NATURAL HEALTH TRENDS CORP
Form 10QSB
May 20, 2002

FORM 10-QSB

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934

For Quarter Ended March 31, 2002

OR

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

For the transition period from to

Commission file number: 0-25238

NATURAL HEALTH TRENDS CORP.
(Exact Name of Small Business Issuer as Specified in its Charter)

Florida	59-2705336
State or other jurisdiction of incorporation or organization	(I.R.S. Employer Identification No.)

5605 N. MacArthur Boulevard, 11th Floor
Irving, Texas 75038
(Address of Principal Executive Office) (Zip Code)

(972) 819-2035
(Issuer's telephone number including area code)

Indicate by check mark whether the issuer (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 and (2) has been subject to such filing requirements for the past 90 days.

Yes X No

The number of shares of issuer's Common Stock, $.001 par value, outstanding as of April 30, 2002 were 297,999,898 shares.

NATURAL HEALTH TRENDS CORP.

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NATURAL HEALTH TRENDS CORP.

CONSOLIDATED BALANCE SHEET

March 31, 2002

(UNAUDITED)

ASSETS

Current Assets:		
Cash	$	1,353,996
Account receivables		623,907
Inventories		1,110,363
Prepaid expenses and other current assets		201,514

Total Current Assets		3,289,780
Restricted cash		18,050
Property and Equipment, net		359,153
Deposits and Other Assets		64,100
Goodwill		207,765
Website		99,750
Total Assets	$	4,038,598
LIABILITIES AND STOCKHOLDERS' DEFICIT		
Current Liabilities:		
Accounts payable	$	3,991,416
Accrued expenses		181,503
Accrued bonus payable		1,145,577
Notes payable		654,612
Current portion of long term debt		183,902
Deferred revenue		193,635
Other current liabilities		92,277
Total Current Liabilities		6,442,922
Minority interest		147,551
Long term notes payable		294,559
Total Liabilities		6,885,032
Stockholders' Deficit:		
Preferred stock ($1,000 par value; authorized 1,500,000 shares; issued 953 shares)		952,588
Common Stock ($.001 par value; authorized 500,000,000 shares; issued and outstanding 290,633,450 shares)		290,633
Additional paid-in capital		30,546,723
Accumulated deficit		(34,291,229)
Deferred compensation		(348,750)
Accumulated other comprehensive income		3,601
Total Stockholders' Deficit		(2,846,434)
Total Liabilities and Stockholders' Deficit	$	4,038,598

See Notes to Consolidated Financial Statements.

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NATURAL HEALTH TRENDS CORP.

CONSOLIDATED STATEMENTS OF OPERATIONS

(UNAUDITED)

	Three Months Ended March 31, 2002	Three Months Ended March 31, 2001
Revenues	$ 6,154,144	$ 3,185,848
Cost of Sales	1,090,495	639,277
Gross Profit	5,063,649	2,546,571
Associate commissions	3,211,736	1,666,894
Selling, general and administrative expenses	1,981,838	743,655
Operating (loss) income	(129,925)	136,022
Minority interest in subsidiary	(11,837)	-
Loss on foreign exchange	(90)	(44)
Other expense	(30,638)	(2,981)
Interest, net	(17,629)	(12,416)
(Loss) income before extraordinary items	(190,119)	120,581
Extraordinary gain - forgiveness of debt	200,000	-
Net income	9,881	120,581
Preferred stock dividends	22,285	106,043
Net income (loss) to common shareholders	$ (12,404)	$ 14,538
Basic income (loss) per common share	$ (0.00)	$ 0.00
Basic weighted common shares used	266,524,807	27,804,656
Diluted income (loss) per common share	$ (0.00)	$ 0.00
Diluted weighted common shares used	339,888,604	585,278,183

See Notes to Consolidated Financial Statements.

NATURAL HEALTH TRENDS CORP.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(UNAUDITED)

	Three Months Ended March 31, 2002	Three Months Ended March 31, 2001
Net income	$ 9,881	$ 120,581
Other comprehensive income (loss), net of tax		
Foreign translation adjustment	5,842	36,758
Comprehensive income	$ 15,723	$ 157,339

See Notes to Consolidated Financial Statements.

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NATURAL HEALTH TRENDS CORP.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(UNAUDITED)

	Thr
	2002
CASH FLOWS FROM OPERATING ACTIVITIES:	
Net income	$ 9,
Adjustments to reconcile net income to net cash provided by (used in) operating activities:	
Depreciation and amortization	97,

Issuance of stock for services rendered/ settlement of interest		3,
Gain on forgiveness of debt		(200,0
Minority interest of subsidiary		147,
Changes in assets and liabilities:		
Accounts receivable		(504,0
Inventories		(185,6
Prepaid expenses		45,
Deposits and other assets		260,
Accounts payable and accrued expenses		1,216,
Deferred revenue		193,
Other current liabilities		(14,9
Total Adjustments		1,061,
NET CASH PROVIDED BY OPERATING ACTIVITIES		1,071,
CASH FLOWS FROM INVESTING ACTIVITIES:		
Capital expenditures		(241,7
NET CASH USED IN INVESTING ACTIVITIES		(241,7
CASH FLOWS FROM FINANCING ACTIVITIES:		
Increase in cash overdraft		
Decrease in restricted cash		82,
Proceeds from notes payable and long-term debt		111,
Redemption of preferred stock		
NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES		194,
Effect of Exchange Rate Changes		5,
NET INCREASE IN CASH		1,029,
CASH, BEGINNING OF PERIOD		324,
CASH, END OF PERIOD	$	1,353,

See Notes to Consolidated Financial Statements.

NATURAL HEALTH TRENDS CORP.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

THREE MONTHS ENDED MARCH 31, 2002

(UNAUDITED)

1. BASIS OF PRESENTATION

The accompanying unaudited financial statements of Natural Health Trends Corp. and its subsidiaries (the "Company") have been prepared in accordance with generally accepted accounting principles for interim financial information and with instructions to Form 10-QSB and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments considered necessary for a fair presentation (consisting of normal recurring accruals) of financial position and results of operations for the interim periods have been presented. 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 the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Operating results for the three month period ended March 31, 2002 are not necessarily indicative of the results that may be expected for the year ending December 31, 2002. For further information, refer to the consolidated financial statements and footnotes thereto included in the Company's Annual report on Form 10-KSB for the year ended December 31, 2001.

The Company had a working capital deficiency of approximately $3,153,000 at March 31, 2002 and $3,522,000 at December 31, 2001. This raises substantial doubt about the Company's ability to continue as a going concern. The Company's continued existence is dependent on its' ability to generate profits from operations. While management is unable to predict profitability and can make no assurances, management believes the Company will generate sufficient profits to ease its' dependency on debt and equity financing in the foreseeable future.

2. FUTURE EFFECTS OF RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

In July 2001, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards No. 141 ("SFAS No. 141"), "Business Combinations." SFAS No. 141 requires the purchase method of accounting for business combinations initiated after June 30, 2001 and eliminates the pooling-of-interest method. The adoption of SFAS No. 141 did not have a significant impact on the financial statements.

In July 2001, FASB issued Statement of Financial Accounting Standards No. 142, "Goodwill and Other Intangible Assets", ("SFAS No. 142"), which is effective for fiscal years beginning after December 15, 2001. SFAS No. 142 requires, among other things, the discontinuance of goodwill amortization. In addition, the standard includes provisions upon adoption for the reclassification of certain existing recognized intangibles as goodwill, reassessment of the useful lives of existing recognized intangibles, reclassification of certain intangibles out of previously reported goodwill and the testing for the impairment of existing goodwill and other intangibles. Application of the non-amortization provisions of the Statement did not have an effect on the Company's financial position or operations.

In August 2001, the FASB issued Statement of Financial Accounting Standards No. 143, "Accounting for Asset Retirement Obligations", ("SFAS No. 143"), which is effective for all fiscal years beginning after June 15, 2002; however, early adoption is encouraged.

In October 2001, the FASB issued Statement of Financial Accounting Standards No. 144 ("SFAS No. 144"), "Accounting for the Impairment or Disposal of Long-Lived Assets," which supercedes Statement of Financial Accounting Standards No. 121 ("SFAS No. 121"), "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of" and certain provisions of APB Opinion No. 30, "Reporting Results of Operations - Reporting the Effects of Disposal of a Segment of a Business and Extraordinary, Unusual and Infrequently Occurring Events and Transactions." SFAS No. 144 requires that long-lived assets to be disposed of by sale, including discontinued operations, be measured at the lower of carrying amount or fair value, less cost to sell, whether reported in continuing operations or in discontinued operations. SFAS No. 144 also broadens the reporting requirements of discontinued operations to include all components of an entity that have operations and cash flows that can be clearly distinguished, operationally and for financial reporting purposes, from the rest of the entity. The provisions of SFAS No. 144 are effective for fiscal years beginning after December 15, 2001. The Company implemented SFAS No. 144 and SFAS No. 143 beginning January 1, 2002.

3. During the first three months of 2002, the Company received notice of conversion on $1,371,710 of Series F and J Preferred Stock. The Company issued 69,515,731 shares of Common Stock upon conversion of the shares of Preferred Stock and the accrued dividends thereon.

4. The Company issued 180,000 shares of Common Stock to a law firm in March 2002 and recorded $3,600 of legal expense.

Item 2. Management's Discussion and Analysis or Plan of Operation

The following discussions should be read in conjunction with the consolidated financial statements and notes contained in Item 1 hereof.

Forward Looking Statements

When used in Form 10-QSB and in future filings by the Company with the Securities and Exchange Commission, the words "will likely result", "the Company expects", "will continue", "is anticipated", "estimated", "projected", "outlook" or similar expressions are intended to identify "forward looking statements" within the meaning of the Private Securities Litigation Act of 1995. The Company wishes to caution readers not to place undue reliance on such forward-looking statements, each of which speak only as of the date made. Such statements are subject to certain risks and uncertainties that could cause actual results to differ materially from historical earnings and those presently anticipated or projected. The Company has no obligation to publicly release the results of any revisions, which may be made to any forward-looking statements to reflect anticipated or unanticipated events or circumstances occurring after the date of such statements.

Overview

Natural Health Trends Corp. ("NHTC") is a Florida corporation. NHTC was incorporated on December 1, 1988 as "Florida Institute of Massage Therapy, Inc." and changed its name to "Natural Health Trends Corp." on June 24, 1993. NHTC's Common Stock, par value $0.001 per share (the "Common Stock") is listed on the Over-the-Counter Bulletin Board (the "OTCBB") under the symbol "NHTC".

NHTC is a holding company that operates two businesses, which distribute products that promote health, wellness and sexual vitality through the multi-level marketing ("MLM") channel.

NHTC's largest operation is Lexxus International, Inc. ("Lexxus"), a Delaware corporation and a majority-owned subsidiary of NHTC. Lexxus sells products that heighten mental and sexual arousal, particularly in women. NHTC's other business, eKaire.com, Inc. ("eKaire"), distributes nutritional supplements aimed at general health and wellness through the Internet and other channels. EKaire consists of companies operating in the U.S., in Canada as Kaire International Canada Ltd. ("Kaire Canada"), in Australia as Kaire Nutraceuticals Australia Pty. Ltd. ("Kaire Australia"), in New Zealand as Kaire Nutraceuticals New Zealand Limited ("Kaire New Zealand"), and in Trinidad as Kaire Trinidad, Ltd. ("Kaire Trinidad").

In January 2001, NHTC entered into a joint venture with Lexxus International and formed a new majority-owned subsidiary, Lexxus International, Inc. ("Lexxus"), a Delaware corporation. The original founders of Lexxus International received an aggregate of 10,000,000 shares of Common Stock.

In March 2001, Global Health Alternatives, Inc., a Delaware corporation and wholly-owned subsidiary of NHTC ("GHA"), and Ellon, Inc., a Delaware corporation and wholly-owned subsidiary of GHA ("Ellon"), filed for Chapter 7 bankruptcy liquidation in the United States Bankruptcy Court of the Northern District of Texas. Neither GHA nor Ellon had operations during the years 2000 or 2001. Both GHA and Ellon were dissolved in June 2001.

In the second quarter of 2001, NHTC incorporated Lexxus International (SW Pacific) Pty. Ltd., an Australian corporation and majority-owned subsidiary of NHTC, which does business in Australia ("Lexxus Australia"). In addition, NHTC incorporated Lexxus International (New Zealand) Limited, a New Zealand corporation and majority-owned subsidiary of NHTC, which does business in New Zealand ("Lexxus New Zealand").

In June 2001, NHTC incorporated Lighthouse Marketing Corporation ("LMC"), a Delaware Corporation and a wholly owned subsidiary of NHTC. As of March 31, 2002, LMC had not conducted any business, but intends to conduct business in the future.

On November 16, 2001, NHTC incorporated Lexxus International Co., Ltd., a corporation organized under the laws of the Republic of China and a majority-owned subsidiary of NHTC ("Lexxus Taiwan").

On January 28, 2002, NHTC incorporated MyLexxus Europe AG, a corporation organized under the laws of Switzerland and a majority-owned subsidiary of NHTC ("Lexxus Europe"). This company manages the sales of product into sixteen eastern European countries, including Russia.

In March 2002, NHTC incorporated Lexxus International Co., Ltd., a corporation organized under the laws of Hong Kong and a majority-owned subsidiary of NHTC ("Lexxus Hong Kong").

Three Months Ended March 31, 2002 Compared To The Three Months Ended March 31, 2001.

Net Sales. Net sales were approximately $6,154,000 and $3,186,000 for the three months ended March 31, 2002 and March 31, 2001, respectively; an increase of $2,968,000. The increased sales were primarily from the sales of Lexxus products, the expansion of Lexxus into international markets offset by a slight decrease in the sales of eKaire products.

Cost of Goods Sold. Cost of goods sold for the three months ended March 31, 2002 was approximately $1,090,000 or 18% of net sales. Cost of goods sold for the three months ended March 31, 2001 was approximately $639,000 or 20% of net sales. The total cost of goods sold increased due to increased sales volume and the costs associated with the packaging of the Lexxus product line.

Gross Profit. Gross profit increased from approximately $2,547,000 in the three months ended March 31, 2001 to approximately $5,064,000 in the three months ended March 31, 2002. The increase of approximately $2,517,000 was attributable to higher sales volumes by Lexxus.

Commissions. Associate commissions were approximately $3,212,000 in the three months ended March 31, 2002 compared to approximately $1,667,000 for the three months ended March 31, 2001. This increase is attributable to the higher payout percentage of product sales associated with the Lexxus compensation plan.

Selling, General and Administrative Expenses. Selling, general and administrative costs as a percentage of net sales increased from approximately $744,000 or 23% of sales in the three months ended March 31, 2001 to approximately $1,982,000 or 32% of sales in the three months ended March 31, 2002. These costs as a percentage of net sales increased primarily due to expansion of Lexxus into international markets.

Income (loss) from Operations. Operating income (loss) decreased from income of approximately $136,000 in the three months ended March 31, 2001 to an operating loss of approximately $130,000 in the three months ended March 31, 2002.

Income Taxes. Income tax benefits were not reflected in either period. The anticipated benefits of utilizing net operating losses against future profits were not recognized in the three months ended March 31, 2002 or the three months ended March 31, 2001 under the provisions of Statement of Financial Accounting Standards No. 109 ("Accounting for Income Taxes"), utilizing the Company's loss carry forward as a component of income tax expense. A valuation allowance equal to the net deferred tax asset has been recorded, as management of the Company has not been able to determine that it is more likely than not that the deferred tax assets will be realized.

Net Income. Net income was approximately $10,000 in the three months ended March 31, 2002 as compared to approximately $121,000 in the three months ended March 31, 2001.

Gain on Forgiveness of Debt. During the three months ended March 31, 2002, NHTC realized a gain of $200,000 on the various debt and payables related to the sale of Kaire Nutraceuticals, Inc.

Liquidity and Capital Resources:

The Company has funded working capital and capital expenditure requirements primarily from cash provided through borrowings from institutions and individuals, as well as from the sale of Company securities in private placements. Other ongoing sources of cash receipts are directly from the sale of eKaire and Lexxus products.

In the three months ended March 31, 2002, NHTC issued 50,988,189 shares of Common Stock to an accredited investor upon conversion of $1,096,710, face amount of Series F Preferred Stock pursuant to Section 4(2) of the Securities Act of 1933, as amended (the "Act").

In the three months ended March 31, 2002, NHTC issued 18,527,542 shares of Common Stock to an accredited investor upon conversion of $275,000, face amount of Series J Preferred Stock pursuant to Section 4(2) of the Act.

At March 31, 2002, the ratio of current assets to current liabilities was 0.51 to 1.0 and the Company had a working capital deficit of approximately $3,153,000.

Cash provided by operations for the three months ended March 31, 2002 was approximately $1,071,000. Cash used in investing activities during the period was approximately $159,000. Cash provided by financing activities during the period was approximately $112,000. Total cash increased by approximately $1,030,000 during the period.

Our independent auditors' report on the consolidated financial statements stated as of December 31, 2001, that due to a working capital deficit, there is substantial doubt about the company's ability to continue as a going concern. While there can be no assurances, management believes that the profitability achieved during the three months ended March 31, 2002 will continue for the foreseeable future.

PART II - OTHER INFORMATION

Item 1. Legal Proceedings

None.

Item 2. Changes in Securities and Use of Proceeds

None.

Item 3. Defaults upon Senior Securities

None.

Item 4. Submission of Matters to Vote of Security Holders

None.

Item 5. Other Information

None.

PART III - OTHER

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits

None.

(b) Reports on Form 8-K

None.

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.

NATURAL HEALTH TRENDS CORP.

By: /s/ Mark D. Woodburn /s/

Mark D. Woodburn
President

Date: May 17, 2002

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