

SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, DC 20549

-----  
FORM 10-KSB

(Mark one)

X ANNUAL REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934.

For the fiscal year ended December 31, 2001

OR

TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934.

For the transition period from \_\_\_\_\_ to \_\_\_\_\_.

Commission file number 0-011228

NATURAL HEALTH TRENDS CORP.  
(Name of Small Business Issuer in Its Charter)

Florida 59-2705336  
(State or Other Jurisdiction of (I.R.S. Employer  
Incorporation or Organization) Identification No.)

5605 N. MacArthur Boulevard, 11th Floor  
Irving, Texas 75038  
(Address of principal executive office)

(972) 819-2035  
(Issuer's Telephone Number, Including Area Code)

Securities registered under Section 12(b) of the Exchange Act:

Title of Each Class On Which Registered	Name of Each Exchange
None	None

Securities registered pursuant to Section 12(g) of the Exchange Act:

Common Stock, par value \$.001  
(Title of Class)

Class A Warrants  
(Title of Class)

Class B Warrants  
(Title of Class)

Units  
(Title of Class)

Check whether the issuer: (1) filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the past 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 X No \_\_\_\_\_

Check if there is no disclosure of delinquent filers in response to Item 405 of Regulation S-B contained in this Form, and no disclosure will be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-KSB or any amendment to this Form 10-KSB or any amendment to this Form 10-KSB.

Issuer's revenues for its most recent fiscal year: \$24,794,036.

The number of shares of Common Stock held by nonaffiliates of the registrant (as determined for the purpose of this Form 10-KSB only) as of April 1, 2002 was 290,633,450 with an approximate aggregate market value of \$7,236,773, (based upon the closing price of such shares as of such date). The number of shares of the Common Stock of the issuer outstanding as of April 1, 2002 was 290,633,450.

Natural Health Trends Corp.  
2001 Form 10-KSB Annual Report

Table of Contents Page

Part I

Item 1	Description of Business	1
Item 2	Description of Property	10

Item 3	Legal Proceedings	10
Item 4	Submission of Matters to a Vote of Security Holders	11
Part II		
Item 5	Market for Common Equity and Related Stockholder Matters	11
Item 6	Management's Discussion and Analysis or Plan of Operation	13
Item 7	Financial Statements and Supplementary Data	16
Item 8	Changes in and Disagreements with Accountants on Accounting and Financial Disclosure	16
Part III		
Item 9	Directors, Executive Officers, Promoters and Control Persons; Compliance With Section 16(a)	16
Item 10	Executive Compensation	18
Item 11	Security Ownership of Certain Beneficial Owners and Management	20
Item 12	Certain Relationships and Related Transactions	21
Item 13	Exhibits, Lists Schedules, and Reports on Form 8-K	22
Signatures		23

-1-

## PART I

### ITEM 1. DESCRIPTION OF BUSINESS.

#### Corporate History

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 by 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. ("Lexxus"), the original founders of Lexxus International received an aggregate of 10,000,000 shares of Common Stock.

In February 1999, through a wholly-owned subsidiary NHTC acquired certain assets (the "Kaire Assets") of Kaire International, Inc., a Delaware corporation ("KII"). The assets included, but not limited to, the corporate name, all variations and any other product name, registered and unregistered trademarks, tradenames, servicemarks, patents, logos and copyrights of KII, and independent associate lists. In exchange for the Kaire Assets, NHTC made the following issuances:

- o to 11 secured creditors of KII, \$2,800,000 aggregate stated value of Series F preferred stock, par value \$1,000 per share, of NHTC (the "Series F Preferred Stock");
- o to two secured creditors of KII, \$350,000 aggregate stated value of Series G preferred stock, par value \$1,000 per share, of NHTC (the "Series G Preferred Stock");

- o to Kaire International, Inc., five-year warrants to purchase 200,000 shares of NHTC's Common Stock exercisable at \$4.06 per share.

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 December 31, 2001, LMC had not conducted any business, but intends to conduct business in the future.

-2-

In June 2001, NHTC sold 100% of the Common Stock in Kaire Nutraceuticals, Inc., Delaware Corporation, to a South African firm for a purchase price of the greater of (i) \$50,000 per year for a period of five years, or (ii) for five years, a percentage of net income based on a progressive scale of net sales figures of the South African firm. As of December 31, 2001, no income has been recognized on this transaction.

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 is 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").

## Industry Overview

### Natural Health and "Quality of Life" Products

NHTC believes that there is a general desire in today's marketplace to be fit, stay healthy, look younger, and lead a more satisfying life. Consumers are finding that factors contributing to a longer life can be controlled by changes in lifestyle, which include a regiment of vitamins and supplements, exercise and relaxation and pampering. Consumers are looking for a healthier lifestyle in this fast-paced society. They are also looking for the quick fix (eating out, working out, quick luxuries). NHTC believes that this general mindset will create a positive and profitable market for the products of Lexxus and eKaire.

The market for natural products and supplements is driven by the media which continues to highlight problems with diet, including the fact that consumers are becoming increasingly disenchanted with and skeptical about many conventional medical approaches to disease treatment, growing consumer interest in and acceptance of natural and alternative therapies and products, and recent clarifications and changes of food and drug laws that have significantly eased the regulatory burdens associated with the introduction and sale of dietary supplements.

NHTC believes that public awareness of the positive effects of nutritional supplements and natural remedies on health has been heightened by widely publicized reports and medical research findings indicating a correlation between the consumption and use of a wide variety of nutrients and natural remedies and the reduced incidence of certain diseases.

NHTC believes that the aging of the United States population, together with an increased focus on preventative and alternative health care measures, will continue to fuel increased demand for certain nutritional supplement products and natural remedies. Management also believes that the continuing shift to managed healthcare delivery systems will place greater emphasis on disease prevention and health maintenance, areas with which natural health products are most identified.

While distribution of natural health products, through small to large sized natural health food stores remains significant, the bulk of the growth is in the mass merchandisers and health food chains, such as General Nutrition Centers,

which now represent the majority of sales and are the fastest growing channels of distribution.

-3-

## Products

The following is a list of our principal products.

### Lexus

Viacreme TM is a topically applied creme designed to increase the sexual satisfaction of women and accounted for approximately 70% of Lexus' revenues in 2001. In the fall of 2001, Lexus introduced two new "quality of life" products, LexLips and La Vie. LexLips is a lip enhancing gloss for women designed to create the effect of fuller lips and to reduce wrinkles around the mouth. La Vie is a dietary supplement described as a non-alcoholic Bordeaux. In January 2002, Lexus launched a revolutionary "30-minute non-surgical facelift" product, Skindulgence TM, that management expects will rival Viacreme TM in popularity and sales volume.

### eKaire

#### Energizing Products

The energizing product line consists primarily of natural stimulants designed to enhance and increase vitality and endurance both mentally and physically. Products in this category include Ginkgo Shield and Momentum.

- o Ginkgo Shield assists in mental alertness and the circulatory system.
- o Momentum helps increase and balance energy levels.

#### Enhancing Products

The enhancing product line is designed to support an individual's overall health and includes such products as Immunol, Colloidal SilverKaire, Synerzyme, Arthrokaire, Osteo Formula, Royal Hawaiian Noni and SlimKaire.

- o Immunol is a shark liver oil based capsule which NHTC believes aids in the human immune system. This product is imported exclusively by eKaire into the United States.
- o Colloidal Silverkaire is a solution of silver particles electro-magnetically suspended in deionized water that provides dietary support for the immune system.
- o Synerzyme, a combination of naturally occurring enzymes and trace minerals that enhance the efficacy of, enzymes that assists the body with the breakdown and assimilation of various foods and fats.
- o ArthroKaire is a dietary supplement containing glucosamine, which helps to maintain the structural integrity of cartilage, tendons and blood vessels.
- o Osteo Formula is a dietary supplement that contains calcium which aids in bone strength and overall skeletal system health.
- o Noni is derived from a fruit grown only in the Central and South Pacific, and contains high levels of naturally occurring vitamins, minerals, trace elements, enzymes, and phytochemicals.
- o Slimkaire is a time-release, thermogenic weight management program with five herbal blends, including a thyroid support blend. Slimkaire is designed to assist in safe weight loss while giving the user a higher level of vitality and maintaining a healthy body. This product contains Ma Huang, a natural ephedrine extract. NHTC believes that its proprietary formula is superior to competitor blends for the health conscious individual, because it has no synthetic stimulant.

-4-

Kaire also offers a thermogenic weight management program, SK II, for individuals seeking a product without Ma Huang (ephedrine).

#### Optimizing Products

The optimizing product line provides many of the basic vitamins and nutrients, which are missing in the typical adult diet, through products such as MSM Complex, Bio10 and Celltonic Plus.

- o MSM Complex supports an increased production of collagen and elastin

fibers and increases cell permeability.

- o Bio10 is a live source of all 12 lactobacillus bacteria which helps improve digestion, and the process and absorption of nutrients.
- o Celltonic Plus is an organic mineral solution containing over 72 minerals and trace elements within an electrolyte drink.

#### Renewing Products

The renewing product line consists of moisturizing products designed to soothe and refresh. These products include Aloe Gel and DermaKaire with Pycnogenol(R).

- o Aloe Gel is a topical creme that soothes and refreshes the skin.
- o DermaKaire with Pycnogenol(R) is a moisturizing, whole-leaf Aloe product combined with a powerful antioxidant to maintain healthy-looking skin.

#### Reviving Products

The reviving product line consists primarily of nutritional supplements based on antioxidants including Maritime Prime with Pycnogenol (R) and EnzoKaire Complete.

- o Maritime Prime with Pycnogenol (R) is a dietary supplement that contains Pycnogenol (R) which helps maintain healthy circulation by strengthening capillary walls, by protecting against free radical damage caused by stress, pollution and chemical additives, and by improving skin and collagen texture, elasticity and smoothness. Pycnogenol (R) is a patented extract from the bark of the Maritime Prime trees grown in southwestern France.
- o EnzoKaire Complete is a dietary supplement containing Enzogenol TM which is a natural antioxidant that provides protection for cells against the effects of free radicals. It also increases energy and endurance, and slows the aging process. Enzogenol TM is derived from the bark of the New Zealand pine tree, Pinus radiata.

Most of the products in this product line are based on proprietary formulations in several combinations containing natural products including Pycnogenol (R) and Enzogenol TM. Products containing Pycnogenol (R) have not yet been approved for direct importation into Australia.

Viacreme TM and Pycnogenol (R) and Enzogenol TM are trademarks of our manufacturers.

-5-

#### Marketing and Distribution

NHTC, through its subsidiaries Lexxus and eKaire, seeks to be a leader in the personal health and wellness marketplace by driving its products into as many venues and into as many markets as possible through its multi-level marketing ("MLM") operations. NHTC's two-tiered mission is to enrich the lives of the users of its products while enabling associates to take control of their financial future and personal lives. In light of the wide variety of products that NHTC and its subsidiaries offer, neither are dependent on any one specific customer.

Each of NHTC's subsidiaries is set up as a MLM company using a network of associates to sell products. Associates are independent contractors who purchase products directly from the respective subsidiary for resale to retail consumers or for personal consumption. Associates may elect to work on a full-time or a part-time basis. The growth of an associate's business depends largely upon the ability to recruit down-line associates and the strength of NHTC's products in the marketplace.

To become a Lexxus associate, a person must sign an agreement to comply with the policies and procedures of the applicable subsidiary and pay a nominal \$100 fee. To be considered "active", the associate must order a minimum of \$100 of products from the applicable Lexxus subsidiary during each year. Lexxus currently has approximately 24,000 "active" associates.

To become an eKaire associate, a person must sign an agreement to comply with the policies and procedures of the applicable subsidiary. To remain "active", the associate must order a minimum of \$50 of products from such subsidiary during each year. Out of an approximately 60,000 accounts, eKaire currently has approximately 6,000 "active" associates.

NHTC pays commissions to qualified associates based on sales volumes for each commission period. NHTC offers one of the highest payouts in the MLM

sector, a 60% commission rate on Lexxus product orders and 40% commission rate on eKaire product orders. NHTC believes that the uniqueness and efficacy of its products, combined with the highest payout in the business, creates a highly desirable business opportunity and work environment for its associates.

Additionally, Lexxus is implementing a new marketing plan by developing vending machines for the distribution of Viacreme TM in such venues as pharmacies, hotels and nightclubs. NHTC plans to debut the machines in the marketplace during the third quarter of 2002. The machines will be closely monitored to determine the venues where they are the most successful. This data will be compiled and will provide NHTC with detailed data to assist in the development of the rollout strategy for the machines.

NHTC sponsors opportunity meetings and participates in motivational training events in key cities. These events are designed to inform prospective and existing associates about both existing and new product lines and selling techniques. Associates share their MLM experiences, their individual selling styles, and their recruiting methods. Prospective associates are educated about the structure, dynamics and benefits of the network marketing industry. NHTC continues to develop marketing strategies and programs to motivate associates. These programs are designed to increase associates' monthly product sales and the recruiting of new associates.

To help maintain communication with the associate network, NHTC offers the following support programs to its associates:

#### Touchtalk and Faxback

Touchtalk is an automated telephone system that associates can call 24 hours a day to receive reports on the sales activity of their organization and listen to selected messages on special offers, marketing program updates, and product information. Certain information is also available via facsimile to the associate.

-6-

#### Weekly Teleconference

Both Lexxus and eKaire hold a weekly teleconference with company management and associate field leadership on various subjects such as technical product discussions, associate organization building and management techniques.

#### Internet

NHTC maintains web-sites at [www.nhtc.ws](http://www.nhtc.ws), [www.kaire.com](http://www.kaire.com), [www.lexxusinternational.com](http://www.lexxusinternational.com) and [www.mylexxus.com](http://www.mylexxus.com). On each website, the user can read company news, learn more about various products, place orders and sign up to be an associate.

#### Product Literature

NHTC offers a variety of literature to its associates, including product catalogs, informational brochures, pamphlets, and posters for individual products.

#### Toll Free Access

Kaire offers a toll free number, to place orders and to sponsor new associates. Both eKaire and Lexxus offer "live" consumer support.

#### Broadcast Fax/Broadcast E-mail

Announcements about Lexxus and eKaire and product specials are automatically sent via facsimile and/or e-mail to associates.

#### Direct Selling

According to the Direct Selling Association, network marketing is one of the fastest growing segments for the distribution of products. The Direct Selling Association reports that, over 38.7 million individuals are now involved in direct selling worldwide (of which network marketing is a major segment) and that those involved in direct selling generate \$82 billion in annual sales around the world. Network marketing sales in the United States are estimated to be approximately \$25.6 billion annually.

Currently, NHTC has associates in all fifty states, the District of Columbia, Puerto Rico, Guam, Canada, Australia, New Zealand, Trinidad and Tobago, Taiwan, Hong Kong, and sixteen countries in eastern Europe, including Russia, in order to maximize its direct selling efforts. NHTC believes that significant market potential exists for its products in additional international markets.

#### New Product Development

In January 2002, Lexus introduced a "30-minute non-surgical facelift", Skindulgence TM. The 30-Minute FaceLift process temporarily creates a more youthful appearance by toning and firming facial muscles, diminishing fine lines and wrinkles and by improving skin tone and color through a unique blend of botanical extracts from both plants and trees. The masque is coupled with a cleanser and moisturizer.

In early 2002, eKaire introduced a new Whey Protein product, a pharmaceutical-grade milk serum protein isolate which enhances the immune system.

Management believes that its ability to introduce new products increases its associates' visibility and competitiveness in the marketplace. NHTC maintains its own product review and evaluation staff and relies upon independent research consultants and vendor research departments for product research, development and formulation.

-7-

## Competition

NHTC competes with a significant number of other retailers that are engaged in similar lines of business, including both sellers of health-related products and MLMs. The two most well known and established of the MLMs are Avon Products, Inc. and Amway Corp., each with over three million associates worldwide. Other non-MLM retailers with which NHTC competes include retail pharmacies and health stores such as GNC and Internet companies such as VitaminShoppe.com. The market for nutritional supplements is rapidly growing and is highly competitive. The MLM channel tends to sell products at a higher price compared to retailers, which does pose a degree of competitive risk with respect to price points. In the case of NHTC, however, several of NHTC's products are patented, or are exclusive formulations. As a result, NHTC believes that it is significantly insulated from this risk because duplication of the exact blends and proportions of ingredients used by NHTC in its patented and exclusive formulations is extremely difficult.

The market for Lexus products shows tremendous potential, especially for NHTC's flagship product, Viacreme TM. According to the Journal of the American Medical Association, 46% of women have reportedly indicated to their physicians that they have an interest in a product that would increase sexual desire and satisfaction.

The eKaire products target consumers in the vitamin, mineral, and nutritional supplement market, which generates nearly \$50 billion per year. eKaire offers a variety of nutraceutical products, some of which are proprietary and exclusive to NHTC, making duplication very difficult.

## Seasonality

NHTC believes that the recruitment of associates and the general sales volume fluctuates on a pattern opposite of typical retail sales. Since NHTC is a home-based business, the associates tend to take "typical" vacations such as summer and winter holidays, thus, slowing down the sales volume during such vacation periods.

## Manufacturing

NHTC does not intend to develop its own manufacturing capabilities due to the fact that NHTC believes the availability of manufacturing services from third parties on a contract basis is adequate to meet its anticipated production needs.

NHTC currently purchases all products from third parties that manufacture such products to meet specific criteria and standards. All nutritional supplements, raw materials and finished products are subject to sample testing, weight testing and purity testing by independent laboratories.

Lexus has a contractual arrangement with the manufacturer, 40 J's L.L.C., of Viacreme TM through the end of 2002. The arrangement grants worldwide MLM rights to NHTC to sell the product, Viacreme TM. The arrangement calls for perpetuity unless both parties agree to terminate the relationship.

For other products, NHTC places orders for finished goods and manufacturing services to meet the demand of the market. These orders are based on price quotations and other terms obtained from selected manufacturers.

## Intellectual Property

In November 2001, Lexus' product Viacreme TM was awarded a patent to its formulator.

Most of the eKaire and Lexus products are packaged under a "private

label." NHTC has registered trademarks for the names, logos and various product names in the countries into eKaire and Lexxus currently operate. NHTC has applied for trademark registration for names, logos and various product names in several countries that into which eKaire and Lexxus are considering expanding. NHTC currently has approximately 15 trademark registrations in the United States and approximately two trademark applications pending with the United States Patent and Trademark Office. NHTC's registered trademark expire or become renewable between the date ranges of March 2005 to October 2008. NHTC's policy is to pursue registrations for all the

-8-

trademarks associated with its key products and try to protect its legal rights concerning its trademarks. NHTC relies on common law trademark rights to protect its unregistered trademarks. These common law trademark rights do not provide NHTC with the same level of protection as afforded by a United States federal registration trademark. Common law trademark rights are limited to the geographic area in which the trademark is actually utilized, while a United States federal registration of a trademark enables the registrant to discontinue the unauthorized use of the trademark by a third party anywhere in the United States even if the registrant has never used the trademark in the geographic area where the trademark is being used, provided however, that the unauthorized third party user has not, prior to the registration date, perfected its common law rights in the trademark in that geographic area.

#### Government Regulation

NHTC believes that all of our existing products are either cosmetics or dietary supplements which do not require governmental approvals prior to marketing in the United States though they are regulated by the Food & Drug Administration ("FDA"). The processing, formulation, packaging, labeling and advertising of such products, however, are subject to regulation by one or more federal agencies including the FDA, the Federal Trade Commission, the Consumer Products Safety Commission, the Department of Agriculture, the Department of Alcohol, Tobacco and Firearms and the Environmental Protection Agency. NHTC's activities are also subject to regulation by various agencies of the states and localities in which its products are sold. In addition, the sale of NHTC's products by associates in foreign markets are subject to regulation and oversight by various federal, state and local agencies in those markets. At any time, the FDA may increase the regulation of NHTC's products by deeming certain ingredients used in the products to be drugs.

In January 2000, the FDA issued a final ruling, effective February 7, 2000, related to structure/function statements that may be claimed on dietary supplement product labels. The rule provides for clarification of when a structure/function claim may be made without prior FDA approval and when a claim constitutes disease related claims. The final rule provides for the adoption of previously issued language by the Nutrition Labeling and Education Act ("NLEA") for 'disease or health related conditions' and among other things allows for express and implied disease claims to be made through the name of a product, through a statement about the formulation of a product, or through the use of pictures, vignettes, or symbols. The finalized rule now interprets DSHEA to permit structure/function claims for the effects of "natural states" or common conditions associated with natural states and may include such phrases as "maintains a healthy circulatory system".

NHTC believes that the above finalized rule loosens the restrictions on its labeling of products regarding dietary supplements and structure/function claims provided that any such statements by NHTC do not suggest that the supplement is intended to augment or replace a specific prescription drug or therapy for a disease.

NHTC is unaware of any legal actions pending or threatened by the FDA or any other governmental authority against NHTC or any of its products.

Certain ingredients utilized in our weight management products, primarily ephedrine, are increasingly subject to regulations being promulgated by various state agencies. These regulations generally limit the amount of the ingredient or require a conspicuous warning label be affixed to each product. In addition, certain states have prohibited the sale of ephedrine-based products to minors or at all. There can be no assurances that NHTC will not be subject to additional regulation on its weight management product line.

Direct selling activities are regulated by various governmental agencies. These laws and regulations are generally intended to prevent fraudulent or deceptive schemes, often referred to as "pyramid" or "chain sales" schemes, that

-9-

promise quick rewards for little or no effort, require high entry costs, use high pressure recruiting methods and/or do not involve legitimate products.



Based on research conducted in opening its existing markets the nature and scope of inquiries from government regulatory authorities and our history of operations in such markets to date, NHTC believes that its methods of distribution are in compliance in all material respects with the laws and regulations relating to direct selling activities of the countries in which it currently operates. Even though NHTC believes that laws governing direct selling are generally becoming more permissive, many countries currently have laws in place that would prohibit NHTC from conducting business in such markets. There can be no assurance that NHTC will be allowed to continue to conduct business in each of its existing markets that it currently services or any new market it may enter in the future.

NHTC believes that it is in material compliance with all regulations applicable to our products and operations. Despite this belief, NHTC may be found not to be in material compliance with existing regulations as a result of, among other things, the considerable interpretative and enforcement discretion given to regulators or misconduct by associates. There can be no assurances that NHTC will not be subject to inquiries and regulatory investigations or disputes and the effects of any adverse publicity resulting therefrom. Any assertion or determination that NHTC or any of its associates are not in compliance with existing laws or regulations could have a material adverse effect on the business and results of operations. In addition, in any country or jurisdiction, the adoption of new laws or regulations or changes in the interpretation of existing laws or regulations could generate negative publicity and/or have a material adverse effect on the business and results of operations. NHTC cannot determine the effect, if any, that future governmental regulations or administrative orders may have on the business and results of operations. Moreover, governmental regulations in countries where NHTC may commence or expand its operations may prevent, delay or limit market entry of certain products or require the reformulation of such products. Regulatory action, whether or not it results in a final determination adverse to NHTC, has the potential to create negative publicity, with detrimental effects on the motivation and recruitment of associates and consequently, on sales and earnings.

#### Research and Development

NHTC has incurred minimal research and development costs in the years ended December 31, 2001 and December 31, 2000. NHTC purchases finished goods from manufacturers and sells directly to its associates for their resale or personal consumption.

#### Environmental Matters

There are no environmental hazards that NHTC believes effects its operations.

#### Employees

NHTC has its principle offices in Irving, Texas, and the subsidiary companies have a total of eight offices in both the U.S. and abroad. NHTC has offices and warehouses in Queensland, Australia, Auckland, New Zealand, British Columbia, Canada, Kaohsiung, Taiwan, Moscow, Russia and Zurich, Switzerland. The combined total of employees for Lexxus and eKaire is 43 at December 31, 2001, including eight senior management, five administrative assistants, five warehouse employees, and 25 "general operations" employees, which includes employees in customer service and administrative roles. Forty employees are full-time and five are part-time. NHTC has approximately 30,000 active associates (combined Lexxus and eKaire), who act as independent contractors selling NHTC's products and who are not employees of NHTC. None of the employees are represented by a union, and NHTC believes that employee relations are good.

-10-

#### Product Warranties and Returns

##### Lexxus

The Lexxus refund policies and procedures closely follow industry standards. Associates may return unopened product in resalable condition for a partial refund. All product purchased prior to October 1, 2001 had a 30-day refund policy. All products purchased after October 1, 2001 must be returned within twelve months of the original purchase date for refund eligibility. Lexxus must be notified of the return in writing and such written requests will be considered termination notice of the distributorship.

##### eKaire

eKaire product warranties and refund policies are similar to those of other companies in the industry. If an associate is not satisfied with the product then he/she can return to eKaire within 90 days of the first time the product was purchased for a full refund. An associate may return or exchange products that are unopened and in resalable condition for 30 days after the date

of purchase.

#### Management Information Systems

NHTC utilizes a third party to process associate orders and to calculate the associate commission payments. The eKaire commission system provides each associate with a detailed monthly accounting of all sales and recruiting activity. These statements eliminate the need for substantial record keeping on behalf of the associate. Lexxus maintains a web-based system to communicate volume and commissions to its associates.

#### Insurance

NHTC currently carries general liability insurance in the amount of \$1,000,000 per occurrence and \$1,000,000 in the aggregate. There can be no assurance, however, that this insurance will be sufficient to cover potential claims or that an adequate level of coverage will be available in the future at a reasonable cost, if at all. A successful claim could have a material adverse effect on NHTC.

-11-

#### ITEM 2. DESCRIPTION OF PROPERTY.

NHTC utilizes approximately 1,000 square feet of office space in Irving, Texas on an as needed basis, through an arrangement with Regus Business Centre which provides business solutions for companies. NHTC pays a minimum annual rental fee of \$2,100. Lexxus leases an aggregate of approximately 16,000 square feet of office and warehouse space in Dallas, Texas. The lease term is 38 months, expiring on September 30, 2004, and the current rent is approximately \$151,500 per year. Additional warehousing for Lexxus is located in Branson, Missouri where Lexxus utilizes approximately 35,000 square feet of warehouse space. The lease term is on a month-to-month basis at a rent of \$18,000 per year. The Canadian office and warehouse of Lexxus and eKaire leases office space in Langley, British Columbia, totaling approximately 3,600 square feet. The lease term is 36 months, expiring on December 1, 2004 and the current rent is approximately \$25,000 per year.

Kaire Australia, Kaire New Zealand, Lexxus Australia and Lexxus New Zealand lease office space and warehouse facilities of approximately 2,475 square feet in Queensland, Australia. The lease term is 60 months, expiring on January 1, 2007, and the current rent is approximately \$20,000 per year.

In March 2002, Lexxus Taiwan entered into a two-year lease for 6,314 square feet of office space at a current rent of approximately \$75,000 per year.

Kaire Trinidad leases approximately 1,100 square feet of office space in downtown Port-of-Spain, Trinidad. The lease term is on a month-to-month basis.

NHTC is currently in the process of finding adequate office space for its subsidiaries in Hong Kong and Russia.

NHTC believes that such properties are suitable and adequate for the current operating needs.

#### ITEM 3. LEGAL PROCEEDINGS.

On August 4, 1997, Samantha Haimen brought an action in the Fifteenth Judicial Circuit of Palm Beach County, Florida, against NHTC and National Health Care Centers of America, Inc., a wholly-owned subsidiary of NHTC. NHTC asserted counterclaims against Samantha Haimen and Leonard Haimen. The complaint arises out of the defendants' alleged breach of contract in connection with NHTC's natural health care center, which was located in Boca Raton, Florida. NHTC agreed to settle such actions for shares of Common Stock with a fair market value of \$325,000, but not less than 125,000 shares of Common Stock and agreed to register such shares. On October 10, 2000, due to noncompliance with the settlement, a judgment was taken against NHTC in the amount of \$325,000 plus interest. On October 12, 2001, NHTC entered into a payment arrangement to settle this obligation. NHTC has recorded a liability of \$325,000 plus interest at ten percent (10%) per annum, which is included in the financial statements for the year ended December 31, 2001.

On July 10, 2000, the State of Texas obtained a judgment against NHTC in the amount of \$109,170 for unpaid sales taxes, penalties, interest, and attorney fees. NHTC has entered into a voluntary payment arrangement and has recorded a liability of \$109,170 plus interest at seven percent (7%) per annum, which is included in the financial statements for the year ended December 31, 2001.

On December 29, 2000, Merrill Corporation obtained a judgment against NHTC

in the amount of \$145,497, plus interest at eight percent (8%) per annum, which is included in the financial statements for the year ended December 31, 2001.

On October 30, 2001, Omni Group LLC filed an action in the State of Vermont, Addison Superior Court against NHTC, alleging that NHTC tortuously interfered with Omni Groups's existing contractual relationships and made representations about Omni Group that were untrue. Omni Group is seeking \$5 million in

-12-

compensatory damages and \$5 million in punitive damages. NHTC is defending this action. NHTC filed an answer on April 2, 2002 in which NHTC denied any wrongdoing.

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 Viancreme 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 is defending this action and is currently in settlement discussions with Pfizer.

On March 21, 2002, NFL Properties, Inc. brought an action in the Supreme Court of the County of Onondaga in the State of New York against NHTC and Natural Health Laboratories in the amount of approximately \$126,000 for alleged breach of contract. NHTC's management believes that the action naming NHTC as a defendant was a case of mistaken identity, and is currently trying to have NHTC removed as a defendant in this action.

#### ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS.

During the last quarter of 2001, NHTC did not submit any matter to the vote of the shareholders.

#### ITEM 5. MARKET FOR COMMON EQUITY AND RELATED STOCKHOLDER MATTERS.

##### PRICE RANGE OF COMMON STOCK

NHTC's Common Stock is currently quoted on the OTCBB under the symbol "NHTC". NHTC's Common Stock was delisted from the NASDAQ Small Cap Market in July 2000 for failure to meet the NASDAQ requirements for continued listing. The following table sets forth the range of high and low closing sale prices as reported by the NASDAQ Small Cap Market through June 2000 and the high and low bid prices as reported by the OTCBB since June 2000.

##### NASDAQ SMALL CAP MARKET

Date	High Closing	Low Closing
2000		
First Quarter	2.000	1.219
Second Quarter	1.219	0.281

##### OTCBB

Date	High Bid	Low Bid
2000		
Third Quarter	0.438	0.031
Fourth Quarter	0.078	0.016
2001		
First Quarter	0.047	0.016
Second Quarter	0.150	0.016
Third Quarter	0.070	0.030
Fourth Quarter	0.050	0.020

-13-

The OTCBB quotations reflect inter-dealer prices, without retail mark-ups, mark-downs or commissions, and may not represent actual transactions.

In January 2001, NHTC increased the number of authorized shares of its Common Stock to 500,000,000 by a majority vote of its Board of Directors.

Holdings

As of March 4, 2002, NHTC had approximately 263 record holders of Common Stock and approximately 1,200 beneficial holders of Common Stock.

#### Dividends

NHTC has not paid any cash dividends on Common Stock to date and does not anticipate declaring or paying any cash dividends in the foreseeable future. In addition, future financing arrangements, if any, may preclude or otherwise restrict the payment of dividends.

#### Recent Sales of Unregistered Securities

In April 2001, NHTC issued 50 shares of Series H Preferred Stock with a face value of \$1,000 per share to an accredited investor, pursuant to Section 4(2) of the Securities Act of 1933, as amended (the "Act") and/or Rule 506 of Regulation D, as promulgated by the Act.

In April 2001, NHTC issued 500,000 shares of Common Stock to certain management employees, pursuant to Section 4(2) of the Act.

In May 2001, NHTC issued 50 shares of Series H preferred stock with a face value of \$1,000 per share, to an accredited investor, pursuant to Section 4(2) of the Act and/or Rule 506 of Regulation D, as promulgated by the Act.

During 2001, NHTC issued 35,523,045 shares of Common Stock to accredited investors upon conversion of \$946,768, face amount of Series E Preferred Stock pursuant to Section 4(2) of the Act and/or Rule 506 of Regulation D, as promulgated by the Act.

During 2001, 51,559,177 shares of Common Stock to accredited investors upon conversion of \$1,416,408, face amount of Series F Preferred Stock pursuant to Section 4(2) of the Act and/or Rule 506 of Regulation D, as promulgated by the Act.

During 2001, NHTC issued 15,732,164 shares of Common Stock to accredited investors upon conversion of \$344,200, face amount of Series G Preferred Stock pursuant to Section 4(2) of the Act and/or Rule 506 of Regulation D, as promulgated by the Act.

During 2001, NHTC issued 27,699,368 shares of Common Stock to accredited investors upon conversion of \$614,542, face amount of Series H Preferred Stock pursuant to Section 4(2) of the Act and/or Rule 506 of Regulation D, as promulgated by the Act.

During 2001, NHTC issued 12,260,376 shares of Common Stock to an accredited investor upon conversion of \$206,194, face amount of Series J Preferred Stock pursuant to Section 4(2) of the Act and/or Rule 506 of Regulation D, as promulgated by the Act.

-14-

## ITEM 6. MANAGEMENT'S DISCUSSION AND ANALYSIS OR PLAN OF OPERATION.

### BACKGROUND

Prior to August 1997, the operations of NHTC consisted of the operation of natural health care centers and vocational schools. Upon the acquisition of GHA on July 23, 1997, NHTC commenced the marketing and distribution of a line of natural, over-the-counter homeopathic pharmaceutical products. Upon the acquisition of certain Kaire assets in 1999, NHTC started the marketing and distribution of a line of natural, herbal-based dietary supplements and personal care products through a network marketing distribution system. NHTC discontinued the operations of GHA during the fourth quarter of 1999 and filed for Chapter 7 bankruptcy in March 2001 on behalf of GHA and Ellon. In January 2001, NHTC acquired Lexxus, which primarily sells "quality-of-life" products.

### RESULTS OF OPERATIONS

Year Ended December 31, 2001 Compared to the Year Ended December 31, 2000

#### Revenues

Revenues for the year ended December 31, 2001 were approximately \$24,794,000 as compared to revenues for the year ended December 31, 2000 of approximately \$8,320,000, an increase of approximately \$16,474,000 or approximately 298%. The increased sales for the year ended December 31, 2001 were primarily from the sale of Lexxus products with eKaire showing a slight rise in sales from the year ended December 31, 2000.

#### Cost of Sales

Cost of sales for the year ended December 31, 2001 was approximately

\$5,876,000 or 24% of revenues. Cost of sales for the year ended December 31, 2000 was \$2,410,000 or 29% of revenues. The total cost of sales increased by approximately \$3,466,000 or 244% most of which was attributable to Lexxus product mix and sales volume compared to 2000 sales of only eKaire products. The decrease in the cost of sales as a percentage of revenues is attributable to lower manufactured cost of Lexxus products in conjunction with the higher sales volume of Lexxus products are eKaire products.

#### Gross Profit

Gross profit increased from approximately \$5,910,000 in the year ended December 31, 2000 to approximately \$18,918,000 in the year ended December 31, 2001. The increase was approximately \$13,008,000 or 320%. The increase was attributable to the increase in gross sales by both Lexxus and eKaire.

#### Commissions

Associate commissions were approximately \$12,449,000 or 50% of revenues in the year ended December 31, 2001 compared with approximately \$3,682,000 or 44% of revenues for the year ended December 31, 2000. The increase of commission expense is directly related to the increase in gross sales and the terms of the compensation plans. Lexxus carries an average payout of 60% of product sales whereas eKaire has an average payout of 40% of product sales.

#### Selling, General and Administrative Expenses

Selling, general and administrative costs decreased from approximately \$5,777,000 or 69% of revenues in the year ended December 31, 2000 to approximately \$5,187,000 or 21% of revenues in the year ended December 31, 2001, a decrease of approximately \$590,000 or 11% which is attributable to the downsizing of eKaire operations and shared overhead costs between Lexxus and eKaire.

#### Interest Expense

Interest expense was approximately \$260,000 or 3% of revenues in the year ended December 31, 2000 compared with approximately \$157,000 or 1% of revenues in the year ended December 31, 2001, a decrease of approximately \$103,000 due to a decrease in debt borrowings, a decrease in the beneficial conversion feature of certain debt instruments, and conversion of convertible debt into Common Stock in 2001.

#### Income Taxes

Income tax benefits were not reflected in either period. The anticipated benefits of utilizing net operating losses against future profits was not recognized in the years ended December 31, 2001 or 2000 under the provisions of Financial Standards Board Statement of Financial Accounting Standards No. 109, "Accounting for Income Taxes", utilizing its loss carry forwards as a component of income tax expense. A valuation allowance equal to the net deferred tax asset has been recorded as management has not been able to determine that it is more likely than not that the deferred tax assets will be realized.

#### Income (Loss) from Continuing Operations

Net income from continuing operations was approximately \$1,202,000 in the year ended December 31, 2001 or approximately 5% of revenues as compared to the net loss from continuing operations of approximately \$12,803,000 or approximately (154) % of revenues in the year ended December 31, 2000.

#### Discontinued Operations

NHTC discontinued the operations of its wholly-owned subsidiary in the United Kingdom in February 2000 and recognized a loss of \$15,000 on the liquidation of this asset for the year ended December 31, 2000.

#### Gain on Forgiveness of Debt

During the year ended December 31, 2001, NHTC realized a gain of approximately \$820,000 on the various debt and payables related to the sale of Kaire Nutraceuticals, Inc. During the year ended December 31, 2000, NHTC realized a gain of approximately \$2,148,000 on the various debt and payables of GHA due to the filing of a Chapter 7 bankruptcy.

#### Liquidity and Capital Resources

NHTC has funded the working capital and capital expenditure requirements primarily from cash provided through sales of products, borrowings from institutions and individuals, and from the sale of securities in private placements.

In March 2000, NHTC sold 1,000 shares of Series J Preferred Stock, par value \$1,000 per share, (the "Series J Preferred Stock") realizing net proceeds of \$1,000,000. Series J Preferred Stock pays a dividend at the rate of 10% per annum. Series J Preferred Stock and the accrued dividends thereon are convertible into shares of Common Stock at a conversion price equal to the lower of the closing bid price on the conversion date or 70% of the average closing bid price of the Common Stock for the lowest three trading days during the twenty day period immediately preceding the date on which NHTC receives notice of conversion from a holder thereof. In connection with the offering of the Series J Preferred Stock, NHTC issued warrants to purchase 141,907 shares of Common Stock at an exercise price of \$1.41 per share. During 2001, \$206,194, face amount of Series J Preferred Stock was converted into 12,260,376 shares of Common Stock.

In May 2000, NHTC borrowed \$20,700 from Tyler Pipeline, Inc. This indebtedness was evidenced by NHTC's issuance of a convertible promissory note. The note bears interest at 10% per annum and is payable on demand. The note is convertible into shares of Common Stock at a discount equal to 60% of the average closing bid price of the Common Stock on the three days preceding notice of conversion of the note. In April 2001, this note was fully satisfied through conversion into an aggregate of 2,163,710 shares of Common Stock.

16

In October 2000, NHTC issued 50 shares of Series H Preferred Stock for \$50,000 realizing net proceeds of \$43,500. The Series H Preferred Stock pays dividends of 10% per annum and is convertible into shares of Common Stock at the lower of the closing bid price on the conversion date or 75% of the market value of the Common Stock on the conversion date.

In October 2000, NHTC borrowed \$10,000 from Meridian Investments, Inc. This indebtedness was evidenced by NHTC's issuance of a convertible promissory note. The note bears interest at 10% per annum and is payable on demand. The note is convertible into shares of Common Stock at a discount equal to 60% of the average closing bid price of the Common Stock on the three days preceding notice of conversion. The note was repaid in November 2001.

In November 2000, NHTC borrowed \$25,000 from Filin Corp. This indebtedness was evidenced by NHTC's issuance of a convertible promissory note. The note bears interest at 10% per annum and is payable on demand. The note is convertible into shares of Common Stock at a discount equal to 60% of the average closing bid price of the Common Stock on the three days preceding notice of conversion. The note was converted into an aggregate of 1,452,805 shares of Common Stock in August 2001.

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

In April 2001, NHTC borrowed \$100,000 from Augusta Street LLC. This indebtedness was evidenced by NHTC's issuance of a convertible promissory note. The note bears interest at 10% per annum and is payable on demand. The note is convertible into shares of Common Stock at a discount equal to 75% of the average closing bid price of the Common Stock on the five days preceding notice of conversion.

In April 2001, NHTC issued an aggregate of 200,000 shares of Common Stock to an individual in exchange for a loan of \$50,000.

In April 2001, NHTC issued 50 shares of Series H Preferred Stock for \$50,000 realizing net proceeds of \$43,500. The Series H Preferred Stock pays dividends of 10% per annum and is convertible into shares of Common Stock at the lower of the closing bid price on the conversion date or 75% of the market value of the Common Stock on the conversion date.

In May 2001, NHTC issued 50 shares of Series H Preferred Stock for \$50,000 realizing net proceeds of \$43,500. The Series H Preferred Stock pays dividends of 10% per annum and is convertible into shares of Common Stock at the lower of the closing bid price on the conversion date or 75% of the market value of the Common Stock on the conversion date.

At December 31, 2001, the ratio of current assets to current liabilities was .31 to 1.0 and NHTC had a working capital deficit of approximately \$3,522,000.

Cash provided by operations for the period ended December 31, 2001 was approximately \$35,000. Cash used by investing activities during the period was approximately \$302,000, which primarily relates to the acquisition of fixed assets of approximately \$141,000 and websites of \$133,000. Cash provided by financing activities during the period was approximately \$449,000, primarily

from the issuance of preferred stock of \$100,000 and notes payable of \$382,000. Total cash increased by approximately \$216,000 during the year.

17

ITEM 7. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA.

NHTC's consolidated financial statements, including the notes thereto, together with the report of independent certified public accountants thereon, are presented beginning at page F-1.

ITEM 8. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE.

None.

PART III

ITEM 9. DIRECTORS, EXECUTIVE OFFICERS, PROMOTERS AND CONTROL PERSONS; COMPLIANCE WITH SECTION 16(a).

MANAGEMENT

Directors and Executive Officers

The following table sets forth certain information concerning the directors and executive officers.

Name	Age	Position
Mark D. Woodburn	31	President, Chief Financial Officer, Secretary and sole director

The following is a brief summary of NHTC's sole executive officer and director:

Mark D. Woodburn became Secretary of NHTC in April 1999. In August 2000, Mr. Woodburn also became a director of NHTC. Mr. Woodburn became the President of NHTC in September 2000. Between April 1999 and September 2000, Mr. Woodburn served as NHTC's Chief Financial Officer. Since 1992, Mr. Woodburn served as a director and the Secretary of Kaire International, Inc. Currently, Mr. Woodburn serves as Chief Financial Officer of Lexxus International, Inc. and eKaire.com, Inc.

Compliance with Section 16(a) of the Exchange Act

Based solely upon a review of (i) Forms 3 and 4 and amendments thereto furnished to the Company pursuant to Rule 16a-3(e), promulgated under the Securities Exchange Act of 1934 (the "Exchange Act"), during the Company's fiscal year ended December 31, 2001, and (ii) Forms 5 and amendments thereto and/or written representations furnished to NHTC by any director, officer or ten percent security holder of NHTC (collectively "Reporting Persons") stating that he or she was not required to file a Form 5 during the fiscal year ended December 31, 2001, it has been determined that no Reporting Person is delinquent with respect to his or her reporting obligations set forth in Section 16(a) of the Exchange Act.

ITEM 10. EXECUTIVE COMPENSATION.

NHTC does not have a bonus, profit sharing, or deferred compensation plan for the benefit of employees, officers or directors.

18

The following table provides a summary of cash and non-cash compensation for each of the last three fiscal years ended December 31, 2001, 2000 and 1999 with respect to the following officers.

SUMMARY COMPENSATION TABLE

<TABLE>

<CAPTION>

Name and Other Principal Position	Annual Compensation		Long Term Compensation Awards			Restricted Securities
	Year	Salary (\$)	Bonus (\$)	Other Annual Compensation	Restricted Securities	
				Other Annual Compensation	Restricted Securities	

<S>	<C>	<C>	<C>	(\$)(1)	Award(s) (\$)	Options/SARs (#)		
Mark D. Woodburn (2)	2001	17,000	-	-	-	-	-	-
President	2000	34,000	-	-	-	-	-	-
	1999	55,750	-	-	-	-	-	-
Terry LaCore (3)	2001	115,000	-	-	-	-	3,000,000	
CEO of Lexxus International, Inc.	2000	100,000	-	-	16,016	-	-	-
	1999	80,769	-	-	-	-	-	-
Robert L. Richards, (4)	2001	-	-	-	-	-	-	-
Former President & CEO	2000	68,692	-	-	-	-	-	-
	1999	96,923	-	-	-	-	-	-
Joseph P. Grace (5)	1999	133,333	-	-	-	-	-	-

- (1) Excludes perquisites and other personal benefits that in the aggregate do not exceed 10% of each of such individual's total annual salary and bonus.
- (2) Mr. Woodburn became NHTC's President in September 2000. He became NHTC's Secretary in April 1999. Between April 1999 and September 2000, he served as NHTC's Chief Financial Officer.
- (3) Mr. LaCore is the CEO of Lexxus.
- (4) Mr. Richards became NHTC's President in September 1999 and resigned in August 2000.
- (5) Mr. Grace resigned in September 1999.

19

#### Stock Options

In January 2001, NHTC granted the following options to purchase Common Stock to the executive officers named above.

<TABLE>  
<CAPTION>

Name	Number of securities underlying options/SARs granted	Percent of total options/SARs granted to employees in fiscal year	Exercise base price (\$/share)	Expiration Date
Mark Woodburn	-	-	-	-
Terry LaCore	3,000,000	100%	\$.011/share	January 2011

</TABLE>

- (1) Does not include the 3,000,000 options issued to Benchmark Consulting Group.

During the fiscal year ended December 31, 2001, Mr. LaCore had not exercised any of these options. The shares issued to Mr. LaCore have certain anti-dilutive features. The anti-dilutive provision provides for additional options to be granted in the event NHTC issues additional Common Stock.

#### Consulting Agreement

In January 2001, NHTC entered into a consulting contract with Benchmark Consulting Group, pursuant to which Benchmark agreed to advise NHTC in connection with the acquisition of, startup of, and/or merger with other companies introduced to NHTC by Benchmark, and any divestiture of NHTC's assets, subsidiaries, or the sale of NHTC itself. NHTC issued to Benchmark options to purchase an aggregate of 3,000,000 shares of Common Stock at an exercise price of \$.011 per share. These shares have certain anti-dilutive features. The anti-dilutive provision provides for additional options to be granted in the event NHTC issues additional Common Stock.

#### Directors' Compensation

Neither the director of NHTC nor those of any of its subsidiaries receive any fixed compensation for their services as directors. Directors are reimbursed for their reasonable out-of-pocket expenses incurred in connection with performance of their duties. Neither NHTC nor any of its subsidiaries paid its directors any cash or other form of compensation for acting in such capacity, although directors who were also executive officers received cash compensation for acting in the capacity of executive officers.



ITEM 11. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT.

The following table sets forth certain information as to the Common Stock ownership of each of the directors, executive officers, all executive officers and directors as a group, and all persons known to us to be the beneficial owners of more than five percent of NHTC's Common Stock as of January 31, 2002.

Name and address of Beneficial Owner	Amount and nature of Beneficial Owner	% of Class
Mark D. Woodburn c/o NHTC 5605 N. MacArthur Blvd. 11th Floor Irving, TX 75038	-	*
	20	
The Endeavour Capital Investment Fund SA Cumberland House #27 Cumberland Street Nassau, New Providence, The Bahamas	25,349,643	9.9%
All Executive Officers and Directors as a Group (1 person)	-	*

\* Owns less than one (1%) percent.

Unless otherwise noted, all persons named in the table have sole voting and dispositive power with respect to all shares of Common Stock beneficially owned by them.

The table does not include shares of Common Stock issuable upon the conversion of the Series F, H, and J preferred stock, which are the only classes of Preferred Stock that have not been entirely converted into shares of Common Stock. Pursuant to the terms of the Series F, H, and J preferred stock, the holders thereof generally are not entitled to convert such instruments to the extent that such conversion would increase the holders' beneficial ownership of Common Stock to an amount in excess of 4.9%, except in the event of mandatory conversion. On the date of a mandatory conversion of the Series F, H, and J preferred stock, a change in control may occur, based upon the number of shares of Common Stock issuable to such holders.

ITEM 12. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

As of December 31, 2001, NHTC owed approximately \$70,000 to Robert L. Richards, its former president and a former director, in connection with liabilities assumed in connection with the KII acquisition.

NHTC believes that the transactions between NHTC and any of the officers, directors and/or five percent (5%) stockholders have been on terms no less favorable to NHTC than could have been obtained from independent third parties. Future transactions, if any, between NHTC and any of its officers, directors, and/or five percent (5%) stockholders will be on terms no less favorable to NHTC than could be obtained from independent third parties and will be approved by a majority of the independent, disinterested directors. In addition, any forgiveness of indebtedness of officers, directors or five percent (5%) stockholders will be approved by a majority of disinterested directors who do not have an interest in the transactions and who have access, at NHTC's expense, to counsel.

ITEM 13. EXHIBITS, LISTS AND REPORTS ON FORM 8-K.

(a) Exhibits

Index to Exhibits

NUMBER DESCRIPTION OF EXHIBIT

2.2 Acquisition Agreement among NHTC, NHTC Acquisition Corp. and Kaire International, Inc. (the "Acquisition Agreement").(3)

- 2.3 Acquisition Agreement among NHTC and Lexus International \*
- 3.1 Amended and Restated Certificate of Incorporation of the Company.(4)
- 3.2 Amended and Restated By-Laws of NHTC.(4)
- 4.1 Specimen Certificate of NHTC's Common Stock.(4)
- 4.2 Form of Class A Warrant.(4)
- 4.3 Form of Class B Warrant.(4)
- 4.4 Form of Warrant Agreement between NHTC and Continental Stock Transfer & Trust Company for Class A and B Warrants.(4)
- 4.5 1994 Stock Option Plan.(4)
- 4.6 1997 Stock Option Plan.(11)
- 4.7 1998 Stock Option Plan.(11)
- 4.8 Articles of Amendment of Articles of Incorporation of the Company.(6)
- 4.9 Articles of Amendment of Articles of Incorporation- Series C Preferred Stock.(7)
- 4.10 Articles of Amendment of Articles of Incorporation- Series E Preferred Stock.(3)
- 4.11 Articles of Amendment of Articles of Incorporation- Series F Preferred Stock.(3)
- 4.12 Articles of Amendment of Articles of Incorporation- Series G Preferred Stock.(3)
- 4.13 Articles of Amendment of Articles of Incorporation- Series H Preferred Stock.(3)
- 4.14 Form of Warrant in connection with the Acquisition Agreement.(3)
- 4.15 Articles of Amendment of Articles of Incorporation - Series J Preferred Stock (13)
- 4.16 Stock Option Agreement among NHTC and Terry LaCore \*
- 4.17 Stock Option Agreement among NHTC and Benchmark Consulting Group \*
- 10.17 Convertible Promissory Note among NHTC and Augusta Street LLC \*
- 10.18 Convertible Promissory Note among NHTC and Augusta Street LLC \*
- 10.19 Consulting Agreement between NHTC and Summit Trading Limited \*
- 10.20 Lease for Registrant's Irving, Texas facility \*
- 10.21 Distributor Agreement-40J's \*
- 21.1 List of Subsidiaries.\*

- -----  
 (\*) Filed herewith.

- (3) Previously filed with NHTC's Proxy Statement on Schedule 14A, dated January 25, 1999.
  - (4) Previously filed with Registration Statement No. 33-91184.
  - (5) Previously filed with NHTC's Form 8-K dated August 7, 1997.
  - (6) Previously filed with NHTC's Form 10-QSB dated June 30, 1997.
  - (7) Previously filed with the Company's Form 10-QSB dated September 30, 1998.
  - (8) Previously filed with the Company's Form 10-KSB for the year ended December 31, 1996.
  - (9) Previously filed with NHTC's Form 10-KSB for the year ended December 31, 1998.
  - (11) Previously filed with NHTC's Registration Statement, File No. 333-80465.
  - (13) Previously filed with NHTC's Form 8-K dated March 17, 2000.
- (b) Reports on Form 8-K

No reports on Form 8-K were filed during the quarter ended December 31, 2001.

22

#### SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities and Exchange Act of 1934, we have duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Natural Health Trends Corp.

Signature                      Title                      Date

/s/ Mark D. Woodburn      President and Chief Financial  
----- Officer                      April 16, 2002  
Mark D. Woodburn      (Principal Financial and Accounting  
                                 Officer)

Pursuant to the requirements of Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

Signature	Title	Date
/s/ Mark D. Woodburn ----- Mark D. Woodburn	Sole Director	April 16, 2002

23  
NATURAL HEALTH TRENDS CORP. AND SUBSIDIARIES  
INDEX TO FINANCIAL STATEMENTS

The following consolidated financial statements of Natural Health Trends Corp. are included in response to Item 7:

PAGE

Report of Independent Auditors.....	F-2
Consolidated Balance Sheet.....	F-3
Consolidated Statements of Operations.....	F-4
Consolidated Statements of Stockholders' Deficit.....	F-5
Consolidated Statements of Cash Flows.....	F-6
Notes to Consolidated Financial Statements.....	F-7

F-1

INDEPENDENT AUDITORS' REPORT

Board of Directors  
Natural Health Trends Corp. and Subsidiaries  
Irving, Texas

We have audited the accompanying consolidated balance sheet of Natural Health Trends Corp. and Subsidiaries as of December 31, 2001 and the related consolidated statements of operations, stockholders' deficit and cash flows for the years ended December 31, 2001 and 2000. These financial statements are the responsibility of NHTC's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, the financial position of Natural Health Trends Corp. and Subsidiaries as of December 31, 2001 and the results of its operations and its cash flows for the years ended December 31, 2001 and 2000, in conformity with accounting principles generally accepted in the United States of America.

The accompanying financial statements have been prepared assuming that NHTC will continue as a going concern. The Company had incurred a loss in year

ended December 31, 2000 and as more fully described in Note 2, the Company anticipates that additional funding will be necessary to sustain the Company's operations through the fiscal year ending December 31, 2001. These conditions raise substantial doubt about the Company's ability to continue as a going concern. Management's plans in regard to these matters are also described in Note 2. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

/s/ Feldman Sherb & Co., P.C.  
 Feldman Sherb & Co., P.C.  
 Certified Public Accountants

New York, New York  
 April 5, 2001

F-2

NATURAL HEALTH TRENDS CORP. AND SUBSIDIARIES  
 CONSOLIDATED BALANCE SHEET  
 December 31, 2001

Current Assets	
Cash	\$324,315
Account receivables	119,817
Inventories	924,761
Prepaid expenses and other current assets	247,191
	-----
Total Current Assets	1,616,084
Restricted cash	100,809
Property and Equipment, net	147,919
Goodwill	207,765
Website	99,750
Deposits and Other Assets	324,685
	-----
Total Assets	<u>\$2,497,012</u>

LIABILITIES AND STOCKHOLDERS' DEFICIT

Current Liabilities:	
Accounts payable	\$4,035,674
Accrued expenses	146,048
Accrued bonus payable	119,852
Notes Payable	558,088
Current portion of long term debt	171,070
Other current liabilities	107,223
	-----
Total Current Liabilities	5,137,955
Long Term Notes Payable	292,313
	-----
Total Liabilities	5,430,268
	-----
Stockholders' Deficit:	
Preferred stock	2,324,298
Common stock	220,938
Additional paid in capital	29,218,823
Accumulated deficit	(34,278,824)
Deferred compensation	(416,250)
Cumulative currency translation adjustment	(2,241)
	-----
Total Stockholders' Deficit	(2,933,256)
	-----
Total Liabilities and Stockholders' Deficit	<u>\$2,497,012</u>

See Notes to Consolidated Financial Statements

F-3

NATURAL HEALTH TRENDS CORP. AND SUBSIDIARIES  
 CONSOLIDATED STATEMENTS OF OPERATIONS

<TABLE>  
<CAPTION>

	Year Ended December 31,	
	2001	2000
	-----	-----
<S>	<C>	<C>
Revenues	\$ 24,794,036	\$ 8,320,105
Cost of Sales	5,875,970	2,410,096
	-----	-----
Gross Profit	18,918,066	5,910,009
Associate commissions	12,449,357	3,681,646
Write-down of patents and goodwill	-	9,002,582
Selling, general and administrative expenses	5,186,633	5,777,474
	-----	-----
Operating income (loss)	1,282,076	(12,551,693)
Minority Interest in Loss of Subsidiary	105,686	-
Gain (loss) on foreign exchange	(5,861)	9,076
Other income (expense)	(23,229)	-
Interest (net)	(156,549)	(260,160)
	-----	-----
Income (loss) from continuing operations	1,202,123	(12,802,777)
Discontinued Operations:		
Loss on disposal	-	(15,000)
	-----	-----
Income (loss) before extraordinary gain	1,202,123	(12,817,777)
Extraordinary gain - forgiveness of debt	820,498	2,148,478
	-----	-----
Net income (loss)	2,022,621	(10,669,299)
Preferred stock dividends	1,089,231	1,277,251
	-----	-----
Net income (loss) to common shareholders	\$ 933,390	\$ (11,946,550)
	=====	=====
Basic income (loss) per common share:		
Continuing Operations	\$ 0.01	\$ (1.47)
Discontinued Operations	0.00	0.00
Extraordinary gain	0.00	0.22
	-----	-----
Net income (loss) to common shareholders	\$ 0.01	\$ (1.25)
	=====	=====
Basic weighted common shares used	134,206,832	9,588,718
	=====	=====
Diluted income (loss) per common share:		
Continuing Operations	\$ 0.00	\$ (1.47)
Discontinued Operations	0.00	0.00
Extraordinary gain	0.00	0.22
	-----	-----
Net income (loss) to common shareholders	\$ 0.00	\$ (1.25)
	=====	=====
Diluted weighted common shares used	239,317,475	9,588,718
	=====	=====

</TABLE>

See Notes to Consolidated Financial Statements.

F-4

<TABLE>  
<CAPTION>

NATURAL HEALTH TRENDS CORP. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' DEFICIT

<S>	Common Stock		Preferred Stock		APIC	Accumulated Deficit	Foreign Currency	Deferred Comp	Total
	Shares	Amount	Shares	Amount					
	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
BALANCE	7,989,846	\$7,990	5,164	\$5,163,696	\$21,443,914	\$(23,165,664)	-	\$(666,000)	\$2,783,936
-December 31, 1999									
Issuance of Convertible Series J Preferred stock	-	-	1,000	1,000,000	(62,530)	-	-	-	937,470
Issuance of Common Stock warrants	-	-	-	100,000	(100,000)	-	-	-	-
Conversion of Series H	434,660	435	(359)	(359,154)	385,068	(26,349)	-	-	-

Preferred stock										
Conversion of	3,935,171	3,934	-	-	1,216,053	-	-	-	1,219,987	
Notes Payable to										
Common Stock										
Conversion of	2,984,122	2,984	(94)	(93,232)	90,248	-	-	-	-	
Series E										
Preferred Stock										
Conversion of	279,852	280	(6)	(5,800)	5,520	-	-	-	-	
Series G										
Preferred Stock										
Issuance of	-	-	50	50,000	-	-	-	-	50,000	
Convertible										
Series H										
Preferred stock										
Conversion of	138,318	138	(3)	(3,100)	2,962	-	-	-	-	
Series F										
Preferred stock										
Write down	-	-	-	-	(555,000)	-	-	555,000	-	
deferred										
compensation										
Amortize	-	-	-	-	-	-	-	111,000	111,000	
Deferred										
Compensation										
Foreign currency	-	-	-	-	-	-	(37,203)	-	(37,203)	
translation										
Preferred Stock	-	-	-	-	1,250,902	(1,250,902)	-	-	-	
Dividend										
Adjust Note	-	-	-	-	(133,333)	-	-	-	(133,333)	
Payable due in										
Common Stock										
Net Loss	-	-	-	-	(10,669,299)	-	-	(10,669,299)		
BALANCE -December										
31, 2000	15,761,970	15,761	5,752	5,752,410	23,743,804	(35,212,214)	(37,203)	-	(5,737,442)	
Conversion of	35,523,045	35,523	(947)	(946,768)	911,245	-	-	-	-	
Convertible										
Series E										
Preferred stock										
Conversion of	51,559,177	51,559	(1,416)	(1,416,408)	1,364,849	-	-	-	-	
Convertible										
Series F										
Preferred Stock										
Conversion of	15,732,164	15,732	(344)	(344,200)	328,468	-	-	-	-	
Convertible										
Series G										
Preferred Stock										
Conversion of	27,699,368	27,700	(615)	(614,542)	586,842	-	-	-	-	
Convertible										
Series H										
Preferred Stock										
Issuance of	-	-	100	100,000	-	-	-	-	100,000	
Convertible										
Series H										
Preferred stock										
Series J	12,260,376	12,261	(206)	(206,194)	193,933	-	-	-	-	
Conversion of										
Note Payable to	22,887,006	22,887	-	-	400,126	-	-	-	423,013	
Common Stock										
Shares Issued for	21,224,601	21,225	-	-	500,325	-	-	(416,250)	105,300	
Services										
Penalties	8,290,013	8,290	-	-	-	-	-	-	8,290	
Preferred Stock	-	-	-	-	1,089,231	(1,089,231)	-	-	-	
Dividends										
Foreign currency	-	-	-	-	-	-	34,962	-	34,962	
translation										
Acquisition	10,000,000	10,000	-	-	100,000	-	-	-	110,000	
Net Income	-	-	-	-	2,022,621	-	-	-	2,022,621	
BALANCE-December	220,937,720	\$220,938	2,324	\$2,324,298	\$29,218,823	\$(34,278,824)	\$(2,241)	\$(416,250)	\$(2,933,256)	
31, 2001										

</TABLE>

See Notes to Consolidated Financial Statements.

F-5

NATURAL HEALTH TRENDS CORP.  
CONSOLIDATED STATEMENTS OF CASH FLOWS

Year Ended December 31,

	2001	2000
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net income (loss)	\$ 2,022,621	\$(10,669,299)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Loss on dissolution	-	15,000
Depreciation and amortization	90,578	364,400
Loss on disposal of fixed asset	-	(666,856)
Write down of patents and goodwill	-	9,002,582
Gain on forgiveness of debt	(820,498)	(2,148,478)
Issuance of common stock in settlement of interest	-	6,059
Minority interest in loss of subsidiary	(105,686)	-
Common stock issued for services and penalties	529,840	-
Changes in assets and liabilities:		
Accounts receivable	(68,049)	355,722
Inventories	(727,692)	863,065
Prepaid expenses	(229,599)	157,117
Deposits and other assets	(237,646)	(11,432)
Accounts payable and cash overdraft	1,209,237	683,473
Accrued expenses	(1,332,182)	52,731
Accrued consulting contract	-	666,000
Deferred revenue	(119,413)	(408,418)
Other current liabilities	(177,432)	7,545
Total Adjustments	(1,988,542)	8,938,510
<b>NET PROVIDED BY (USED IN) OPERATING ACTIVITIES</b>	<b>34,079</b>	<b>(1,730,789)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Capital expenditures	(141,199)	(7,421)
Proceeds from the sale of fixed assets	-	10,533
Business acquisitions, net of cash acquired	-	(27,587)
Purchase of websites	(133,000)	-
Increase in restricted cash	(27,975)	-
<b>NET CASH USED IN INVESTING ACTIVITIES</b>	<b>(302,174)</b>	<b>(24,475)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Increase from cash overdraft	-	(43,284)
Decrease in restricted cash	-	79,671
Proceeds from preferred stock	100,000	1,050,000
Proceeds from notes payable and long-term debt	382,216	512,976
Payments of notes payable and long-term debt	(33,187)	(169,743)
Redemption of preferred stock	-	-
<b>NET CASH PROVIDED BY FINANCING ACTIVITIES</b>	<b>449,029</b>	<b>1,429,620</b>
Effect of Exchange rates	34,962	-
<b>NET INCREASE IN CASH</b>	<b>215,896</b>	<b>(325,644)</b>
<b>CASH, BEGINNING OF YEAR</b>	<b>108,419</b>	<b>434,063</b>
<b>CASH, END OF YEAR</b>	<b>\$ 324,315</b>	<b>\$ 108,419</b>

**SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:**

**SUPPLEMENTAL NON-CASH FINANCING ACTIVITIES:**

Conversion of preferred stock to common stock	\$3,528,112	\$ 461,286
Conversion of debentures, notes payable and related accrued interest to common stock	\$ 521,550	\$ 1,219,987

Preferred stock dividends	\$1,089,231	\$ 1,277,251
Common stock issued for acquisition	\$ 110,000	\$ -

See Notes to Consolidated Financial Statements.

F-6

NATURAL HEALTH TRENDS CORP. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
YEARS ENDED DECEMBER 31, 2001 and 2000.

1. ORGANIZATION

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 February 1999, NHTC, through a wholly-owned subsidiary, acquired certain assets (the "Kaire Assets") of Kaire International, Inc., a Delaware corporation ("KII"). The assets included, but not limited to, the corporate name, all variations and any other product name, registered and unregistered trademarks, trade names, servicemarks, patents, logos and copyrights of KII, and independent associate lists. In exchange for the Kaire Assets, NHTC made the following issuances:

- o to 11 secured creditors of KII, \$2,800,000 aggregate stated value of Series F preferred stock, par value \$1,000 per share, of NHTC (the "Series F Preferred Stock");
- o to two secured creditors of KII, \$350,000 aggregate stated value of Series G preferred stock, par value \$1,000 per share, of NHTC (the "Series G Preferred Stock");
- o to Kaire International, Inc., 5 year warrants to purchase 200,000 shares of NHTC's Common Stock exercisable at \$4.06 per share.

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 December 31, 2001, LMC had not conducted any business, but intends to conduct business in the future.

F-7

In June 2001, NHTC sold 100% of the Common Stock in Kaire Nutraceuticals, Inc., Delaware Corporation, to a South African firm for a purchase price of the greater of (i) \$50,000 per year for a period of five years, or (ii) for five years, a percentage of net income based on a progressive scale of net sales



figures of the South African firm. As of December 31, 2001, no income has been recognized on this transaction.

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").

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Principles of Consolidation - The accompanying consolidated financial statements include the accounts of Natural Health Trends Corp. and its subsidiaries. All material inter-company transactions have been eliminated in consolidation.

B. Accounts Receivable - Accounts receivable are stated net of allowance for doubtful accounts of approximately \$0.

C. Inventories - Inventories consisting primarily of nutritional supplements and "quality of life" products are stated at the lower of cost or market. Cost is determined using the first-in, first-out method.

D. Property and Equipment - Property and equipment are carried at cost. Depreciation is computed using the straight-line method over the useful lives of the various assets.

E. Cash Equivalents - Cash equivalents consist of money market accounts and commercial paper with an initial term of fewer than three months. For purposes of the statement of cash flows, NHTC considers highly liquid debt instruments with original maturities of three months or less to be cash equivalents.

F. Earnings (Loss) Per Share-Accounting Standards No. 128, "Earnings Per Share" SFAS 128 requires a presentation of "Basic" and (where applicable) "Diluted" earnings per share. Generally, Basic earnings per share is computed on only the weighted average number of common shares actually outstanding during the period, and the Diluted computation considers potential shares issuable upon exercise or conversion of other outstanding instruments where dilution would result. Diluted earnings per share is not being shown in the year ended December 31, 2000 due to the fact that this year has a net loss and the conversion of the preferred stock and Common Stock outstanding during that year would be anti-dilutive.

G. Accounting Estimates - The preparation of financial statements in accordance with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reported period. Actual results could differ from those estimates.

H. Income Taxes-Pursuant to Statement of Financial Accounting Standards No. 109 ("SFAS 109") "Accounting for Income Taxes", NHTC accounts for income taxes under the liability method. Under the liability method, a deferred tax asset or liability is determined based upon the tax effect of the differences between the financial statement and tax basis of assets and liabilities as measured by the enacted rates which will be in effect when these differences reverse.

F-8

I. Fair Value of Financial Instruments-The carrying amounts reported in the balance sheet for cash, receivables, accounts payable, accrued expenses, and notes payable approximate fair value based on the short-term maturity of these instruments.

J. Stock Based Compensation-NHTC accounts for stock transactions in accordance with APB Opinion No. 25, "Accounting For Stock Issued To Employees." In accordance with Statement of Financial Accounting Standards No. 123 ("SFAS 123"), "Accounting For Stock-Based Compensation," NHTC adopted the pro forma disclosure requirements of SFAS 123.

K. Impairment of Long-Lived Assets-NHTC reviews long-lived assets, certain identifiable assets and goodwill related to those assets on a quarterly basis for impairment whenever circumstances and situations change such that there is an indication that the carrying amounts may not be recovered. At December 31, 2000, NHTC recorded a charge against patents, customer lists and goodwill upon such review.

L. Basis of Presentation - NHTC had a working capital deficiency of approximately \$3,522,000 and \$5,864,000 as of December 31, 2001 and 2000, respectively, and had recorded net losses of approximately \$10,669,000 for the year ended December 31, 2000, that raise substantial doubt about NHTC's ability to continue as a going concern. NHTC's continued existence is dependent on its ability to obtain additional debt or equity financing and to generate profits from operations.

M. Royalty Expense-Royalties that are incurred on a per unit sold basis are included in Cost of Sales. Additional royalty amounts incurred to meet contractual minimum levels are classified as Selling, General and Administrative Expenses.

N. Reclassifications-NHTC has reclassified certain expenses in its consolidated statements of operations for the years ended December 31, 2001 and 2000 as a result of the closure of Kaire Europe and related facilities. These changes had no significant impact on previously reported results of operations or stockholders' equity.

O. Foreign Currency Translations-Assets and liabilities of subsidiaries are translated at the rate of exchange in effect on the balance sheet date; income and expenses of subsidiaries are translated at the average rates of exchange prevailing during the year or period then ended. The related translation adjustments are reflected as a cumulative translation adjustment in consolidated stockholders' equity. Foreign currency gains and losses resulting from transactions are included in results of operations in the period in which the transaction occurred.

P. Revenue Recognition - The subsidiaries of NHTC sell products directly to independent distributors. Sales are recorded when the products are shipped.

Q. Concentration of Risk-NHTC maintains its cash accounts in several bank accounts. Accounts in the United States are insured by the Federal Deposit Insurance Corporation ("FDIC") up to \$100,000. NHTC's cash balance in some of its bank accounts generally exceeds the insured limits.

Lexxus and eKaire sell products through network marketers throughout the United States, Canada, New Zealand, Australia, and Trinidad and Tobago. Credit is extended for returned checks and/or until credit card purchases have cleared the bank.

Credit losses, if any, have been provided for in the financial statements and are based on management's expectations. NHTC's accounts receivable are subject to potential concentrations of credit risk. NHTC does not believe that it is subject to any unusual or significant risk, in the normal course of business.

F-9

R. Restricted Cash - NHTC is required to maintain three (3) restricted cash accounts (i) two with credit card processing companies, one for each subsidiary. The primary purpose of these accounts is to provide a reserve for potential uncollectible amounts and chargebacks by Lexxus and eKaire credit card customers. The credit card processing companies may periodically increase the restricted cash account. The amount on deposit is calculated at 2% of net sales over a rolling six month average and (ii) a third account is maintained with a Canadian bank as security for a bank drafting process utilized by eKaire in the ordinary course of business.

S. Recently Issued Accounting Standards-In July 2001, the Financial Accounting Standards Board ("FASB") issued Statement on Financial Accounting Standards No. 141 ("SFAS 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. NHTC believes that the adoption of SFAS No. 141 will not have a significant impact on the financial statements.

In July 2001, FASB issued Statement of Financial Accounting standards Board No. 142, "Goodwill and Other Intangible Assets", ("SFAS No. 142"), which is effective for fiscal years beginning after December 15, 2001. SFAS 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. NHTC is currently assessing but has not yet determined the impact of SFAS No. 142 on the financial position and results of operations.

In August 2001, the FASB issued Statement of Financial Accounting standards Board 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 August 2001, the FASB issued Statement of Financial Accounting Standards Board No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets", ("SFAS 144"). This statement is effective for fiscal years beginning after December 15, 2001 and supercedes SFAS 121 while retaining many of its requirements.

In October 2001, the FASB issued Statement of Financial Accounting Standards No. 144 ("SFAS 144"), "Accounting for the Impairment or Disposal of Long-Lived Assets," which supercedes Statement of Financial Accounting Standards No. 121 ("SFAS 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 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 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 144 are effective for fiscal years beginning after December 15, 2001. Management believes that the implementation of this standard will have no impact on NHTC's results of operations and financial position.

F-10

### 3. PROPERTY AND EQUIPMENT

Property and Equipment consisted of the following:

Type of Property or Equipment	Estimated Useful Lives	Amount
Equipment, furniture and fixtures	5 to 7	\$ 113,514
Computers and peripherals	3	105,694
Software	3 to 5	4,307
Leasehold improvements	3 to 5	3,489
Property and Equipment		\$ 227,004
Less: Accumulated depreciation		(79,085)
Property and Equipment, net		\$ 147,919

### 4. NOTES PAYABLE

Notes Payable consisted of the following at December 31, 2001:

<TABLE>  
<CAPTION>

Note Payable Amount

<S>	<C>	<C>	<C>
(i)	Augusta Street LLC	\$100,000 note payable, 10% interest	\$ 100,000
(ii)	Augusta Street LLC	\$138,000 note payable, 4.75% interest	\$ 138,000
(iii)	Naline Thompson	\$50,000 note payable, 12% interest	\$50,000
	Merrill Corporation	\$145,496 note payable, 8% interest, due upon demand	\$ 145,496
	Aloe Commodities International, Inc.,	non-interest bearing, due upon demand	\$ 52,500
(iv)	Lightfoot		\$ 40,967
	Life Dynamics, Inc.	note payable, interest-free	\$31,125
	Notes Payable		<u>\$ 558,088</u>

</TABLE>

(i) Payee of the note is entitled, at its option, to convert at any time, the principal amount of this note at a conversion price equal to 75% of the five-day average closing bid price of the Common Stock for the five trading days immediately preceding the applicable conversion date. The beneficial conversion feature of \$ 33,333 was recorded in the financial statements. This note is due upon demand.

F-11

(ii) Payee of the note is entitled, at its option, to convert at any time, the principal amount of this note at a conversion price equal to 75% of the five-day average closing bid price of the Common Stock for the five trading days immediately preceding the applicable conversion date. The beneficial conversion feature of \$ 46,000 was recorded in the financial statements. This note is due December 31, 2002.

(iii) The investor received 200,000 shares of NHTC Common Stock as well as a warrant to purchase 200,000 shares of the Common Stock of NHTC at an exercise price of \$0.05 per share for three years.

(iv) Note due to Michael and Linda Lightfoot, bears interest at prime plus 1.75%, monthly payments are being made.

##### 5. LONG-TERM DEBT

Long-term debt consisted of the following at December 31, 2001:

Debt Instrument	Amount
(i) Samantha Haines, \$325,000, 10% interest	\$ 296,892
(ii) State of Texas, \$114,278, 7% interest	\$96,738
(iii) Robert L. Richards, interest-free	\$69,753
Total Debt	\$ 463,383
Less: current portion of Long-term Debt	\$ 171,070
Long-term Debt	<u>\$ 292,313</u>

(i) NHTC is making monthly payments of \$12,000 through July 2002 and thereafter \$15,000 per month until repaid in full with interest. (ii) NHTC is making monthly payments of \$2,200 until repaid in full with interest. (iii) NHTC is making monthly payments of \$1,333 until repaid in full with interest.

Date	Amount
2002	\$ 171,070
2003	\$ 199,517
2004	\$39,134
2005	\$40,807
2006 and thereafter	\$12,855

As of December 31, 2001, NHTC owed approximately \$70,000 to Robert L. Richards, a former president and a director, in connection with liabilities assumed in connection with the KII acquisition.

F-12

## 6. PAYROLL TAX LIABILITIES

During 2000 and 1999, Kaire Nutraceuticals, Inc. did not make payroll tax deposits with the Internal Revenue Service ("IRS") and the various state taxing authorities on a timely basis. Kaire Nutraceuticals, Inc. did file all required payroll tax returns. This liability of approximately \$630,000 is fully reserved for in the financial statements.

## 7. STOCKHOLDERS' EQUITY

A. Common Stock - NHTC is authorized to issue 500,000,000 shares of Common Stock, \$.001 par value.

B. Preferred Stock - NHTC is authorized to issue a maximum of 1,500,000 shares of \$1,000 par value preferred stock, in one or more series and containing such rights, privileges and limitations, including voting rights, dividend rates, conversion privileges, redemption rights and terms, redemption prices and liquidation preferences, as NHTC's board of directors may, from time to time, determine.

### Series E Preferred Stock.

In August 1998, NHTC issued 1,650 shares of Series E Preferred Stock with a stated value of \$1,000 per share realizing net proceeds of \$1,439,500. The preferred stock and the accrued dividends thereon are convertible into shares of NHTC's Common Stock at a conversion price equal to the lower of 75% of the average closing bid price of the Common Stock for the five trading days immediately preceding the conversion date or 100% of the closing bid price on the day of funding. This series of stock is convertible commencing 60 days after issuance. Due to the beneficial conversion features in the issuance of this series of preferred stock, an imputed dividend of \$550,000 has been recorded.

Pursuant to the terms of the Series E Preferred Stock, if NHTC does not have an effective registration statement within 120 days subsequent to the issuance of Series E Preferred Stock, a 2% penalty on the face amount of \$1,650,000 accrues for every 30 days without an effective registration statement. As of the year ended December 31, 2000, NHTC had recorded a charge of \$635,471 due to non-compliance with this clause.

In the year ended December 31, 2000, \$103,715 in accrued dividends was recorded for the period such stock was outstanding.

During the year ended December 31, 2000, NHTC had converted 93 shares of the Series E Preferred Stock into 2,984,122 shares of Common Stock.

In the year ended December 31, 2001, \$33,780 in accrued dividends was recorded for the period such stock was outstanding.

During the year ended December 31, 2001, NHTC had converted 947 shares of the Series E Preferred Stock into 35,523,045 shares of Common Stock.

### Series F Preferred Stock.

In February 1999, NHTC issued 2,800 shares of Series F Preferred Stock with a stated value of \$1,000 per share realizing a net value of \$2,800,000. This issuance is in accordance with the asset purchase agreement of KII. The preferred stock pays a dividend at 6% per annum and is payable upon conversion into either cash or common stock. The preferred stock and the accrued dividends thereon are convertible into shares of the Company's Common Stock at a conversion price equal to 95% of the average closing bid price of the Common stock for the three trading days immediately preceding the date on which NHTC receives notice of conversion from a holder. NHTC is permitted at any time, on five days prior to written notice, to redeem the outstanding preferred stock at a redemption price equal to the stated value and the accrued dividends thereon.

F-13

In the year ended December 31, 2000, NHTC had converted 3 shares of the Series F Preferred Stock into 138,318 shares of Common Stock.

In the year ended December 31, 2001, \$32,732 in accrued dividends was recorded for the period such stock was outstanding.

During the year ended December 31, 2001, NHTC had converted 1,416 shares of the Series F Preferred Stock into 51,559,177 shares of Common Stock.

### Series G Preferred Stock.

In February 1999, NHTC issued 350 shares of Series G Preferred Stock

with a stated value of \$1,000 per share realizing a net value of \$350,000. The preferred stock pays a dividend at the rate of 6% per annum. The preferred stock and the accrued dividends thereon are convertible into shares of NHTC's Common Stock at a conversion price equal to 95% of the average closing bid price of the common stock for the three trading days immediately preceding the date on which the Company receives notice of conversion. NHTC is permitted at any time, on five days prior written notice, to redeem the outstanding preferred stock at a redemption price equal to the stated value and the accrued dividends thereon.

During the year ended December 31, 2000, NHTC had converted 6 shares of the Series G Preferred Stock and accrued dividends of \$20,942 into 279,852 shares of Common Stock.

In the year ended December 31, 2001, \$7,198 in accrued dividends was recorded for the period such stock was outstanding.

During the year ended December 31, 2001, NHTC had converted 344 shares of the Series G Preferred Stock into 15,732,164 shares of Common Stock.

#### Series H Preferred Stock.

In March and April 1999, the Company sold 1,400 shares of Series H Preferred Stock with a stated value of \$1,000 per share realizing net proceeds of \$1,201,015. In October 2000, the Company sold an additional 50 shares of Series H Preferred Stock with a stated value of \$1,000 per share realizing net proceeds of \$43,500. The preferred stock pays a dividend at the rate of 8% per annum. The preferred stock and the accrued dividends thereon are convertible into shares of the Company's common stock at a conversion price equal to the lower of the closing bid price on the date of issuance or 75% of the average closing bid price of the common stock for the three trading days immediately preceding the date on which the Company receives notice of conversion from a holder.

In April 2001, NHTC issued 50 shares of Series H Preferred Stock for \$50,000 realizing net proceeds of \$43,500. The Series H Preferred Stock pays dividends of 10% per annum and is convertible into shares of Common Stock at the lower of the closing bid price on the conversion date or 75% of the market value of the Common Stock on the conversion date.

In May 2001, NHTC issued 50 shares of Series H Preferred Stock for \$50,000 realizing net proceeds of \$43,500. The Series H Preferred Stock pays dividends of 10% per annum and is convertible into shares of Common Stock at the lower of the closing bid price on the conversion date or 75% of the market value of the Common Stock on the conversion date.

Pursuant to the terms of the Series H Preferred Stock, if NHTC does not have an effective registration statement within 120 days subsequent to the issuance of Series H Preferred Stock, a 2% penalty on the face amount of \$1,400,000 accrues for every 30 days without an effective registration statement. As of the year ended December 31, 2001, NHTC had recorded a charge of \$12,000 due to non-compliance with this clause.

#### F-14

In the year ended December 31, 2000, NHTC recorded an imputed dividend of \$16,667 due to the beneficial conversion features in the Series H Preferred Stock. An additional \$49,686 in accrued dividends was recorded for the period such stock was outstanding.

During the year ended December 31, 2000, NHTC had converted 359 shares of the Series H Preferred Stock into 434,660 shares of Common Stock.

In the year ended December 31, 2001, NHTC recorded an additional \$19,611 in accrued dividends was recorded for the period such stock was outstanding.

During the year ended December 31, 2001, NHTC had converted 615 shares of the Series H Preferred Stock into 27,699,368 shares of Common Stock.

#### Series J Preferred Stock.

In March 2000, NHTC sold 1,000 shares of Series J Preferred Stock with a stated value of \$1,000 per share realizing net proceeds of \$936,000. The preferred stock pays a dividend at the rate of 10% per annum, payable in cash or stock at NHTC's option. The preferred stock and the accrued dividends thereon are convertible into shares of the Company's common stock at a conversion price equal to the lower of the closing bid price on the date of issuance or 70% of the average closing bid price of the common stock for the lowest three trading days during the twenty day period immediately preceding the date on which NHTC receives notice of conversion from a holder.

Pursuant to the terms of the Series J Preferred Stock, if NHTC does not have an effective registration statement within 120 days subsequent to the issuance of Series J Preferred Stock, a 2% penalty on the face amount of \$1,000,000 accrues for every 30 days without an effective registration statement. As of the year ended December 31, 2001, NHTC had recorded a charge of \$411,890 due to non-compliance with this clause.

In the year ended December 31, 2001, NHTC recorded an additional \$17,051 in accrued dividends was recorded for the period such stock was outstanding.

During the year ended December 31, 2001, NHTC had converted 206 shares of the Series J Preferred Stock into 12,260,376 shares of Common Stock.

C. Convertible Debentures - During 2001, NHTC converted approximately \$385,409 of its promissory notes, plus accrued interest of \$37,604 into 22,887,006 shares of Common Stock.

NHTC issued 500,000 shares of Common Stock to certain management employees in April 2001 and recorded \$30,500 of compensation expense.

NHTC issued 200,000 shares of Common Stock in a verbal agreement to Capital Development S.A., a consulting firm in August 2001 and recorded \$11,800 of consulting expense.

In August 2001, NHTC issued 20,000,000 shares of Common Stock to Summit Trading Ltd., a consulting firm, as part of a long-term consulting agreement. This issuance was recorded as deferred compensation and will be amortized over the life of the agreement.

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 NHTC's Common Stock, par value of \$0.001.

F-15

## 8. INCOME TAXES

NHTC accounts for income taxes under the provisions of SFAS 109. SFAS No. 109 requires the recognition of deferred tax assets and liabilities for both the expected impact of differences between the financial statement and tax basis of assets and liabilities, and for the expected future tax benefit to be derived from tax loss and tax credit carryforwards. SFAS 109 additionally requires the establishment of a valuation allowance to reflect the likelihood of realization of deferred tax assets. At December 31, 2001, NHTC had net deferred tax assets of approximately \$4,400,000. NHTC has established a valuation allowance for the full amount of such deferred tax assets at December 31, 2001, 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.

The following table reflects NHTC's deferred tax assets and (liabilities) at December 31, 2001:

	December 31, 2001
Net operating loss deduction	\$ 4,400,000
Valuation allowance	(4,400,000)
	-----
	\$ --
	=====

The provision for income taxes (benefits) differs from the amount computed by applying the statutory federal income tax rate to income loss before income taxes as follows:

<TABLE>  
<CAPTION>

	For the year Ended December 31,	
	2001	2000
	-----	-----
<S> Income tax (benefit) computed at statutory rate	\$ (1,500,000)	\$ (3,500,000)
Effect of permanent differences	1,500,000	3,500,000

Provision for income taxes (benefit)	\$	-	\$	-
--------------------------------------	----	---	----	---

</TABLE>

The net operating loss carryforward at December 31, 2001 was approximately \$12,000,000 and expires in the years 2012 to 2020.

## 9. COMMITMENTS AND CONTINGENCIES

### A. Leases

NHTC utilizes approximately 1,000 square feet of office space in Irving, Texas on an as needed basis, through an arrangement with Regus Business Centre which provides business solutions for companies. NHTC pays a minimum annual rental fee of \$2,100. Lexxus leases an aggregate of approximately 16,000 square feet of office and warehouse space in Dallas, Texas. The lease term is 38 months, expiring on September 30, 2004, and the current rent is approximately \$151,500 per year. Additional warehousing for Lexxus is located in Branson, Missouri where Lexxus utilizes approximately 35,000 square feet of warehouse space. The lease term is on a month-to-month basis at a rent of \$18,000 per year. The Canadian office and warehouse of Lexxus and eKaire leases office space in Langley, British Columbia, totaling approximately 3,600 square feet. The lease term is 36 months, expiring on December 1, 2004 and the current rent is approximately \$25,000 per year.

F-16

Kaire Australia, Kaire New Zealand, Lexxus Australia and Lexxus New Zealand lease office space and warehouse facilities of approximately 2,475 square feet in Queensland, Australia. The lease term is 60 months, expiring on January 1, 2007, and the current rent is approximately \$20,000 per year.

In March 2002, Lexxus Taiwan entered into a two-year lease for 6,314 square feet of office space at a current rent of approximately \$75,000 per year.

Kaire Trinidad leases approximately 1,100 square feet of office space in downtown Port-of-Spain, Trinidad. The lease term is on a month-to-month basis.

NHTC is currently in the process of finding adequate office space for its subsidiaries in Hong Kong and Russia.

NHTC believes that such properties are suitable and adequate for the current operating needs.

### B. Litigation

On August 4, 1997, Samantha Haimen brought an action in the Fifteenth Judicial Circuit of Palm Beach County, Florida, against NHTC and National Health Care Centers of America, Inc., a wholly-owned subsidiary of NHTC. NHTC asserted counterclaims against Samantha Haimen and Leonard Haimen. The complaint arises out of the defendants' alleged breach of contract in connection with NHTC's natural health care center, which was located in Boca Raton, Florida. NHTC agreed to settle such actions for shares of Common Stock with a fair market value of \$325,000, but not less than 125,000 shares of Common Stock and agreed to register such shares. On October 10, 2000, due to noncompliance with the settlement, a judgment was taken against NHTC in the amount of \$325,000 plus interest. On October 12, 2001, NHTC entered into a payment arrangement to settle this obligation. NHTC has recorded a liability of \$325,000 plus interest at ten percent (10%) per annum, which is included in the financial statements for the year ended December 31, 2001.

On July 10, 2000, the State of Texas obtained a judgment against NHTC in the amount of \$109,170 for unpaid sales taxes, penalties, interest, and attorney fees. NHTC has entered into a voluntary payment arrangement and has recorded a liability of \$109,170 plus interest at seven percent (7%) per annum, which is included in the financial statements for the year ended December 31, 2001.

On December 29, 2000, Merrill Corporation obtained a judgment against NHTC in the amount of \$145,497, plus interest at eight percent (8%) per annum, which is included in the financial statements for the year ended December 31, 2001.

On October 30, 2001, Omni Group LLC filed an action in the State of Vermont, Addison Superior Court, against NHTC alleging that NHTC tortuously interfered with existing contractual relationships and made representations



about Omni Group that are untrue. Omni Group is seeking \$5 million in compensatory damages and \$5 million in punitive damages. NHTC is defending this action. NHTC filed an answer on April 2, 2002 in which NHTC denied any wrongdoing.

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 is defending this action and is currently in settlement discussions with Pfizer.

On March 21, 2002, NFL Properties, Inc. brought an action in the Supreme Court of the County of Onondaga in the State of New York against NHTC and Natural Health Laboratories in the amount of approximately \$126,000 for alleged breach of contract. NHTC's management believes that the action naming NHTC as a defendant was a case of mistaken identity, and is currently trying to have NHTC removed as a defendant in the action.

F-17

C. Major Supplier

NHTC currently buys all of its Pycnogenol(R), an important component of its products, from a single supplier, Natural Health Sciences, L.L.C.

Although there are a limited number of manufacturers of this component, management believes that other suppliers could provide similar components on comparable terms. NHTC does not maintain any contractual commitments or similar arrangements with other suppliers.

NHTC purchases its products from manufacturers and suppliers on an as needed basis. Should these relationships terminate, NHTC's supply and ability to meet consumer demands would not be adversely affected.

10. STOCK OPTION PLANS AND WARRANTS

The following table summarizes the changes in options and warrants outstanding, and the related exercise price for shares of NHTC's Common Stock:

<TABLE>  
<CAPTION>

	Shares	Weighted Average Exercise Price Stock Options	Exercisable	Weighted Average Exercisable Exercise Price	Shares	Price	Warrants
Outstanding at							
<S> <C> <C>		<C> <C>	<C>	<C> <C>	<C>	<C>	<C>
December 31, 1999		339,100 \$	6.01	339,100	2,813,257 \$	7.00	2,813,257
Granted	-	-	-	138,889	1.44	138,889	
Cancelled	(295,000)	3.50	(295,000)	-	-	-	
Outstanding at							
December 31, 2000		44,100 \$	15.68	44,100	2,952,146 \$	6.74	2,952,146
Granted	6,200,000	.01	6,200,000	-	-	-	
Cancelled	-	-	-	-	-	-	
Outstanding at							
December 31, 2001		6,244,100 \$	.12	6,244,100	2,952,146 \$	6.74	2,952,146

</TABLE>

The following table summarizes information about exercisable stock options and warrants at December 31, 2001:

<TABLE>  
<CAPTION>

	Range of Exercise Price	Remaining Number Outstanding	Average Contractual Life	Average Exercise Price	Average Number Exercisable	Exercise Price
<S>	<C> <C>	<C>	<C>	<C>	<C>	<C>
Options:	\$ .01 - 101.20	6,244,100	1- 10	\$ .12	6,244,100	\$ .12

&lt;/TABLE&gt;

F-18

For disclosure purposes in according with Statement of Financial Accounting Standards 123 ("SFAS 123"), the fair value of options is estimated on the date of grant using the Black-Scholes option pricing model with the following weighted average assumptions used for stock options granted during the years ended December 31, 2001 and 2000 respectively: annual dividends of \$0; expected volatility of 50%; risk free interest rate of 7% and expected life of 10 years. The weighted average fair value of stock options granted during the years ended December 31, 2001 and 2000 was \$0.12 and \$0, respectively. If NHTC had recognized compensation cost of stock options in accordance with SFAS 123, NHTC's proforma income (loss) and net income (loss) per share would have been as follows:

	Year Ended December 31,	
	2001	2000
Net income (loss) to Common Stockholders		
As reported	\$ 2,022,621	\$(10,396,557)
Pro forma	\$ 1,947,621	\$(10,525,683)
Net income (loss) from continuing operations:		
As reported	\$ 1,202,123	\$(12,140,043)
Pro forma	\$ 1,127,123	\$(12,269,169)
Net income (loss) per share to common stockholders		
Basic		
As reported	\$0.01	\$(1.04)
Pro forma	\$0.01	\$(1.10)
Diluted		
As reported	\$0.00	\$(1.26)
Pro forma	\$0.00	\$(1.72)
Net income (loss) per share to common stockholders continuing operations:		
Basic		
As reported	\$0.01	\$(1.26)
Pro forma	\$0.01	\$(1.72)
Diluted		
As reported	\$0.00	\$(1.26)
Pro forma	\$0.00	\$(1.72)

#### 11. FORGIVENESS OF DEBT

During the year ended December 31, 2001 NHTC realized a gain of approximately \$820,000 due to the sale of Kaire Nutraceuticals, Inc.

During the year ended December 31, 2000 NHTC realized a gain of approximately \$2,148,000 due to the filing of Chapter 7 bankruptcy by GHA and its various wholly-owned subsidiaries.

#### 12. FOREIGN SALES

NHTC has substantially increased its international presence both in sales and long-lived assets. NHTC's sales and long-lived assets by country as of December 31, 2001 are as follows:

&lt;TABLE&gt;

&lt;CAPTION&gt;

	United States	Australia and New Zealand	Other Subsidiaries	Consolidated
<S>	<C>	<C>	<C>	<C>
Sales to unaffiliated customers	\$22,535,109	\$2,258,927	\$-0-	\$24,794,036
Long-lived assets at December 31, 2001	\$825,904	\$55,026	\$-0-	\$880,930

&lt;/TABLE&gt;

#### 13. FOURTH QUARTER ADJUSTMENTS

Fourth quarter adjustments include the following:

Penalties on Preferred Stock \$ 1,586,000



## FOUNDER COMPENSATION AGREEMENT

THIS FOUNDER COMPENSATION AGREEMENT ("Agreement") is made this \_\_\_ day of, 2001 by and between LEXXUS INTERNATIONAL INC., a Delaware corporation ("Lexxus"), NATURAL HEALTH TRENDS CORP., a Florida corporation ("NHTC"), Rodney Sullivan and Pam Sullivan (sometimes collectively referred to herein as "Sullivan"), Michael Bray ("Bray") and Jeff Provost ("Provost").

### BACKGROUND

- A. Sullivan, Bray and Provost have provided services to Lexxus in connection with the formation, organization and financing of Lexxus.
- B. In consideration of the above services, Lexxus has agreed to provide compensation to Sullivan, Bray and Provost in accordance with the terms of this Agreement.
- C. In addition, NHTC, as the majority shareholder of Lexxus, has agreed to secure the payment by Lexxus of certain of its obligations hereunder and, as additional compensation for services that directly benefitted NHTC, to issue common stock of NHTC to Sullivan, Bray and Provost upon the occurrence of certain milestones as set forth herein.

### AGREEMENT

NOW, THEREFORE, in order to properly document the consideration promised for services previously performed by Sullivan, Bray and Provost on behalf of Lexxus and NHTC and for Sullivan, Bray and Provost's willingness to enter into a Settlement Agreement with NHTC and the other parties thereto, the parties hereto agree as follows:

#### 1. Cash Compensation.

(a) Beginning on the date hereof, Lexxus shall pay:

(i) to Provost, \$1,000 per week for the remainder of Provost's life,

(ii) to Rodney Sullivan, \$2,000 per week for the remainder of Rodney Sullivan's life, and

(iii) to Bray, \$2,000.00 per week for the remainder of Bray's life.

(b) The amounts payable by Lexxus pursuant to paragraph 1(a) above, shall be paid by Friday of each week on or before 5:00 p.m. E.S.T.

(c) In the event of the death of Rodney Sullivan, Bray or Provost, Lexxus shall pay to such person's estate any monies owed hereunder as of the date of death.

2. Non-Cash Compensation. In addition to the cash compensation described in paragraph 1 above, Lexxus agrees to notify Sullivan at least fourteen (14) days prior to any Lexxus corporate event and, if Sullivan notifies Lexxus of a desire to attend any such event, Lexxus shall pay for all expenses (excluding airfare) incurred by Sullivan in connection with Sullivan's attendance at such event, including rental car, lodging and meal expenses.

#### 3. Issuance of Stock.

(a) NHTC agrees to issue 333,334 shares of its common stock to Sullivan (as tenants by the entirety), and 333,333 shares of its common stock to each of Bray and Provost for every \$1,000,000 in gross revenues received by Lexxus, up to a maximum of 10,000,000 shares of stock in the aggregate being issued to Sullivan, Bray and Provost hereunder. The parties acknowledge that, as of the date hereof, \$1,600,000.00 shall be deemed to have been received by Lexxus as gross revenues, which shall include all revenues generated by Product Brokers Com, Inc. from the distribution of Viacream. On a monthly basis, Lexxus shall determine its gross revenues and shall provide NHTC, Sullivan, Bray and Provost with a report listing (i) the gross revenues for the preceding month, and (ii) the aggregate gross revenues (including all amounts received by Lexxus since

NHTC last issued shares to Sullivan, Bray and Provost hereunder) received by Lexxus. Within fourteen (14) days after receipt of a report, NHTC shall issue to Sullivan, Bray and Provost the shares of NHTC common stock, if any, required to be issued hereunder.

(b) Upon execution of this Agreement, NHTC will issue 333,334 shares of its common stock to Sullivan (as tenants by the entirety) and 333,333 shares of its common stock to each of Bray and Provost, as a result of aggregate gross revenues having exceeded \$1,000,000 as of the date hereof.

4. Stock Pledge Agreement. Simultaneously herewith, NHTC agrees to enter into a Stock Pledge Agreement in favor of Sullivan, Bray and Provost, pursuant to which NHTC shall pledge its shares of common stock in Lexxus in order to secure the payment by Lexxus of amounts due pursuant to paragraph 1 above to Sullivan, Bray, and Provost. In the event of a default in payment by Lexxus hereunder, which default is the result of a court or administrative order, including but not limited to a cease and desist order from a state or federal attorney general or an injunction (an "Order") prohibiting Lexxus from expending any funds, Sullivan, Bray and Provost agree that they will not exercise their rights under the Stock Pledge Agreement during the pendency of such Order.

5. Pledge and Security Agreements. Simultaneously herewith, Lexxus agrees to enter into Pledge and Security Agreements in favor of Sullivan, Bray and Provost, pursuant to which Lexxus shall pledge all of its assets in order to secure the payment by Lexxus of amounts due pursuant to paragraph 1 above to Sullivan, Bray, and Provost. In the event of a default in payment by Lexxus hereunder, which default is the result of a court or administrative order, including but not limited to a cease and desist order from a state or federal attorney general or an injunction (an "Order") prohibiting Lexxus from expending any funds, Sullivan, Bray and Provost agree that they will not exercise their rights under the Pledge and Security Agreements during the pendency of such Order.

6. Additional Agreements. Lexxus agrees that it will not terminate the distributor positions held by Sullivan, Bray and Provost (ID Nos. 1016 and 1017) in Lexxus, unless such termination is in accordance with Lexxus' policies and procedures as applicable to all distributors.

7. No Further Obligation. Lexxus acknowledges and agrees that any and all services performed by Sullivan, Bray and Provost as a condition to the compensation described herein have been completed to the satisfaction of Lexxus. None of Sullivan, Bray or Provost shall be required to perform any additional services of any type for or on behalf of Lexxus, unless in accordance with a separate written agreement for such services.

8. Binding Effect. This Agreement shall be binding upon the parties and their successors, assigns or heirs, as the case may be.

9. Applicable Law, Jurisdiction and Venue. This Agreement shall be governed by and construed in accordance with the laws of the State of Texas. Exclusive jurisdiction and venue for any dispute arising out of this Agreement shall be in the state court in and for Dallas, Texas or the federal court in and for Dallas, Texas, as applicable.

10. Modifications. No modification of this Agreement shall be binding unless it is in writing and signed by an authorized representative of the party against whom enforcement of the modification is sought.

11. Attorneys Fees. In the event any litigation or arbitration between the parties arises out of or results in connection with this Agreement, the prevailing party in such proceeding shall be entitled to recover from the other party its reasonable attorneys' fees and expenses, including appellate proceedings or post-judgment collection proceedings.

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be executed on the day and year first above written.

LEXXUS INTERNATIONAL INC.

NATURAL HEALTH TRENDS CORP.

By: \_\_\_\_\_

By: \_\_\_\_\_

Name: \_\_\_\_\_  
Title: \_\_\_\_\_

Name: \_\_\_\_\_  
Title: \_\_\_\_\_

-----  
Michael Bray

-----  
Rodney Sullivan

-----  
Jeff Provost

-----  
Pam Sullivan

## STOCK OPTION AGREEMENT

This Agreement, dated as of January 18, 2001 by and between Natural Health Trends Corp., a Florida corporation (the "Company"), and Terry L. LaCore (the "Optionee").

### WITNESSETH:

WHEREAS, the Company considers it to be in its best interests and in the best interests of its stockholders that the Optionee be given the opportunity to acquire a proprietary interest in the Company by possessing an option to purchase certain shares of common stock, par value \$.001 per share (the "Common Stock"), of the Company in accordance with the provisions set forth below;

NOW, THEREFORE, in consideration of the premises and mutual promises contained herein, it is agreed by and between the parties as follows:

- 1. Grant of Option.** The Company hereby grants to Optionee the right, privilege and option (the "Option") to purchase all or any part of 3,000,000 shares of Common Stock (the "Option Shares") at a purchase price of \$.011 per share in the manner and subject to the conditions provided herein.
- 2. Time of Exercise of Option.** The Option is exercisable in full commencing on the date hereof through January 18, 2011 subject to the terms of this Agreement.
- 3. Method of Exercise.** The Option shall be exercised by written notice directed to the Company at the Company's principal place of business, accompanied by a check in payment of the option price for the number of Option Shares specified and paid for in full. The Company shall make prompt delivery of such Option Shares once payment clears, provided that if any law or regulation requires the Company to take any action with respect to the Option Shares specified in such notice before the issuance thereof, then the date of delivery of such Option Shares shall be extended for the period necessary to take such action. If the Optionee fails to pay for any of the Option Shares specified in such notice or fails to accept delivery thereof, the Optionee's right to purchase such Option Shares may be terminated by the Company. The date specified in the Optionee's notice as the date of exercises shall be deemed the date of exercise of the Option, provided that payment in full for the Option Shares to be purchased upon such exercise shall have been received by such date. No fractional shares may be purchased hereunder.
- 4. Cashless Exercise.** At any time during the term, the Optionee may, at its election, exchange these options, in whole or in part (an "Option Exchange"), into the number of shares determined in accordance with this paragraph 4 by surrendering these Options at the principal office of the Company, accompanied by a notice stating the Optionee's intent to effect such exchange, the number of shares to be exchanged and the date on which the Optionee requests that such Option Exchange occur (the "Notice of Exchange"). The Option Exchange shall take place on the date specified in the Notice of Exchange or, if later, the date the Notice of Exchange is received by the Company (the "Exchange Date"). Certificates for the shares issuable upon such Option Exchange and, if applicable, a new Option of like tenor evidencing the balance of the shares remaining subject to this Option, shall be issued as of the Exchange Date and delivered to the Optionee within seven (7) business days following the Exchange Date. In connection with any Option Exchange, the Option shall represent the right to subscribe for and acquire the number of shares (rounded to the next highest integer) equal to (i) the number of shares specified by the Optionee in its Notice of Exchange (the "Total Number") less (ii) the number of shares equal to the quotient obtained by dividing (A) the product of the Total Number and the then existing exercise price by (B) the current market value of a share of the Company's common stock.
- 5. Non-Dilution.** This Option shall be non-dilutable equal to ten percent (10%) of the outstanding shares of the Company. For a period of ten years after the date hereof, the Company on each issuance of new shares of the Company shall heretofore grant an additional option to the Optionee for ten percent (10%) of the new shares issued at an exercise price equal to price of the new shares issued. By way of illustration and not in limitation of the foregoing, if

\$100,000 face value of the Company's convertible preferred stock is converted into 5,000,000 shares of Company's common stock, an additional option is granted to the Optionee for 500,000 shares at \$.02 per share.

6. Termination of Option. The Option and all rights granted by this Agreement, to the extent such rights have not been exercised, will terminate and become null and void ten years from the date hereof or upon ninety (90) days after the termination of the Optionee.

7. Adjustments in Event of Change in Common Stock. In the event of any change in the Common Stock by reason of any stock dividend, recapitalization, reorganization, merger, consolidation, split-up, combination or exchange of shares, or of any similar change affecting the Common Stock, the number and kind of Option Shares subject to Option hereunder and the purchase price per Option Share thereof shall be appropriately adjusted consistent with such change in such manner as the Committee may reasonably deem equitable.

8. Piggyback Registration Rights. Simultaneous herewith, the Company shall grant to the Optionee Piggyback Registration Rights, as set forth in Exhibit "A" annexed hereto.

9. Rights Prior to Exercise of Option. The Optionee shall have no rights as a stockholder of the Company with respect to the Option Shares until full payment of the option price and delivery of such Option Shares as herein provided. Nothing contained herein or in the Plan shall be construed as creating or evidence of any agreement on the part of the Company to continue to employ or retain the Optionee in any capacity.

10. Investment Representation. The Optionee, as a condition to the Optionee's exercise of this Option, shall represent to the Company that the shares of Common Stock that the Optionee acquires hereunder are being acquired by the Optionee for investment and not with a view to distribution or resale thereof, unless counsel for the Company is then of the opinion that such a representation is not required under the Securities Act of 1933, as amended, or any other applicable law, regulation or rule of any governmental agency, except that this representation shall not apply to any transaction by Optionee pursuant to a registration statement under the Securities Act.

11. Waiver; Entire Agreement. No waiver of any breach or condition of this Agreement shall be deemed to be a waiver of any other or subsequent breach or condition, whether of like or different nature. This Agreement constitutes the entire agreement between the parties with respect to the subject matter hereof.

12. Governing Law. The validity, construction, interpretation and effect of this Agreement shall exclusively be governed by and determined in accordance with the internal laws of the State of Texas, which is the sole jurisdiction in which any issues relating to this Agreement may be litigated.

13. Binding Effect. This Agreement shall inure to the benefit of and be binding upon the parties hereto and their respective heirs, executors, administrators, successors and assigns.

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be executed on the date and year first above written.

NATURAL HEALTH TRENDS CORP.

By: \_\_\_\_\_  
Name:  
Title:

THE OPTIONEE

Terry L. LaCore



## EXHIBIT A

The Investor shall have piggy-back registration rights with respect to the Investor Shares then held by the Investor (collectively, the "Remaining Investor Shares"), subject to the conditions set forth below. If, at any time the Company participates (whether voluntarily or by reason of an obligation to a third party) in the registration of any shares of the Company's stock (other than a registration on Form S-4 or Form S-8), the Company shall give written notice thereof to the Investor and the Investor shall have the right, exercisable within ten (10) business days after receipt of such notice, to demand inclusion of all or a portion of the Investor's Remaining Investor Shares in such registration statement. If the Investor exercises such election, the Remaining Investor Shares so designated shall be included in the registration statement at no cost or expense to the Investor (other than any costs or commissions which would be borne by the Investor under the terms of the Registration Rights Agreement). If, in connection with any underwritten offering for the account of the Company the managing underwriter or underwriters thereof (collectively, the "Underwriter") shall impose a limitation on the number of shares of Common Stock which may be included in the registration statement because, in the Underwriter's judgement, such limitation is necessary to effect an orderly public distribution of securities covered thereby, then the Company shall be obligated to include in such registration only such limited portion of the Registrable Securities for which such Investor has requested inclusion hereunder as the Underwriter shall permit. Any exclusion of Registrable Securities shall be made pro rata among the Investors seeking to include Registrable Securities, in proportion to the number of Registrable Securities sought to be included by such Investors; provided, however, that the Company shall not exclude any Registrable Securities unless the Company has first excluded all outstanding securities the Investors of which are not entitled by right to inclusion of securities in such registration statement; and provided further, however, that, after giving effect to the immediately preceding proviso, any exclusion of Registrable Securities shall be made pro rata with Investors of other securities having the right to include such securities in such registration statement. The Investor's rights under this Section shall expire at such time as the Investor can sell all of the Remaining Investor Shares under Rule 144 (k) without volume or other restrictions or limit.

## STOCK OPTION AGREEMENT

This Agreement, dated as of January 18, 2001 by and between Natural Health Trends Corp., a Florida corporation (the "Company"), and Benchmark Consulting Group (the "Optionee").

### WITNESSETH:

WHEREAS, the Company considers it to be in its best interests and in the best interests of its stockholders that the Optionee be given the opportunity to acquire a proprietary interest in the Company by possessing an option to purchase certain shares of common stock, par value \$.001 per share (the "Common Stock"), of the Company in accordance with the provisions set forth below;

NOW, THEREFORE, in consideration of the premises and mutual promises contained herein, it is agreed by and between the parties as follows:

- 1. Grant of Option.** The Company hereby grants to Optionee the right, privilege and option (the "Option") to purchase all or any part of 3,000,000 shares of Common Stock (the "Option Shares") at a purchase price of \$.011 per share in the manner and subject to the conditions provided herein.
- 2. Time of Exercise of Option.** The Option is exercisable in full commencing on the date hereof through January 18, 2011 subject to the terms of this Agreement.
- 3. Method of Exercise.** The Option shall be exercised by written notice directed to the Company at the Company's principal place of business, accompanied by a check in payment of the option price for the number of Option Shares specified and paid for in full. The Company shall make prompt delivery of such Option Shares once payment clears, provided that if any law or regulation requires the Company to take any action with respect to the Option Shares specified in such notice before the issuance thereof, then the date of delivery of such Option Shares shall be extended for the period necessary to take such action. If the Optionee fails to pay for any of the Option Shares specified in such notice or fails to accept delivery thereof, the Optionee's right to purchase such Option Shares may be terminated by the Company. The date specified in the Optionee's notice as the date of exercises shall be deemed the date of exercise of the Option, provided that payment in full for the Option Shares to be purchased upon such exercise shall have been received by such date. No fractional shares may be purchased hereunder.
- 4. Cashless Exercise.** At any time during the term, the Optionee may, at its election, exchange these options, in whole or in part (an "Option Exchange"), into the number of shares determined in accordance with this paragraph 4 by surrendering these Options at the principal office of the Company, accompanied by a notice stating the Optionee's intent to effect such exchange, the number of shares to be exchanged and the date on which the Optionee requests that such Option Exchange occur (the "Notice of Exchange"). The Option Exchange shall take place on the date specified in the Notice of Exchange or, if later, the date the Notice of Exchange is received by the Company (the "Exchange Date"). Certificates for the shares issuable upon such Option Exchange and, if applicable, a new Option of like tenor evidencing the balance of the shares remaining subject to this Option, shall be issued as of the Exchange Date and delivered to the Optionee within seven (7) business days following the Exchange Date. In connection with any Option Exchange, the Option shall represent the right to subscribe for and acquire the number of shares (rounded to the next highest integer) equal to (i) the number of shares specified by the Optionee in its Notice of Exchange (the "Total Number") less (ii) the number of shares equal to the quotient obtained by dividing (A) the product of the Total Number and the then existing exercise price by (B) the current market value of a share of the Company's common stock.
- 5. Non-Dilution.** This Option shall be non-dilutable equal to ten percent (10%) of the outstanding shares of the Company. For a period of ten years after the date hereof, the Company on each issuance of new shares of the Company shall heretofore grant an additional option to the Optionee for ten percent (10%) of the new shares issued at an exercise price equal to price of the new shares issued. By way of illustration and not in limitation of the foregoing, if \$100,000 face value of the Company's convertible preferred stock is converted

into 5,000,000 shares of Company's common stock, an additional option is granted to the Optionee for 500,000 shares at \$.02 per share.

6. Termination of Option. The Option and all rights granted by this Agreement, to the extent such rights have not been exercised, will terminate and become null and void ten years from the date hereof or upon ninety (90) days after the termination of the Optionee.

7. Adjustments in Event of Change in Common Stock. In the event of any change in the Common Stock by reason of any stock dividend, recapitalization, reorganization, merger, consolidation, split-up, combination or exchange of shares, or of any similar change affecting the Common Stock, the number and kind of Option Shares subject to Option hereunder and the purchase price per Option Share thereof shall be appropriately adjusted consistent with such change in such manner as the Committee may reasonably deem equitable.

8. Piggyback Registration Rights. Simultaneous herewith, the Company shall grant to the Optionee Piggyback Registration Rights, as set forth in Exhibit "A" annexed hereto.

9. Rights Prior to Exercise of Option. The Optionee shall have no rights as a stockholder of the Company with respect to the Option Shares until full payment of the option price and delivery of such Option Shares as herein provided. Nothing contained herein or in the Plan shall be construed as creating or evidence of any agreement on the part of the Company to continue to employ or retain the Optionee in any capacity.

10. Investment Representation. The Optionee, as a condition to the Optionee's exercise of this Option, shall represent to the Company that the shares of Common Stock that the Optionee acquires hereunder are being acquired by the Optionee for investment and not with a view to distribution or resale thereof, unless counsel for the Company is then of the opinion that such a representation is not required under the Securities Act of 1933, as amended, or any other applicable law, regulation or rule of any governmental agency, except that this representation shall not apply to any transaction by Optionee pursuant to a registration statement under the Securities Act.

11. Waiver; Entire Agreement. No waiver of any breach or condition of this Agreement shall be deemed to be a waiver of any other or subsequent breach or condition, whether of like or different nature. This Agreement constitutes the entire agreement between the parties with respect to the subject matter hereof.

12. Governing Law. The validity, construction, interpretation and effect of this Agreement shall exclusively be governed by and determined in accordance with the internal laws of the State of Texas, which is the sole jurisdiction in which any issues relating to this Agreement may be litigated.

13. Binding Effect. This Agreement shall inure to the benefit of and be binding upon the parties hereto and their respective heirs, executors, administrators, successors and assigns.

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be executed on the date and year first above written.

NATURAL HEALTH TRENDS CORP.

By: \_\_\_\_\_  
Name:  
Title:

THE OPTIONEE

Benchmark Consulting Group

## EXHIBIT A

The Investor shall have piggy-back registration rights with respect to the Investor Shares then held by the Investor (collectively, the "Remaining Investor Shares"), subject to the conditions set forth below. If, at any time the Company participates (whether voluntarily or by reason of an obligation to a third party) in the registration of any shares of the Company's stock (other than a registration on Form S-4 or Form S-8), the Company shall give written notice thereof to the Investor and the Investor shall have the right, exercisable within ten (10) business days after receipt of such notice, to demand inclusion of all or a portion of the Investor's Remaining Investor Shares in such registration statement. If the Investor exercises such election, the Remaining Investor Shares so designated shall be included in the registration statement at no cost or expense to the Investor (other than any costs or commissions which would be borne by the Investor under the terms of the Registration Rights Agreement). If, in connection with any underwritten offering for the account of the Company the managing underwriter or underwriters thereof (collectively, the "Underwriter") shall impose a limitation on the number of shares of Common Stock which may be included in the registration statement because, in the Underwriter's judgement, such limitation is necessary to effect an orderly public distribution of securities covered thereby, then the Company shall be obligated to include in such registration only such limited portion of the Registrable Securities for which such Investor has requested inclusion hereunder as the Underwriter shall permit. Any exclusion of Registrable Securities shall be made pro rata among the Investors seeking to include Registrable Securities, in proportion to the number of Registrable Securities sought to be included by such Investors; provided, however, that the Company shall not exclude any Registrable Securities unless the Company has first excluded all outstanding securities the Investors of which are not entitled by right to inclusion of securities in such registration statement; and provided further, however, that, after giving effect to the immediately preceding proviso, any exclusion of Registrable Securities shall be made pro rata with Investors of other securities having the right to include such securities in such registration statement. The Investor's rights under this Section shall expire at such time as the Investor can sell all of the Remaining Investor Shares under Rule 144 (k) without volume or other restrictions or limit.

## PROMISSORY NOTE

THESE SECURITIES AND THE SHARES ISSUABLE UPON CONVERSION HEREOF, HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"), OR THE SECURITIES LAWS OF ANY STATE AND MAY NOT BE SOLD OR OFFERED FOR SALE IN THE ABSENCE OF AN EFFECTIVE REGISTRATION STATEMENT FOR THE SECURITIES OR AN OPINION OF COUNSEL OR OTHER EVIDENCE ACCEPTABLE TO THE CORPORATION THAT SUCH REGISTRATION IS NOT REQUIRED.

\$100,000

April 27, 2001

FOR VALUE RECEIVED, NATURAL HEALTH TRENDS CORP., a Florida corporation, having an office at 2161 Hutton Drive, Suite 126, Carrollton, Texas 75006 (the "Maker"), hereby promises to pay to the order of Augusta Street LLC, (the "Payee"), at the office of the Payee or at such other place as the Payee of this Note may designate in writing from time to time, the principal sum of \$100,000 together with interest thereon at the rate of 10% per annum on demand.

The following shall be deemed "Events of Default" hereunder:

- (a) If any payment hereunder shall not be made when due;
- (b) if the Maker shall fail to perform or comply with any of the other terms, covenants, or conditions of this Note;
- (c) if Maker ceases doing business as a going concern, or makes or sends notice of an intended bulk sale or makes an assignment for the benefit of creditors;
- (d) if any proceedings are commenced by or against Maker under any bankruptcy, reorganization, arrangement, insolvency, readjustment of debt, receivership, liquidation or dissolution law or statute of any jurisdiction, whether now or hereafter in effect; or
- (e) if a receiver, trustee or conservator be appointed for any of Maker's property.

Unless the Payee otherwise elects, in the Payee's sole discretion, this Note shall automatically become immediately due and payable, without further notice or demand, upon the occurrence of any event of default hereinabove described. Upon the acceleration of the entire or any portion of the unpaid balance of this Note, the holder, without prejudice to any other rights, is authorized to proceed against Maker and shall not be required to have recourse to any security given for payment of this Note.

In the event that this Note is not paid within five (5) days of demand, this Note shall bear additional interest at the rate of 1.5% per month.

Nothing contained in this Note shall require the Maker to pay interest at a rate exceeding the maximum rate permitted by applicable law. If the amounts payable to the Payee on any date shall exceed the maximum permissible amount, such amounts shall be automatically reduced to the maximum permissible amount, and the payments for any subsequent period, to the extent less than that permitted by applicable law, shall, to that extent, be increased by the amount of such reduction. In the event that the period from the due date of such payment is not long enough to cause the payments due hereunder not to exceed the maximum amount permitted by applicable law, then the Payee at its option shall have the right (i) to extend the amount of time for such payment such that the payments shall not be deemed to exceed the maximum amount permitted by applicable law or (ii) to reduce the amounts payable under this Note.

Except as otherwise expressly provided herein, Payee hereby waives presentment, demand for payment, dishonor, notice of dishonor, protest and notice of protest.

Except as otherwise provided herein at the option of Maker, the unpaid balance of this Note may be prepaid in whole or in part, from time to

time, without penalty or premium.

The liability of Maker hereunder shall be unconditional. No act, failure or delay by the Payee hereof to declare a default as set forth herein or to exercise any right or remedy it may have hereunder, or otherwise, shall constitute a waiver of its rights to declare such default or to exercise any such right or remedy at such time as it shall determine in its sole discretion.

Maker further agrees to pay all costs of collection, including a reasonable attorney's fee and all costs of levy or appellate proceedings or review, or both, in case the principal or any interest thereon is not paid at the respective maturity thereof, or in case it becomes necessary to protect the security hereof, whether suit be brought or not.

Any and all notices or other communications required or permitted to be given under this Note shall be in writing and shall be deemed to have been duly given upon personal delivery or the mailing thereof by certified or registered mail (a) if to Maker, addressed to it at its address set forth above; and (b) if to Payee, addressed to it at its address set forth above or at such other address any person or entity entitled to receive notices may specify by written notice given as aforesaid.

This Note may not be amended, modified, supplemented or terminated orally.

This Note shall be binding upon Maker, its legal representatives, successors or assigns and shall inure to the benefit of Payee and its successors, endorsees, assigns or holder(s) in due course.

The Payee of this Note is entitled, at its option, to convert at any time, the principal amount of this Note at a conversion price equal to seventy-five percent (75%) of the five day average closing bid price of the Common Stock, as reported by The NASDAQ SmallCap Market, or other applicable exchange, for the five trading days immediately preceding the applicable Conversion Date (the "Conversion Price"). Conversion shall be effectuated by surrendering the Note to be converted to the Maker with the form of conversion notice attached hereto as Exhibit A (the "Conversion Notice"), executed by the Payee of the Note evidencing the Payee's intention to convert this Note or a specified portion (as above provided) hereof, and accompanied, if required by the Maker, by proper assignment hereof in blank. No fractional shares or scrip representing fractions of shares will be issued on conversion, but the number of shares issuable shall be rounded to the nearest whole share. The date on which notice of conversion is given (the "Conversion Date") shall be deemed to be the date on which the Payee has delivered this Note, with the Conversion Notice duly executed, to the Maker. Facsimile delivery of the Conversion Notice shall be accepted by the Maker. Certificates representing shares of Common Stock upon conversion will be delivered within five (5) business days from the Conversion Date.

The shares to be issued pursuant to this Note shall contain unlimited piggyback registration rights. Payee's piggyback registration rights shall commence on the date hereof and shall terminate three (3) years after the date hereof. The Maker shall bear the costs of such registrations. In the event of the sale of the shares contemplated hereunder, Payee shall pay any and all underwriting commissions and non-accountable expenses of any underwriter selected by Payee to sell the common stock (the "Registrable Securities"). As to Payee's registration rights, the Maker agrees to qualify or register the Registrable Securities in such additional states as are reasonably requested by Payee and the Maker shall bear all costs and expenses, of the qualification of registration of the Registrable Securities in such additional states as are reasonably requested by the Payee. In no event shall the Maker be required to register the Registrable Securities in more than five (5) states or in a state in which such registration would cause (i) the Maker to be obligated to do business in such state, or (ii) the principal stockholders of the Maker to be obligated to escrow any of their securities.

The certificates for the shares of Common Stock shall bear the following legend:

THESE SECURITIES (THE "SECURITIES") HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES

ACT"), OR THE SECURITIES LAWS OF ANY STATE AND MAY NOT BE SOLD OR OFFERED FOR SALE IN THE ABSENCE OF AN EFFECTIVE REGISTRATION STATEMENT FOR THE SECURITIES OR AN OPINION OF COUNSEL OR OTHER EVIDENCE ACCEPTABLE TO THE CORPORATION THAT SUCH REGISTRATION IS NOT REQUIRED.

The Payee of the Note, by acceptance hereof, agrees that this Note is being acquired for investment and that such Payee will not offer, sell or otherwise dispose of this Note or the shares of Common Stock issuable upon conversion thereof except under circumstances which will not result in a violation of the Act or any applicable state Blue Sky or foreign laws or similar laws relating to the sale of securities.

This Note shall be governed by and construed in accordance with the laws of the State of Texas, without giving effect to principles of conflicts of law. By signing below, Maker hereby irrevocably submits to the jurisdiction of such state and to service of process by certified or registered mail at Maker's last known address. No provision of this Note may be changed unless in writing signed by the Payee and Maker.

IN WITNESS WHEREOF, Maker has caused this Note to be duly executed and delivered by its duly authorized representative as of the date and year first above written.

NATURAL HEALTH TRENDS CORP.

By: \_\_\_\_\_

Name: Mark Woodburn  
Title: CFO

CONVERTIBLE PROMISSORY NOTE

THESE SECURITIES AND THE SHARES ISSUABLE UPON CONVERSION HEREOF, HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"), OR THE SECURITIES LAWS OF ANY STATE AND MAY NOT BE SOLD OR OFFERED FOR SALE IN THE ABSENCE OF AN EFFECTIVE REGISTRATION STATEMENT FOR THE SECURITIES OR AN OPINION OF COUNSEL OR OTHER EVIDENCE ACCEPTABLE TO THE CORPORATION THAT SUCH REGISTRATION IS NOT REQUIRED.

\$138,000

December 31, 2001

FOR VALUE RECEIVED, NATURAL HEALTH TRENDS CORP., a Florida corporation, having an office at 5605 North MacArthur Boulevard, 11th floor, Irving, TX 75038 (the "Maker"), hereby promises to pay to the order of Augusta Street LLC, (the "Payee"), at the office of the Payee or at such place as the Payee of this Note may designate in writing from time to time on December 31, 2002 ("Due Date"), the principal sum of One Hundred Thirty-Eight Thousand Dollars (\$138,000) together with interest thereon at the prime rate as published in the Wall Street Journal on the date hereof 4.75%.

The following shall be deemed "Events of Default" hereunder:

- (a) If any payment hereunder shall not be made when due upon demand;
- (b) if the Maker shall fail to perform or comply with any of the other terms, covenants, or conditions of this Note;
- (c) if Maker ceases doing business as a going concern, or makes or sends notice of an intended bulk sale or makes an assignment for the benefit of creditors;
- (d) if any proceedings are commenced by or against Maker under any bankruptcy, reorganization, arrangement, insolvency, readjustment of debt, receivership, liquidation or dissolution law or statute of any jurisdiction, whether now or hereafter in effect; or
- (e) if a receiver, trustee or conservator is appointed for any of Maker's property.

Unless the Payee otherwise elects, in the Payee's sole discretion, this Note shall automatically become immediately due and payable, without further notice or demand, upon the occurrence of any event of default hereinabove described. Upon the acceleration of the entire or any portion of the unpaid balance of this Note, the holder, without prejudice to any other rights, is authorized to proceed against Maker and shall not be required to have recourse to any security given for payment of this Note.

In the event that this Note is not paid within five (5) days of demand, this Note shall bear additional interest at the rate of 1.5% per month.

Nothing contained in this Note shall require the Maker to pay interest at a rate exceeding the maximum rate permitted by applicable law. If the amounts payable to the Payee on any date shall exceed the maximum permissible amount, such amounts shall be automatically reduced to the maximum permissible amount, and the payments for any subsequent period, to the extent less than that permitted by applicable law, shall, to that extent, be increased by the amount of such reduction. In the event that the period from the due date of such payment is not long enough to cause the payments due hereunder not to exceed the maximum amount permitted by applicable law, then the Payee at its option shall have the right (i) to extend the amount of time for such payment such that the payments shall not be deemed to exceed the maximum amount permitted by applicable law or (ii) to reduce the amounts payable under this Note.

Except as otherwise expressly provided herein, Payee hereby waives presentment, demand for payment, dishonor, notice of dishonor, protest and notice of protest.



Except as otherwise provided herein at the option of Maker, the unpaid balance of this Note may be prepaid in whole or in part, from time to time, without penalty or premium.

The liability of Maker hereunder shall be unconditional. No act, failure or delay by the Payee hereof to declare a default as set forth herein or to exercise any right or remedy it may have hereunder, or otherwise, shall constitute a waiver of its rights to declare such default or to exercise any such right or remedy at such time as it shall determine in its sole discretion.

Maker further agrees to pay all costs of collection, including a reasonable attorney's fee and all costs of levy or appellate proceedings or review, or both, in case the principal or any interest thereon is not paid at the respective maturity thereof, or in case it becomes necessary to protect the security hereof, whether suit be brought or not.

Any and all notices or other communications required or permitted to be given under this Note shall be in writing and shall be deemed to have been duly given upon personal delivery or the mailing thereof by certified or registered mail (a) if to Maker, addressed to it at its address set forth above; and (b) if to Payee, addressed to it at its address set forth above or at such other address any person or entity entitled to receive notices may specify by written notice given as aforesaid.

This Note may not be amended, modified, supplemented or terminated unless by written instrument signed by both parties.

This Note shall be binding upon Maker, its legal representatives, successors or assigns and shall inure to the benefit of Payee and its successors, endorsees, assigns or holder(s) in due course.

For and in consideration of the mutual covenants and obligations set forth in this Promissory Note and other good and valuable consideration, the receipt of which is hereby acknowledged, Maker hereby releases and forever discharges, and by these presents does for its subsidiaries, if any (direct or indirect), and itself and its predecessors, successors, affiliates and assigns ("Releasors"), remise, release and forever discharge and hold harmless Payee and each of its predecessors, affiliates, subsidiaries (direct or indirect), shareholders, members, officers, directors, employees, agents or attorneys, advisers, successors and assigns ("Lenders"), of and from and against all manner of action and actions, cause and causes of action (whether individual, derivative or representative), suits, debts, dues, sums of money, accounts, fees, reckonings, bonds, bills, specialties, covenants, contracts, controversies, agreements, promises, damages, costs, expenses, claims and demands whatsoever, in law or in equity which the Releasors ever had, now have, or which hereinafter can, shall or may have by reason of any matter, claim or cause of action of any kind whatsoever, from the beginning of the world to the date of this Agreement, whether known or unknown, including, without limitation, those relating in any way to: (i) this Promissory Note or (ii) the prosecution of any claim, defense, setoff, or counterclaim which the Releasors ever had, now have or may have against Lenders in prior financings or investments, provided, however, that nothing herein shall be construed or deemed to release any covenants or agreements of the Maker contained in this Promissory Note.

The Payee of this Note is entitled, at its option, to convert at any time, the principal amount of this Note at a conversion price equal to seventy-five percent (75%) of the five day average closing bid price of the Common Stock, as reported by BLOOMBERG, L.P. for the five trading days immediately preceding the applicable Conversion Date (the "Conversion Price"). Conversion shall be effectuated by delivery (via facsimile) of the form of conversion notice attached hereto as Exhibit A (the "Conversion Notice"), executed by the Payee of the Note evidencing the Payee's intention to convert this Note or a specified portion (as above provided) hereof, and accompanied, if required by the Maker by proper assignment hereof in blank. No fractional shares or scrip representing fractions of shares will be issued on conversion, but the number of shares issuable shall be rounded to the nearest whole share. The date

on which notice of conversion is given (the "Conversion Date") shall be deemed to be the date on which the Payee has delivered the Conversion Notice duly executed, to the Maker. Facsimile delivery of the Conversion Notice shall be accepted by the Maker. Certificates representing shares of Common Stock upon conversion will be delivered within five (5) business days from the Conversion Date.

The shares to be issued pursuant to this Note ("Registrable Securities") shall contain unlimited piggyback registration rights. Payee's piggyback registration rights in the form of Annex A hereto, which shall commence on the date hereof and shall terminate three (3) years after the date hereof. The Maker shall bear the costs of such registrations.

The certificates for the shares of Common Stock shall bear the following legend:

THESE SECURITIES (THE "SECURITIES") HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"), OR THE SECURITIES LAWS OF ANY STATE AND MAY NOT BE SOLD OR OFFERED FOR SALE IN THE ABSENCE OF AN EFFECTIVE REGISTRATION STATEMENT FOR THE SECURITIES OR AN OPINION OF COUNSEL OR OTHER EVIDENCE ACCEPTABLE TO THE CORPORATION THAT SUCH REGISTRATION IS NOT REQUIRED.

The Payee of the Note, by acceptance hereof, agrees that this Note is being acquired for investment and that such Payee will not offer, sell or otherwise dispose of this Note or the shares of Common Stock issuable upon conversion thereof except under circumstances which will not result in a violation of the Act or any applicable state Blue Sky or foreign laws or similar laws relating to the sale of securities.

This Promissory Note shall be governed by and construed and enforced in accordance with the internal laws of the State of New York without regard to the principles of conflicts of law thereof. Each party hereby irrevocably submits to the exclusive jurisdiction of the state and federal courts sitting in the City of New York, borough of Manhattan, for the adjudication of any dispute hereunder or in connection herewith or with any transaction contemplated hereby or discussed herein, and hereby irrevocably waives, and agrees not to assert in any suit, action or proceeding, any claim that it is not personally subject to the jurisdiction of any such court, that such suit, action or proceeding is improper. Each party hereby irrevocably waives personal service of process and consents to process being served in any such suit, action or proceeding by mailing a copy thereof to such party at the address in effect for notices to it under this Promissory Note and agrees that such service shall constitute good and sufficient service of process and notice thereof. Nothing contained herein shall be deemed to limit in any way any right to serve process in any manner permitted by law. Maker hereby irrevocably submits to the jurisdiction of such state and to service of process by certified or registered mail at Maker's last known address. The Maker and Payee hereby irrevocably waive a trial by jury in any action, proceeding or counterclaim brought by either of the parties hereto against the other in respect of any matter arising out of or in connection with this Note.

IN WITNESS WHEREOF, Maker has caused this Note to be duly executed and delivered by its duly authorized representative as of the date and year first above written.

NATURAL HEALTH TRENDS CORP.

By: \_\_\_\_\_  
Name: Mark Woodburn  
Title: President

## PAYMENT AGREEMENT

THIS AGREEMENT is among NATURAL HEALTH TRENDS CORP., a corporation organized under the laws of the State of Florida, whose address is 2161 Hutton Drive, Suite 126, Carrollton, Texas 75006 (hereinafter referred to as the "Company"); and SUMMIT TRADING LIMITED, a international business corporation with its principal office at Charlotte House, Charlotte Street, Nassau, Bahamas, as the Financing Agent (hereinafter referred to as "STC").

WHEREAS, the STC is in the business of assisting public companies in funding financial advisory, strategic business planning, and investor and public relations services designed to make the investing public knowledgeable about the benefits of stock ownership in the Company; and

WHEREAS, the Company has had presented to it one or more plans of public and investor relations to utilize other business entities to achieve the Company's goals of making the investing public knowledgeable about the benefits of stock ownership in the Company; and

WHEREAS, the Company recognizes that the STC is not in the business of stock brokerage, investment advice, activities which require registration under either the Securities Act of 1933 (hereinafter "the Act") or the Securities and Exchange Act of 1934 (hereinafter "the Exchange Act"), underwriting, banking, is not an insurance Company, nor does it offer services to the Company which may require regulation under federal or state securities laws; and

WHEREAS, the parties agree, after having a complete understanding of the financing desired to be provided to the Company and Company desires to have STC fund a plan of public and investor relations which have been selected by the Company;

NOW, THEREFORE, in consideration of the mutual covenants and promises contained herein, the receipt and sufficiency of which is hereby acknowledged, the parties agree as follows:

### 1. Duties and Involvement.

The Company has engaged a Consultant to provide a plan, and for coordination in executing the agreed-upon plan, for using various investor and public relations services as agreed by both parties within the United States. After agreeing upon such plan Company desires to have STC undertake to pay its monetary obligations to the Consultant. STC in return for the compensation hereinafter described has agreed to undertake to pay the Company's obligations to the Consultant selected by the Company.

### 2. Relationship Among the Parties.

STC acknowledges that it is not an officer, director or agent of the Company, it is not, and will not, be responsible for any management decisions on behalf of the Company, and may not commit the Company to any action. The Company represents that STC does not have, through stock ownership or otherwise, the power to control the Company, nor to exercise any dominating influence over its management.

STC understands and acknowledges that this Agreement shall not create or imply any agency relationship among the parties, and STC will not commit the Company in any manner except when a commitment has been specifically authorized in writing by the Company.

The Company and the Consultant agree that the relationship among the parties shall be that of independent contractor.

### 3. Effective Date

This Agreement shall be effective on July 15, 2001 and shall terminate on July 14, 2003.

### 4. Compensation.

The Company agrees to pay to STC, or its designee, the total sum of 20,000,000 shares of common stock of the Company. The stock will be restricted pursuant to

Rule 144. This payment will be considered total and complete consideration for arranging to pay for the costs of the Consultant and for the a public and investor relations campaign developed by the Consultant and agreed to by the Company. The payment shall be deemed earned upon the signing of this agreement and shall be issued no later than August 1, 2001. Upon payment of such stock to STC, STC will arrange for payment on behalf of the Company to the Consultant for the services to be provided, and obtain from the consultant an agreement that the Company shall have no other obligation to the consultant for payment (or the public or investor relations firms approved by the Company), excepting any obligation for additional compensation which arises after the execution of this agreement.

#### 5. Investment Representation.

i. The Company represents and warrants that it has provided STC with access to all information available to the Company concerning its condition, financial and otherwise, its management, its business and its prospects. The Company represents that it has provided STC with all copies of the Company's filings for the prior twelve (12) months, if any, (the "Disclosure Documents") made under the rules and regulations promulgated under the Act, as amended, or the Exchange Act, as amended. STC acknowledge that the acquisition of the securities to be issued to STC involves a high degree of risk. STC represents that it and its advisors have been afforded the opportunity to discuss the Company with its management. The Company represents that it has and will continue to provide STC with any information or documentation necessary to verify the accuracy of the information contained in the Disclosure Documents, and will promptly notify STC

Page 2

upon the filing or any registration statement or other periodic reporting documents filed pursuant to the Act or the Exchange Act. This information will include DTC sheets, which shall be provided to the STC no less than every two (2) weeks. The Company hereby represents that it does not currently have any of its securities in registration.

ii. The STC represents that neither it nor its officers, directors, or employees is not subject to any disciplinary action by either the National Association of Securities Dealers or the Securities and Exchange Commission by virtue of any violations of their rules and regulations and that to the best of its knowledge neither is its affiliates nor subcontractors subject to any such disciplinary action.

iii. If required by United States law or regulation, STC will take necessary steps to prepare and file any necessary forms to comply with the transfer of the shares of stock from Company to STC, including, if required, form 13( d).

#### 6. Regulation D.

The Company agrees that during the term of this Agreement it will not issue any stock pursuant to Regulation D of the General Regulations of the Securities and Exchange Commission or any registration of the Company's securities by means of a Form S-8 registration statement without the written consent of the Consultant which consent shall not be unreasonably withheld. This provision shall not apply to an employee stock option plan or other management stock options.

#### 7. Registration of Securities and Liquidated Damages.

The Company shall have ten (10) business days to deliver opinion letters to STC when presented with proper documentation by STC. In the event that the Company fails to deliver such opinion letters, STC shall be entitled, as liquidated damages, to ten percent (10%) of the total number of shares issued herein for each thirty (30) day delay in providing such opinion letter( s ). In the event of a delay of less than a full thirty (30) day period, STC shall be entitled to a pro-rata allocation of additional shares.

STC understands and acknowledges that the shares of common stock are being acquired by STC for its own account, and not on behalf of any other

person, and are being acquired for investment purposes and not for distribution. STC represents that the common stock will be a suitable investment for STC, taking into consideration the restrictions on transferability affecting the common stock.

Company will undertake to comply with the various states' securities laws with respect to the registration of the Shares referred to herein. Company undertakes to make available for review and comment, on a timely basis and prior to submission to any regulatory agency, copies of the registration statement.

Page 3

#### 8. " Piggyback Registration. "

If the Company proposes to register any equity securities under the Securities Act for sale to the Public for cash, whether for its own account or for the account of other security holders, or both, on each such occasion the Company will give written notice to STC no less than fifteen (15) business days prior to the anticipated filing date of its intention to do so. Upon the written request of STC, received by the Company no later than the tenth (10th) business day after receipt by STC of the notice sent by the Company, to register, on the same terms and conditions as the securities otherwise being sold pursuant to such registration, any of its registerable securities (which request shall state the intended method of disposition thereof), the Company will cause the registerable securities as to which registration shall have been so requested to be included in the securities to be covered by the registration statement proposed to be filed by the Company, on the same terms and conditions as any similar securities included therein, all to the extent requisite to permit the sale or other disposition by STC (in accordance with its written request) of such registerable securities so registered; provided, however, that the Company may, at any time prior to the effectiveness of any such registration statement, in its sole discretion and with the consent of STC, abandon the proposed offering in which STC had requested to participate.

#### 9. Anti-Dilution.

In the event that the Company shall sell any shares of the common stock of the Company during the time period of this Agreement, and ending six (6) months after this Agreement has ended, then Company will issue additional shares of stock to Consultant pursuant to this anti-dilution clause. The number of additional shares of common stock to be issued to Consultant shall be equal to the number of shares which are issued after the effective date of this agreement and 6 months after the termination of this agreement multiplied by a fraction, the numerator of which shall be the number of shares of common stock issued for consideration in this agreement, and the denominator of which shall be the number of shares of common stock outstanding on the effective date of this agreement. This anti-dilution agreement shall not apply in the event that the Company makes an asset purchase with common stock of the Company when the appraised value of the asset is equal to or greater than the market value of the stock used to purchase the asset.

#### 10. Miscellaneous Provisions

Section a. Time Time is of the essence of this Agreement.

Section b. Presumption. This Agreement or any section thereof shall not be construed against any party due to the fact that said Agreement or any section thereof was drafted by said party.

Section c. Computation of Time. In computing any period of time pursuant to this Agreement, the day of the act, event or default from which the designated period of time begins to run shall be included, unless it is a Saturday, Sunday or a legal holiday, in which event the period shall begin to run on the next day which is not a Saturday, Sunday or a legal holiday, in which event

Page 4

the period shall run until the end of the next day thereafter which is not a Saturday, Sunday or legal holiday.

Section d. Titles and Captions. All article, section and paragraph titles or captions contained in this Agreement are for convenience only and shall not be deemed part of the context nor affect the interpretation of this Agreement.

Section e. Pronouns and Plurals. All pronouns and any variations thereof shall be deemed to refer to the masculine, feminine, neuter, singular or plural as the identity of the Person or Persons may require.

Section f Further Action. The parties hereto shall execute and deliver all documents, provide all information and take or forbear from all such action as may be necessary or appropriate to achieve the purposes of this Agreement.

Section g. Good Faith, Cooperation and Due Diligence. The parties hereto covenant, warrant and represent to each other good faith, complete cooperation, due diligence and honesty in fact in the performance of all obligations of the parties pursuant to this Agreement. All promises and covenants are mutual and dependant.

Section h. Savings Clause. If any provision of this Agreement, or the application of such provision to any person or circumstance, shall be held invalid, the remainder of this Agreement, or the application of such provision to persons or circumstances other than those as to which it is held invalid, shall not be affected thereby.

Section i .Assignment This Agreement may not be assigned by either party hereto without the written consent of the other, but shall be binding upon the successors of the parties.

#### Section j. Arbitration

i. If a dispute arises out of or relates to this Agreement, or the breach thereof, and if said dispute cannot be settled through direct discussion, the parties agree to first endeavor to settle the dispute in an amicable manner by mediation under the Commercial Mediation Rules of the American Arbitration Association before resorting to arbitration. Thereafter, any unresolved controversy or claim arising out of or relating to this Agreement or a breach thereof shall be settled by arbitration in accordance with the rules of the American Arbitration Association, and judgment upon the award rendered by the Arbitrator may be entered in any court having jurisdiction thereof.

ii. Any provisional remedy which would be available from a court of law shall be available to the parties to this Agreement from the Arbitrator pending arbitration.

iii. The situs of the arbitration shall be Forsyth County, North Carolina.

Page 5

iv. In the event that a dispute results in an arbitration, the parties agree that the prevailing party shall be entitled to reasonable attorneys fees to be fixed by the arbitrator .

Section k. Notices All notices required or permitted to be given under this Agreement shall be given in writing and shall be delivered, either personally or by express delivery service, to the party to be notified. Notice to each party shall be deemed to have been duly given upon delivery, personally or by courier ( such as Federal Express or similar express delivery service), addressed to the attention of the officer at the address set forth heretofore, or to such other officer or addresses as either party may designate, upon at least ten (10) days' written notice, to the other party.

Section l. Governing law The Agreement shall be construed by and



COMMERCIAL LEASE AGREEMENT

BETWEEN

AIP-SWAG Operating Partnership, L.P. ,

a Delaware Limited Partnership

as Landlord

and

Lexxus International, Inc.,

a Delaware Corporation

as Tenant

Dated: July 17th, 2001

TABLE OF CONTENTS

	Page	
ARTICLE 1 -	BASIC LEASE PROVISIONS	2
ARTICLE 2 -	TERM AND POSSESSION	4
ARTICLE 3 -	RENT	6
ARTICLE 4 -	SECURITY DEPOSIT	8
ARTICLE 5 -	OCCUPANCY AND USE	8
ARTICLE 6 -	UTILITIES AND SERVICES	13
ARTICLE 7 -	MAINTENANCE, REPAIRS, ALTERATIONS AND IMPROVEMENTS	14
ARTICLE 8 -	INSURANCE, FIRE AND CASUALTY	16
ARTICLE 9 -	CONDEMNATION	19
ARTICLE 10 -	LIENS	20
ARTICLE 11 -	TAXES ON TENANT'S PROPERTY	20
ARTICLE 12 -	SUBLETTING AND ASSIGNING	20
ARTICLE 13 -	SUBORDINATION AND TENANTS ESTOPPEL CERTIFICATE	21
ARTICLE 14 -	DEFAULT	22
ARTICLE 15 -	NOTICES	25
ARTICLE 16 -	MISCELLANEOUS PROVISIONS	25

EXHIBITS AND RIDERS

Exhibit A	Site Plan of Premises
Exhibit B	Acceptance of Premises Memorandum
Exhibit C	Rules and Regulations



COMMERCIAL LEASE AGREEMENT

This Commercial Lease Agreement (hereinafter called this "Lease") is made this 17th day of July, 2001 between AIP-SWAG Operating Partnership, L.P., a Delaware Limited Partnership (hereinafter called "Landlord"), and Lexxus International, Inc., a Delaware Corporation (hereinafter called "Tenant").

ARTICLE 1 BASIC LEASE PROVISIONS AND DEFINITIONS

- 1. Building:
  - a. Name: Valley View Commerce Park
  - b. Address: 12901 Hutton
  - c. Property Number: N/A
  - d. Agreed Rentable Area: 138,374 square feet
- 2. Premises:
  - a. Suite Number: N/A
  - b. Agreed Rentable Area: 16,134 square feet
- 3. Term: Thirty-eight (38) months
- 4. Commencement Date: August 1, 2001
- 5. Expiration Date: September 30, 2004
- 6. Base Rent:

Rental Period -----	Base Monthly Rent -----
Commencement Date to September 30,2004*	\$9,008.15

- 7. Additional Rent, Expense Stops and Pro Rata Share Percentage:
  - a. Operating Expense Stop: \$0.00
  - b. Real Estate Taxes Expense Stop: \$0.00
- c. Tenant's Pro Rata Share Percentage: .11.7%

The following chart is provided as an estimate of Tenant's initial monthly payment broken down into its components. This chart, however, does not supersede the specific provisions contained elsewhere in this lease.

Initial Monthly Base Rent	\$ 9,008.15
Initial Monthly Estimated Operating Expense Escrow	\$ 1,747.85
Initial Monthly Estimated Real Tax Escrow	\$ 1,734.41
Other	\$ 134.45
Total Initial Monthly Payment	\$ 12,624.86

- 8. Security Deposit: \$12,624.86
- 9. Permitted Use: Office and distribution related to the healthcare field.
- 10. Landlord's Broker: Robert Lynn Company, a Texas Corporation
- 11. Landlord's Broker is represented by: Mark D. Miller
- 12. Tenant's Broker: Gilbert Commercial
- 13. Tenant's Broker is represented by: John Gilbert
- 14. Payments: All payments shall be sent to Landlord at: P. O. Box 971799, Dept. 9921, Dallas, TX 75397- 1799, or such other place as Landlord may designate from time to time.
- 15. Lease Guarantor: N/A
- 16. Notices: Addresses for notices due under this Lease:



Letter. The Premises shall be delivered to Tenant on the Commencement Date; provided, however, Landlord will permit the Tenant to have access to the Premises prior to the Commencement Date. Any such occupancy will not affect the Commencement Date; however, such occupancy will be subject to all other provisions of this Lease, including without limitation the indemnity provisions set forth in Section 8.5.1. hereof. Landlord will be responsible for delivering the space with the HV AC, plumbing, and all mechanical systems in good working order .

2.2.2 Common Area: "Common Areas" will mean all areas, spaces, facilities, and equipment (whether or not located within the Building) made available by Landlord for the common and joint use of Landlord, Tenant and others designated by Landlord using or occupying space in the Building or at the Property, as applicable, to the extent same are not expressly made apart of the Premises, and are made available for use of all tenants in the Building. Tenant is hereby granted a nonexclusive right to use the Common Areas during the term of this Lease for its intended purposes, in common with others designated by Landlord, subject to the terms and conditions of this Lease, including, without limitation, the Rules and Regulations. The Common Areas will be at all times under the exclusive control, management and operation of the Landlord.

2.2.3 Acceptance of Premises Memorandum: Upon Substantial Completion (as defined in the Work Letter) of Tenant's Improvements, Landlord and Tenant shall execute the Acceptance of Premises Memorandum (herein so called) attached hereto as Exhibit B. If Tenant occupies the Premises without executing an Acceptance of Premises Memorandum, Tenant shall be deemed to have accepted the Premises for all purposes and Substantial Completion shall be deemed to have occurred on the earlier to occur of: (i) actual occupancy, (ii) the Commencement Date set forth in Item 4 of Article I, or (iii) the date Tenant commences doing business at the Premises if Landlord consents to an early occupancy as set forth in Section 2.2.1.

SECTION 2.3 REDELIVERY OF THE PREMISES: Upon the expiration or earlier termination of this Lease, or upon the exercise by Landlord of its right to re-enter the Premises without terminating this Lease, Tenant shall immediately deliver to Landlord the Premises in a safe, "broom clean", neat, sanitary and operational condition, normal wear and tear excepted, together with all keys and parking and access cards. Tenant shall, by the Expiration Date or the date this Lease is earlier terminated in accordance with the terms hereof, remove from the Premises, at the sole expense of Tenant: (i) unless Landlord is asserting its lien rights therein, any equipment, machinery, trade fixtures and personalty installed or placed in the Premises by or on behalf of Tenant and (ii) if requested by Landlord, all or any part of the improvements made to the Premises by or on behalf of Tenant. All removals described above shall be accomplished in a good and workmanlike manner so as not to damage the Premises or the primary structure or structural qualities of the Building or the plumbing, electrical lines or other utilities. Tenant shall, at its expense, promptly repair any damage caused by such removal, provided that in the case of improvements that Tenant is required to remove, Tenant shall restore the Premises to the condition existing prior to the installation of such improvements. If Tenant fails to deliver the Premises in the condition aforesaid, then Landlord may restore the Premises to such a condition at Tenant's expense. All property required to be removed pursuant to this Section not removed within time period required hereunder shall thereupon be conclusively presumed to have been abandoned by Tenant, and Landlord may, at its option, take over possession of such property and either (a) declare the same to be the property of Landlord or (b) at the sole cost and expense of Tenant, remove and store and/or dispose of the same or any part thereof in any manner that Landlord shall choose without incurring liability to Tenant or any other person. .

SECTION 2.4 HOLDING OVER: In the event Tenant, or any party under Tenant claiming rights to this Lease, retains possession of the Premises after the expiration or earlier termination of this Lease, such possession shall constitute and be construed as a tenancy at will only, subject, however, to all of the terms, provisions, covenants and agreements on the part of Tenant hereunder; such parties shall be subject to immediate eviction and removal, and Tenant or any such party covenants and agrees to pay Landlord as rent for the period of such holdover an amount equal to one and one half (1 1/2) times the Base Monthly Rent and Additional Rent (as hereinafter defined) in effect immediately preceding expiration or termination, as applicable, prorated on a

daily basis. Tenant covenants and agrees to also pay any and all damages sustained by Landlord as a result of such holdover. The rent during such holdover period shall be payable to Landlord from time to time on demand; provided, however, if no demand is made during a particular month, holdover rent accruing during such month shall be paid in accordance with the provisions of this Section 2.4. Tenant will vacate the Premises and deliver same to Landlord immediately upon Tenant's receipt of notice from Landlord to so vacate. No holding over by Tenant, whether with or without consent of Landlord, shall operate to extend the term of this Lease. No payments of money by Tenant to Landlord after the expiration or earlier termination of this Lease shall reinstate, continue or extend the term of this Lease. No payments of money by Tenant, other than the holdover rent accruing during such holdover period paid in accordance with the provisions of this Section 2.4, to Landlord after the expiration or earlier termination of this Lease shall constitute full payment of rent under the terms of this Lease, and Tenant further agrees that any such payment(s), other than the holdover rent accruing in accordance with the provisions of this Section 2.4, to Landlord shall constitute a default and breach of this Lease by Tenant pursuant to Article 14 herein. No extension of this Lease after the expiration or earlier termination thereof shall be valid unless and until the same shall be evidenced by a writing signed by both Landlord and Tenant.

### ARTICLE 3

#### RENT

SECTION 3.1 BASE RENT: Tenant shall pay as rent for the Premises the applicable Base Monthly Rent shown in Item 6 of Article 1. The Base Monthly Rent shall be payable in monthly installments equal to the applicable Base Monthly Rent shown in Item 6 of Article 1 in advance, without notice, demand, offset or deduction. The required monthly installments shall commence on the Commencement Date and shall continue on the first (1st) day of each calendar month thereafter until the Expiration Date. If the Commencement Date is specified to occur or otherwise occurs on a day other than the first day of a calendar month, the Base Monthly Rent for such partial month shall be prorated.

#### SECTION 3.2 ADDITIONAL RENT:

3.2.1 Definitions: For purposes of this Lease, the following definitions shall apply:

(a) "Additional Rent", for a particular year, shall equal the product of Tenant's Pro Rata Share Percentage (as set forth in Item 7c of Article 1), multiplied by the sum of (i) the amount by which all Operating Expenses for the applicable calendar year exceed Tenant's Operating Expense Stop (as set forth in Item 7a of Article 1) plus (ii) the amount by which the Real Estate Taxes for the applicable calendar year exceed Tenant's Real Estate Taxes Expense Stop as set forth in Item 7b of Article 1).

(b) "Operating Expenses" shall mean (without duplication of any costs and expenses of which Tenant is responsible under Section 6.1 or subsection 7.2.1 below) (i) all of the costs and expenses Landlord incurs, pays or becomes obligated to pay in connection with operating, managing, maintaining, repairing and insuring the Property for a particular calendar year or portion thereof as determined by Landlord in accordance with generally accepted accounting practices, including, if applicable, if the Property is less than one hundred percent (100%) occupied, all additional costs and expenses of operating, managing, maintaining, repairing and insuring the Property which Landlord determines that would have been paid or incurred during the particular calendar year or portion thereof if the Property had been one hundred percent (100%) occupied, (ii) wages, salaries, employee benefits and taxes for personnel working full or part-time in connection with the operation, maintenance and management of the Building and the Common Areas, (iii) costs of maintenance, repair and care of rail spur areas, if any, shared with other tenants of the Building, (iv) the cost of any capital improvement made to the Building by Landlord after the date of this Lease that is required under any governmental law or regulation, together with an amount equal to interest at the rate of twelve percent (12%) per annum (the "Amortization Rate") on the unamortized balance thereof, (v) the cost of any capital improvement made to the Common

Areas of the Building after the date of this Lease that is required under the interpretations or regulations issued from time to time under the provisions of the Americans With Disabilities Act of 1990, 42 U.S.C. ss. 120101-12213 or comparable laws of the State and local agencies in which the Property is located (collectively, the "Disability Acts"), amortized over such period as Landlord shall reasonably determine, together with an amount equal to interest at the Amortization Rate on the unamortized balance thereof, (vi) the cost of any labor-saving or energy-saving device or other equipment installed in the Building after the date hereof, amortized over such period as is reasonably determined by Landlord, together with an amount equal to interest at the Amortization Rate on the unamortized balance thereof, (vii) the charges assessed against the Property pursuant to any contractual covenants or recorded declaration of covenants or the covenants, conditions and restrictions of any other similar instrument affecting the Property, and (viii) all other costs and expenses which would generally be regarded as operating, maintenance, repair and management costs and expenses, including those which would normally be amortized over a period not to exceed five (5) years. Operating Expenses shall not include Real Estate Taxes (hereinafter defined).

(c) "Real Estate Taxes" shall mean all real estate taxes and other taxes or assessments, which are levied with respect to the Property or any portion thereof for each calendar year and shall include any tax, surcharge or assessment which shall be levied in addition to or in lieu of real estate taxes, the costs and expenses of a consultant, if any, and/or of contesting the validity or amount of such real estate or other taxes, and shall also include any rental, excise, sales, transaction, privileged, or other tax or levy, however denominated, imposed upon or measured by the rental payable hereunder or on Landlord's business of leasing the Premises, any non-progressive tax on or measured by gross rentals received from the rental of space in the Building, and any tax in this transaction or any documents to which Tenant is a party creating or transferring an interest in the Premises, excepting only Landlord's net income taxes (collectively, "Real Estate Taxes").

(d) "Tenant's Operating Expense Stop" shall be the total Operating Expenses for the applicable calendar year set forth in item 7a of Article 1 or if no year is so stated, the total dollar amount stated in Item 7a of Article 1.

(e) "Tenant's Real Estate Taxes Expense Stop" shall be the total of all Real Estate Taxes for the applicable calendar year set forth in Item 7b of Article 1 or if no year is so stated, the total dollar amount stated in Item 7b of Article 1

3.2.2 Payment Obligation: In addition to the Base Rent specified in this Lease, Tenant shall pay to Landlord the Additional Rent, in each calendar year or partial calendar year, payable in monthly installments as hereinafter provided. On or prior to the Commencement Date and at least thirty (30) days prior to each calendar year thereafter (or as soon thereafter as is reasonably possible), Landlord shall give Tenant written notice of Tenant's estimated Additional Rent for the applicable calendar year and the amount of the monthly installment due for each month during such year. Tenant shall pay to Landlord on the Commencement Date and on the first day of each month thereafter the amount of the applicable monthly installment, without notice, demand, offset or deduction, provided, however, if the applicable installment covers a partial month, then such installment shall be prorated on a daily basis. If Landlord fails to give Tenant notice of its estimated payments of Additional Rent in accordance with this subsection for any calendar year, then Tenant shall continue making monthly estimated payments in accordance with the estimate for the previous calendar year until a new estimate is provided by Landlord. If Landlord determines that, because of unexpected increases in Operating Expenses or other reasons, Landlord's estimate of Operating Expenses was too low, then Landlord shall have the right to give a new statement of the estimated Additional Rent due from Tenant for the applicable calendar year or the balance thereof and to bill Tenant for any deficiency which may have accrued during such calendar year or portion thereof, and Tenant shall thereafter pay monthly installments of Additional Rent based on such new statement. Within a reasonable time after the end of each calendar year and the Expiration Date, Landlord shall prepare and deliver to Tenant a statement showing Tenant's actual Additional Rent for the applicable calendar year, provided that with respect to the calendar year in which the Expiration Date occurs, (x) that calendar year shall be deemed to have commenced on January 1 of that year and ended on the Expiration Date (the "Final Calendar Year") and (y) Landlord shall have the right to estimate the actual Operating Expenses allocable to the Final Calendar

Year. If Tenant's total monthly payments of Additional Rent for the applicable calendar year are less than Tenant's actual Additional Rent, then Landlord shall credit the amount of such overpayment to Tenant, provided, however, with respect to the Final Calendar Year, Landlord shall pay to Tenant the amount of such excess payments, less any additional amounts then owed to Landlord. Unless Tenant takes written exception to any item within thirty (30) days after the furnishing of an annual statement, such statement shall be considered as final and accepted by Tenant. Any amount due Landlord as shown on any such statement shall be paid by Tenant within twenty (20) days after it is furnished to Tenant.

SECTION 3.3 RENT DEFINED AND NO OFFSETS: The Base Monthly Rent, the Additional Rent and all other sums required to be paid to Landlord by Tenant under this Lease, including any sums due under the Work Letter, shall constitute rent and are sometimes collectively referred to as "Rent". Tenant shall pay each payment of Rent when due, without prior notice or demand therefore and without deduction or offset.

SECTION 3.4 LATE CHARGES: If any installment of Base Monthly Rent or Additional Rent or any other payment of Rent under this Lease shall not be paid when due, a "Late Charge" of five percent (5%) of the amount overdue may be charged by Landlord to defray Landlord's administrative expense incident to the handling of such overdue payments. Each Late Charge shall be payable by Tenant on demand of Landlord.

#### ARTICLE 4

##### SECURITY DEPOSIT

Tenant will pay Landlord on the date this Lease is executed by Tenant the Security Deposit set forth in Item 8 of Article 1 as security for the performance of the terms hereof by Tenant. Tenant shall not be entitled to interest thereon and Landlord may commingle such Security Deposit with any other funds of Landlord. It is expressly understood and agreed that the Security Deposit is not an advance payment of Rent or a measure of Landlord's damages in case of default by Tenant. If Tenant defaults with respect to any provisions of this Lease, Landlord may, but shall not be required to, from time to time, without prejudice to any other remedy, use, apply or retain all or any part of the Security Deposit for the payment of any Rent or any other sum in default, or for the payment of any other amount which Landlord may spend or become obligated to spend by reason of Tenant's default, or to compensate Landlord for any other loss or damage which Landlord may suffer by reason of Tenant's default, including, without limitation, costs and attorneys' fees incurred by Landlord to recover possession of the Premises. Upon the occurrence of any event of default by Tenant, Landlord may, from time to time, without prejudice to any other remedy provided herein or provided by law, use such fund to the extent necessary to make good any arrears of rentals and any other damage, injury, expense or liability caused to Landlord by such event of default, and Tenant shall pay to Landlord on demand the amount so applied in order to restore the security deposit to its original amount. If Tenant shall fully and faithfully perform every provision of this Lease to be performed by it, the Security Deposit shall be returned to Tenant within sixty (60) days after the Expiration Date, or the termination of the Lease pursuant to Sections 8.1, 9.1 or 9.2. Tenant agrees that it will not assign or encumber or attempt to assign or encumber the monies deposited with Landlord as the Security Deposit and that Landlord and its successors and assigns shall not be bound by any such actual or attempted assignment or encumbrance.

#### ARTICLE 5

##### OCCUPANCY AND USE

###### SECTION 5.1 USE OF PREMISES:

5.1.1 General: The Premises shall, subject to the remaining provisions of this Section, be used solely for the purpose specified in Item 9 of Article 1. Prior to commencement of any work pursuant to the Work Letter (or if no work is to be performed pursuant to a Work Letter, then prior to Tenant's occupancy of the Premises), Tenant shall satisfy itself and Landlord that the Permitted Use will comply with all applicable zoning ordinances, rules and regulations. Without in any way limiting the foregoing, Tenant shall not use any part of the Premises for sleeping quarters, or for the generation of hazardous or toxic chemical or materials, and will not use, occupy or permit the use or occupancy of the Premises for any purpose which is forbidden by or in violation of any

zoning ordinance, law, rule or regulation or any other law, ordinance, or governmental or municipal regulation, order, or certificate of occupancy, or which may be dangerous to life, limb or property; or permit the maintenance of any public or private nuisance; or do or permit any other thing which may disturb the quiet enjoyment of any other tenant of the Building; or keep any substance or carry on or permit any operation which might emit offensive odors or conditions from the Premises; or commit, suffer or permit any waste in or upon the Premises, or at any time sell, purchase or give away or permit the sale, purchase or gift of food in any form by or to any of Tenant's agents or employees or other parties in the Premises except through vending machines in employees' lunch or rest areas within the Premises for use by Tenant's employees only; or use an apparatus which might make undue noise or set up vibrations in the Building; or permit anything to be done which would increase the fire and extended coverage insurance rate on the Building or contents, and if there is any increase in such

rate by reason of acts of Tenant, then Tenant agrees to pay such increase upon demand therefore by Landlord. Payment by Tenant of any such rate increase shall not be a waiver of Tenant's duty to comply herewith. TENANT SHALL INDEMNIFY AND HOLD LANDLORD HARMLESS FROM ANY AND ALL COSTS, EXPENSES (INCLUDING REASONABLE ATTORNEYS FEES), CLAIMS AND CAUSES OF ACTION ARISING FROM TENANT'S FAILURE TO COMPLY WITH SECTION. Outside storage, including without limitation, storage in non-operative or stationary trucks, trailers and other vehicles, and vehicle maintenance or repair is prohibited without Landlord's prior written consent. Tenant shall keep the Premises neat and clean at all times. Tenant shall promptly correct any violation of a governmental law, rule or regulation with respect to the Premises. Tenant shall comply with any direction of any governmental authority having jurisdiction which imposes any duty upon Tenant or Landlord with respect to the Premises, or with respect to the occupancy or use thereof and shall comply with all matters of record affecting the Premises which may impose additional restrictions and/or obligations on the Landlord or the Tenant.

#### 5 .1.2 Hazardous and Toxic Materials:

(a) Tenant shall not incorporate into, use, release or otherwise place or dispose of at, in, on, under or near the Premises, the Building or the Property any hazardous or toxic materials except that Tenant may use and temporarily store cleaning and office supplies used in the ordinary course of Tenant's business and then only if (i) such materials are in small quantities, properly labeled and contained, (ii) such materials are handled and disposed of off-site at properly authorized facilities in accordance with the highest accepted industry standards for safety, storage, use and disposal, (iii) notice of and a copy of the current material safety data sheet is first delivered to, and written consent is obtained from, Landlord for each such hazardous or toxic material and (iv) such materials are used, transported, stored, handled and disposed of off-site at properly authorized facilities in accordance with all applicable governmental laws, rules and regulations, including without limitation, applicable Environmental Laws, as defined below. Landlord may condition its consent to Tenant's storage or use of any hazardous or toxic materials at, on, or in the Premises, upon Tenant's payment of an additional deposit to Landlord, which deposit shall be in an amount estimated by Landlord as sufficient security for the payment of costs and expenses arising from or related to the potential release of hazardous or toxic materials in connection with Tenant's use or occupancy of the Premises, which deposit, less any costs or expenses incurred or estimated to be incurred in response to such release, shall be returned to Tenant after removal of the hazardous or toxic materials and proper closure or remediation of any area affected by or containing any such hazardous or toxic materials, in compliance with applicable governmental regulations, including without limitation, applicable Environmental Laws. Under no circumstances shall Tenant cause or allow the disposal of hazardous or toxic materials at, in, on, under or about the Building, the Property, or Premises. Tenant shall not (i) occupy or use the Premises, nor permit any portion of the Premises to be occupied or used (A) except in compliance with all laws, ordinances, governmental or municipal regulations, and orders, including without limitation Environmental Laws, or (B) in a manner which may be dangerous to life, limb or property; or (ii) cause or permit the maintenance of any public or private nuisance; or (iii) cause or permit anything to be done which would in any way increase the rate of fire, liability, or any other insurance coverage on the Premises, the Building, or its contents. Landlord shall have the right to periodically inspect, take samples for testing and otherwise investigate the Premises for the presence of hazardous or toxic materials. If Tenant ever has

knowledge of the presence in the Premises or the Building or the Property of hazardous or toxic materials which affect the Premises, Tenant shall notify Landlord thereof in writing promptly after obtaining such knowledge. For purposes of this Lease, hazardous or toxic materials shall mean asbestos containing materials ("ACM") and all other materials, substances, wastes and chemicals classified, defined, listed, or regulated as, or containing, a "hazardous substance," "hazardous waste," "toxic substance," "pollutant," "contaminant," "oil," "hazardous material," "solid waste," and/or "regulated substance" under any Environmental Law. As used herein, the term "Environmental Laws" shall mean any and all statutes, rules, regulations, ordinances, orders, permits, licenses, and other applicable legal

requirements, relating directly or indirectly to human health or safety or the environment, or the presence, handling, treatment, storage, disposal, recycling, reporting, remediation, investigation, or monitoring of hazardous or toxic materials. As used herein, the term "release" shall have the same meaning as under the Comprehensive Environmental Response, Compensation and Liability Act, as amended, 42 U.S.C. Section 9601 et seq.

(b) Prior to commencement of any tenant finish work to be performed by Landlord, Tenant shall have the right to make such studies and investigations and conduct such non-destructive or non-invasive environmental tests and surveys of the Premises as Tenant deems necessary or appropriate, subject to the conditions that all such studies and investigations shall be completed prior to the commencement of any tenant finish work to be performed by Landlord. **TENANT SHALL RESTORE THE PREMISES AND HOLD LANDLORD HARMLESS FROM AND INDEMNIFY LANDLORD AGAINST ALL LOSS, DAMAGES, AND CLAIMS RESULTING FROM OR RELATING TO TENANT'S STUDIES, TESTS AND INVESTIGATIONS.** If such study, test, investigation or survey evidences hazardous or toxic materials which affect the Premises, Tenant shall have the right to terminate this Lease provided such right shall be exercised, if at all, prior to the commencement of any tenant finish work to be performed by Landlord and within five (5) days after Tenant receives the evidence of hazardous or toxic materials. If Tenant takes occupancy of the Premises prior to exercising such right, Tenant's right to terminate this Lease shall be null and void and of no further force and effect. By its occupancy of the Premises, Tenant agrees that it will accept the Premises in its AS IS - WHERE IS condition, WITH ALL FAULTS. Tenant acknowledges that Landlord makes no, and expressly disclaims any, representations and/or warranties, express or implied, regarding the presence or absence of hazardous or toxic materials at, in, on, under, or about the Premises, the Building or the Property, the status of compliance of the Property, the Building or the Premises or any part of them with Environmental Laws, and Tenant acknowledges and agrees that any presence of any hazardous or toxic materials shall not constitute an eviction, actual or constructive, of Tenant nor entitle Tenant to an offset against its obligations hereunder .

(c) If Tenant or its employees, agents, contractors, invitees, or visitors shall ever violate the provisions of paragraph (a) of this subsection 5.1.2 or otherwise contaminate the Premises or the Property, then Tenant shall promptly, diligently, and expeditiously investigate, clean up, remove and dispose of the material causing the violation, in compliance with all applicable governmental standards, laws, rules and regulations, including without limitation, applicable Environmental Laws and then prevalent industry practice and standards and shall repair any damage to the Premises or the Building or the Property as soon as practicable. Tenant shall notify Landlord in advance of its method, time and procedure for any investigation, remediation or monitoring of hazardous or toxic materials and Landlord shall have the right to require reasonable changes in such method, time or procedure as Landlord considers appropriate to prevent interference with any use, occupancy, care, appearance or maintenance of the Property or the Building, or the rights of other tenants or to require the same to be done after normal business hours. Under no circumstances shall any remediation by Tenant leave any hazardous or toxic materials at, in, on, or under the Premises, the Property, or the Building without first obtaining the prior written consent of Landlord. If (1) any lender, insurer, prospective purchaser, governmental agency, or other person shall ever require testing or Landlord shall ever undertake testing to ascertain whether or not there has been any release of hazardous or toxic materials due to the acts or omissions of Tenant, or any of its agents, invitees, licensees, or employees, and (2) such testing reveals evidence of such releases, then Tenant's obligations under this subsection 5.1.2(c) shall survive the expiration or sooner termination of this Lease. Tenant represents to Landlord that, except as has been disclosed to Landlord in writing, none of Tenant or any of its owners, partners, managers, members, shareholders, or venturers has ever been cited for or convicted of any



violations under applicable laws, rules or regulations, including without limitation Environmental Laws.

(d) TENANT AGREES TO DEFEND, INDEMNIFY AND HOLD HARMLESS THE LANDLORD, ITS OFFICERS, DIRECTORS, SHAREHOLDERS, EMPLOYEES,

AGENTS, SUCCESSORS, AND ASSIGNS FROM AND AGAINST ALL OBLIGATIONS (INCLUDING REMOVAL AND REMEDIAL ACTIONS), LOSSES, CLAIMS, SUITS, JUDGMENTS, LIABILITIES (INCLUDING WITHOUT LIMITATION STRICT LIABILITIES ARISING PURSUANT TO ENVIRONMENTAL LAWS OR OTHERWISE), PENALTIES, DAMAGES (INCLUDING CONSEQUENTIAL AND PUNITIVE DAMAGES), COSTS AND EXPENSES (INCLUDING ATTORNEYS' AND CONSULTANTS' FEES AND EXPENSES) OF ANY KIND OR NATURE WHATSOEVER THAT MAY AT ANY TIME BE INCURRED BY, IMPOSED ON OR ASSERTED AGAINST SUCH INDEMNITEES DIRECTLY OR INDIRECTLY BASED ON, OR ARISING OR RESULTING FROM (A) THE ACTUAL OR ALLEGED PRESENCE OR RELEASE OF HAZARDOUS OR TOXIC MATERIALS ON, AT, IN, UNDER, FROM OR NEAR THE PREMISES, THE BUILDING, OR THE PROPERTY WHICH IS CAUSED OR PERMITTED BY TENANT OR ITS LICENSEES OR INVITEES OR ANY PERSON ACTING UNDER, ON BEHALF OF, OR AT THE DIRECTION OR PERMISSION OF TENANT AND/OR (B) OPERATION OR USE OF THE PREMISES OR NON-COMPLIANCE WITH ENVIRONMENTAL LAWS, OR THE CONDUCT OF OBLIGATIONS HEREUNDER, BY TENANT, OR ITS LICENSEES OR INVITEES OR ANY PERSON ACTING UNDER, ON BEHALF OF, OR AT THE DIRECTION OR PERMISSION OF TENANT, AND IN EACH CASE UNDER EITHER (A) OR (B) REGARDLESS OF WHETHER ATTRIBUTABLE IN WHOLE OR IN PART TO ANY OF THE INDEMNITEES' SOLE, CONTRIBUTORY, COMPARATIVE, ACTIVE OR PASSIVE NEGLIGENCE OR STRICT LIABILITY.

(e) THE PROVISIONS OF THIS SECTION 5.1.2 SHALL SURVIVE THE EXPIRATION OR SOONER TERMINATION OF THIS LEASE.

5.1.3 Building Inspection Survey: Tenant hereby acknowledges that:

-----

(a) Landlord has heretofore engaged one or more independent contractors (collectively "BIS Consultants") to perform limited building inspection surveys ("BIS") of the Building to determine if hazardous or toxic materials exist on, at, or under the Building, and that prior to execution of this Lease, Tenant has had the opportunity to review and has reviewed the BIS, and that after execution of this Lease such BIS are made available upon written request and within a reasonable time at the office of the Property Manager, for Tenant's inspection during normal business hours.

(b) The purpose of the BIS is to provide information pursuant to 29 C.F.R. ss.1910.1001, and no other duties of disclosure or notification are created or implied by Landlord's providing an opportunity for review of the BIS by Tenant, indicate the presence or absence of hazardous or toxic materials (as defined in the Lease) on, at, or under the Building based on the present levels or content of said hazardous or toxic materials as presently set by the U.S. Environmental Protection Agency ("EPA") or the U.S. Occupational Safety and Health Administration ("OSHA"), however, Tenant acknowledges that neither extensive testing nor sampling of any portion of the Property was performed in connection with the BIS.

(c) Landlord has been advised by its BIS Consultants that any such presence of said hazardous or toxic materials does not violate lawful levels for such materials or require removal or controls beyond those already implemented by Landlord. Tenant agrees and acknowledges that Landlord makes no express or implied representations or warranties whatsoever regarding the BIS, including but not limited to the contents, accuracy, scope or recommendations contained therein. In addition, Landlord is not aware of any studies, evaluations, tests, surveys, or investigations concerning the presence of hazardous or toxic materials at, in, or under the Building other than the BIS on file with the Property Manager or any information that makes the BIS inaccurate in any material respect.

(d) Landlord has implemented an Operations and Maintenance Program ("OMP") with respect to any asbestos containing materials ("ACM") or presumed asbestos containing material

("PACM") located in the Building, and the terms of such OMP is set forth in a written document located in the Property Manager's office. To reduce the risk that any PACM or ACM in the Building will be improperly disturbed or handled by untrained persons, Tenant agrees and acknowledges that:

1. Removal of the thermal system insulation (TSI) and surfacing ACM and PACM (i.e., sprayed-on or troweled-on material, e.g., textured ceiling paint or fireproofing material);
2. Removal of ACM or PACM that are not TSI or surfacing ACM and PACM such as vinyl floor covering;
3. Repair and maintenance of operations that are likely to disturb any ACM or PACM; and
4. Custodial and housekeeping activities where even minimal contact with any ACM or PACM may occur,

shall be undertaken and conducted only upon thirty (30) days prior written notice to Landlord of such activity and in full accordance with the OMP. In addition, Tenant shall insure and hereby agrees that all contractors and subcontractors engaged by Tenant agree in writing to be bound by and will undertake and conduct all work in full compliance with the OMP, and Tenant agrees to fully cooperate with Landlord in all reasonable procedures or actions necessary for the conduct of the OMP.

TENANT HEREBY ACKNOWLEDGES THAT IT SHALL TAKE ALL APPROPRIATE MEASURES TO ENSURE THAT THE PRESENCE OF ANY PACM OR ACM PRESENT IN, AT, OR UNDER THE PREMISES WILL NOT CONSTITUTE AN UNDUE RISK TO ITSELF, ITS EMPLOYEES, AGENTS, CONTRACTORS, INVITEES, OR LICENSEES, AND TENANT WARRANTS AND REPRESENTS THAT, UPON TAKING POSSESSION OF THE PREMISES, IT HAS FULLY SATISFIED ITSELF THAT THE PREMISES ARE ACCEPTABLE AND SUITABLE WITH REGARDS TO HAZARDOUS OR TOXIC MATERIALS.

TENANT AGREES TO PROVIDE LANDLORD WITH TRUE AND CORRECT COPIES OF ANY AND ALL STUDIES, EVALUATIONS, TESTS, SURVEYS, OR INVESTIGATIONS PERFORMED BY OR ON BEHALF OF TENANT AT ANY TIME INVOLVING THE PREMISES, AND TENANT SHALL NOT PERFORM ANY INVASIVE OR DESTRUCTIVE INVESTIGATIONS OR ANALYSES WITHOUT LANDLORD'S PRIOR WRITTEN CONSENT, WHICH CONSENT MAY BE WITHHELD, OR GIVEN SUBJECT TO ANY CONDITIONS OR RESTRICTIONS, AS LANDLORD SHALL DEEM APPROPRIATE IN ITS SOLE DISCRETION. IF LANDLORD CONSENTS TO ANY INVASIVE OR DESTRUCTIVE INVESTIGATION OR ANALYSIS, TENANT SHALL FULLY RESTORE ALL AREAS AND IMPROVEMENTS WHERE SAMPLES WERE TAKEN OR WORK PERFORMED. REGARDLESS OF THE TYPE OF INSPECTIONS OR ANALYSES WHICH TENANT MAY CAUSE TO BE PERFORMED, TENANT SHALL IMMEDIATELY REPAIR ALL DAMAGE RESULTING FROM ANY OF THE SAME AND SHALL INDEMNIFY AND HOLD LANDLORD, ITS OFFICERS, DIRECTORS, SHAREHOLDERS, EMPLOYEES, AGENTS, SUCCESSORS, AND ASSIGNS HARMLESS FROM AND AGAINST ALL CLAIMS, ACTIONS, LIABILITIES, DAMAGES, LOSSES, INJURIES OR DEATHS IN CONNECTION WITH OR ARISING OUT OF OR FROM ANY INSPECTION, TESTING, SAMPLING, OR SIMILAR OR DISSIMILAR ACTIVITY CONDUCTED BY TENANT, TENANT'S AGENTS OR CONTRACTORS AT, ON, OR UNDER THE PREMISES FOR HAZARDOUS OR TOXIC MATERIALS, WHETHER UNDER THIS RIDER OR OTHERWISE UNDER OR IN CONNECTION WITH THE LEASE.

SECTION 5.2 RULES AND REGULATIONS: Tenant will comply with such rules and regulations (the "Rules and Regulations") generally applying to tenants in the Building as may be adopted from time to time by Landlord for the management, cleanliness of, and the preservation of good order and protection of property in, the Premises and the Building and the Property. A current copy of the Rules and Regulations applicable to the Building is attached hereto as Exhibit C. All such Rules and Regulations are hereby made a part hereof. All changes and amendments to the Rules and Regulations sent by Landlord to Tenant in writing and conforming to the foregoing standards shall be carried out and observed by Tenant. Landlord hereby reserves all rights necessary to implement and enforce the Rules and Regulations and each and every provision of this Lease.

SECTION 5.3 ACCESS; RIGHT OF ENTRY: Without being deemed or construed as committing an actual or constructive eviction of Tenant and without abatement of Rent, Landlord or its authorized agents shall have the right to enter the Premises, upon reasonable notice (except in emergency situations where no prior notice is required), to inspect the Premises, to show the Premises to prospective lenders, purchasers or tenants and to fulfill Landlord's obligations or exercise its rights under this Lease; provided, however, no notice shall be required to inspect or show the Premises within the six (6) month period prior to expiration of this Lease. Tenant hereby waives any claim for damages for any injury or inconvenience or interference with Tenant's business, any loss of occupancy or quiet enjoyment of the Premises, and any other loss occasioned

thereby. Landlord shall have the right to use any and all means which Landlord may deem proper to enter the Premises in an emergency without liability therefor.

SECTION 5.4 QUIET POSSESSION: Provided Tenant timely pays Rent and observes and performs all of the covenants, conditions and provisions on Tenant's part to be observed and performed hereunder, Tenant shall have the quiet possession of the Premises until the Expiration Date, subject to all of the provisions of this Lease and all laws, encumbrances, liens and restrictive covenants to which the Property is subject.

## ARTICLE 6

### UTILITIES AND SERVICES

SECTION 6.1 UTILITIES: Except for Landlord's "obligation under the last two sentences of this Section 6.1, Tenant shall be responsible for providing all utilities to the Premises. Without limiting the foregoing, Tenant shall heat the Premises as necessary to prevent any freeze damage to the Premises or any portion thereof. Tenant shall directly pay for all utilities used on the Premises which are separately metered, and reimburse Landlord for sub-metered utilities (if any) together with any maintenance charges for utilities. The cost of any utilities which are not separately metered or sub-metered to the Premises shall be an Operating Expense and charged to Tenant in accordance with Article 3. Tenant's use of electric current shall at no time exceed the capacity of the feeders or lines to the Building or the risers or wiring installation of the Building or the Premises. Landlord shall in no event be liable for any interruption or failure of, and Tenant shall not be entitled to any abatement or reduction of Rent by reason of, any interruption or failure of utilities or other services to the Premises, nor shall any such interruption or failure in any such utility or service be construed as an eviction (constructive or actual) of Tenant or as a breach of the implied warranty of suitability, or relieve Tenant from the obligation to perform any covenant or agreement herein, and in no event shall Landlord be liable for damage to persons or property (including, without limitation, business interruption), or in default hereunder, as a result of any such interruption or failure. However, if any such interruption is caused by a break or other damage to any utility lines located on the Property and outside of the Building that are under the exclusive control of Landlord, upon receipt of written notice of such interruption Landlord shall use reasonable efforts to perform or cause to be performed the necessary repairs within such time frame as may be reasonable under the circumstances in order to restore the affected service to the Premises. In addition, if any such interruption is caused by a break or other damage to any utility line located on the Property and controlled by a governmental, private or public utility, Landlord will cooperate with such utility so that the interrupted service is restored to the Premises as soon as is reasonably possible.

SECTION 6.2 SERVICES: Landlord shall be under no obligation to provide any services to the Building or Premises, except that Landlord shall provide routine maintenance and cleaning in the Common Areas and utility service lines and hookups to the Building.

## ARTICLE 7

### MAINTENANCE, REPAIRS, ALTERATIONS AND IMPROVEMENTS

SECTION 7.1 LANDLORD'S OBLIGATION TO MAINTAIN AND REPAIR: Landlord shall (subject to Section 8.1, Section 8.4, Article 9 and Landlord's rights under Section 3.2, and except for ordinary wear and tear) maintain load bearing walls and foundation and repair or replace the roof of the Building when necessary (with the cost of roof repairs an Operating Expense, and charged to Tenant pursuant to Section 3.2.1. (b)). Except for maintaining the structural soundness of the load bearing walls and foundation of the Building located within the Premises, Landlord shall not be required to maintain or repair any other portion of the Premises.

SECTION 7.2 TENANT'S OBLIGATIONS TO MAINTAIN AND REPAIR:

7.2.1 Tenant's Obligation: Subject to Sections 7.1, 8.1 and 8.4 and Article 9, Tenant shall, at Tenant's sole cost and expense, and with Landlord's supervision, repair and, as appropriate, replace any damage or injury done to the Premises caused by Tenant, Tenant's agents, employees, licensees, invitees

or visitors and shall otherwise keep and maintain in good condition, appearance and repair (including replacements), the Premises, which obligation shall include, but not be limited to, the maintenance, repair and, as appropriate, replacement of (a) all security, fire (including fire sprinkler), heating and air conditioning systems and fixtures serving the Premises, (b) all plumbing, sewage, mechanical and electrical systems and fixtures serving the Premises, (c) all fixtures, walls, ceilings, floors, doors, overhead and dock loading doors, windows, plate glass, skylights, lamps, fans and all other appliances and equipment of every kind and nature located in, upon or about the Premises and (d) the rail spur(s), if any, exclusively serving the Premises. TENANT SHALL INDEMNIFY AND HOLD LANDLORD HARMLESS FROM ANY AND ALL COSTS, EXPENSES (INCLUDING REASONABLE ATTORNEYS' FEES), CLAIMS AND CAUSES OF ACTION ARISING FROM OR INCURRED BY AND/OR ASSERTED IN CONNECTION WITH ANY SUCH MAINTENANCE, REPAIRS, REPLACEMENTS, DAMAGE OR INJURY OR TENANT'S BREACH OF ITS OBLIGATIONS UNDER THIS SECTION 7.2. All repairs and replacements performed by or on behalf of Tenant shall be performed in a good and workmanlike manner acceptable in all aspects to Landlord, and in accordance with Landlord's standards applicable to alterations or improvements performed by Tenant. Tenant shall continue to pay Rent, without abatement, during any period that repairs or replacements are performed or required to be performed by Tenant under this Section 7.2. Tenant shall make no repairs to or penetrations of the roof of the Premises without Landlord's consent.

7.2.2 Rights of Landlord: Any maintenance, repairs or replacements to be performed by Tenant under Section 7.2.1 above and any service which Tenant is required to provide under Section 6.1 above may, upon written notice from Landlord to Tenant, be performed by Landlord for Tenant's benefit, in which event Tenant shall reimburse Landlord for all expenses and costs incurred by Landlord in performing same plus an additional five percent (5%) of such amount to compensate Landlord for Landlord's overhead and administrative costs relating to such work. Landlord shall have the same rights with respect to repairs performed by Tenant as Landlord has with respect to improvements and alterations performed by Tenant under subsection 7.3.3. In the event Tenant fails, in the reasonable judgment of Landlord, to maintain the Premises in good order, condition and repair, or otherwise satisfy its repair and replacement obligations under subsection 7.2.1 or fails to provide the services required under Section 6.1 above, and such failure continues beyond a reasonable period of time, Landlord shall have the right to perform such maintenance, repairs and replacements or provide such services, at Tenant's sole cost and expense. Tenant shall pay to Landlord on demand any such expense incurred by Landlord plus an additional five percent (5%) of such amount to compensate Landlord for Landlord's overhead and administrative costs relating to such work, together with interest thereon at the rate specified in Section 16.9 from the date of demand until paid. All such amounts owing pursuant to this Section 7.2.2 shall be deemed Rent hereunder.

#### SECTION 7.3 IMPROVEMENTS AND ALTERATIONS:

7.3.1 Landlord's Construction Obligation: Landlord's sole construction obligation under this Lease is as set forth in the Work Letter attached hereto as Exhibit D.

7.3.2 Alteration of Building by Landlord: New Construction: Landlord hereby reserves the right and at all times shall have the right to repair, change, redecorate, alter, improve, modify, renovate, enclose or make additions to any part of the Property (including structural elements and load bearing elements within the Premises), to enclose and/or change the arrangement and/or location of driveways or parking areas or landscaping or other Common Areas of the Property, and to construct new improvements on adjacent parcels of land, all without having committed an actual or constructive eviction of Tenant or breach of the implied warranty of suitability and without an abatement of Rent (the "Reserved Right"). When exercising the Reserved Right, Landlord will use reasonable efforts to minimize interference with Tenant's use and occupancy of the Premises.

7.3.3 Alterations, Additions, Improvements and Installations by Tenant: Tenant shall not, without the prior written consent of Landlord, which will not be unreasonably withheld, make any changes, modifications, alterations, additions or improvements (other than Tenant's Improvements under the Work Letter) to, nor install any equipment or machinery (other than office equipment and unattached personal property) on, the Premises (all such changes, modifications, alterations, additions, improvements other than Tenant's Improvements under the Work Letter and installations approved by Landlord are

herein collectively referred to as "Installations") if any such Installations would (i) affect structural or load bearing portions of the Premises, (ii) result in a material increase of electrical usage above the normal type and amount of electrical current to be provided by Landlord, (iii) result in an increase of Tenant's usage of heating or air conditioning, (iv) impact mechanical, electrical or plumbing systems in the Premises or the Building, (v) affect areas of the Premises which can be viewed from Common Areas, (vi) require greater or more difficult cleaning work (e.g., kitchens, reproduction rooms, and interior glass partitions) or (vii) violate any provision in Article 5 or Exhibit B attached hereto. All Installations shall be at Tenant's sole cost and expense. Without in any way limiting Landlord's consent rights, Landlord's consent shall be conditioned on (a) Landlord approving the contractor or person making such Installations and approves such contractor's insurance coverage to be provided in connection with the work, (b) Landlord's supervision of the work, (c) Landlord approving final and complete plans and specifications for the work and (d) the appropriate governmental agency, if any, having final and complete plans and specifications for such work. All work performed by Tenant or its contractor relating to the Installations shall conform to applicable governmental laws, rules and regulations, including, without limitation, the Disability Acts. Upon completion of the Installations, Tenant shall deliver to Landlord "as built" plans. All Installations that constitute improvements constructed within the Premises shall be surrendered with the Premises at the expiration or earlier termination of this Lease, unless Landlord requests that same be removed pursuant to Section 2.3 of this Lease. TENANT SHALL INDEMNIFY AND SAVE LANDLORD HARMLESS FROM ANY AND ALL COSTS, EXPENSES (INCLUDING REASONABLE ATTORNEYS' FEES AND COSTS), DEMANDS, CLAIMS, CAUSES OF ACTION AND LIENS ARISING FROM OR IN CONNECTION WITH ANY INSTALLATIONS PERFORMED BY OR ON BEHALF OF TENANT. All Installations performed by or on behalf of Tenant will be performed diligently and in a first-class workmanlike manner, and in compliance with all applicable laws, ordinances, regulations and rules of any public authority having jurisdiction over the Building and/or Tenant's and Landlord's insurance carriers. Landlord will have the right, but not the obligation, to inspect periodically the work on the Premises and may require changes in the method or quality of the work.

7.3.4 Approvals: Any approval by Landlord (or Landlord's architect and/or engineers) of any of Tenant's contractors or Tenant's drawings or plans or specifications which are prepared in connection with any construction of improvements (including without limitation, Tenant's Improvements) in the Premises shall not in any way be construed as or constitute a representation or warranty of Landlord as to the abilities of the contractor or the adequacy or sufficiency of such drawings, plans or specifications or the improvements to which they relate, for any use, purpose or condition.

## ARTICLE 8

### INSURANCE, FIRE AND CASUALTY

SECTION 8.1 TOTAL OR PARTIAL DESTRUCTION OF THE BUILDING OR THE PREMISES: Tenant covenants and agrees to immediately give Landlord telephonic and written notice of any fire or other casualty affecting the Premises or the Building. In the event that the Building should be totally destroyed by

rebuilding or repairs cannot be completed, in Landlord's reasonable opinion, within two hundred seventy (270) days of Landlord's becoming aware of the applicable fire or casualty, either Landlord or Tenant may, at its option, terminate this Lease, by written notice to the other, with Tenant's notice to be given within ten (10) days after being advised by Landlord that the rebuilding or repairs cannot be completed within two hundred seventy (270) days. In the event the Building or the Premises should be damaged by fire or other casualty and, in Landlord's reasonable opinion, the rebuilding or repairs can be completed within two hundred seventy (270) days of Landlord's becoming aware of the applicable fire or casualty, or if the damage should be more serious but neither Landlord nor Tenant elect to terminate this Lease pursuant to this Section, Landlord shall, within sixty (60) days after the date of receipt of notice of such damage, commence to rebuild or repair the Building and the Premises (including Tenant's Improvements, but only to the extent of insurance proceeds actually received by Landlord for the repair of Tenant's Improvements), and shall pursue with reasonable diligence the repair and restoration of the

Building and the Premises to substantially the same condition which existed immediately prior to the happening of the casualty, except that Landlord shall not be required to rebuild, repair or replace any part of the furniture, equipment, fixtures, inventory, supplies or any other personalty or any other improvements (except Tenant's Improvements, but only to the extent of insurance proceeds actually received by Landlord for the repair of Tenant's Improvements which shall be first utilized by Landlord before any proceeds of Landlord's insurance) which may have been placed by Tenant or other tenants within the Building or at the Premises. Landlord shall allow Tenant a proportionate diminution of Base Rent and Additional Rent as may be fair and reasonable under the circumstances during any period of reconstruction or repair of the Premises due to an occurrence contemplated in this Section 8.1; provided, that Base Rent and Additional Rent shall be abated only to the extent Landlord is compensated for such Base Rent and Additional Rent by loss of rents insurance, if any. Notwithstanding Landlord's restoration obligation, in the event any mortgagee under a deed of trust, security agreement or mortgage on the Building should require that the insurance proceeds be used to retire or reduce the mortgage debt or if the insurance company issuing Landlord's fire and casualty insurance policy fails or refuses to pay Landlord the proceeds under such policy, Landlord have no obligation to rebuild and this Lease shall terminate upon notice by Landlord to Tenant. Any insurance which may be carried by Landlord or Tenant against loss or damage to the Building or to the Premises shall be for the sole benefit of the party carrying such insurance and under its sole control. Upon termination of the Lease pursuant to this Section, Base Rent and Additional Rent shall be abated from the date of the fire or casualty.

## SECTION 8.2 TENANT'S INSURANCE:

8.2.1 Types of Coverage: Tenant covenants and agrees that from and after the date of delivery of the Premises from Landlord to Tenant, Tenant will carry and maintain, at its sole cost and expense, the insurance set forth below:

(a) Liability Insurance: Commercial General Liability Insurance covering the Premises and Tenant's use thereof against claims for personal or bodily injury or property damage occurring upon, in or about the Premises (including contractual indemnity and liability coverage), such insurance to insure both Tenant and, as additional named insureds, Landlord and its subsidiaries, directors, agents and employees and the Property Manager, with limits of not less than \$1,000,000.00 per occurrence and \$2,000,000.00 in the aggregate, combined single limit, with respect to injury to any number of persons and all property damage, without a deductible. If the Agreed Rentable Area of the Premises is more than 20,000 square feet, then, in addition to and not in lieu of the above-stated coverage, Tenant shall carry umbrella or so-called excess coverage in an amount not less than \$1,000,000.00 over Tenant's base coverage amount with no deductible. This insurance coverage shall extend to any liability of Tenant arising out of the indemnities provided for in this Lease.

(b) Property Insurance: Property insurance on an "all-risk" coverage basis covering all fixtures, equipment and personalty located in the Premises, in an amount not less than one hundred percent (100%) of full replacement cost thereof, with a deductible not to exceed \$1,000.00. Such policy will be written in the names of Tenant, Landlord, and any other parties reasonably designated by Landlord from time to time, as their respective interests may appear.

(c) Workers Compensation Insurance: Worker's compensation insurance including Employer's Liability Insurance with limits in amounts not less than \$500,000 per accident, \$500,000 per individual, and

\$500,000 per policy-disease. Said policy shall insure against and satisfy Tenant's obligations and liabilities under the worker's compensation laws of the state where the Property is located.

(d) Such other insurance as Landlord may reasonably require from time to time.

8.2.2 Other Requirements of Insurance: All such insurance will be issued and underwritten by companies with an A.M. Best rating of not less than A- VIII licensed to do business in the state where the Premises is located and will contain endorsements that (a) such insurance may not lapse with respect to Landlord or Property Manager or be canceled or amended with respect to Landlord or Property Manager without the insurance company giving Landlord and Property Manager at least sixty (60) days prior written notice of such cancellation or

amendment, (b) Tenant will be solely responsible for payment of premiums, (c) in the event of payment of any loss covered by such policy, Landlord or Landlord's designees will be paid first by the insurance company for Landlord's loss and (d) Tenant's insurance is primary in the event of overlapping coverage which may be carried by Landlord.

8.2.3 Proof of Insurance: Tenant shall deliver to Landlord duplicate originals of certificates (policies at Landlord's request) of insurance required by this Section 8.2 prior to the Commencement Date and duly executed originals of binders of such insurance evidencing in-force coverage, within ten (10) days prior to the commencement of construction of Tenant's Improvements. Further, Tenant shall deliver to Landlord renewals thereof at least thirty (30) days prior to the expiration of the respective policy terms.

#### SECTION 8.3 LANDLORD'S INSURANCE:

8.3.1 Types of Coverage: Landlord covenants and agrees that from and after the date of delivery of the Premises from Landlord to Tenant, Landlord will carry and maintain the insurance set forth below:

(a) Liability Insurance: Commercial General Liability Insurance covering the Building and all Common Areas, insuring against claims for personal or bodily injury or property damage occurring upon, in or about the Building or Common Areas with limits of not less than \$1,000,000.00 per occurrence and \$2,000,000.00 in the aggregate, combined single, limit, with respect to injury to any number of persons and property damage. This insurance coverage shall extend to any liability of Landlord arising out of the indemnities provided for in this Lease.

(b) Property Insurance: Landlord shall at all times during the term hereof maintain in effect a policy or policies covering the Building (excluding property required to be insured by Tenant) on an "all risk" basis in such amounts as Landlord may from time to time determine, providing protection against perils included within the standard form of "all risk" insurance policy promulgated in the State where the Property is located, and such other risks as Landlord may from time to time determine and with any such deductibles as Landlord may from time to time determine.

8.3.2 Self-Insurance: Any insurance provided for in subsection 8.3.1 may be effected by self-insurance or by a policy or policies of blanket insurance covering additional items or locations or assureds, provided that the requirements of this Section 8.3 are otherwise satisfied. Tenant shall have no rights in any policy or policies maintained by Landlord.

#### SECTION 8.4 WAIVER OF SUBROGATION:

LANDLORD AND TENANT EACH HEREBY WAIVE ANY RIGHTS THEY MAY HAVE AGAINST THE OTHER (INCLUDING, BUT NOT LIMITED TO, A DIRECT ACTION FOR DAMAGES) ON ACCOUNT OF ANY LOSS OR DAMAGE OCCASIONED TO LANDLORD OR TENANT, AS THE CASE MAY BE (WHETHER OR NOT SUCH LOSS OR DAMAGE IS CAUSED BY THE FAULT, NEGLIGENCE OR OTHER TORTIOUS CONDUCT, ACTS OR OMISSIONS OF LANDLORD OR TENANT OR THEIR RESPECTIVE OFFICERS, DIRECTORS, EMPLOYEES, AGENTS OR INVITEES), to their respective property, the Premises, its contents or to any other portion of the Building or the Property arising from any risk covered by the current form of property insurance and fire and extended coverage insurance promulgated by the applicable insurance board or commission in the State where the Property is located and required to be carried by Tenant and Landlord, respectively under subsections 8.2.1

and 8.3.1 of this Lease. If a party waiving rights under this Section is carrying an "all-risk" coverage --insurance policy in the promulgated form used in the state where the Property is located and an amendment to such promulgated form is passed, such amendment shall be deemed not a part of such promulgated form until it applies to the policy being carried by the waiving party. The parties hereto each, on behalf of their respective insurance companies insuring the property of either Landlord or Tenant against any such loss, waive any right of subrogation that Landlord or Tenant or their respective insurers may have against the other party or their respective officers, directors, employees, agents or invitees and all rights of their respective insurance companies based upon an assignment from its insured. Each party to this Lease agrees immediately to give to each such insurance company written notification of the terms of the mutual waivers contained in this Section, and to have said insurance policies properly endorsed, if necessary, to prevent the invalidation of said insurance

coverage by reason of said waivers. The foregoing waiver shall be effective whether or not the parties maintain the required insurance.

#### SECTION 8.5 INDEMNITY:

8.5.1 Tenant's Indemnity: TENANT COVENANTS AND AGREES TO INDEMNIFY AND HOLD LANDLORD, PROPERTY MANAGER AND THEIR RESPECTIVE PARTNERS, TRUST MANAGERS, OFFICERS, DIRECTORS, EMPLOYEES AND AGENTS HARMLESS FROM ALL CLAIMS, DEMANDS, ACTIONS, DAMAGES, LOSS, LIABILITIES, JUDGMENTS, COSTS AND EXPENSES, INCLUDING WITHOUT LIMITATION, ATTORNEYS' FEES AND COURT COSTS (EACH A "CLAIM" AND COLLECTIVELY THE "CLAIMS") WHICH (i) ARE SUFFERED BY, RECOVERED FROM OR ASSERTED AGAINST LANDLORD, (ii) ARE NOT PAID BY INSURANCE CARRIED BY TENANT OR LANDLORD (WITHOUT IN ANY WAY AFFECTING THE REQUIREMENTS OF OR LANDLORD'S RIGHTS UNDER SECTION 8.2 AND (iii) ARISE FROM OR IN CONNECTION WITH (a) THE USE OR OCCUPANCY OF THE PREMISES AND/OR ANY ACCIDENT, INJURY OR DAMAGE OCCURRING IN OR AT THE PREMISES OR (b) ANY BREACH BY TENANT OF ANY REPRESENTATION OR COVENANT IN THIS LEASE; PROVIDED, HOWEVER, SUCH INDEMNIFICATION OF LANDLORD BY TENANT SHALL NOT INCLUDE ANY CLAIM WAIVED BY LANDLORD UNDER SECTION 8.4 HEREOF, ANY CLAIM TO THE EXTENT CAUSED BY THE GROSS NEGLIGENCE OR WILLFUL MISCONDUCT OF LANDLORD OR ANY CLAIM RELATING TO HAZARDOUS OR TOXIC MATERIALS EXCEPT TO THE EXTENT SUCH CLAIM ARISES OUT OF A BREACH BY TENANT OF ANY OF THE PROVISIONS OF SUBSECTION 5.1.2.

8.5.2 Landlord's Indemnity: LANDLORD WILL INDEMNIFY AND HOLD TENANT AND ITS OFFICERS, DIRECTORS, EMPLOYEES AND AGENTS HARMLESS FROM ALL CLAIMS WHICH ARE SUFFERED BY, RECOVERED FROM OR ASSERTED AGAINST TENANT AND WHICH ARE NOT PAID BY PROCEEDS OF INSURANCE CARRIED BY LANDLORD OR TENANT AND WHICH ARISE FROM OR IN CONNECTION WITH (a) THE USE OF THE COMMON AREAS AND/OR ANY ACCIDENT, INJURY OR DAMAGE OCCURRING IN OR ON THE COMMON AREAS OR (b) ANY BREACH BY LANDLORD OF ANY REPRESENTATION OR COVENANT IN THIS LEASE; PROVIDED, HOWEVER, SUCH INDEMNIFICATION OF TENANT BY LANDLORD SHALL NOT INCLUDE ANY CLAIM WAIVED BY TENANT UNDER SECTION 8.4 HEREOF, ANY CLAIM TO THE EXTENT CAUSED BY THE NEGLIGENCE OR WILLFUL MISCONDUCT OF TENANT OR ANY CLAIM RELATING TO HAZARDOUS OR TOXIC MATERIALS EXCEPT TO THE EXTENT SUCH CLAIM ARISES OUT OF A BREACH BY LANDLORD OF ANY OF THE PROVISIONS OF SUBSECTION 5.1.2.

#### ARTICLE 9 CONDEMNATION

SECTION 9.1 CONDEMNATION OF THE PROPERTY: If the Property or any portion thereof that, in Landlord's reasonable opinion, is necessary to the continued efficient and/or economically feasible use of the Property shall be taken or condemned in whole or in part for public purposes, or sold to a condemning authority in lieu of taking, then the term of this Lease shall, at the option of Landlord upon written notice to Tenant, forthwith cease and terminate.

SECTION 9.2 CONDEMNATION OF PREMISES: In the event that all or substantially all of the Premises are taken or condemned or sold in lieu thereof or Tenant will be unable to use a substantial portion of the Premises for a period exceeding two hundred seventy (270) consecutive days by reason of a temporary taking, either Landlord or Tenant may terminate this Lease by delivering written notice thereof to the other within ten (10) business days after the taking, condemnation or sale in lieu thereof.

SECTION 9.3 CONDEMNATION WITHOUT TERMINATION: If upon a taking or condemnation or sale in lieu of the taking of all or less than all of the Property which gives either Landlord or Tenant the right to terminate this Lease pursuant to Section 9.1 or 9.2 and neither Landlord nor Tenant elect to exercise such termination right, then this Lease shall continue in full force and effect, provided that, if the taking, condemnation or sale includes any portion of the Premises or the Building, the Base Rent and Additional Rent shall be redetermined on the basis of the remaining square feet of Agreed Rentable Area of the Premises or the Building. Landlord, at Landlord's sole option and expense, shall restore and reconstruct the Building to substantially its former condition to the extent that the same may be reasonably feasible, but such work shall not be required to exceed the scope of the work done by Landlord in originally constructing the Building, nor shall Landlord in any event be required to spend for such work in an amount in excess of the amount received by Landlord as compensation or damages (in excess of amounts retained by the mortgagee of the Property relating to the property taken) for the part of the Building or the Premises so taken.

SECTION 9.4 CONDEMNATION PROCEEDS: Landlord shall receive the entire award (which shall include sales proceeds) payable as a result of a condemnation,



taking or sale in lieu thereof. Tenant hereby expressly assigns to Landlord any and all right, title and interest of Tenant now or hereafter arising in and to any such award. Tenant shall, however, have the right to recover from such authority through a separate award which does not reduce the Landlord's award, any compensation as may be awarded to Tenant on account of moving and relocation expenses and depreciation to and removal of Tenant's physical property.

## ARTICLE 10 LIENS

Tenant shall keep the Premises free from all liens arising out of any work performed, materials furnished or obligations incurred by or for Tenant and TENANT SHALL INDEMNIFY AND HOLD LANDLORD HARMLESS FROM ANY AND ALL CLAIMS, CAUSES OF ACTION, DAMAGES, EXPENSES (INCLUDING REASONABLE ATTORNEYS' FEE AND COSTS), ARISING FROM OR IN CONNECTION WITH ANY SUCH LIENS. In the event that Tenant shall not, within ten (10) days following notification to Tenant of the imposition of any such lien, cause the same to be released of record by payment or the posting of a bond in amount, form and substance acceptable to Landlord, Landlord shall have, in addition to all other remedies provided herein and by law, the right but not the obligation, to cause the same to be released by such means as it shall deem proper, including payment of or defense against the claim giving rise to such lien. All amounts paid or incurred by Landlord in connection therewith shall be paid by Tenant to Landlord on demand and shall bear interest from the date of demand until paid at the rate set forth in Section 16.9. Nothing in this Lease shall be deemed or construed in any way as constituting the consent or request of Landlord, express or implied, by inference or otherwise, to any contractor, subcontractor, laborer or materialman for the performance of any labor or the furnishing of any materials for any specific improvement, alteration or repair of or to the Building or the Premises or any part thereof, nor as giving Tenant any right, power or authority to contract for or permit the rendering of any services or the furnishing of any materials that would give rise to the filing of any mechanic's or other liens against the interest of Landlord in the Property or the Premises.

## ARTICLE 11 TAXES ON TENANT'S PROPERTY

Tenant shall be liable for and shall pay, prior to their becoming delinquent, any and all taxes and assessments levied against, and any increases in Real Estate Taxes as a result of, any personal property or trade or other fixtures placed by Tenant in or about the Premises and any improvements (excluding Tenant's Improvements) constructed in the Premises by or on behalf of Tenant. In the event Landlord, at its sole election, pays any such additional taxes, or increases, Tenant will, within ten (10) days after demand, reimburse Landlord for the amount thereof. Such amounts shall bear interest from the date paid by Landlord until reimbursed by Tenant at the rate set forth in Section 16.9.

## ARTICLE 12 SUBLETTING AND ASSIGNING

SECTION 12.1 SUBLEASE AND ASSIGNMENT: Tenant shall not assign this Lease, or allow it to be assigned, in whole or in part, by operation of law or otherwise (it being agreed that for purposes of this Lease, assignment shall include, without limitation the transfer of a majority interest of stock, partnership or other forms of ownership interests, merger or dissolution) or mortgage or pledge the same, or sublet the Premises or any part thereof or permit the Premises to be occupied by any firm, person, partnership or corporation or any combination thereof, other than Tenant, without the prior written consent of Landlord, which will not be unreasonably withheld. In no event shall any assignment or sublease ever release Tenant from any obligation or liability hereunder. No assignee or sublessee of the Premises or any portion thereof may assign or sublet the Premises or any portion thereof. Consent by Landlord to one or more assignments or sublettings shall not operate as a waiver of Landlord's rights as to any subsequent assignments and/or sublettings. All reasonable legal fees and

expenses incurred by Landlord in connection with any assignment or sublease proposed by Tenant will be the responsibility of Tenant and will be paid by Tenant within twenty (20) days of receipt of an invoice from Landlord. In addition, Tenant will pay to Landlord an administrative overhead fee of not less than \$500.00 in consideration for Landlord's review of any requested assignment or sublease.

SECTION 12.2 LANDLORD'S RIGHTS RELATING TO ASSIGNEE OR SUBTENANT: If this Lease or any part hereof is assigned or the Premises or any part thereof are sublet, Landlord may at its option collect directly from such assignee or sublessee all rents becoming due to Tenant under such assignment or sublease and apply such rent against any sums due to Landlord by Tenant hereunder, with Landlord retaining any

excess rent for Landlord's sole benefit. Tenant hereby authorizes and directs any such assignee or sublessee to make such payments of rent directly to Landlord upon receipt of notice from Landlord, and Tenant agrees that any such payments made by an assignee or sublessee to Landlord shall, to the extent of the payments so made, be a full and complete release and discharge of rent owed to Tenant by such assignee or sublessee. No direct collection by Landlord from any such assignee or sublessee shall be construed to constitute a novation or a release of Tenant or any guarantor of Tenant from the further performance of its obligations hereunder. Receipt by Landlord of rent from any assignee, sublessee or occupant of the Premises or any part thereof shall not be deemed a waiver of the above covenant in this Lease against assignment and subletting or a release of Tenant under this Lease. In the event that, following an assignment or subletting, this Lease or the rights and obligations of Tenant hereunder are terminated for any reason, including without limitation in connection with default by or bankruptcy of Tenant (which, for the purposes of this Section 12.2, shall include all persons or entities claiming by or through Tenant), Landlord may, at its sole option, consider this Lease to be thereafter a direct lease to the assignee or subtenant of Tenant upon the terms and conditions contained in this Lease.

## ARTICLE 13

### SUBORDINATION AND

#### TENANT'S ESTOPPEL CERTIFICATE

SECTION 13.1 SALE OF THE PROPERTY: In the event of a sale or conveyance by Landlord of the Property, the same shall operate to release Landlord from any and all liability under this Lease arising after the date of such sale, provided that if a Security Deposit has been paid by Tenant, Landlord shall not be released from liability with respect thereto unless Landlord transfers or credits the Security Deposit to the applicable purchaser .

SECTION 13.2 SUBORDINATION, ATTORNMEN AND NOTICE: This Lease is subject and subordinate to any lease wherein Landlord is the tenant and to the liens of any and all mortgages or deeds of trust, regardless of whether such lease, mortgages or deeds of trust now exist or may hereafter be created with regard to all or any part of the Property, and to any and all advances to be made thereunder, and to the interest thereon, and all modifications, consolidations, renewals, replacements and extensions thereof. Tenant also agrees that any lessor, mortgagee or trustee may elect (which election shall be revocable) to have this Lease superior to any lease or lien of its mortgage or deed of trust, and in the event of such election and upon notification by such lessor, mortgagee or trustee to that effect, this Lease shall be deemed superior to the said lease, mortgage or deed of trust, whether this Lease is dated prior to or subsequent to the date of said lease, mortgage or deed of trust. Tenant shall, in the event of the sale or assignment of Landlord's interest in the Premises (except in a sale-leaseback financing transaction), or in the event of a termination of any lease in a sale-leaseback financing transaction wherein Landlord is the lessee, attorn to and recognize such purchaser, assignee or mortgagee as Landlord under this Lease. Tenant shall, in the event of any proceedings brought for the foreclosure of, or in the event of the exercise of the power of sale under, any mortgage or deed of trust covering the Premises, attorn to and recognize purchaser at such sale, assignee, or mortgagee, as the case may be, as Landlord under this Lease. Tenant shall not seek to enforce any remedy it may have for any default on the part of Landlord without giving written notice specifying the default in reasonable detail to any lessor, mortgagee or trustee whose address has been delivered to Tenant, and affording such lessor, mortgagee

or trustee a reasonable opportunity to perform and/or cure Landlord's default. Tenant further agrees that any lessor, mortgagee, trustee or purchaser at foreclosure shall not be liable for any acts of Landlord, shall not be liable for the Security Deposit if not actually received by any such party, be bound by any amendment of this Lease to which it did not consent in \\\"citing or be obligated to recognize Tenant's payment of any Rent which is paid to Landlord more than thirty (30) days in advance of its due date. The above subordination and attornment clauses shall be self-operative and no further instruments of subordination or attornment need be required by any mortgagee, trustee, lessor, purchaser or assignee. In confirmation thereof, Tenant agrees that, upon the request of Landlord, or any such lessor, mortgagee, trustee, purchaser or assignee, Tenant shall execute and deliver whatever instruments may be required for such purposes and to carry out the intent of this Section 13.2.

SECTION 13.3 TENANT'S ESTOPPEL CERTIFICATE: Tenant shall, within ten (10) days of the receipt of a request of Landlord or any mortgagee of Landlord, without additional consideration, deliver an

estoppel certificate, consisting of reasonable statements required by Landlord, any mortgagee or purchaser of I any interest in the Property, which statements may include but shall not be limited to the following: the commencement date of this Lease; the amount of any security deposit; that this Lease is in full force and effect, with rental paid through the current date specified by Tenant and that Tenant is not in default; that this Lease has not been modified or amended; that Landlord is not in default and has fully performed all of its obligations hereunder. If Tenant is unable to make any of the statements contained in the estoppel certificate because the same is untrue, Tenant shall with specificity state the reason why such statement is untrue. Tenant shall, if requested by Landlord or any such mortgagee, deliver to Landlord a fully executed instrument in form reasonably satisfactory to Landlord evidencing the agreement of Tenant to the mortgage or other hypothecation by Landlord of the interest of Landlord hereunder.

#### ARTICLE 14 DEFAULT

SECTION 14.1 DEFAULTS BY TENANT: The occurrence of any of the events described in subsections 14.1.1 through 14.1.7 shall constitute a default and breach of this Lease by Tenant.

14.1.1 Failure to Pay Rent: Any failure by Tenant to pay Rent or to make any other payment required to be made by Tenant hereunder when due, no notice being required for default in payment of Rent.

14.1.2 Failure to Perform: Except for failure Covered by subsection 14.1.1 or 14.1.3, any failure by Tenant to observe and perform any provision of this Lease to be observed or performed by Tenant where such ~" failure continues for fifteen (15) days after written notice to Tenant, provided that if such failure cannot be cured within said fifteen (15) day period, Tenant shall not be in default hereunder so long as Tenant commences curative action within such fifteen (15) day period, diligently and continuously pursues the curative action, and fully and completely cures the failure within thirty (30) days after such written notice to Tenant. I

14.1.3 Continual Failure to Perform: The third failure by Tenant to perform and observe a particular provision of this Lease to be observed or performed by Tenant (other than the failure to pay Rent, which in all instances will be covered by subsection 14.1.1), no notice or cure period being required or afforded for any such third failure.

14.1.4 Bankruptcy, Insolvency, Etc: Tenant or any Guarantor of Tenant's obligations hereunder, cannot meet its obligations as they become due; or is declared insolvent according to any law; or an assignment of Tenant's or Guarantor's property is made for the benefit of creditors; or a receiver or trustee is appointed for Tenant or Guarantor or their respective properties; or the interest of Tenant or Guarantor under this Lease is levied on under execution or under other legal process; or any petition is filed by or against Tenant or Guarantor to declare Tenant or Guarantor bankrupt or to delay, reduce or modify Tenant's or Guarantor's debts or obligations; or any petition is filed or other action taken to reorganize or modify Tenant's or Guarantor's capital structure if either Tenant or Guarantor be a corporation or other entity

(provided that no such levy, execution, legal process or petition filed against Tenant or Guarantor shall constitute a breach of this Lease if Tenant or Guarantor shall vigorously contest the same by appropriate proceedings and shall remove or vacate the same within sixty (60) days from the date of its creation, service or filing).

14.1.5 Abandonment: Vacation: The abandonment of the Premises by Tenant, or the vacating of the Premises by Tenant, which shall be conclusively presumed if Tenant is absent from the Premises for ten (10) consecutive days or more or if Tenant shall fail to move into or take possession of the Premises within ten (10) days after the date on which Rent is to commence under the terms of this Lease.

14.1.6 Loss of Right to do Business: If Tenant fails to maintain its right to do business in the state in which the Property is located or fails to pay any applicable annual franchise or other applicable taxes or assessments as and when the same become finally due and payable.

14.1.7 \_Dissolution or Liquidation: Tenant dissolves or liquidates or otherwise fails to maintain its corporate or partnership structure, as applicable.

SECTION 14.2 REMEDIES OF LANDLORD: Upon the occurrence of any default by tenant specified in Section 14.1, Landlord, at its option, may in addition to all other rights and remedies provided herein or at law or in equity, exercise one or more of the remedies set forth in subsections 14.2.1, 14.2.2 or 14.2.3.

14.2.1 Termination of the Lease: Upon the occurrence of a default hereunder, Landlord may terminate this Lease and Tenant's right of possession of the Premises by giving written notice thereof to Tenant (whereupon all obligations and liabilities of Landlord hereunder shall terminate) and, without further notice and without liability, repossess the Premises. Landlord shall be entitled to recover all loss and damage Landlord may suffer by reason of such termination, whether through inability to relet the Premises on satisfactory terms or otherwise, including without limitation, the following (without duplication of any element of damages):

(a) accrued Rent to the date of termination and Late Charges, plus interest thereon at the rate established under Section 16.9 from the date due through the date paid or date of any judgment or award by any court of competent jurisdiction, the unamortized cost of Tenant's Improvements, brokers' fees and commissions, attorneys' fees, moving allowances, and any other costs incurred by Landlord in connection with making or executing this Lease, the cost of recovering the Premises and the costs of reletting the Premises (including without limitation advertising costs, brokerage fees, leasing commissions, reasonable attorneys' fees, and refurbishing costs and other costs in readying the Premises for a new tenant); and

(b) the present value of the Rent (discounted at a rate of interest equal to six percent (6%) per annum (the "Discount Rate")) that would have accrued under this Lease for the balance of the Lease term but for such termination, reduced by the reasonable fair market rental value of the Premises for such balance of the Lease term (determined from the present value of the actual base rents, discounted at the Discount Rate, received and to be received from Landlord's reletting of the Premises or, if the Premises are not relet, the base rents, discounted at the Discount Rate, that would be received from a comparable lease and comparable tenant for a comparable term and taking into account among other things, the condition of the Premises, market conditions and the period of time the Premises may reasonably remain vacant before Landlord is able to re-lease the same to a suitable replacement tenant, it being agreed that Landlord shall have no obligation to relet or attempt to relet the Premises); and

(c) any other costs or amounts necessary to compensate Landlord for its damages.

14.2.2 Repossession and Re-Entry: Upon the occurrence of a default hereunder, Landlord may, without judicial process, immediately terminate Tenant's right of possession of the Premises (whereupon all obligations and liability of Landlord hereunder shall terminate), but not terminate this Lease, and, without notice, demand or liability, enter upon the Premises or any part

thereof, take absolute possession of the same, expel or remove Tenant and any other person or entity who may be occupying the Premises and change the locks and other security systems. If Landlord terminates Tenant's possession of the Premises under this subsection 14.2.2, (i) Landlord shall have no obligation whatsoever to tender to Tenant a key or other form of access for the new locks and other security systems installed in the Premises, (ii) Tenant shall have no further right to possession of the Premises, and (iii) Landlord shall have no obligation whatsoever to relet or attempt to relet the Premises. Landlord may, however, at its sole option relet the Premises or any part thereof for such terms and such rents as Landlord may in its sole discretion elect. If Landlord elects to relet the Premises, rent received by Landlord from such reletting shall be applied first, to the payment of any indebtedness other than Rent due hereunder from Tenant to Landlord (in such order as Landlord shall designate), second, to the payment of any cost of such reletting, including, without limitation, refurbishing costs, reasonable attorneys' fees, advertising costs, brokerage fees and leasing commissions, and third, to the payment of Rent due and unpaid hereunder (in such order a Landlord shall designate), and Tenant shall satisfy and pay to Landlord any deficiency upon demand therefore from time to time. Landlord shall not be responsible or liable for any failure to relet the Premises or any part thereof or for any failure to collect any rent due upon any such reletting. No such re-entry or taking of possession of the Premises by Landlord shall be construed as an election on Landlord's part to terminate this Lease unless a written notice of such termination is given to Tenant pursuant to subsection 14.2.1. If Landlord relets the Premises, either before or after the termination of this Lease, all such rentals received from such lease shall be and remain the exclusive property of Landlord,

and Tenant shall not be, at any time, entitled to recover any such rental. Landlord may at any time after a reletting elect to terminate this Lease. To the maximum extent permitted by applicable laws, Landlord is under no obligation to mitigate its damages by reletting the Premises, and Tenant hereby waives any requirement of Landlord to mitigate its damages by reletting the Premises. In the event Landlord is required, by Law, to mitigate its damages, Tenant agrees and acknowledges that the following actions of the Landlord constitute "objectively reasonable efforts:"

(a) within forty-five (45) days after Tenant no longer occupies the Premises, placing a "For Lease" sign at the Premises; placing the Premises on Landlord's inventory of available space, if any; making Landlord's inventory available to area brokers; advertising the Premises for lease in a suitable trade journal; and Showing the Premises to prospective tenants who request to see it.

14.2.3: Cure of Default: Landlord may enter upon the Premises, without having any liability therefore, and do whatever Tenant is obligated to do under the terms of this Lease and Tenant agrees to reimburse Landlord on demand for any expenses which Landlord may incur in effecting compliance with Tenant's obligations under this Lease and Tenant further agrees that Landlord shall not be liable for any damages resulting to Tenant from such action, WHETHER CAUSED BY THE NEGLIGENCE OF LANDLORD OR OTHERWISE.

14.2.4 Continuing Obligations: No repossession of or re-entering upon the Premises or any part thereof pursuant to subsection 14.2.2 or 14.2.3 of this Section or otherwise and no reletting of the Premises or any part thereof pursuant to subsection 14.2.2 shall relieve Tenant or any Guarantor of its liabilities and obligations hereunder, all of which shall survive such repossession or re-entering. In the event of any such repossession of or re-entering upon the Premises or any part thereof by reason of the occurrence of a default, Tenant will continue to pay to Landlord Rent required to be paid by Tenant.

14.2.5 Cumulative Remedies: No right or remedy herein conferred upon or reserved to Landlord is intended to be exclusive of any other right or remedy, and each and every right and remedy shall be cumulative and in addition to any other right or remedy given hereunder or now or hereafter existing at law or in equity or by statute. In addition to the other remedies provided in this Lease, Landlord shall be entitled, to the extent permitted by applicable law, to injunctive relief in case of the violation, or attempted or threatened violation, of any of the covenants, agreements conditions or provisions of this

Lease, or to a decree compelling performance of any of the covenants, agreements, conditions or provisions of this Lease, or to any other remedy allowed to Landlord at law or in equity.

SECTION 14.3 DEFAULTS BY LANDLORD: Landlord shall be in default under this Lease if Landlord fails to perform any of its obligations hereunder and said failure continues for a period of thirty (30) days after Tenant delivers written notice thereof to Landlord (to each of the addresses required by this Section) and each mortgagee who has a lien against any portion of the Property and whose name and address has been provided to Tenant, provided that if such failure cannot reasonably be cured within said thirty (30) day period, Landlord shall not be in default hereunder if the curative action is commenced within said thirty (30) day period and is thereafter diligently pursued until cured. In no event shall (i) Tenant claim a constructive or actual eviction or that the Premises have become unsuitable hereunder or (ii) a constructive or actual eviction or breach of the implied warranty of suitability be deemed to have occurred under this Lease, prior to the expiration of the notice and cure periods provided under this Section 14.3. Any notice of a failure to perform by Landlord shall be sent to Landlord at the addresses and to the attention of the parties set forth in Item 14 of Article 1. Any notice of a failure to perform by Landlord not sent to Landlord at all addresses and/or to the attention of all parties required under this Section and to each mortgagee who is entitled to notice or not sent in compliance with Article 15 shall be of no force or effect.

#### SECTION 14.4 LANDLORD'S LIABILITY:

14.4.1 Limitations of Recourse: Tenant is granted no contractual right of termination by this Lease, except to the extent and only to the extent set forth in Sections 8.1 and 9.2, or in any Rider which may be attached hereto. If Tenant shall recover a money judgment against Landlord, such judgment shall be satisfied only out of the right, title and interest of Landlord in the Property as the same may then be encumbered and Landlord, its trust managers, partners, officers, employees and shareholders shall not be liable for any

deficiency or other property of Landlord be levied for execution. In no event shall Landlord be liable to Tenant for consequential or special damages by reason of a failure to perform (or a default) by Landlord hereunder or otherwise.

14.4.2 Limitations on Landlord's Liability: Unless covered by Section 8.5.2, Landlord shall not be liable to Tenant for any claims, actions, demands, costs, expenses or damage or liability of any kind arising from (i) the use, occupancy or enjoyment of the Premises by Tenant or any person therein or holding under Tenant or by or through the acts or omissions of any of their respective employees, officers, agents, invitees, or contractors; (ii) fire, explosion, falling sheetrock, gas, electricity, water, rain, or snow, or dampness or leaks in any part of the Premises, (iii) the pipes, appliances or plumbing works or from heating, ventilation or air conditioning equipment, the roof, street, or subsurface, or (iv) tenants or any persons either in the Premises or elsewhere in the Building (other than Common Areas), or by occupants of Property adjacent to the Building or Common Areas, or by the public or by the construction of any private, public, or quasi-public work. In no event shall Landlord be liable to Tenant for any loss of or damage to property of Tenant or of others located in the Premises or the Building by reason of theft or burglary.

#### ARTICLE 15 NOTICES

Any notice required or permitted in this Lease shall be given in writing, sent by (a) personal delivery, or (b) Federal Express or similar overnight carrier with proof of delivery, or (c) United States mail, postage prepaid, addressed as provided in Item 14 of Article 1 and Section 14.3 hereof, or to such other address or to the attention of such other person as shall be designated from time to time in writing by the applicable party and sent in accordance herewith. Notice also may be given by telex or fax, provided each transmission is confirmed (and such confirmation is supported by documented evidence) as received and further provided a telex or fax number, as the case may be, is set

forth in Item 14 of Article I. Any such notice or communication shall be deemed to have been given either at the time of receipt of personal delivery or, in the case of overnight courier service or mail, as of the date of first attempted delivery at the address and in the manner provided herein, or in the case of telegram or telex or fax, upon receipt.

ARTICLE  
16  
MISCELLANEOUS PROVISIONS

**SECTION 16.1 BUILDING NAME AND ADDRESS:** Tenant shall not, without the prior written consent of Landlord, use the name of the Building for any purpose other than as the address of the business to be conducted by Tenant in the Premises, and in no event shall Tenant acquire any rights in or to such names. Landlord shall have the right at any time to change the name, number, address, or designation by which the Building is known.

**SECTION 16.2 SIGNAGE:** Tenant shall not without the prior written consent of Landlord, which will not be unreasonably withheld, erect, inscribe, paint, affix or display anything or other insignia upon any part of the Property or any portion of the Premises. Without in any way limiting the foregoing, any signs erected by Tenant shall conform to all laws, ordinances, statutes, rules, regulations or other governmental or quasi-governmental or restrictive covenant requirements and standard signage criteria that Landlord has prescribed for the Property. Once approved by Landlord and erected by Tenant, Tenant shall keep and maintain such signs in good repair and remove the same and restore the Premises (and/or Property) prior to the Expiration Date (as set forth in Item 5 of Article I) to their original condition.

**SECTION 16.3 NO WAIVER:** No waiver by Landlord or by Tenant of any provision of this Lease shall be deemed to be a waiver by either party of any other provision of this Lease. No waiver by Landlord or Tenant of any breach by the other shall be deemed a waiver of any subsequent breach by such party of the same or any other provision. The failure of Landlord or Tenant to insist at any time upon the strict performance of any covenant or agreement or to exercise any option, right, power or remedy contained in this Lease shall not be construed as a waiver or a relinquishment thereof for the future. Landlord's or Tenant's consent to or approval of any act by the other party requiring the other party's consent or approval shall not be

deemed to render unnecessary the obtaining consent to or approval of any subsequent act of the other party. No act or thing done by Landlord or Landlord's agents during the term of this Lease shall be deemed an acceptance of a surrender of the Premises, unless done in writing signed by Landlord. The delivery of the keys or access cards to any employee or agent of Landlord shall not operate as a termination of this Lease or a surrender of the Premises. The acceptance of any Rent by Landlord following a breach of this Lease by Tenant shall not constitute a waiver by Landlord of such breach or any other breach. No waiver by Landlord or Tenant of any provision of this Lease shall be deemed to have been made unless such waiver is expressly stated in writing signed by the waiving party. No payment by Tenant or receipt by Landlord of a lesser amount than the monthly installment of Rent due under this Lease shall be deemed to be other than on account of the earliest Rent due hereunder, nor shall any endorsement or statement on any check or any letter accompanying any check or payment as Rent be deemed an accord and satisfaction and Landlord may accept such check or payment without prejudice to Landlord's right to recover the balance of such Rent or pursue any other remedy which may be available to Landlord.

**SECTION 16.4 APPLICABLE LAW:** This Lease shall be governed by and construed in accordance with the laws of the state where the Property is located. Furthermore, this Lease shall not be construed against either party more or less favorably by reason of authorship or origin of language.

**SECTION 16.5 SUCCESSORS AND ASSIGNS:** Subject to Article 12 hereof, all of the covenants, conditions and provisions of this Lease shall be binding upon and shall inure to the benefit of the parties hereto and their respective heirs, personal representative, successors and assigns.

**SECTION 16.6 BROKERS:** Tenant warrants that it has had no dealings with any real estate broker or agent in connection with the negotiation of this Lease,

excepting only the broker named in Item 11 of Article I, and that it knows of no other real estate brokers or agents who are or might be entitled to a commission in connection with this Lease. TENANT AGREES TO INDEMNIFY AND HOLD HARMLESS LANDLORD FROM AND AGAINST ANY LIABILITY OR CLAIM, WHETHER MERITORIOUS OR NOT, ARISING IN RESPECT TO BROKERS AND/OR AGENTS NOT SO NAMED. Landlord has agreed to pay the fees of the brokers (but only the brokers) named in Items 10 and 11 of Article 1 to the extent that Landlord has agreed to do so pursuant to a written agreement with such brokers.

SECTION 16.7 SEVERABILITY: If any provision of this Lease or the application thereof to any person or circumstances shall be invalid or unenforceable to any extent, the application of such provisions to other persons or circumstances and the remainder of this Lease shall not be affected thereby and shall be enforced to the greatest extent permitted by law.

SECTION 16.8 EXAMINATION OF LEASE: Submission by Landlord of this instrument to Tenant for examination or signature does not constitute a reservation of or option for lease. This Lease will be effective as a lease or otherwise only upon execution by and delivery to both Landlord and Tenant.

SECTION 16.9 INTEREST ON TENANT'S OBLIGATIONS: In addition to the late charges specified in Section 3.4, any amount due from Tenant to Landlord which is not paid on or before the date due shall bear interest at the lower of (i) eighteen percent (18%) per annum or (ii) the highest rate from time to time allowed by applicable law, from the date such payment is due until paid, but the payment of such interest shall not excuse or cure the default.

SECTION 16.10 TIME: Time is of the essence in this Lease and in each and all of the provisions hereof. Whenever a period of days is specified in this Lease, such period shall refer to calendar days unless otherwise expressly stated in this Lease.

SECTION 16.11 DEFINED TERMS AND MARGINAL HEADINGS: The words Landlord and Tenant as used herein shall include the plural as well as singular. If more than one person is named as Tenant, the obligations of such persons are joint and several. The headings and titles to the articles, sections and subsections of this Lease are not apart of this Lease and shall have no effect upon the construction or interpretation of any part of this Lease.

SECTION 16.12 AUTHORITY OF TENANT: Tenant and each person signing this Lease on behalf of Tenant represents to Landlord as follows: Tenant and its general partners and managing members, if applicable, are each duly organized and legally existing under the laws of the state of its incorporation and is duly qualified to do business in the state where the Property is located. Tenant and its general partners and managing members, if applicable, each has all requisite power and all governmental certificates of authority, licenses, permits, qualifications and other documentation to lease the Premises and to carry on its business as now conducted and as contemplated to be conducted. Each person signing on behalf of Tenant is authorized to do so.

SECTION 16.13 FORCE MAJEURE: Whenever a period of time is hereby prescribed for action to be taken by Landlord or Tenant, the party taking the action shall not be liable or responsible for, and there shall be excluded from the computation of any such period of time, any delays due to strikes, riots, acts of God, shortages of labor or materials, war, governmental laws, regulations or restrictions or any other causes of any kind whatsoever which are beyond the reasonable control of such party; provided, however, in no event shall the foregoing apply to the financial obligations of either Landlord or Tenant to the other under this Lease, including Tenant's obligation to pay Base Monthly Rent, Additional Rent or any other amount payable to Landlord hereunder.

SECTION 16.14 RECORDING: This Lease shall not be recorded. However, Landlord shall have the right to record a short form or memorandum hereof, at Landlord's expense, at any time during the terms hereof, and, if requested, Tenant agrees (without charge of Landlord) to join in the execution thereof.

SECTION 16.15 NO REPRESENTATIONS: LANDLORD AND LANDLORD'S AGENTS HAVE MADE NO WARRANTIES, REPRESENTATIONS OR PROMISES (EXCEPT OR IMPLIED) WITH RESPECT TO THE PREMISES, THE BUILDING OR ANY OTHER PART OF THE PROPERTY (INCLUDING, WITHOUT LIMITATION, THE CONDITION, USE OR SUITABILITY OF THE PREMISES, THE BUILDING OR THE PROPERTY), EXCEPT AS HEREIN EXPRESSLY SET FORTH AND NO RIGHTS, EASEMENTS OR LICENSES ARE ACQUIRED BY TENANT BY IMPLICATION OR OTHERWISE EXCEPT AS EXPRESSLY



SET FORTH IN THE PROVISIONS OF THIS LEASE.

SECTION 16.16 PARKING: The parking areas and any parking structures shall be designated for automobile parking on a non-exclusive basis for all Property tenants (including Tenant) and their respective employees, customers, invitees and visitors. Parking and delivery areas for all vehicles shall be in accordance with parking regulations established from time to time by Landlord with which Tenant agrees to conform. Tenant shall only permit parking by its employees, customers and agents of appropriate vehicles in appropriate designated parking areas.

SECTION 16.17 ATTORNEYS' FEES: In the event of any legal action or proceeding brought by either party against the other arising out of this Lease, the prevailing party shall be entitled to recover reasonable attorneys' fees and costs incurred in such action (including, without limitation, all costs of appeal) and such amount shall be included in any judgment rendered in such proceeding,

SECTION 16.18 NO LIGHT, AIR OR VIEW EASEMENT: Any diminution or shutting off of light, air or view by any structure which may be erected on the Property or lands adjacent to the Property shall in no way affect this Lease or impose any liability on Landlord (even if Landlord is the adjacent land owner).

SECTION 16.19 SURVIVAL OF INDEMNITIES: Each indemnity agreement and hold harmless agreement contained herein shall survive the expiration or termination of the Lease.

SECTION 16.20 TENANT HEREBY WAIVES ITS RIGHTS UNDER THE DECEPTIVE TRADE PRACTICES-CONSUMER PROTECTION ACT, SECTION 17.41 ET SEQ., BUSINESS & COMMERCE CODE, A LAW THAT GIVES CONSUMERS SPECIAL RIGHTS AND PROTECTIONS. AFTER CONSULTATION WITH AN ATTORNEY/LEGAL COUNSEL OF TENANT'S OWN SELECTION, TENANT VOLUNTARILY CONSENTS TO THIS WAIVER.

TENANT COVENANTS, REPRESENTS AND WARRANTS THAT TENANT'S ATTORNEY/LEGAL COUNSEL W AS NOT DIRECTLY OR INDIRECTLY IDENTIFIED, SUGGESTED, OR SELECTED BY LANDLORD OR AN AGENT OF LANDLORD.

SECTION 16.21 TENANT AND LANDLORD EACH: (1) AGREE NOT TO ELECT A TRIAL BY JURY WITH RESPECT TO ANY ISSUE ARISING OUT OF THIS AGREEMENT OR THE RELATIONSHIP BETWEEN THE PARTIES AS TENANT AND LANDLORD THAT IS TRIABLE OF RIGHT BY A JURY; AND (2) WAIVE ANY RIGHT TO TRIAL BY JURY WITH RESPECT TO SUCH ISSUE TO THE EXTENT THAT ANY SUCH RIGHT EXISTS NOW OR IN THE FUTURE. THIS WAIVER OF RIGHT TO TRIAL BY JURY IS SEPARATELY GIVEN BY EACH PARTY, KNOWINGLY AND VOLUNTARILY WITH THE BENEFIT OF COMPETENT LEGAL COUNSEL.

SECTION 16.22 WITH RESPECT TO THE BUILDING OR ANY PORTION THEREOF, TENANT HEREBY WAIVES ALL RIGHTS UNDER SECTIONS 41.413 AND 42.015 OF THE TEXAS TAX CODE OR ANY SIMILAR OR CORRESPONDING LAW: (1) TO PROTEST A DETERMINATION OF APPRAISED VALUE OR TO APPEAL AN ORDER DETERMINING A PROTEST; AND (2) TO RECEIVE NOTICES OF REAPPRAISALS.

SECTION 16.23 ENTIRE AGREEMENT: This Lease contains all of the agreements of the parties hereto with respect to any matter covered or mentioned in this Lease, and no prior agreement, understanding or representation pertaining to any such matter shall be effective for any purpose. No provision of this Lease may be amended or added to except by an agreement in writing signed by the parties hereto or their respective successors in interest.

SECTION 16.24 [Intentionally omitted]

SECTION 16.25 [Intentionally omitted]

SECTION 16.26 [Intentionally omitted]

[REMAINDER OF THIS PAGE INTENTIONALLY LEFT BLANK]

SECTION 16.27 LEASE CONTENTS: This lease consists of sixteen Articles and Exhibits "A" through "C", Riders 1, and Addendum 1.

SECTION 16.28: If Tenant requires additional lease space and Landlord has a large vacancy available, Landlord will work in good faith to accommodate Tenant's requirements.

SECTION 16.29: Subject to the terms and conditions contained herein, Tenant shall have a one time right of first offer ("Right of First Offer") to purchase the property located at and known as 12901 Hutton (the "Property") upon the following terms and conditions. If at any time during the term of this Lease, Landlord shall desire to sell the Property, then Landlord shall provide notice to Tenant of the proposed sale (the "Offer Notice") and offer the Property for sale to Tenant (the "Offer"). The Offer Notice shall contain the offer price (the "Offer Price") and other relevant business terms upon which Landlord is willing to sell the Property. Tenant shall have five (5) days (the "Offer Period") from the date of the Offer Notice to deliver a notice (the "Acceptance Notice") to Landlord accepting the terms of the Offer Notice. If Landlord timely receives Tenant's Acceptance Notice, then the parties shall enter into an agreement of sale in form and substance reasonably acceptable to Landlord and Tenant within five (5) business days after the date of the Acceptance Notice. Closing for the Property shall occur within sixty (60) days after the date of the Acceptance Notice. If Tenant shall (i) fail to deliver the Acceptance Notice to Landlord prior to the expiration of the Offer Period or (ii) deliver a counteroffer to Landlord or if the parties fail to enter into an agreement of sale as aforesaid, then the Right of First Offer shall become void and of no further force or effect and Landlord shall be free to sell the Property to any third party free and clear, released from and not subject to the Right of First Offer, provided that the sale price for the Property is equal to or greater than ninety (90%) percent of the Offer Price. If Landlord intends to sell the Property for less than ninety (90%) percent of the Offer Price, then it shall send a new Offer Notice to Tenant and Tenant shall have (a) five (5) business days to deliver an Acceptance Notice accepting all of the terms of the new Offer, and (b) an additional five (5) business days after accepting the new Offer to enter into an agreement of sale reasonably acceptable to Landlord and Tenant. If either such event in (a) or (b) in the preceding sentence shall fail to occur, then the Right of First Offer shall become void and of no further force or effect and Landlord shall be free to sell the Property to any third party free and clear, released from and not subject to the Right of First Offer. Tenant acknowledges that its Right of First Offer shall be void and of no further force or effect if (x) an [Event of Default] shall occur or (y) Tenant shall sublease any or all of the [Leased Premises] or assign its interest under this Lease. Upon the occurrence of either such event, Landlord shall be free to sell the Property to any third party free and clear, released from and not subject to the Right of First Offer. Notwithstanding anything to the contrary contained herein, the Right of First Offer shall not apply to any sale of the Property which is part of a sale of multiple buildings (including the Property and anyone or more buildings owned by Landlord and/or its affiliates). Landlord shall be free solicit and complete such a sale of multiple buildings (including the Property) at any time without any prior notice to Tenant. The parties acknowledge that time is of the essence of each provision contained in this Section 16.29.

SECTION 16.30: Landlord shall provide a finish allowance equal to \$25,250.00. Such amount shall be provided assuming Tenant is not in default of the Lease.

IN WITNESS WHEREOF, the parties hereto have executed and delivered this Lease as of the date specified in the introductory paragraph of this Lease.

LANDLORD:

AIP-SWAG OPERATING PARTNERSHIP, L.P.,  
a Delaware Limited Partnership

By: AIP- SWAG GP, a Texas Corporation, its  
general partner

By: \_\_\_\_\_  
Name: Richard E. Brown  
Title: Senior Vice President

Date: July 17th, 2001

TENANT:

Lexus International, Inc.,  
a Delaware Corporation

By:

Name: Mark Woodburn  
Title: CFO

Date: July 11, 2001

EXHIBIT A  
SITE PLAN OF PREMISES

A-1

EXHIBIT B  
ACCEPTANCE OF PREMISES MEMORANDUM

This Acceptance of Premises Memorandum is being executed pursuant to that certain Commercial Lease Agreement (the "Lease") dated the \_\_\_\_\_ day of \_\_\_\_\_, 19\_\_, between AIP-SWAG OPERATING PARTNERSHIP, L.P., a Delaware Limited Partnership (Landlord"), and Lexus International, Inc., a Delaware Corporation ("Tenant"), pursuant to which Landlord leased to Tenant and Tenant leased from Landlord certain space in the building located at 12901 Hut ton, Landlord and Tenant hereby agree that:

1. Landlord has fully completed the construction work required under the terms of the Lease, except for the Punch List Items (as may be shown on the attached Punch List).
2. The Premises are tenantable, Landlord has no further obligation for construction (except with respect to Punch List Items), and Tenant acknowledges that the Building, the Premises and Tenant's Improvements are satisfactory in all respects, except for the Punch List Items, and are suitable for the Permitted Use.
3. The Commencement Date of the Lease is the 1st day of August, 2001. If the date set forth in Item 4 of Article 1 of the Lease is different than the date set forth in the preceding sentence, then Item 4 of Article 1 of the Lease is hereby amended to be the Commencement Date set forth in the preceding sentence. The Base Rent Schedule contained in Item 6 of Article 1 of the Lease is hereby amended and restated to be and read as follows:
4. The Expiration Date of the Lease is the 30th day of September, 2004. If the date set forth in Item 5 of Article 1 of the Lease is different than the date set forth in the preceding sentence, then Item 5 of Article 1 of the Lease is hereby amended to be the Expiration Date set forth in the preceding sentence.
5. Tenant represents to Landlord that Tenant has obtained a Certificate of Occupancy covering the Premises, a copy of which is attached hereto as Exhibit

B-1.

6. Tenant acknowledges that it has been given the opportunity to inspect the Premises and has conducted such inspections and investigations of the Premises as it deems necessary and appropriate and accepts the Premises in an "AS IS, WHERE IS" condition, that the buildings and improvements comprising the Premises are suitable for the purpose for which the Premises are being leased hereby and that Landlord makes no warranty as the habitability, fitness or suitability of the Premises for a particular purpose nor as to the absence of any toxic or otherwise hazardous substances.

7. All capitalized terms not defined herein shall have the meaning assigned to them in the Lease.

Agreed and Executed this 11th day of July, 2001

LANDLORD:

TENANT:

AIP-SWAG OPERATING PARTNERSHIP, L.P.,                      Lexus International, Inc.,  
A Delaware Limited Partnership, L.P.,                      a Delaware Corporation

By:

Name: Richard E. Brown  
Title: Senior Vice President

Name: Mark Woodburn  
Title: CFO

#### EXHIBIT C

#### RULES AND REGULATIONS

- (1) No loud speakers, television, phonograph, radios or other devices shall be used in a manner so as to be heard or seen outside the Premises without prior consent of Owner.
- (2) Tenant shall not use the public or common area in the office complex for business purposes.
- (3) Tenant shall not place or suffer to be placed displays or decorations in front of the Premises or in any common area.
- (4) Tenant and Tenant employees and agents shall not distribute any handbills or other advertising matter in automobiles parked in the parking area, or in any other common areas of the Projects.
- (5) No entries or passageways shall be obstructed, nor shall any material of any nature be placed in these areas, or such areas be used at any time except for the access or egress by Tenant, Tenant's agents, employees or invitees.
- (6) No portion of Tenant's area or any other part of Building shall at any time be used or occupied as sleeping or lodging quarters.
- (7) Owner will be permitted in the public corridors or on corridor doors or entrances to Tenant's space.
- (8) Owner will not be responsible for lost or stolen personal property from Tenant's area or public rooms regardless of whether or not such loss occurs when area is locked against entry or not.
- (9) No draperies, shutters, or other window covering shall be installed on exterior windows or walls or windows and doors facing public corridors without Owner's written approval.
- (10) Tenant will refer all contractors, contractor's representatives and installation technicians, rendering any service on or to the leased Premises for Tenant, to Owner for Owner's approval and supervision before performance of any contractual service. This provision shall apply to all work performed in the Building including installation of telephones, telegraph equipment, electrical devices and attachments and installation of

any nature affecting floors, walls, woodwork, trim, windows, ceilings, equipment of any other physical portion of the Building.

- (11) Tenant shall not place, install or operate on the leased Premises or in any other part of the Building, any engine, stove or machinery, or conduct mechanical operations or cook thereon or therein, or place or use in or out the leased Premises any explosives, gasoline, kerosene oil, acids, caustics, or any inflammable, explosive, or hazardous material without written consent of Owner.
- (12) The movement of furniture, equipment, merchandise or materials within, into or out of the Building shall be restricted to time, method and routing of movement as determined by Owner upon request from Tenant and Tenant shall assume all liability and risk in such movement. Safes and other heavy equipment shall be moved into leased premises only with Owner's written consent and placed where directed by Owner. Any damage done to building by taking in or removing any safe, or from overloading any floor in any way, shall be placed upon the Tenant.
- (13) Owner shall provide all locks for doors in each Tenant's premises, at the cost of such Tenant, and no additional locks shall be placed on any door in Building without written consent of Owner. A reasonable number of keys to leased Premises will be furnished by Owner and neither Tenant, its agents, or employees, shall have any duplicate keys made. Owner may at all times keep a pass key to leased Premises. All keys shall be returned to Owner promptly upon termination of this Lease.
- (14) Tenant shall have the non-exclusive use in common with the Owner, other tenants, their guests and invitees, of the uncovered automobile surface parking areas, subject to reasonable rules and regulations for the use thereof as prescribed from time to time by Owner. Owner shall have the right to designate parking areas for the use of the Building's Tenant and their employees.
- (15) All alterations or miscellaneous job orders shall at all times be directed to the Property Manager's office in order that the management may provide for the orderly and otherwise proper processing of such work in accordance with any covenants of the Lease Agreement applicable thereto.
- (16) Corridor doors, when not in use, shall be kept closed.
- (17) Tenant shall cooperate with Owner's employees in keeping its leased Premises neat and clean.
- (18) No birds, fowls, or animals shall be brought into or kept in or about the Building.
- (19) The Water closets and other water fixtures shall not be used for any purpose other than those for which they are constructed, and any damage to them from misuse or by the defacing or injury of any part of the Building shall be borne by the person who shall occasion it. No person shall waste water by interfering with the faucets or otherwise.
- (20) Agents of the Landlord shall at all times be allowed admittance to said leased Premises.
- (21) No smoking will be allowed in any area of the Building including common areas, restrooms, and tenant premises.
- (22) Owner may amend or add new rules and regulations.

---

Tenant

#### ADDENDUM 1

HV AC Maintenance/Service Contract Requirements. The service contract must become effective within thirty (30) days of the date of occupancy of the facility and must be performed on at least a quarterly basis.

Please be sure that your contractor includes the following items in your maintenance contract:

1. Adjust belt tension;
2. Lubricate all moving parts, as necessary;
3. Inspect and adjust all temperature and safety controls;
4. Check refrigeration systems for leaks and operation;
5. Check refrigeration system for moisture;
6. Inspect compressor oil level and crank heaters;
7. Inspect air filters and replace when necessary;
8. Check space conditions;
9. Check condensation drains and drain pans and clean, if necessary;
10. Inspect and adjust all valves;
11. Check and adjust dampers;
12. Run machine through complete cycle.

#### RIDER 1

#### RENEWAL OPTION

1. If, and only if, on the Expiration Date and the date Tenant notifies Landlord of its intention to renew the term of this Lease (as provided below), (i) Tenant is not in default under this Lease, (ii) Tenant then occupies and the Premises consisting of at least all the original Premises, and (iii) this Lease is in full force and effect, then Tenant, but not any assignee or subtenant of Tenant, shall have and may exercise an option to renew this Lease for one (1) additional term of three (3) years (the "Renewal Term") upon the same terms and conditions contained in this Lease with the exceptions that (x) this Lease shall not be further available for renewal, and (y) the rental for the Renewal Term shall be the "Renewal Rental Rate", but in no event will the Base Monthly Rent be less than the Base Monthly Rent for the last twelve (12) calendar months of the initial term of the Lease. The Renewal Rental Rate is hereby defined to mean the then prevailing market rent (including, without limitation, those similar to the Base Monthly Rent and Additional Rent) for the Building as determined by Landlord.

2. If Tenant desires to renew this lease, Tenant must notify Landlord in writing of its intention to renew on or before the date which is at least six (6) months but no more than nine (9) months prior to the Expiration Date. Landlord shall, within the next sixty (60) days, notify Tenant in writing of Landlord's determination of the Renewal Rental Rate and Tenant shall, within the next twenty (20) days following receipt of Landlord's determination of the Renewal Rental Rate, notify Landlord in writing of Tenant's acceptance or rejection of Landlord's determination of the Renewal Rental Rate. If Tenant timely notifies Landlord of Tenant's acceptance of Landlord's determination of the Renewal Rental Rate, this Lease shall be extended as provided herein and Landlord and Tenant shall enter into an amendment to this Lease to reflect the extension of the term and changes in Rent in accordance with this Rider. If (x) Tenant timely notifies Landlord in writing of Tenant's rejection of Landlord's determination of the Renewal Rental Rate or (y) Tenant does not notify Landlord in writing of Tenant's acceptance or rejection of Landlord's determination of the Renewal Rental Rate within such twenty (20) day period, this Lease shall end on the Expiration Date and Landlord shall have no further obligation or liability hereunder.

## LEXXUS INTERNATIONAL AGREEMENT

This Distributorship Agreement, made and executed on the 1st day of March, 2002, is between 40 J's L.L.C., a Limited Liability Company, organized and existing under the laws of the Commonwealth of Kentucky, with its principal office located at 110 Stanberry Ridge, Ft. Thomas, Campbell County, Kentucky 41075 ("SELLER"), and LEXXUS INTERNATIONAL, INC. A corporation organized and existing under the laws of the State of Delaware, with its principal office located at 12901 Hutton Drive, Dallas, Dallas County, Texas 75234 ("DISTRIBUTOR")

This agreement is intended to replace a prior Distributorship Agreement between the parties made on July 11, 2001. Upon execution of this agreement the prior Distributorship Agreement shall be null and void and have no further effect.

In consideration of the matters described above, and of the mutual benefits and obligations set forth in this agreement, the parties agree as follows:

### SECTION ONE

#### RIGHTS GRANTED

Seller grants the following contingent rights to Distributor:

Exclusive worldwide distribution rights to sell Seller's Product currently known as "Viacreme"(TM) as defined on Exhibit "A" attached hereto through Multi Level Marketing channels of distribution. Distributor will develop a new product name selected by Distributor and Distributor may use this name only for as long as this Agreement is in effect. Upon termination of this Agreement, Distributor shall discontinue use, for any purpose, of the new product name or similar name.

Multi Level Marketing (MLM), as referred to in this agreement, shall mean distribution of Seller's products utilizing a variety of individual, independent contractors or agents (Independent Distributors), who are appointed, supervised and/or terminated by Distributor, and who sell such products on a person to person basis rather than through traditional retail stores or other means of distribution.

The parties specifically acknowledge that the above grant of distribution rights only gives Distributor rights to distribute via MLM, and notwithstanding the above, Distributor shall not have any rights to distribute via MLM or otherwise in Japan and shall not sell to any parties who may sell Seller's products into Japan. In the event that 40 J's fails to establish distribution in Japan by September 1, 2002, then exclusive MLM rights for Japan will revert to Lexxus.

Initials \_\_\_\_\_

### SECTION TWO

#### PRODUCT COVERAGE

As used in this agreement, the term "Seller's product" shall mean and be limited to Seller's product currently known as "Viacreme" as defined on Exhibit "A" attached hereto or an identical product with a different name selected by Distributor which is covered under one or more of Seller's patents and patent applications. Seller represents and warrants that it will enforce Sellers patents in the United States and shall prosecute patent applications in international markets.

### SECTION THREE

#### TERMS OF SALE

All sales of Seller's products to Distributor shall be made under and subject to the provisions of this agreement. Resale prices shall be determined solely by Distributor.

Distributor agrees to purchase, on execution of this agreement, 375,000 2-ml. pillows ("Pillows") from current inventory for \$75,000. Distributor agrees to purchase 225,000 Pillows from current inventory and 2 barrels of Seller's product on March 15, 2002 for \$87,500. Distributor agrees to purchase 600,000 Pillows from current inventory on March 30, 2002 for \$87,500. Seller and

Distributor understand that the 1,200,000 pillows referenced above have an expiration date of August 2002. Seller will supply to Distributor documentation in form satisfactory to Distributor from the manufacturer that the pillows have an additional life of at least 12 months. Distributor will purchase 74 barrels of Seller's product @ \$22,500 each through the end of 2003 according to the following schedule. Terms are FOB warehouse located in Columbus, Indiana and Cash on Delivery (C.O.D.).

Date	Quantity
April 30, 2002	Balance of Pillows Approximately 700,000 @ \$112,500
June 30, 2002	5 Barrels
August 15, 2003	9 Barrels
2003	
January 31, 2003	15 Barrels
April 30, 2003	15 Barrels
July 31, 2003	15 Barrels
September 30, 2003	15 Barrels

After December 31, 2003, the price cannot increase or decrease more than 10% per calendar year. Distributor can renew this agreement annually for an additional period of 12 months with a purchase commitment of 15 barrels per quarter. Seller and Distributor agree to work in good faith during each renewal period to reach a mutually agreeable price. Distributor agrees to purchase all of Distributors inventory from Seller and will not sell competitive and/or similar products. Failure to purchase any of this inventory will result in an automatic termination of this Agreement. Upon termination, Distributor may continue to use new product name selected by Distributor if Distributor purchases Seller's product @ \$45,000 per barrel to distribute on a non-exclusive basis, only into existing markets that have been previously established as of the termination date. Lexxus must provide proof to 40J's of established markets.

Initials \_\_\_\_\_

If Seller decides to market a similar product through means of distribution other than through MLM the parties understand that the pricing structure for Seller's product would be similar to competitive products in the industry, i.e. approximately \$24.99 for a 15-ml. product.

Seller represents and warrants that it is the owner of the trademark "Viacreme" in the United States and will not sell any product, as defined on Exhibit "A" with the name Viacreme other than to Distributor.

#### SECTION FOUR

##### SALES, MARKETING, ADVERTISING & PROMOTION POLICIES

Distributor acknowledges that the sale of Seller's product could be regulated by the Food and Drug Administration, and other governmental and regulatory agencies domestically and worldwide. Distributor agrees to comply with all regulations and will be solely responsible to comply with all governmental and regulatory requirements in selling, marketing and promoting Seller's product. Distributor agrees to hold Seller harmless in any and all non-compliance issues.

#### SECTION FIVE

##### PRODUCT WARRANTY POLICIES

A. Seller's products are sold to Distributor at prices that contemplate that such products are free from defect in manufacture and workmanship at the time of sale. In the event that any product is proved to have been defective at time of sale, Seller will replace product or refund the original sales price of such product at its discretion.

B. Seller agrees to protect Distributor and hold Distributor harmless from any loss or claim arising out of inherent defects in any of Seller's product existing at the time such product is sold by Seller to Distributor, provided that Distributor gives Seller notice of any such loss or claim and cooperates fully with Seller in the handling of the same. Distributor agrees to



protect Seller and hold Seller harmless and indemnify Seller from any loss or claim arising out of the negligence, nonfeasance, misfeasance or malfeasance of Distributor, employees or representatives in the installation, use, sale, servicing or advertising of Seller's products.

Initials \_\_\_\_\_

## SECTION SIX

### USE OF SELLER'S NAMES

Neither Distributor nor Independent Distributors shall use, authorize or permit the use of the name "Viacreme" or any other trademark owned by Seller as part of its firm, corporate or business name or in any way. Seller will seek to prevent others from using this name to avoid any confusion relating to Seller's products and other parties' products.

## SECTION SEVEN

### RELATIONSHIP OF THE PARTIES

The parties to this agreement recognize each other as independent contractors and, except as expressly described elsewhere in this agreement, agree to hold the other harmless for all liabilities associated with their respective actions. Each party (the "Indemnifying Party") shall hold harmless, indemnify and defend the other party (the "Indemnified Party"), the Indemnified Party's agents and employees against any and all claims, causes of actions, injuries and damages including, but not limited to, personal injury and property damage, caused to any extent by any act or omission on the part of the Indemnifying Party, its agents, contractors or employees, related in any manner to the agreement, except to the extent the same is caused solely by the negligent acts of the Indemnified Party. This indemnity shall include all costs and disbursements, including without limitation, court costs, and reasonable attorneys' fees, and shall survive the expiration or earlier termination of this agreement. Neither party shall be construed in any manner whatsoever to be an employee or agent of the other, nor shall this agreement be construed as a contract of employment or agency.

## SECTION EIGHT

### TERM OF AGREEMENT

This agreement shall continue in full force and effect from and after the date as of which this agreement has been executed and continue unless terminated by either party under the provisions of Section Nine.

## SECTION NINE

### TERMINATION

A. This agreement shall terminate as to any part if such party (1) admits in writing its inability to pay its debts generally as they become due; (2) has a liquidator, receiver, conservator or statutory successor of such party appointed by any court or governmental authority having jurisdiction over it; (3) commences a proceeding under any federal or state bankruptcy, insolvency, reorganization or similar law, or has such a proceeding commenced against it and either has an order of insolvency or reorganization entered against it or has the proceeding remain undismissed and unstayed for 90 days; (4) makes an assignment for the benefit of creditors; or (5) has a receiver or trustee appointed for it or for the whole or any substantial part of its property.

Initials \_\_\_\_\_

B. In the event either party breaches this agreement by materially failing to perform its duties as required herein (the "Breaching Party"), the non-Breaching Party may give written notice to the Breaching Party of such material failure to perform and demand performance. If the Breaching Party fails to cure such material non-performance required by this agreement within thirty (30) days of such written notice, the non-Breaching Party may terminate this agreement without waiver of any rights that such party may have against the Breaching Party for such failure to perform.

C. Termination of this agreement shall not affect the continuation of the obligations of either party incurred during the term of the agreement.

D. This agreement shall also terminate automatically (without any notice being required) if Distributor fails to purchase inventory from Seller described in Section Three.

## SECTION TEN

### OBLIGATIONS ON TERMINATION

On termination of this agreement, Distributor shall cease to be an authorized Distributor and;

- A. All amounts owing by Distributor to Seller shall, notwithstanding prior terms of sale, become immediately due and payable;
- B. All unshipped orders shall be cancelled without liability of either party to the other;
- C. Neither party shall be liable to the other because of such termination for compensation, reimbursement or damages on account of the loss of prospective profits or anticipated sales, or on account of expenditures, investments, leases or commitments in connection with the business or good will of Seller, Distributor, or Independent Distributors or for any other reason whatsoever growing out of such termination.

Initials \_\_\_\_\_

## SECTION ELEVEN

### ACKNOWLEDGEMENTS

Each party acknowledges that no representation or statement, and no understanding or agreement, has been made, or exists, and that in entering into this agreement the party has not relied on anything done or said or on any presumption in fact or in law: (1) with respect to this agreement, or to the duration, termination or renewal of this agreement, or with respect to the relationship between the parties, other than as set forth in this agreement; or (2) that in any way tends to change or modify any of the terms of this agreement or to prevent this agreement becoming effective; or (3) that in any way affects or relates to the subject matter of this agreement, other than as set forth in this agreement, and the parties agree that each of the terms of this agreement are reasonable and fair and equitable.

## SECTION TWELVE

### TERMINATION OF PRIOR AGREEMENTS

This agreement terminates and supersedes all prior Seller-Distributor agreements between the parties to this agreement.

## SECTION THIRTEEN

### ASSIGNMENT

Neither this agreement nor any right under this agreement nor interest in this agreement may be assigned by Distributor or Seller without the prior express written approval of the other party, which consent will not be unreasonably withheld.

## SECTION FOURTEEN

### NO IMPLIED WAIVERS

Except as provided in this agreement, waiver by either party, or failure by either party to claim a breach, of any provision of this agreement shall not be, or held to be, a waiver of any breach or subsequent breach, or as affecting in any way the effectiveness of such provision.

SECTION FIFTEEN

NOTICES

Any notice required or permitted by this agreement, or given in connection with it, shall be in writing and shall be given to the appropriate party by personal delivery or by first-class registered mail, postage prepaid. Notices to Seller shall be delivered to the office of the Seller at:

Robert Hassman  
40 J's LLC  
95 Orchard Hill Road  
Ft. Thomas, KY 41075

Notices to Distributor shall be delivered to the office of the Distributor at:

Mark Woodburn  
Lexus International  
12901 Hutton Drive  
Dallas, TX 75234

SECTION SIXTEEN

AMENDMENT

This agreement has been signed by Distributor and sent to Seller for final approval and execution, and will be signed and delivered on behalf of Seller. The parties to this agreement intend this agreement to be executed as an agreement made and executed in Kentucky and to be construed in accordance with the laws of Texas.

The parties have executed this agreement on the day and year first above written.

SELLER:

40 J's, L.L.C.

By: \_\_\_\_\_  
Robert Hassman, President

DISTRIBUTOR:

LEXXUS INTERNATIONAL, INC.

By: \_\_\_\_\_  
Mark D. Woodburn, Chief Financial Officer

Exhibit `A`

Thompson Patent Filing Program - VIACREME

<TABLE>  
<CAPTION>

Docket No.	Title	Serial No.	Status
-----	-----	-----	-----
<S>	<C>	<C>	<C>
Thompson-1	Device to Enhance Clitoral Stimulation During Intravaginal Intercourse	09/340,227 6,179,755	U.S. Patent
Thompson-2	Medication Delivery and Clitoral Stimulation device	09/414,250 6,224,541	U.S. Patent

Thompson-3	Clitoral Sensitization Arrangement Using Compound of Menthol and L-Arginine	09/469,959 6,322,493	U. S. Patent
Thompson-3A	Clitoral Sensitization Arrangement Using Compound of Menthol and L-Arginine	09/878,583	Pending
Thompson-4	Exp. Clitoral Sensitizing Compound with Method and Apparatus for the Delivery of those Compounds	09/520,110	Pending
Thompson-5A	Clitoral Sensitizing Arrangements	09/736,973	Pending
Foreign Filing of Thompson-5A Worldwide			Pending

</TABLE>

## List of NHTC's Subsidiaries

eKaire.com, Inc.

Kaire International Canada Ltd.

Kaire Nutraceuticals Australia Pty. Ltd.

Kaire Nutraceuticals New Zealand Limited

Kaire Trinidad Ltd.

Lexus International, Inc.

Lexus International (SW Pacific) Pty. Ltd.

Lexus International (New Zealand) Limited

Lighthouse Marketing Corporation

Lexus International Co. Ltd. (Taiwan)

MyLexus Europe AG

Lexus International Co. Ltd. (Hong Kong)