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

FORM 10-Q

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

For the quarterly period ended September 30, 2020

OR

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

For the transition period from ______ to _______

Commission File Number: 001-36849

NATURAL HEALTH TRENDS CORP.

(Exact name of registrant as specified in its charter)

Delaware	59-2705336
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

Units 1205-07, 12F
Mira Place Tower A
132 Nathan Road
, Tsimshatsui
Kowloon, Hong Kong
(Address of principal executive offices, including zip code)

Registrant's telephone number, including area code: +852-3107-0800

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

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock, par value $0.001 per share	NHTC	The NASDAQ Stock Market LLC

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☑ No ☐

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for shorter period that the registrant was required to submit such files). Yes ☑ No ☐

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

Large accelerated filer	☐	Accelerated filer	☐
Non-accelerated filer	☐	Smaller reporting company	☑
		Emerging growth company	☐

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

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

At October 30, 2020, the number of shares outstanding of the registrant's common stock wasl 1,422,539 shares.

NATURAL HEALTH TRENDS CORP.
Quarterly Report on Form 10-Q
September 30, 2020

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FORWARD-LOOKING STATEMENTS

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

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

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

- We could be adversely affected by management changes or an inability to attract and retain key management, directors and consultants;
- Because our Hong Kong operations account for a substantial portion of our overall business, and substantially all of our Hong Kong business is derived from the sale of products to members in China, any material adverse change in our business relating to either Hong Kong or China would likely have a material adverse impact on our overall business;
- Our Hong Kong operations are being adversely affected by recent political and social developments in Hong Kong, and the negative impact on our operations and financial performance could continue or intensify;
- Our operations in China are subject to compliance with a myriad of applicable laws and regulations, and any actual or alleged violations of those laws or government actions otherwise directed at us could have a material adverse impact on our business and the value of our company;
- Our recent loss of a significant number of members is adversely affecting our business, and if we cannot stabilize or increase the number of members our business could be further negatively impacted;
- Epidemics, such as the 2020 coronavirus outbreak, or natural disasters, terrorist attacks or acts of war may seriously harm our business;
- We experienced negative operating cash flows during the year ended December 31, 2019, and if this trend continues it could have a material adverse effect on our business and our stock price;
- We are currently involved in, and may in the future face, lawsuits, claims, and governmental proceedings and inquiries that could harm our business;
- Although virtually all of our members are independent contractors, improper member actions that violate laws or regulations could harm our business;
- Direct-selling laws and regulations may prohibit or severely restrict our direct sales efforts and cause our revenue and profitability to decline, and regulators could adopt new regulations that harm our business;
- The high level of competition in our industry could adversely affect our business;
- Challenges by third parties to the legality of our business operations could harm our business;
- An increase in the amount of compensation paid to members would reduce profitability;
- Currency exchange rate fluctuations could lower our revenue and net income;
- Changes in tax or duty laws, and unanticipated tax or duty liabilities, could adversely affect our net income;
- Transfer pricing regulations affect our business and results of operations;
- Our products and related activities are subject to extensive government regulation, which could delay, limit or prevent the sale of some of our products in some markets;
- Failure of new products to gain member and market acceptance could harm our business;
- New regulations governing the marketing and sale of nutritional supplements could harm our business;
- Regulations governing the production and marketing of our personal care products could harm our business;
- If we are found not to be in compliance with good manufacturing practices our operations could be harmed;
- Failure to comply with domestic and foreign laws and regulations governing product claims and advertising could harm our business;
- Adverse publicity associated with our products, ingredients or network marketing program, or those of similar companies, could harm our financial condition and operating results;

- We are subject to risks relating to product concentration and lack of revenue diversification;
- We rely on a limited number of independent third parties to manufacture and supply our products;
- Growth may be impeded by the political and economic risks of entering and operating in foreign markets;
- We are subject to anti-bribery laws, including the U.S. Foreign Corrupt Practices Act;
- Recently enacted tariffs, other potential changes to tariff and import/export regulations, and ongoing trade disputes between the United States and other jurisdictions, particularly China, may have a negative effect on global economic conditions and our business, financial results and financial condition;
- We may be held responsible for certain taxes or assessments relating to the activities of our members and service providers, which could harm our financial condition and operating results;
- We may be unable to protect or use our intellectual property rights;
- We do not have a comprehensive product liability insurance program and product liability claims could hurt our business;
- Failure to maintain effective internal controls in accordance with the Sarbanes-Oxley Act of 2002 could negatively impact our business and the market price of our stock;
- We rely on and are subject to risks associated with our reliance upon information technology systems;
- System disruptions or failures, cybersecurity risks, and compromises of data could harm our business;
- Our systems, software and data reside on third-party servers, exposing us to risks that disruption or intrusion of those servers could temporarily or permanently interrupt our access and damage our business;
- Disappointing quarterly revenue or operating results could cause the price of our common stock to fall;
- Our common stock is particularly subject to volatility because of the industry and markets in which we operate;
- Our common stock continues to experience wide fluctuations in trading volumes and prices. This may make it more difficult for holders of our common stock to sell shares when they want and at prices they find attractive; and
- Future sales by us or our existing stockholders could depress the market price of our common stock.

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

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PART I - FINANCIAL INFORMATION

Item 1. FINANCIAL STATEMENTS

NATURAL HEALTH TRENDS CORP.
CONSOLIDATED BALANCE SHEETS
(In thousands, except share data)

	September 30, 2020 (Unaudited)	December 31, 2019
ASSETS		
Current assets:		
Cash and cash equivalents	$ 90,789	$ 96,035
Inventories	4,259	6,404
Other current assets	4,972	5,936
Total current assets	100,020	108,375
Property and equipment, net	581	735
Operating lease right-of-use assets	4,200	3,135
Restricted cash	517	3,390
Deferred tax asset	1,069	2,039
Other assets	701	823
Total assets	$ 107,088	$ 118,497
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 887	$ 680
Accrued commissions	3,046	2,931
Other accrued expenses	1,786	2,387
Deferred revenue	3,477	4,506
Amounts held in eWallets	9,831	12,938
Operating lease liabilities	1,217	1,655
Other current liabilities	1,067	1,205
Total current liabilities	21,311	26,302
Income taxes payable	13,748	15,365
Deferred tax liability	203	202
Operating lease liabilities	3,150	1,564
Total liabilities	38,412	43,433
Commitments and contingencies (Note 7)		
Stockholders' equity:		
Preferred stock, $0.001 par value; 5,000,000 shares authorized; no shares issued and outstanding	—	—
Common stock, $0.001 par value; 50,000,000 shares authorized; 12,979,414 shares issued at September 30, 2020 and December 31, 2019	13	13
Additional paid-in capital	86,102	86,102
Retained earnings	9,358	16,117
Accumulated other comprehensive loss	(893)	(1,264)
Treasury stock, at cost; 1,556,875 shares at September 30, 2020 and December 31, 2019	(25,904)	(25,904)
Total stockholders' equity	68,676	75,064
Total liabilities and stockholders' equity	$ 107,088	$ 118,497

See accompanying notes to consolidated financial statements.

NATURAL HEALTH TRENDS CORP.
CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED)
(In thousands, except per share data)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
Net sales	$ 14,124	$ 17,023	$ 45,476	$ 59,779
Cost of sales	3,635	4,371	12,966	15,002
Gross profit	10,489	12,652	32,510	44,777
Operating expenses:				
Commissions expense	5,620	7,362	19,336	28,258
Selling, general and administrative expenses	4,201	6,354	13,771	20,296
Total operating expenses	9,821	13,716	33,107	48,554
Income (loss) from operations	668	(1,064)	(597)	(3,777)
Other income, net	385	323	603	1,128
Income (loss) before income taxes	1,053	(741)	6	(2,649)
Income tax provision (benefit)	418	502	(90)	120
Net income (loss)	$ 635	$ (1,243)	$ 96	$ (2,769)
Net income (loss) per common share:				
Basic	$ 0.06	$ (0.12)	$ 0.01	$ (0.25)
Diluted	$ 0.06	$ (0.12)	$ 0.01	$ (0.25)
Weighted-average common shares outstanding:				
Basic	10,678	10,623	10,581	11,010
Diluted	11,424	10,623	11,424	11,010

See accompanying notes to consolidated financial statements.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
Net income (loss)	$ 635	$ (1,243)	$ 96	$ (2,769)
Other comprehensive income (loss), net of tax:				
Foreign currency translation adjustment	493	(584)	355	(537)
Unrealized gains (losses) on available-for-sale securities	(2)	12	16	23
Comprehensive income (loss)	$ 1,126	$ (1,815)	$ 467	$ (3,283)

See accompanying notes to consolidated financial statements.

NATURAL HEALTH TRENDS CORP.
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY (UNAUDITED)
(In Thousands, Except Share Data)

Nine months ended September 30, 2020

	Preferred Stock		Common Stock		Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Treasury Stock		Total
	Shares	Amount	Shares	Amount				Shares	Amount	
BALANCE, December 31, 2019	—	$ —	12,979,414	$ 13	$ 86,102	$ 16,117	$ (1,264)	(1,556,875)	$ (25,904)	$ 75,064
Net loss	—	—	—	—	—	(573)	—	—	—	(573)
Dividends declared, $0.20/share	—	—	—	—	—	(2,285)	—	—	—	(2,285)
Foreign currency translation adjustments	—	—	—	—	—	—	(222)	—	—	(222)
Unrealized losses on available-for-sale securities	—	—	—	—	—	—	(87)	—	—	(87)
BALANCE, March 31, 2020	—	—	12,979,414	13	86,102	13,259	(1,573)	(1,556,875)	(25,904)	71,897
Net income	—	—	—	—	—	34	—	—	—	34
Dividends declared, $0.20/share	—	—	—	—	—	(2,285)	—	—	—	(2,285)
Foreign currency translation adjustments	—	—	—	—	—	—	84	—	—	84
Unrealized gains on available-for-sale securities	—	—	—	—	—	—	105	—	—	105

BALANCE, June 30, 2020	—	—	12,979,414	13	86,102	11,008	(1,384)	(1,556,875)	(25,904)	69,835
Net income	—	—	—	—	—	635	—	—	—	635
Dividends declared, $0.20/share	—	—	—	—	—	(2,285)	—	—	—	(2,285)
Foreign currency translation adjustments	—	—	—	—	—	—	493	—	—	493
Unrealized losses on available-for-sale securities	—	—	—	—	—	—	(2)	—	—	(2)
BALANCE, September 30, 2020	—	$ —	12,979,414	$ 13	$ 86,102	$ 9,358	$ (893)	(1,556,875)	$ (25,904)	$ 68,676

Nine months ended September 30, 2019

	Preferred Stock		Common Stock		Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Treasury Stock		Total
	Shares	Amount	Shares	Amount				Shares	Amount	
BALANCE, December 31, 2018	—	$ —	12,979,414	$ 13	$ 86,415	$ 44,431	$ (1,250)	(1,603,322)	$ (39,748)	$ 89,861
Net loss	—	—	—	—	—	(1,923)	—	—	—	(1,923)
Common stock issued	—	—	—	—	(166)	—	—	22,603	543	377
Dividends declared, $0.24/share	—	—	—	—	—	(2,736)	—	—	—	(2,736)
Foreign currency translation adjustments	—	—	—	—	—	—	259	—	—	259
Unrealized gains on available-for-sale securities	—	—	—	—	—	—	17	—	—	17
BALANCE, March 31, 2019	—	—	12,979,414	13	86,249	39,772	(974)	(1,580,719)	(39,205)	85,855
Net income	—	—	—	—	—	397	—	—	—	397
Repurchase of common stock	—	—	—	—	—	—	—	(612,729)	(6,682)	(6,682)
Foreign currency translation adjustments	—	—	—	—	—	—	(212)	—	—	(212)
Unrealized losses on available-for-sale securities	—	—	—	—	—	—	(6)	—	—	(6)
BALANCE, June 30, 2019	—	—	12,979,414	13	86,249	40,169	(1,192)	(2,193,448)	(45,887)	79,352
Net loss	—	—	—	—	—	(1,243)	—	—	—	(1,243)
Repurchase of common stock	—	—	—	—	—	—	—	(383,127)	(2,882)	(2,882)
Common stock issued	—	—	—	—	(147)	(15,359)	—	1,117,485	23,418	7,912
Foreign currency translation adjustments	—	—	—	—	—	—	(584)	—	—	(584)
Unrealized gains on available-for-sale securities	—	—	—	—	—	—	12	—	—	12
BALANCE, September 30, 2019	—	$ —	12,979,414	$ 13	$ 86,102	$ 23,567	$ (1,764)	(1,459,090)	$ (25,351)	$ 82,567

See accompanying notes to consolidated financial statements.

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

	Nine Months Ended September 30,	
	2020	2019
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income (loss)	$ 96	$ (2,769)
Adjustments to reconcile net income (loss) to net cash used in operating activities:		
Depreciation and amortization	301	290
Noncash lease expense	1,199	1,336
Deferred income taxes	979	(3)
Changes in assets and liabilities:		
Inventories	2,193	4,104
Other current assets	923	(1,674)
Other assets	120	2
Accounts payable	206	(1,002)
Accrued commissions	136	(8,683)
Other accrued expenses	(598)	(1,779)
Deferred revenue	(1,045)	(3,485)
Amounts held in eWallets	(3,163)	(1,508)
Operating lease liabilities	(1,120)	(1,392)
Income taxes payable	(1,617)	(1,617)
Other current liabilities	(140)	(235)
Long-term incentive	—	(333)
Net cash used in operating activities	(1,530)	(18,748)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property and equipment	(147)	(181)
Net cash used in investing activities	(147)	(181)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Repurchase of common stock	—	(9,564)
Dividends paid	(6,855)	(2,736)
Net cash used in financing activities	(6,855)	(12,300)
Effect of exchange rates on cash, cash equivalents and restricted cash	413	(428)
Net decrease in cash, cash equivalents and restricted cash	(8,119)	(31,657)

CASH, CASH EQUIVALENTS AND RESTRICTED CASH, beginning of period	99,425	135,651
CASH, CASH EQUIVALENTS AND RESTRICTED CASH, end of period	$ 91,306	$ 103,994
SUPPLEMENTAL DISCLOSURES OF OTHER CASH FLOW INFORMATION:		
Issuance of treasury stock for employee awards, net	$ —	$ 8,289
Right-of-use assets obtained in exchange for operating lease liabilities	$ 2,724	$ 5,058

See accompanying notes to consolidated financial statements.

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NATURAL HEALTH TRENDS CORP.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

1. NATURE OF OPERATIONS, BASIS OF PRESENTATION AND CONSOLIDATION

Nature of Operations

Natural Health Trends Corp., a Delaware corporation (whether or not including its subsidiaries, the "Company"), is an international direct-selling and e-commerce company. Subsidiaries controlled by the Company sell personal care, wellness, and "quality of life" products under the "NHT Global" brand.

The Company's wholly-owned subsidiaries have an active physical presence in the following markets: the Americas, which consists of the United States, Canada, Cayman Islands, Mexico and Peru; Greater China, which consists of Hong Kong, Taiwan and China; Southeast Asia, which consists of Singapore, Malaysia, Thailand and Vietnam; South Korea; Japan; India; and Europe. The Company also operates in Russia and Kazakhstan through an engagement with a local service provider.

Basis of Presentation

The unaudited interim consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information and with the instructions to Form 10-Q and Rule 10-01 of Regulation S-X. As a result, certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted. In the opinion of management, the accompanying unaudited interim consolidated financial statements contain all adjustments, consisting of normal recurring adjustments, considered necessary for a fair statement of the Company's financial information for the interim periods presented. The results of operations of any interim period are not necessarily indicative of the results of operations to be expected for the fiscal year. These consolidated financial statements should be read in conjunction with the consolidated financial statements and related notes included in the Company's 2019 Annual Report on Form 10-K filed with the United States Securities and Exchange Commission (SEC) on March 9, 2020.

Principles of Consolidation

The consolidated financial statements include the accounts of the Company and all of its wholly-owned subsidiaries. All significant inter-company balances and transactions have been eliminated in consolidation.

Restricted Cash

In June 2015, the Company funded a bank deposit account in the amount of CNY20 million ($2.9 million at December 31, 2019) in anticipation of submitting a direct selling license application in China. Such deposit is required by Chinese laws to establish a consumer protection fund. The Company received a refund of this deposit in March 2020 in connection with the withdrawal of its application.

Net Income (Loss) Per Common Share

Diluted net income (loss) per common share is determined using the weighted-average number of common shares outstanding during the period, adjusted for the dilutive effect of common stock equivalents. The dilutive effect of non-vested restricted stock is reflected by application of the treasury stock method. Under the treasury stock method, the amount of compensation cost for future service that the Company has not yet recognized, if any, is assumed to be used to repurchase shares.

The following tables illustrate the computation of basic and diluted net income (loss) per common share for the periods indicated (in thousands, except per share data):

	Three Months Ended September 30,					
	2020			2019		
	Income (Numerator)	Shares (Denominator)	Per Share Amount	Loss (Numerator)	Shares (Denominator)	Per Share Amount
Basic net income (loss) per common share:						
Net income (loss) available to common stockholders	$ 635	10,678	$ 0.06	$ (1,243)	10,623	$ (0.12)
Effect of dilutive securities:						
Non-vested restricted stock	—	746		—	—	
Diluted net income (loss) per common share:						
Net income (loss) available to common stockholders plus assumed conversions	$ 635	11,424	$ 0.06	$ (1,243)	10,623	$ (0.12)

	Nine Months Ended September 30,					
	2020			2019		
	Income (Numerator)	Shares (Denominator)	Per Share Amount	Loss (Numerator)	Shares (Denominator)	Per Share Amount
Basic net income (loss) per common share:						
Net income (loss) available to common stockholders	$ 96	10,581	$ 0.01	$ (2,769)	11,010	$ (0.25)
Effect of dilutive securities:						
Non-vested restricted stock	—	843		—	—	
Diluted net income (loss) per common share:						

Net income (loss) available to common stockholders plus assumed conversions	$ 96	11,424	$ 0.01	$ (2,769)	11,010	$ (0.25)

In periods when losses are reported, the weighted-average number of common shares outstanding excludes common stock equivalents because their inclusion would be anti-dilutive. As such, non-vested restricted stock totaling 672,231 and 263,289 shares were not included for the three and nine months ended September 30, 2019, respectively.

Recent Accounting Pronouncements

In June 2016, the FASB issued ASU 2016-13, *Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*, which introduced an expected credit loss model for the impairment of financial assets measured at amortized cost basis and added Topic 326 to the FASB ASC. In November 2019, the FASB issued ASU 2019-11, *Codification Improvements to Topic 326, Financial Instruments - Credit Losses*. The amendments to ASU 2019-11 clarify, correct and make improvements to Topic 326. ASU 2016-13 as well as the updates in ASU 2019-11 are effective for interim and annual periods beginning after December 15, 2022, and early adoption is permitted. The Company is currently evaluating the impact of this standard on its consolidated financial statements.

In August 2018, the FASB issued ASU 2018-13, *Fair Value Measurement (Topic 820): Disclosure Framework - Changes to the Disclosure Requirements for Fair Value Measurement.* This guidance modifies, removes, and adds certain disclosure requirements on fair value measurements. This ASU is effective for interim and annual periods beginning after December 15, 2019, and early adoption is permitted. The adoption of this standard did not have a material impact on the Company's consolidated financial statements.

In December 2019, the FASB issued ASU 2019-12, *Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes.* This guidance removes certain exceptions for recognizing deferred taxes for investments, performing intraperiod allocation and calculating income taxes in interim periods. It also adds guidance to reduce complexity in certain areas, including recognizing deferred taxes for tax goodwill and allocating taxes to members of a consolidated group. This ASU is effective for interim and annual periods beginning after December 15, 2020, and early adoption is permitted. The Company elected to early adopt the new standard during the first quarter of 2020. Such adoption did not have a material impact on the Company's consolidated financial statement.

Other recently issued accounting pronouncements did not or are not believed by management to have a material impact on the Company's present or future financial statements.

2. REVENUE

Revenue Recognition

All revenue is recognized when the performance obligations under a contract, including any product vouchers sold on a stand-alone basis in Hong Kong, are satisfied. Product sales are recognized when the products are shipped and title passes to independent members. Product sales to members are made pursuant to a member agreement that provides for transfer of both title and risk of loss upon the Company's delivery to the carrier that completes delivery to the members, which is commonly referred to as "F.O.B. Shipping Point." The Company's sales arrangements do not contain right of inspection or customer acceptance provisions other than general rights of return. These contracts are generally short-term in nature.

Actual product returns are recorded as a reduction to net sales. The Company estimates and accrues a reserve for product returns based on its return policies and historical experience. The reserve is based upon the return policy of each country, which varies from 14 days to one year, and their historical return rates, which range from 1% to 10% of sales. Sales returns were 1% and 2% of sales for the nine months ended September 30, 2020 and 2019, respectively. No material changes in estimates have been recognized during the periods presented. See Note 3 for additional information.

The Company has elected to account for shipping and handling activities performed after title has passed to members as a fulfillment cost, and accrues for the costs of shipping and handling if revenue is recognized before the contractually obligated shipping and handling activities occurs. Shipping charges billed to members are included in net sales. Costs associated with shipments are included in cost of sales. Event and training revenue is deferred and recognized as the event or training occurs. Costs of events and member training are included within selling, general and administrative expenses.

Various taxes on the sale of products to members are collected by the Company as an agent and remitted to the respective taxing authority. These taxes are presented on a net basis and recorded as a liability until remitted to the respective taxing authority.

Deferred Revenue

The Company primarily receives payment by credit card at the time members place orders. Amounts received for unshipped product orders and unredeemed product vouchers are considered a contract liability and are recorded as deferred revenue. The increase in deferred revenue from June 30, 2020 to September 30, 2020 is primarily due to an increase of $812,000 in the value of unshipped product orders and unredeemed vouchers. See Note3 for additional information.

Disaggregation of Revenue

The Company sells products to a member network that operates in a seamless manner from market to market, except for the Chinese market where it sells to consumers through an e-commerce retail platform and the Russia and Kazakhstan market where the Company operates through an engagement of a third-party service provider. See Note 10 for revenue by market information.

The Company's net sales by product and service are as follows (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
Product sales	$ 12,023	$ 15,732	$ 41,234	$ 56,355
Administrative fees, freight and other	2,316	1,468	4,854	4,713
Less: sales returns	(215)	(177)	(612)	(1,289)
Total net sales	$ 14,124	$ 17,023	$ 45,476	$ 59,779

During June 2020, the Company modified its fee structure associated with certain electronic (eWallet) accounts held by members in Hong Kong, resulting in increased administrative fees recognized as revenue during the three months ended September 30, 2020.

Concentration

No single market other than Hong Kong had net sales greater than10% of total net sales. Sales are made to the Company's members andno single customer accounted for 10% or more of net sales for the three and nine months ended September 30, 2020 and 2019. However, the Company's business model can result in a concentration of sales to several different members and their network of members. Although no single member accounted for 10% or more of net sales, the loss of a key member or that member's network could have an adverse effect on the Company's net sales and financial results.

Arrangements with Multiple Performance Obligations

The Company's contracts with customers may include multiple performance obligations. For such arrangements, the Company allocates revenues to each performance obligation based on its relative standalone selling price. The Company generally determines standalone selling prices based on the prices charged for individual products to similar customers.

Practical Expedients

The Company generally expenses sales commissions when incurred because the amortization period would have beenone year or less. These costs are recorded in commissions expense.

The Company does not provide certain disclosures about unsatisfied performance obligations for contracts with an original expected length ofone year or less.

3. BALANCE SHEET COMPONENTS

The components of certain balance sheet amounts are as follows (in thousands):

	September 30, 2020	December 31, 2019
Cash, cash equivalents and restricted cash:		
Cash	$ 22,408	$ 13,720
Cash equivalents	68,381	82,315
	90,789	96,035
Restricted cash	517	3,390
	$ 91,306	$ 99,425
Inventories:		
Finished goods	$ 3,844	$ 6,142
Raw materials	836	1,249
Reserve for obsolescence	(421)	(987)
	$ 4,259	$ 6,404
Other accrued expenses:		
Sales returns	$ 207	$ 373
Employee-related expense	941	1,258
Warehousing, inventory-related and other	638	756
	$ 1,786	$ 2,387
Deferred revenue:		
Unshipped product and unredeemed product vouchers	$ 1,397	$ 2,390
Auto ship advances	1,971	1,985
Other	109	131
	$ 3,477	$ 4,506

4. FAIR VALUE MEASUREMENTS

As of September 30, 2020, cash and cash equivalents include the Company's investments in municipal and corporate debt securities, money market funds, and time deposits. The Company considers all highly liquid investments with original maturities of three months or less when purchased and have insignificant interest rate risk to be cash equivalents. Debt securities classified as cash equivalents are required to be accounted for in accordance with the FASB Accounting Standards Codification ("ASC") 320, *Investments - Debt and Equity Securities*. As such, the Company determined its investments in debt securities held at September 30, 2020 should be classified as available-for-sale and are carried at fair value with unrealized gains and losses reported in stockholders' equity. The cost of debt securities is adjusted for amortization of premiums and discounts to maturity. This amortization is included in other income. Realized gains and losses, as well as interest income, are also included in other income. The fair values of securities are based on quoted market prices to the extent available or alternative pricing sources and models utilizing market observable inputs.

The carrying amounts of the Company's financial instruments, including cash and accounts payable, approximate fair value because of their short maturities. The carrying amount of the noncurrent restricted cash approximates fair value since, absent the restrictions, the underlying assets would be included in cash and cash equivalents.

Accounting standards permit companies, at their option, to choose to measure many financial instruments and certain other items at fair value. The Company has elected to not fair value existing eligible items.

Investments by significant category included in cash equivalents at the end of each period were as follows (in thousands):

		September 30, 2020			December 31, 2019		
	Fair Value Level[1]	Adjusted Cost	Gross Unrealized Losses	Fair Value	Adjusted Cost	Gross Unrealized Losses	Fair Value
Money market funds	Level 1	$ 56,547	$ —	$ 56,547	$ 11,659	$ —	$ 11,659
Time deposits	Level 2	5,000	—	5,000	13,544	—	13,544
Municipal debt securities	Level 2	2,104	—	2,104	347	—	347
Corporate debt securities	Level 2	4,732	(2)	4,730	56,784	(19)	56,765
Total investments		$ 68,383	$ (2)	$ 68,381	$ 82,334	$ (19)	$ 82,315

[1] *FASB Topic 820, Fair Value Measurements, establishes a fair value hierarchy that requires the use of observable market data, when available, and prioritizes the inputs to valuation techniques used to measure fair value in the following categories:*

Level 1: Quoted market prices in active markets for identical assets or liabilities.
Level 2: Observable market-based inputs or unobservable inputs that are corroborated by market data.
Level 3: Unobservable inputs that are not corroborated by market data.

5. LEASES

The Company leases 9,600 square feet of office space in Hong Kong and 4,900 square feet of office space in Rolling Hills Estates, California for its corporate staff. In June 2020, the Company extended the Rolling Hills Estates office lease for an additional five years with a term now expiring in September 2030. Effective July 1, 2020, the Company modified the terms of its largest Hong Kong office lease resulting in 10% monthly lease cost savings and a lease extension through June 2023. To help further develop the market for its products in North America, the Company leases 1,600 square feet of retail space in each of Rowland Heights, California and Richmond, British Columbia and 2,000 square feet of retail space in Metuchen, New Jersey. The Rowland Heights, Richmond and Metuchen locations have terms expiring in November 2025, February 2021, and November 2022, respectively.

The Company leases eight branch offices throughout China, and additional office space in Peru, Japan, Taiwan, South Korea, Singapore, Malaysia, Vietnam, Indonesia, Thailand, India, and the Cayman Islands. The Company also leases a factory in Zhongshan, China. The Company contracts with third parties for fulfillment and distribution operations in all of its international markets. None of the Company's third party logistics contracts contain a lease as the Company does not have the right to access the warehouses or move its inventories at will.

The components of lease cost for the three and nine months ended September 30, 2020 and 2019 were as follows (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
Operating leases	$ 377	$ 512	$ 1,292	$ 1,544
Short-term leases	72	73	237	201
Total lease cost	$ 449	$ 585	$ 1,529	$ 1,745

Cash paid for amounts included in the measurement of operating leases liabilities was $342,000 and $459,000 for the three months ended September 30, 2020 and 2019, respectively, and $1.2 million and $1.5 million for the nine months ended September 30, 2020 and 2019, respectively.

The weighted-average remaining lease term and discount rate related to operating leases as of September 30, 2020 were as follows:

Weighted-average remaining lease term (in years)	5.5
Weighted-average discount rate	3.5%

As most of our leases do not provide an implicit rate, the Company used its incremental borrowing rate, or the rate of each of its subsidiaries if available, based on the information available at the lease commencement date to determine the present value of lease payments.

The annual scheduled lease payments of our operating lease liabilities as of September 30, 2020 were as follows (in thousands):

Remainder of 2020	$ 373
2021	1,245
2022	1,095
2023	582
2024	261
Thereafter	1,251
Total lease payments	$ 4,807
Less: imputed interest	(440)
Present value of lease liabilities	$ 4,367

For all asset classes, the Company elected not to recognize assets or liabilities at the acquisition date for leases that, at the acquisition date, have a remaining lease term of 12 months or less. Additionally, for all asset classes, the Company chose not to separate nonlease components from lease components and instead account for the combined lease and nonlease components associated with that lease component as a single lease component.

6. INCOME TAXES

The effective income tax rate for the three and nine months ended September 30, 2020 includes an estimate for the Global Intangible Low-Taxed Income ("GILTI") inclusion along with recording the effect of the U.S. Coronavirus Aid, Relief, and Economic Security ("CARES") Act enacted on March 27, 2020. The CARES Act makes broad changes to the Internal Revenue Code of 1986, as amended, including, but not limited to, the ability to carry net operating losses generated in tax years 2018, 2019 or 2020 back to the each of the five tax years preceding the tax year of such loss.

As of September 30, 2020, the Company does not have a valuation allowance against its U.S. deferred tax assets. The Company analyzed all sources of available income and determined that they are more likely than not to realize the tax benefits of their deferred assets. As of September 30, 2020, the Company has a valuation allowance against deferred tax assets in certain foreign jurisdictions with an overall net operating loss. The valuation allowance will be reduced at such time as management believes it is more likely than not that the deferred tax assets will be realized. Any reductions in the valuation allowance will reduce future income tax provision.

As of September 30, 2020, the Company no longer has U.S. federal net operating losses due to its filing in August 2020 to carry back $3.6 million of losses generated in the tax year ended December 31, 2019 to offset taxable income from the tax year ended December 31, 2016. The Company has U.S. state net operating loss carryforwards of $2.4 million that begin expiring in 2040. At September 30, 2020, the Company has foreign net operating loss carryforwards of approximately $2.9 million in various jurisdictions with various expirations.

As a result of capital return activities, the Company determined that a portion of its current undistributed foreign earnings is no longer deemed reinvested indefinitely by its non-U.S. subsidiaries. For state income tax purposes, the Company will continue to periodically reassess the needs of its foreign subsidiaries and update its indefinite reinvestment assertion as necessary. To the extent that additional foreign earnings are not deemed permanently reinvested, the Company expects to recognize additional income tax provision at the applicable state corporate income tax rate(s). As of September 30, 2020, the Company has not recorded a state deferred tax liability for earnings that the Company plans to repatriate out of accumulated earnings in future periods because all earnings as of September 30, 2020 have already been repatriated. Due to the U.S. Tax Cuts and Jobs Act in 2017, repatriation from foreign subsidiaries will be offset with a dividends received deduction, resulting in little to no impact on federal tax expense. All undistributed earnings in excess of 50% of current earnings on an annual basis are intended to be reinvested indefinitely as of September 30, 2020.

The Company and its subsidiaries file tax returns in the United States, California, New Jersey and Texas and various foreign jurisdictions. During the fourth quarter of 2018, the Company was notified that it was selected for audit of the 2016 tax year by the U.S. Internal Revenue Service. The audit was expanded to also include the 2017 and 2018 tax years. For purposes of this audit, fiscal years since 2007 are open for examination by tax authorities as a result of net operating loss carryovers from older years being used to offset income in recent tax years. No adjustments have been proposed at this time. The Company is no longer subject to state income tax examinations for years prior to 2015.

7. COMMITMENTS AND CONTINGENCIES

On January 8, 2019, the Company and its two executive officers were named in a putative securities class action filed in the United States District Court for the Central District of California, captioned *Kauffman v. Natural Health Trends Corp.*, Case No. 2:19-cv-00163. On May 3, 2019, the court issued an order appointing Xia Yang as lead plaintiff and appointing The Rosen Law Firm, P.A. as lead counsel. On June 3, 2019, lead plaintiff filed an amended complaint. On January 17, 2020, after briefing and oral argument on the Company's motion to dismiss, the court issued an order dismissing the entire action with prejudice and ordering that judgment be entered for defendants. On February 14, 2020, plaintiff filed a notice of appeal to the Ninth Circuit Court of Appeals. On April 9, 2020, plaintiff filed a stipulated motion for voluntary dismissal of her appeal, concluding this matter.

The SEC is conducting a non-public investigation to determine whether there have been violations of the federal securities laws relating to the trading of the Company's securities and/or its public disclosures. The Company has fully cooperated with the SEC and continues to do so. The amount of time needed to resolve this matter is uncertain, and the Company cannot predict the outcome or whether it will face additional governmental inquiries or other actions.

8. STOCKHOLDERS' EQUITY

Dividends

The following table summarizes the Company's cash dividend activity for the nine months ended September 30, 2020 (in thousands, except per share data):

Declaration Date	Per Share	Amount	Record Date	Payment Date
February 10, 2020	$ 0.20	$ 2,285	February 25, 2020	March 6, 2020
May 4, 2020	0.20	2,285	May 19, 2020	May 29, 2020
August 3, 2020	0.20	2,285	August 18, 2020	August 28, 2020
	$ 0.60	$ 6,855		

The declaration and payment of any future dividends on shares of common stock will be at the sole discretion of the Company's Board of Directors.

Stock Repurchases

On January 12, 2016, the Board of Directors authorized an increase to the Company's stock repurchase program first approved on July 28, 2015 from $15.0 million to $70.0 million. Repurchases are expected to be executed to the extent that the Company's earnings and cash-on-hand allow, and will be made in accordance with all applicable securities laws and regulations, including Rule 10b-18 of the Exchange Act. For all or a portion of the authorized repurchase amount, the Company may enter into one or more plans that are compliant with Rule 10b5-1 of the Exchange Act that are designed to facilitate these purchases. The stock repurchase program does not require the Company to acquire a specific number of shares, and may be suspended from time to time or discontinued.

On May 16, 2019, the Company's Board of Directors authorized the Company to proceed with the purchase of up to $8.0 million in shares of common stock under the foregoing stock repurchase program. In connection therewith, the Company was advised that George K. Broady, a director of the Company and beneficial owner of more than 5% of its outstanding shares of common stock, would participate in the stock repurchase program through The George K. Broady 2012 Irrevocable Trust (the "Broady Trust") on a basis roughly proportional to his family's ownership interest (see Note 9). During May 2019, the Company authorized its broker to proceed with the purchase of shares of the Company's common stock in the open market for a total purchase price of $4.7 million in accordance with all applicable securities laws and regulations, including Rule 10b-18 of the Exchange Act. The open market repurchases were completed on May 31, 2019. The stock repurchases, which included both open market purchases and the purchase of shares from the Broady Trust, resulted in the Company purchasing a total of 612,729 shares of its common stock for an aggregate purchase price of $6.7 million, plus transaction costs.

On August 6, 2019, the Company's Board of Directors authorized the Company to proceed with additional purchases under the foregoing stock repurchase program in the open market. During August and September 2019, the Company purchased a total of 383,127 shares of common stock in the open market for an aggregate purchase price of $2.9 million, plus transaction costs.

As of September 30, 2020, $21.9 million of the $70.0 million stock repurchase program approved on July 28, 2015 and increased on January 12, 2016 remained available for future purchases, inclusive of related estimated income tax.

Restricted Stock

At the Company's annual meeting of stockholders held on April 7, 2016, the Company's stockholders approved the Natural Health Trends Corp. 2016 Equity Incentive Plan (the "2016 Plan") to replace its 2007 Equity Incentive Plan. The 2016 Plan allows for the grant of various equity awards including incentive stock options, non-statutory options, stock, stock units, stock appreciation rights and other similar equity-based awards to the Company's employees, officers, non-employee directors, contractors, consultants and advisors of the Company. Up to 2,500,000 shares of the Company's common stock (subject to adjustment under certain circumstances) may be issued pursuant to awards granted. At September 30, 2020, 1,219,583 shares remained available for issuance under the 2016 Plan.

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The following table summarizes the Company's restricted stock activity under the 2016 Plan:

	Shares	Wtd. Avg. Price at Date of Issuance
Nonvested at December 31, 2019	957,682	$ 7.34
Vested	(293,583)	$ 7.53
Nonvested at September 30, 2020	664,099	$ 7.25

Accumulated Other Comprehensive Loss

The changes in accumulated other comprehensive loss by component for the nine months of 2020 were as follows (in thousands):

	Foreign Currency Translation Adjustment	Unrealized Gains (Losses) on Available-For-Sale Investments	Total
Balance, December 31, 2019	$ (1,245)	$ (19)	$ (1,264)
Other comprehensive income	355	16	371
Balance, September 30, 2020	$ (890)	$ (3)	$ (893)

9. RELATED PARTY TRANSACTIONS

The Company is a party to a Royalty Agreement and License with Broady Health Sciences, L.L.C., a Texas limited liability company, ("BHS") regarding the manufacture and sale of a product called ReStor™. George K. Broady, a director of the Company and beneficial owner of more than 5% of its outstanding common stock, is owner of BHS. Under this agreement (as amended), the Company agreed to pay BHS a royalty based on a price per unit in return for the right to manufacture (or have manufactured), market, import, export and sell this product worldwide by or through multi-level marketing or network marketing. Such royalties were $14,000 and $19,000 for the three months ended September 30, 2020 and 2019, respectively, and $64,000 and $75,000 for the nine months ended September 30, 2020 and 2019, respectively. The Company is not required to purchase any product under the agreement, and the agreement may be terminated under certain circumstances with no notice. An amendment to the agreement effective March 20, 2020 extends the term of the agreement for an additional five years to March 31, 2025, after which it shall be automatically renewed for successive one-year terms unless notice is given by either party at least 90 days in advance of the expiration of the then-current term.

The Company procured in China and arranged for shipment to The Aberdeen Group, LLC ("Aberdeen") one order of apparel products in the amount of $7,100 during the three months ended March 31, 2019. Aberdeen is owned 40% by Sharng Holdings, which is wholly-owned by the Company's president, Chris T. Sharng, and his wife, 40% by Mr. Broady, and 20% by an unrelated third party. Aberdeen promptly paid the Company for the product and shipping cost incurred. Given the Company's provision of such product sourcing service to Aberdeen, Aberdeen also paid the Company a market-based fee consistent with the provision of such service of $420. The Company analyzed the nature of the transaction with Aberdeen to determine whether it could be construed a violation under the guidelines of Section 402 of the Sarbanes-Oxley Act of 2002. The Company, through advice from its legal counsel, concluded that there is not a reasonable possibility that the transaction with Aberdeen would be deemed a violation of Section 402. This relationship between the Company and Aberdeen ceased following the completion of this transaction.

On May 17, 2019, the Company entered into a Stock Repurchase Agreement with The George K. Broady 2012 Irrevocable Trust ("Broady Trust"). Mr. Broady is the trustee and a beneficiary of the Broady Trust. The Stock Repurchase Agreement, which the Company and the Broady Trust entered into in accordance with Rule 10b5-1 under the Securities Exchange Act of 1934, provided for the Company's purchase of common stock from the Broady Trust in off-the-market, private transactions at a rate of 0.4105 times the number of shares purchased by the Company's broker in conjunction with the stock repurchase program authorized by the Company's Board of Directors on May 16, 2019. The Company's purchases from the Broady Trust concluded on May 31, 2019, were completed at a per share purchase price equal to the weighted average price per share paid by the Company's broker in its open-market purchases, and resulted in the purchase of 178,324 shares of common stock for an aggregate purchase price of $1.9 million. See Note 8.

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10. SEGMENT INFORMATION

The Company sells products to a member network that operates in a seamless manner from market to market, except for the China market where it sells to some consumers through an e-commerce platform, and the Russia and Kazakhstan market where the Company's engagement of a third-party service provider results in a different economic structure than its other markets. Otherwise, the Company believes that all of its other operating segments have similar economic characteristics and are similar in the nature of the products sold, the product acquisition process, the types of customers products are sold to, the methods used to distribute the products, and the nature of the regulatory environment. Therefore, the Company aggregates its other operating segments (including its Hong Kong operating segment) into a single reporting segment (the "Primary Reporting Segment").

The Company reviews its net sales and operating income (loss) by operating segment, and reviews its assets and capital expenditures on a consolidated basis and not by operating segment. As such, net sales and operating income (loss) are presented by reportable segment and assets and capital expenditures by operating segment are not presented. Segment operating income (loss) is adjusted for certain direct costs and commission allocation.

The Company's operating information by geographic area are as follows (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
Net sales:				
Primary Reporting Segment	$ 13,294	$ 16,254	$ 42,718	$ 56,979
China	640	525	2,156	2,138
Russia and Kazakhstan	190	244	602	662
Total net sales	$ 14,124	$ 17,023	$ 45,476	$ 59,779
Income (loss) from operations:				
Primary Reporting Segment	$ 2,715	$ 2,974	$ 6,038	$ 7,506
China	134	(795)	64	(1,530)
Russia and Kazakhstan	(59)	(82)	(37)	(138)
Total income from operations for reportable segments	2,790	2,097	6,065	5,838
Unallocated corporate expenses	(2,122)	(3,161)	(6,662)	(9,615)
Other income, net	385	323	603	1,128
Income (loss) before income taxes	$ 1,053	$ (741)	$ 6	$ (2,649)

The Company's net sales by geographic area are as follows (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
Net sales from external customers:				
United States	$ 338	$ 551	$ 1,202	$ 1,607
Canada	132	313	536	808
Peru	357	581	954	1,938
Hong Kong[1]	11,132	13,575	36,238	48,465
China	640	525	2,156	2,138
Taiwan	771	649	2,261	2,340
South Korea	52	98	220	288
Russia and Kazakhstan	190	244	602	662
Europe	259	343	747	1,017
Other foreign countries	253	144	560	516
Total net sales	$ 14,124	$ 17,023	$ 45,476	$ 59,779

1 *Substantially all of our Hong Kong revenues are derived from the sale of products that are delivered to members in China. See "Item 1A. Risk Factors" in this report and in our most recent Annual Report on Form 10-K.*

11. SUBSEQUENT EVENT

On November 2, 2020, the Board of Directors declared a quarterly cash dividend of $0.20 on each share of common stock outstanding. The dividend will be payable on November 27, 2020 to stockholders of record on November 17, 2020. The declaration and payment of any future dividends on shares of common stock will be at the sole discretion of the Company's Board of Directors.

Item 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Business Overview

We are an international direct-selling and e-commerce company. Subsidiaries controlled by us sell personal care, wellness, and "quality of life" products under the "NHT Global" brand. Our wholly-owned subsidiaries have an active physical presence in the following markets: the Americas, which consists of the United States, Canada, Cayman Islands, Mexico and Peru; Greater China, which consists of Hong Kong, Taiwan and China; Southeast Asia, which consists of Singapore, Malaysia, Thailand and Vietnam; South Korea; Japan; India; and Europe. We also operate in Russia and Kazakhstan through our engagement with a local service provider.

As of September 30, 2020, we were conducting business through 53,300 active members, compared to 54,370 three months ago and 68,150 a year ago. We consider a member "active" if they have placed at least one product order with us during the preceding year. Our priority is to focus our resources in our most promising markets, which we consider to be Greater China and countries where our existing members have the connections to recruit prospects and sell our products, such as Southeast Asia, India, South America and Europe.

We generate approximately 94% of our net sales from subsidiaries located outside the Americas, with sales of our Hong Kong subsidiary representing 79% of net sales in the latest fiscal quarter. Because of the size of our foreign operations, operating results can be impacted negatively or positively by factors such as foreign currency fluctuations, and economic, political and business conditions around the world. In addition, our business is subject to various laws and regulations, in particular, regulations related to direct selling activities that create uncertain risks for our business, including improper claims or activities by our members and potential inability to obtain necessary product registrations. We have identified certain matters of potential noncompliance and are working on a continuing basis to satisfactorily address such matters. For further information regarding some of the risks associated with the conduct of our business in China and Hong Kong, see generally in "Item 1A. Risk Factors" in our Annual Report on Form 10-K for the year ended December 31, 2019, and more specifically under the captions "Because our Hong Kong operations account for a substantial portion of our overall business...", "Our Hong Kong operations are being adversely affected by recent political and social developments in Hong Kong...", and "Our operations in China are subject to compliance with a myriad of applicable laws and regulations...".

China has been and continues to be our most important business development project. We operate an e-commerce direct selling model in Hong Kong that generates revenue derived from the sale of products to members in Hong Kong and elsewhere, including China. Substantially all of our Hong Kong revenues are derived from the sale of products that are delivered to members in China. Through a separate Chinese entity, we operate an e-commerce retail platform in China. We believe that neither of these activities require a direct selling license in China, which we do not currently hold. We previously submitted a preliminary application for a direct selling license in China in August 2015, but in 2019 a Chinese governmental authority recommended that we withdraw our application. We understand that the governmental authorities recommended that other companies with pending direct selling license applications also withdraw their applications. We applied to withdraw our application in November 2019, and the governmental authorities approved the withdrawal of our application shortly thereafter. In connection with the withdrawal of our application, we received a refund in March 2020 of a consumer protection fund deposit of CNY 20 million ($2.9 million) that we made upon the submission of our application. We expect to reapply for a direct selling license in China when we believe that circumstances are again ripe for doing so. If we are ultimately able to obtain a direct selling license in China, we believe that the incentives inherent in the direct selling model in China would incrementally benefit our existing business. We do not expect that any increased sales in China derived from obtaining a direct selling license would initially be material and, in any event may be partially offset by the higher fixed costs associated with the establishment and maintenance of required service centers, branch offices, manufacturing facilities, certification programs and other legal requirements. We are unable to predict whether and when we will be successful in obtaining a direct selling license to operate in China, and if we are successful, when we will be permitted to conduct direct selling operations and whether such operations would be profitable.

On January 8, 2019, the Chinese government announced a 100-day campaign focused on companies involved in the sale of food, equipment, daily necessities, small home electrical appliances and services that are claimed to promote health. The Chinese government ministries in charge of this campaign indicated that they are targeting illegal practices in the industry, particularly the manufacture and sale of counterfeit and substandard products, and false advertising and misleading claims as to the health benefits of products and services. It is understood that the campaign is specifically focused on the business practices of direct selling companies. During the campaign, we understand that the government is not issuing any additional direct selling licenses, is not issuing certifications of quality or other approvals of various healthcare products, is reviewing its regulatory oversight of the industry, and is prohibiting companies from conducting large distributor meetings. Since it was implemented, the campaign and associated negative media coverage have had a significant adverse impact on our business, as consumers have widely curtailed their purchases within the affected industries. We, like some of our peers, voluntarily decided in January 2019 to temporarily suspend our member activities, such as product roadshows, product trainings and larger company-sponsored events, in China. We did this because we have learned that the 100-day campaign was announced in broad outlines by the central government, and the interpretation and enforcement of the campaign was delegated to the provincial and local governments. We consider it a top priority for our business to develop an understanding of and cooperate with all levels and jurisdictions of the government agencies, and did not want to run the risk of being inadvertently entangled in government enforcement actions as the provincial and local governments formulate and implement their interpretive guidance and rule-making. Although the 100-day campaign was due to expire on or about April 18, 2019, we are not aware of any information indicating that the campaign has formally concluded. However, on August 27, 2019, the Chinese government announced that it would conduct a "look-back review" to evaluate the 100-day campaign. As part of this review, we understand that various Chinese governmental agencies formed a working group to assess the 100-day campaign, particularly focusing on the health market and its supervision in certain provinces. We understand that during September 2019 the working group evaluated the performance and results of a number of organizations and governmental departments in these provinces and made recommendations for various improvements. It was noted that each province had opened a number of investigative cases, had successfully closed numerous cases, and had imposed various fines and penalties. We understand that the look-back review continued after September 2019, and we are not aware that this review has been completed. As a result, the business environment for health product companies operating in China continues to be challenging, which has recently been exacerbated by negative social media sentiment expressed for these types of companies. We believe that the campaign, as well as its extension and aftermath (including the look-back review), will continue to negatively impact our business in China in the near-term, but will ultimately benefit us and Chinese consumers in the long-term as purveyors of substandard products are driven from the market.

In late 2019 or early 2020 an outbreak of the coronavirus (COVID-19) was first identified in Wuhan, China. The coronavirus subsequently spread within China and in many countries around the world, and on March 11, 2020 the World Health Organization declared the coronavirus outbreak a global pandemic. The outbreak caused the Chinese government to implement powerful measures to control the virus, such as requiring businesses to close throughout various areas of China and restricting public gatherings and certain travel within the country. We conduct significant business in or near Wuhan and in 2019 generated approximately 81% of our revenue in Hong Kong, substantially all of which was derived from the sale of products to members in China. The Chinese government has recently taken steps to reduce some of the restrictive measures that it imposed to control the coronavirus, while the governments of other countries in which we operate are working at various stages in their efforts to control the virus. The scope and impact of the pandemic and related control measures are uncertain, but we are taking steps to adapt some of our marketing programs, such as relying on certain product promotions and webcast training, to overcome the physical restrictions imposed in response to the outbreak. We also determined to cancel both of our major member events planned for 2020, as protecting the health and safety of our members, employees, and customers remains paramount. The severity of the impact on us of the pandemic will depend on future developments, including the duration and spread of the virus, and related control measures, which we are unable to accurately predict. Regardless, these disruptions have materially negatively impacted our financial results for the first three fiscal quarters of 2020, and we expect that our financial results for the foreseeable future will be adversely affected. These disruptions have also adversely affected the operations of some of our third party logistics providers, and we expect that the future operations of these logistics providers and other third parties with whom we work may be adversely affected by these disruptions. We will continue to assess the operational and financial impact of the coronavirus pandemic for the remainder of the year. See “Item 1A. Risk Factors - Epidemics, such as the 2020 coronavirus outbreak, or natural disasters, terrorists attacks or acts of war…” in our most recent Annual Report on Form 10-K.

Recent political and social developments in Hong Kong are also adversely affecting our Hong Kong operations.

Although the recently enacted tariffs and the trade disputes between the United States and China have not materially impacted our business, to date, they may have negatively impacted the value of the Chinese yuan, which has in turn negatively affected our Hong Kong revenues because the prices at which our Chinese members can purchase our products have effectively increased. In the event that political and trade tensions involving the United States, China and Hong Kong continue or intensify, our business could be negatively impacted in the future. For more information, see “Item 1A. Risk Factors - The China legislature's recent passage of a national security law in Hong Kong...” in this Quarterly Report on Form 10-Q, and “Item 1A. Risk Factors - Recently enacted tariffs, other potential changes to tariff and import/export regulations, and ongoing trade disputes between the United States and other jurisdictions, particularly China…” in our most recent Annual Report on Form 10-K.

Our Hong Kong net sales (substantially all of which were derived from products shipped to members residing in China) for the first nine months of 2020 were substantially lower than the comparable period in 2019, and it’s likely that we will experience continued lower net sales on a year-over-year basis for the foreseeable future. The substantial decline in net sales during the first nine months of 2020 resulted in a loss from operations for the nine-month period ended September 30, 2020, as well as negative cash flows and a decreasing cash balance. We anticipate that our financial performance will be adversely impacted for the foreseeable future.

Statement of Operations Presentation

We mainly derive revenue from sales of products. Substantially all of our product sales are to independent members at published wholesale prices. Product sales are recognized when the products are shipped and title passes to independent members, which generally is upon our delivery to the carrier that completes delivery to the members. We estimate and accrue a reserve for product returns based on our return policies and historical experience. We bill members for shipping charges and recognize the freight revenue in net sales. We have elected to account for shipping and handling activities performed after title has passed to members as a fulfillment cost, and accrue for the costs of shipping and handling if revenue is recognized before the contractually obligated shipping and handling activities occurs. Event and training revenue is deferred and recognized as the event or training occurs.

Cost of sales consists primarily of products purchased from third-party manufacturers, freight cost for transporting products to our foreign subsidiaries and shipping products to members, import duties, packing materials, product royalties, costs of promotional materials sold to our members at or near cost, and provisions for slow moving or obsolete inventories. Cost of sales also includes purchasing costs, receiving costs, inspection costs and warehousing costs.

Member commissions are our most significant expense and are classified as an operating expense. Under our compensation plan, members are paid weekly commissions by our subsidiary in which they are enrolled, generally in their home country currency, for product purchases by their down-line member network across all geographic markets. Our China subsidiary maintains an e-commerce retail platform and does not pay commissions, although our Chinese members may participate in our compensation plan through our other subsidiaries. This “seamless” compensation plan enables a member located in one country to enroll other members located in other countries where we are authorized to conduct our business. Currently, there are basically two ways in which our members can earn income:

- through commissions paid on the accumulated bonus volume from product purchases made by their down-line members and customers; and
- through retail profits on sales of products purchased by members at wholesale prices and resold at retail prices (for purchasers in some of our smaller markets and purchasers from our China subsidiary, sales are for personal consumption only and income may not be earned through retail profits).

Each of our products is designated a specified number of bonus volume points. Commissions are based on total personal and group bonus volume points per weekly sales period. Bonus volume points are essentially a percentage of a product’s wholesale price. As the member’s business expands from successfully enrolling other members who in turn expand their own businesses by selling product to other members, the member receives higher commissions from purchases made by an expanding down-line network. In some of our markets, to be eligible to receive commissions, a member may be required to make nominal monthly or other periodic purchases of our products. Certain of our subsidiaries do not require these nominal purchases for a member to be eligible to receive commissions. In determining commissions, the number of levels of down-line members included within the member’s commissionable group increases as the number of memberships directly below the member increases.

Under our current compensation plan, certain of our commission payouts may be limited to a hard cap dollar amount per week or a specific percentage of total product sales. In some markets, commissions may be further limited. In some markets, we also pay certain bonuses on purchases by up to three generations of personally sponsored members, as well as bonuses on commissions earned by up to seven generations of personally sponsored members. Members can also earn additional income, trips and other prizes in specific time-limited promotions and contests we hold from time to time. Member commissions are dependent on the sales mix and, for the first nine months of 2020 and 2019, represented 43% and 47%, respectively, of net sales. Occasionally, we make modifications and enhancements to our compensation plan to help motivate members, which can have an impact on member commissions. We may also enter into performance-based agreements for business or market development, which can result in additional compensation to specific members.

Selling, general and administrative expenses consist of administrative compensation and benefits, travel, credit card fees and assessments, professional fees, certain occupancy costs, and other corporate administrative expenses (including stock-based compensation). In addition, this category includes selling, marketing, and promotion expenses (including the costs of member training events and conventions that are designed to increase both product awareness and member recruitment). Because our various member conventions are not always held at the same time each year, interim period comparisons will be impacted accordingly.

The functional currency of our international subsidiaries is generally their local currency. Local currency assets and liabilities are translated at the rates of exchange on the balance sheet date, and local currency revenues and expenses are translated at average rates of exchange during the period. Equity accounts are translated at historical rates. The resulting translation adjustments are recorded directly into stockholders’ equity.

Sales by our foreign subsidiaries are generally transacted in the respective local currencies and are translated into U.S. dollars using average rates of exchange for each monthly accounting period to which they relate. Most of our product purchases from third-party manufacturers are transacted in U.S. dollars. Consequently, our sales and net earnings are affected by changes in currency exchange rates, with sales and earnings generally increasing with a weakening U.S. dollar and decreasing with a strengthening U.S. dollar.

Results of Operations

The following table sets forth our operating results as a percentage of net sales for the periods indicated.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
Net sales	100.0%	100.0%	100.0%	100.0%
Cost of sales	25.7	25.7	28.5	25.1
Gross profit	74.3	74.3	71.5	74.9
Operating expenses:				
Commissions expense	39.8	43.2	42.5	47.3
Selling, general and administrative expenses	29.7	37.3	30.3	34.0
Total operating expenses	69.5	80.5	72.8	81.3
Income (loss) from operations	4.8	(6.2)	(1.3)	(6.4)
Other income, net	2.7	1.9	1.3	1.9
Income (loss) before income taxes	7.5	(4.3)	0.0	(4.5)
Income tax provision (benefit)	3.0	2.9	(0.2)	0.2
Net income (loss)	4.5%	(7.2)%	0.2%	(4.7)%

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Net Sales

The following table sets forth revenue by market for the periods indicated (in thousands):

	Three Months Ended September 30,				Nine Months Ended September 30,			
	2020		2019		2020		2019	
Americas[1]	$ 827	5.9%	$ 1,445	8.5%	$ 2,692	5.9%	$ 4,353	7.3%
Hong Kong[2]	11,132	78.8	13,575	79.7	36,238	79.7	48,465	81.0
China	640	4.5	525	3.1	2,156	4.8	2,138	3.6
Taiwan	771	5.5	649	3.8	2,261	5.0	2,340	3.9
South Korea	52	0.4	98	0.6	220	0.5	288	0.5
Japan	70	0.5	47	0.3	184	0.4	141	0.2
Singapore	19	0.1	13	0.1	55	0.1	43	0.1
Malaysia	111	0.8	51	0.3	198	0.4	170	0.3
Russia and Kazakhstan	190	1.3	244	1.4	602	1.3	662	1.1
Europe	259	1.8	343	2.0	747	1.6	1,017	1.7
India	53	0.4	33	0.2	123	0.3	162	0.3
Total	$ 14,124	100.0%	$ 17,023	100.0%	$ 45,476	100.0%	$ 59,779	100.0%

1 *United States, Canada, Mexico and Peru*
2 *Substantially all of our Hong Kong revenues are derived from the sale of products that are delivered to members in China. See "Item 1A. Risk Factors" in this report and in our most recent Annual Report on Form 10-K.*

Net sales were $14.1 million for the three months ended September 30, 2020 compared with $17.0 million for the comparable period a year ago, a decrease of $2.9 million, or 17%. Hong Kong net sales, substantially all of which were derived from the sale of products shipped to members residing in China, decreased $2.4 million, or 18%, over the comparable period a year ago. This decrease in Hong Kong net sales was mitigated by increased administrative fees of $1.2 million resulting from the modification of our fee structure associated with certain electronic (eWallet) accounts held by our Hong Kong members. The overall decrease in our Hong Kong net sales primarily resulted from the impact of the coronavirus outbreak in China, and the related powerful measures implemented by the Chinese government to control the virus, including the required closure of some businesses and restrictions on public gatherings and travel. We believe that the decrease in our net sales can also be attributed to the continuing impact of China's 100-day campaign and the related look-back review. Due to both of these factors, the operating environment for our business in China remains restrictive. Outside of our Hong Kong business, net sales decreased $456,000, or 13%, over the comparable three-month period a year ago due primarily to the spread of the coronavirus pandemic and efforts to control it in a number of countries around the world.

Net sales were $45.5 million for the nine months ended September 30, 2020 compared with $59.8 million for the comparable period a year ago, a decrease of $14.3 million, or 24%, due to substantially the same factors that adversely affected net sales for the three months ended September 30, 2020.

As of September 30, 2020, deferred revenue was $3.5 million, which primarily consisted of $1.4 million pertaining to unshipped product orders and unredeemed product vouchers, as well as $2.0 million in auto ship advances.

Gross Profit

Gross profit was 74.3% of net sales for each of the three month periods ended September 30, 2020 and 2019, and 71.5% of net sales for the nine months ended September 30, 2020 compared with 74.9% of net sales for the nine months ended September 30, 2019. The gross profit margin percentage was consistent for the three month periods as higher logistics costs and product promotions incurred during the most recent quarter were offset by, as referenced above, the additional administrative fees recognized during the most recent quarter. The gross profit margin percentage decrease for the nine month period ended September 30, 2020 was primarily attributable to higher logistics costs and product promotions throughout the current year period.

Commissions

Commissions were 39.8% of net sales for the three months ended September 30, 2020, compared with 43.2% of net sales for the three month period ended September 30, 2019, and 42.5% of net sales for the nine months ended September 30, 2020, compared with 47.3% for the comparable period a year ago. Excluding the additional administrative fee revenue recognized during the most recent quarter referred to above, commissions as a percentage of net sales were roughly consistent with the same period in the prior year. The decrease in commissions as a percentage of net sales of the nine month period ended September 30, 2020 largely resulted from lower estimated costs for on-going incentive programs during the current year period.

Selling, General and Administrative Expenses

Selling, general and administrative expenses were $4.2 million for the three months ended September 30, 2020 compared with $6.4 million in the same period a year ago. For the nine months ended September 30, 2020, selling, general and administrative expenses were $13.8 million compared with $20.3 million for the comparable period a year ago. The decrease in selling, general and administrative expenses during each of the three- and nine-month periods as compared to the comparable periods in the prior year is primarily due to lower employee-related expenses and professional fees. The decrease in the nine-month period is also due to a reduction in event costs as we did not hold a first-half 2020 major event due to the coronavirus outbreak.

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Income Taxes

An income tax provision of $418,000 and $502,000 was recognized during the three month periods ended September 30, 2020 and 2019, respectively. An income tax benefit of $90,000 and an income tax provision of $120,000 was recognized during the nine month periods ended September 30, 2020 and 2019, respectively. The tax benefit during 2020 primarily results from a $512,000 deferred tax asset adjustment necessary to reflect the net operating losses arising from the 2019 tax year, which is due to the CARES Act enacted in March 2020 (described below under "– Critical Accounting Policies and Estimates – Income Taxes") and which were carried back in August 2020 to offset taxable income in tax year 2016.

Liquidity and Capital Resources

At September 30, 2020, our cash and cash equivalents totaled $90.8 million. Total cash and cash equivalents decreased by $5.2 million from December 31, 2019 to September 30, 2020, primarily due to the dividends paid and the net cash used in operating activities during the first nine months of 2020, offset by the refund received in March 2020 in connection with the withdrawal of our Chinese direct selling license application. We consider all highly liquid investments with original maturities of three months or less, when purchased, to be cash equivalents. As of September 30, 2020, we had $68.4 million in available-for-sale investments classified as cash equivalents. In addition, cash and cash equivalents included $13.4 million held in banks located within China subject to foreign currency controls.

As of September 30, 2020, the ratio of current assets to current liabilities was 4.69 to 1.00 and we had $78.7 million of working capital. Working capital as of September 30, 2020 decreased $3.4 million compared to our working capital as of December 31, 2019.

Cash used in operations was $1.5 million for the first nine months of 2020 compared with $18.7 million in the comparable period of 2019. The improvement in operating cash flows resulted primarily from a smaller operating loss incurred during 2020 and a decrease in accrued commission payments.

Cash flows used in investing activities totaled $147,000 and $181,000 during the first nine months of 2020 and 2019, respectively.

Cash flows used in financing activities during the first nine months of 2020 included the following dividend payments (in thousands, except per share amounts):

Declaration Date	Per Share	Amount	Record Date	Payment Date
February 10, 2020	$ 0.20	$ 2,285	February 25, 2020	March 6, 2020
May 4, 2020	0.20	2,285	May 19, 2020	May 29, 2020
August 3, 2020	0.20	2,285	August 18, 2020	August 28, 2020
	$ 0.60	$ 6,855		

Cash flows used in financing activities during the first nine months of 2019 included the repurchase of common stock totaling $9.6 million and dividend payments totaling $2.7 million.

Subsequent to September 30, 2020, on November 2, 2020, the Board of Directors declared a quarterly cash dividend of $0.20 on each share of common stock outstanding. The dividend will be payable on November 27, 2020 to stockholders of record on November 17, 2020. The declaration and payment of any future dividends on shares of common stock will be at the sole discretion of the Company's Board of Directors.

On January 12, 2016, the Board of Directors authorized an increase to the Company's stock repurchase program first approved on July 28, 2015 from $15.0 million to $70.0 million. Repurchases are expected to be executed to the extent that the Company's earnings and cash-on-hand allow, and are made in accordance with all applicable securities laws and regulations, including Rule 10b-18 of the Exchange Act. For all or a portion of the authorized repurchase amount, the Company may enter into one or more plans that are compliant with Rule 10b5-1 of the Exchange Act that are designed to facilitate these purchases. The stock repurchase program does not require the Company to acquire a specific number of shares, and may be suspended from time to time or discontinued. As of September 30, 2020, $21.9 million of the $70.0 million stock repurchase program approved on July 28, 2015 and increased on January 12, 2016 remained available for future purchases, inclusive of related estimated income tax.

We believe that our existing internal liquidity, supported by cash on hand and cash flows from operations should be adequate to fund normal business operations and address our financial commitments for the foreseeable future.

We do not have any significant unused sources of liquid assets. If necessary, we may attempt to generate more funding from the capital markets, but currently we do not believe that will be necessary.

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Our priority is to focus our resources on investing in our most important markets, which we consider to be Greater China and countries where our existing members may have the connections to recruit prospects and sell our products, such as Southeast Asia, India, South America and Europe. We will continue to invest in our Mainland China entity for such purposes as establishing China-based manufacturing capabilities, increasing public awareness of our brand and our products, sourcing more Chinese-made products, building a chain of service stations, opening additional Healthy Lifestyle Centers or branch offices, adding local staffing and other requirements for a prospective China direct selling license application.

Critical Accounting Policies and Estimates

A summary of our significant accounting policies is provided in Note 1 of the Notes to Consolidated Financial Statements in "Item 8. Financial Statements and Supplementary Data" of our Annual Report on Form 10-K filed with the United States Securities and Exchange Commission (SEC) on March 9, 2020. The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reported period. The process of determining significant estimates is fact specific and takes into account historical experience and current and expected economic conditions. To the extent that there are material differences between the estimates and actual results, future results of operations will be affected.

Critical accounting policies and estimates are defined as both those that are material to the portrayal of our financial condition and results of operations and as those that require management's most subjective judgments. Management believes our critical accounting policies and estimates are those related to revenue recognition, as well as those used in the determination of liabilities related to member commissions and income taxes.

Revenue Recognition. All revenue is recognized when the performance obligations under a contract, including product vouchers sold on a stand-alone basis in Hong Kong, are satisfied. Product sales are recorded when the products are shipped and title passes to independent members. Product sales to members are made pursuant to a member agreement that provides for transfer of both title and risk of loss upon our delivery to the carrier that completes delivery to the members, which is commonly referred to as "F.O.B. Shipping Point." We primarily receive payment by credit card at the time members place orders. Our sales arrangements do not contain right of inspection or customer acceptance provisions other than general rights of return. Amounts received for unshipped product orders and unredeemed product vouchers are recorded as deferred revenue. Such amounts totaled $1.4 million and $2.4 million at September 30, 2020 and December 31, 2019, respectively. Shipping charges billed to members are included in net sales. Costs associated with shipments are included in cost of sales. Event and training revenue is deferred and recognized as the event or training occurs.

Additionally, deferred revenue includes advances for auto ship orders. In certain markets, when a member's cumulative commission income reaches a certain threshold, a percentage of the member's weekly commission is held back as an advance and applied to an auto ship order once the accumulated amount of the advances is sufficient to pay for the pre-selected auto ship package of the member. Such advances were $2.0 million at September 30, 2020 and December 31, 2019.

Commissions. Independent members earn commissions based on total personal and group bonus volume points per weekly sales period. Each of our products are designated a specified number of bonus volume points, which is essentially a percentage of the product's wholesale price. We accrue commissions when earned and as the related revenue is recognized and pay commissions on product sales generally two weeks following the end of the weekly sales period.

Independent members may also earn incentives based on meeting certain qualifications during a designated incentive period, which may range from several weeks to up to a year. For each individual incentive, we estimate the total number of qualifiers as well as the expected per qualifier cost and accrue all costs associated with incentives throughout the qualification period. We regularly review and update, if necessary, the estimates of both qualifiers and cost as more information is obtained during the qualification period. Any resulting change in total cost is recognized over the remaining qualification period. Long-term promotions and incentives (lasting up to one year) can, in particular, result in uncertain ultimate cost. Accrued commissions, including the estimated cost of our international recognition incentive program and other supplemental programs, totaled $3.0 million and $2.9 million at September 30, 2020 and December 31, 2019, respectively.

Income Taxes. Deferred income taxes are recognized for differences between the financial reporting and tax bases of assets and liabilities at enacted statutory rates for the years in which the temporary differences are expected to be recovered or settled. We evaluate the probability of realizing the future benefits of any of our deferred tax assets and record a valuation allowance when we believe a portion or all of our deferred tax assets may not be realized. Deferred tax expense or benefit is a result of changes in deferred tax assets and liabilities. Based on the technical merits of our tax position, tax benefits may be recognized if we determine it is more likely than not that our position will be sustained on examination by tax authorities. The complex nature of these estimates requires us to anticipate the likely application of tax law and make judgments on the largest benefit that has a greater than fifty percent likelihood of being realized prior to the completion and filing of tax returns for such periods. As of September 30, 2020, we do not have a valuation allowance against our U.S. deferred tax assets. We maintain a valuation allowance in certain foreign jurisdictions with an overall tax loss. The valuation allowance will be reduced at such time as management believes it is more likely than not that the deferred tax assets will be realized. Any reductions in the valuation allowance will reduce future income tax provision.

Provision for income taxes depends on the statutory tax rates in each of the jurisdictions in which we operate. As a result of capital return activities, we determined that a portion of our current undistributed foreign earnings are no longer deemed reinvested indefinitely by our non-U.S. subsidiaries. The Tax Act, enacted on December 22, 2017 by the U.S. government, required a one-time repatriation tax on certain un-repatriated earnings of foreign subsidiaries at a rate of 15.5% tax on post-1986 foreign earnings held in cash and an 8% rate on all other post-1986 earnings. Due to the adoption of a territorial tax regime, any foreign source portion of a qualified dividend received by a 10% U.S. corporate shareholder is exempt from U.S. federal tax, therefore resulting in any future repatriation having a minimal effect on our effective tax rate. For state income tax purposes, we will continue to periodically reassess the needs of our foreign subsidiaries and update our indefinite reinvestment assertion as necessary. To the extent that additional foreign earnings are not deemed permanently reinvested, we expect to recognize additional income tax provision at the applicable U.S. state corporate tax rate(s). As of September 30, 2020, we have not recorded a state deferred tax liability for earnings to be repatriated in the future because all earnings as of September 30, 2020 have already been repatriated. All undistributed earnings in excess of 50% of current earnings on an annual basis are intended to be reinvested indefinitely as of September 30, 2020.

The U.S. Coronavirus Aid, Relief, and Economic Security ("CARES") Act was enacted on March 27, 2020. The CARES Act was enacted to provide tax relief to companies impacted by the COVID-19 pandemic. In addition to other broad changes, the CARES Act allows for a 5-year carryback period for net operating losses arising in tax years beginning after 2017 and before 2021, effectively taking advantage of differences in tax rate as a result of enactment of the Tax Act. We booked a tax benefit of $512,000 during 2020 due to the net operating loss generated in the taxable year ended December 31, 2019.

We estimate what our effective tax rate will be for the full fiscal year at each interim reporting period and record a quarterly tax provision based on that estimated effective tax rate. Throughout the year that estimated rate may change based on variations in our business, changes in our corporate structure, changes in the geographic mix and amount of income, applicable tax laws and regulations, communications with tax authorities, as well as our estimated and actual level of annual pre-tax income. We adjust our income tax provision in the reporting period in which the change in our estimated rate occurs so that the year-to-date provision is consistent with the anticipated annual tax rate. The Company's effective tax rate projected for the year ending December 31, 2020 differs from the year ended December 31, 2019 primarily as a result of the CARES Act.

Item 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Not applicable under smaller reporting company disclosure rules.

Item 4. CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

Management, with the participation of the Company's principal executive officer and principal financial officer, evaluated the effectiveness of the design and operation of the Company's disclosure controls and procedures (as defined in Rule 13a-15(e) of the Securities Exchange Act of 1934, as amended (the "Exchange Act")) as of September 30, 2020. The Company's disclosure controls and procedures are designed to ensure that information required to be disclosed by the Company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission rules and forms, and that such information is accumulated and communicated to management, including the Company's principal executive officer and principal financial officer, as appropriate, to allow timely decisions regarding required disclosure. Based on this evaluation, the principal executive officer and principal financial officer concluded that our disclosure controls and procedures were effective as of September 30, 2020.

Changes in Internal Control over Financial Reporting

There were no changes in internal control over financial reporting that occurred during the fiscal quarter ended September 30, 2020 that have materially affected, or are reasonably likely to materially affect, internal control over financial reporting.

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PART II — OTHER INFORMATION

Item 1. LEGAL PROCEEDINGS

Reference is made to Part II, Item 1 of the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2020 for disclosure of a legal proceeding that has since been concluded.

Item 1A. RISK FACTORS

Our operations and financial results are subject to various risks and uncertainties, including those described in Part I, Item 1A, “Risk Factors” in our Annual Report on Form 10-K for the year ended December 31, 2019, which could adversely affect our business, financial condition, results of operations, cash flows, and the trading price of our common stock. There have been no material changes to our risk factors since our Annual Report on Form 10-K for the year ended December 31, 2019, except that we are now adding the following risk factor:

The China legislature’s recent passage of a national security law in Hong Kong may escalate political and trade tensions involving the U.S., China and Hong Kong, which could harm our business and adversely affect our financial performance.

On June 30, 2020, China’s legislature passed a national security law that changes the way Hong Kong has been governed since the territory was handed over by England to China in 1997. This law criminalizes secessionist activities, subversion, terrorism, and collusion with a foreign country or with external elements to endanger national security in Hong Kong. The U.S. State Department has announced that the U.S. no longer considers Hong Kong to have significant autonomy from China, and the U.S. administration is taking action to end many of the U.S. government’s special trade and economic relations with Hong Kong. Further, on July 14, 2020 the U.S. enacted the Hong Kong Autonomy Act, authorizing the U.S. administration to impose sanctions against individuals and entities determined to materially contribute to the erosion of Hong Kong's autonomy, as well as to punish financial institutions that facilitate certain significant transactions. These and other recent actions may represent an escalation in political and trade tensions involving the U.S, China and Hong Kong, which could harm our business. A continued deterioration in these political or economic relations or other future unforeseen problems could disrupt our China and Hong Kong operations (including our Hong Kong office and employees), adversely affect the distribution of our products, reduce our net sales, increase the cost of conducting our operations, or result in retaliatory actions against U.S. interests, any of which could have a material adverse effect on our results of operations, financial condition and business.

Item 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

None.

Item 3. DEFAULTS UPON SENIOR SECURITIES

None.

Item 4. MINE SAFETY DISCLOSURES

Not applicable.

Item 5. OTHER INFORMATION

None.

Item 6. EXHIBITS

Exhibit Number	Exhibit Description
31.1	Certification of Principal Executive Officer pursuant to Exchange Act Rules 13a-14(a) and 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Principal Financial Officer pursuant to Exchange Act Rules 13a-14(a) and 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certifications of Principal Executive Officer and Principal Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS	*Instance Document - the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document*
101.SCH	*Inline XBRL Taxonomy Extension Schema*
101.CAL	*Inline XBRL Taxonomy Extension Calculation*
101.DEF	*Inline XBRL Taxonomy Extension Definition*
101.LAB	*Inline XBRL Taxonomy Extension Labels*
101.PRE	*Inline XBRL Taxonomy Extension Presentation*
104	*Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101)*

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

NATURAL HEALTH TRENDS CORP.

Date: November 4, 2020

/s/ Timothy S. Davidson

Timothy S. Davidson
Senior Vice President and Chief Financial Officer
(Principal Financial Officer)

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EXHIBIT INDEX

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101.PRE	*Inline XBRL Taxonomy Extension Presentation*
104	*Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101)*

EXHIBIT 31.1

CERTIFICATION

I, Chris T. Sharng, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Natural Health Trends Corp.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant’s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant’s internal control over financial reporting.

Date: November 4, 2020

/s/ Chris T. Sharng
Chris T. Sharng
President
(Principal Executive Officer)

EXHIBIT 31.2

CERTIFICATION

I, Timothy S. Davidson, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Natural Health Trends Corp.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant’s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant’s internal control over financial reporting.

Date: November 4, 2020

/s/ Timothy S. Davidson
Timothy S. Davidson
Senior Vice President and Chief Financial Officer
(Principal Financial Officer)

EXHIBIT 32.1

CERTIFICATIONS PURSUANT TO
18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of Natural Health Trends Corp. (the “Company”) on Form 10-Q for the period ended September 30, 2020, as filed with the Securities and Exchange Commission on the date hereof (the “Report”), we, Chris T. Sharng, the Principal Executive Officer, and Timothy S. Davidson, the Principal Financial Officer, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to the best of our knowledge:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: November 4, 2020

/s/ Chris T. Sharng
Chris T. Sharng
President
(Principal Executive Officer)

Date: November 4, 2020

/s/ Timothy S. Davidson
Timothy S. Davidson
Senior Vice President and Chief Financial Officer
(Principal Financial Officer)

The foregoing certifications are not deemed filed with the Securities and Exchange Commission for purposes of Section 18 of the Securities Exchange Act of 1934, as amended (Exchange Act), and are not to be incorporated by reference into any filing of the Company under the Securities Act of 1933, as amended, or the Exchange Act, whether made before or after the date hereof, regardless of any general incorporation language in such filing.