MEDIFAST INC

FORM 10QSB
(Quarterly Report of Financial Condition)

Filed 11/14/1997 For Period Ending 9/30/1997

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Industry	Food Processing
Sector	Consumer/Non-Cyclical
Fiscal Year	12/31

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

Form 10-QSB

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

For the quarter ended September 30, 1997 Commission File No. 0-23016

HealthRite, Inc.

(Exact name of small business issuer in its charter)

Delaware	13-3714405
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
711 Fifth Avenue, 14th Floor, New York, NY	10022
(Address of principal offices)	(Zip Code)

Registrant's telephone number, including Area Code: (212) 829-0900

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 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes [X] No [ ]

Number of shares outstanding of Registrant's Common Stock, as of November 11, 1997: 4,276,472 shares

Transitional Small Business Disclosure Format (check one). Yes [ ] No [X]

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CONDENSED CONSOLIDATED BALANCE SHEET

	September 30, 1997 (Unaudited)	December 31, 1996
ASSETS		
Current assets:		
Cash	$ 293,000	$ 286,000
Accounts receivable, net of allowance	1,807,000	1,573,000
Merchandise inventory	2,588,000	3,894,000
Prepaid expenses and other current assets	614,000	300,000
Deferred tax assets	241,000	176,000
Total Current Assets	5,543,000	6,229,000
Property, plant and equipment - net	2,778,000	3,589,000
Customer lists - net	-0-	113,000
Excess of purchase price over net assets acquired	-0-	474,000
Deferred design cost	558,000	718,000
Deferred tax asset	166,000	166,000
Other assets	67,000	162,000
TOTAL ASSETS	$ 9,112,000	$ 11,451,000
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Current maturities of long-term obligations	$ 769,000	$ 2,053,000
Accounts payable and accrued expenses	2,124,000	2,214,000
Total Current Liabilities	2,893,000	4,267,000
Long-term obligations and capital leases	911,000	861,000
Total Liabilities	3,804,000	5,128,000
Redeemable convertible 8% preferred stock; par value $.001; 2,000,000 authorized; 432,500 issued and outstanding	768,000	749,000
Stockholders' Equity		
Common stock; par value $.001 per share; 10,000,000 authorized; 4,276,472 issued at September 30, 1997 and 4,276,472 issued at December 31, 1996	4,000	4,000
Additional paid-in capital	6,916,000	6,934,000
Accumulated deficit	(2,380,000)	(1,364,000)
Total Equity	4,540,000	5,574,000
TOTAL LIABILITIES & STOCKHOLDER'S EQUITY	$ 9,112,000	$ 11,451,000

CONDENSED CONSOLIDATED STATEMENT OF OPERATIONS

(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	1997	1996	1997	1996
Revenue	$ 3,308,000	$ 4,379,000	$ 12,037,000	$ 12,684,000
Cost of sales, including warehousing distribution, and occupancy	2,212,000	2,369,000	7,478.000	7,080,000
Gross Profit	1,106,000	2,010,000	4,559,000	5,604,000
Selling, general, and administration	1,671,000	1,721,000	5,458,000	4,956,000
Cost of Consolidation Plan	0	0	0	388,000
Income/(Loss) from operations	(565,000)	289,000	(899,000)	260,000
Other Income/(Expenses)				
Interest, net	(28,000)	(60,000)	(179,000)	(179,000)
Other income/(expense)	(46,000)	4,000	77,000	38,000
Income (Loss) from operations before provision for income taxes	(639,000)	233,000	(1,001,000)	119,000
Provision (Benefit) for income taxes	(50,000)	(5,000)	(37,000)	(62,000)
Net Income/(Loss)	(589,000)	230,000	(964,000)	181,000
Less: Preferred stock accretion and dividend	(23,000)	9,000	(70,000)	9,000
Net Income (loss) attributable to common shareholders	$ (612,000)	$ 229,000	$ (1,034,000)	$ 172,000
Net Income (loss) per share	$ (0.14)	$ 0.05	$ (0.24)	$ 0.04
Weighted average shares outstanding	4,276,000	4,333,000	4,276,000	4,287,000

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
(Unaudited)

	Nine Months Ended September 30,	
	1997	1996
Cash Flow from Operating Activities:		
Net income/(loss)	$(1,034,000)	$ 336,000
Adjustment to reconcile net income to net cash provided by operating activities:		
Depreciation & amortization	585,000	662,000
Non-cash compensation	100,000	
Deferred tax asset	(109,000)	(146,000)
(Gain)/loss on asset sale	(70,000)	(11,000)
Changes in assets and liabilities:		
(Increase)/decrease in accounts receivable	(251,000)	(641,000)
(Increase)/decrease in inventory	32,000	(836,000)
(Increase)/decrease in prepaid expenses & other current assets	(401,000)	(62,000)
(Increase)/decrease in A/P and accrued expenses	(122,000)	354,000
Net Cash provided by Operating Activities	(1,370,000)	(244,000)
Cash Flow from Investing Activities:		
Proceeds from sale of assets	2,692,000	55,000
Purchase of equipment	(86,000)	(322,000)
Increase/(decrease) in other assets	5,000	(692,000)
Total Cash Flow from Investing Activities	2,611,000	(959,000)
Cash Flow from Financing Activities:		
Proceeds from debt	733,000	649,000
Payment of debt	(1,967,000)	(396,000)
Proceeds from sale of common/preferred stock	0	889,000
Net Cash provided by Financing Activities:	(1,234,000)	1,142,000
NET INCREASE/(DECREASE) IN CASH	7,000	(61,000)
Cash and cash equivalents at beginning of period	286,000	348,000
Cash and cash equivalents at end of period	293,000	286,000
Supplemental disclosure of cash flow information:		
Cash paid during the period for:		
Interest	179,000	179,000
Income Taxes	16,000	22,000
Total	$ 195,000	$ 201,000
Summary of noncash transactions		
Dividends and accretion on preferred stock	$ 70,000	$ 9,000

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

General

The information contained herein with respect to the three and nine month periods ended September 30, 1997 and 1996 has not been audited but was prepared in conformity with the accounting principles and policies described in the Registrant's Annual Report on Form 10-KSB for the year ended December 31, 1996. Included are the adjustments which in the opinion of management are necessary for a fair presentation of the financial information for the three and nine month periods ended September 30, 1997 and 1996. The results are not necessarily indicative of results to be expected for the year.

1. Financing

On June 20, 1997, the Registrant repaid outstanding bank debt of $1,275,000 from the proceeds of sale of the assets of the Vitamin Specialties Division (see "Disposition of Assets").

On October 15, 1997, Montana Naturals Int'l Inc. ("Montana Naturals") a wholly-owned subsidiary of the Registrant, closed a $4,500,000 bank credit agreement, comprising a $2,500,000 working capital loan and two fixed asset loans aggregating $2,000,000. A portion of the proceeds of the working capital loan, $750,000, was drawn down at closing to repay outstanding debt and to fund working capital. The loans are collateralized by all the assets of Montana Naturals and the credit agreement contains covenants restricting working capital advance rates to percentages of eligible receivables and inventory, and requires Montana Naturals to meet certain income, liquidity and capitalization ratios. The maturity date of the working capital loan is June 30, 2005 and on one of the fixed asset loans is June 30, 2005 and October 1, 2017 on the other. The loans are repayable in equal monthly installments over their respective lives commencing July 1998. The interest rate on outstanding loans is initially prime plus 1.25%, converting on June 30, 1998 to the treasury rate plus 3.5% corresponding to the loan term. These loans are in addition to the Montana Naturals loan from the Lake County Community Development Corporation (through the Montana Department of Commerce) in the principal amount of $450,000 which has been used to expand the Nautilus product line and to promote existing products.

During October 1997 the Registrant executed a commitment letter with a financial group in terms of which that group will provide up to $1,000,000 in asset-based financing to Jason Pharmaceuticals, Inc. ("Jason"), a wholly-owned subsidiary of the Registrant. The financing, which is expected to close during November, will be collateralized by all the assets of Jason and will provide working capital for Jason, primarily to finance its existing product line.

2. Disposition of Assets

On June 20, 1997, the Registrant sold its Vitamin Specialties line of business and all tangible and intangible assets associated therewith for approximately $2,692,000 in cash. The assets included all inventories, furniture, fixtures, and point of sales/systems in fifteen retail outlets operated by the Vitamin Specialties Division in the Philadelphia area, including the stores in New Jersey except the "store within a store" in the WalMart Supercenter in Lewistown, PA. Also included were the Vitamin Specialties inventories held in the Owings Mills, Maryland and Arlee, Montana warehouses. The assets sold or assigned included store cash on the day of closing, certain deposits on leased property, lease rights in the fifteen stores, goodwill, the name "Vitamin Specialties", trade secrets, copyrights, customer lists, mailing lists, permits and licenses in connection with the Vitamin Specialties Division. No liabilities were assumed by the purchaser.

Proceeds of $1,275,000 were used to pay outstanding debt by the Registrant and $105,000 to satisfy liens on the computer hardware and software of the Vitamin Specialties Division. The balance of the initial proceeds of $1,241,000 will be used by the Registrant as working capital. A Note Payable to the Registrant from the purchaser is due December 20, 1997 for $75,000 plus interest.

3. Sale of Convertible Preferred Stock

In August 1996, the Registrant sold 432,500 shares of 8% Convertible Preferred Stock due 2001 which generated gross proceeds of $865,000. The shares are convertible into the Registrant's common stock on the basis of one share of common for each share of convertible preferred stock. The proceeds were used to develop the Nautilus(R) brand products and for working capital.

Management Discussion and Analysis of Financial Condition and Results of Operations

Results of Operation

Nine Months Ended September 30, 1997 and September 30, 1996. Revenues decreased $647,000 or 5% over the same period in 1996. The decrease was attributable primarily to exclusion of the revenues of the Vitamin Specialties Division from the date of its divestiture, June 20, 1997 and had generated revenues of $1,038,000 in the third quarter of the prior year. This was partially offset by increased private label sales and sales of Nautilus(R) Brand products.

Cost of Sales, including warehousing, distribution, and occupancy increased by $398,000 or 6%, and as a percentage of revenues increased by 6% from 56% in 1996 to 62% in 1997. The increase as a percentage of revenues was primarily due to an increase of lower margin private label revenues and the Nautilus(R) Brand sales.

Selling, general and administrative expenses increased by $502,000 or 10%, and as a percentage of revenues increased 39% to 45% or 6% between 1996 and 1997. The increases are attributable to costs associated with introducing the Nautilus(R) Brand products line, upgrading the Vitamin Specialties line to meet future FDA labeling requirements and costs associated with terminating certain employees and reducing the employment term of the previous CEOand President, who became a consultant on August 13, 1997 and which expires December 31, 1997.

Interest expense was unchanged in 1997.

A benefit of $50,000 for income taxes has been accrued in 1997 compared to the $62,000 net benefit in 1996.

Arising from the above, a net loss of $1,034,000 was incurred in the first nine months of 1997 as compared to net income of $172,000 in the same period in 1996.

The Vitamin Specialties operation recorded cumulative losses of approximately $2,000,000 over the past three years. In 1997, Vitamin Specialties' losses amounted to $578,000.

PART II - OTHER INFORMATION

SEASONALITY

The Registrant believes that its business is not subject to significant seasonality.

LIQUIDITY AND CAPITAL RESOURCES

The Registrant believes that its working capital and anticipated cash flow from operations, together with the financing avaliable in the Montana Naturals bank line will be sufficient to meet the Registrant's anticipated working capital requirements for the foreseeable future.

INFLATION

To date, inflation has not had a material effect on the Registrant's business.

ITEM 5. OTHER INFORMATION

On August 13, 1997 the Registrant revised the employment agreement of Bradley T. MacDonald to reflect his resignation as CEO/President and a Director of the Registrant, and his employment as a consultant until December 31, 1997.

Signatures

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this Report to be signed on its behalf by the undersigned, thereunto duly authorized.

HealthRite Inc.
(Registrant)

David P. Illingworth
Co-Chief Operating Officer

John L. Teeger
Chief Financial Officer

ARTICLE 5

PERIOD TYPE	9 MOS
FISCAL YEAR END	DEC 31 1997
PERIOD END	SEP 30 1997
CASH	293,000
SECURITIES	0
RECEIVABLES	2,013,000
ALLOWANCES	(206,000)
INVENTORY	2,558,000
CURRENT ASSETS	5,543,000
PP&E	4,206,000
DEPRECIATION	1,428,000
TOTAL ASSETS	9,112,000
CURRENT LIABILITIES	2,893,000
BONDS	0
PREFERRED MANDATORY	0
PREFERRED	768,000
COMMON	4,000
OTHER SE	4,536,000
TOTAL LIABILITY AND EQUITY	9,112,000
SALES	12,037,000
TOTAL REVENUES	12,037,000
CGS	7,478,000
TOTAL COSTS	12,936,000
OTHER EXPENSES	0
LOSS PROVISION	0
INTEREST EXPENSE	179,000
INCOME PRETAX	(1,001,000)
INCOME TAX	(37,000)
INCOME CONTINUING	(423,000)
DISCONTINUED	(648,000)
EXTRAORDINARY	70,000
CHANGES	0
NET INCOME	(1,034,000)
EPS PRIMARY	(0.24)
EPS DILUTED	(0.24)

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