

FORM 10-QSB  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

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

For the Quarter Ended March 31, 1996

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

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

Commission file number 0-25238

NATURAL HEALTH TRENDS CORP.

(Exact name of Small Business Issuer as specified in its charter)

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

2001 West Sample Road, Suite 318  
Pompano Beach, FL 33064

(Address of Principal Executive Offices)

(305) 969-9771

(Issuer's telephone number)

Check whether the issuer: (1) filed all reports required to be  
filed by Section 13 or 15(d) of the Securities Exchange Act of 1934  
during the past 12 months (or for such shorter period that the  
registrant was required to file such reports), and (2) has been subject  
to such filing requirements for the past 90 days.

Yes  No

The number of shares outstanding of the issuer's Common Stock,  
\$.001 par value, as of March 31, 1996 was 11,085,108 shares.

NATURAL HEALTH TRENDS CORP.

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NATURAL HEALTH TRENDS CORP.

CONSOLIDATED BALANCE SHEET

MARCH 31, 1996

(UNAUDITED)

ASSETS

CURRENT ASSETS:

Cash	\$ 374,538	
Marketable securities	250,000	
Accounts receivable	849,492	
Inventories	124,030	
Due from officers	134,608	
Due from affiliate	22,524	
Prepaid expenses and other current assets	210,533	
	-----	
TOTAL CURRENT ASSETS		1,965,725

PROPERTY, PLANT AND EQUIPMENT 3,020,997

GOODWILL 1,536,236

DEPOSITS AND OTHER ASSETS 91,249

-----  
\$ 6,614,207  
=====

LIABILITIES AND STOCKHOLDERS' EQUITY

CURRENT LIABILITIES:

Accounts payable	\$ 247,899	
Accrued expenses	70,479	
Revolving credit line	170,000	
Current portion of long term debt	44,005	
Deferred revenue	529,069	
Other current liabilities	61,075	
	-----	
TOTAL CURRENT LIABILITIES		1,122,527

LONG-TERM DEBT 1,936,987

DUE TO BANK 11,303

COMMON STOCK SUBJECT TO PUT 380,000

STOCKHOLDERS' EQUITY:

Preferred stock, \$.001 par value, 1,500,000 shares authorized; no shares issued and outstanding	-	
Common stock, \$.001 par value; 20,000,000 shares authorized; 11,085,108 shares issued and outstanding at March 31, 1996	11,085	

Additional paid-in capital	5,347,034	
Retained earnings (accumulated deficit)	(1,814,729)	
Common stock subject to put	(380,000)	
	-----	
TOTAL STOCKHOLDERS' EQUITY		3,163,390
	-----	
	\$ 6,614,207	
	=====	

See notes to consolidated financial statements.

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NATURAL HEALTH TRENDS CORP.

CONSOLIDATED STATEMENTS OF OPERATIONS

(UNAUDITED)

	Three months ended	
	March 31,	
	1996	1995
	-----	-----
REVENUES	\$1,537,632	\$ 776,879
COST OF SALES	910,556	370,129
	-----	-----
GROSS PROFIT	627,076	406,750
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES	719,945	333,603
	-----	-----
OPERATING INCOME (LOSS)	(92,869)	73,147
OTHER INCOME (EXPENSE):		
Interest (net)	(47,955)	(49,414)
	-----	-----
TOTAL OTHER INCOME (EXPENSE)	(47,955)	(49,414)
	-----	-----
INCOME (LOSS) BEFORE INCOME TAXES	(140,824)	23,733
PROVISION FOR INCOME TAXES	-	5,000
	-----	-----
NET INCOME (LOSS)	\$ (140,824)	\$ 18,733
	=====	=====
EARNINGS (LOSS) PER COMMON SHARE	\$ (0.01)	\$ 0.00
	=====	=====
WEIGHTED AVERAGE COMMON SHARES USED	10,965,775	7,952,802
	=====	=====

See notes to consolidated financial statements.

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NATURAL HEALTH TRENDS CORP.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(UNAUDITED)

Three months ended  
March 31,

	-----	1996	1995	-----
CASH FLOWS FROM OPERATING ACTIVITIES:				
Net loss		\$ (140,824)	\$ 18,733	
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:				
Depreciation and amortization		53,346	37,140	
Changes in assets and liabilities:				
(Increase) decrease in accounts receivable	(143,518)		(61,446)	
(Increase) decrease in inventories	857		-	
(Increase) decrease in prepaid expenses	9,429		(11,415)	
(Increase) decrease in deferred registration costs	-		(80,779)	
(Increase) decrease in deposits and other assets	(8,114)		(129,757)	
Increase (decrease) in accounts payable	28,674		(16,729)	
Increase (decrease) in accrued expenses	9,501		8,004	
Increase (decrease) in deferred revenue	43,825		(18,236)	
Increase (decrease) in deferred taxes	-		5,000	
Increase (decrease) in other current liabilities	-		-	
TOTAL ADJUSTMENTS		(6,000)	(268,218)	
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES		(146,824)	(249,485)	
CASH FLOWS FROM INVESTING ACTIVITIES:				
Capital expenditures		(266,808)	(6,641)	
Acquisition expenses		(20,000)	-	
Purchase of marketable securities		(250,000)	-	
NET CASH USED IN INVESTING ACTIVITIES		(536,808)	(6,641)	
CASH FLOWS FROM FINANCING ACTIVITIES:				
Increase in due from officer		-	(6,800)	
Increase (decrease) in due to bank		(16,000)	(31,269)	
Proceeds from notes payable and long-term debt		170,000	350,000	
Payments of notes payable and long-term debt		(10,448)	(32,000)	
NET CASH PROVIDED BY FINANCING ACTIVITIES		143,552	279,931	
NET INCREASE (DECREASE) IN CASH		(540,080)	23,805	
CASH, BEGINNING OF PERIOD		914,618	1,763	
CASH, END OF PERIOD		\$ 374,538	\$ 25,568	

See notes to consolidated financial statements.

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NATURAL HEALTH TRENDS CORP.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

THREE MONTHS ENDED MARCH 31, 1996

(UNAUDITED)

#### 1. BASIS OF PRESENTATION

The accompanying financial statements are unaudited, but reflect all adjustments which, in the opinion of management, are necessary for a fair presentation of financial position and the

results of operations for the interim periods presented. All such adjustments are of a normal and recurring nature. The results of operations for any interim period are not necessarily indicative of the results attainable for a full fiscal year.

## 2. EARNINGS (LOSS) PER SHARE

Per share information is computed based on the weighted average number of shares outstanding during the period.

## 3. REVOLVING CREDIT LINE

The Company entered into a revolving credit line with Merrill Lynch as of October 4, 1995 in the amount of \$300,000. This revolving credit line was activated by the Company on February 29, 1996. The revolving credit line expires on October 31, 1996, at which time the Company is required to pay back any and all amounts borrowed under the revolving credit line. Interest accrues at the rate of prime plus 1%. As of March 31, 1996, the Company borrowed \$170,000 under this revolving credit line. A \$250,000 investment that the Company has with Merrill Lynch is restricted as security for any loans under this revolving credit line.

## 4. ACQUISITION

On January 22, 1996, the Company acquired all of the assets of Sam Lilly, Inc. in exchange for 380,000 shares of the Company's common stock. The acquisition was accounted for as a purchase. The net assets acquired totaled approximately \$9,000. As a result of this acquisition, the Company recorded goodwill of \$1,380,000.

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The following table presents certain unaudited pro forma financial information as if the acquisition occurred as of January 1, 1995:

	Three months ended March 31,	
	1996	1995
Revenues	\$1,667,235	\$1,070,934
Net Loss	\$ (146,574)	\$ (1,483)
Net Loss Per Share	\$ (0.01)	\$ -

## 5. LETTER OF INTENT

In May 1996, the Company entered into a letter of intent to acquire an alternative health care clinic. The proposed purchase price is \$550,000, payable in common stock of the Company.

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## ITEM 2: MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion should be read in conjunction with the consolidated financial statements and notes contained in Item 1 hereof.

### THREE MONTHS ENDED MARCH 31, 1996 AND 1995

#### Revenues:

Total revenues were \$1,537,632 for the three months ended March 31, 1996 compared to \$776,879 for the three months ended March 31, 1995. This

represents an increase of \$760,753 or 98%.

The increase is primarily attributable to \$432,000 in fee revenue provided by an alternative health care clinic acquired by the Company in January 1996, \$77,000 in rental income which did not commence until the building was acquired in May 1995 and \$165,000 from the Company's Oviedo school which was acquired in November 1995. Additionally, tuition revenues from the previously existing Broward and Dade schools increased by \$60,000, due primarily to increased enrollment.

#### Cost of Sales:

Cost of sales for the three months ended March 31, 1996 were \$910,556 compared to \$370,129 for the comparable period of the prior year. Gross profit as a percentage of revenues was 41% for the three months ended March 31, 1996, compared to 52% for the three months ended March 31, 1995. Management believes that the decrease in gross profit as a percentage of revenues in 1996 was attributable to there being a different mix of services offered by the Company, specifically the medical clinic, with its attendant higher costs for medical salaries and medical products, and to the inclusion of costs attributable to the Corporate Massage service, which is still in a start-up stage and has provided minimal revenues to date.

#### Selling, General and Administrative Expenses:

Selling, general and administrative expenses were \$719,945 for the three months ended March 31, 1996. This represents an increase of \$386,342 from the three months ended March 31, 1995. The increase is primarily attributable to the higher level of operations. These costs as a percentage of revenues were 47% in the 1996 period as compared to 43% in the 1995 period. The increase as a percentage of revenue is attributable to general and administrative expenses connected with the corporate massage business, which provided minimal revenues, increased salaries and increased levels of advertising.

#### Interest Expense:

These costs for the three months ended March 31, 1996 were \$47,955 compared to \$49,414 for the three months ended March 31, 1995.

#### Net Loss:

For the three months ended March 31, 1996, the net loss was \$140,824 compared to a net income of \$18,733 for the three months ended March 31, 1995. This increase in net loss is attributable to the impact of the individual elements discussed above.

#### Liquidity and Capital Resources

At March 31, 1996 the ratio of current assets to current liabilities was 1.75 to 1.0. Working capital was approximately \$843,000.

Cash used in operations in the period ended March 31, 1996 was approximately \$147,000, attributable primarily to the net loss of \$141,000.

Capital expenditures, primarily related to construction for preparation for use of the Pompano Building, used approximately \$268,000 of cash. An additional \$250,000 was put in a Merrill Lynch investment account, which secures a revolving credit agreement. A total of \$170,000 was borrowed under this revolving credit agreement during the period.

The Company anticipates that during the second or third quarter the Company will call for redemption 2,000,000 redeemable Class A common stock purchase warrants and 2,000,000 redeemable Class B common stock purchase warrants. In the event that all of such warrants are

exercised, the Company believes that it would realize net proceeds of approximately \$16,000,000. However, there can be no assurance that the warrants will be redeemed or exercised.

The Company anticipates that its net cash flow together with available lines of credit will be sufficient to finance the Company's operations during the next twelve months.

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## PART II. OTHER INFORMATION

### Item 5. Other Information

None

### Item 6. Exhibits and Reports on Form 8-K

#### (a) Exhibits

Please see Exhibit Index on page 8.

#### (b) Reports on Form 8-K

On February 6, 1996, the Company filed a report on Form 8-K to report that the Company and Health Wellness Nationwide, Inc., the Company's wholly owned subsidiary, entered into an agreement and plan of reorganization to acquire substantially all of the assets of Sam Lilly, Inc.

On April 4, 1996, the Company filed Form 8-K/A which included the audited financial statements of Sam Lilly, Inc. for the years ended October 31, 1995 and 1994.

### Exhibit Index

Number	Description of Exhibit
1.1	Form of Underwriting Agreement between the Company and the Maidstone Financial, Inc. (the "Underwriter").*
3.1	Amended and Restated Certificate of Incorporation of the Company.*
3.2	Amended and Restated By-Laws of the Company.*
4.1	Specimen Certificate of the Company's Common Stock.*
4.2	Form of Class A Warrant.*
4.3	Form of Class B Warrant.*
4.4	Form of Warrant Agreement between the Company and Continental Stock Transfer & Trust Company.*
4.5	Form of Underwriter's Warrants.*
4.6	1994 Stock Option Plan.*

Number	Description of Exhibit
10.1	Form of Employment Agreement between the Company and Neal R. Heller.*
10.2	Form of Employment Agreement between the Company and Elizabeth S. Heller.*
10.3	Lease, dated April 29, 1993, between Florida Institute of Massage Therapy, Inc., as tenant, and MICC Venture, as landlord, as amended.*
10.4	Lease, dated April 10, 1991, between Florida Institute of Massage Therapy, Inc., as tenant, and Superior Investment & Development Corporation, as agent, for SIDCOR 50/50 Associates.*
10.5	Department of Education, Office of Postsecondary Education, Office of Student Financial Assistance Program Participation Agreement, dated March 28, 1994, between the Company and the USDOE.*
10.6	Purchase and Sale Agreement between Merrick Venture Capital, Inc., as seller, and the Company, as buyer.*
10.7	First Mortgage Loan Documents between the Company and TransFlorida Bank in connection with the purchase of the Pompano Property.
10.8	Equity Credit Plan and Note, dated March , 1994, among the Company, F.I.M.T.E., Neal R. Heller, Elizabeth S. Heller and American Bank of Hollywood.*
10.9	Form of Financial Consulting Agreement between the Company and the Underwriter.*
10.10	Second Mortgage Loan Documents between the Company and Merrick Venture Capital, Inc.*
10.11	Agreement dated June 7, 1995 between Natural Health Trends Corp. and Justin Real Estate Corp..*
10.12	Property Management Agreement dated June 7, 1995 between Natural Health Trends Corp. and Justin Real Estate Corp..*
21.1	List of Subsidiaries.*

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\* Previously filed with Registration Statement No. 33-91184.

#### SIGNATURE

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



Dated: May 14, 1996

NATURAL HEALTH TRENDS CORP.

By: \s\ Neal R. Heller  
Neal R. Heller, Chairman of the Board,  
President, Chief Financial and Accounting  
Officer and Chief Executive Officer

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THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM FORM 10-QSB FOR THE QUARTER ENDED MARCH 31, 1996 AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS.

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