NATURAL HEALTH TRENDS CORP
Form 10QSB/A
April 13, 2004

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

FORM 10-QSB/A
(Amendment No. 1)

[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.)

12901 Hutton Drive Dallas, Texas	75234
(Address of Principal Executive Office)	(Zip Code)

(972) 241-4080
(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 2,979,999 shares.

NATURAL HEALTH TRENDS CORP.
Form 10-QSB/A
For Quarter Ended March 31, 2002

Explanatory Note:

The purpose of this amendment is to amend Part I, Item 2 - Management's Discussion and Analysis and Part I, Item 1 - Financial Statements for the restatements identified in note 2 to the consolidated financial statements and to give effect to the 1 for 100 reverse stock split in March 2003. All other items remain unchanged from the original filing.

During the quarters ended September 30 and December 31, 2003, the Company re-evaluated its financial statements for the years ended December 31, 2002 and 2001, the quarterly periods included in such years and the quarterly periods ended March 31, June 30 and September 30, 2003. As a result of such review, the Company determined that it inadvertently applied the incorrect accounting treatment with respect to the following items:

(i) revenue recognition with respect to administrative enrollment fees;
(ii) revenue cut-off between 2002 and 2003;
(iii) reserves established for product returns and refunds;
(iv) the gain recorded in connection with the sale of a subsidiary in 2001; and
(v) income tax provisions.

Consequently, the Company is amending and restating its financial statements for each quarter in 2001, 2002 and 2003 as well as the Form 10-KSB for the years ended December 31, 2001 and 2002.

NATURAL HEALTH TRENDS CORP.
Form 10-QSB/A
For Quarter Ended March 31, 2002

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NATURAL HEALTH TRENDS CORP.
CONSOLIDATED BALANCE SHEET
(UNAUDITED)

	March 31, 2002 As Restated
ASSETS	
Current Assets:	
Cash	$ 1,353,996
Account receivables	623,907
Inventory	1,290,363
Restricted cash	18,050
Prepaid expenses and other current assets	787,051
Total Current Assets	4,073,367
Property and equipment, net	359,153
Deposits and other assets	64,100
Goodwill	207,765
Website	99,750
Total Assets	$ 4,804,135
LIABILITIES AND STOCKHOLDERS' DEFICIT	
Current Liabilities:	
Accounts payable	$ 4,191,416
Accrued expenses	998,506
Accrued associate commissions	1,145,577
Notes payable	627,903
Current portion of long-term debt	185,382
Income tax payable	210,000
Deferred revenue	2,486,489
Other current liabilities	92,277
Total Current Liabilities	9,937,550
Long-term debt	240,285
Total Liabilities	10,177,835
Minority interest	147,551
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 2,906,335 shares)	2,906
Additional paid in capital	30,954,449
Accumulated deficit	(37,086,045)
Deferred compensation	(348,750)
Accumulated other comprehensive income	3,601
Total Stockholders' Deficit	(5,521,251)
Total Liabilities and Stockholders' Deficit	$ 4,804,135

The accompanying notes are an integral part of these consolidated financial statements.

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NATURAL HEALTH TRENDS CORP.
CONSOLIDATED STATEMENTS OF OPERATIONS
(UNAUDITED)

	Three Months Ended March 31,	
	2002 As Restated	2001 As Restated
Net Sales	$ 4,928,883	$ 3,004,023
Cost of Sales	903,291	573,820
Gross Profit	4,025,592	2,430,203
Associate commissions	3,211,736	1,666,894
Selling, general and administrative expenses	1,981,838	743,655
Operating (loss) income	(1,167,982)	19,654
Minority interest in subsidiary	(11,837)	--
Loss on foreign exchange	(90)	(44)
Other expense, net	(30,638)	(2,980)
Interest expense, net	(17,629)	(12,416)
Net (loss) income	(1,228,176)	4,214
Preferred stock dividends	22,285	106,043
Net loss to common shareholders	$(1,250,461)	$ (101,829)
Basic loss per common share	$ (0.47)	$ (0.37)
Basic weighted common shares used	2,665,248	278,047
Diluted loss per common share	$ (0.37)	$ (0.02)

Diluted weighted common shares used	3,398,886	5,852,782

The accompanying notes are an integral part of these consolidated financial statements.

NATURAL HEALTH TRENDS CORP.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(UNAUDITED)

	Three Months Ended March 31,	
	2002 As Restated	2001 As Restated
Net (loss) income	$(1,228,176)	$ 4,214
Other comprehensive income, net of tax:		
Foreign currency translation adjustments	5,842	36,758
Comprehensive (loss) income	$(1,222,334)	$ 40,972

The accompanying notes are an integral part of these consolidated financial statements.

NATURAL HEALTH TRENDS CORP.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(UNAUDITED)

	Three Months Ended March 31,	
	2002 As Restated	2001 As Restated
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net (loss) income	$(1,228,176)	$ 4,214
Adjustments to reconcile net (loss) income to net cash provided by operating activities:		
Depreciation and amortization	154,875	2,183
Impairment of fixed assets	--	35,448
Issuance of stock for services and settlement of interest	3,600	13,712
Minority interest of subsidiary	11,837	--
Changes in operating assets and liabilities:		
Accounts receivable	(504,090)	5,240
Inventories	(203,102)	(145,818)
Prepaid expenses and other current assets	(124,027)	(56,833)
Deposits and other assets	260,585	52,400
Accounts payable	155,741	400,182
Accrued expenses(i)	1,228,183	227,118
Deferred revenue	1,331,396	128,823

Other current liabilities	(14,946)	(284,655)
Total Adjustments	2,300,052	377,800
NET CASH PROVIDED BY OPERATING ACTIVITIES	1,071,876	382,014
CASH FLOWS FROM INVESTING ACTIVITIES:		
Capital expenditures	(298,609)	(20,921)
Decrease in restricted cash	82,759	5,890
NET CASH USED IN INVESTING ACTIVITIES	(215,850)	(15,031)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from notes payable and long term debt	75,000	50,000
Investments by minority interest owner	135,714	--
Payments of notes payable and long-term debt(i)	(42,901)	(33,173)
NET CASH PROVIDED BY FINANCING ACTIVITIES	167,813	16,827
Effect of exchange rates	5,842	36,758
NET INCREASE IN CASH	1,029,681	420,568
CASH, BEGINNING OF PERIOD	324,315	108,419
CASH, END OF PERIOD	$ 1,353,996	$ 528,987

(i) Certain accrued expenses were reclassified to notes payable and debt as of December 31, 2000.

The accompanying notes are an integral part of these consolidated financial statements.

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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.

NHTC's common stock, par value $.001 per share (the "Common Stock"), is listed on the OTC Bulletin Board (the "OTCBB"). In March 2003, we effected a 1-for-100 reverse stock split with respect to our outstanding shares of Common Stock. In addition, the trading symbol for the shares of our Common Stock changed from "NHTC" to "NHLC". The effect of the reverse is reflected throughout this document.

2. Restatement of Previously Issued Financial Statements

During the quarters ended September 30 and December 31, 2003, the Company re-evaluated its financial statements for the years ended December 31, 2002 and 2001, the quarterly periods included in such years and the quarterly periods ended March 31, June 30 and September 30, 2003. As a result of such review, the Company determined that it inadvertently applied the incorrect accounting treatment with respect to the following items:

(i) revenue recognition with respect to administrative enrollment fees;
(ii) revenue cut-off between 2002 and 2003;
(iii) reserves established for product returns and refunds;
(iv) the gain recorded in connection with the sale of a subsidiary in 2001; and
(v) income tax provisions.

Consequently, the Company is amending and restating its financial statements for each quarter in 2001, 2002 and 2003 as well as the Form 10-KSB for the years ended December 31, 2001 and 2002.

In connection with the engagement of a new independent accounting firm and the review of the Company's financial statements, the Company has revised its accounting treatment for administrative enrollment fees received from distributors in accordance with the principles contained in Staff Accounting Bulletin No. 101, "Revenue Recognition in Financial Statements", ("SAB 101") and related guidance. The Company determined that under SAB 101, such fees actually received and recorded as current sales in prior quarters should have been deferred and recognized as revenue on a straight-line basis over the

twelve-month term of the membership. The restatement resulted in net sales for the three months ended March 31, 2002 being decreased by approximately $1,138,000. The restatement resulted in net sales for the three months ended March 31, 2001 being decreased by approximately $182,000. The restatement in net sales resulted in a corresponding adjustment to cost of sales for direct costs paid to a third party associated with the administrative enrollment fees received from distributors. Compared to amounts previously reported, the restatement decreased cost of sales by approximately $170,000 for the three months ended March 31, 2002. Compared to amounts previously reported, the restatement decreased cost of sales by approximately $65,000 for the three months ended March 31, 2001.

In connection with the 2003 annual audit, the Company reviewed its revenue cut-off as of the beginning of 2003. There was no impact of this item to the March 2002 or March 2001 financial statements.

The Company had not recorded a reserve for distributor returns and refunds as of September 30, 2003 and for prior periods. Based upon analysis of the Company's historical returns and refund trends by country, it was determined that a reserve for returns and refunds was required and should be recorded. The restatement resulted in no adjustment for the quarter ended March 31, 2001. The restatement resulted in net sales for the three months ended March 31, 2002 being decreased by approximately $88,000, with a corresponding adjustment to cost of sales for the estimated costs of products returned.

In 2001, the Company sold all of the outstanding common stock in Kaire Nutraceuticals, Inc. ("Kaire"), a Delaware corporation and wholly-owned subsidiary, to an unrelated third party. The gain on the sale of Kaire was approximately $3.1 million, a portion of which was previously deferred. The Company subsequently recognized into income approximately $1.9 million from the transaction over the period from the fourth quarter of 2001 through the second quarter of 2003. Based upon a review of the transaction, the Company now believes the gain on sale of Kaire should have been recognized only in 2001 and 2002 and not in 2003. The restatement resulted in no adjustment for the quarter ended March 31, 2001. The impact of this restatement for the three months ended March 31, 2002 is a reduction of extraordinary item-forgiveness of debt of $200,000.

The Company disclosed in its 2002 Form 10-KSB that it had a net operating loss carry forward at December 31, 2002 of approximately $6,000,000, subject to certain limitations. Consequently, the Company made no provision for income taxes for any period in 2002 or 2001. Upon further review, it has been determined that the available net operating loss was not expected to be sufficient to offset all of the domestic and foreign taxable income in 2002 or 2001. The restatement resulted in no adjustment for the quarters ended March 31, 2001 and March 31, 2002.

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The following tables present amounts from operations as previously reported and as restated (in thousands, except for per share data):

	Three Months Ended March 31, 2002	
	As Previously Reported	As Restated
Net sales	$ 6,154	$ 4,929
Cost of sales	1,090	903
Gross profit	5,064	4,026
Operating expenses	5,194	5,194
Operating income	(130)	(1,168)
Interest expense, other income, loss on foreign exchange and gain on discontinued operations	(60)	(60)
(Loss)income before extraordinary items	(190)	(1,228)
Extraordinary gain-forgiveness of debt	200	--
Net income	10	(1,228)
Preferred stock dividends	22	22
Net income available to common stockholders	$ (12)	$(1,250)
Basic income per share	$ 0.00	$ (0.47)
Basic weighted common shares used	2,665	2,665

Diluted income per share	$ 0.00	$ (0.37)
Diluted weighted commons shares used	3,399	3,399

Basic and Diluted Income per share:

The adjustments in net sales, cost of sales, operating expenses, other income and income taxes resulted in a net decrease in net income available to stockholders of approximately $1,238,000 over the amounts previously reported for the three months ended March 31, 2002. Restated basic income per share decreased $0.47 for the three months ended March 31, 2002. Restated diluted income per share decreased $0.37 for the three months ended March 31, 2002.

	Three Months Ended March 31, 2001	
	As Previously Reported	As Restated
Net sales	$ 3,186	$ 3,004
Cost of sales	639	574
Gross profit	2,547	2,430
Operating expenses	2,411	2,411
Operating income	136	19
Interest expense, other income, loss on foreign exchange and gain on discontinued operations	(15)	(15)
Net income	121	4
Preferred stock dividends	106	106
Net income available to common stockholders	$ 15	$ (102)
Basic income per share	$ 0.05	$ (0.37)
Basic weighted common shares used	278	278
Diluted income per share	$ 0.00	$ (0.02)
Diluted weighted common shares used	5,853	5,853

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Basic and Diluted Income per share:

The adjustments in net sales, cost of sales, operating expenses, other income and income taxes resulted in a net decrease in net income available to stockholders of approximately $117,000 over the amounts previously reported for the three months ended March 31, 2001. Restated basic and diluted income per share decreased $0.42 and $0.02, respectively, for the three months ended March 31, 2001.

3. Principles of Consolidation and Accounting Policies

The consolidated financial statements include the accounts of the Company and its subsidiaries. All significant intercompany accounts and transactions have been eliminated in consolidation.

Reclassifications

Certain reclassifications were made to the prior year financial statements to conform to the current year presentation.

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the USA 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.

Revenue Recognition

The Company's revenues are primarily derived from sales of products, sales of starter and renewal administrative enrollment packs and shipping fees. Substantially all product sales are sales to associates at published wholesale prices. The Company defers a portion of its revenue from the sale of its starter and renewal packs related to its administrative enrollment fee. The Company amortizes its deferred revenue and its associated direct costs over twelve months, the term of the membership. Total deferred revenue for the Company was approximately $2,486,000 as of March 31, 2002.

The Company also estimates and records a sales return reserve for possible sales refunds based on historical experience.

Shipping and Handling Costs

The Company records freight and shipping revenues collected from associates as revenue. The Company records shipping and handling costs associated with shipping products to its associates as cost of goods sold.

Earnings Per Share

Basic earnings per share is computed based on the weighted average number of common shares outstanding during the periods presented. Diluted earnings per share data gives effect to all potentially dilutive common shares that were outstanding during the periods presented.

4. Recent 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.

5. Equity Transactions

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 695,157 shares of Common Stock upon conversion of the shares of Preferred Stock and the accrued dividends thereon.

The Company issued 1,800 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 OPERATIONS

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").

Results of Operations - Three Months Ended March 31, 2002 Compared To The Three

Months Ended March 31, 2001.

As discussed in Note 2 to the consolidated financial statements, we have amended and restated our results for the three month periods ended March 31, 2002 and March 31, 2001. All of the following analyses apply the basis of the restated amounts.

Net Sales. Net sales were approximately $4,929,000 and $3,004,000 for the three months ended March 31, 2002 and March 31, 2001, respectively; an increase of $1,925,000. 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 Sales. Cost of sales for the three months ended March 31, 2002 was approximately $903,000 or 18% of net sales. Cost of sales for the three months ended March 31, 2001 was approximately $574,000 or 19% of net sales. The total cost of sales 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 $2,430,000 in the three months ended March 31, 2001 to approximately $4,026,000 in the three months ended March 31, 2002. The increase of approximately $1,596,000 was attributable to higher sales volumes by Lexxus.

Associate 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 25% of sales in the three months ended March 31, 2001 to approximately $1,982,000 or 40% 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.

Operating Income (loss). Operating income (loss) decreased from income of approximately $20,000 in the three months ended March 31, 2001 to an operating loss of approximately $1,168,000 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 (loss). Net income was a loss of approximately $1,228,000 in the three months ended March 31, 2002 as compared to net income of $4,000 in the three months ended March 31, 2001.

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 509,882 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 185,275 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 0.41 to 1.0 and the Company had a working capital deficit of approximately $5,864,000.

Cash provided by operations for the three months ended March 31, 2002 was approximately $1,072,000. Cash used in investing activities during the period was approximately $216,000, which relates primarily to capital expenditures. Cash provided by financing activities during the period was approximately $168,000, consisting of an investment by a minority owner. Total cash increased by approximately $1,030,000 during the period.

CRITICAL ACCOUNTING POLICIES

Management's discussion and analysis of our financial condition and results of operations is based upon our consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the USA. The preparation of financial statements requires management to make estimates and judgments that affect the reported amounts of assets and liabilities, revenue and expenses and disclosures at the date of the financial statements. We evaluate our estimates on an on-going basis, including those related to revenue recognition, legal contingencies and income taxes. We use authoritative pronouncements, historical experience and other assumptions as the basis for making estimates. Actual results could differ from those estimates.

CURRENCY RISK AND EXCHANGE RATE INFORMATION

Some of our revenue and some of our expenses are recognized outside of the United States, except for inventory purchases which are primarily transacted in U.S. dollars from vendors in the United States. The local currency of each of our subsidiary's primary markets is considered the functional currency. Revenue and expenses are translated at the weighted average exchange rates for the periods reported. Therefore, our reported revenue and earnings will be positively impacted by a weakening of the U.S. dollar and will be negatively impacted by a strengthening of the U.S. dollar. Given the uncertainty of exchange rate fluctuations, we cannot estimate the effect of these fluctuations on our future business, product pricing, and results of operations or financial condition.

ITEM 3. CONTROLS AND PROCEDURES

We maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed in our Exchange Act reports is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms and that such information is accumulated and communicated to our management, including our President and Chief Financial Officer, as appropriate, to allow for timely decisions regarding required disclosure. In designing and evaluating the disclosure controls and procedures, management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, and management is required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures.

During the quarters ended September 30 and December 31, 2003, the Company identified certain matters that resulted in the restatement of the Company's financial statements for the three months ended March 31, 2002 and 2001 as set forth in Note 2 to the Consolidated Financial Statements.

Within ninety (90) days prior to the date of this report, the Company's President and Chief Financial Officer evaluated the effectiveness of the Company's disclosure controls and procedures. Based upon his evaluation and as a result, in part, of the matters noted above, the Company's President and Chief Financial Officer has concluded that the Company's disclosure controls and procedures (as defined in Rules 13a-14(c) and 15d-14(c) under the Securities Exchange Act of 1937, as amended) are effective, with the qualification that the restatements mentioned above were just recently identified and implemented for the three and nine months ended September 30, 2002. Management requires additional time to fully (i) assess their correction plan and (ii) implement

appropriate enhancements to its controls and procedures, if and so warranted in the circumstances.

Since the date of his evaluation, there have been no significant changes to the Company's internal controls or other factors that could significantly affect these controls.

PART II - OTHER INFORMATION

Item 1. Legal Proceedings

Not applicable.

Item 2. Changes in Securities and Use of Proceeds

Not applicable.

Item 3. Defaults upon Senior Securities

Not applicable.

Item 4. Submission of Matters to Vote of Security Holders

Not applicable.

Item 5. Other Information

Not applicable.

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits

Not applicable.

(b) Reports on Form 8-K

Not applicable.

SIGNATURE

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

Mark D. Woodburn
President and Chief Financial Officer

Date: April 12, 2004