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NATURAL HEALTH TRENDS CORP  
Form 10QSB  
November 14, 2002

FORM 10-QSB

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

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

For Quarter Ended September 30, 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  
State or other jurisdiction of  
incorporation or organization

59-2705336  
(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   

No

The number of shares of issuer's Common Stock, \$.001 par value, outstanding as of November 11, 2002 were 345,072,201 shares.

NATURAL HEALTH TRENDS CORP.

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NATURAL HEALTH TRENDS CORP.

CONSOLIDATED BALANCE SHEET

(UNAUDITED)

September 30,  
2002

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| ASSETS  |              |
|---|--------------|
| Current Assets:   |              |
| Cash  | \$ 4,423,983 |
| Accounts receivable   | 459,228      |
| Inventories   | 1,834,489    |
| Prepaid expenses and other current assets   | 33,067       |
|   | -----        |
| Total Current Assets  | 6,750,767    |
| Restricted Cash   | 248,727      |
| Property and Equipment, net   | 424,574      |
| Deposits and Other Assets   | 794,475      |
| Goodwill  | 207,149      |
| Website   | 99,750       |
|   | -----        |
| Total Assets  | \$ 8,525,442 |
|   | =====        |
| LIABILITIES AND STOCKHOLDERS' DEFICIT   |              |
| Current Liabilities:  |              |
| Accounts payable  | \$ 3,169,074 |
| Accrued expenses  | 457,981      |
| Accrued bonus payable   | 1,692,274    |
| Reserve for contingent liabilities  | 1,800,000    |
| Current portion of long term debt   | 352,036      |
| Deferred revenue  | 3,740        |
| Other current liabilities   | 430,238      |
|   | -----        |
| Total Current Liabilities   | 7,905,343    |
|   | -----        |
| Minority interest   | 191,474      |
| Long term debt  | 429,494      |
|   | -----        |
| Total Liabilities   | 8,526,311    |
|   | -----        |
| Stockholders' Deficit:  |              |
| Preferred stock (\$1,000 par value;<br>authorized 1,500,000<br>shares; issued 768 shares)                       | 767,588      |
| Common Stock (\$.001 par value; authorized<br>500,000,000 shares; issued and outstanding<br>345,072,201 shares) | 345,072      |
| Additional paid-in capital  | 30,997,644   |
| Accumulated deficit   | (32,051,167) |
| Deferred compensation   | (213,750)    |
| Accumulated other comprehensive income  | 153,744      |
|   | -----        |
| Total Stockholders' Deficit   | (869)        |
|   | -----        |
| Total Liabilities and Stockholders' Deficit   | \$ 8,525,442 |
|   | =====        |

See Notes to Consolidated Financial Statements.

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

|   | Three Months Ended<br>September 30, |             | Nine Months Ended<br>September 30, |               |
|---|-------------------------------------|-------------|------------------------------------|---------------|
|   | 2002                                | 2001        | 2002                               | 2001          |
| Net Sales                                       | \$ 11,084,269                       | \$7,548,925 | \$ 26,354,605                      | \$ 20,558,976 |
| Cost of Sales                                   | 2,128,143                           | 1,462,251   | 4,792,264                          | 4,870,551     |
| Gross Profit                                    | 8,956,126                           | 6,086,674   | 21,562,341                         | 15,688,425    |
| Associate commissions                           | 4,665,502                           | 2,879,856   | 12,412,739                         | 9,333,493     |
| Selling, general and<br>administrative expenses | 2,878,838                           | 2,496,411   | 7,216,289                          | 4,290,066     |
| Operating income                                | 1,411,786                           | 710,407     | 1,933,313                          | 2,064,866     |
| Minority interest in<br>income of subsidiary    | (35,161)                            | -           | (95,539)                           | -             |
| Gain (loss) on foreign<br>exchange              | 45,113                              | 231         | (33,758)                           | (13)          |
| Other (expense) income                          | 5,222                               | 20,137      | (71,247)                           | 55,146        |
| Interest, net                                   | (11,729)                            | 4,088       | (44,338)                           | (11,446)      |
| Income before extraordinary<br>items            | 1,415,231                           | 734,863     | 1,688,431                          | 2,108,553     |
| Extraordinary gain -<br>forgiveness of debt     | 200,000                             | -           | 600,000                            | -             |
| Net income                                      | 1,615,231                           | 734,863     | 2,288,431                          | 2,108,553     |
| Preferred stock dividends                       | 19,313                              | 50,875      | 60,773                             | 281,804       |
| Net income to common<br>shareholders            | \$ 1,595,918                        | \$ 683,988  | \$ 2,227,658                       | \$ 1,826,749  |
| Basic income per common share:                  |                                     |             |                                    |               |
| Continuing operations                           | \$ 0.01                             | \$ 0.00     | \$ 0.01                            | \$ 0.02       |
| Extraordinary gain                              | 0.00                                | 0.00        | 0.00                               | 0.00          |
| Basic income per common share                   | \$ 0.01                             | \$ 0.00     | \$ 0.01                            | \$ 0.02       |
| Basic weighted common<br>shares used            | 304,924,593                         | 186,708,148 | 289,714,241                        | 107,385,224   |
| Diluted income per common<br>share:             |                                     |             |                                    |               |
| Continuing operations                           | \$ 0.01                             | \$ 0.00     | \$ 0.01                            | \$ 0.01       |

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|                                     |             |             |             |             |
|-------------------------------------|-------------|-------------|-------------|-------------|
| Extraordinary gain                  | 0.00        | 0.00        | 0.00        | 0.00        |
|                                     | -----       | -----       | -----       | -----       |
| Diluted income per common share     | \$ 0.01     | \$ 0.00     | \$ 0.01     | \$ 0.01     |
|                                     | =====       | =====       | =====       | =====       |
| Diluted weighted common shares used | 305,867,907 | 353,877,190 | 290,657,555 | 274,125,695 |
|                                     | =====       | =====       | =====       | =====       |

See Notes to Consolidated Financial Statements.

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NATURAL HEALTH TRENDS CORP.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(UNAUDITED)

|  | Three Months Ended<br>September 30, |            | Nine Months Ended<br>September 30, |              |
|--|-------------------------------------|------------|------------------------------------|--------------|
|  | 2002                                | 2001       | 2002                               | 2001         |
|  | -----                               | -----      | -----                              | -----        |
| Net income                             | \$ 1,615,231                        | \$ 734,863 | \$ 2,288,431                       | \$ 2,108,553 |
| Other comprehensive income, net of tax |                                     |            |                                    |              |
| Foreign translation adjustment         | 94,086                              | (57,665)   | 153,744                            | (20,462)     |
|  | -----                               | -----      | -----                              | -----        |
| Comprehensive income                   | \$ 1,709,317                        | \$ 677,198 | \$ 2,442,175                       | \$ 2,088,091 |
|  | =====                               | =====      | =====                              | =====        |

See Notes to Consolidated Financial Statements.

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NATURAL HEALTH TRENDS CORP.

CONSOLIDATED STATEMENTS OF CASH FLOWS

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(UNAUDITED)

|   | Nine Months Ended<br>September 30, |                     |
|---|------------------------------------|---------------------|
|   | 2002                               | 2001                |
| <b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>                                      |                                    |                     |
| Net income  | \$ 2,288,431                       | \$ 2,108,553        |
| Adjustments to reconcile net income to net cash provided by operating activities: |                                    |                     |
| Depreciation and amortization   | 289,878                            | 72,707              |
| Issuance of stock for services rendered and settlement of interest                | 290,089                            | 243,826             |
| Gain on forgiveness of debt   | (600,000)                          | -                   |
| Minority interest of subsidiary   | 191,474                            | -                   |
| Changes in assets and liabilities:  |                                    |                     |
| Accounts receivable   | (339,411)                          | (114,406)           |
| Inventories   | (909,728)                          | (663,162)           |
| Prepaid expenses  | 214,124                            | (134,227)           |
| Deposits and other assets   | (451,783)                          | (108,771)           |
| Accounts payable and accrued expenses   | 3,417,754                          | 555,745             |
| Deferred revenue  | 3,740                              | (105,570)           |
| Other current liabilities   | 323,015                            | (200,785)           |
| Total Adjustments   | 2,429,152                          | (454,643)           |
| <b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>                                  | <b>4,717,583</b>                   | <b>1,653,910</b>    |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>                                      |                                    |                     |
| Capital expenditures  | (364,032)                          | (171,708)           |
| <b>NET CASH USED IN INVESTING ACTIVITIES</b>                                      | <b>(364,032)</b>                   | <b>(171,708)</b>    |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>                                      |                                    |                     |
| Restricted cash   | (147,917)                          | (7,918)             |
| Proceeds from preferred stock   | -                                  | 50,000              |
| Proceeds from notes payable and long-term debt                                    | 260,000                            | 50,000              |
| Payments of notes payable and long-term debt                                      | (521,950)                          | (33,187)            |
| <b>NET CASH (USED IN) PROVIDED BY FINANCING ACTIVITIES</b>                        | <b>(409,867)</b>                   | <b>58,895</b>       |
| Effect of Exchange Rate Changes   | 155,984                            | 16,741              |
| <b>NET INCREASE IN CASH</b>   | <b>4,099,668</b>                   | <b>1,557,838</b>    |
| CASH, BEGINNING OF PERIOD   | 324,315                            | 108,419             |
| <b>CASH, END OF PERIOD</b>  | <b>\$ 4,423,983</b>                | <b>\$ 1,666,257</b> |

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See Notes to Consolidated Financial Statements.

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NATURAL HEALTH TRENDS CORP.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NINE MONTHS ENDED SEPTEMBER 30, 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 SB. 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 nine month period ended September 30, 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 \$1,155,000 at September 30, 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, 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

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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.

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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 nine months of 2002, the Company received notice of conversion on \$1,556,710 of Series F, H and J Preferred Stock. The Company issued 98,538,149 shares of Common Stock upon conversion of the shares of Preferred Stock and the accrued dividends thereon.
4. The Company issued 1,930,000 shares of Common Stock to a law firm in the first nine months of 2002 for legal services of approximately \$57,100.
5. The Company issued 23,666,333 shares of Common Stock in the first nine months of 2002 for payments of notes payable and accrued interest of approximately \$279,000.

### 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

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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, both of which distribute products that promote health, wellness and sexual vitality through the multi-level marketing ("MLM") channel.

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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., 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 June 30, 2002, LMC had not conducted any business, but intends to conduct business in the future.

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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").

In April 2002, NHTC incorporated Personal Care International India Pvt. Ltd., a corporation organized under the laws of India and a majority-owned subsidiary of NHTC ("MyLexxus India").

In June 2002, NHTC incorporated Lexxus Marketing Pte. Ltd., a corporation organized under the laws of Singapore and a majority-owned subsidiary of NHTC ("Lexxus Singapore").

Nine Months Ended September 30, 2002 Compared To The Nine Months Ended September 30, 2001.

**Net Sales.** Net sales were approximately \$26,355,000 and \$20,559,000 for the nine months ended September 30, 2002 and September 30, 2001, respectively; an increase of approximately \$5,796,000 or 28%. The increased sales were primarily from the sales of Lexxus products at varying prices in different markets and 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 nine months ended September 30, 2002 was approximately \$4,792,000 or 18% of net sales. Cost of goods sold for the nine months ended September 30, 2001 was approximately \$4,871,000 or 24% of net sales. Cost of goods sold decreased as a percentage of net sales due to increased sales volume of higher margin inventory, the lower costs associated with the packaging of the Lexxus product line, and increased efficiencies gained from global distribution channels.

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**Gross Profit.** Gross profit increased from approximately \$15,688,000 for the nine months ended September 30, 2001 to approximately \$21,562,000 for the nine months ended September 30, 2002. The increase of approximately \$5,874,000 or 37% is attributable to higher sales volumes by Lexxus and the international expansion of Lexxus.

**Commissions.** Associate commissions were approximately \$12,413,000 in the nine months ended September 30, 2002 compared to approximately \$9,333,000 for the nine months ended September 30, 2001, an increase of approximately \$3,080,000. This increase is directly attributable to the higher sales volume generated in 2002.

**Selling, General and Administrative Expenses.** Selling, general and administrative expenses as a percentage of net sales increased from approximately \$4,290,000 or 21% of net sales in the nine months ended September 30, 2001 to approximately \$7,216,000 or 27% of net sales in the nine months ended September 30, 2002. These expenses as a percentage of net sales increased

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primarily due to the expansion of Lexxus into international markets and the development of a strong global infrastructure, including increased personnel and facility costs.

**Income from Operations.** Operating income decreased from approximately \$2,065,000 for the nine months ended September 30, 2001 to approximately \$1,933,000 for the nine months ended September 30, 2002. The decrease of approximately 6% is due to the initial costs incurred in opening international offices and developing a marketing strategy in international markets.

**Income Taxes.** Income tax benefits were not reflected in either period due to the utilization of net operating loss carry forwards.

**Income before Extraordinary Items.** As of September 30, 2002 the Company had income before extraordinary times of approximately \$1,688,000 as compared to approximately \$2,109,000 as of September 30, 2001.

**Gain on Forgiveness of Debt.** During the nine months ended September 30, 2002, NHTC realized a gain of \$600,000 on the various debt and payables related to the sale of Kaire Nutraceuticals, Inc.

**Net Income.** Net income was approximately \$2,288,000 in the nine months ended September 30, 2002 as compared to approximately \$2,109,000 in the nine months ended September 30, 2001.

### Liquidity and Capital Resources

The Company has funded working capital and capital expenditure requirements primarily from cash receipts, which are directly from the sale of Lexxus and eKaire products.

In the nine months ended September 30, 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 nine months ended September 30, 2002, NHTC issued 6,082,671 shares of Common Stock to an accredited investor upon conversion of \$75,000, face amount of Series H Preferred Stock pursuant to Section 4(2) of the Act.

In the nine months ended September 30, 2002, NHTC issued 41,467,289 shares of Common Stock to an accredited investor upon conversion of \$385,000, face amount of Series J Preferred Stock pursuant to Section 4(2) of the Act.

At September 30, 2002, the ratio of current assets to current liabilities was 0.85 to 1.0 and the Company had a working capital deficit of approximately \$1,155,000.

Cash provided by operations for the nine months ended September 30, 2002 was approximately \$4,718,000. Cash used in investing activities during the period was approximately \$364,000. Cash used in financing activities during the period was approximately \$410,000. Total cash increased by approximately \$4,100,000 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

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going concern. While there can be no assurances, management believes that the profitability achieved during the nine months ended September 30, 2002 will continue for the foreseeable future.

### Item 3. Controls and Procedures

Within the 90 days prior to the date of this report, the Company carried out an evaluation, under the supervision and with the participation of the Company's management, including the Company's President and Chief Financial Officer, of the effectiveness of the design and operation of the Company's disclosure controls and procedures, as defined in Exchange Act Rules 13a-14(c) and 15d-14(c). Based upon that evaluation, the Company's President and Chief Financial Officer concluded that the Company's disclosure controls and procedures are effective in enabling the Company to record, process, summarize and report information required to be included in the Company's periodic SEC filings within the required time period.

There have been no significant changes in the Company's internal controls or in other factors that could significantly affect internal controls subsequent to the date the Company carried out its evaluation.

## PART II - OTHER INFORMATION

### Item 1. Legal Proceedings

On November 22, 2001, Pfizer, Inc. filed an action in the United States District Court, Southern District of New York, against Lexxus alleging that Lexxus' distribution and marketing of Viacreme TM infringes on Pfizer's federally registered trademark, Viagra (R). Pfizer's complaint alleges federal false designation of origin and unfair competition, federal trademark dilution, federal false advertising and unfair competition, common law trademark infringement, trademark dilution and deceptive acts and practices. NHTC settled the Pfizer lawsuit amicably in July 2002.

### Item 2. Changes in Securities and Use of Proceeds

In the three months ended September 30, 2002, NHTC issued 2,308,722 shares of Common Stock to an accredited investor upon conversion of \$25,000, face amount of Series H Preferred Stock pursuant to Section 4(2) of the Act.

In the three months ended September 30, 2002, NHTC issued 22,939,747 shares of Common Stock to an accredited investor upon conversion of \$110,000, face amount of Series J Preferred Stock pursuant to Section 4(2) of the Act.

### Item 3. Defaults upon Senior Securities

None.

### Item 4. Submission of Matters to Vote of Security Holders

None.

### Item 5. Other Information

None.

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PART III - OTHER

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits

99.1 Certification of President and Chief Financial Officer

(b) Reports on Form 8-K

8-K with date of report of May 11, 2002 filed September 30, 2002

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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

-----  
Mark D. Woodburn  
President

Date: November 14, 2002

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CERTIFICATION

Pursuant to Section 302 of the Sarbanes Oxley Act of 2002

I, Mark Woodburn, certify that:

1. I have reviewed this quarterly report on Form 10-QSB of Natural Health Trends, Corp.;
2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;
3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and

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cash flows of the registrant as of, and for, the periods presented in this quarterly report;

4. I am responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and I have:
  - a) designed such internal controls to ensure that material information relating to the registrant and its subsidiaries (collectively, the "Company") is made known to me by others within the Company, particularly during the period in which this quarterly report is being prepared;
  - b) evaluated the effectiveness of the registrant's internal controls as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and
  - c) presented in this quarterly report my conclusions about the effectiveness of the disclosure controls and procedures based on my evaluation as of the Evaluation Date;
5. I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of the registrant's board of directors:
  - a) all significant deficiencies (if any) in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and
  - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and
6. I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: November 14, 2002

By: /s/ Mark D. Woodburn

Mark Woodburn  
President and Chief Financial Officer