

NATURAL HEALTH TRENDS CORP
Form 10-Q
May 10, 2012

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended March 31, 2012

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: 0-26272

NATURAL HEALTH TRENDS CORP.
(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

59-2705336
(I.R.S. Employer
Identification No.)

4514 Cole Avenue
Suite 1400
Dallas, Texas 75205
(Address of principal executive offices, including zip code)

Registrant's telephone number, including area code: (972) 241-4080

2603 Oak Lawn Avenue
5th Floor
Dallas, Texas 75219
(Former name, former address and former fiscal year, if changed since last report)

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 No

Edgar Filing: NATURAL HEALTH TRENDS CORP - Form 10-Q

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer <input type="checkbox"/>	Accelerated filer <input type="checkbox"/>
Non-accelerated filer <input type="checkbox"/>	Smaller reporting company <input checked="" type="checkbox"/>

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes No

At May 7, 2012, the number of shares outstanding of the registrant's common stock was 11,326,323 shares.

NATURAL HEALTH TRENDS CORP.
Quarterly Report on Form 10-Q
March 31, 2012

INDEX

	Page
PART I – FINANCIAL INFORMATION	
Item 1. Financial Statements	1
Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations	9
Item 3. Quantitative and Qualitative Disclosures About Market Risk	15
Item 4. Controls and Procedures	15
PART II – OTHER INFORMATION	
Item 1. Legal Proceedings	16
Item 1A. Risk Factors	16
Item 2. Unregistered Sales of Equity Securities and Use of Proceeds	16
Item 3. Defaults Upon Senior Securities	16
Item 4. Mine Safety Disclosures	16
Item 5. Other Information	16
Item 6. Exhibits	16
Signatures	17

FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q, in particular “Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operation,” includes “forward-looking statements” within the meaning of section 21E of the Securities Exchange Act of 1934, as amended (the “Exchange Act”). When used in this report, the words or phrases “will likely result,” “expect,” “intend,” “will continue,” “anticipate,” “estimate,” “project,” “believe” and similar expressions are intended to identify “forward-looking statements” within the meaning of the Exchange Act. These statements represent our expectations or beliefs concerning, among other things, future revenue, earnings, growth strategies, new products and initiatives, future operations and operating results, and future business and market opportunities.

Forward-looking statements in this report speak only as of the date hereof, and forward looking statements in documents incorporated by reference speak only as of the date of those documents. We undertake no obligation to publicly update or revise any forward-looking statement, whether as a result of new information, future events or otherwise, except as required by law. We caution and advise readers that these statements are based on certain assumptions that may not be realized and involve risks and uncertainties that could cause actual results to differ materially from the expectations and beliefs contained herein.

For a summary of certain risks related to our business, see “Item 1A. Risk Factors” in our most recent Annual Report on Form 10-K, which include the following:

- Difficult economic conditions could harm our business;
- We may experience substantial negative cash flows, which may have a significant adverse effect on our business and could threaten our solvency;
- If we experience negative cash flows, we may need to seek additional debt or equity financing, which may not be available on acceptable terms or at all. If available, it could have a highly dilutive effect on the holdings of existing stockholders;
- We could be adversely affected by additional management changes or an inability to attract and retain key management, directors and consultants;
- Because our Hong Kong operations account for a majority of our overall business, and most of our Hong Kong business is derived from the sale of products to members in China, any material adverse change in our business relating to either Hong Kong or China would likely have a material adverse impact on our overall business;
- As a network marketing company, we rely on an independent sales force and we do not have direct control over the marketing of our products;
 - Our failure to maintain and expand our distributor relationships could adversely affect our business;
 - The high level of competition in our industry could adversely affect our business;
 - An increase in the amount of compensation paid to distributors would reduce profitability;
 - Failure of new products to gain distributor and market acceptance could harm our business;
- Direct-selling laws and regulations may prohibit or severely restrict our direct sales efforts and cause our revenue and profitability to decline, and regulators could adopt new regulations that harm our business;
 - Challenges by third parties to the form of our business model could harm our business;
 - Our products and related activities are subject to extensive government regulation, which could delay, limit or prevent the sale of some of our products in some markets;
 - New regulations governing the marketing and sale of nutritional supplements could harm our business;
 - Regulations governing the production and marketing of our personal care products could harm our business;
 - If we are found not to be in compliance with good manufacturing practices our operations could be harmed;
- Failure to comply with domestic and foreign laws and regulations governing product claims and advertising could harm our business;
- Although our distributors are independent contractors, improper distributor actions that violate laws or regulations could harm our business;

Edgar Filing: NATURAL HEALTH TRENDS CORP - Form 10-Q

- Adverse publicity associated with our products, ingredients or network marketing program, or those of similar companies, could harm our financial condition and operating results;
 - We have a limited product line;
 - We do not manufacture our own products so we must rely on independent third parties for the manufacturing and supply of our products;
 - Growth may be impeded by the political and economic risks of entering and operating foreign markets;
 - Currency exchange rate fluctuations could lower our revenue and net income;
 - Transfer pricing, duties and other tax regulations affect our business;
 - Failure to properly pay business taxes or customs duties, including those in China, could have a material adverse effect;
-

- We may be held responsible for certain taxes or assessments relating to the activities of our distributors, which could harm our financial condition and operating results;
 - We may face litigation that could harm our business;
 - We may be unable to protect or use our intellectual property rights;
 - We do not have product liability insurance and product liability claims could hurt our business;
 - Our internal controls and accounting methods may require modification;
- If we fail to achieve and maintain an effective system of internal controls in the future, we may not be able to accurately report our financial results or prevent fraud. As a result, investors may lose confidence in our financial reporting;
 - We rely on and are subject to risks associated with our reliance upon information technology systems;
 - System failures and attacks could harm our business;
- Terrorist attacks, cyber attacks, acts of war, epidemics or other communicable diseases or any other natural disasters may seriously harm our business;
 - Disappointing quarterly revenue or operating results could cause the price of our common stock to fall;
 - Our common stock is particularly subject to volatility because of the industry in which we operate;
 - There is no assurance that an active public trading market will continue;
- The exercise of our warrants may result in substantial dilution and may depress the market price of our common stock;
 - Future sales by us or our existing stockholders could depress the market price of our common stock; and
 - Penny stock regulations are applicable to investment in our shares of common stock.

Additional factors that could cause actual results to differ materially from our forward-looking statements are set forth in this report, including under the heading “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and in our financial statements and the related notes.

PART I – FINANCIAL INFORMATION

Item 1. FINANCIAL STATEMENTS

NATURAL HEALTH TRENDS CORP.

CONSOLIDATED BALANCE SHEETS

(In Thousands, Except Share Data)

	December 31, 2011	March 31, 2012 (Unaudited)
ASSETS		
Current assets:		
Cash and cash equivalents	\$1,617	\$2,758
Restricted cash	494	248
Accounts receivable	93	338
Inventories, net	1,089	1,008
Other current assets	537	646
Total current assets	3,830	4,998
Property and equipment, net	68	76
Goodwill	1,764	1,764
Restricted cash	220	225
Other assets	241	241
Total assets	\$6,123	\$7,304
LIABILITIES AND STOCKHOLDERS' DEFICIT		
Current liabilities:		
Accounts payable	\$2,208	\$1,997
Income taxes payable	11	22
Accrued distributor commissions	1,177	1,271
Other accrued expenses	1,471	1,788
Deferred revenue	967	1,335
Deferred tax liability	148	148
Other current liabilities	950	974
Total current liabilities	6,932	7,535
Commitments and contingencies		
Stockholders' deficit:		
Preferred stock, \$0.001 par value; 5,000,000 shares authorized; 1,761,900 shares designated Series A convertible preferred stock, 138,400 shares issued and outstanding at December 31, 2011 and March 31, 2012, aggregate liquidation value of \$316	124	124
Common stock, \$0.001 par value; 50,000,000 shares authorized; 11,326,323 shares issued and outstanding at December 31, 2011 and March 31, 2012	11	11
Additional paid-in capital	80,493	80,513
Accumulated deficit	(81,338)	(80,831)
Accumulated other comprehensive loss:		
Foreign currency translation adjustments	(99)	(48)

Total stockholders' deficit	(809)	(231)
Total liabilities and st				