

NATURAL HEALTH TRENDS CORP  
Form 10-Q  
May 04, 2015

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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, 2015

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)

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Delaware 59-2705336  
(State or other jurisdiction of (I.R.S. Employer  
incorporation or organization) 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

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

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 Accelerated filer  
Non-accelerated filer Smaller reporting company

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

At April 27, 2015, the number of shares outstanding of the registrant's common stock was 12,576,455 shares.

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NATURAL HEALTH TRENDS CORP.  
Quarterly Report on Form 10-Q  
March 31, 2015

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## 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 includes the following:

We could be adversely affected by 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;

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;

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 rely on a limited number of independent third parties to manufacture and supply 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;

Changes in tax or duty laws, and unanticipated tax or duty liabilities, could adversely affect our net income;

Transfer pricing regulations affect our business and results of operations;

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;

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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;  
Because our systems, software and data reside on third-party servers, our access could be temporarily or permanently interrupted;  
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;  
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;  
The historic price of our common stock has been volatile and the future market price of our common stock is likely to continue to be volatile. Further, the limited trading volume in our common stock has, and in the future may, contribute significantly to the high volatility in the market price of our common stock. This may make it more difficult for holders of our common stock to sell shares when they want and at prices they find attractive; and  
Future sales by us or our existing stockholders could depress the market price of our 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.

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**PART I – FINANCIAL INFORMATION****Item 1. FINANCIAL STATEMENTS**

NATURAL HEALTH TRENDS CORP.

**CONSOLIDATED BALANCE SHEETS**

(In Thousands, Except Share Data)

	December 31, 2014	March 31, 2015 (Unaudited)
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 44,816	\$ 59,866
Accounts receivable	107	178
Inventories, net	3,760	4,859
Other current assets	930	1,179
Total current assets	49,613	66,082
Property and equipment, net	476	699
Goodwill	1,764	1,764
Restricted cash	315	312
Other assets	372	591
Total assets	\$ 52,540	\$ 69,448
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities:		
Accounts payable	\$ 2,232	\$ 2,543
Income taxes payable	268	208
Accrued distributor commissions	8,853	7,430
Other accrued expenses	6,743	7,874
Deferred revenue	2,687	10,371
Deferred tax liability	65	65
Amounts held in distributor eWallets	2,064	4,962
Other current liabilities	1,513	1,717
Total current liabilities	24,425	35,170
Long-term incentive	1,665	1,603
Total liabilities	26,090	36,773



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Commitments and contingencies

Stockholders' equity:

Preferred stock, \$0.001 par value; 5,000,000 shares authorized; no shares issued and outstanding	-	-
Common stock, \$0.001 par value; 50,000,000 shares authorized; 12,891,317 shares issued at December 31, 2014 and March 31, 2015	13	13
Additional paid-in capital	85,750	85,608
Accumulated deficit	(54,799 )	(48,359 )
Accumulated other comprehensive income:		
Foreign currency translation adjustments	62	199
Treasury stock, at cost; 384,220 and 402,959 shares at December 31, 2014 and March 31, 2015, respectively	(4,576 )	(4,786 )
Total stockholders' equity	26,450	32,675
Total liabilities and stockholders' equity	\$ 52,540	\$ 69,448

See accompanying notes to consolidated financial statements.

## NATURAL HEALTH TRENDS CORP.

## CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED)

(In Thousands, Except Per Share Data)

	Three Months Ended March 31,	
	2014	2015
Net sales	\$23,162	\$40,709
Cost of sales	5,252	8,930
Gross profit	17,910	31,779
Operating expenses:		
Distributor commissions	10,423	18,397
Selling, general and administrative expenses (including stock-based compensation expense of \$25 and \$15 during the three months ended March 31, 2014 and 2015, respectively)	4,347	6,423
Depreciation and amortization	21	41
Total operating expenses	14,791	24,861
Income from operations	3,119	6,918
Other expense, net	(9 )	(109 )
Income before income taxes	3,110	6,809
Income tax provision	39	71
Net income	3,071	6,738
Preferred stock dividends	(4 )	-
Net income available to common stockholders	\$3,067	6,738
Income per common share:		
Basic	\$0.27	\$0.54
Diluted	\$0.26	\$0.54
Weighted-average number of common shares outstanding:		
Basic	11,361	12,453
Diluted	11,673	12,548
Cash dividends declared per share:		
Common	\$0.005	\$0.02
Series A preferred stock	\$0.815	\$-

See accompanying notes to consolidated financial statements.



NATURAL HEALTH TRENDS CORP.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (UNAUDITED)

(In Thousands)

	Three Months Ended March 31,	
	2014	2015
Net income	\$3,071	\$6,738
Other comprehensive income (loss), net of tax:		
Foreign currency translation adjustment	(27 )	137
Comprehensive income	\$3,044	\$6,875

See accompanying notes to consolidated financial statements.

## NATURAL HEALTH TRENDS CORP.

## CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

(In Thousands)

	Three Months Ended March 31,	
	2014	2015
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net income	\$3,071	\$6,738
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	21	41
Stock-based compensation	25	15
Changes in assets and liabilities:		
Accounts receivable	(39 )	(69 )
Inventories, net	(1,527)	(1,101 )
Other current assets	(1,105)	(259 )
Other assets	-	(221 )
Accounts payable	1,381	352
Income taxes payable	28	(59 )
Accrued distributor commissions	21	(1,419 )
Other accrued expenses	1,040	1,808
Deferred revenue	5,320	7,683
Amounts held in distributor eWallets	-	2,897
Other current liabilities	47	212
Long-term incentive	-	(62 )
Net cash provided by operating activities	8,283	16,556
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Purchases of property and equipment, net	(63 )	(266 )
Net cash used in investing activities	(63 )	(266 )
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Proceeds from exercise of warrants	598	-
Repurchase of common stock		