered Hearing Aid Fitters in Pennsylvania, who are employed by us, on a part-time basis, as independent contractors, and two Pennsylvania licensed audiologists available on a consulting basis for special needs.

Should we be unable to attract and retain qualified audiologists or Registered Hearing Aid Fitters, either as employees or independent contractors, it could limit our ability to compete effectively against competing hearing aid retailers and thus adversely affect our business. There are currently 6,000 audiologists in the United States and approximately 200 educational institutions in the United States which offer audiology degree/certification programs. There is therefore no current or potential shortage of qualified personnel. However, while we have not encountered any problems attracting and retaining sufficient audiological staff, it is possible that we could find ourselves at a competitive disadvantage against larger, better financed, and more well established hearing aid providers for the services of qualified personnel.

Government Regulation

Federal

The practice of audiology and the dispensing of hearing aids are not presently regulated on the Federal level. The United States Food and Drug Administration ("FDA") is responsible for monitoring the hearing care industry. Currently there are only two regulations affecting the sale of hearing aids:

(i) A physician's review. While the FDA requires first time hearing aid purchasers to receive medical clearance from a physician prior to purchase, patients may sign a waiver in lieu of a physician's examination A majority of our patients and targeted market are members of the managed care or institutional providers with whom we have contracts, or whom we expect to enter into contracts with, to provide hearing care. Some of these organizations require a physician referral. Consequently, even if any new federal or state physician referrals are mandated in the future, they should not be expected to have an adverse impact on our operations.

(ii) A return policy. The FDA requires states to adopt a return policy for consumers offering them the right to return their products, generally within three to forty five days. In Pennsylvania, where the state mandated return period is three days, we offer our customers a full thirty-day return policy. In New York, the state requires a forty-five day return period, which we comply with. Moreover, if our audiologist determines that an individual patient requires additional time to become acclimated to using a hearing aid, we will extend the return period to accommodate such special needs.

In addition, because we accept Medicare and Medicaid patients, each of our sales and dispensing offices must maintain their eligibility as Medicare/Medicaid providers and must comply with related federal anti-fraud, anti-kickback and other applicable regulations. Federal laws prohibit the payment of remuneration ("kickbacks") in return for a physician referring a Medicare or Medicaid patient, and those laws limit physicians from referring patients to providers in which they have a financial interest. We believe that none of our managed care or other provider contracts or our relationships with referring physicians are violative of the anti-kickback statute.

We are unable to predict the effect of future changes in federal laws, or the impact that changes in existing laws or in the interpretation of those laws might have on our business. We believe we are in material compliance with all existing federal regulatory requirements.

State

Generally, state regulations, where they exist, are concerned primarily with the formal licensure of audiologists and of those who dispense hearing aids and with practices and procedures involving the fitting and dispensing of hearing aids. In Pennsylvania and New York, where we currently operate and in New Jersey and Connecticut, which are part of our currently targeted markets, such regulations do exist. We believe we are in compliance with all applicable regulations in Pennsylvania and New York and we intend to format all of our programs in Connecticut and New Jersey so that they are in full compliance with the regulations of those states. While we believe it is unlikely, there can be no assurance that regulations will not be promulgated in states in which we operate, or plan to operate, which could have a material adverse effect upon us.

Such regulations could include stricter licensure requirements for dispensers of hearing aids, inspections of centers for the dispensing of hearing aids and the regulation of advertising by dispensers of hearing aids. We know of no current or proposed state regulations with which we, as we currently operate, could not comply.

Product and Professional Liability

In the ordinary course of our business, we may be subject to product and professional liability claims alleging the failure of, or adverse effects claimed to have been caused by, products sold or services which we have provided. We maintain insurance at a level which we believe to be adequate. Each of our licensed audiologists is also required by state law to carry appropriate malpractice liability insurance. All of our audiologists have furnished us, as well as all nursing homes, assisted living, adult day care, senior care, HMO's, PPO's and other managed care organizations with whom we have contractual or other relationships with copies of their insurance coverage certificates. As a part of this process we also keep records of all license and insurance anniversary and/or effective dates to attempt to insure compliance. We believe that they are all in compliance with applicable federal and state requirements. Also included as a part of compliance with the credentialing requirements, copies of all educational degrees, certificates and licensing are appropriately maintained. While we believe that it would be highly unlikely that a successful claim would be in excess of the limits of our insurance policies, if such an event should occur, it could conceivably adversely affect our business. Moreover, because we distribute products manufactured by others, we believe we will have recourse against the manufacturer in the event of a product liability claim. It should be noted however that we could be unsuccessful in a recourse claim against a manufacturer or, that even if we were successful, such manufacturer might not have adequate insurance or other resources to make good on our claim.

Competition

The hearing care industry is highly fragmented with approximately 11,000 practitioners providing testing and dispensing products and services. Approximately 2,500 of these practitioners are audiologists working for hospitals or physicians, 2,500 of the practitioners are licensed audiologists in private practice, and the remaining 6,000 are hearing aid specialists. Industry surveys estimate that approximately 5% of all hearing

aids are sold in physicians' offices, 60% are dispensed by qualified audiologists in private practice, and the remaining 35% are sold by hearing aid specialists.

Because there are no federal, state or local regulatory or oversight agencies in the hearing care industry, it is not possible to determine the precise number of competitors in every market which we are operating in or which we intend to enter. Our present plan is to continue to focus our efforts primarily on urban, high density population areas, since we believe these areas will best implement our current business plan and potential growth with a minimal amount of impact on our current capital structure.

Most competitors are small retailers generally focusing on the sale of hearing aids without providing comprehensive audiometric testing and other professional services. However, some of our chief competitors offer comprehensive services and have large distribution networks and brand recognition. Principal among these are: (1) Bausch & Lomb, a hearing aid manufacturer whose distribution system is through a national network of over 1,000 franchised "Miracle Ear" stores including 400 located in Sears Roebuck & Co. stores; (2) Beltone

Electronics Corp., a hearing aid manufacturer that distributes its products primarily through its network of approximately 1,000 "authorized" distributors; and (3) HEARx LTD., a hearing aid distributor whose dispensing and distribution system is through a network of approximately 79 company owned centers located in Florida, New York, New Jersey, and California.

To the best of our knowledge, except for HearX, most national networks primarily offer hearing aids only and do not provide the comprehensive diagnostic services, use of audiologist services or other ancillary products offered by us. More importantly, they do not use the services of audiologists in the majority of their centers. However, these networks are owned by companies having greater resources than are available to us, and there can be no assurance that one or more of these competitors will not expand and/or change their operations to capture the market targeted by us. Nor can there be any assurance that the largely fragmented hearing care market cannot be successfully consolidated by the establishment of co-operatives, alliances, confederations or the like which would then compete more effectively with us in our intended market areas.

Employees

As of June 1, 2003, in our New York area operations, we had a total of four full-time, and two part-time employees. Full time employees include, our president and CEO, John H. Treglia, two New York State licensed audiologists, and one receptionist - patient care coordinator. We also had a full time administrative assistant to Mr. Treglia who was previously in charge of the Administrative and Billing Department for a large New York Private for Profit Hospital. However, we had to terminate her services due to financial restraints. In our Pennsylvania operations, we employ two full-time employees. Our part-time employees consist of three Pennsylvania Registered Hearing Aid Fitters, who work for us, on an as needed basis (part- time), and two Pennsylvania licensed audiologists who consult with us on an as needed basis.

The loss of the services of Mr. Treglia would adversely affect the conduct and operation of our business. To date we have not purchased a "key man" insurance policy on Mr. Treglia's life. However, we intend to purchase such a policy in the amount of from $1M to $3M, at such time as we have the financial resources to do so.

ITEM 2. PROPERTIES

Corporate Headquarters

Our corporate headquarters is located in Suite 602, The Ludlow Street Medical Building, located at 45 Ludlow Street, Yonkers, New York. This office consists of 850 square feet. Approximately 800 square feet of these premises are used as administrative offices with the balance of the space comprising a reception area.

We occupy these premises pursuant to a five year lease with Diamond Properties, Inc. The lease expires in February 2006. The lease calls for monthly rental payments of $895 fully inclusive of all utilities, taxes, and other charges. The building in which these offices

are located is of a newly renovated, seven story building which houses the private offices of approximately twenty physicians, dentists, and other medical professionals, with adequate, free, off street parking available. It is located off of a main street and around the corner from Saint Joseph's Medical Center, a major area health care facility.

Ludlow Street Sales and hearing Aid Dispensing Office

We have a retail sales and dispensing office located the first floor lobby of the Ludlow Street Medical Building in a retail space adjacent to the elevators. We occupy this space pursuant to a five- year lease with Diamond Properties Inc, which will expire in February 2006. The lease calls for monthly rental payments of $1,087 fully inclusive of all utilities, taxes, and other charges.

This facility comprises approximately 800 square feet and has a glass enclosed, visible waiting and reception area and a private fully equipped testing and dispensing office. This office is fully equipped as an audiological and hearing aid dispensing facility; equipment includes: (i) a full spectrum hearing suite, consisting of a wheel chair accessible sound-proof testing booth, of approximately 10 feet x 12 feet, designed to accommodate the needs of pediatric patients as well as handicapped adults; (ii) an electronic audiometer; (iii) an electronic tympanometer; (iv) a computerized hearing aid programmer; and (iv) other required peripheral testing, fitting and repair equipment. This equipment was purchased, used, from Saint Joseph's Hospital, which has discontinued its audiological services department. The equipment purchased from Saint Josephs included, in addition to the equipment listed above, a second full spectrum hearing suite, which we are presently keeping in storage. All of the equipment which we purchased from Saint Josephs, and which we are currently using, is modern and has been totally refurbished and recalibrated. Saint Joseph's original cost for this equipment was approximately $54,000 and its replacement cost would be approximately $78,000. We were able to purchase, relocate, refurbish and recalibrate the equipment for a total cost of $19,000. This equipment enables us to fully service all patients whom we see at this facility, including the nursing home patients who are brought to us on an out-patient basis as well as pediatric patients.

The Wartburg Diagnostic and Treatment Center On-Site Facility

On April 1, 2001, we began operations at our dispensing and testing office located on-site at the Wartburg Adult Care Community, Outpatient Clinic. This office is approximately 500 square feet and is located in the Outpatient Health Services Building on the Wartburg Mount Vernon Campus. We are permitted the use of common reception and waiting room facilities. The Wartburg also makes available to us, without additional charge a large meeting room, in which can run our hearing health care fairs in conjunction with the Wartburg. We occupy this office pursuant to a lease between our subsidiary, Interstate Hearing Aid Service and The Wartburg Diagnostic and Treatment Center. This lease is for an unspecified term beginning on March 12, 2001. The lease calls for monthly rental payments of $375, fully inclusive of all utilities, taxes, and other charges. The lease amount is subject to review upon written request by either party on the March 12th anniversary date of the lease. This dispensing office is outfitted and equipped with: (i) a standard size wheel-chair accessible sound-proof booth, (ii) an electronic audiometer; (iii) an electronic tympanometer; (iv) a computerized hearing aid programmer; and (iv) other required peripheral testing, fitting and repair equipment.

Under the terms of the lease, we are required to maintain certain medical and administrative practice policies and procedures of the Outpatient Facility. We are also obligated to provide specified levels of audiological services at specified times, to maintain professional liability insurance, and to indemnify the Outpatient Clinic.

The Wartburg Home of the Evangelical Lutheran Church On-Site Facility

We operate a dispensing and testing facility at The Wartburg Home of the Evangelical Lutheran Church, a nursing home. This facility is approximately 150 square feet and is located on the third floor of the building housing The Wartburg Skilled Nursing Facility on the Wartburg Mount Vernon Campus. We occupy this facility pursuant to a lease between our subsidiary, Interstate Hearing Aid

Service and The Wartburg Home of the Evangelical

Lutheran Church. This lease is for an unspecified term beginning on March 15, 2001. The lease calls for monthly rental payments of $200, fully inclusive of housekeeping, security services, all utilities (excluding telephone charges), taxes, and other charges. The lease amount is subject to review upon written request by either party on the March 15th anniversary date of the lease. This equipment used in this office consists of portable audiological equipment, specifically designed to be in compliance with all federal and state requirements as well as those with all third-party payers, and brought in by the audiologist at each visit. This equipment is also used for bed-side testing, when required for the treatment of infirm patients. Under the terms of the lease, we are required to maintain certain medical and administrative practice policies and procedures of the Outpatient Facility. We are also obligated to provide specified levels of audiological services at specified times, to maintain professional liability insurance, and to indemnify the nursing home.

Pennsylvania Forty-Fort Office

We currently lease an 800 square foot, street level office at 142 Wells Street, Forty-Fort Pennsylvania. This facility is located in the main business district of Forty-Fort and the space is utilized for administrative, sales, dispensing, and telemarketing activities. The facility is divided among offices, waiting rooms, a sound deadened testing area, a dispensing area, and small telemarketing area. This facility is also used as a coordination center for our Pennsylvania licensed hearing aid fitters, who test and dispense hearing aids on an in-home basis, the most common method of dispensing hearing aid products in rural areas.

ITEM 3. LEGAL PROCEEDINGS

We are unaware of any pending or threatened legal proceedings to which we are a party or of which any of our assets is the subject. No director, officer, or affiliate, or any associate of any of them, is a party to or has a material interest in any proceeding adverse to us.

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

During the year ended February 28, 2003, we did not submit any matters to a vote of our shareholders.

PART II

ITEM 5. MARKET FOR THE REGISTRANT'S COMMON STOCK AND RELATED SECURITY HOLDER MATTERS

Our common stock, $. 10 par value, was traded on the American Stock Exchange under the symbol "NAN" until April 17, 1998. Because we had fallen below American Stock Exchange guidelines for continued listing, effective April 17, 1998, our common stock was delisted. It is currently traded in the over-the-counter market and quoted on the OTC Electronic Bulletin Board maintained by the National Association of Securities Dealers, Inc. (the "OTC Bulletin Board"). The stock was quoted on the OTC Bulletin Board under the symbol NANK until March 3, 2000, when we filed a Voluntary Petition under Chapter 11 of the Bankruptcy Code in the U.S. Bankruptcy Court for the Southern District of New York. After that date, our OTC Bulletin Board Symbol was changed to, NANKQ. On January 25, 2002, when the "Reverse Acquisition" was made on a stock-for-stock-basis pursuant to the terms of our Chapter 11 reorganization, the symbol was changed to NTKI. The following table sets forth representative high and low bid prices by calendar quarters during the period from March 3, 2000 through February 28, 2003 and the subsequent periods. The level of trading in our common stock has been sporadic and limited and the bid prices reported may not be indicative of the value of our common stock or the existence of an active market. The OTC market quotations reflect inter-dealer prices without retail markup, markdown, or other fees or commissions, and may not necessarily represent actual transactions.

Period	Bid Prices Common Stock	
	Low	High
Fiscal Year Ended February 27, 2000		
May 31, 1999	$0.03	$0.08
August 31, 1999	0.02	0.625
November 30, 1999	0.02	0.625
February 28, 2000	0.01	0.11
Fiscal Year Ended February 28, 2001		
May 31, 2000	$0.20	$0.50
August 31, 2000	0.20	0.25
November 30, 2000	0.10	0.35
February 28 2001	0.01	0.15
Fiscal Year Ended February 28, 2002		
May 31, 2001	$0.01	$0.05
August 31, 2001	0.01	0.07
November 30, 2001	0.01	0.50
February 28, 2002	0.15	0.80
Fiscal Year Ended February 28, 2003		
May 31, 2002	$0.75	$1.75
August 31, 2002	0.40	0.95
November 30, 2002	0.08	0.65
February 28, 2003	0.10	0.23

We have never paid any cash dividends on our common stock, and have no present intention of doing so in the foreseeable future.

ITEM 6. SELECTED FINANCIAL DATA

The following table sets forth our selected consolidated financial information for the five fiscal years ended February 28, 2003.

The information set forth below should be read in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operation" and in conjunction with our Consolidated Financial Statements and notes appearing elsewhere in this report.

For Fiscal Year Ended

(In thousands, except per share amounts)

	Feb. 28 2003	Feb. 28 2002	Feb. 28 2001	Feb. 28 2000	Feb. 2 199
Summary Statements of Operations					
Net sales	$ 406	$ 38	$ --	$ 5,344	$ 11,51
Gross profit	83	9	--	1,625	2,41
Net (loss) gain sale of asset	--	--	--	(539)	(1
Net gain sale of asset	--	--	--	--	71
Net income (loss)	(169)	1,370	--	1,409	93
Net earnings (loss) per share-basic and diluted	(.02)	(.38)	--	(.40)	.2
Average shares outstanding	8,440	3,620	--	3,239	3,23
Summary Balance Sheet Data					
Total assets	828	254	22	22	3,47
Working capital	40	147	(1,680)	(1,680)	(95
Long-term debt (exclusive of current maturities)	--	--	--	--	6
Convertible subordinated debt	--	--	827	827	2,05
Stockholders' equity	642	931	(1,680)	(1,680)	(30

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following is management's discussion and analysis of significant factors which have affected our financial position and operations during the fiscal years ended February 28, 2003 and February 28, 2002. This discussion also includes events which occurred subsequent to the end of the fiscal year ended February 28, 2003, and contains both historical and forward- looking statements. When used in this discussion, the words "expect(s)", "feel(s)", "believe(s)", "will", "may", "anticipate(s)" "intend(s)" and similar expressions are intended to identify forward-looking statements. Such statements are subject to certain risks and uncertainties, which could cause actual results to differ materially from those projected. Factors that might cause or contribute to such differences include, but are not limited to, those discussed in "Risk Factors". Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date hereof. Readers are also urged to carefully review and consider the various disclosures elsewhere in this Report which discuss factors which affect the Company's business, including the discussion at the end of this Management's Discussion and Analysis. This discussion should be read in conjunction with the Company's Consolidated Financial Statements, respective notes and Selected Consolidated Financial Data included elsewhere in this Report.

Termination of Operations

We experienced significant losses in recent years which resulted in severe cash flow issues that negatively impacted the ability to continue our business. During fiscal 2000, the combined effects of various negative developments, including but not limited to:

- (i) sharply decreasing revenues over the previous four years;
- (ii) continuing losses from operations;
- (iii) interest payment defaults on outstanding debt,
- (iv) the lack of a long-term credit facility; and
- (v) the concentration of all sales among only three customers forced the company to discontinue all of its business and operations.

On October 30, 1999, we ceased all operations. We filed a voluntary petition under Chapter 11 of the United Stated Bankruptcy Code on March 3, 2000 in the United States Bankruptcy Court of the Southern District of New York.

The Reorganized Company

Pursuant to the terms of our Chapter 11 Plan of Reorganization, we effected a "Reverse Acquisition" by which we acquired all the issued and outstanding capital stock of Accuntone, Inc., a Pennsylvania corporation.

As a result of the above-described acquisition, Accutone Inc. (together with Accutone's wholly-owned subsidiary, Internstate Hearing Aid Service, Inc.) is now our wholly owned subsidiary. We have no business or assets other than those which we acquired through our acquisition of Accutone. With respect to our current business, history, and prospects, Accutone is the predecessor of Nantucket.

We are directly, and indirectly through our subsidiaries, Accutone Inc. and Interstate Hearing Aid Service Inc., in the business of distributing and dispensing custom hearing aids. Our predecessor, Accutone Inc. was formed under the laws of the State of Pennsylvania in October 1996 for the purpose of engaging in the manufacture, dispensing, and distribution of hearing aids. In 1998, Accutone acquired 100% ownership of Interstate, a Pennsylvania corporation and an FDA licensed hearing aid manufacturer which has been in the hearing aid business for approximately 35 years. In the Fall of 2000, Accutone discontinued all manufacturing operations and changed the focus of its marketing to include, not only the individual, self-pay patient, but health care entities and organizations which could serve as patient referral sources for us.

Until the summer of 2000, a small portion of our business consisted of manufacturing operations. However, because of changes in the competitive climate of the hearing aid manufacturing industry and the comparatively small level of our operations we

discontinued all manufacturing on July 30, 2000. This marked the beginning of a significant change in our then effective business plan, which now encompasses concentrating our marketing to nursing homes, hospitals, out-patient clinics, members of managed health care providers, such as health maintenance organizations ("HMO's"), Physician Provider Organizations (physician group practices known as "PPO's"), union health plans, medicare, and medicaid while expanding an advertising campaign aimed at individuals in the non-insured self-pay market. Since implementing the new business plan, we have entered into contracts with approximately 49 managed health care provider organizations, unions, local municipalities and secondary health care insurance providers and pediatric care organizations in the New York metropolitan area, including Medicare and Medicaid. We are continually in negotiations with other such organizations.

In addition to marketing our services, our current efforts and resources are being devoted to expanding our audiological staff and the level of operations and profitability at our existing offices as well as operations at new retail sales and dispensing offices in the New York Metropolitan area. Our long term goal is to expand our operations into a wider geographic area. To date such expansion has been curtailed by our failure to obtain significant financing.

We also provide in-home fitting and dispensing services in the State of Pennsylvania where our customer base is located in a somewhat rural area, making home visits convenient for our customers. We have four Pennsylvania Registered Hearing Aid Fitters who are available to us for in-home, as well as office visits in Pennsylvania. Through our offices and our in-home services, we offer a full range of audiological products and services for the hearing impaired. We have been unable to provide these services to our expectation level based on our need for capital infusion.

In order to make our services acceptable to managed care and health insurance companies, we must address their particular concerns. This will require that we have:

* service locations which are conveniently accessible to their members;
* an adequate staff of highly qualified audiologists;
* a full range of high quality hearing aid products;
* competitive pricing; and
* adequate product liability and professional malpractice insurance coverage.

We have been endeavoring to put all of these elements into place but have been unable to do so due to budgetary constraints. Therefore our primary goals during the next eighteen months, if we receive adequate financing, will include:

* opening and establishing operations at additional fully equipped offices accessible to residents of all five boroughs of New York City.
* opening and establishing operations at sales and dispensing offices on-site at additional nursing homes in the New York metropolitan area.
* increasing the number of audiologists on our staff to service these additional facilities;
* hiring a chief financial officer and a chief operations officer

We intended to implement an aggressive advertising and marketing campaign aimed at individuals and managed health care organizations. In spite of the financial constraints set forth herein we are currently attempting with Bard Markowitz, the President of Park avenue Medical, to establish a professional advisory board consisting of from 4 to 6 individuals with high levels of experience and expertise in hearing health care, gerontology, and hearing aid product development and promotion.

We estimate that in order to achieve these goals, we will require financing from sources other than cash flow, within the next eighteen months, in an amount ranging from $500,000 to $1,000,000. Although we have been unsuccessful in raising such funds, our management believes that the current financial market upturn will assist us in potentially raising capital.

United Hearing Systems, Inc.

In April of 2002 we entered into a binding letter of intent with United Hearing Systems, Inc. to purchase all of their assets. Our management devoted a substantial amount of time and resources into this potential acquisition during the 2002 year. However, after an exhaustive due diligence of United Hearing Systems, our management determined that the purchase of these assets would not have a positive impact on our potential profitability. This determination was based for the most part on the amount of new operating capital this would require had the funding been available. Had the acquisition been consummated it would have added several million dollars to our revenues, valuable assets including a state of the art manufacturing facility, a customer list generated over twenty five years of business and substantial bottom line profitability to us. Therefore, the purchase of these assets was never finalized. The amount of time that our management spent in negotiating and conducting the proper due diligence on this company impacted their ability to expand our business. Notwithstanding same, we still have ongoing discussions with this company in an attempt to negotiate a transaction that we believe is more favorable to us and if and when we raise the appropriate additional capital.

Paxxon Healthcare Services, Inc.

In addition to our current contracts, we are currently in negotiations to enter into a business combination with Paxxon Healthcare Services, Inc. To date no agreement has been reached but we believe, that we will enter into a letter of intent with Paxxon within sixty days. This represents a tremendous opportunity for our company to expand since speech pathology and early intervention are only some of the services provided by Paxxon. In addition, the current referral of business from Paxxon will provide invaluable referrals for us and Paxxon. Paxxon currently provides the following services:

1. Staffing for homecare companies with approximately fifty contracts currently in force;
2. Early intervention contracts with New York State, Westchester, Putnam and Orange Counties;
3. Facility Staffing in several nursing homes and hospitals;
4. Management contracts with nursing homes in Brooklyn and Queens; and
5. Physical therapy centers with a representation in a total of 21 offices in the Bronx, Southern New Jersey, Long Island and Queens.

Results of Operations

Sales

Sales for the year ended February 28, 2003 were $406,134 compared to $38,443 for the year ended February 27, 2002. This was due to the fact that we had a full year of operations as opposed to the shorter period in the prior year. Total net sales for the fiscal year ended February 27,2000 were $5,344,223, which represented a decrease of approximately 53.6% from fiscal year 1999 when total net sales were approximately $11.5 million. In turn, fiscal 1999 net sales had represented a decrease of 47% from fiscal 1998, when net sales totaled $21.7 million.

Selling, General and Administrative Expenses

Selling, general and administrative expenses were $194,887 in 2003 as compared to $257,276 in fiscal 2002 compared to -0- in fiscal 2001. This was due our effective costs control policies. Selling, general and administrative expenses in fiscal 2000 of $2,161,376 were approximately 41% of sales. For fiscal 1999 and 1998, these expenses were $2.9 million and $2 million respectively, and as a percentage of sales, 25% for fiscal year 1999, and 33% for fiscal year 1998. General and administrative expenses for fiscal year 1998 included $691,000 in non-recurring charges incurred as part of the company's restructuring efforts.

While these efforts were somewhat successful in reducing expenses as a percentage of sales, the loss of the Brittania product line ultimately resulted in us becoming insolvent.

Liquidity and Capital Resources

We incurred significant operating losses in recent years which resulted in severe cash flow problems which negatively impacted our ability to conduct our business as structured and ultimately caused us to become and remain insolvent. The reorganized Nantucket utilizing the increasing sales and projected potential profitability of Accutone and its subsidiary Interstate Hearing Aid should generate working capital to finance its current operations, but not enough to expand its scope of business activities.

We estimate that in order for us to achieve our goals to open equipment and staff additional offices, add another 40 nursing homes to those we currently service, increasing our volume of sales and profitability we will require to make capital investments and expenditures in the amount of $500,000 to $1,000,000. All of these funds will have to be obtained from sources other than cash flow. As noted above, under "Proposed Financing Plans", it is our intention to make a private placement of our equity or convertible debt securities in an amount of at least $500,000. We do not have any established bank credit lines or relationships in place at this time. However, we are optimistic that if we are able to raise a minimum of $500,000 through the sales of our securities, we will be able to establish credit lines that will further enhance our ability to finance the expansion of our business. There can be no assurance that we will be able to obtain outside financing on a debt or equity basis on favorable terms, if at all. In the event that there is a failure in any of the finance-related contingencies described above, the funds available to us may not be sufficient to cover the costs of our operations, capital expenditures and anticipated growth during the next twelve months. However, we believe that, even if we are unable to raise the required outside financing we can curtail our growth to such a degree so as to maintain increased operations.

Although the capital markets have a perceived improvement, we are cautiously optimistic of our abilities to achieve these goals. Along these lines we are actively pursuing potential businesses alliances with privately held businesses in like and or compatible industries. We believe that the addition of both sales volume growth and profitability will greatly assist us in successfully raising additional capital.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Nantucket Industries, Inc.
and Subsidiaries

Audited Financial Statements
Years Ended February 28, 2003,
February 28, 2002 and
February 28, 2001

Nantucket Industries, Inc.

Contents

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CUNZIO AND COMPANY INC.

Independent Auditors' Report

To the Board of Directors
Nantucket Industries, Inc. and Subsidiaries
Yonkers, New York

We have audited the accompanying consolidated balance sheets of Nantucket Industries, Inc. and Subsidiaries for the years ended February 28, 2003 and 2002 and the related consolidated statements of operations, stockholders' equity (deficit) and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits. The financial statements for February 28, 2001 were audited by other auditors, therefore we do not render an opinion on these financial statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Nantucket Industries, Inc. and Subsidiaries as of February 28, 2003 and 2002, and the consolidated results of its operations and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United

States of America.

/s/ Cunzio and Company Inc.

June 10, 2003

11 VALHALLA PLACE . NORTH WHITE PLAINS, NY 10603 . P(914) 643-3726

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Consolidated Bala

February 28,	2003
Assets	
Cash and cash equivalents	$ 550
Accounts receivable (Note 2)	132,324
Inventories (Notes 2)	5,365
Prepaid expenses (Note 10)	8,067
Stock subscription receivable	25,000
Other current assets	5,000
Total current assets	176,306
Property, plant and equipment, net (Notes 2 and 5)	66,340
Other assets, net	
Covenant not to compete (Notes 2 and 4)	300,000
Customer list (Notes 2 and 4)	285,706
Prepaid expenses (Note 10)	-
	$828,352
Liabilities and Stockholders' Equity (Deficit)	
Current portion of capital lease obligations	$ -
Convertible subordinated debt	-
Accounts payable	77,766
Loans payable (Note 6)	55,000
Accrued expenses and other liabilities	-
Pre-petition taxes (Note 1)	3,964
Total current liabilities	136,730
Line of credit (Note 6)	30,000
Pre-petition taxes, net of current portion (Note 1)	19,821
Total liabilities	186,551
Stockholders' equity (deficit) (Notes 1,9 and 10)	

Preferred stock, $.10 par value; 500,000 shares authorized, of which 5,000 shares have been designated as non-voting convertible with liquidating preference of $200 per share and are issued and outstanding	-
Common stock, $.10 par value; authorized 20,000,000 shares; issued 8,590,524	859,052
Additional paid-in capital	13,079,309
Common stock subscribed	25,000
Accumulated equity (deficit	(13,321,560)
	641,801
Less 3,052 shares of common stock held in treasury, at cost	-
Total stockholders' equity (deficit)	641,801
	$828,352

See accompanying

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Consolidated Stat

Years ended February 28,	2003	
Net sales	$ 406,134	$
Cost of sales	324,569	
Gross profit	81,565	
Selling, general and administrative expenses	194,887	2
(Loss) from operations	(113,322)	(2
Other expense:		
Interest expense	9,437	
Depreciation and amortization	45,792	
Total other expense	55,229	
Earnings (loss) before income taxes and extraordinary item	(168,551)	(2
Income taxes (Note 8)	-	
Loss before extraordinary item	(168,551)	(2
Extraordinary item-gain on debt discharge	-	1,6
Net income (loss)	(168,551)	1,3

Net earnings (loss) per share - basic and diluted	$ (.02)	
Weighted average common shares outstanding	8,440,251	3,6

See accompanying

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Consolidated Statement of Stockholders' Equity

	Preferred stock designated as non-voting convertible		Common stock
	Shares	Amount	Shares
Balance at March 1,2000	5,000	500	3,241,848
Net (loss)			
Amortization of deferred costs			
Balance at February 28, 2001	5,000	500	3,241,848
Cancellation of stock	(5,000)	(500)	(3,241,848)
Plan of reorganization			720,443
Reverse merger-Accutone			5,285,160
Consultant agreement			1,200,000
Executive compensation			630,397
Acquisition of audiology practice			1,200,000
Net earnings			
Balance at February 28, 2002			9,036,000
Cancellation of consultant			(1,200,000)
Private placement sales			337,857
Executive compensation			416,667
Net (loss)			
Balance at February 28, 2003			8,590,524

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Consolidated Statement of Stockholders' Equity
(Con

	Deferred issuance costs	Accumulated deficit	Treasury Shares
Balance at March 1,2000	$ (61,069)	$ (14,462,755)	3,052
Net (loss)			
Amortization of deferred costs	61,069	(61,069)	
Balance at February 28, 2001	--	(14,523,824)	3,052
Cancellation of stock			(3,052)
Plan of reorganization			
Reverse merger-Accutone			
Consultant agreement			
Executive compensation			
Acquisition of audiology practice			
Net earnings		1,370,815	
Balance at February 28, 2002	--	(13,153,009)	
Cancellation of consultant			
Private placement sales			
Executive compensation			
Net (loss)		(168,551)	
Balance at February 28, 2003	$ --	$(13,321,560)	

See accompanying

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Consolidated Statements of C

Years ended February 28,	2003
Cash flows from operating activities:	
Net earnings (loss)	$(168,551)
Adjustments to reconcile net earnings (loss) to net cash provided (used) by operating activities:	
Depreciation and amortization	45,792

Decrease (increase) in assets:	
Accounts receivable	(12,110)
Inventories	(240)
Prepaid expenses	111,933
Other current assets	(2,775)
(Decrease) increase in liabilities:	
Accounts payable	(24,869)
Accrued expenses and other liabilities	-
Net cash provided(used) by operating activities	(50,820)
Cash flows from investing activities:	
Additions to property, plant and equipment	(4,396)
(Increase) decrease in other assets	110,000
Net cash provided(used) by investing activities	105,604
Cash flows from financing activities:	
Issue of stock for reorganization, acquisitions and operations, net	(145,500)
Proceeds from loans and line of credit	85,000
Net cash (used) provided by financing activities	(60,500)
Net increase (decrease) in cash and cash equivalents	(5,716)
Cash and cash equivalents, beginning of year	6,266
Cash and cash equivalents, end of year	$ 550
Supplemental Disclosure of Cash Flow Information:	
Cash paid during the year for:	
Interest	$9,437
Income taxes	$-

See accompanying

Nantucket Industries, Inc.
and Subsidiaries

Notes to Consolidated Financial Statements

1. Reorganization The Company filed for Chapter 11 bankruptcy protection in March 2000. Management began its search for a viable merger candidate since if it were not successful the Company would cease to exist. The Company had been totally inactive since November of 1999.

On January 25, 2002, Nantucket Industries Inc., effected a "reverse acquisition" pursuant to which Nantucket acquired all of the issued and outstanding capital stock of Accutone, Inc., a Pennsylvania corporation. The acquisition was made on a stock-for-stock basis pursuant to the terms of Nantucket's Chapter 11 Plan of Reorganization. The Plan of Reorganization, which was accepted by the creditors of

Nantucket and approved by the Bankruptcy Court on December 10, 2001 and became effective on January 25, 2002.

DESCRIPTION OF THE PLAN

The Plan provided for the cancellation of all outstanding shares of stock in the Company and the re-issuance of new shares of stock by the reorganized Company. All stock of existing Subsidiaries was cancelled.

All holders of allowed claims and stock interests in the Debtor would receive ratable distribution of the new shares of stock in accordance with the formulas set forth below.

The Plan of Reorganization, was predicated upon the acquisition of the Accutone business and its business prospects in exchange for a distribution of 5,285,160 common shares in the reorganized Company to the current equity holders of Accutone. The resulting combined entity issued new shares of its stock to all parties in interest in a manner that reflected the respective liquidation preferences of the classes of claims and interests.

ADMINISTRATIVE DEBT

The costs and expenses of the administrative claim of Nantucket in course of the reorganization had priority of distribution pursuant to 11 U.S.C. ss.503 and would either be paid in full upon confirmation, or other terms agreed upon by the holders of such claims.

The expenses of administration consisted primarily of the fees of professional persons retained by Nantucket in the course of this reorganization and their fees were ultimately subject to allowance and approval by the Bankruptcy Court.

PRIORITY TAX DEBT

Priority tax debt consisted of governmental taxing authorities whose claims would be entitled to priority of payment pursuant to Section 507 (a)(8) of the Bankruptcy Code. There are no taxes due to government agencies other than personal property tax due to Bartow County, Georgia , for which a claim has been settled in the amount of $23,130. In addition, the Internal Revenue Service filed a priority claim in the approximate amount of $745 and the claim was settled for such amount. The allowed amount of these priority claims, will be paid in full by the reorganized Company in the manner permitted by Section 1129(a)(9)(C) by payment, on account of such claims, of deferred cash payments over a period of six years after the earlier of the date of assessment of such claim or the Effective Date of the Plan, together with interest at the rate provided for in the United States Tax Code as of the date of such payments. The Effective Date is defined in the Plan as the date upon which the order confirming the Plan is final and no longer subject to an appeal.

SECURED DEBT

Secured debt consisted of the secured claim of NAN Investors, LP, the entity that loaned the Pre-Chapter 11 Company through a private placement the original amount of $3,500,000, of which, $2,760,000 was memorialized in two 12.5% convertible debentures. NAN was still owed, as of the filing date, the approximate sum of $800,000.00. The claim was secured by the assets of the Pre-Chapter 11 Company, pursuant to the blanket security interest granted NAN in 1998 to assure payment of the debt. In October, 1999 all of the assets of the Pre-Chapter 11 Company were surrendered to NAN in lieu of foreclosure and according to the Pre-Chapter 11 Company's management there were no assets remaining in the Company. The unsecured portion of the NAN debt, was determined to be $830,337.00 and was treated as general unsecured claim.

GENERAL UNSECURED DEBT

Unsecured Debt consisted of the holders of general unsecured claims against Nantucket arising from the operations of its business. There were general unsecured claims totaling $1,731,321 including the NAN investors unsecured debt (above). Holders of allowed general unsecured claims received in full settlement and satisfaction of their respective claims, receive 346,263 shares of common stock in the reorganized Company, one (1) share of stock in the reorganized Company per $5.00 of claim.

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PREFERRED STOCK

The Samberg Group were holders of 5,000 shares of preferred stock issued by the Company in 1995. The preferred stock had a liquidation preference of $200 pre share, for a total of $1,000,000 based upon the election of redemption rights approved in 1997. The preferred stock was issued in exchange for the investment of additional capital of $1,000,000 by the Samberg Group in 1994. The Samberg Group is comprised of Stephen M. Samberg, the former President and Chairman of the Board (1994 through 1998), Steven Sussman, Raymond Wathen, Robert R. Polen and the wife of Ronald Hoffman, all of whom are former officers of the Pre-Chapter 11 Company and/or members of its board.

The Plan provided that the holder of the stock issued and outstanding shares of preferred stock in the Pre-Chapter 11 Company would receive, in full settlement and satisfaction their liquidation preference and all other rights appurtenant to such shares, one (1) share of stock in the reorganized Company per $20.00 of liquidation preference they held. As a result, the Samberg Group received a total of 50,000 shares of common stock in the reorganized Company in full settlement and satisfaction of the redemption claims and all other claims based upon the preferred shares. The outstanding shares of preferred stock would be deemed null and void and shall be canceled of record.

COMMON STOCKHOLDERS

Consists of the holders of shares of common stock in the Company which were issued and outstanding. There were 3,241,848 shares of stock issued and outstanding and held by approximately 1,100 holders. The Plan provided for the preservation of their participation in the reorganized Company by issuing them new shares of stock in the reorganized Company at the rate of one (1) new share of stock in the reorganized Company per ten (10) shares of the currently issued stock held a total of 324,184. The current shares of stock would be deemed null and void and the shareholders are to turn in their present shares for cancellation.

In addition, all outstanding warrants and options to purchase stock and to convert debt to stock would be deemed null and void and canceled of record. These rights canceled included those rights granted to NAN Investors in conjunction with the private placement of 1996 of $3,500,000 by which NAN had the right to purchase Nantucket common stock at fixed prices.

EXTRAORDINARY GAIN ON DISCHARGE OF DEBT

The value of securities to be distributed under the Plan was less than the value of the allowed claims on and interests in the Company: