

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

**FORM 10-Q**

(Mark One)

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

For the quarterly period ended March 31, 2021

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  
(State or other jurisdiction of  
incorporation or organization)

59-2705336  
(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	<input type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input checked="" type="checkbox"/>	Smaller reporting company	<input checked="" type="checkbox"/>
		Emerging growth company	<input type="checkbox"/>

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 April 30, 2021, the number of shares outstanding of the registrant's common stock was 1,422,539 shares.



**NATURAL HEALTH TRENDS CORP.**  
**Quarterly Report on Form 10-Q**  
**March 31, 2021**

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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:

- 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;
  - Epidemics, such as the COVID-19 pandemic, or natural disasters, terrorist attacks or acts of war may seriously harm our 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;
  - We experienced negative operating cash flows during the year ended December 31, 2019, and only modest positive operating cash flows during the year ended December 31, 2020. Unless our operating cash flows improve, this negative financial performance could have a material adverse effect on our business and our stock price;
  - 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;
  - The high level of competition in our industry could adversely affect our business;
  - Failure of new products to gain member and market acceptance could harm our business;
  - 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;
  - 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 could be adversely affected by management changes or an inability to attract and retain key management, directors and consultants;
  - 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;
  - Although virtually all of our members are independent contractors, improper member actions that violate laws or regulations could harm our business;
  - An increase in the amount of compensation paid to members would reduce profitability;
  - 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;
  - Our business in China is 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;
  - Changes in government trade and economic policies, including the imposition or threatened imposition of tariffs and other restrictive trade policies, and ongoing political and economic 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;
  - Direct-selling laws and regulations may prohibit or severely restrict our direct sales efforts and cause our revenue and profitability to decline, and regulators could adopt new regulations that harm our business;
  - Challenges by third parties to the legality of our business operations could harm our business;
  - We are currently involved in, and may in the future face, lawsuits, claims, and governmental proceedings and inquiries that could harm our business;
  - 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;
  - 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;
  - We are subject to anti-bribery laws, including the U.S. Foreign Corrupt Practices Act;
  - We do not have a comprehensive product liability insurance program and product liability claims could hurt our business;
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- We may be unable to protect or use our intellectual property rights;
- 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;
- Our common stock is particularly subject to volatility because of the industry and markets in which we operate; and
- 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.

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)

	March 31, 2021 (Unaudited)	December 31, 2020
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 90,214	\$ 92,367
Inventories	3,627	3,779
Other current assets	3,393	3,595
Total current assets	97,234	99,741
Property and equipment, net	521	539
Operating lease right-of-use assets	3,839	3,745
Restricted cash	522	525
Deferred tax asset	721	731
Other assets	648	661
Total assets	<u>\$ 103,485</u>	<u>\$ 105,942</u>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities:		
Accounts payable	\$ 756	\$ 580
Income taxes payable	1,547	1,481
Accrued commissions	3,116	3,496
Other accrued expenses	1,670	1,922
Deferred revenue	4,169	3,091
Amounts held in eWallets	7,754	8,503
Operating lease liabilities	1,252	1,163
Other current liabilities	1,125	1,270
Total current liabilities	21,389	21,506
Income taxes payable	13,748	13,748
Deferred tax liability	216	216
Operating lease liabilities	2,756	2,775
Total liabilities	38,109	38,245
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 March 31, 2021 and December 31, 2020	13	13
Additional paid-in capital	86,102	86,102
Retained earnings	5,690	7,822
Accumulated other comprehensive loss	(525)	(336)
Treasury stock, at cost; 1,556,875 shares at March 31, 2021 and December 31, 2020	(25,904)	(25,904)
Total stockholders' equity	65,376	67,697
Total liabilities and stockholders' equity	<u>\$ 103,485</u>	<u>\$ 105,942</u>

See accompanying notes to consolidated financial statements.

**NATURAL HEALTH TRENDS CORP.**  
**CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED)**  
**(In Thousands, Except Per Share Data)**

	Three Months Ended March 31,	
	2021	2020
Net sales	\$ 13,469	\$ 14,948
Cost of sales	3,255	4,514
Gross profit	10,214	10,434
Operating expenses:		
Commissions expense	5,514	6,603
Selling, general and administrative expenses	4,480	5,279
Total operating expenses	9,994	11,882
Income (loss) from operations	220	(1,448)
Other income, net	20	93
Income (loss) before income taxes	240	(1,355)
Income tax provision (benefit)	87	(782)
Net income (loss)	\$ 153	\$ (573)
Net income (loss) per common share:		
Basic	\$ 0.01	\$ (0.05)
Diluted	\$ 0.01	\$ (0.05)
Weighted average common shares outstanding:		
Basic	10,874	10,483
Diluted	11,424	10,483

See accompanying notes to consolidated financial statements.

**NATURAL HEALTH TRENDS CORP.**  
**CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS (UNAUDITED)**  
**(In Thousands)**

	Three Months Ended March 31,	
	2021	2020
Net income (loss)	\$ 153	\$ (573)
Other comprehensive loss, net of tax:		
Foreign currency translation adjustment	(182)	(222)
Unrealized losses on available-for-sale securities	(7)	(87)
Comprehensive loss	<u>\$ (36)</u>	<u>\$ (882)</u>

See accompanying notes to consolidated financial statements.

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

Three months ended March 31, 2021

	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, 2020	—	\$ —	12,979,414	\$ 13	\$ 86,102	\$ 7,822	\$ (336)	(1,556,875)	\$ (25,904)	\$ 67,697
Net income	—	—	—	—	—	153	—	—	—	153
Dividends declared, \$0.20/share	—	—	—	—	—	(2,285)	—	—	—	(2,285)
Foreign currency translation adjustments	—	—	—	—	—	—	(182)	—	—	(182)
Unrealized losses on available-for- sale securities	—	—	—	—	—	—	(7)	—	—	(7)
BALANCE, March 31, 2021	—	\$ —	12,979,414	\$ 13	\$ 86,102	\$ 5,690	\$ (525)	(1,556,875)	\$ (25,904)	\$ 65,376

Three months ended March 31, 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

See accompanying notes to consolidated financial statements.



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

	Three Months Ended March 31,	
	2021	2020
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net income (loss)	\$ 153	\$ (573)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Depreciation and amortization	79	95
Noncash lease expense	294	418
Deferred income taxes	9	869
Changes in assets and liabilities:		
Inventories	123	1,001
Other current assets	195	(1,033)
Other assets	2	52
Accounts payable	176	168
Income taxes payable	67	(164)
Accrued commissions	(344)	(528)
Other accrued expenses	(245)	(398)
Deferred revenue	1,093	(521)
Amounts held in eWallets	(727)	(175)
Operating lease liabilities	(322)	(440)
Other current liabilities	(139)	239
Net cash provided by (used in) operating activities	414	(990)
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Purchases of property and equipment	(63)	(12)
Net cash used in investing activities	(63)	(12)
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Dividends paid	(2,285)	(2,285)
Net cash used in financing activities	(2,285)	(2,285)
Effect of exchange rates on cash, cash equivalents and restricted cash	(222)	(240)
Net decrease in cash, cash equivalents and restricted cash	(2,156)	(3,527)
CASH, CASH EQUIVALENTS AND RESTRICTED CASH, beginning of period	92,892	99,425
CASH, CASH EQUIVALENTS AND RESTRICTED CASH, end of period	\$ 90,736	\$ 95,898
<b>SUPPLEMENTAL DISCLOSURES OF OTHER CASH FLOW INFORMATION:</b>		
Right-of-use assets obtained in exchange for operating lease liabilities	\$ 400	\$ 194

See accompanying notes to consolidated financial statements.

**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 2020 Annual Report on Form 10-K filed with the United States Securities and Exchange Commission (SEC) on February 26, 2021.

*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.

*Reclassification*

Certain income taxes payable balances have been reclassified in the prior year consolidated statement of cash flows to conform to current year presentation.

*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 table illustrates 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 March 31,					
	2021			2020		
	Income (Numerator)	Shares (Denominator)	Per Share Amount	Loss (Numerator)	Shares (Denominator)	Per Share Amount
<b>Basic net income (loss) per common share:</b>						
Net income (loss) available to common stockholders	\$ 153	10,874	\$ 0.01	\$ (573)	10,483	\$ (0.05)
<b>Effect of dilutive securities:</b>						
Non-vested restricted stock	—	550		—	—	
<b>Diluted net income (loss) per common share:</b>						
Net income (loss) available to common stockholders plus assumed conversions	\$ 153	11,424	\$ 0.01	\$ (573)	10,483	\$ (0.05)

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 940,476 shares were not included for the three months ended March 31, 2020.

*Recent Accounting Pronouncements*

In June 2016, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“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 ASU2019-11, *Codification Improvements to Topic 326, Financial Instruments - Credit Losses*. The amendments to ASU2019-11 clarify, correct and make improvements to Topic326. ASU 2016-13 as well as the updates in ASU2019-11 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.

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 5% of sales. Sales returns were 1% and 2% of sales for the three months ended March 31, 2021 and 2020, 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 December 31, 2020 to March 31, 2021 is primarily due to an increase of \$1.1 million 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 11 for revenue by market information.

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

	Three Months Ended March 31,	
	2021	2020
Product sales	\$ 12,031	\$ 14,011
Administrative fees, freight and other	1,554	1,084
Less: sales returns	(116)	(147)
Total net sales	<u>\$ 13,469</u>	<u>\$ 14,948</u>

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 March 31, 2021.

#### *Concentration*

No single market other than Hong Kong had net sales greater than 10% of total net sales. Sales are made to the Company's members and no single customer accounted for 10% or more of net sales for the three months ended March 31, 2021 and 2020. 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 been one 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 of one year or less.

**3. BALANCE SHEET COMPONENTS**

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

	March 31, 2021	December 31, 2020
Cash, cash equivalents and restricted cash:		
Cash	\$ 23,993	\$ 23,977
Cash equivalents	66,221	68,390
	90,214	92,367
Restricted cash	522	525
	<u>\$ 90,736</u>	<u>\$ 92,892</u>
Inventories:		
Finished goods	\$ 3,275	\$ 3,071
Raw materials	635	1,047
Reserve for obsolescence	(283)	(339)
	<u>\$ 3,627</u>	<u>\$ 3,779</u>
Other accrued expenses:		
Sales returns	\$ 182	\$ 189
Employee-related expense	879	1,149
Warehousing, inventory-related and other	609	584
	<u>\$ 1,670</u>	<u>\$ 1,922</u>
Deferred revenue:		
Unshipped product and unredeemed product vouchers	\$ 2,117	\$ 1,005
Auto ship advances	1,946	1,977
Other	106	109
	<u>\$ 4,169</u>	<u>\$ 3,091</u>

**4. FAIR VALUE MEASUREMENTS**

As of March 31, 2021, cash and cash equivalents include the Company's investments in government, 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 March 31, 2021 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):

	Fair Value Level <sup>1</sup>	March 31, 2021			December 31, 2020		
		Adjusted Cost	Gross Unrealized Losses	Fair Value	Adjusted Cost	Gross Unrealized Losses	Fair Value
Money market funds	Level 1	\$ 22,553	\$ —	\$ 22,553	\$ 21,042	\$ —	\$ 21,042
Time deposits	Level 2	5,000	—	5,000	5,458	—	5,458
Government and municipal debt securities	Level 2	18,455	(7)	18,448	30,280	(5)	30,275
Corporate debt securities	Level 2	20,231	(11)	20,220	11,621	(6)	11,615
<b>Total investments</b>		<b>\$ 66,239</b>	<b>\$ (18)</b>	<b>\$ 66,221</b>	<b>\$ 68,401</b>	<b>\$ (11)</b>	<b>\$ 68,390</b>

<sup>1</sup> 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 7,300 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 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 2024, 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 months ended March 31, 2021 and 2020 were as follows (in thousands):

	Three Months Ended March 31,	
	2021	2020
Operating leases	\$ 318	\$ 469
Short-term leases	48	83
<b>Total lease cost</b>	<b>\$ 366</b>	<b>\$ 552</b>

Cash paid for amounts included in the measurement of operating leases liabilities was \$58,000 and \$479,000 for the three months ended March 31, 2021 and 2020, respectively.

The weighted-average remaining lease term and discount rate related to operating leases as of March 31, 2021 were as follows:

Weighted-average remaining lease term (in years)	5.3
Weighted-average discount rate	3.3%

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 March 31, 2021 were as follows (in thousands):

Remainder of 2021	\$	958
2022		1,242
2023		676
2024		272
2025		261
Thereafter		990
Total lease payments	\$	4,399
Less: imputed interest		(391)
Present value of lease liabilities	\$	4,008

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 months ended March 31, 2021 includes an estimate for the Global Intangible Low-Taxed Income (“GILTI”) inclusion. As of March 31, 2021, 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 March 31, 2021, 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 March 31, 2021, 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 \$3.5 million that begin expiring in 2039. At March 31, 2021, the Company has foreign net operating loss carryforwards of approximately \$2.8 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 March 31, 2021, 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 March 31, 2021 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 March 31, 2021.

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, 2018 and 2019 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. No other jurisdictions are currently examining any income tax returns of the Company.

## 7. COMMITMENTS AND CONTINGENCIES

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. STOCK-BASED INCENTIVE PLANS

### *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 March 31, 2021, 1,219,583 shares remained available for issuance under the 2016 Plan.

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, 2020	566,272	\$ 7.21
Vested	(95,008)	\$ 7.27
Nonvested at March 31, 2021	<u>471,264</u>	<u>\$ 7.19</u>

### *Phantom Equity*

On March 15, 2021, the Company's Board of Directors approved and adopted a Phantom Equity Plan (the "Phantom Plan"). Under the terms of the Phantom Plan, the Compensation Committee may grant to the Company's employees, officers, directors, contractors, consultants, or advisors awards of phantom shares entitling grantees the right to receive a cash payment equal to the fair market value of an equal number of shares of the Company's common stock upon the close of a vesting period, subject to any maximum payment value that the Compensation Committee may set. The vesting of phantom shares is subject to such vesting conditions as the Compensation Committee may specify in a grantee's award agreement. Grantees of phantom shares shall not by virtue of their receipt of phantom shares have any ownership rights in shares of the Company's common stock. The Phantom Plan shall continue for a period of ten years, after which no further phantom shares may be awarded (although any phantom shares awarded prior to the expiration of such 10-year period shall be unaffected by the termination of the Phantom Plan).

Also on March 15, 2021, awards for 223,307 phantom shares were granted to the Company's employees and its non-employee directors. The phantom shares vest in eight equal three-month vesting increments, subject to the satisfaction of both a time-based vesting condition and a performance vesting condition. These vesting conditions were deemed satisfied on the grant date for the initial vesting increment. In order for the time-based vesting condition to be satisfied for each vesting period, the grantee must remain continuously employed by, or be otherwise continuously providing services to, the Company through the end of the vesting period, and in order for the performance vesting condition to be satisfied for each vesting period, the performance criteria designated by the Compensation Committee must be satisfied. The initial performance vesting condition to be applied to measure performance for the period between March 15, 2021 and June 15, 2021 was designated by the Compensation Committee on or before April 14, 2021, and will apply to all future performance periods unless the Compensation Committee elects to change the performance vesting condition on a prospective basis. Future changes to the performance vesting condition shall be made on or before the fifteenth day of any future performance period. If either vesting condition is not satisfied for a vesting date, then the phantom shares scheduled to vest on such date will be forfeited. These phantom shares are subject to a maximum payment value of \$12.00 per phantom share.

The phantom share awards are accounted for as liabilities in accordance with FASB Accounting Standards Codification ("ASC") Topic 718, *Compensation – Stock Compensation* since they require cash settlement. The grant date of each vesting increment will be established when the Company and the grantees reach a mutual understanding of the key terms and conditions of an award, which is the date upon which each performance vesting condition is communicated to the grantees. Compensation expense is recognized over the requisite service period if it is probable that the performance vesting condition will be achieved. The fair value of the liability incurred is remeasured at the end of each reporting period with any changes in fair value recognized as compensation expense over the requisite service period.

Awards totaling 27,913 phantom shares vested on March 15, 2021, resulting in compensation expense of \$188,000 during the three months ended March 31, 2021 related to their cash settlement.



**9. STOCKHOLDERS' EQUITY***Dividends*

On February 8, 2021, the Board of Directors declared a quarterly cash dividend of \$0.20 on each share of common stock outstanding. The dividend was paid on March 5, 2021 to stockholders of record on February 23, 2021. 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. As of March 31, 2021, \$21.9 million of the \$70.0 million stock repurchase program remained available for future purchases, inclusive of related estimated income tax.

*Accumulated Other Comprehensive Loss*

The changes in accumulated other comprehensive loss by component for the three months of 2021 were as follows (in thousands):

	Foreign Currency Translation Adjustment	Unrealized Losses on Available-For-Sale Investments	Total
Balance, December 31, 2020	\$ (325)	\$ (11)	\$ (336)
Other comprehensive loss	(182)	(7)	(189)
Balance, March 31, 2021	<u>\$ (507)</u>	<u>\$ (18)</u>	<u>\$ (525)</u>

**10. 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 an indirect 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. The Company recognized royalties of \$8,000 and \$15,000 during the three months ended March 31, 2021 and 2020, respectively, under this agreement. The Company is not required to purchase any product under the agreement, and the agreement may be terminated under certain circumstances with no notice. The agreement terminates 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.

## 11. 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 March 31,	
	2021	2020
<b>Net sales:</b>		
Primary Reporting Segment	\$ 12,770	\$ 14,008
China	508	698
Russia and Kazakhstan	191	242
<b>Total net sales</b>	<b>\$ 13,469</b>	<b>\$ 14,948</b>
<b>Income (loss) from operations:</b>		
Primary Reporting Segment	\$ 2,699	\$ 1,315
China	(7)	(83)
Russia and Kazakhstan	(48)	(82)
<b>Total income (loss) from operations for reportable segments</b>	<b>2,644</b>	<b>1,150</b>
Unallocated corporate expenses	(2,424)	(2,598)
Other income, net	20	93
<b>Income (loss) before income taxes</b>	<b>\$ 240</b>	<b>\$ (1,355)</b>

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

	Three Months Ended March 31,	
	2021	2020
<b>Net sales from external customers:</b>		
United States	\$ 311	\$ 491
Canada	171	261
Peru	516	360
Hong Kong <sup>1</sup>	10,322	11,413
China	508	698
Taiwan	691	940
South Korea	68	127
Russia and Kazakhstan	191	242
Europe	350	233
Other foreign countries	341	183
<b>Total net sales</b>	<b>\$ 13,469</b>	<b>\$ 14,948</b>

<sup>1</sup> 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.

**12. SUBSEQUENT EVENT**

On May 3, 2021, 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 May 28, 2021 to stockholders of record on May 18, 2021. 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 March 31, 2021, we were conducting business through 49,420 active members, compared to 52,230 three months ago and 56,490 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 93% of our net sales from subsidiaries located outside the Americas, with sales of our Hong Kong subsidiary representing 77% 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 our potential inability to obtain necessary product registrations. We continually evaluate our operations for compliance with applicable laws and regulations, and this process can and has resulted in the identification of certain matters of potential noncompliance, which we work to satisfactorily address. 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, 2020, 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 business in China is 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 platform 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.

In January 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, and is reviewing its regulatory oversight of the industry. 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 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 we have recently been able to relax some restrictions on member activities in certain markets, it may again in the future be necessary or advisable to suspend member activities or take similar actions from time to time, and such periods of reduced activity may have a material adverse effect on our business.

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 in China for health product companies 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 COVID-19 was first identified in China and subsequently spread around the world. On March 11, 2020 the World Health Organization declared the COVID-19 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 have significant business in China and in 2020 generated approximately 79% 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 taken steps to reduce some of the restrictive measures that it imposed to control COVID-19, 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 have taken 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 pandemic. We also canceled both of our major member events planned for 2020, although some relatively small member events were held in the second half of the year. The severity of the impact on us of the COVID-19 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 throughout 2020, and we expect that our financial results for the near-term may be adversely affected. For example, in February 2021 several coronavirus outbreaks caused the Chinese government to abruptly reintroduce restrictions on personal mobility and strongly discourage gathering and travel ahead of the Chinese New Year. These measures effectively lengthened the traditional holiday and reduced the number of working days in the first quarter of 2021, which had a significant short-term effect on the level of our sales. The disruptions associated with the COVID-19 pandemic 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 COVID-19 pandemic. See “Item 1A. Risk Factors - Epidemics, such as the COVID-19 pandemic, 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, along with the impact of the COVID-19 pandemic and related government control measures, are also adversely affecting our Hong Kong operations and recently led us to cease conducting member meetings and events in Hong Kong. Inasmuch as member meetings and events located in Hong Kong have in the past served as an important component of our product marketing and distribution efforts, we believe that this action has negatively affected our operations and financial performance. If current conditions continue or further deteriorate, we anticipate that our business, financial condition and results of operations will be adversely affected. See “Item 1A. Risk Factors - Our Hong Kong operations are being adversely affected by recent political and social developments in Hong Kong...” in our most recent Annual Report on Form 10-K.

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. For example, the value of the Chinese yuan relative to that of the U.S. dollar decreased during much of 2018 and 2019, which we believe negatively affected our Hong Kong revenues because the prices at which our Chinese members could purchase our products was 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,” and more specifically under the caption “Risk Factors - Changes in government trade and economic policies...” 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 three months of 2021 were lower than the comparable period in 2020. The decline in net sales during the first three months of 2021 resulted in modest income from operations for the period, as well as modest positive cash flows from operations. We anticipate that our financial performance for the near-term may continue to be adversely impacted.

#### **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.

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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 three months of 2021 and 2020, represented 41% and 44% of net sales, respectively. 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 March 31,	
	2021	2020
Net sales	100.0%	100.0%
Cost of sales	24.2	30.2
Gross profit	75.8	69.8
Operating expenses:		
Commissions expense	40.9	44.2
Selling, general and administrative expenses	33.3	35.3
Total operating expenses	74.2	79.5
Income (loss) from operations	1.6	(9.7)
Other income, net	0.1	0.6
Income (loss) before income taxes	1.7	(9.1)
Income tax provision (benefit)	0.6	(5.2)
Net income (loss)	1.1%	(3.9)%

*Net Sales*

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

	Three Months Ended March 31,			
	2021		2020	
Americas <sup>1</sup>	\$ 998	7.4%	\$ 1,112	7.4%
Hong Kong <sup>2</sup>	10,322	76.6	11,413	76.3
China	508	3.8	698	4.7
Taiwan	691	5.1	940	6.3
South Korea	68	0.5	127	0.8
Japan	149	1.1	58	0.4
Singapore	8	0.1	12	0.1
Malaysia	67	0.5	54	0.4
Russia and Kazakhstan	191	1.4	242	1.6
Europe	350	2.6	233	1.6
India	117	0.9	59	0.4
Total	\$ 13,469	100.0%	\$ 14,948	100.0%

<sup>1</sup> *United States, Canada, Mexico and Peru*

<sup>2</sup> *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 \$13.5 million for the three months ended March 31, 2021 compared with \$14.9 million for the comparable period a year ago, a decrease of \$1.5 million, or 10%. Hong Kong net sales, substantially all of which were derived from the sale of products shipped to members residing in China, decreased \$1.1 million, or 10%, over the comparable period a year ago. This decrease in Hong Kong net sales was mitigated by increased administrative fees of \$522,000 resulting from the modification of our fee structure associated with certain electronic (eWallet) accounts held by our Hong Kong members in June 2020. 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 depressed net sales in both quarters as compared to our historical performance 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 \$388,000, or 11%, 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.

As of March 31, 2021, deferred revenue was \$4.2 million, which primarily consisted of \$2.1 million pertaining to unshipped product orders and unredeemed product vouchers, as well as \$1.9 million in auto ship advances.

*Gross Profit*

Gross profit was 75.8% of net sales for the three months ended March 31, 2021, compared with 69.8% of net sales for the three months ended March 31, 2020. The gross profit margin percentage increase was primarily due to lower logistics costs incurred, less product promotions, as well as the additional administrative fees recognized as revenue during the first three months of 2021.

*Commissions Expense*

Commissions were 40.9% of net sales for the three months ended March 31, 2021, compared with 44.2% of net sales for the three month period ended March 31, 2020. Excluding the additional administrative fee revenue recognized during the most recent quarter referred to above, commissions as a percentage of net sales decreased slightly as compared with the same quarter in the prior year.

*Selling, General and Administrative Expenses*

Selling, general and administrative expenses were \$4.5 million for the three months ended March 31, 2021, compared with \$5.3 million in the same period a year ago. The decrease in selling, general and administrative expenses as compared to the comparable period in the prior year is primarily due to a lower event-related costs, professional fees and lease costs.



*Income Taxes*

An income tax provision of \$87,000 and an income tax benefit of \$782,000 was recognized during the three month periods ended March 31, 2021 and 2020, respectively. The tax benefit during the first three months of 2020 results primarily 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 U.S. Coronavirus Aid, Relief, and Economic Security ("CARES") Act enacted in March 2020 and which were carried back in August 2020 to offset taxable income in tax year 2016.

**Liquidity and Capital Resources**

At March 31, 2021, our cash and cash equivalents totaled \$90.2 million. Total cash and cash equivalents decreased by \$2.2 million from December 31, 2020 to March 31, 2021, due to the dividends paid during the first three months of 2021. We consider all highly liquid investments with original maturities of three months or less, when purchased, to be cash equivalents. As of March 31, 2021, we had \$66.2 million in available-for-sale investments classified as cash equivalents. In addition, cash and cash equivalents included \$12.4 million held in banks located within China subject to foreign currency controls. In April 2021, the Company adjusted the registered capital of its primary Chinese subsidiary and repatriated \$9.0 million from China.

As of March 31, 2021, the ratio of current assets to current liabilities was 4.5 to 1.00 and we had \$75.8 million of working capital. Working capital as of March 31, 2021 decreased \$2.4 million compared to our working capital as of December 31, 2020.

Cash provided by operations was \$414,000 for the first three months of 2021, compared with cash used in operations of \$990,000 in the comparable period of 2020. The improvement in operating cash flows resulted primarily from improved profitability during 2021.

Cash flows used in investing activities totaled \$63,000 and \$12,000 during the first three months of 2021 and 2020, respectively.

Cash flows used in financing activities during the first three months of 2021 and 2020 consisted solely of dividend payments of \$0.20 per common share, totaling \$2.3 million each quarter. Subsequent to March 31, 2021, on May 3, 2021, the Board of Directors declared another quarterly cash dividend of \$0.20 on each share of common stock outstanding. The dividend will be payable on May 28, 2021 to stockholders of record on May 18, 2021. For the remainder of 2021, we expect to continue paying a quarterly cash dividend of \$0.20 on each share of common stock outstanding. However, any future cash dividends will be at the sole discretion of the Company's Board of Directors, and will depend on our results of operations, financial condition, capital requirements and other factors considered relevant by the 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 March 31, 2021, \$21.9 million of the \$70.0 million stock repurchase program 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.

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 February 26, 2021. 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 \$2.1 million and \$1.0 million at March 31, 2021 and December 31, 2020, 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 \$1.9 million and \$2.0 million at March 31, 2021 and December 31, 2020, respectively.

*Commissions Expense.* 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 \$3.1 million and \$3.5 million at March 31, 2021 and December 31, 2020, 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 March 31, 2021, 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 March 31, 2021, we have not recorded a state deferred tax liability for earnings to be repatriated in the future because all earnings as of March 31, 2021 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 March 31, 2021.

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 allowed 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, 2021 differs from the year ended December 31, 2020 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 March 31, 2021. 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 March 31, 2021.

#### **Changes in Internal Control over Financial Reporting**

There were no changes in internal control over financial reporting that occurred during the fiscal quarter ended March 31, 2021 that have materially affected, or are reasonably likely to materially affect, internal control over financial reporting.

**PART II — OTHER INFORMATION****Item 1. LEGAL PROCEEDINGS**

None.

**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, 2020, 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, 2020.

**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
+10.1	<a href="#">Natural Health Trends Corp. Phantom Equity Plan</a>
+10.2	<a href="#">Form of Phantom Share Agreement under the Phantom Equity Plan</a>
31.1	<a href="#">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.</a>
31.2	<a href="#">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.</a>
32.1	<a href="#">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.</a>
101.INS	<i>Instance Document - the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document</i>
101.SCH	<i>Inline XBRL Taxonomy Extension Schema</i>
101.CAL	<i>Inline XBRL Taxonomy Extension Calculation</i>
101.DEF	<i>Inline XBRL Taxonomy Extension Definition</i>
101.LAB	<i>Inline XBRL Taxonomy Extension Labels</i>
101.PRE	<i>Inline XBRL Taxonomy Extension Presentation</i>
104	<i>Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101)</i>
	+ Management contract or compensatory plan

**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: May 5, 2021

/s/ Timothy S. Davidson

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

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	+ Management contract or compensatory plan

**NATURAL HEALTH TRENDS CORP.  
PHANTOM EQUITY PLAN**

**1. Purpose of the Plan**

The purpose of the Plan is to provide a means by which eligible recipients of Awards may be given an opportunity to benefit from increases in value of the Common Stock of Natural Health Trends Corp., a Delaware corporation (the “**Company**”), through the granting of equity-based compensation. The Company, by means of the Plan, seeks to retain the services of the group of persons eligible to receive Awards, to attract and retain the services of new members of this group and to provide incentives for such persons to exert maximum efforts for the success of the Company and its Affiliates.

**2. Definitions**

As used herein, the following definitions shall apply:

(a) “**Administrator**” means the Committee, which shall administer the Plan in accordance with Section 3.

(b) “**Affiliate**” means any entity that is directly or indirectly controlled by the Company or any entity in which the Company has a significant ownership interest as determined by the Administrator.

(c) “**Applicable Law**” means the requirements relating to the administration of a compensation plan under U.S. federal and state laws, the Exchange Act, the Code, and, with respect to Awards subject to the laws of any foreign jurisdiction where Awards are, or will be, granted under the Plan, the laws of such jurisdiction. Applicable Law shall include, without limitation, any rule, regulation, order, directive, or interpretive guidance from a governmental agency or authority, unless otherwise provided in the Plan or an Award Agreement

(d) “**Award**” means a Phantom Share granted in accordance with the terms of the Plan.

(e) “**Award Agreement**” means a Phantom Share Award Agreement, which may be in written or electronic format, in such form and with such terms and conditions as may be specified by the Administrator, evidencing the terms and conditions of an individual Award. Each Award Agreement is subject to the terms and conditions of the Plan.

(f) “**Board**” means the Board of Directors of the Company.

(g) “**Cause**” means “cause” or words of similar import in the Participant’s written employment agreement with the Company, if any, and, in addition, shall include conduct, as determined by the Administrator, involving one or more of the following:

(i) Gross misconduct or inadequate performance by the Participant which is injurious to the Company;

(ii) Commission of an act of embezzlement, fraud or theft, which results in economic loss, damage or injury to the Company;

(iii) Unauthorized disclosure of any trade secret or confidential information of the Company (or any client, customer, supplier or other third party who has a business relationship with the Company) or the violation of any non-competition or non-solicitation covenant or assignment of inventions obligation with the Company;

(iv) Commission of an act which constitutes unfair competition with the Company, or which induces any customer or prospective customer of the Company to breach a contract with the Company or to decline to do business with the Company;

(v) Indictment of the Participant for a felony or serious misdemeanor offense, either in connection with the performance of his or her obligations to the Company or which shall adversely affect the Participant's ability to perform such obligations;

(vi) Commission of an act of fraud or breach of fiduciary duty which results in loss, damage or injury to the Company; or

(vii) Failure of the Participant to perform in a material respect his or her employment, consulting or advisory obligations without proper cause.

For purposes of this definition, "Company" shall be deemed to include any Affiliate.

(h) "**Change in Control**" means a transaction described in (i) or (ii) below:

(i) With respect to any Award that is treated as providing for the "deferral of compensation" within the meaning of Treasury Regulation 1.409A-1(b), a Change in Control means a change in the ownership or effective control of the Company or a change in the ownership of a substantial portion of the assets of the Company, as such events are defined in Treasury Regulation 1.409A-3(i)(5); and

(ii) With respect to any Award not described in (i) above, a Change in Control means:

(A) The acquisition by any individual, entity or group (a "**Person**" within the meaning of Section 13(d)(3) or 14(d)(2) of the Exchange Act) of beneficial ownership (within the meaning of Rule 13d-3 promulgated under the Exchange Act) of 50% or more of the then outstanding shares of voting stock of the Company (the "**Voting Stock**"); provided, however, that any acquisition by the Company or its subsidiaries, or any employee benefit plan (or related trust) of the Company or its subsidiaries of 50% or more of Voting Stock shall not constitute a Change in Control; and provided, further, that any acquisition by a corporation with respect to which, following such acquisition, more than 50% of the then outstanding shares of common stock of such corporation, is then beneficially owned, directly or indirectly, by all or substantially all of the Persons who were the beneficial owners of the Voting Stock immediately prior to such acquisition in substantially the same proportion as their ownership, immediately prior to such acquisition, of the Voting Stock, shall not constitute a Change in Control;



(B) Individuals who, immediately following the 2021 annual meeting of stockholders, or any adjournment or postponement thereof, constitute the Board (the “**Incumbent Directors**”) cease for any reason (other than malfeasance) to constitute a majority of the members of the Board; provided that any individual who becomes a director after such date whose election or nomination for election by the Company’s stockholders was approved by a majority of the members of the Incumbent Directors (other than an election or nomination of an individual whose initial assumption of office is in connection with an actual or threatened “election contest” relating to the election of the Directors of the Company (as such terms are used in Rule 14a-11 under the Exchange Act), “tender offer” (as such term is used in Section 14(d) of the Exchange Act) or a proposed Merger (as defined below) shall be deemed to be members of the Incumbent Directors; or

(C) The consummation of (i) a reorganization, merger or consolidation (any of the foregoing, a “**Merger**”), in each case, with respect to which all or substantially all of the individuals and entities who were the beneficial owners of the Voting Stock immediately prior to such Merger do not, following such Merger, beneficially own, directly or indirectly, more than 50% of the then outstanding shares of common stock of the corporation resulting from Merger, (ii) a complete liquidation or dissolution of the Company, or (iii) the sale or other disposition of all or substantially all of the assets of the Company, excluding a sale or other disposition of assets to a Subsidiary of the Company.

(D) For purposes of this Section 2(h), if any Person, or more than one Person acting as a group, is considered to effectively control the Company by virtue of their existing ownership (taking into account the constructive ownership rules of Code Section 318) of outstanding Common Stock or outstanding Company voting securities, the acquisition of additional control of the Company by the same Person or Persons shall not result in a Change of Control.

(i) “**Code**” means the United States Internal Revenue Code of 1986, as amended.

(j) “**Committee**” means the compensation committee of the Board or a committee of Directors appointed by the Board.

(k) “**Common Stock**” means the common stock of the Company.

(l) “**Company**” means Natural Health Trends Corp., a Delaware corporation, or its successor.

(m) “**Director**” means a member of the Board.

(n) “**Disability**” shall have the meaning set forth in Treasury Regulation 1.409A-3(i)(4).

(o) “**Employee**” means a regular, active employee of the Company or any Affiliate, including an employee who is an Officer and/or Director. Within the limitations of Applicable Law, the Administrator shall have the discretion to determine the effect upon an Award and upon an individual’s status as an Employee in the case of (i) any individual who is classified by the Company or its Affiliate as leased from or otherwise employed by a third party or as intermittent or temporary, even if any such classification is changed retroactively as a result of an audit, litigation or otherwise, (ii) any leave of absence approved by the Company or an Affiliate, (iii) any transfer between locations of employment with the Company or an Affiliate or between the Company and any Affiliate or between any Affiliates, (iv) any change in the Participant’s status from an employee to a Director, and (v) at the request of the Company or an Affiliate, an employee becomes employed by any partnership, joint venture or corporation not meeting the requirements of an Affiliate in which the Company or an Affiliate is a party.

(p) “**Exchange Act**” means the United States Securities Exchange Act of 1934, as amended.

(q) “**Fair Market Value**” means the closing price on the trading day as reported on the NASDAQ Capital Market or such other exchange on which the Common Stock is then traded. If the NASDAQ Capital Market is not open on the date the Phantom Share becomes vested, then Fair Market Value shall be based on the closing price of the Company’s Common Stock on the next trading day.

(r) “**Grant Date**” means the date upon which an Award is granted to a Participant pursuant to the Plan.

(s) “**Officer**” means a person who is an “officer” of the Company within the meaning of Section 16 of the Exchange Act and the rules and regulations promulgated thereunder.

(t) “**Participant**” means an Employee, Officer, Director, contractor, consultant, or advisor of the Company or any Affiliate who has been granted an Award under the Plan.

(u) “**Phantom Share**” shall mean an Award of the right to receive cash equal to the Fair Market Value of a Share, as granted pursuant to Section 6(a) of the Plan, subject to such terms as are expressed in the Award Agreement or other documents evidencing the Award.

(v) “**Plan**” means the Natural Health Trends Corp. Phantom Equity Plan.

(w) “**Share**” means a share of the Common Stock, as adjusted in accordance with Section 8.

(x) “**Termination of Service**” shall mean the termination of employment (as determined in accordance with Code Section 3401(c) and the regulations promulgated thereunder) of an Employee by the Company and all Affiliates or the termination of service by a non-Employee Director as a member of the Board, a consultant, or an advisor. A Participant’s service shall not be deemed to have terminated because of a change in the entity for which the Participant renders such service, provided that there is no interruption or termination of the Participant’s service. Furthermore, a Participant’s service with the Company and its Affiliates shall not be deemed to have terminated if the Participant takes any military leave, sick leave, or other bona fide, approved leave of absence; provided, however, that if any such leave exceeds 90 days, on the 91st day of such leave the Participant’s service shall be deemed to have terminated unless the Participant’s leave of absence is approved by the Administrator. The Participant’s service shall be deemed to have terminated upon the entity for which the Participant performs service ceasing to be an Affiliate (or any successor). Subject to the foregoing, the Administrator, in its discretion, shall determine whether a Participant’s service has terminated and the effective date of such termination.

**3. Administration of the Plan**

(a) *Powers of the Administrator.* Subject to the provisions of the Plan, the Administrator shall have the authority, in its discretion to:

- (i) Select the Participants to whom Awards are to be granted hereunder;
- (ii) Determine the number of Phantom Shares to be covered by each Award granted hereunder;
- (iii) Approve forms of Award Agreements for use under the Plan;

(iv) Determine the terms and conditions, not inconsistent with the terms of the Plan, of any Award granted hereunder. Such terms and conditions include, but are not limited to, the time or times when an Award may become vested and payable (which may or may not be based on performance criteria) pursuant to a set vesting schedule, any vesting and/or acceleration determinations, the term, and any restriction or limitation regarding any Award, based in each case on such factors as the Administrator, in its sole discretion, shall determine and that may be established at the time an Award is granted or thereafter;

- (v) Correct administrative errors;
- (vi) Construe and interpret the terms of the Plan and Awards granted pursuant to the Plan;

(vii) Adopt rules and procedures relating to the operation and administration of the Plan to accommodate the specific requirements of local laws and procedures. Without limiting the generality of the foregoing, the Administrator is specifically authorized (A) to adopt the rules and procedures regarding the conversion of local currency and withholding procedures which vary with local requirements, and (B) to adopt sub-plans and Plan addenda as the Administrator deems desirable, to accommodate foreign laws, regulations and practice;

(viii) Prescribe, amend and rescind rules and regulations relating to the Plan, including rules and regulations relating to sub-plans and Plan addenda;

(ix) Modify or amend each Award, provided, however, that any such amendment may not impair any outstanding Award unless agreed to in writing by the Participant;

(x) Authorize any person to execute on behalf of the Company any instrument required to effect the grant of an Award previously granted by the Administrator; and

(xi) Make all other determinations deemed necessary or advisable for administering the Plan and any Award granted hereunder.

(b) *Administrative Procedures.* The Plan shall be administered by the Administrator in accordance with the following procedures.

(i) *Delegation of Authority for the Day-to-Day Administration of the Plan.* Except to the extent prohibited by Applicable Law, the Administrator may delegate to one or more individuals the day-to-day administration of the Plan and any of the functions assigned to it in the Plan. Such delegation may be revoked at any time.

(ii) *Reliance on Experts.* In making any determination or in taking or not taking any action under the Plan, the Administrator may obtain and rely upon the advice of experts, including professional advisors to the Company. No Director, Officer or agent of the Company shall be liable for any such action or determination taken, made or omitted in good faith.

(c) *Effect of Administrator's Decision.* All decisions, determinations and interpretations by the Administrator regarding the Plan, any rules and regulations under the Plan and the terms and conditions of any Award granted hereunder, shall be final and binding on all Participants and on all other persons, subject to Section 13(e) and (f). The Administrator shall consider such factors as it deems relevant, in its sole and absolute discretion, when making such decisions, determinations and interpretations, including, without limitation, the recommendations or advice of any officer or other employee of the Company, and such attorneys, consultants and accountants as it may select.

#### **4. Eligibility**

Awards may be granted to Employees, Officers, Directors, contractors, consultants, or advisors of the Company or any of its Affiliates.

#### **5. Term of Plan**

The Plan was approved by the Board on March 15, 2021 and became effective on that date. Unless terminated earlier under Section 9, the Plan shall continue for ten (10) years from the effective date. When the Plan terminates, no further Awards shall be granted under the Plan thereafter, but such termination shall not affect any Award granted prior to the date of such termination.

#### **6. Phantom Share Awards**

(a) *Phantom Shares.* Subject to the provisions of this Plan, the Committee shall have the authority to grant Awards of Phantom Shares to Participants upon such terms and conditions as the Committee may determine.

(b) *Terms and Conditions.* Each Phantom Share Award shall constitute an agreement by the Company to pay an amount of cash equal to the Fair Market Value of a specified number of Shares, subject to the fulfillment during the vesting period of such conditions, including the passage of time, if any, as the Committee may specify at the date of grant. The Committee may, as a term of each Phantom Share Award, set a maximum payment value for such award. During the vesting period, the Participant shall not have any right to transfer any rights under the subject Award. A Participant shall not have any rights of ownership in the Phantom Shares and shall not have any right to vote such shares.

(c) *Dividend Equivalents.* Any Phantom Share award may provide, in the discretion of the Committee, that if a dividend or other distribution is paid on the Shares during the vesting period, then an equivalent amount shall be paid to the Participant in cash, which amount shall be paid in connection with the next following payroll after a dividend or distribution is paid on the Shares. Alternatively, a Phantom Share award may provide that a dividend equivalent shall be credited in cash to a bookkeeping account (with or without interest) or that equivalent additional Phantom Shares be awarded, which account or Phantom Shares may be subject to the same restrictions as the underlying Award or such other restrictions as the Committee may determine.

(d) *Forfeiture and Restrictions Lapse.* Except as otherwise determined by the Committee or set forth in the Award Agreement, upon a Participant's Termination of Service (as determined under criteria established by the Committee) for any reason during the applicable Restricted Period, all Phantom Shares shall be forfeited by the Participant.

(e) *Payment of Phantom Shares.* Phantom Shares shall be paid in cash in a lump sum following the close of the vesting period in accordance with procedures established by the Committee with respect to such Award. The Committee may, when an Award is issued, set a maximum amount of cash that may be paid with respect to each Award.

## **7. Other Provisions Applicable to Awards**

(a) *Non-Transferability of Awards.* Unless determined otherwise by the Administrator, an Award may not be sold, pledged, assigned, hypothecated, transferred, or disposed of in any manner other than by beneficiary designation, will or by the laws of descent or distribution. If the Administrator makes an Award transferable, either at the time of grant or thereafter, such Award shall contain such additional terms and conditions as the Administrator deems appropriate, and any transferee shall be deemed to be bound by such terms upon acceptance of such transfer.

(b) *Compliance with Code Section 409A.* Notwithstanding anything to the contrary contained herein, to the extent that the Administrator determines that any Award granted under the Plan is subject to Code Section 409A and unless otherwise specified in the applicable Award Agreement, the Award Agreement evidencing such Award shall incorporate the terms and conditions necessary for such Award to avoid the consequences described in Code Section 409A(a)(1), and to the maximum extent permitted under Applicable Law (and unless otherwise stated in the applicable Award Agreement), the Plan and the Award Agreements shall be interpreted in a manner that results in their conforming to the requirements of Code Section 409A and any Treasury Regulations or Internal Revenue Service interpretive guidance issued under Code Section 409A, whenever issued. Notwithstanding anything to the contrary in the Plan (and unless the Award Agreement provides otherwise, with specific reference to this sentence), to the extent that a Participant holding an Award that constitutes a "deferral of compensation" under Code Section 409A is a "specified employee" (as defined for purposes of Code Section 409A), and payment is made in connection with the Participant's "separation from service" (as defined for purposes of Code Section 409A), no distribution or payment of any amount shall be made before a date that is six (6) months following the date of such Participant's "separation from service" or, if earlier, the date of the Participant's death.

**8. Adjustments upon Changes in Capitalization, Dissolution, Merger or Asset Sale**

(a) *Changes in Capitalization.* Subject to any required action by the stockholders of the Company, the number and kind of Shares referenced by each outstanding Award shall be proportionately adjusted for any increase or decrease in the number or kind of issued shares resulting from a stock split, reverse stock split, stock dividend, combination or reclassification of the Common Stock, or any other increase or decrease in the number of issued shares of Common Stock effected without receipt of consideration by the Company; provided, however, that conversion of any convertible securities of the Company shall not be deemed to have been “effected without receipt of consideration.” Such adjustment shall be made by the Administrator, whose determination in that respect shall be final, binding and conclusive. Except as expressly provided herein, no issuance by the Company of shares of stock of any class, or securities convertible into shares of stock of any class, shall affect, and no adjustment by reason thereof shall be made with respect to, the number or price of shares of Common Stock subject to an Award.

(b) *Dissolution or Liquidation.* In the event of the proposed dissolution or liquidation of the Company, the Administrator shall notify each Participant as soon as practicable prior to the effective date of such proposed transaction. To the extent it has not been previously exercised or the Shares subject thereto issued to the Participant and unless otherwise determined by the Administrator, an Award will terminate immediately prior to the consummation of such proposed transaction.

(c) *Change in Control.* In the event there is a Change in Control of the Company, the Board or Administrator may, in its discretion, (i) provide for the assumption or substitution of, or adjustment to, each outstanding Award; (ii) accelerate the vesting of each outstanding Award; and/or (iii) provide for termination of Awards as a result of the Change in Control without the consent of the Participant on such terms and conditions as it deems appropriate, including, without limitation, providing for the cancellation of Awards for a cash payment to the Participant.

**9. Amendment and Termination of the Plan**

(a) *Amendment and Termination.* The Board or Administrator may amend, alter or discontinue the Plan, sub-plan, Plan addendum or any Award Agreement.

(b) *Effect of Amendment or Termination.* No amendment, suspension or termination of the Plan shall impair the rights of any Award, unless mutually agreed otherwise between the Participant and the Administrator, which agreement must be in writing and signed by the Participant and the Company; provided further that the Administrator may amend an outstanding Award in order to conform it to the Administrator’s intent (in its sole discretion) that such Award not be subject to Code Section 409A(a)(1)(B). Termination of the Plan shall not affect the Administrator’s ability to exercise the powers granted to it hereunder with respect to Awards granted under the Plan prior to the date of such termination.

(c) *Effect of the Plan on Other Arrangements.* The adoption of the Plan by the Board or a Committee shall not be construed as creating any limitations on the power of the Board or any Committee to adopt such other incentive arrangements as it or they may deem desirable. The value of Awards granted pursuant to the Plan will not be included as compensation, earnings, salaries or other similar terms used when calculating an Participant’s benefits under any employee benefit plan sponsored by the Company or any Affiliate except as such plan otherwise expressly provides.

**10. Designation of Beneficiary**

(a) A Participant may file a written designation of a beneficiary who is to receive the Participant's rights pursuant to Participant's Award or the Participant may include his or her Awards in an omnibus beneficiary designation for all benefits under the Plan. To the extent that Participant has completed a designation of beneficiary while employed with the Company, such beneficiary designation shall remain in effect with respect to any Award hereunder until changed by the Participant to the extent enforceable under Applicable Law.

(b) Such designation of beneficiary may be changed by the Participant at any time by written notice. In the event of the death of an Participant and in the absence of a beneficiary validly designated under the Plan who is living at the time of such Participant's death, the Company shall allow the executor or administrator of the estate of the Participant to exercise the Award, or if no such executor or administrator has been appointed (to the knowledge of the Company), the Company, in its discretion, may allow the spouse or one or more dependents or relatives of the Participant to exercise the Award to the extent permissible under Applicable Law or if no spouse, dependent or relative is known to the Company, then to such other person as the Company may designate.

**11. No Right to Awards or to Employment**

No person shall have any claim or right to be granted an Award and the grant of any Award shall not be construed as giving a Participant the right to continue in the employ of the Company or its Affiliates. Further, the Company and its Affiliates expressly reserve the right, at any time, to dismiss any Employee at any time, with or without cause, and without liability or any claim under the Plan, except as provided herein or in any Award Agreement entered into hereunder.

**12. Notice**

Any written notice to the Company required by any provisions of the Plan shall be addressed to the Secretary of the Company and shall be effective when received.

**13. Governing Law; Interpretation of Plan and Awards**

(a) This Plan and all determinations made and actions taken pursuant hereto shall be governed by the substantive laws, but not the choice of law rules, of the State of Delaware.

(b) In the event that any provision of the Plan or any Award granted under the Plan is declared to be illegal, invalid or otherwise unenforceable by a court of competent jurisdiction, such provision shall be reformed, if possible, to the extent necessary to render it legal, valid and enforceable, or otherwise deleted, and the remainder of the terms of the Plan and/or Award shall not be affected except to the extent necessary to reform or delete such illegal, invalid or unenforceable provision.

(c) The headings preceding the text of the sections hereof are inserted solely for convenience of reference, and shall not constitute a part of the Plan, nor shall they affect its meaning, construction or effect. Unless the context otherwise requires, references to sections shall be to sections of the Plan.

(d) The terms of the Plan and any Award shall inure to the benefit of and be binding upon the parties hereto and their respective permitted heirs, beneficiaries, successors and assigns.

(e) All questions arising under the Plan or under any Award shall be decided by the Administrator in its total and absolute discretion. In the event the Participant believes that a decision by the Administrator with respect to such person was arbitrary or capricious, the Participant may request arbitration with respect to such decision. The review by the arbitrator shall be limited to determining whether the Administrator's decision was arbitrary or capricious. This arbitration shall be the sole and exclusive review permitted of the Administrator's decision, and the Participant shall as a condition to the receipt of an Award be deemed to explicitly waive any right to judicial review.

(f) Notice of demand for arbitration shall be made in writing to the Administrator within thirty (30) days after the applicable decision by the Administrator, and any such arbitration shall be initiated no later than sixty (60) days after such decision pursuant to the Commercial Arbitration Rules (the "**Rules**") of the American Arbitration Association (the "**AAA**") in effect at the time. The arbitration shall be conducted on an individual basis before a single arbitrator and administered pursuant to the AAA Rules at the office of AAA nearest the place of the Participant's most recent employment with the Company or its Affiliates, unless the parties agree in writing on a different location. The arbitrator shall be an attorney knowledgeable about employee benefits and compensation chosen from the neutrals within the meaning of the AAA Rules. Any challenge to the neutrality of the arbitrator shall be resolved by the arbitrator whose decision shall be final and conclusive. Each party shall bear its own attorneys' fees and costs associated with the arbitration, and the costs and expenses of the arbitration shall be borne as provided by the AAA Rules. The decision of the arbitrator on the issue(s) presented for arbitration shall be final and conclusive and may be enforced in any court of competent jurisdiction. The arbitrator shall not have the power to award punitive or exemplary damages.

(g) By accepting an Award made under the Plan, each Participant agrees that the Company may recover some or all Awards, recover some or all of the amounts paid with respect to Awards, or recoup some or all of the value thereof by offset from other amounts owed to the Participant by the Company or its Affiliates, at any time during the three (3) calendar years following grant hereunder, if and to the extent the Administrator determines that (i) federal or state law or the listing requirements of the exchange on which the Company's stock is listed for trading so require, (ii) the performance criteria required for an Award were not met, or not met to the extent necessary to support the amount of an Award that was paid, or (iii) an Award, or any payment thereunder, was based on the achievement of financial results, as reported in an Annual Report on Form 10-K, a Quarterly Report on Form 10-Q, or other report filed with the Securities and Exchange Commission, that were subsequently the subject of a restatement due to material noncompliance of the Company with any financial reporting requirement under the federal securities laws (other than as a result of a change in accounting principles). The right of recovery under this Section 14(g) shall be subject to any general clawback policy that is or may be adopted by the Company, the terms of which shall be incorporated herein to the extent applicable.



#### **14. Taxes**

The Company and any Affiliate which is in existence or hereafter comes into existence shall not be liable to a Participant, an Employee, a Participant or any other persons as to any tax consequence realized by any Participant or other person due to the receipt, vesting, or settlement of any Award granted hereunder. The Participant is responsible for, and by accepting an Award under the Plan agrees to bear, all taxes of any nature that are legally imposed upon the Participant in connection with an Award, and the Company does not assume, and will not be liable to any party for, any cost or liability arising in connection with such tax liability legally imposed on the Participant. In particular, Awards issued under the Plan may be characterized by the Internal Revenue Service (the “**IRS**”) as “deferred compensation” under the Code resulting in additional taxes, including in some cases interest and penalties. In the event the IRS determines that an Award constitutes deferred compensation under the Code or challenges any good faith characterization made by the Company or any other party of the tax treatment applicable to an Award, the Participant will be responsible for the additional taxes, and interest and penalties, if any, that are determined to apply if such challenge succeeds, and the Company will not reimburse the Participant for the amount of any additional taxes, penalties or interest that result.

#### **15. Unfunded Plan**

Insofar as it provides for Awards, the Plan shall be unfunded. Although bookkeeping accounts may be established with respect to Participants who are granted Awards under the Plan, any such accounts will be used merely as a bookkeeping convenience. The Company shall not be required to segregate any assets which may at any time be represented by Awards, nor shall the Plan be construed as providing for such segregation, nor shall the Company nor the Administrator be deemed to be a trustee of stock or cash to be awarded under the Plan. Any liability of the Company to any Participant with respect to an Award shall be based solely upon any contractual obligations which may be created by the Plan; no such obligation of the Company shall be deemed to be secured by any pledge or other encumbrance on any property of the Company. Neither the Company nor the Administrator shall be required to give any security or bond for the performance of any obligation which may be created by the Plan.

NATURAL HEALTH TRENDS CORP.  
 PHANTOM EQUITY PLAN

Form of Phantom Share Agreement

Grantee: \_\_\_\_\_

Date of Grant: \_\_\_\_\_

Number of Phantom Shares Granted: \_\_\_\_\_

1. Notice of Grant. Natural Health Trends Corp. (the “**Company**”) is pleased to notify you that you have been granted the above number of shares of phantom stock (the “**Phantom Shares**”) of the Company pursuant to the Natural Health Trends Corp. Phantom Equity Plan (the “**Plan**”), subject to the terms and conditions of the Plan and this Agreement. Each Phantom Share gives you the right to receive a cash payment from the Company upon the vesting of such Phantom Share in an amount equal to the lesser of (i) the Fair Market Value of one Share, as determined on its vesting date; or (ii) \$\_\_\_\_\_. For this purpose, Fair Market Value shall be based on the closing price of the Company’s Common Stock on the NASDAQ Capital Market on the trading date the Phantom Share becomes vested. If the NASDAQ Capital Market is not open on the date the Phantom Share becomes vested, then Fair Market Value shall be based on the closing price of the Company’s Common Stock on the next trading day.

2. Vesting and Forfeiture.

(a) Vesting Conditions. Subject to the further provisions of this Agreement, the Phantom Shares shall become vested on the date that both the Time-Based Vesting Condition and the Performance Vesting Condition have been satisfied. If both conditions are satisfied on a scheduled vesting date, as described below, then \_\_\_\_\_% of the Phantom Shares shall become vested on that date. Payment shall be made as soon as administrative feasible after each scheduled vesting date.

(i) Time-Based Vesting Condition. The Time-Based Vesting Condition will be deemed satisfied for \_\_\_\_\_% of the Phantom Shares on the Date of Grant. The Time-Based Vesting Condition will be satisfied for an additional \_\_\_\_\_% of the Phantom Shares on \_\_\_\_\_, 20\_\_ and on each three (3) month anniversary of that date if the Participant remains continuously employed by (or, for a Director or Consultant, continuously provides services to) the Company or one of its Affiliates until such date.

(ii) Performance Vesting Condition. The Performance Vesting Condition will be satisfied with respect to \_\_\_\_\_% of the Phantom Shares on the Date of Grant. The Performance Vesting Condition will be satisfied with respect to an additional \_\_\_\_\_% of the Phantom Shares on \_\_\_\_\_, 20\_\_ and each three-month anniversary of that date if the Company satisfies the performance conditions designated pursuant to Exhibit A on the applicable scheduled vesting date. (For purposes of clarity, the Performance Vesting Condition shall be determined separately for each scheduled vesting date and not more than \_\_\_\_\_% of the Phantom Shares can become vested on any scheduled vesting date.)



(iii) Failure to Satisfy Vesting Conditions. If one or both of the conditions are not satisfied on a scheduled vesting date, then the Phantom Shares scheduled to vest on that date shall be forfeited on such date.

(b) Accelerated Vesting. Notwithstanding the above vesting schedule, if your employment with the Company is terminated without Cause on or within twelve months following the date a Change of Control occurs, then any portion of the Phantom Shares that have not forfeited on your termination date shall become fully vested on that date.

(c) Forfeiture Upon Termination of Service. Except as provided in Section 2(b) above, all Phantom Shares that are not vested on your Termination of Service for any reason shall be automatically cancelled and forfeited without payment upon your termination date.

(d) Retention of Equity. If you are an Employee on the Date of Grant, as a condition to receiving this Award, you hereby agree to not sell, assign, pledge, exchange or otherwise transfer any of the shares of Common Stock you own on the Date of Grant, including shares of Common Stock that are currently subject to vesting conditions, until after the vesting or forfeiture of all Phantom Shares granted pursuant to this Agreement. If you breach the foregoing agreement for any reason, you will forfeit all of the remaining Phantom Shares on that date.

3. Dividends. You will not be entitled to receive dividends or dividend equivalent payments with respect to the Phantom Shares.

4. Shareholder Rights. You will not have any of the rights of a shareholder of the Company with respect to the Phantom Shares.

5. Nontransferability of Phantom Shares. The Phantom Shares may not be transferred in any manner otherwise than by will or by the laws of descent or distribution and may be exercised during your lifetime only by you. The terms of the Plan and this Agreement shall be binding upon your executors, administrators, heirs, successors and assigns.

6. Entire Agreement; Governing Law. The Phantom Shares are granted under and governed by the terms and conditions of the Plan and this Agreement. In the event of any conflict between the Plan and this Agreement, the terms of the Plan shall control. Unless otherwise defined herein, the terms defined in the Plan shall have the same defined meanings in this Agreement. The Plan is incorporated herein by reference. The Plan and this Agreement constitute the entire agreement of the parties with respect to the subject matter hereof and supersede in their entirety all prior undertakings and agreements of the Company and you with respect to the subject matter hereof and may not be modified adversely to your interest except by means of a writing signed by the Company and you. This Agreement is governed by the internal substantive laws, but not the choice of law rules, of the state of Delaware.

7. Withholding of Tax. To the extent that the grant or vesting of your Phantom Shares results in the receipt of compensation by you with respect to which the Company or an Affiliate has a tax withholding obligation pursuant to applicable law, you shall deliver to the Company or the Affiliate such amount of money as the Company or the Affiliate may require to meet its withholding obligations under such applicable law. At the Company's option and in its sole discretion, it may withhold a percentage of the cash proceeds that would otherwise be delivered on vesting in an amount equal to the taxes to be withheld.

8. Forfeiture in Certain Circumstances; Return of Award Payments. By accepting this Award, you hereby agree that any payments received under this Agreement shall be subject to repayment under Section 13(g) of the Plan.

[Signature Page Attached]

IN WITNESS WHEREOF, the parties hereto have executed this Agreement as of the date first above written.

NATURAL HEALTH TRENDS CORP.

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

Printed Name: \_\_\_\_\_

Date Signed: \_\_\_\_\_

GRANTEE

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

Printed Name: \_\_\_\_\_

Date Signed: \_\_\_\_\_

**Exhibit A**

Performance Vesting Conditions

(Attached)

The Performance Vesting Condition will be designated by the Compensation Committee on or before the thirtieth (30th) day after the Date of Grant and will be applied to measure performance for the period between \_\_\_\_\_, 20\_\_ and \_\_\_\_\_, 20\_\_. The initial Performance Vesting Condition will apply for all future performance periods unless the Compensation Committee, in its sole discretion, elects to change the Performance Vesting Condition on a prospective basis. Future changes to the Performance Vesting Condition shall be made on or before the fifteenth (15th) day of any future performance period.

## CERTIFICATION

I, Chris T. Sharnq, 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: May 5, 2021

/s/ Chris T. Sharnq

Chris T. Sharnq  
President  
(Principal Executive Officer)

## 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: May 5, 2021

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

**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 March 31, 2021, 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: May 5, 2021

/s/ Chris T. Sharng

Chris T. Sharng  
President  
(Principal Executive Officer)

Date: May 5, 2021

/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.