

**UNITED STATES BANKRUPTCY COURT
FOR THE DISTRICT OF DELAWARE**

In re Natrol, Inc. et al.

Case No.: 14-11446 (BLS)

Reporting Period: October 1, 2014 to October 31, 2014

MONTHLY OPERATING REPORT

File with Court and submit copy to United States Trustee within 20 days after end of month.

Submit copy of report to any official committee appointed in the case.

REQUIRED DOCUMENTS	Form No.	Document Attached	Explanation Attached	Affidavit/Supplement Attached
Schedule of Cash Receipts and Disbursements	MOR-1	X		
Bank Reconciliation (or copies of debtor's bank reconciliations)	MOR-1a			X
Schedule of Professional Fees Paid	MOR-1b	X		
Copies of bank statements				X
Cash disbursements journals				X
Statement of Operations	MOR-2	X		
Balance Sheet	MOR-3	X		
Status of Postpetition Taxes	MOR-4			X
Copies of IRS Form 6123 or payment receipt				
Copies of tax returns filed during reporting period				
Summary of Unpaid Postpetition Debts	MOR-4	X		
Listing of aged accounts payable	MOR-4	X		
Accounts Receivable Reconciliation and Aging	MOR-5	X		
Debtor Questionnaire	MOR-5	X		

I declare under penalty of perjury (28 U.S.C. Section 1746) that this report and the attached documents are true and correct to the best of my knowledge and belief.

Signature of Debtor

Date

Signature of Joint Debtor

Date

_____/s/ Jeffrey C. Perea
Signature of Authorized Individual*

_____/12 / 01 / 2014
Date

_____/Jeffrey C. Perea
Printed Name of Authorized Individual

_____/Chief Financial Officer
Title of Authorized Individual

* Authorized individual must be an officer, director or shareholder if debtor is a corporation; a partner if debtor is a partnership; a manager or member if debtor is a limited liability company.

In re Natrol, Inc. et al.

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Reporting Period: October 1, 2014 to October 31, 2014

GENERAL NOTES AND DISCLAIMER TO MONTHLY OPERATING REPORT

General: The report includes activities from the following Debtors and related case numbers:

<u>Case #</u>	<u>Debtor's Name</u>
14-11446	Natrol, Inc.
14-11447	Natrol Holdings, Inc.
14-11448	Natrol Products, Inc.
14-11449	Natrol Direct, Inc.
14-11450	Natrol Acquisition Corp.
14-11451	Prolab Nutrition, Inc.
14-11452	Medical Research Institute

The financial statements and supplemental information contained herein are unaudited, preliminary, and may not comply with generally accepted accounting principles ("GAAP") in all material respects. In addition, the financial statements and supplemental information contained herein is provided to fulfill the requirements of the Office of the United States Trustee and have been derived from the books and records of the Debtors.

The results of operations contained herein are not necessarily indicative of results that are expected from any other period or for the full year and are not reflective of the results of operations, financial position, and cash flow of the Debtors in the future.

Notes to MOR-1

Cash balances may be different from cash balance in Balance Sheet because Balance Sheet balance includes petty cash. Further, Bank of America #6219 balances are unreconciled and are subject to adjustment.

Despite that all disbursements are paid by Natrol, Inc., accounts payable are booked to the appropriate Debtor's general ledger and disbursements are allocated by Debtor in MOR-1 Continuation Sheet.

In lieu of bank reconciliations, bank and book balances are provided.

Notes to MOR-4

The accounts payable aging is presented at a consolidated level as of October 31, 2014.

Notes to MOR-5

The gross accounts receivable reconciliation and aging are presented at a consolidated level as of October 31, 2014.

In re Natrol, Inc. et al.
Debtor

Case No. 14-11446 (BLS)
Reporting Period: October 1, 2014 to October 31, 2014

MOR - 1
Receipts & Disbursements Report

	Chase #8671 (Depository Acc.)	City National #6908 (Depository Acc.)	City National #8196 (Disbursement Acc.)	City National #8161 (Payroll Acc.)	City National #9443 (Utilities Acc)	City National #9516 (Legal Settlement Acc.)	Chase #8630 (Positive Pay Acc.)	City National #8765 (Inactive)	Chase #8650 (Inactive.)	Bank of America #6219 (Inactive)	Total
Beginning Book Cash											
Opening Book Balance	\$ 562,432	\$ 2,160,963	\$ 112,801	\$ 87,143	\$ 24,000	\$ 2,000,000	\$ -	\$ -	\$ -	\$ 15,064	\$ 4,962,404
Receipts											
<i>Receipts</i>											
Receipts from Sales	\$ 200,587	\$ 8,005,412	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 8,205,998
Total Receipts	\$ 200,587	\$ 8,005,412	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 8,205,998
Receipts - Transferred from Other Debtor Acc.	\$ -	\$ 450,000	\$ 8,470,000	\$ 850,000	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 9,770,000
Miscellaneous Receipts											
Total Receipts	\$ 200,587	\$ 8,455,412	\$ 8,470,000	\$ 850,000	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 17,975,998
Disbursements											
<i>Disbursements</i>											
Raw Materials	-	-	(4,091,026)	-	-	-	-	-	-	-	(4,091,026)
Payroll and Related	-	-	(15,266)	(792,673)	-	-	-	-	-	-	(807,939)
Marketing	-	-	(399,129)	-	-	-	-	-	-	-	(399,129)
Insurance	-	-	(306,147)	-	-	-	-	-	-	-	(306,147)
Taxes, Permits, Licenses & Fees	-	-	(25,520)	-	-	-	-	-	-	-	(25,520)
Freight	-	-	(410,587)	-	-	-	-	-	-	-	(410,587)
Broker Commission	-	-	(177,970)	-	-	-	-	-	-	-	(177,970)
Rent & Utilities	-	-	(150,498)	-	-	-	-	-	-	-	(150,498)
SG&A	-	-	(211,630)	-	-	-	-	-	-	-	(211,630)
Bank Charge	(1,388)	(1,409)	-	(100)	-	-	-	-	-	-	(2,897)
Other	-	-	-	-	-	-	-	-	-	-	-
Voided Checks	-	-	5,432	-	-	-	-	-	-	-	5,432
Total Operating Disbursements	(1,388)	(1,409)	(5,782,341)	(792,773)	-	-	-	-	-	-	(6,577,911)
<i>Non-Operating Disbursements</i>											
Bankruptcy Related Professional Fees	-	-	(1,566,927)	-	-	-	-	-	-	-	(1,566,927)
Interest Expense	-	-	(1,110,326)	-	-	-	-	-	-	-	(1,110,326)
Capital Expenditures	-	-	-	-	-	-	-	-	-	-	-
US Trustee	-	-	(26,821)	-	-	-	-	-	-	-	(26,821)
Other Non-Operating	-	-	(11,488)	-	-	-	-	-	-	-	(11,488)
Total Non-Operating Disbursements	-	-	(2,715,561)	-	-	-	-	-	-	-	(2,715,561)
Operating Cash Flow	\$ 199,199	\$ 8,454,002	\$ (27,902)	\$ 57,227	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 8,682,526
Secured Loan Paydown	-	-	-	-	-	-	-	-	-	-	-
Transfer to Other Debtor Account	(450,000)	(9,320,000)	-	-	-	-	-	-	-	-	(9,770,000)
Net Cash Flow	(250,801)	(865,998)	(27,902)	57,227	-	-	-	-	-	-	(1,087,474)
Closing Book Balance											
Closing Book Balance	\$ 311,631	\$ 1,294,966	\$ 84,899	\$ 144,370	\$ 24,000	\$ 2,000,000	\$ -	\$ -	\$ -	\$ 15,064	\$ 3,874,930
Outstanding Checks	-	-	959,377	2,152	-	-	-	-	-	-	961,530
Ending Cash Balance (Bank)	\$ 311,631	\$ 1,294,966	\$ 1,044,276	\$ 146,522	\$ 24,000	\$ 2,000,000	\$ -	\$ -	\$ -	\$ 15,064	\$ 4,836,460
Total Disbursements											
Total Operating Disbursements	(1,388)	(1,409)	(5,782,341)	(792,773)	-	-	-	-	-	-	(6,577,911)
Non-Operating Disbursements	-	-	(2,715,561)	-	-	-	-	-	-	-	(2,715,561)
Secured Loan Paydown	-	-	-	-	-	-	-	-	-	-	-
Transfer to Operating Account	(450,000)	(9,320,000)	-	-	-	-	-	-	-	-	(9,770,000)
Less: Intercompany transfers	450,000	9,320,000	-	-	-	-	-	-	-	-	9,770,000
Total Disbursements	\$ (1,388)	\$ (1,409)	\$ (8,497,902)	\$ (792,773)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ (9,293,472)

In re Natrol, Inc. et al.
Debtor

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MOR - 1 Continuation Sheet
Schedule of Bank Account Balances

Entity	Bank	Account Number	Name/Type	Book Balance	Bank Balance
Natrol, Inc.	Chase	XXX8671	Depository Acc.	\$ 311,631	\$ 311,631
Natrol, Inc.	City National	XXX6908	Depository Acc.	1,294,966	1,294,966
Natrol, Inc.	City National	XXX8196	Disbursement Acc.	84,899	1,044,276
Natrol, Inc.	City National	XXX8161	Payroll Acc.	144,370	146,522
Natrol, Inc.	City National	XXX9443	Utilities Acc.	24,000	24,000
Natrol, Inc.	City National	XXX9516	Legal Settlement Acc.	2,000,000	2,000,000
Natrol, Inc.	Chase	XXX8630	Positive Pay Acc.	-	-
Natrol, Inc.	City National	XXX8765	Inactive	-	-
Natrol, Inc.	Chase	XXX8650	Inactive	-	-
Natrol, Inc.	Bank of America	XXX6219	Inactive	15,064	15,064
				\$ 3,874,930	\$ 4,836,460

Schedule of Disbursements by Legal Entity

Case #	Debtor's Name	Current Month Disbursements by Entity	Cumulative Disbursements for 4QTR 2014
14-11446	Natrol, Inc.	\$ 8,799,889	\$ 22,429,944
14-11447	Natrol Holdings, Inc.	-	-
14-11448	Natrol Products, Inc.	-	-
14-11449	Natrol Direct, Inc.	-	-
14-11450	Natrol Acquisition Corp.	-	-
14-11451	Prolab Nutrition, Inc.	19,412	38,859
14-11452	Medical Research Institute	474,172	1,089,811
		\$ 9,293,472	\$ 23,558,614

In re Natrol, Inc. et al.

Chapter 11

Debtor

Case No. 14-11446 (BLS)

MOR - 1 Continuation Sheet
Declaration Regarding the Cash Disbursement Schedule
For period October 1, 2014 to October 31, 2014

Jeffrey C. Perea hereby declares under penalty of perjury:

1. I am the Chief Financial Officer for Natrol, Inc. et al., the above-captioned debtors and debtors in possession (collectively, the "Debtors").
2. The Debtors submit this Declaration regarding cash disbursements in lieu of providing copies of the cash disbursement schedule.
3. All statements in the Declaration are based on my personal knowledge, my review of the relevant documents, or my discussions with Debtor's employees. I am authorized to submit this Declaration on behalf of the Debtors.
4. The Debtors have, on a timely basis, disbursed approximately \$9,293,472 for post-petition and allowable pre-petition amounts for the period October 1, 2014 to October 31, 2014. Copies of the cash disbursement schedules are available for inspection upon request by the Office of the United States Trustee.

Dated: 12/01/2014

Jeffrey C. Perea, Chief Financial Officer

/s/ Jeffrey C. Perea

In re Natrol, Inc. et al.

Chapter 11

Debtor

Case No. 14-11446 (BLS)

MOR - 1a
Declaration Regarding the Bank Reconciliations
For period October 1, 2014 to October 31, 2014

Jeffrey C. Perea hereby declares under penalty of perjury:

1. I am Chief Financial Officer for Natrol, Inc. et al., the above-captioned debtors and debtors in possession (collectively, the "Debtors"). I am familiar with the Debtors' day-to-day operations, business affairs and books and records.
2. All statements in the Declaration are based on my personal knowledge, my review of the relevant documents, or my discussions with Debtor's employees. I am authorized to submit this Declaration on behalf of the Debtors.
3. To the best of my knowledge, all of the Debtors' bank balances are reconciled in an accurate and timely manner.

Dated: 12/01/2014

Jeffrey C. Perea, Chief Financial Officer

/s/ Jeffrey C. Perea

In re Natrol, Inc. et al.
Debtor

Case No. 14-11446 (BLS)
Reporting Period: October 1, 2014 to October 31, 2014

MOR - 1b
SCHEDULE OF PROFESSIONAL FEES AND EXPENSES PAID

This schedule is to include all retained professional payments from case inception to current month.

	Amount Paid This Period	Cumulative Amount Paid
Professionals	Fees and Expenses	Fees and Expenses
Abelman, Frayne and Schwab	\$ -	\$ 2,775
BDO USA LLP	-	100,000
Carl Marks	89,450	89,450
Conway MacKenzie	77,037	755,865
Epiq Bankruptcy Solutions, LLC	165,219	230,236
DiJulio Law Group	48,318	48,318
Gibson Dunn & Crutcher LLP	162,099	329,783
GLC Advisors	133,960	133,960
Gronek & Associates	7,487	12,274
Hobart G. Truesdell	25,362	100,722
Karish & Bjorgum PC	1,000	5,139
Lender's Professionals	250,000	750,000
Miller Barodondess, LLP	20,602	238,833
Otterbourg P.C.	387,761	776,594
Pepper Hamilton LLP	-	28,903
Robinson Wettre & Miller LLC	4,088	4,088
Sacher, Zelman, Hartman, Paul, Beiley & Sacher, P.A.	29,896	54,880
Squar Milner	73,692	462,232
TaxGroup Partners Inc	3,327	45,502
Winthrop Couchot Professional Corporation	55,259	335,272
Young Conaway Stargatt & Taylor LLP	224,328	648,741
	\$ 1,758,884	\$ 5,153,564

In re Natrol, Inc. et al.
Debtor

Case No. 14-11446 (BLS)
Reporting Period: October 1, 2014 to October 31, 2014

MOR - 2
CONSOLIDATING STATEMENTS OF OPERATIONS
For the Month of October 2014

	Natrol, Inc.	Natrol Products, Inc.	Prolab Nutrition, Inc.	Medical Research Institute	Natrol Direct, Inc.	Elimination	Combined
Net Sales	\$ 2,001,742	\$ 7,758,048	\$ 153,944	\$ 566,715	\$ 32,487		\$ 10,512,936
Cost of goods sold	660,596	3,692,831	261,375	563,130	5,371		5,183,303
Gross profit	1,341,146	4,065,217	(107,431)	3,585	27,116		5,329,633
Operating expenses							
Selling and marketing expenses	(1,404,919)	3,943,818	28,411	268,121	-		2,835,431
General and administrative expenses	1,055,502	4,688	79,526	186,397	1,082		1,327,195
Total operating expenses	(349,417)	3,948,506	107,937	454,518	1,082		4,162,626
Operating income	1,690,563	116,711	(215,368)	(450,933)	26,034		1,167,007
Other income (expenses)							
Other income (expenses)	-	-	-	-	-		-
Interest expenses	(556,431)	-	2,374	4,037	-		(550,020)
Restructuring expenses	(1,938,150)	-	-	-	-		(1,938,150)
Income before income taxes	(804,018)	116,711	(212,994)	(446,896)	26,034		(1,321,163)
Income tax provision (benefit)	(317,265)	46,054	(84,047)	(176,346)	10,272		(521,332)
Net loss	\$ (486,753)	\$ 70,657	\$ (128,947)	\$ (270,550)	\$ 15,762		\$ (799,831)

In re Natrol, Inc. et al.
Debtor

Case No. 14-11446 (BLS)
Reporting Period: October 1, 2014 to October 31, 2014

MOR - 3
CONSOLIDATING BALANCE SHEETS
As of October 31, 2014

	Natrol, Inc.	Natrol Products, Inc.	Prolab Nutrition, Inc.	Medical Research Institute	Natrol Direct, Inc.	Elimination	Combined
Assets							
Current assets							
Cash and cash equivalents	\$ 3,879,641	\$ -	\$ -	\$ -	\$ -		\$ 3,879,641
Accounts receivable, net	10,369,227	-	1,423,364	761,603	-		12,554,194
Inventory	12,367,274	-	1,204,247	1,679,929	-		15,251,450
Income taxes receivable	6,187,263	7,000	1,287	(1,832,509)	-		4,363,041
Def. Tax Current portion	1,678,910	-	-	-	-		1,678,910
Prepaid expenses and other current assets	1,781,824	9,604	2,200	35,202	-		1,828,830
Total current assets	36,264,139	16,604	2,631,098	644,225	-	-	39,556,066
Property and equipment							
Machinery and equipment	6,702,331	-	158,501	678	-		6,861,510
Furniture and office equipment	2,293,933	-	2,669	10,602	-		2,307,204
	8,996,264	-	161,170	11,280	-		9,168,714
Accumulated depreciation and amortization	(7,372,477)	-	(161,170)	(9,496)	-		(7,543,143)
Total property and equipment, net	1,623,787	-	-	1,784	-	-	1,625,571
Deferred income taxes	417,222	-	-	1,395,421	-	-	1,812,643
Goodwill, net of accumulated amortization and impairment charges	19,458,686	-	2,025,815	-	-	-	21,484,501
Trademarks	11,897,670	-	-	-	-	-	11,897,670
Intangible assets, net of accumulated amortization	4,026,048	-	-	1,254,125	-	-	5,280,173
Notes receivable – related parties	1,290,193	-	802,360	157,576	-	-	2,250,129
Intercompany receivable, net	3,565,049	9,072,986	-	-	1,499,335	(14,137,370)	-
Other assets	36,304,555	-	2,144,174	336,645	-	-	38,785,374
Total assets	\$ 114,847,349	\$ 9,089,590	\$ 7,603,447	\$ 3,789,776	\$ 1,499,335	\$ (14,137,370)	\$ 122,692,127
Liabilities and Stockholders' Equity							
Current liabilities							
Accounts payable	\$ 4,571,099	\$ -	\$ 23,596	\$ 62,521	\$ -		\$ 4,657,216
Accounts payable-Liabilities subject to compromise	7,840,620	-	226,739	1,393,726	-		9,461,085
Accrued expenses	5,855,888	-	966,792	88,886	58		6,911,624
Accrued payroll and related liabilities	933,162	164,745	-	101,050	-		1,198,957
Total current liabilities	19,200,769	164,745	1,217,127	1,646,183	58	-	22,228,882
Long-term debt to Cerberus	69,499,897	-	-	-	-	-	69,499,897
Capital Lease	293,390	-	-	-	-	-	293,390
Intercompany payable, net	-	-	7,746,092	6,391,278	-	(14,137,370)	-
Total liabilities	\$ 88,994,056	\$ 164,745	\$ 8,963,219	\$ 8,037,461	\$ 58	\$ (14,137,370)	\$ 92,022,169
Commitments and contingencies							
Stockholders' equity							
Additional paid-in-capital	\$ 10,073,349	\$ 30,000	\$ 27,444,544	\$ 8,539,095	\$ 30		\$ 46,087,018
Accumulated deficit	15,808,388	8,894,845	(28,804,316)	(12,786,780)	1,499,247		(15,388,616)
Accumulated other comprehensive loss	(28,444)	-	-	-	-		(28,444)
Total stockholders' equity	\$ 25,853,293	\$ 8,924,845	\$ (1,359,772)	\$ (4,247,685)	\$ 1,499,277	\$ -	\$ 30,669,958
Total liabilities and stockholders' equity	\$ 114,847,349	\$ 9,089,590	\$ 7,603,447	\$ 3,789,776	\$ 1,499,335	\$ (14,137,370)	\$ 122,692,127

In re Natrol, Inc. et al.
Debtor

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MOR - 3 Continuation Sheet
BALANCE SHEET - continuation sheet

Other Assets

Deposits	\$ 26,960,343	[a]
Trade Credit	691,812	
Capitalized Loan Fees	4,911,107	
Accum. Amort. Loan	5,187,500	
Capitalized Interest	(2,144,045)	[b]
Net Receivable Natrol UK	3,178,657	
	<u>\$ 38,785,374</u>	

[a] The Debtors' books and records reflect an advance to Fabtech in the amount of \$25.0 million made in connection with the construction of four new production lines for the Debtors. The Debtors are evaluating the accounting for this matter and, upon completion of this evaluation, will make an appropriate amendment to MOR-3.

[b] Amount reflects an adjustment made, as a result of the audit of the Debtors' 2013 financial statements, to capitalize portion of interest expenses recorded in 2013 and 2014 that are attributable to the construction of four new production lines.

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MOR - 4
SUMMARY OF UNPAID POSTPETITION DEBTS

	<u>Amount</u>
Current	\$ 3,420,589
Past Due 1-30	407,352
Past Due 31-60	829,275
Past Due 61-90	-
Past Due Over 90	<u>-</u>
Total Gross Accounts Payable	<u><u>\$ 4,657,216</u></u>

In re Natrol, Inc. et al.

Chapter 11

Debtor

Case No. 14-11446 (BLS)

MOR - 4
Declaration Regarding Status of Postpetition Taxes
For period October 1, 2014 to October 31, 2014

Jeffrey C. Perea hereby declares under penalty of perjury:

1. I am the Chief Financial Officer for Natrol, Inc. et al., the above-captioned debtors and debtors in possession (collectively, the "Debtors"). I am familiar with the Debtors' day-to-day operations, business affairs and books and records.
2. All statements in the Declaration are based on my personal knowledge, my review of the relevant documents, or my discussions with Debtor's employees. I am authorized to submit this Declaration on behalf of the Debtors.
3. To the best of my knowledge, all of the Debtors have filed all necessary federal, state and local tax returns and made all required post-petition tax payments in connection therewith on a timely basis or have promptly remedied any late filing or payments that may have occurred due to unintentional oversight.

Dated: 12/01/2014

Jeffrey C. Perea, Chief Financial Officer

/s/ Jeffrey C. Perea

In re Natrol, Inc. et al.
Debtor

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MOR - 5
ACCOUNTS RECEIVABLE AGING

Accounts Receivable Aging	Amount
Current	\$ 12,558,428
1 - 30 days past due	3,773,995
31-60 days past due	504,612
61-90 days past due	1,373,301
Over 90 days past due	2,826,002
Total Gross Accounts Receivable	\$ 21,036,338
Less: allowance for doubtful accounts, reserves, and returns	(8,482,144)
Accounts Receivable (Net)	\$ 12,554,194

DEBTOR QUESTIONNAIRE

Must be completed each month	Yes	No
1. Have any assets been sold or transferred outside the normal course of business this reporting period? If yes, provide an explanation below.	X	
2. Have any funds been disbursed from any account other than a debtor in possession account this reporting period? If yes, provide an explanation below.		X
3. Have all postpetition tax returns been timely filed? If no, provide an explanation below.	X	
4. Are workers compensation, general liability and other necessary insurance coverages in effect? If no, provide an explanation below.	X	
5. Has any bank account been opened during the reporting period? If yes, provide documentation identifying the opened account(s). If an investment account has been opened provide the required documentation pursuant to the Delaware Local Rule 4001-3.		X

Question 1 Explanation

Pursuant to *ORDER (I) APPROVING AND AUTHORIZING: (A) BUYOUT OF AUTOMOBILE LEASE, (B) PRIVATE SALE OF AUTOMOBILE, (C) ALLOWANCE OF INDEMINITOR CLAIM, AND (D) SUBSEQUENT REJECTION OF AUTOMOBILE LEASE; AND (II) GRANTING RELATED RELIEF* (Docket No. 603), the Debtors bought out an automobile lease and subsequently effectuated a sale of the automobile during October 2014. The Debtors' obligations under the automobile lease were completely satisfied and no further claim or recourse will be asserted against the Debtors and their estates by the automobile lessor.