

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 June 30, 2024

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 July 26, 2024, the number of shares outstanding of the registrant's common stock was 11,516,773 shares.

NATURAL HEALTH TRENDS CORP.
Quarterly Report on Form 10-Q
June 30, 2024

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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;
 - 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 years ended December 31, 2023 and 2022, and only modest positive operating cash flows during the years ended December 31, 2021 and 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;
 - Our business and financial performance may be adversely affected by unfavorable economic and market conditions and the uncertain geopolitical environment;
 - We are subject to risks relating to product concentration and lack of revenue diversification;
 - Epidemics, such as the COVID-19 pandemic, or natural disasters, terrorist attacks or acts of war or hostility may seriously harm our business;
 - 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 on a timely basis;
 - 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 common 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;
 - Our business is subject to a variety of laws, regulations and other obligations regarding privacy, data protection and information security. Any actual or perceived failure by us or our third-party vendors to comply with such laws, regulations or other obligations could materially adversely affect our business;
 - Challenges by third parties to the legality of our business operations could harm our business;
 - We have in the past been 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, or the failure to comply with related laws and regulations, 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.

PART I - FINANCIAL INFORMATION

Item 1. FINANCIAL STATEMENTS

**NATURAL HEALTH TRENDS CORP.
CONSOLIDATED BALANCE SHEETS
(In Thousands, Except Share Data)**

	June 30, 2024 (Unaudited)	December 31, 2023
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 15,577	\$ 56,178
Marketable securities	33,087	—
Inventories	4,250	4,293
Other current assets	3,984	3,758
Total current assets	56,898	64,229
Property and equipment, net	225	266
Operating lease right-of-use assets	3,031	3,319
Restricted cash	36	39
Deferred tax asset	345	369
Other assets	956	869
Total assets	\$ 61,491	\$ 69,091
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 653	\$ 990
Income taxes payable	4,953	3,716
Accrued commissions	2,150	2,067
Other accrued expenses	1,300	1,170
Deferred revenue	7,587	6,166
Amounts held in eWallets	3,603	3,945
Operating lease liabilities	1,210	1,146
Other current liabilities	673	784
Total current liabilities	22,129	19,984
Income taxes payable	—	5,054
Deferred tax liability	135	135
Operating lease liabilities	1,977	2,318
Total liabilities	24,241	27,491
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 June 30, 2024 and December 31, 2023	13	13
Additional paid-in capital	84,770	84,695
Accumulated deficit	(21,948)	(17,703)
Accumulated other comprehensive loss	(1,249)	(1,069)
Treasury stock, at cost; 1,462,641 shares at June 30, 2024 and December 31, 2023	(24,336)	(24,336)
Total stockholders' equity	37,250	41,600
Total liabilities and stockholders' equity	\$ 61,491	\$ 69,091

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 June 30,		Six Months Ended June 30,	
	2024	2023	2024	2023
Net sales	\$ 10,475	\$ 10,511	\$ 21,426	\$ 22,372
Cost of sales	2,699	2,666	5,611	5,697
Gross profit	7,776	7,845	15,815	16,675
Operating expenses:				
Commissions expense	4,203	4,508	8,689	9,500
Selling, general and administrative expenses	3,811	4,080	7,729	8,312
Total operating expenses	8,014	8,588	16,418	17,812
Loss from operations	(238)	(743)	(603)	(1,137)
Other income, net	519	442	1,082	1,123
Income (loss) before income taxes	281	(301)	479	(14)
Income tax provision (benefit)	108	(82)	118	(52)
Net income (loss)	\$ 173	\$ (219)	\$ 361	\$ 38
Net income (loss) per common share:				
Basic	\$ 0.02	\$ (0.02)	\$ 0.03	\$ 0.00
Diluted	\$ 0.02	\$ (0.02)	\$ 0.03	\$ 0.00
Weighted average common shares outstanding:				
Basic	11,464	11,432	11,460	11,428
Diluted	11,483	11,432	11,481	11,439

See accompanying notes to consolidated financial statements.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2024	2023	2024	2023
Net income (loss)	\$ 173	\$ (219)	\$ 361	\$ 38
Other comprehensive income (loss), net of tax:				
Foreign currency translation adjustment	(36)	(152)	(150)	(249)
Unrealized gains (losses) on available-for-sale securities	8	11	(30)	8
Comprehensive income (loss)	<u>\$ 145</u>	<u>\$ (360)</u>	<u>\$ 181</u>	<u>\$ (203)</u>

See accompanying notes to consolidated financial statements.

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

Six months ended June 30, 2024

	Preferred Stock		Common Stock		Additional	Accumulated	Accumulated	Treasury Stock		Total
	Shares	Amount	Shares	Amount	Paid-In Capital	Deficit	Other Comprehensive Loss	Shares	Amount	
BALANCE, December 31, 2023	—	\$ —	12,979,414	\$ 13	\$ 84,695	\$ (17,703)	\$ (1,069)	(1,462,641)	\$ (24,336)	\$ 41,600
Net income	—	—	—	—	—	188	—	—	—	188
Share-based compensation	—	—	—	—	37	—	—	—	—	37
Dividends declared, \$0.20/share	—	—	—	—	—	(2,303)	—	—	—	(2,303)
Foreign currency translation adjustments	—	—	—	—	—	—	(114)	—	—	(114)
Unrealized losses on available-for-sale securities	—	—	—	—	—	—	(38)	—	—	(38)
BALANCE, March 31, 2024	—	—	12,979,414	13	84,732	(19,818)	(1,221)	(1,462,641)	(24,336)	39,370
Net income	—	—	—	—	—	173	—	—	—	173
Share-based compensation	—	—	—	—	38	—	—	—	—	38
Dividends declared, \$0.20/share	—	—	—	—	—	(2,303)	—	—	—	(2,303)
Foreign currency translation adjustments	—	—	—	—	—	—	(36)	—	—	(36)
Unrealized gains on available-for-sale securities	—	—	—	—	—	—	8	—	—	8
BALANCE, June 30, 2024	—	\$ —	12,979,414	\$ 13	\$ 84,770	\$ (21,948)	\$ (1,249)	(1,462,641)	\$ (24,336)	\$ 37,250

Six months ended June 30, 2023

	Preferred Stock		Common Stock		Additional	Accumulated	Accumulated	Treasury Stock		Total
	Shares	Amount	Shares	Amount	Paid-In Capital	Deficit	Other Comprehensive Loss	Shares	Amount	
BALANCE, December 31, 2022	—	\$ —	12,979,414	\$ 13	\$ 86,102	\$ (9,056)	\$ (1,004)	(1,556,875)	\$ (25,904)	\$ 50,151
Net income	—	—	—	—	—	257	—	—	—	257
Reissuance of treasury shares	—	—	—	—	(1,629)	—	—	97,900	1,629	—
Share-based compensation	—	—	—	—	46	—	—	—	—	46
Dividends declared, \$0.20/share	—	—	—	—	—	(2,304)	—	—	—	(2,304)
Foreign currency translation adjustments	—	—	—	—	—	—	(97)	—	—	(97)
Unrealized losses on available-for-sale securities	—	—	—	—	—	—	(3)	—	—	(3)
BALANCE, March 31, 2023	—	—	12,979,414	13	84,519	(11,103)	(1,104)	(1,458,975)	(24,275)	48,050
Net loss	—	—	—	—	—	(219)	—	—	—	(219)
Share-based compensation	—	—	—	—	39	—	—	—	—	39
Dividends declared, \$0.20/share	—	—	—	—	—	(2,304)	—	—	—	(2,304)
Foreign currency translation adjustments	—	—	—	—	—	—	(152)	—	—	(152)
Unrealized gains on available-for-sale securities	—	—	—	—	—	—	11	—	—	11
BALANCE, June 30, 2023	—	\$ —	12,979,414	\$ 13	\$ 84,558	\$ (13,626)	\$ (1,245)	(1,458,975)	\$ (24,275)	\$ 45,425

See accompanying notes to consolidated financial statements.

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

	Six Months Ended June 30,	
	2024	2023
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	\$ 361	\$ 38
Adjustments to reconcile net income to net cash used in operating activities:		
Depreciation and amortization	69	91
Net accretion of marketable securities	(215)	—
Share-based compensation	75	85
Noncash lease expense	545	564
Deferred income taxes	16	(82)
Changes in assets and liabilities:		
Inventories	6	(228)
Other current assets	(294)	(362)
Other assets	(101)	(52)
Accounts payable	(335)	(82)
Income taxes payable	(3,817)	(3,076)
Accrued commissions	106	(374)
Other accrued expenses	136	68
Deferred revenue	1,432	1,270
Amounts held in eWallets	(339)	(541)
Operating lease liabilities	(560)	(595)
Other current liabilities	(104)	(64)
Net cash used in operating activities	(3,019)	(3,340)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property and equipment	(30)	(14)
Purchases of marketable securities	(36,164)	—
Proceeds from maturities of marketable securities	3,307	—
Net cash used in investing activities	(32,887)	(14)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Dividends paid	(4,606)	(4,608)
Net cash used in financing activities	(4,606)	(4,608)
Effect of exchange rates on cash, cash equivalents and restricted cash	(92)	(179)
Net decrease in cash, cash equivalents and restricted cash	(40,604)	(8,141)
CASH, CASH EQUIVALENTS AND RESTRICTED CASH, beginning of period	56,217	69,746
CASH, CASH EQUIVALENTS AND RESTRICTED CASH, end of period	\$ 15,613	\$ 61,605
SUPPLEMENTAL DISCLOSURE OF NONCASH INVESTING AND FINANCING ACTIVITIES:		
Right-of-use assets obtained in exchange for operating lease liabilities	\$ 196	\$ (125)

See accompanying notes to consolidated financial statements.

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

1. NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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 Malaysia, Singapore and Thailand; 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 2023 Annual Report on Form 10-K filed with the United States Securities and Exchange Commission (SEC) on February 28, 2024.

Principles of Consolidation

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

Cash and Cash Equivalents

The Company maintains substantially all of its cash balances at several institutions located in the United States, Hong Kong and China which at times may exceed insured limits. As of June 30, 2024, there was \$1.5 million in bank accounts located in Hong Kong in excess of insured limits. As of June 30, 2024, cash and cash equivalents included \$3.5 million held in bank accounts located in China subject to foreign currency controls. The Company has not experienced any losses on such accounts. See Note 4 for additional information regarding the Company's investments in cash equivalents held in brokerage accounts.

Net Income (Loss) Per Common Share

Diluted net income 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 per common share for the periods indicated (in thousands, except per share data):

	Three Months Ended June 30,					
	2024			2023		
	Income (Numerator)	Shares (Denominator)	Per Share Amount	Loss (Numerator)	Shares (Denominator)	Per Share Amount
Basic net income (loss) per common share:						
Net income (loss) available to common stockholders	\$ 173	11,464	\$ 0.02	\$ (219)	11,432	\$ (0.02)
Effect of dilutive securities:						
Non-vested restricted stock	—	19		—	—	
Diluted net income per common share:						
Net income (loss) available to common stockholders plus assumed dilution	\$ 173	11,483	\$ 0.02	\$ (219)	11,432	\$ (0.02)
	Six Months Ended June 30,					
	2024			2023		
	Income (Numerator)	Shares (Denominator)	Per Share Amount	Income (Numerator)	Shares (Denominator)	Per Share Amount
Basic net income per common share:						
Net income available to common stockholders	\$ 361	11,460	\$ 0.03	\$ 38	11,428	\$ 0.00
Effect of dilutive securities:						
Non-vested restricted stock	—	21		—	11	
Diluted net income per common share:						
Net income available to common stockholders plus assumed dilution	\$ 361	11,481	\$ 0.03	\$ 38	11,439	\$ 0.00

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 15,133 shares were not included for the three months ended June 30, 2023.

Recent Accounting Pronouncements

In November 2023, the Financial Accounting Standards Board ("FASB") issued ASU 2023-07, *Segment Reporting (Topic 280): Improvements to Reportable Segment Disclosures*, which improves reportable segment disclosure requirements, primarily through enhanced disclosures about significant segment expenses. The amendments in ASU 2023-07 will be applied retrospectively and are effective for fiscal years beginning after December 15, 2023, and interim periods within fiscal years beginning after December 15, 2024, with early adoption permitted. The Company is currently evaluating the impact of implementing this guidance, but does not expect adoption to have a material impact on its consolidated financial statements.

In December 2023, the FASB issued ASU 2023-09, *Income Taxes (Topic 740): Improvements to Income Tax Disclosures*, which enhances the transparency and decision usefulness of income tax disclosures. The amendments in ASU 2023-09 will be applied on a prospective basis and are effective for annual periods beginning after December 15, 2024, with early adoption permitted. The Company is currently evaluating the impact of implementing this guidance 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 4% of sales. Sales returns were 1% of sales for each of the six months ended June 30, 2024 and 2023. 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. As of June 30, 2024 and December 31, 2023, the Company had \$5.9 million and \$4.4 million, respectively, of contract liabilities where performance obligations have not yet been satisfied. The increase in contract liabilities from December 31, 2023 to June 30, 2024 is primarily due to \$5.3 million of cash received for unshipped product orders and unredeemed product vouchers during the six months ended June 30, 2024 offset by \$3.8 million of revenue recognized during the period that was included in contract liabilities at December 31, 2023. As of December 31, 2022, the Company had contract liabilities totaling \$3.8 million of which \$3.4 million was recognized as revenue during the six months ended June 30, 2023. The Company expects to satisfy its remaining performance obligations and recognize the revenue within the next twelve months.

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 June 30,		Six Months Ended June 30,	
	2024	2023	2024	2023
Product sales	\$ 10,218	\$ 10,154	\$ 20,849	\$ 21,202
Administrative fees, freight and other	318	410	719	1,255
Less: sales returns	(61)	(53)	(142)	(85)
Total net sales	<u>\$ 10,475</u>	<u>\$ 10,511</u>	<u>\$ 21,426</u>	<u>\$ 22,372</u>

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 and six months ended June 30, 2024 and 2023. 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):

	June 30, 2024	December 31, 2023
Cash, cash equivalents and restricted cash:		
Cash	\$ 8,994	\$ 8,971
Cash equivalents	6,583	47,207
	15,577	56,178
Restricted cash	36	39
	\$ 15,613	\$ 56,217
Inventories:		
Finished goods	\$ 3,582	\$ 3,473
Raw materials	719	855
Reserve for obsolescence	(51)	(35)
	\$ 4,250	\$ 4,293
Other accrued expenses:		
Sales returns	\$ 91	\$ 81
Employee-related expense	645	668
Warehousing, inventory-related and other	564	421
	\$ 1,300	\$ 1,170
Deferred revenue:		
Unshipped product and unredeemed product vouchers	\$ 5,915	\$ 4,417
Auto ship advances	1,672	1,749
	\$ 7,587	\$ 6,166

4. FAIR VALUE MEASUREMENTS

As of June 30, 2024, cash and cash equivalents and marketable securities include the Company's investments in money market funds, municipal debt securities, and corporate debt securities. 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 are required to be accounted for in accordance with the FASB ASC 320, *Investments - Debt and Equity Securities*. As such, the Company determined its investments in debt securities held at June 30, 2024 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 (expense). Realized gains and losses, as well as interest income, are also included in other income (expense). 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 and marketable securities at the end of each period were as follows (in thousands):

		June 30, 2024			December 31, 2023		
	Fair Value Level ¹	Adjusted Cost	Gross Unrealized Losses	Fair Value	Adjusted Cost	Gross Unrealized Gains (Losses)	Fair Value
Money market funds	Level 1	\$ 2,131	\$ —	\$ 2,131	\$ 213	\$ —	\$ 213
Municipal debt securities	Level 2	14,828	(4)	14,824	1,426	1	1,427
Corporate debt securities	Level 2	22,753	(38)	22,715	45,580	(13)	45,567
Total investments		\$ 39,712	\$ (42)	\$ 39,670	\$ 47,219	\$ (12)	\$ 47,207

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

Level 1: Quoted market prices in active markets for identical assets or liabilities.

Level 2: Observable market-based inputs or unobservable inputs that are corroborated by market data.

Level 3: Unobservable inputs that are not corroborated by market data.

5. LEASES

The Company leases 7,300 square feet of corporate office space in Hong Kong with a term expiring in June 2026, and 4,900 square feet of corporate office space in Rolling Hills Estates, California with a term expiring in September 2030. 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 2027, and December 2028, respectively.

The Company leases seven branch offices throughout China, and additional office space in Peru, Japan, Taiwan, South Korea, Malaysia, Thailand, India, and the Cayman Islands. 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 were as follows (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2024	2023	2024	2023
Operating leases	\$ 319	\$ 321	\$ 644	\$ 651
Short-term leases	36	39	72	76
Total lease cost	<u>\$ 355</u>	<u>\$ 360</u>	<u>\$ 716</u>	<u>\$ 727</u>

Cash paid for amounts included in the measurement of operating leases liabilities was \$ 307,000 and \$331,000 for the three months ended June 30, 2024 and 2023, respectively, and \$627,000 and \$676,000 for the six months ended June 30, 2024 and 2023, respectively.

The weighted-average remaining lease term and discount rate related to operating leases as of June 30, 2024 were as follows:

Weighted-average remaining lease term (in years)	3.8
Weighted-average discount rate	4.3%

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 the Company's operating lease liabilities as of June 30, 2024 were as follows (in thousands):

Remainder of 2024	\$ 636
2025	1,144
2026	675
2027	310
2028	304
Thereafter	375
Total lease payments	<u>3,444</u>
Less: imputed interest	(257)
Present value of lease liabilities	<u>\$ 3,187</u>

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 choose not to separate nonlease components from lease components and instead account for the combined lease and nonlease components associated with that lease component as a single lease component.

6. INCOME TAXES

The effective income tax rate for the three and six months ended June 30, 2024 includes estimates for foreign income inclusions such as global intangible low-taxed income ("GILTI") and Subpart F income. As of June 30, 2024, 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 June 30, 2024, 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 June 30, 2024, the Company has zero U.S. federal net operating loss carryforwards. The Company has post-apportioned U.S. state net operating loss carryforwards of \$446,000 that begin expiring in 2038. At June 30, 2024, the Company has foreign net operating loss carryforwards of approximately \$2.3 million in various jurisdictions with various expirations.

As of June 30, 2024, income taxes payable for the repatriation tax on the deemed repatriation of deferred foreign income required by the U.S. Tax Cuts and Jobs Act (the "Tax Act"), enacted in 2017 by the U.S. government, totaled \$5.1 million, which is payable in April 2025.

As a result of capital return activities, the Company determined that a portion of its current undistributed foreign earnings not 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 June 30, 2024, 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 June 30, 2024 have already been repatriated. Due to the Tax Act, 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 June 30, 2024.

The Company and its subsidiaries file tax returns in the United States, California, New Jersey, Texas and various foreign jurisdictions. The Company is no longer subject to state income tax examinations for years prior to 2018. The Company is not aware of any jurisdiction that is currently examining any of its income tax returns.

7. COMMITMENTS AND CONTINGENCIES

The Company has employment agreements with certain members of its management team that can be terminated by either the employee or the Company upon four weeks' notice. The employment agreements entered into with the management team contain provisions that guarantee the payment of specified amounts in the event of a change in control (together with a termination without cause), as defined, or if the employee is otherwise terminated without cause, as defined, or terminates employment for good reason, as defined.

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 June 30, 2024, 1,125,349 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, 2023	62,320	\$ 4.84
Vested	(15,590)	\$ 4.84
Nonvested at June 30, 2024	46,730	\$ 4.84

Share-based compensation expense of \$38,000 and \$39,000 was recognized during the three months ended June 30, 2024 and 2023, respectively, and \$75,000 and \$85,000 was recognized during the six months ended June 30, 2024 and 2023, respectively. As of June 30, 2024, total unrecognized share-based compensation expense related to non-vested restricted stock was \$220,000, which is expected to be recognized over a weighted-average period of 0.9 years.

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 Board of Directors' 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).

On February 7, 2023, the Company granted 212,937 phantom shares to certain of 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. Both of 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 performance period, the performance criteria designated by the Compensation Committee must be satisfied. The initial performance vesting condition will be designated by the Compensation Committee 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 must 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. Of the phantom shares awarded in 2023, 133,085 phantom shares vested, 53,235 remain unvested, and 26,617 were forfeited as of June 30, 2024.

The phantom share awards are accounted for as liabilities in accordance with FASB 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.

As a result of the vesting of phantom shares, the Company recognized compensation expense related to the cash settlement of such shares of \$181,000 and \$133,000 during the three months ended June 30, 2024 and 2023, respectively, and \$181,000 and \$260,000 during the six months ended June 30, 2024 and 2023, respectively.

9. STOCKHOLDERS' EQUITY*Dividends*

The Company declared and paid cash dividends of \$ 0.20 per common share during each of the first two quarters of 2024 and 2023, totaling \$4.6 million in each six month period. 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. Any repurchases 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 June 30, 2024, \$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 first six months of 2024 were as follows (in thousands):

	Foreign Currency Translation Adjustments	Unrealized Losses on Available-For-Sale Investments	Total
Balance, December 31, 2023	\$ (1,057)	\$ (12)	\$ (1,069)
Other comprehensive loss	(150)	(30)	(180)
Balance, June 30, 2024	<u>\$ (1,207)</u>	<u>\$ (42)</u>	<u>\$ (1,249)</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 former director of the Company and beneficial owner of more than 5% of its outstanding common stock, is an indirect owner of BHS. Brunde E. Broady, also a former director of the Company and daughter of Mr. Broady, is the President and Chief Executive Officer 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 \$10,000 and \$11,000 during the three months ended June 30, 2024 and 2023, respectively, and \$19,000 and \$22,000 during the six months ended June 30, 2024 and 2023, 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 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 June 30,		Six Months Ended June 30,	
	2024	2023	2024	2023
Net sales:				
Primary Reporting Segment	\$ 10,023	\$ 10,139	\$ 20,489	\$ 21,470
China	336	247	720	663
Russia and Kazakhstan	116	125	217	239
Total net sales	<u>\$ 10,475</u>	<u>\$ 10,511</u>	<u>\$ 21,426</u>	<u>\$ 22,372</u>
Income (loss) from operations:				
Primary Reporting Segment	\$ 1,710	\$ 1,501	\$ 3,336	\$ 3,328
China	(76)	(243)	(170)	(263)
Russia and Kazakhstan	(17)	(26)	(57)	(84)
Income from operations for reportable segments, net	1,617	1,232	3,109	2,981
Unallocated corporate expenses	(1,855)	(1,975)	(3,712)	(4,118)
Other income, net	519	442	1,082	1,123
Income (loss) before income taxes	<u>\$ 281</u>	<u>\$ (301)</u>	<u>\$ 479</u>	<u>\$ (14)</u>

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2024	2023	2024	2023
Net sales from external customers:				
United States	\$ 263	\$ 272	\$ 525	\$ 551
Canada	142	157	253	327
Peru	284	483	504	810
Hong Kong ¹	8,468	8,306	17,642	17,979
China	336	247	720	663
Taiwan	486	454	823	908
Japan	55	107	121	189
Malaysia and Singapore	66	68	119	153
Russia and Kazakhstan	116	125	217	239
Europe	157	199	309	385
Other foreign countries	102	93	193	168
Total net sales	<u>\$ 10,475</u>	<u>\$ 10,511</u>	<u>\$ 21,426</u>	<u>\$ 22,372</u>

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

12. SUBSEQUENT EVENT

On July 29, 2024, 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 August 23, 2024 to stockholders of record on August 13, 2024. 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 Malaysia, Singapore and Thailand; South Korea; Japan; India; and Europe. We also operate in Russia and Kazakhstan through our engagement with a local service provider.

As of June 30, 2024, we were conducting business through 31,110 active members, compared to 32,410 at December 31, 2023 and 36,730 at June 30, 2023. 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 81% 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, inflation rates, 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 business 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 “Item 1A. Risk Factors” in our Annual Report on Form 10-K for the year ended December 31, 2023, 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, but in 2019 a Chinese governmental authority recommended that we withdraw 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 were 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 was specifically focused on the business practices of direct selling companies. The campaign and associated negative media coverage resulted in a significant adverse impact on our business, as consumers 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 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 in April 2019, we are not aware of any information indicating that the campaign has formally concluded. However, the Chinese government subsequently 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 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 2023 generated approximately 79% of our revenue in Hong Kong, substantially all of which was derived from the sale of products to members in China. Over the course of the pandemic, we took 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. In late 2022, the Chinese and Hong Kong governments took comprehensive steps to relax many of their COVID-19 control measures, although the cumulative effect of the disruptions associated with the pandemic materially negatively impacted our financial results from 2020 through 2022. This less restrictive business environment in China and Hong Kong continued throughout 2023 and the first six months of 2024, and we have been able to sponsor a number of in-person member events in China, Hong Kong and/or Macau during each quarter since the first quarter of 2023. We are planning more such events and are hopeful that we will continue to normalize operations in China and Hong Kong. Nevertheless, it is still too early to accurately predict the impact on us and our third-party providers of this relaxation of control measures and whether it will prove enduring. Ultimately, 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 the related control measures, which we are unable to accurately predict. See “Item 1A. Risk Factors - Epidemics, such as the COVID-19 pandemic, or natural disasters, terrorist 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 led us in 2020 to cease sponsoring 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 these developments have negatively affected our operations and financial performance. Although we were able to sponsor a large in-person member event in Hong Kong in the fourth quarter of 2023, it is too early to predict whether these developments will continue to adversely affect our overall business, results of operations and financial condition. 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.

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 six months of 2024 and 2023, represented 41% and 43% 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 June 30,		Six Months Ended June 30,	
	2024	2023	2024	2023
Net sales	100.0%	100.0%	100.0%	100.0%
Cost of sales	25.8	25.4	26.2	25.5
Gross profit	74.2	74.6	73.8	74.5
Operating expenses:				
Commissions expense	40.1	42.9	40.5	42.5
Selling, general and administrative expenses	36.4	38.8	36.1	37.1
Total operating expenses	76.5	81.7	76.6	79.6
Loss from operations	(2.3)	(7.1)	(2.8)	(5.1)
Other income, net	5.0	4.2	5.0	5.0
Income (loss) before income taxes	2.7	(2.9)	2.2	(0.1)
Income tax provision (benefit)	1.0	(0.8)	0.5	(0.3)
Net income (loss)	1.7%	(2.1)%	1.7%	0.2%

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Net Sales

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

	Three Months Ended June 30,				Six Months Ended June 30,			
	2024		2023		2024		2023	
Americas ¹	\$ 689	6.6%	\$ 912	8.7%	\$ 1,282	6.0%	\$ 1,688	7.5%
Hong Kong ²	8,468	80.9	8,306	79.0	17,642	82.3	17,979	80.4
China	336	3.2	247	2.4	720	3.4	663	3.0
Taiwan	486	4.6	454	4.3	823	3.8	908	4.1
South Korea	48	0.5	38	0.4	91	0.4	90	0.4
Japan	55	0.5	107	1.0	121	0.6	189	0.8
Malaysia and Singapore	66	0.6	68	0.6	119	0.6	153	0.7
Russia and Kazakhstan	116	1.1	125	1.2	217	1.0	239	1.1
Europe	157	1.5	199	1.9	309	1.4	385	1.7
India	54	0.5	55	0.5	102	0.5	78	0.3
Total	\$ 10,475	100.0%	\$ 10,511	100.0%	\$ 21,426	100.0%	\$ 22,372	100.0%

¹ United States, Canada, Mexico and Peru

² Substantially all of our Hong Kong revenues are derived from the sale of products that are delivered to members in China. See "Item 1A. Risk Factors" in our most recent Annual Report on Form 10-K.

Net sales were \$10.5 million for each of the three-month periods ended June 30, 2024 and 2023. Hong Kong net sales, substantially all of which were derived from the sale of products shipped to members residing in China, increased \$162,000, or 2%, over the comparable period a year ago. The relatively modest increase in Hong Kong net sales was primarily due to timing differences in the two quarters associated with our promotion of sales incentives and subsequent receipt of related orders. Hong Kong net sales were adversely impacted by the recognition of lower administrative fees in the current-year quarter, as compared to the prior-year quarter, as increased activity within member electronic wallet (eWallet) accounts resulted in less fees assessed during the current-year quarter. Outside of our Hong Kong business, net sales decreased \$198,000, or 9%, over the comparable three-month period a year ago, primarily due to the decreased quarter-over-quarter net sales in our Peruvian business.

Net sales were \$21.4 million for the six months ended June 30, 2024 compared with \$22.4 million for the comparable period a year ago, a decrease of \$946,000, or 4%. Hong Kong net sales, substantially all of which were derived from the sale of products shipped to members residing in China, decreased \$337,000, or 2%, over the comparable period a year ago. The relatively modest decrease in Hong Kong net sales was primarily due to timing differences in the year-over-year periods associated with our promotion of sales incentives and subsequent receipt of related orders. Hong Kong net sales were also adversely affected by the recognition of lower administrative fees in the current-year period, as compared to the prior-year period last year, as increased activity within member electronic wallet (eWallet) accounts resulted in less fees assessed during the current-year period. Outside of our Hong Kong business, net sales decreased \$609,000, or 14%, over the comparable six-month period a year ago, primarily due to the decreased period-over-period net sales in our Peruvian business. As of June 30, 2024, deferred revenue was \$7.6 million, which consisted of \$5.9 million pertaining to unshipped product orders and unredeemed product vouchers, as well as \$1.7 million in auto ship advances.

Gross Profit

Gross profit was 74.2% of net sales for the three months ended June 30, 2024 compared with 74.6% of net sales for the three months ended June 30, 2023. Gross profit was 73.8% of net sales for the six months ended June 30, 2024 compared with 74.5% of net sales for the six months ended June 30, 2023. Excluding the impact of decreased administrative fee revenue referred to above, the decline in gross profit margin for both the three and six-month periods ended June 30, 2024 was primarily attributable to higher costs related to our Premium Noni Juice product.

Commissions Expense

Commissions were 40.1% of net sales for the three months ended June 30, 2024 compared with 42.9% of net sales for the three months ended June 30, 2023. Commissions were 40.5% of net sales for the six months ended June 30, 2024 compared with 42.5% of net sales for the six months ended June 30, 2023. Excluding the impact of decreased administrative fee revenue referred to above, the decline in commissions as a percentage of net sales during both the three and six-month periods ended June 30, 2024 was primarily due to lower weekly commissions earned outside of our Hong Kong business, as well as lower supplemental commissions recognized during the three-month period ended June 30, 2024.

Selling, General and Administrative Expenses

Selling, general and administrative expenses declined slightly to \$3.8 million for the three-month period ended June 30, 2024, as compared to \$4.1 million in the same period a year ago. Selling, general and administrative expenses decreased to \$7.7 million for the six-month period ended June 30, 2024, as compared to \$8.3 million in the same period a year ago. The decrease for the six-month period was primarily due to lower employee-related costs and professional fees. Selling, general and administrative expenses as a percentage of net sales for both the three- and six-month periods ended June 30, 2024 were modestly lower than the same periods a year ago.

Other Income, Net

Other income was \$519,000 for the three months ended June 30, 2024 compared with \$442,000 in the same period a year ago. Other income was \$1.1 million for each of the six-month periods ended June 30, 2024 and 2023. The increase for the three months ended June 30, 2024 was primarily due to less foreign currency expense recognized on intercompany balances pertaining to the Hong Kong dollar than during the second quarter last year, partially offset by less interest income earned during the second quarter this year.

Income Taxes

An income tax provision of \$108,000 and an income tax benefit of \$82,000 were recognized during the three months ended June 30, 2024 and 2023, respectively. An income tax provision of \$118,000 and an income tax benefit of \$52,000 were recognized during the six months ended June 30, 2024 and 2023, respectively. The tax provision during each of the three- and six-month periods ended June 30, 2024 and 2023 primarily resulted from foreign income inclusions, such as global intangible low-taxed income ("GILTI") and Subpart F income, tax benefits in foreign jurisdictions and year-to-date consolidated income through June 30, 2024 and 2023, respectively.

Liquidity and Capital Resources

At June 30, 2024, our cash, cash equivalents and marketable securities totaled \$48.7 million. Total cash, cash equivalents and marketable securities decreased by \$7.5 million from December 31, 2023 to June 30, 2024 due to the dividends paid during the first six months of 2024 and the payment of the repatriation tax on the deemed repatriation of deferred foreign income as required by the U.S. Tax Cuts and Jobs Act. We consider all highly liquid investments with original maturities of three months or less, when purchased, to be cash equivalents. As of June 30, 2024, we had \$39.7 million in available-for-sale investments classified as either cash equivalents and marketable securities. In addition, cash and cash equivalents included \$3.5 million held in banks located within China subject to foreign currency controls.

As of June 30, 2024, the ratio of current assets to current liabilities was 2.6 to 1.0 and we had \$34.8 million of working capital. Working capital as of June 30, 2024 decreased \$9.5 million compared to our working capital as of December 31, 2023.

Cash used in operations was \$3.0 million for the first six months of 2024 compared with \$3.3 million for the first six months of 2023. Income tax paid during April 2024 and 2023 for the repatriation tax on the deemed repatriation of deferred foreign income was \$4.0 million and \$3.0 million, respectively. Disregarding these payments, cash flows from operations improved \$1.3 million primarily due to improved management of operating costs during the first six months of 2024 as compared to the same period last year, as well as a timing difference related to weekly commission outflows.

Cash flows used in investing activities totaled \$32.9 million and \$14,000 during the first six months of 2024 and 2023, respectively. During the first six months of 2024, we purchased \$36.2 million in marketable securities with original maturities greater than three months, and as such, reflect these purchases as an investing activity. These purchases of marketable securities were offset by \$3.3 million of proceeds received from maturities of marketable securities.

Cash flows used in financing activities during the first six months of 2024 and 2023 consisted solely of quarterly dividend payments of \$0.20 per common share, totaling \$4.6 million in each period. Subsequent to June 30, 2024, on July 29, 2024, 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 August 23, 2024 to stockholders of record on August 13, 2024. We expect to continue paying a quarterly cash dividend of \$0.20 on each share of common stock outstanding for the foreseeable future. However, any future cash dividends will be at the sole discretion of the Company's Board of Directors, and will depend on our financial condition, results of operations, 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. Any repurchases 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 June 30, 2024, \$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 Estimates

We prepare our consolidated financial statements in accordance with U.S. generally accepted accounting principles, which require our management to make estimates that affect the reported amounts of assets, liabilities and disclosures of contingent assets and liabilities at the balance sheet dates, as well as the reported amounts of revenues and expenses during the reporting periods. To the extent that there are material differences between these estimates and actual results, our financial condition or results of operations would be affected. We base our estimates on our own historical experience and other assumptions that we believe are reasonable after taking account of our circumstances and expectations for the future based on available information. We evaluate these estimates on an ongoing basis.

We consider an accounting estimate to be critical if: (i) the accounting estimate requires us to make assumptions about matters that were highly uncertain at the time the accounting estimate was made, and (ii) changes in the estimate that are reasonably likely to occur from period to period or use of different estimates that we reasonably could have used in the current period, would have a material impact on our financial condition or results of operations. There are items within our financial statements that require estimation but are not deemed critical, as defined above.

For a detailed discussion of our significant accounting policies and related judgments, see Note 1 of the Notes to Consolidated Financial Statements in "Item 8. Financial Statements and Supplementary Data" in our 2023 Annual Report on Form 10-K filed with the United States Securities and Exchange Commission (SEC) on February 28, 2024.

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 June 30, 2024. 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 June 30, 2024.

Changes in Internal Control over Financial Reporting

There were no changes in internal control over financial reporting that occurred during the fiscal quarter ended June 30, 2024 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, 2023, 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, 2023.

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
3.1	Certificate of Incorporation of Natural Health Trends Corp. dated March 21, 2005, as well as Certificate of Amendment to the Certificate of Incorporation dated May 15, 2020, and Certificate of Amendment to the Certificate of Incorporation dated May 14, 2024.
+10.1	Waiver (Summary) to Phantom Share Agreement dated February 7, 2023 granting Phantom Shares to Chris T. Sharng under the Phantom Equity Plan (summary incorporated by reference to Item 5.02 of Current Report on Form 8-K filed April 19, 2024).
31.1	Certification of Principal Executive Officer pursuant to Exchange Act Rules 13a-14(a) and 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Principal Financial Officer pursuant to Exchange Act Rules 13a-14(a) and 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certifications of Principal Executive Officer and Principal Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS	Instance Document - the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document
101.SCH	Inline XBRL Taxonomy Extension Schema
101.CAL	Inline XBRL Taxonomy Extension Calculation
101.DEF	Inline XBRL Taxonomy Extension Definition
101.LAB	Inline XBRL Taxonomy Extension Labels
101.PRE	Inline XBRL Taxonomy Extension Presentation
104	Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101)
+ 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: July 31, 2024

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

EXHIBIT INDEX

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**CERTIFICATE OF INCORPORATION
OF
NATURAL HEALTH TRENDS CORP.**

Section 1. The name of the Corporation is Natural Health Trends Corp.

Section 2. The address of the Corporation's registered office in the State of Delaware is 1209 Orange Street, Corporation Trust Center, in the City of Wilmington, County of New Castle. The name of its registered agent at such address is The Corporation Trust Company.

Section 3. The purpose of the Corporation is to engage in any lawful act or activity for which corporations may be organized under the General Corporation Law of the State of Delaware.

Section 4. The Corporation is to have perpetual existence.

Section 5. The Corporation shall have the authority to issue 50,000,000 shares of Common Stock with a par value of \$0.001 per share. The Board of Directors of the Corporation has the authority, without further action by the stockholders, to issue 5,000,000 shares of Preferred Stock, par value \$0.001 per share, in one or more series and to fix the rights, preferences, privileges and restrictions thereof, including without limitation dividend rights, conversion rights, voting rights, terms of redemption, liquidation preferences, sinking fund terms and the number of shares constituting any series or the designation of such series, without any further vote or action by the stockholders.

Section 6. At every annual or special meeting of stockholders of the Corporation, every holder of Common Stock shall be entitled to one vote, in person or by proxy, for each share of Common Stock standing in such holder's name on the books of the Corporation, subject to the rights of the holders of Preferred Stock. Subject to the rights of the holders of the Preferred Stock, the Common Stock shall be entitled to dividends out of funds legally available therefore, when, as and if declared and paid to the holders of Common Stock, and upon liquidation, dissolution or winding up of the Corporation, to share ratably in the assets of the Corporation. The Common Stock shall not be redeemable.

Section 7. The number of directors of the Corporation shall be fixed in the manner provided in the Bylaws of the Corporation. The names and mailing addresses of the persons who are to serve as the initial directors of the Corporation until the first annual meeting of stockholders of the Corporation, or until their successors are elected and qualified are:

<u>Name</u>	<u>Address</u>
Sir Brian Wolfson	12901 Hutton Drive, Dallas, Texas 75234
Mark D. Woodburn	12901 Hutton Drive, Dallas, Texas 75234
Terry A. LaCore	12901 Hutton Drive, Dallas, Texas 75234
Randall A. Mason	12901 Hutton Drive, Dallas, Texas 75234
Robert H. Hesse	12901 Hutton Drive, Dallas, Texas 75234

Section 8. Any director or the entire Board of Directors may be removed only for cause and only by the vote of the holders of two-thirds (2/3) of the securities of the Corporation then entitled to vote at an election of directors voting together as a single class.

Section 9. Subject to the rights, if any, of the holders of any series of Preferred Stock then outstanding, newly created directorships resulting from any increase in the authorized number of directors or any vacancies in the Board of Directors resulting from death, resignation, disqualification or removal may be filled only by a majority vote of the directors then in office, though less than a quorum, and directors so chosen shall hold office for a term expiring at the next annual meeting of stockholders and until such director's successor shall have been duly elected and qualified

Section 10. Cumulative voting in the election of directors or otherwise is hereby expressly prohibited. No stockholder shall have, as a stockholder of the Corporation, any preemptive right to acquire, purchase or subscribe for the purchase of any or all additional issues of stock of the Corporation or any or all classes or series thereof, or for any securities convertible into such stock, whether now or hereafter authorized. Nothing in this Article will prohibit the Corporation from granting by contract preemptive rights or other rights to purchase stock of the Corporation.

Section 11. A director or former director of the Corporation shall not, to the fullest extent permitted by the Delaware General Corporation Law as the same exists or may hereafter be amended, be liable to the Corporation or its stockholders for monetary damages for breach of his or her fiduciary duty to the Corporation or its stockholders.

Section 12. In furtherance and not in limitation of the powers conferred by statute, the Bylaws of the Corporation may be altered, amended, or repealed or new Bylaws may be adopted by the Board of Directors at any regular or special meeting of the Board, subject to the stockholders' right to adopt, amend or repeal these Bylaws or adopt new Bylaws. Notwithstanding the foregoing and anything contained in the Bylaws to the contrary, the Bylaws shall not be amended or repealed by the stockholders, and no provision inconsistent therewith shall be adopted by the stockholders, without the affirmative vote of the holders of at least two-thirds (2/3) of the voting power of all shares of the Corporation entitled to vote generally in the election of directors voting together as a single class.

Section 13. To the fullest extent permitted by the General Corporation Law of Delaware, as the same may be amended from time to time, the Corporation shall indemnify any and all of the current and former directors and officers of the Corporation, or any person who is or was serving at the Corporation's request as a director or officer of another corporation, partnership, joint venture, trust or other enterprise. The Corporation shall have the power to purchase and maintain insurance on behalf of any person who is or was a director, officer, employee or agent of the Corporation, or is or was serving at the request of the Corporation as a director, officer, employee or agent of another corporation, partnership, joint venture, trust, limited liability company or other enterprise, against any liability asserted against such person and incurred by such person in any such capacity, or arising out of such person's status as such, whether or not the Corporation would have the power to indemnify such person against such liability.

No amendment nor repeal of this Article, nor the adoption of any provision of this Corporation's Certificate of Incorporation inconsistent with this Article, shall eliminate or reduce the effect of this Article, in respect of any matter occurring, or any action or proceeding accruing or arising or that, but for this Article, would accrue or arise, prior to such amendment, repeal or adoption of an inconsistent provision.

Section 14. Any action required or permitted to be taken at any annual or special meeting of stockholders may only be taken upon the vote of the stockholders at an annual or special meeting duly called and may not be taken by written consent of the stockholders. Special meetings of the stockholders, unless otherwise required by statute, may be called at any time only by the Chairman of the Board or the Chief Executive Officer of the Corporation or a majority of the Board of Directors.

Section 15. The Corporation reserves the right to amend, alter, change or repeal any provision contained in this Certificate of Incorporation, in the manner now or hereafter prescribed by statute, and all rights conferred upon stockholders herein are granted subject to this reservation. In addition to any affirmative vote required by applicable law or any other provision of this Certificate of Incorporation or specified in any agreement, the affirmative vote of the holders of not less than two-thirds (2/3) of the voting power of all securities of the Corporation entitled to vote generally in the election of directors shall be required to amend, add, alter, change, repeal or adopt any provisions inconsistent with Sections 8, 12, 14 or this Section 15 of this Certificate of Incorporation.

Section 16. The name of the incorporator is Keith C. Zagar, and the address of the incorporator is 12901 Hutton Drive, Dallas, Texas 75234. The powers of the incorporator are to terminate upon the filing of this Certificate of Incorporation with the Secretary of State of the State of Delaware.

IN WITNESS WHEREOF, the undersigned, being the incorporator of the Corporation, for the purpose of forming a corporation pursuant to the General Corporation Law of the State of Delaware, does make this Certificate of Incorporation, hereby declaring and certifying that this is his act and deed and the facts herein stated are true, and accordingly has hereunto set his hand this 21st day of March, 2005.

By: /s/ Keith C. Zagar
Keith C. Zagar, Incorporator

**CERTIFICATE OF AMENDMENT
TO THE
CERTIFICATE OF INCORPORATION
OF
NATURAL HEALTH TRENDS CORP.**

Pursuant to the provisions of Section 242 of the Delaware General Corporation Law ("DGCL"), Natural Health Trends Corp., a Delaware corporation (the "Corporation"), hereby certifies as follows:

ARTICLE I

The name of the Corporation is Natural Health Trends Corp.

ARTICLE II

Section 8 of the Certificate of Incorporation of the Corporation is hereby amended and restated in its entirety to read as follows:

"Section 8. Any director or the entire Board of Directors may be removed, with or without cause, by the vote of the holders of two-thirds (2/3) of the securities of the Corporation then entitled to vote at an election of directors voting together as a single class."

ARTICLE III

Said amendment was duly adopted in accordance with the provisions of Section 242 of the Delaware General Corporation Law.

IN WITNESS WHEREOF, I HAVE HEREUNTO SET MY HAND THIS THE 15TH DAY OF MAY, 2020.

NATURAL HEALTH TRENDS CORP.

By: /s/ Timothy S. Davidson
Timothy S. Davidson
Senior Vice President and Chief Financial Officer

**CERTIFICATE OF AMENDMENT
TO THE
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The name of the Corporation is Natural Health Trends Corp.

ARTICLE II

Section 11 of the Certificate of Incorporation of the Corporation is hereby amended and restated in its entirety to read as follows:

"Section 11. A director or officer, or former director or officer, of the Corporation shall not, to the fullest extent permitted by the Delaware General Corporation Law as the same exists or may hereafter be amended, be liable to the Corporation or its stockholders for monetary damages for breach of his or her fiduciary duty to the Corporation or its stockholders. For purposes of this Section 11, "officer" shall have the same meaning provided in Section 102(b)(7) of the Delaware General Corporation Law, as the same exists or may hereafter be amended. Any amendment or repeal of this Section 11 shall not adversely affect any right or protection of a director or officer, or former director or officer, of the Corporation for or with respect to any acts or omissions of such director or officer, or former director or officer, occurring prior to such amendment or repeal."

ARTICLE III

Said amendment was duly adopted in accordance with the provisions of Section 242 of the Delaware General Corporation Law.

IN WITNESS WHEREOF, I HAVE HEREUNTO SET MY HAND THIS THE 14TH DAY OF MAY, 2024.

NATURAL HEALTH TRENDS CORP.

By: /s/ Timothy S. Davidson
Timothy S. Davidson
Senior Vice President and Chief Financial Officer

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: July 31, 2024

/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: July 31, 2024

/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 June 30, 2024, 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, certify, 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: July 31, 2024

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

Date: July 31, 2024

/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.