FORM 10-K/A

Annual report pursuant to section 13 and 15(d) [amend]

Filing Date: **1997-07-24** | Period of Report: **1996-12-31**
SEC Accession No. 0001005477-97-001904

(HTML Version on secdatabase.com)

FILER

NORLAND MEDICAL SYSTEMS INC

CIK:**946428**| IRS No.: **061387931** | State of Incorp.:**DE** | Fiscal Year End: **1231**
Type: **10-K/A** | Act: **34** | File No.: **000-26206** | Film No.: **97645027**
SIC: **3826** Laboratory analytical instruments

Mailing Address
106 CORPORATE PARK DRIVE
SUITE 106
WHITE PLAINS NY 10604

Business Address
106 CORPORATE PARK DRIVE
SUITE 106
WHITE PLAINS NY 10604
914-694-2285

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

FORM 10-K/A

Annual Report Pursuant to Section 13 or 15(d) of
The Securities Exchange Act of 1934

For the fiscal year ended December 31, 1996 Commission File No. 0-26206

NORLAND MEDICAL SYSTEMS, INC.
(Exact name of registrant as specified in its charter)

Delaware	06-1387931
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
106 Corporate Park Drive, Suite 106, White Plains, NY	10604
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number, including area code: (914) 694-2285

Securities registered pursuant to Section 12(b) of the Act:

None

Securities registered pursuant to Section 12(g) of the Act:

Common Stock, par value $0.0005 per share

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 |_|

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K |_|

The aggregate market value of the registrant's Common Stock, par value $0.0005 per share, held by non-affiliates of the registrant as of March 21, 1997 was $23,555,584 based on the price of the last reported sale on the NASDAQ National Market.

As of March 21, 1997 there were 7,148,531 shares of the registrant's Common Stock, par value $0.0005 per share, outstanding.

This Form 10-K/A Report amends the Form 10-K Report filed by the Registrant with the Securities and Exchange Commission on March 31, 1997, as amended by Forms 10-K/A filed on April 30, 1997, May 6, 1997, June 18, 1997 and July 10, 1997, respectively (as so amended, the "Original Report"). Items 6 and 8 of the Original Report are amended and restated in their entirety to read as set forth below. This amendment also amends Exhibit 27, the Financial Data Schedule, to conform the information contained therein to the other amendments made by this Form 10-K/A Report.

ITEM 6. SELECTED FINANCIAL DATA.

The Company was formed in December 1993 to market, sell and service a range of diagnostic products that address selected needs in women's healthcare. It began operations in January 1994 as the exclusive distributor throughout much of the world for the bone densitometry products developed and manufactured by the Manufacturers. Both Manufacturers are subsidiaries of NMS BV. Certain of the Company's stockholders control NMS BV. The Company has no ownership interest in NMS BV. Under the Distribution Agreement with the Manufacturers, the Company (i) has rights to exclusive worldwide distribution of all medical diagnostic products manufactured or developed by Norland Corp. or Stratec (subject, at the present time, to Stratec's right to distribute its own products in Germany until the Company elects to take over such distribution) and (ii) with certain exceptions, may not distribute products manufactured by any non-affiliate of the

Company that directly compete with their products. The Distribution Agreement has an initial term ending December 31, 2015, with rights to extend for successive five-year periods.

During 1992 and 1993, Ostech B.V. ("OBV"), a subsidiary of NMS BV, served as exclusive distributor of Norland Corp.'s products for all locations outside the U.S., Canada and Switzerland and of Stratec's products for all locations outside Germany and Switzerland. Some of the former officers and employees of OBV are officers and employees of the Company. OBV's financial information for the periods ended December 31, 1992 and 1993 is presented for comparative purposes. OBV ceased all business activities at the end of 1993.

The following financial data as of and for the periods ended December 31, 1992, 1993, 1994, 1995 and 1996 were derived from (i) the Company's financial statements for the years 1994, 1995 and 1996, which were audited by Coopers & Lybrand L.L.P., (ii) the financial statements of OBV for the year 1993, which were audited by Schweizerische Treuhandgesellschaft-Coopers & Lybrand AG, and (iii) the financial statements of OBV for the period from April 1, 1992 (date of commencement of operations) through December 31, 1992, which were audited by Deloitte & Touche Registeraccountants. The financial data should be read in conjunction with the audited financial statements of the Company and notes thereto, which are included at Item 8 of this Report, and with "Management's Discussion and Analysis of Financial Condition and Results of Operations" at Item 7 of this Report.

<TABLE>
<CAPTION>

	Ostech B.V.		Norland Medical Systems, Inc.		
	Period from April 1, 1992 to December 31,	Year Ended December 31,			
	1992	1993	1994	1995	1996
Statement of Income (Loss) Data:					
<S>	<C>	<C>	<C>	<C>	<C>
Revenue	$ 4,094,964	$ 5,488,095	$ 10,041,548	$ 18,243,808	$ 25,309,977
Cost of revenue	3,118,925	4,066,539	6,517,701	12,508,809	16,248,469
One-time distribution agreement costs	0	0	1,922,247	0	0
Gross profit	976,039	1,421,556	1,601,600	5,734,999	9,061,508
Sales and marketing expense	747,292	1,068,197	973,208	1,651,125	3,605,666
General and administrative expense	183,219	399,449	526,364	960,368	2,570,212
Income (loss) from operations	45,528	(46,090)	102,028	3,123,506	2,985,630
Liquidation loss - net	0	(326,007)	0	0	0
Other income (expense)	47,105	(13,760)	(6,984)	412,983	703,744
Income (loss) before taxes	92,633	(385,857)	95,044	3,536,489	3,689,374
Provision for taxes	9,629	60	27,000	1,436,000	1,498,000
Net income (loss)	$ 83,004	$ (385,917)	$ 68,044	$ 2,100,489	$ 2,191,374
Earnings per share(1)	--	--	$ 0.02	$ 0.40	$ 0.31
Weighted average number of s common shares outstanding(1)	--	--	4,002,000	5,248,184	7,168,871

<CAPTION>

	As of December 31,		
	1994	1995	1996
<S>	<C>	<C>	<C>
Balance Sheet Data:			
Working capital..........................	$ 68,044	$ 20,326,055	$ 17,935,923
Total assets.............................	2,751,929	24,706,377	30,243,378
Long-term debt...........................	0	0	0
Stockholders' equity.....................	68,044	20,520,846	26,520,865

</TABLE>

----

(1) Reflects the 2,000-for-1 split of the Common Stock in June 1995 and a

restatement for a three-for-two stock split of the Common Stock in June 1996.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA.

CONSOLIDATED FINANCIAL STATEMENTS

INDEX

	Page
Report of Independent Accountants	6
Financial Statements:	
Consolidated Balance Sheets as of December 31, 1996 and 1995	7
Consolidated Statements of Income for the years ended December 31, 1996, 1995 and 1994	8
Consolidated Statements of Changes in Stockholders' Equity for the years ended December 31, 1996, 1995 and 1994	9
Consolidated Statements of Cash Flows for the years ended December 31, 1996, 1995 and 1994	10
Notes to Consolidated Financial Statements	12-24
Financial Statement Schedule:	
Valuation and Qualifying Accounts	25

REPORT OF INDEPENDENT ACCOUNTANTS

To the Board of Directors of
Norland Medical Systems, Inc.:

We have audited the accompanying consolidated financial statements and the financial statement schedule of Norland Medical Systems, Inc. (formerly Ostech, Inc.) listed in the index on page 29 of this Form 10-K. 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.

We conducted our audits in accordance with generally accepted auditing standards. 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.

The Company, as disclosed in the financial statements, has extensive transactions and relationships with related parties. Because of these relationships, it is possible that the terms of these transactions are not the same as those that would result from transactions among wholly unrelated parties.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Norland Medical Systems, Inc. as of December 31, 1996 and 1995, and the results of its operations and its cash flows for the years ended December 31, 1996, 1995 and 1994 in conformity with generally accepted accounting principles. In addition, in our opinion, the financial statement schedule referred to above, when considered in relation to the basic financial statements taken as a whole, presents fairly, in all material respects, the information required to be included therein.

COOPERS & LYBRAND L.L.P.

Hartford, Connecticut
March 5, 1997

NORLAND MEDICAL SYSTEMS, INC.

CONSOLIDATED BALANCE SHEETS

December 31, 1996 and 1995

ASSETS

<TABLE>
<CAPTION>

<S>	1996 <C>	1995 <C>
Current assets:		
Cash and cash equivalents	$ 8,133,468	$ 19,218,865
Investment (Note 3)	1,949,039	--
Accounts receivable, net (Note 4)	9,182,488	4,571,520
Income taxes recoverable	794,285	--
Inventories (Note 5)	616,865	652,212
Officers' loans receivable (Note 6)	581,704	--
Current portion of product development loan receivable-- affiliate (Note 7)	38,685	--
Prepaid expenses and other current assets	361,902	68,989
Total current assets	21,658,436	24,511,586
Demonstration systems inventory, net (Note 8)	1,234,848	146,272
Investment in Vitel, Inc. (Note 1)	260,000	--
Property and equipment, net (Note 9)	406,375	--
Product development loan receivable - affiliate (Note 7)	251,100	48,519
Goodwill, net (Notes 10 and 11)	3,183,961	--
Other intangible assets, net (Notes 10 and 11)	3,248,658	--
Total assets	$ 30,243,378	$ 24,706,377
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable - Norland (Note 12)	$ 2,220,816	$ 493,424
Accounts payable - Stratec (Note 12)	714,127	1,959,403
Accounts payable - trade	81,416	32,000
Accrued expenses	658,304	361,003
Income taxes payable	--	1,305,037
Customer deposits	47,850	34,664
Total current liabilities	3,722,513	4,185,531
Stockholders' equity (Note 13):		
Common stock, par value of $0.0005 per share - 10,000,000 shares authorized, 6,904,781 shares issued and outstanding	3,452	3,000
Additional paid-in capital	22,158,170	18,349,813
Retained earnings	4,359,243	2,168,033
Total stockholders' equity	26,520,865	20,520,846
Total liabilities and stockholders' equity	$ 30,243,378	$ 24,706,377

</TABLE>

The accompanying notes are an integral part of the financial statements.

NORLAND MEDICAL SYSTEMS, INC.

CONSOLIDATED STATEMENTS OF INCOME

for the years ended December 31, 1996, 1995 and 1994

	1996	1995	1994
Revenue (including sales to affiliates of $562,108, $889,982 and $631,523 in 1996, 1995 and 1994, respectively)	$ 25,309,977	$ 18,243,808	$ 10,041,548
Cost of revenue	16,248,469	12,508,809	6,517,701
One-time distribution agreement costs (Note 2)	--	--	1,922,247
Gross profit	9,061,508	5,734,999	1,601,600
Sales and marketing expense	3,505,666	1,651,125	973,208
General and administrative expense (including an overhead charge from an affiliate of $33,136, $22,360 and $150,000 in 1996, 1995 and 1994, respectively)	2,570,212	960,368	526,364
Operating income	2,985,630	3,123,506	102,028
Other income (expense):			
Interest income	720,851	443,653	--
Other expense	(17,107)	(30,670)	(6,984)
	703,744	412,983	(6,984)
Income before income taxes	3,689,374	3,536,489	95,044
Provision for income taxes (Note 15)	1,498,000	1,436,000	27,000
Net income	$ 2,191,374	$ 2,100,489	$ 68,044
Net income per common share	$ 0.31	$ 0.40	$ 0.02

The accompanying notes are an integral part of the financial statements.

NORLAND MEDICAL SYSTEMS, INC.

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
for the years ended December 31, 1996, 1995 and 1994

	Total	Shares	Common Stock	Paid-In Capital
Issuance of 1,000 shares of common stock	$ -	1,000	$ 10	$ 990
2,000-for -1 stock split on June 2, 1995 (Note 13)	-	1,999,000	990	(990)
3-for-2 stock split on June 14, 1996 (Note 13)	-	1,000,000	500	-
Net income	68,044	-	-	-
Balance as of December 31, 1994	68,044	3,000,000	1,500	-
Proceeds from common stock subscription	1,000	-	-	-
Issuance of 2,000,000 shares of common stock on August 2, 1995, net of cost and expenses directly related to the offering (Note 13)	18,351,313	2,000,000	1,000	18,350,313
3-for-2 stock split on June 14, 1996 (Note 13)	-	1,000,000	500	(500)
Net income	2,100,489	-	-	-

Balance as of December 31, 1995	$ 20,520,846	6,000,000	$ 3,000	$ 18,349,813
Issuance of shares for stock options exercised	292	743,250	371	(79)
Issuance of shares to acquire Dove Medical Systems	3,311,519	161,538	81	3,311,438
Cost and expenses directly related to stock offering	(3,002)	-	-	(3,002)
Cash paid in lieu of fractional shares on 3-for-2 split on June 14, 1996	(164)	(7)	-	-
Tax benefit related to stock options (Note 1)	500,000	-	-	500,000
Net income	2,191,374	-	-	-
Balance as of December 31, 1996	$ 26,520,865	6,904,781	$ 3,452	$ 22,158,170

<CAPTION>

<S> <C> <C>

	Stock Subscriptions	Retained Earnings
Issuance of 1,000 shares of common stock	$ (1,000)	$ -
2,000-for -1 stock split on June 2, 1995 (Note 13)	-	-
3-for-2 stock split on June 14, 1996 (Note 13)	-	(500)
Net income	-	68,044
Balance as of December 31, 1994	(1,000)	67,544
Proceeds from common stock subscription	1,000	-
Issuance of 2,000,000 shares of common stock on August 2, 1995, net of cost and expenses directly related to the offering (Note 13)	-	-
3-for-2 stock split on June 14, 1996 (Note 13)	-	-
Net income	-	2,100,489
Balance as of December 31, 1995	$ -	$ 2,168,033
Issuance of shares for stock options exercised	-	-
Issuance of shares to acquire Dove Medical Systems	-	-
Cost and expenses directly related to stock offering	-	-
Cash paid in lieu of fractional shares on 3-for-2 split on June 14, 1996	-	(164)
Tax benefit related to stock options (Note 1)	-	-
Net income	-	2,191,374
Balance as of December 31, 1996	$ -	$ 4,359,243

</TABLE>

The accompanying notes are an integral part of the financial statements.

NORLAND MEDICAL SYSTEMS, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

for the years ended December 31, 1996, 1995 and 1994

<TABLE>
<CAPTION>

<S> <C> <C> <C>

	1996	1995	1994
Cash flows from operating activities:			
Net income	$ 2,191,374	$ 2,100,489	$ 68,044
Adjustments to reconcile net income to net cash used in operating activities:			
Provision for doubtful accounts	70,000	150,000	-
Amortization expense	343,666	17,415	-
Depreciation expense	59,276	-	-
Changes in:			
Accounts receivable	(4,546,794)	(2,849,826)	(1,872,494)
Inventories	(946,088)	(815,899)	-
Prepaid expenses and other current assets	(275,699)	(47,639)	(21,350)

Accounts payable	373,589	1,096,022	1,388,805
Accrued expenses	148,968	314,276	46,727
Income taxes	(1,599,322)	1,278,037	27,000
Customer deposits	(6,314)	(83,336)	118,000
Total adjustments	(6,378,718)	(940,150)	(313,312)
Net cash (used in) provided by operating activities	(4,187,344)	1,160,339	(245,268)
Cash flows from investing activities:			
Payment for purchase of stock and certain intangible assets of Dove Medical Systems, net of cash acquired	(3,432,937)	-	-
Investment in Vitel, Inc.	(260,000)	-	-
Purchases of property and equipment	(430,233)	-	-
Loans to officers	(1,099,211)	-	-
Repayment of loans to officers	517,507	-	-
Purchase of investment	(1,949,039)	-	-
Product development loan to affiliate	(241,266)	(48,519)	-
Net cash used in investing activities	(6,895,179)	(48,519)	-
Cash flows from financing activities:			
Proceeds from stock options exercised	292	-	-
Costs and expenses of issuing common stock	(3,002)	-	-
Cash paid for fractional shares	(164)	-	-
Proceeds from issuance of common stock, net	-	18,351,313	-
Proceeds from common stock subscriptions	-	1,000	-
Notes payable to stockholders	-	(750,000)	750,000
Stockholder advances	-	(50,000)	50,000
Net cash (used in) provided by financing activities	(2,874)	17,552,313	800,000
Net (decrease) increase in cash	(11,085,397)	18,664,133	554,732
Cash and cash equivalents at beginning of year	19,218,865	554,732	-
Cash and cash equivalents at end of year	$ 8,133,468	$ 19,218,865	$ 554,732

</TABLE>

NORLAND MEDICAL SYSTEMS, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

for the years ended December 31, 1996, 1995 and 1994

Noncash investing and financing activities:

The $18,351,313 net proceeds of the initial public offering in 1995 represents the $21,000,000 of gross proceeds less the costs and expenses directly related to the offering of $2,648,687.

During 1994, the Company issued common stock having an aggregate par value of $1,000 in return for stock subscriptions receivable of $1,000.

Cash paid for:

	1996	1995	1994
Income taxes	$3,097,322	$ 157,963	$ 0
Interest	$ 0	$ 10,342	$ 0

The Company purchased all of the outstanding shares of Dove Medical Systems and certain intangible assets for $3,600,000 in cash and 161,538 shares of Company Common Stock valued at $3,311,529. In conjunction with the acquisition, the Company assumed $325,774 in liabilities.

The accompanying notes are an integral part of the financial statements.

NORLAND MEDICAL SYSTEMS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

I. Summary of Significant Accounting Policies:

Company's Activities

Norland Medical Systems, Inc. ("NMS" or the "Company") distributes devices which aid in the detection and monitoring of bone diseases, and in the assessment of the effect of existing and potential therapies for the treatment of such diseases throughout the world to hospitals, clinics, research institutions, pharmaceutical companies and individual practitioners. The Company primarily sells through medical product distributors.

Corporate Structure

NMS was incorporated on December 21, 1993 as Ostech, Inc. and commenced operations January 1, 1994 as the exclusive marketer and distributor of certain medical products and technologies of Norland Corporation (U.S.) ("Norland Corp.") and Stratec Medizintechnik GmbH (Germany) ("Stratec"). On April 2, 1996, the Company acquired Dove Medical Systems (U.S.) ("Dove"), a manufacturer of low-cost bone densitometry systems. Dove is a wholly-owned subsidiary, and as a result, all intercompany activities have been eliminated in consolidation.

Both Norland Corp. and Stratec are wholly-owned subsidiaries of Norland Medical Systems B.V. (Netherlands). Certain shareholders of NMS are shareholders of Norland Medical Systems B.V. and own 91.2% of that company. Nissho Iwai Corporation ("Nissho Iwai"), a major customer of NMS, and its affiliate own the remaining 8.8% of Norland Medical Systems B.V.

Revenue and Cost Recognition

NMS purchases merchandise and services from Norland Corp. and Stratec (the "manufacturers") on the basis of sales orders in hand. NMS invoices customers and is invoiced by the manufacturers when the product is shipped. Revenue is recognized at the time of shipment. Management believes the gross profit recognized by NMS materially approximates that which would have been realized had the Company used unaffiliated suppliers.

Costs for returns and exchanges are borne by the respective manufacturer. The manufacturers offer one-year warranties on both the hardware and software included in their systems. The Company provides warranty services on behalf of Norland Corp. and Stratec. The Company invoices Norland Corp. and Stratec for the costs of performing such warranty services.

The Company has no obligations to provide any other services to any of its sub-distributors or their customers.

Cash and Cash Equivalents

For purposes of the statements of cash flows, the Company considers all highly liquid debt instruments purchased with a maturity of three months or less at the date of purchase to be cash equivalents. The Company had no such instruments at year end and the cash balances reflect only cash in the Company's bank accounts, a short-term time deposit and investments in money market mutual funds.

Investments

Investments consist of a debt security issued by the U.S. Treasury Department. The Company classifies such debt security as held-to-maturity. Held-to-maturity securities are those securities in which the Company has the ability and intent to hold the security until maturity.

Held-to-maturity securities are recorded at amortized cost, adjusted for the amortization of accretion of premiums or discounts. Premiums and discounts are amortized or accredited over the life of the related security as an adjustment to yield using the straight-line method, which approximates the effective interest method. Interest income is recognized when earned.

The Company has a minority interest in Vitel, Inc. (Texas) that is accounted for according to the cost method.

Inventory

Systems used in the Company's short-term rental program are carried in inventory at the lower of cost or net realizable value until the time of sale.

Inventories are stated at the lower of cost or market; cost is determined principally by the first-in, first-out method.

Demonstration Systems Inventory

The Company maintains an inventory of demonstration systems used for marketing and customer service purposes. Such systems are carried at the lower of cost or net realizable value until the time of sale. From time to time, the Company may judge it desirable for marketing purposes to provide a device to a prominent scientist or research institution specializing in the study of bone disease. In such cases, the Company will carry the device in demonstration systems inventory at cost less amortization expense calculated on a straight-line basis over thirty-six months.

Property and Equipment

Machinery, equipment, furniture and fixtures are recorded at cost and are depreciated using the straight-line method over three to five years. Leasehold improvements are amortized over the lesser of the remaining life of the lease or ten years.

Intangible Assets

Intangible assets consist of a patent and the excess of cost over the fair value of net assets acquired in connection with the purchase of Dove and certain assets that were licensed to Dove. The patent is being amortized using the straight-line method over the remaining patent period which is ten years as of the date of its acquisition. The excess of cost over the fair value of net assets acquired and other intangible assets are being amortized using the straight-line method over twenty years.

Management evaluates on an ongoing basis whether events or changes in circumstances exist that would indicate the carrying value of the Company's intangible assets may not be recoverable. Should there be an indication of impairment in the value of its intangible assets, management would estimate the future cash flows expected to result from the use of the assets and their eventual disposition and recognize a specific provision against such assets if the aggregate nominal estimated future cash flows are less than the carrying value of the assets. In considering whether events or changes in circumstances exit, management assesses several factors, including a significant change in the extent or manner in which the assets are used, a significant adverse change in legal factors or in the business climate that could affect the value of the assets, an adverse action or assessment of a regulator, and a current period operating or cash flow loss combined with a history of operating or cash flow losses or a projection or forecast that demonstrates continuing losses associated with such assets.

Income Taxes

The Company accounts for income taxes under Statement of Financial Accounting Standards (SFAS) No. 109. Under SFAS No. 109, deferred income taxes are recognized for the tax consequences of "temporary differences" by applying enacted statutory tax rates applicable to future years to differences between the financial statement carrying amounts and the tax bases of existing assets and liabilities. The effect of a change in tax rates on deferred taxes is recognized in income in the period that includes the enactment date. The Company realizes an income tax benefit from the exercise of certain stock options or the early disposition of stock acquired upon exercise of certain options. This benefit results in an increase in income taxes recoverable and an increase in additional paid in capital.

Net Income Per Common Share

Primary income per share is calculated by dividing net income by the average shares of common stock and common stock equivalents outstanding during the period. Common stock equivalents are stock options, which have been included using the treasury stock method only when their effect is dilutive. Fully diluted income per share is not presented as it is not materially different from primary income per share.

The average common and common equivalent shares issued and under option was 7,168,871 shares, 5,248,184 shares and 4,002,000 shares for the years ended December 31, 1996, 1995 and 1994, respectively.

In February 1997, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 128, "Earnings Per Share" (SFAS 128), which is effective for the Company's year ending December 31, 1997. The Company is currently evaluating the expected impact of this statement on its financial statements.

Concentration of Credit Risk

The Company generally sells on either sixty day terms or against irrevocable letters of credit. Any financing of the end user is the decision of, and dependent on, the distributor in each country. At December 31, 1996, 1995 and 1994, the largest balance, 18%, 58% and 42%, respectively, of the total outstanding trade receivables, was owed by a single distributor.

Management Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Foreign Exchange Exposure

All of the Company's purchases and sales of products and services are made in U.S. dollars. As a result, the Company has minimal exposure to foreign exchange risk in the short-term. However, a significant portion of the Company's products are supplied by Stratec and sold along with Norland Corp. products into foreign markets. Any significant and lasting change in the exchange rates between the U.S. dollar and the currencies of those countries could have a material effect on both the costs and sales of those products and services.

2. Distribution Agreement:

In 1994, the Company entered into exclusive distribution agreements with Norland Corp. and Stratec. The invoice prices from Norland Corp. and Stratec to NMS were determined by using a pricing formula whereby the margin retained by NMS was equal to one-half of the difference between the price at which the product was sold to the distributor or end user and the direct cost of material, parts and labor of Norland Corp. or Stratec.

The agreement with Norland Corp. provided that in 1994 the Company would purchase a minimum of $5,200,000 of products and services during the first year of the agreement, irrespective of the pricing formula described above. If the minimum purchase requirement had not been in effect for the first year of this distribution agreement, the total purchases by the Company of products and services from Norland Corp. would have been $3,277,753. The excess of $1,922,247 paid by the Company over the pricing formula was, based on its materiality, charged to operations as a separate line item for fiscal 1994.

Effective April 1, 1995, the Company entered into a new distribution agreement with Norland Corp. and Stratec which expires December 31, 2015. The pricing formula in the new agreement was essentially the same as in the 1994 agreement. This agreement may be renewed for an indefinite number of successive five-year terms and contains no purchase obligation on the part of NMS. Under this agreement, the Company may not distribute devices manufactured by any non-affiliate of the Company which compete directly with the devices obtained from the manufacturers (except for devices using ultrasound technology).

The distribution agreement was amended in 1996 to change the pricing formula. The amended pricing formula became effective as of October 1, 1996 with respect to Norland Corp. products and as of December 1, 1996 with respect to Stratec products. Under the amended pricing formula, NMS pays Norland Corp. and Stratec an amount for each system equal to the aggregate costs of the components and parts used in the system plus the actual labor costs plus an agreed upon markup on the costs of all non-computer components. The manufacturers are also entitled to receive royalties equal to 5% of the price for which NMS sells certain devices. In the case of Norland Corp., the royalty will apply to all new systems manufactured by Norland Corp. (i.e., any system other than the pDEXA, the Eclipse and the XR-36). In the case of Stratec, the royalty applies to any system manufactured by Stratec which uses pQCT technology. If the aggregate amount payable by NMS to the manufacturers for a year under the amended pricing formula would exceed the aggregate amount payable under the original pricing formula, then the original pricing formula will apply. The amended pricing formula will be in effect until December 31, 1997. It will be automatically renewed

with respect to each manufacturer for successive one year periods, unless such manufacturer elects to terminate the amended pricing formula effective on December 31 of any year by notice given to NMS not less than 90 nor more than

180 days prior to the end of such year.

3. Investment:

At December 31, 1996, the Company's investment in a U.S. Treasury bill, which matures on June 19, 1997, had an amortized cost of $1,949,039 and a fair value of $1,952,727, with a resulting unrealized gain of $3,688.

4. Accounts Receivable:

Accounts receivable at December 31 were as follows:

	1996	1995
Accounts receivable	$9,403,488	$4,721,520
Less allowance for doubtful accounts	221,000	150,000
	$9,182,488	$4,571,520

NMS does not currently distribute Stratec products in Germany. Those products are distributed directly by Stratec through its own sales organization. Prior to June 1, 1996, Stratec acted as NMS' subdistributor for Norland Corp. products in Europe and the Middle East. The amounts owed by Stratec to NMS for Norland Corp. products at December 31, 1996 and 1995 were $62,689 and $180,253, respectively (See Note 11).

During 1996, 1995 and 1994, the Company sold $210,785, $889,982 and $631,523, respectively, of products and services to Stratec and $351,323, $0 and $0, respectively, of products and services to Norland Corp.

5. Inventories:

Inventories consist of the following as of December 31:

<TABLE>
<CAPTION>

<S>	1996 <C>	1995 <C>
Raw materials, product kits, spare parts and sub-assemblies	$377,373	$583,264
Work in progress	18,044	-
Rental systems	155,174	68,948
Finished goods	108,169	-
Obsolescence reserve	(41,895)	-
	$ 616,865	$652,212

</TABLE>

6. Officers' Loans Receivable:

In September 1996, the Company loaned $80,000 to its Chief Financial Officer (CFO) to assist with relocation of his residence. The loan to the CFO is payable in full in September 1997, including interest which accrues at 6% per annum. The balance of the loan, including interest, was $81,704 at December 31, 1996.

In August 1996, the Company agreed to lend up to $2,500,000 to its President until December 31, 1997 at an annual interest rate of 6% to assist with tax liabilities in connection with stock option exercises. In September of 1996, the Company loaned $1,000,000 to the President which was reduced by principal and interest payments to a balance of $500,000 at December 31, 1996. The borrowings are payable on demand.

7. Product Development Loan Receivable - Affiliate:

In accordance with the terms of a Product Development Loan Agreement dated June 1, 1995 between NMS and the manufacturers, the Company advanced $289,785 and $48,519 to Norland Corp. as of December 31, 1996 and 1995, respectively. The loan accrues interest at 10% per annum payable quarterly. Principal payments are due in twenty equal quarterly installments beginning September 30, 1997, with the current portion of the loan consisting of principal payments due in 1997 plus accrued interest as of December 31, 1996.

8. Demonstration Systems Inventory:

Demonstration systems inventory consisted of the following as of December 31:

	1996	1995
Demonstration systems inventory	$1,318,687	$163,687
Less accumulated depreciation	(83,839)	(17,415)
	$1,234,848	$146,272

9. Property and Equipment:

At December 31, 1996, property and equipment consisted of the following:

	1996
Machinery and equipment	$303,087
Furniture and fixtures	130,773
Leasehold improvements	47,561
Less accumulated depreciation and amortization	(75,046)
	$406,375

10. Acquisition of Dove Medical Systems:

On April 2, 1996, the Company acquired all of the outstanding shares of Dove and a certain patent and other intangible assets owned by the Dove majority shareholder and certain other investors. The Company paid consideration of $6,911,529, consisting of $3,600,000 in cash and 161,538 shares of the Company Common Stock valued at $3,311,529.

The acquisition has been accounted for using the purchase method of accounting, and, accordingly, the purchase price has been allocated to the assets purchased and the liabilities assumed based on the fair values at the date of acquisition. The excess purchase price over the fair values of the net assets was $3,308,011 and has been recorded as goodwill.

The net purchase price was allocated as follows:

Working capital	$ 170,169
Property and equipment	35,418
Other non-current assets	6,196
Patent	407,200
Other intangible assets	2,984,535
Goodwill	3,308,011
Purchase price	$6,911,529

The operating results of Dove have been included in the accompanying 1996 consolidated statement of income from the date of acquisition. Pro forma unaudited consolidated operating results of the Company and Dove for the years ended December 31, 1996 and 1995, assuming the acquisition had been made as of January 1, 1995, are summarized below:

	1996 (unaudited)	1995 (unaudited)
Net sales	$25,982,668	$20,104,737
Net income	2,177,620	2,177,545
Earnings per share	0.30	0.40

These unaudited pro forma results have been prepared for comparative purposes only and include certain adjustments to give effect to amortization of the goodwill, patent and other intangible assets and certain other adjustments, together with related income tax effects. The unaudited pro forma information is not necessarily indicative of either the results of operations that would have occurred had the acquisition been made on January 1, 1995 or that may occur in the future.

11. Goodwill and Other Intangible Assets:

At December 31, 1996, intangible assets consisted of the following:

<TABLE>
<CAPTION>

	1996 Gross	1996 Accumulated Amortization	1996 Net
<S>	<C>	<C>	<C>
Goodwill	$3,308,011	$124,050	$3,183,961
Other intangible assets	2,984,535	112,537	2,871,998
Patent	407,200	30,540	376,660
	$3,391,735	$143,077	$3,248,658

</TABLE>

12. Trade Accounts Payable:

During 1996, 1995 and 1994, the Company purchased $13,138,280, $4,012,468 and $5,200,000, respectively, of products and services from Norland Corp. and $3,163,964, $9,294,825 and $3,239,948, respectively, from Stratec. The amounts owed at December 31, 1996 and 1995 by NMS to these two companies for such purchases were $2,220,816 and $493,424 and $714,127 and $1,959,403, respectively. The amounts payable to Stratec at December 31, 1996 and 1995 are net of receivables from Stratec in the amounts of $62,689 and $180,253, respectively.

13. Stockholders' Equity:

On August 2, 1995, NMS sold 3,000,000 shares of common stock, having an aggregate par value of $1,000, at the initial public offering price of $7.00 per share. Deducted from the resulting gross proceeds of $21,000,000 are $2,651,689 in costs and expenses directly related to the offering, resulting in net proceeds of $18,348,311.

On June 2, 1995, the Board authorized a 2,000-for-1 stock split which decreased par value to $0.0005 per share and increased authorized and issued shares to 10,000,000 and 2,000,000, respectively.

The Board subsequently authorized a 3-for-2 stock split (in the nature of a stock dividend) effective June 14, 1996 which increased the issued and outstanding shares accordingly.

The financial statements and net income per common share for all periods presented reflect the stock splits described above.

14. Compensation Programs:

Stock Option Plan

The Company has a Stock Option Plan covering officers, key employees and consultants of the Company. The Company has authorized 1,800,000 shares for options under the plan.

The outstanding options at December 31, 1995 have an exercise price not less than the market value on January 3, 1994, the date on which such options were granted. Fifty percent of the options became exercisable in 1995. On January 1, 1996, an additional twenty-five percent became exercisable and the remaining twenty-five percent became exercisable on January 1, 1997. Of the 258,750 of remaining unexercised options granted in 1994, the term for 71,250 options is ten years and the term for 187,500 options is five years. Options granted in 1996 and 1995 vest over a four year period and expire ten years from the granting date, or upon termination of employment except for 7,500 options which became fully vested in 1996. The option price was based on 100% of market value of the Company's Common Stock on the dates the options were granted.

The following is a summary of options related to the plan as of December 31:

<TABLE>
<CAPTION>

<S>	1996 <C>	Option Price per share <C>	1995 <C>	Option price per share <C>	1994 <C>	Option price per share <C>
Options outstanding at beginning of year	1,117,500	$0.0005-13.83	1,002,000	$0.0005-0.0006	-	-
Granted	300,000	$15.00-22.17	115,500	$10.67-13.83	1,002,000	$0.0005-0.0006
Exercised	(743,250)	$0.0005-0.0006	-		-	-
Options outstanding at end of year	674,250	$0.0005-22.17	1,117,500	$0.0005-13.83	1,002,000	$0.0005-0.0006
Range of Exercise Prices	Options Outstanding	Exercise Price	Contractual Life in Years	Options Exercisable	Price	Life in Years
Options exercisable at end of year	46,125		501,000		-	
Options available for grant at end of year	382,500		82,500		198,000	

</TABLE>

The following table summarizes information about significant groups of stock options outstanding at December 31, 1996:

<TABLE>
<CAPTION>

	Options Outstanding			Options Exercisable		
Range of Exercise Prices <S>	Options Outstanding <C>	Weighted Average Exercise Price <C>	Weighted Average Remaining Contractual Life in Years <C>	Options Exercisable <C>	Weighted Average Exercise Price <C>	Weighted Average Remaining Contractual Life in Years <C>
$0.0005 to 0.0006	258,750	$0.0006	3	9,750	$0.0005	7
10.00 to 15.00	243,000	13.67	9	36,375	12.77	9
18.00 to 22.17	172,500	19.84	9	0	0	0
	674,250			46,125		

</TABLE>

The Company applies Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees", and related interpretations in accounting for its plan and did not recognize compensation expense. Had compensation expense been recognized based on the fair value of the options at their grant dates, as prescribed in Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation" (SFAS 123), the Company's net income and earnings per share for the years ended December 31, 1996 and 1995 would have been as follows:

	1996	1995
Net income:		
As reported	$2,191,374	$2,100,489
Pro forma under SFAS 123	1,209,853	2,063,901
Earnings per share:		
As reported	$0.31	$0.40
Pro forma under SFAS 123	0.17	0.39

The fair value of each option grant is estimated on the date of grant using the

Black-Scholes option pricing model with the following assumptions used for grants during the applicable periods: dividend yield of 0% for both periods, risk-free weighted average interest rate of 5.7% during both periods, expected volatility factor of 89% for both periods, and an expected option term of 4 years for both periods. The weighted average fair value at date of grant for options granted during 1996 and 1995 was $11.85 and $8.12 per option, respectively.

401(k) Plan

Pursuant to the Norland Medical Systems, Inc. Retirement Savings Plan, eligible employees may elect to contribute a portion of their salary on a pre-tax basis. With respect to employee contributions of up to 7% of salary, the Company makes a contribution at the rate of 25 cents on the dollar. The Company may also make additional discretionary contributions for any year. Contributions are subject to applicable limitations contained in the Internal Revenue Code. Employees are at all times vested in their own contributions; Company matching contributions vest gradually over six years of service. The Company's policy is to fund plan contributions as they accrue. Contribution expense was $13,342, $1,776 and $0 for the years ended December 31, 1996, 1995 and 1994, respectively.

15. Income Tax:

The components of the provision for income taxes as of December 31 were as follows:

	1996	1995	1994
Current			
Federal	$1,254,387	$1,202,406	$17,500
State	243,613	233,594	9,500
	$1,498,000	$1,436,000	$27,000

As of December 31, 1996, 1995 and 1994, the Company did not have any significant temporary differences between the financial statement carrying amounts and the tax bases of existing assets and liabilities.

A reconciliation of the difference between the statutory federal income tax rate and the effective income tax rate for the years ended December 31 as follows:

<TABLE>
<CAPTION>

<S>	1996 <C>	1995 <C>	1994 <C>
Statutory income tax rate	34.0%	34.0%	34.0%
State income taxes, net of federal tax effect	6.6	6.6	6.6
Impact of graduated federal income tax rates	-	-	(12.2)
Effective income tax rate	40.6%	40.6%	28.4%

</TABLE>

16. Lease Commitments:

In 1996, the Company entered into operating leases for its manufacturing and office facilities and established subleases for portions of certain facilities with Norland Corp. and another company in which certain stockholders of NMS are also stockholders. Rent is prorated on a square footage basis. For the year ended December 31, 1996, lease expense was approximately $93,258 and sublease income was $29,688 and $37,638 with respect to Norland Corp. and the other company.

The following is a schedule of future minimum lease payments and future sublease receipts as of December 31, 1996:

	Rental Payments	Sublease Receipts
1997	$ 196,356	$134,184
1998	173,784	134,184
1999	171,732	134,184
2000	139,866	109,092
2001	108,000	84,000
Thereafter	504,000	392,000

$1,293,738	$987,644
==========	========

17. Other Related Party Transactions:

The Company also rents space and purchases administrative support services on a month to month basis from another company in which certain beneficial stockholders of NMS are also stockholders. The cost of the space and services to NMS for the years ended December 31, 1996, 1995 and 1994 was $33,136, $22,360 and $150,000, respectively.

As of December 31, 1996, 1995 and 1994, no amount was due by the Company for these costs.

18. Supplemental Sales and Customer Information:

The Company's largest customers are medical distributors in countries with high incidence of bone disease, available therapies and significant third party reimbursement. Two such distributors accounted for 22% and 6%, 68% and 9%, and 34% and 30% of revenues, respectively, for the years ended December 31, 1996, 1995 and 1994, respectively.

The Company's sales consisted of domestic sales to customers and export sales to customers in the following geographic territories:

<TABLE>
<CAPTION>

	1996		1995		1994	
Pacific Rim	$10,338,350	40.8%	$15,998,238	87.7%	$ 7,737,897	77.0%
Latin America	747,498	3.0	203,542	1.1	921,389	9.2
Europe/Middle East	578,081	2.3	889,982	4.9	631,523	6.3
Export sales	11,663,929	46.1	17,091,762	93.7	9,290,809	92.5
Domestic sales	13,646,048	53.9	1,152,046	6.3	750,739	7.5
	$25,309,977	100.0%	$18,243,808	100.0%	$10,041,548	100.0%

</TABLE>

Certain products sold to customers in the United States were purchased from Stratec and are included in domestic sales.

19. Quarterly Financial Data: (Unaudited)

<TABLE>
<CAPTION>

1995 Quarters	First	Second	Third	Fourth	Total
Revenue	$3,895,921	$4,003,310	$5,230,527	$5,114,050	$18,243,808
Gross profit	1,295,390	1,254,162	1,519,420	1,666,027	5,734,999
Operating income	735,384	796,134	719,811	872,177	3,123,506
Net income	438,312	475,666	505,364	681,148	2,100,490
Net income per Common share	$0.11	$0.12	$0.08	$0.10	$0.40

<CAPTION>

1996 Quarters	First	Second	Third	Fourth	Total
Revenue	$5,218,290	$6,949,116	$8,066,882	$5,075,689	$25,309,977
Gross profit	1,802,379	2,568,986	2,652,295	2,037,848	9,061,508
Operating income	921,315	1,091,758	720,553	252,004	2,985,630
Net income	691,256	750,057	515,335	234,726	2,191,374
Net income per Common share	$0.10	$0.10	$0.07	$0.03	$0.31

</TABLE>

The net income per Common share for all periods presented reflects the stock splits described in Note 13.

20. Subsequent Events:

On February 26, 1997, the Company signed an agreement to acquire all of the issued and outstanding stock of Norland Corp. for $17.5 million with a possible additional purchase price of up to $2.5 million based on the level of the Company's 1997 revenues. For each full $1,000,000 of 1997 revenues above $32,000,000, the purchase price will be increased by $312,500 (up to the maximum increase of $2.5 million). The $17.5 million will be payable at closing as follows: $1,250,000 in cash and a $16,250,000 note. The note will bear interest at the rate of 7% per annum. A $1,250,000 portion of the principal will be payable six months after closing, and the remaining principal will be due and payable on the fifth anniversary of the closing. The Company may prepay the note at any time. The amount of any additional purchase price will be determined following the completion of the audit of the Company's financial statements for the year ending December 31, 1997. This amount will be paid by another 7% note due five years after the closing. The transaction is subject to approval by the Company's stockholders at its Annual Meeting.

NORLAND MEDICAL SYSTEMS, INC.

SCHEDULE II

VALUATION AND QUALIFYING ACCOUNTS

for the years ended December 31, 1996, 1995 and 1994

<TABLE>
<CAPTION>

	Balance at Beginning of	Charged to Costs and Expenses	Other Accounts(A)	Deductions(B)	Balance at End of Period
<S>	<C>	<C>	<C>	<C>	<C>
1996					
Allowance for Doubtful Accounts	$150,000	$70,000	$1,000	$0	$221,000
Obsolescence reserve	$0	$0	$50,000	$(8,105)	$41,895
1995					
Allowance for Doubtful Accounts	$0	$150,000	$0	$0	$150,000
1994					
Allowance for Doubtful Accounts	$0	$0	$0	$0	$0

</TABLE>

(A) Assumed in acquisition.
(B) Amounts written off against the reserve.

PART IV

ITEM 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES AND REPORTS ON FORM 8-K.

(b) Exhibits. Exhibit 27 filed with the Original Report is replaced by Exhibit 27 filed herewith.

Exhibits Number	Description
27	Financial Data Schedule

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this Amendment to its Annual Report to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of White Plains, New York, on the 22nd day of July, 1997.

NORLAND MEDICAL SYSTEMS, INC.

By: /s/ Reynald G. Bonmati
Name: Reynald G. Bonmati
Title: President

Pursuant to the requirements of the Securities Exchange Act of 1934, this Amendment to Annual Report has been signed below by the following persons on behalf of the Registrant, Norland Medical Systems, Inc., in the capacities and on the dates indicated.

Signature	Capacity In Which Signed	Date
/s/ Reynald G. Bonmati Reynald G. Bonmati	Chairman of the Board and President (Principal Executive Officer); and Director	July 22, 1997
/s/ Kurt W. Streams Kurt W. Streams	Vice President, Finance (Principal Financial Officer and Principal Accounting Officer)	July 22, 1997
* James J. Baker	Director	July 22, 1997
* Michael W. Huber	Director	July 22, 1997
* Robert L. Piccioni	Director	July 22, 1997
* Albert S. Waxman	Director	July 22, 1997

* By: /s/ Kurt W. Streams
Kurt W. Streams
Attorney-in-Fact

```
<TABLE> <S> <C>


<ARTICLE>                     5
<LEGEND>
This schedule contains summary information extracted from the financial
statements in the Company's Annual Report on Form 10-K for the year ended
December 31, 1996.
</LEGEND>
<MULTIPLIER>                                    1

<S>                             <C>
<PERIOD-TYPE>                   12-MOS
<FISCAL-YEAR-END>                     DEC-31-1996
<PERIOD-END>                          DEC-31-1996
<CASH>                                  8,133,468
<SECURITIES>                            1,949,039
<RECEIVABLES>                          10,779,477
<ALLOWANCES>                              221,000
<INVENTORY>                               616,865
<CURRENT-ASSETS>                       21,658,436
<PP&E>                                    481,421
<DEPRECIATION>                             75,048
<TOTAL-ASSETS>                         30,243,378
<CURRENT-LIABILITIES>                   3,722,513
<BONDS>                                         0
<PREFERRED-MANDATORY>                           0
<PREFERRED>                                     0
<COMMON>                                    3,452
<OTHER-SE>                             26,517,413
<TOTAL-LIABILITY-AND-EQUITY>           30,243,378
<SALES>                                24,648,928
<TOTAL-REVENUES>                       25,309,977
<CGS>                                  16,248,469
<TOTAL-COSTS>                          16,248,469
<OTHER-EXPENSES>                        6,075,878
<LOSS-PROVISION>                                0
<INTEREST-EXPENSE>                              0
<INCOME-PRETAX>                         3,689,374
<INCOME-TAX>                            1,498,000
<INCOME-CONTINUING>                     2,191,374
<DISCONTINUED>                                  0
<EXTRAORDINARY>                                 0
<CHANGES>                                       0
<NET-INCOME>                            2,191,374
<EPS-PRIMARY>                                 0.31
<EPS-DILUTED>                                 0.31
```

</TABLE>