

*As filed with the SEC on March 14, 2002*

**SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549**

**FORM 10-QSB/A  
Amendment No. 1 to Form 10-QSB**

**QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF THE  
SECURITIES EXCHANGE ACT OF 1934**

For the Quarter Ended September 30, 2001

Commission File No. 0-24778

**NATIONAL HEALTH & SAFETY CORPORATION**  
(Name of small business issuer in its charter)

**Utah**  
(State or other jurisdiction of  
incorporation or organization)

**87-0505222**  
(I.R.S. Employer  
Identification No.)

**3811 Bee Cave Road, Suite 210,  
Austin, Texas 78746**  
(Address of principal executive offices)  
Issuer's telephone no.: **(512) 328-0433**

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

**APPLICABLE ONLY TO ISSUERS INVOLVED IN BANKRUPTCY PROCEEDINGS  
DURING THE PRECEDING FIVE YEARS**

Check whether the registrant filed all documents and reports required to be filed Section 12, 13 or 15 (d) of the Exchange Act after the distribution of securities under a plan confirmed by a court. Yes  No

At September 30, 2001, a total of 247,596,176 shares of registrant's Common Stock were outstanding.

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**PART I. FINANCIAL INFORMATION**

**Item 1. Financial Statements**

The following unaudited Financial Statements for the period ended September 30, 2001, have been prepared by the Company.

**NATIONAL HEALTH & SAFETY CORPORATION AND SUBSIDIARY  
(A Development Stage Company)  
CONSOLIDATED BALANCE SHEET**

**September 30, 2001  
(Unaudited)**

**ASSETS**

**CURRENT ASSETS**

Cash	\$ 612
Accounts receivable, net	14,888
Prepaid expenses	<u>3,172</u>
Total Current Assets	18,672

**PROPERTY AND EQUIPMENT, NET** 5,622

<b>GOODWILL</b>	1,207,301
Less: accumulated amortization	<u>(36,219)</u>
	1,171,082

**OTHER ASSETS**

POWERx brand acquisition costs	210,593
Software development	206,639
Less: accumulated amortization	<u>(184,205)</u>
	233,027
Deposits	<u>6,593</u>
Total Other Assets, net	<u>239,620</u>

**TOTAL ASSETS** \$ 1,434,996

See accompanying notes to these financial statements

**NATIONAL HEALTH & SAFETY CORPORATION AND SUBSIDIARY**  
**(A Development Stage Company)**  
**CONSOLIDATED BALANCE SHEET**

**September 30, 2001**  
(Unaudited)

**LIABILITIES AND STOCKHOLDERS' EQUITY**

CURRENT LIABILITIES

Accounts payable and accrued expenses	\$ 75,572
Administrative claims payable	20,000
Accounts payable to affiliate	24,839
Notes payable to affiliate	<u>66,861</u>
Total Current Liabilities	187,272
Pre-petition accruals	142,800
Long term notes payable	<u>20,000</u>
Total Liabilities	350,072

STOCKHOLDERS' EQUITY

Preferred Stock; Series A; \$.001 par value; 4,000,000 shares authorized; 2,010,822 shares issued and outstanding	2,011
Preferred Stock; Series B; \$.001 par value; 600,000 shares authorized; 600,000 shares issued and outstanding	600
Common Stock; \$.001 par value; 500,000,000 shares authorized; 247,596,176 shares issued and outstanding	247,596
Additional paid-in capital	5,755,327
Accumulated deficit	(1,571,120)
Deficit accumulated during the development stage	<u>(3,349,490)</u>
Total Stockholders' Equity	<u>1,084,924</u>

TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY \$ 1,434,996

See accompanying notes to these financial statements

**NATIONAL HEALTH & SAFETY CORPORATION AND SUBSIDIARY**  
**(A Development Stage Company)**  
**CONSOLIDATED STATEMENTS OF OPERATIONS**

	<u>For the Three Months Ended</u>		<u>For the Nine Months Ended</u>		<u>From the</u>
	<u>September 30,</u>		<u>September 30,</u>		<u>Inception of the</u>
	<u>2001</u>	<u>2000</u>	<u>2001</u>	<u>2000</u>	<u>Development</u>
					<u>Stage on</u>
					<u>January 1, 1999</u>
					<u>Through</u>
					<u>September 30,</u>
					<u>2001</u>
REVENUE					
Sales – operations	\$ 3,495	\$ 900	\$ 24,405	\$ 4,404	\$ 104,973
Royalty revenue	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>514</u>
Total Revenue	3,495	900	24,405	4,404	105,487
COST OF SALES	<u>1,141</u>	<u>-0-</u>	<u>5,972</u>	<u>185</u>	<u>47,206</u>
GROSS PROFIT	<u>2,354</u>	<u>900</u>	<u>18,433</u>	<u>4,219</u>	<u>58,281</u>
EXPENSES					
General and administrative	121,630	42,384	759,260	137,696	3,462,394
Depreciation and amortization	<u>41,982</u>	<u>-0-</u>	<u>132,065</u>	<u>-0-</u>	<u>134,143</u>
Total Expenses	<u>163,612</u>	<u>42,384</u>	<u>891,325</u>	<u>137,696</u>	<u>3,596,537</u>
Loss from operations	(161,258)	(41,484)	(872,892)	(133,477)	(3,538,256)
OTHER INCOME (EXPENSE)					
Gain (loss) on sale of assets	(3,330)	-0-	(13,234)	-0-	129,463
Subsidiary loss incurred prior to acquisition	-0-	-0-	169,525	-0-	169,525
Anti-dilution expense	-0-	-0-	(182,778)	-0-	(182,778)
Cancellation of Common Stock	-0-	-0-	-0-	83,035	83,035
Bad debt expense	-0-	-0-	-0-	-0-	(4,472)
Other	-0-	-0-	-0-	-0-	11,673
Interest expense	<u>682</u>	<u>(4,689)</u>	<u>(1,118)</u>	<u>(13,868)</u>	<u>(36,719)</u>
Total Other Income (Expense)	<u>(2,648)</u>	<u>(4,689)</u>	<u>(27,606)</u>	<u>69,167</u>	<u>169,728</u>
NET INCOME before Income Taxes	<u>(163,906)</u>	<u>(46,173)</u>	<u>(900,498)</u>	<u>(64,310)</u>	<u>(3,368,528)</u>
Income Taxes	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>
NET INCOME (LOSS) before Extraordinary Gain	<u>(163,906)</u>	<u>(46,173)</u>	<u>(900,498)</u>	<u>(64,310)</u>	<u>(3,368,528)</u>
Extraordinary Gain	<u>-0-</u>	<u>-0-</u>	<u>19,038</u>	<u>-0-</u>	<u>19,038</u>
NET INCOME	<u>\$ (163,906)</u>	<u>\$ (46,173)</u>	<u>\$ (881,460)</u>	<u>\$ 64,310)</u>	<u>\$ (3,49,490)</u>
BASIC NET INCOME (LOSS) PER SHARE	<u>\$ (0.001)</u>	<u>\$ (0.001)</u>	<u>\$ (0.004)</u>	<u>\$ (0.001)</u>	
BASIC NET INCOME (LOSS) PER SHARE Related to Extraordinary Gain	<u>\$ (0.000)</u>	<u>\$ (0.000)</u>	<u>\$ (0.000)</u>	<u>\$ (0.000)</u>	
BASIC NET INCOME (LOSS) PER SHARE	<u>\$ (0.001)</u>	<u>\$ (0.001)</u>	<u>\$ (0.004)</u>	<u>\$ (0.001)</u>	
FULLY DILUTED NET INCOME (LOSS) PER SHARE	<u>\$ (0.001)</u>	<u>\$ (0.001)</u>	<u>\$ (0.004)</u>	<u>\$ (0.001)</u>	
Weighted Average Shares Outstanding	245,021,719	58,803,716	226,797,69	59,467,500	

See accompanying notes to these financial statements

**NATIONAL HEALTH & SAFETY CORPORATION AND SUBSIDIARY**  
**(A Development Stage Company)**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,		From the Inception of the Development Stage on January 1, 1999 Through <u>September 30, 2001</u>
	<u>2001</u>	<u>2000</u>	<u>2001</u>	<u>2000</u>	
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>					
Net income (loss)	\$ (163,906)	\$ (46,173)	\$ (881,460)	\$ (64,310)	\$ (3,349,490)
Adjustments to reconcile net income (loss) to net cash (used) by operating activities:					
Depreciation and amortization	41,982	0	132,065	0	134,143
Expenses paid with preferred or common stock	87,500	0	458,778	0	1,100,583
Cancellation of stock	0	0	0	(83,035)	(83,035)
Loss accrued prior to merger date	0	0	(169,525)	0	(169,525)
Extraordinary gain as a result of forgiveness of administrative expense	0	0	(19,038)	0	(19,038)
( Gain) Loss on Sale of assets	3,330	0	13,234	0	(129,463)
Changes in operating assets and liabilities:					
(Increase) decrease in restricted cash	0	(1)	0	36,692	0
(Increase) decrease in accounts receivable	2,139	(34)	2,268	5,474	16,514
(Increase) decrease in royalties receivable	0	0	0	0	41,000
(Increase) decrease in deposits	0	0	0	0	9,298
(Increase) decrease in prepaid expenses	0	0	(3,172)	0	(3,172)
Increase (decrease) in accounts payable/ acc. expenses	28,477	6,564	(234,697)	(12,217)	920,958
Increase (decrease) in accounts & notes payable affiliate	(4,746)	0	20,865	0	20,865
Increase (decrease) in current portion of capital leases	<u>0</u>	<u>0</u>	<u>(4,130)</u>	<u>0</u>	<u>(4,136)</u>
Net Cash (Used) by Operating Activities	(5,224)	(39,644)	(665,774)	(117,396)	(1,514,498)
<b>CASH FLOWS FROM INVESTMENT ACTIVITIES</b>					
Proceeds from sale of assets	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>30,000</u>
Net Cash Provided by Investing Activities	0	0	0	0	30,000
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>					
Proceeds from note receivable	0	24,000	0	90,000	120,000
Proceeds from loans payable, stockholder	0	0	0	0	48,000
Proceeds from notes payable – related party	0	13,100	60,550	25,100	564,213
Cash acquired on acquisition of subsidiary	0	0	4,361	0	4,361
Repayment of loans payable	0	0	0	0	(57,000)
Proceeds from issuance of common stock	<u>0</u>	<u>0</u>	<u>600,000</u>	<u>0</u>	<u>802,200</u>
Net Cash Provided by Financing Activities	0	13,100	664,911	25,100	1,481,774
INCREASE (DECREASE) IN CASH	(5,224)	(2,544)	(863)	(2,296)	(2,724)
CASH, BEGINNING OF Period	5,836	3,393	1,475	3,145	3,336
CASH, END OF Period	\$ 612	\$ 849	\$ 612	\$ 849	\$ 612
<b>CASH PAID DURING THE PERIOD FOR:</b>					
Interest	\$ 0	\$ 0	\$ 0	\$ 0	\$ 16,597
Income taxes	0	0	0	0	0

See accompanying notes to these financial statements

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,		From the Inception of the Development Stage on January 1, 1999 Through <u>September 30, 2001</u>
	<u>2001</u>	<u>2000</u>	<u>2001</u>	<u>2000</u>	
NON – CASH FINANCING ACTIVITIES:					
Issuance of common stock in payment of debt	0	0	0	0	215,000
Issuance of common stock for services	87,500	0	276,000	0	497,805
Options issued below market value	0	0	0	0	420,000
Issuance of Series A Preferred Stock in payment of debt	0	0	2,251,802	0	2,251,802
Issuance of Series B Preferred Stock on conversion	0	0	600	0	600
Issuance of Common Stock for NHLT Acquisition	0	0	782,090	0	782,090
MedSmart debt converted to Common Stock	0	0	1,580,149	0	1,580,149
Acquisition of goodwill with NHLT purchase	0	0	1,936,149	0	1,936,149
Fair value adjustment to retained earnings upon acquisition	0	0	1,936,149	0	1,936,149
Issuance of Common Stock for Anti-dilution expense	0	0	182,778	0	182,778
Cancellation of Common Stock	\$ 0	\$ 0	\$ 0	\$ (83,055)	\$ (83,035)

See accompanying notes to these financial statements

**NATIONAL HEALTH & SAFETY CORPORATION AND SUBSIDIARY**  
**(A Development Stage Company)**  
**NOTES TO FINANCIAL STATEMENTS**  
**September 30, 2001**

**NOTE 1 SIGNIFICANT ACCOUNTING POLICIES AND BUSINESS OPERATIONS**

a. Nature of Organization

The consolidated financial statements include, for the quarter and nine months ended September 30, 2001, the accounts of National Health & Safety Corporation ("NHLT") and its wholly owned subsidiary MedSmart HealthCare Network, Inc. ("MedSmart"), collectively, the "Company."

As is discussed in detail below, upon implementation of NHLT's Bankruptcy Plan on January 22, 2001, the shareholders of MedSmart acquired control of the NHLT. For accounting purposes this combination has been treated as a "reverse acquisition" in accordance with APB 16, with MedSmart treated for accounting purposes as the acquiring company. MedSmart acquired the 58,803,716 outstanding shares of common stock of NHLT at \$.0133 per share for a total value of \$782,090. This value was determined based on the simultaneous exchange by the shareholders of MedSmart of all the outstanding shares of MedSmart in consideration for the issuance of 130,000,000 NHLT common shares at an issuance price of \$.0133 per share. This per share price is consistent with the per share price of \$.0133 paid for the issuance of 45,000,000 common shares for cash consideration of \$600,000 for the capital infusion required under the Plan. This valuation is also consistent with the total common stock and paid in capital of \$1,795,208 which had been contributed in cash into MedSmart as of the date of implementation of the Plan.

Because the actual cost to acquire NHLT was greater than the book value of assets acquired by MedSmart, a provision for goodwill was recorded. When NHLT came out of bankruptcy, approximately \$1,936,149 in claims were converted to equity due to the fact that no claim had been filed but bankruptcy amounts included all possible creditors with a possible claim. As such this amount was eliminated in order to reduce actual goodwill recorded on the acquisition by MedSmart. The computation of the provision for goodwill recorded on the acquisition of NHLT by MedSmart was as follows:

Net assets of NHLT acquired	\$ 631,204
Less liabilities acquired	(2,992,564)
Extraordinary gain on debt relief	<u>1,936,149</u>
Adjusted net assets of NHLT acquired	(425,211)
Acquisition price for NHLT	<u>(782,090)</u>
Provision for Goodwill	<u>\$ (1,207,301)</u>

NHLT was incorporated on March 23, 1989. The Company's principal business activities consist of providing medical cost containment services to both institutional and consumer markets. The Company performs on-going credit evaluations of its customers' financial condition and generally requires no collateral.

**NATIONAL HEALTH & SAFETY CORPORATION AND SUBSIDIARY**  
**(A Development Stage Company)**  
**NOTES TO FINANCIAL STATEMENTS**  
**September 30, 2001**

**NOTE 1      SIGNIFICANT ACCOUNTING POLICIES AND BUSINESS OPERATIONS - Continued**

On March 22, 1993 NHLT entered into a merger with State Policeman Annual Magazine, Inc. ("State"), whereby each share of NHLT's common and preferred stock was exchanged for one share of State's common and preferred stock. State was organized under the laws of the State of Utah on May 14, 1983. Pursuant to the merger agreement, State amended its Articles of Incorporation to change its name to National Health & Safety Corporation. NHLT entered the development stage on January 1, 1999 per SFAS No. 7 because of the bankruptcy proceedings and the sale of NHLT's assets.

On July 1, 1999, NHLT filed a petition for relief under Chapter 11 of the federal bankruptcy laws in the United States Bankruptcy Court for the Eastern District of Pennsylvania, Case No.99-18339. Under Chapter 11, certain claims against NHLT in existence prior to the filing of the petitions for relief under the federal bankruptcy laws were stayed while NHLT continued business operations as debtor-in-possession. The balance of claims which have, to date, not been settled are reported in the September 30, 2001, balance sheet as "pre-petition accruals" in the amount of \$142,800. On August 21, 2000, NHLT filed the Fourth Amended Disclosure Statement with respect to the Fourth Amended Joint Plan of Reorganization (the "Plan") for consideration by NHLT's creditors and shareholders, and ultimate approval by the Bankruptcy Court.

On November 27, 2000, the Bankruptcy Court confirmed the Plan. The Plan was filed as an exhibit to NHLT's Form 8-K, dated November 28, 2000, that reported the confirmation. On January 22, 2001, the Plan was implemented, whereby the former shareholders of MedSmart exchanged all of their MedSmart stock for a majority of the outstanding common stock of NHLT. MedSmart became a wholly owned subsidiary of NHLT. This exchange, together with the contribution of \$600,000 by a co-proponent of the Plan and other investors implemented the Plan and resulted in a change of control of NHLT.

Details of the implementation of the Plan and change in control of NHLT were included in a Form 8-K filed by NHLT on April 9, 2001, and have been supplemented by four subsequent amended filings of the Form 8-K.

Pursuant to and effective upon implementation of the Plan, January 22, 2001, several changes in NHLT's corporate structure occurred. All previously outstanding shares of stock, warrants and other interests in NHLT (other than the Common Stock) were canceled, and NHLT authorized and issued the following new classes of securities:

- NHLT authorized the issuance of up to 500,000,000 common shares, par value \$.001 and 50,000,000 shares of preferred stock, which may consist of one or more series.

**NATIONAL HEALTH & SAFETY CORPORATION AND SUBSIDIARY**  
**(A Development Stage Company)**  
**NOTES TO FINANCIAL STATEMENTS**  
**September 30, 2001**

**NOTE 1      SIGNIFICANT ACCOUNTING POLICIES AND BUSINESS OPERATIONS - Continued**

Cumulative voting of any shares of stock, whether common or preferred, is prohibited.

- NHLT authorized the issuance of up to 4,000,000 shares of Series A Preferred Stock, par value \$.001 per share, of which 2,010,822 shares have been issued. Each Series A share has a \$1.00 liquidation preference and preference over Series B Preferred Stock, Common Stock and all other series of stock ranking junior to Series A. Each share of Series A is convertible, at the option of the holder, into 5 shares of Common Stock at such times and in such amounts as stated in the Certificate of Designation. The holders of Series A stock are entitled to vote together with the holders of Series B and Common Stock and are entitled to one vote for each share of Common Stock which would be held by them if all of their shares of Series A were converted into shares of Common Stock.
  
- NHLT authorized and issued 600,000 shares of Series B Preferred Stock, par value \$.001 per share. The Series B shares were issued in exchange for 14,363 shares of old NHLT Preferred Stock which were cancelled upon Plan implementation. Each Series B share has a \$1.00 liquidation preference that is inferior to Series A but in preference to Common Stock and all other series of stock ranking junior to Series B. Each Series B share is convertible at the option of the holder into five shares of Common Stock at such times and in such amounts as stated in the Certificate of Designation. The holders of Series B stock are entitled to vote together with the holders of Series A and Common Stock and are entitled to one vote for each share of Common Stock which would be held by them if all of their shares of Series B were converted into shares of Common Stock.
  
- NHLT authorized Class A and Class B warrants to be issued to each holder of the Series A and Series B Preferred Stock. There are 4,000,000 Class A warrants authorized; 2,910,053 Class A warrants issued and outstanding, that allow the holder to purchase, for the exercise price of \$1.00, expiring two years from January 22, 2001, one share of Common Stock plus one Class B warrant. There are 4,000,000 Class B warrants authorized; entitling the holder to purchase, for an exercise price of \$1.50, expiring three years from January 22, 2001, one share of Common Stock.

MedSmart, a Nevada corporation, was incorporated on May 12, 1999. Its principal business activities consist of the marketing and distribution of discount card medical benefit memberships through its distribution network. MedSmart membership cards are designed to be a complementary benefit to most individual standard health insurance plans and corporate health and leisure benefit packages.

**NATIONAL HEALTH & SAFETY CORPORATION AND SUBSIDIARY**  
**(A Development Stage Company)**  
**NOTES TO FINANCIAL STATEMENTS**  
**September 30, 2001**

**NOTE 1      SIGNIFICANT ACCOUNTING POLICIES AND BUSINESS OPERATIONS - Continued**

In October 1999, MedSmart acquired the rights to the POWERx brand name from NHLT, which at that time, was operated as debtor-in-possession under Chapter 11 of the U.S. Bankruptcy Code. The sale of the POWERx brand name by NHLT and acquisition by MedSmart was approved by the bankruptcy court in August 1999. When NHLT's Plan was confirmed and implemented, NHLT, through the combination with MedSmart, reacquired the rights to POWERx. NHLT also markets its discount card memberships under other private label brands, including the HealthVIP brand.

The Company is a development stage company as defined by SFAS No.7. As a development stage company, the Company devotes most of its activities to raising capital in order to fully implement the marketing and distribution plan as contemplated in NHLT's Plan.

b.      Accounts Receivable

Accounts receivable are shown net of an allowance for doubtful accounts of \$8,200. Bad debts are written off in the period in which they are deemed uncollectible. Any bad debts subsequently recovered are recorded as income in the financial statements in the period during which they are recovered.

c.      Property and Equipment

Property and equipment are stated at cost. Depreciation is provided using accelerated and straight-line methods, over the estimated useful life of each class of asset as follows:

Computer Equipment	3 years
Furniture and Fixtures	5 years
Office Equipment	5 years
Leasehold Improvements	2-3 years

Expenditures for repairs, maintenance and minor renewals are charged against income as incurred and expenditures for major renewals and betterment are capitalized. The cost and accumulated depreciation of assets sold or retired are removed from the respective accounts with any gain or loss on disposal reflected in income.

**NATIONAL HEALTH & SAFETY CORPORATION AND SUBSIDIARY**  
**(A Development Stage Company)**  
**NOTES TO FINANCIAL STATEMENTS**  
**September 30, 2001**

**NOTE 1 SIGNIFICANT ACCOUNTING POLICIES AND BUSINESS OPERATIONS - Continued**

d. Basic Income (Loss) per Share of Common Stock

Basic income (loss) per common share has been calculated based on the weighted average number of shares of common stock outstanding during the period.

<u>For the Three Months Ended September 30, 2001</u>		
Loss (Numerator)	Shares (Denominator)	Per Share Amount
\$(151,833)	245,021,719	\$(0.001)

<u>For the Three Months Ended September 30, 2000</u>		
Loss (Numerator)	Shares (Denominator)	Per Share Amount
\$ (46,173)	58,803,716	\$(0.001)

<u>For the Nine Months Ended September 30, 2001</u>		
Loss (Numerator)	Shares (Denominator)	Per Share Amount
\$(835,509)	226,797,679	\$(0.004)

<u>For the Nine Months Ended September 30, 2000</u>		
Loss (Numerator)	Shares (Denominator)	Per Share Amount
\$(64,310)	59,467,500	\$(0.001)

e. Intangible Assets

Intangible assets, which consist of the goodwill acquired on the acquisition of NHLT and POWERx brand rights and proprietary software, are periodically reviewed by management to evaluate the future economic benefits or potential impairments, which may affect their values. Goodwill is being amortized over 25 years, POWERx brand rights are being amortized over 5 years, while software development costs are being amortized over 3 years. If the projected undiscounted future cash flows related to the intangible assets are less than the recorded value, the intangible assets are written down to fair value.

f. Cash Equivalents

The Company considers all highly liquid investments with maturity of three months or less to be cash equivalents.

**NATIONAL HEALTH & SAFETY CORPORATION AND SUBSIDIARY**  
**(A Development Stage Company)**  
**NOTES TO FINANCIAL STATEMENTS**  
**September 30, 2001**

**NOTE 1      SIGNIFICANT ACCOUNTING POLICIES AND BUSINESS OPERATIONS - Continued**

g.      Provision for Taxes

At December 31, 2000, NHLT had net operating loss carry-forwards of approximately \$10,950,000 that may be offset against future taxable income through 2018. These carry-forwards may be subject to various limitations set by the Internal Revenue Service. No tax benefit has been reported in the financial statements, because NHLT believes the carry-forwards may expire unused. Accordingly, the potential tax benefits of the loss carry-forwards are offset by a valuation allowance of the same amount.

h.      Unaudited Financial Statements

The accompanying unaudited financial statements include all adjustments which in the opinion of management are necessary for a fair presentation and in order to make the financial statements not misleading.

i.      Estimates

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

j.      Revenue Recognition

The Company has not yet established ongoing operations. A revenue recognition policy will be established when planned principal operations commence.

k.      Recent Accounting Pronouncements

In June 1998, the FASB issued SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities" which requires companies to record derivatives as assets or liabilities, measured at fair market-value. Gains or losses resulting from changes in the values of those derivatives would be accounted for depending on the use of the derivative and whether it qualifies for hedge accounting. The key criterion for hedge accounting is that the hedging relationship must be highly effective in achieving offsetting changes in fair value or cash flows. SFAS No. 133 is effective for all fiscal quarters of fiscal years beginning after June 15, 1999. Management believes the adoption of this statement will have no material impact on the Company's financial statements.

**NATIONAL HEALTH & SAFETY CORPORATION AND SUBSIDIARY**  
**(A Development Stage Company)**  
**NOTES TO FINANCIAL STATEMENTS**  
**September 30, 2001**

**NOTE 1      SIGNIFICANT ACCOUNTING POLICIES AND BUSINESS OPERATIONS - Continued**

1.      Bankruptcy Accounting

Since the Chapter 11 bankruptcy filing, NHLT has applied the provisions in Statement of Position (SOP) 90-7 "Financial Reporting by Entities in Reorganization Under the Bankruptcy Code." SOP 90-7 does not change the application of accepted accounting principles in the preparation of statements. However, it does require that the financial statements for periods including and subsequent to filing the Chapter 11 petition distinguish transactions and events that are directly associated with the reorganization from the ongoing operations of the business.

**NOTE 2      RESTRICTED CASH**

Pursuant to the bankruptcy proceedings, NHLT had one cash account totaling \$14,212 which had been attached by creditors or allocated for certain debt payments. This cash was being presented as restricted cash because NHLT did not have full access to this account. This restricted cash was paid to the creditor as part of the overall claims settlement with this creditor approved by the Bankruptcy Court, during the nine months ended September 30, 2001.

**NOTE 3      GOING CONCERN**

The accompanying financial statements have been prepared on a going concern basis, which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business. The Company has a working capital deficiency of \$168,600 and an accumulated deficit of \$4,920,610 as of September 30, 2001. Accordingly, its ability to continue as a going concern is dependent on obtaining capital and financing for its planned marketing and distribution of discount card memberships through the Company's benefits network. The Company plans to secure financing for its acquisition strategy through the sale of its equity or issuance of debt. However, there is no assurance that they will be successful in their efforts to raise capital or secure other financing. These factors among others may indicate that the Company will be unable to continue as a going concern for a reasonable period of time.

**NOTE 4      PREFERRED STOCK**

In 1992, NHLT entered into a stock exchange agreement with certain shareholders, whereby such stockholders agreed to exchange certain of their shares of the pre-split common stock of NHLT and certain other rights for 14,363 authorized shares of a new class of redeemable preferred stock. When NHLT's Plan was implemented on January 22, 1001, holders of NHLT's 14,363 shares of Preferred Stock exchanged their shares for 600,000 shares of new Series B Preferred Stock, described below.

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**NOTE 4      PREFERRED STOCK - continued**

Upon implementation of the Plan, NHLT authorized issuance of up to 50,000,000 shares of Preferred Stock, of which the following series have been designated and issued:

- NHLT designated up to 4,000,000 shares of Series A Preferred Stock, par value \$.001 per share. NHLT has issued 2,010,822 Series A shares. Each Series A share carries a \$1.00 liquidation preference and preference over Series B Preferred Stock, Common Stock and all other series of stock ranking junior to Series A. Each Series A share is convertible, at the option of the holder, into 5 shares of Common Stock at such times and in such amounts as stated in the Certificate of Designation. The holders of Series A stock are entitled to vote together with the holders of Series B and Common Stock and are entitled to one vote for each share of Common Stock which would be held by them if all of their shares of Series A were converted into shares of Common Stock.
  
- NHLT designated and issued 600,000 shares of Series B Preferred Stock, par value \$.001 per share. Each Series B share carries a \$1.00 liquidation preference that is inferior to Series A but is preferred to Common Stock and all other series of stock ranking junior to Series B. Each Series B share is convertible at the option of the holder into five shares of Common Stock at such times and in such amounts as stated in the Certificate of Designation. The holders of Series B stock are entitled to vote together with the holders of Series A and Common Stock and are entitled to one vote for each share of Common Stock which would be held by them if all of their shares of Series B were converted into shares of Common Stock.

**NOTE 5      OPTIONS AND WARRANTS**

When NHLT's Plan was implemented on January 22, 2001, all outstanding options and warrants were cancelled. As a part of the Plan, NHLT issued two new series of warrants.

Class A warrants were issued to each holder of Series A and Series B Preferred Stock in the ratio of one warrant for each share. There are 4,000,000 Class A warrants authorized; 2,910,053 Class A warrants issued and outstanding, or process of issuance, that allow the holder to purchase, for the exercise price of \$1.00, expiring two years from January 22, 2001, one share of Common Stock plus one Class B warrant. There are 4,000,000 Class B warrants authorized; entitling the holder to purchase, for an exercise price of \$1.50, expiring three years from January 22, 2001, one share of Common Stock. Presently, no Class B warrants are outstanding.

On July 2, 2001 the disinterested members of NHLT's Board of Directors unanimously adopted an Incentive Stock Option Plan for certain of the management consultants under contract with First Advisors. Total options for 25,000,000 shares of common stock were approved and granted

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**NOTE 5      OPTIONS AND WARRANTS – continued.**

to a total of five management consultants providing services to the Company. Options for a total of 8,333,333 shares were vested at the time of grant. The 16,666,667 total combined remaining options vest at the rate of twelve and one-half percent over each quarter for the next two years for each consultant, assuming continued service by the consultant. In the event that the grantee is terminated without cause or NHLT is sold or merged all remaining options vest. In the event the grantee is terminated for cause, all unvested options will be cancelled. The exercise price of each option was fixed at \$.025 per share, the closing bid price for NHLT's common stock on the date of adoption of the plan.

Out of the total options granted, Gary J. Davis, the Chief Executive Officer of NHLT, was granted options totaling 9,000,000 shares of which 3,000,000 were immediately vested. The remaining balance of 6,000,000 options granted Mr. Davis vest at the rate of 750,000 shares per quarter over the next two years.

**NOTE 6      RELATED PARTY TRANSACTIONS**

Upon implementation of the Plan and the acquisition of MedSmart, an affiliate of MedSmart, presently an affiliate of the Company, was owed a total of \$91,695. The balance of accounts payable to affiliate at September 30, 2001 was \$24,839 and is due on demand. At the date of acquisition, MedSmart had an outstanding balance of \$66,856 due affiliate remaining from notes payable not converted to equity as a part of the acquisition. This has been converted to promissory note with all principal due twelve months from the date of implementation of the plan, January 22, 2001. The note bears interest at the rate of 9%, payable monthly in arrears.

On May 1, 2001, NHLT approved a consulting agreement and retained First Advisors, Inc. ("First Advisors") of Austin, Texas, to provide business consultation services. Under terms of the agreement, First Advisors will assist and advise MedSmart with the specific goal of facilitating a high volume implementation of its medical discount program. First Advisors is a company controlled by Gary J. Davis, the Chief Executive Officer of NHLT and an affiliate of the Company. The consulting agreement was approved by a majority of the disinterested Directors of NHLT. The consulting agreement is for an initial term of one year, however, upon thirty days notice it may be cancelled by either NHLT or First Advisors. Under terms of the consulting agreement First Advisors is to receive payment for services in the form of common stock registered under Form S-8 at a rate of 1,250,000 shares per month. During the three month period ended September 30, 2001, NHLT issued 3,750,000 shares of common stock to First Advisors and recorded a charge to general and administrative expense of \$87,500.

During the quarter ended June 2001, NHLT issued 1,500,000 shares of common stock to each of Eugene Rothchild and James Kennard, respectively. This stock bonus was issued as

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**NOTE 7      LONG TERM NOTES PAYABLE**

compensation for their efforts and work during the bankruptcy and reorganization of the Company. During the quarter NHLT recorded a general and administrative expense in the amount of \$111,000 related to this stock issuance. Both Mr. Rothchild and Mr. Kennard are directors of NHLT.

As a part of the agreed settlement with one of NHLT's pre-petition creditors, in addition to the issuance of Series A Preferred Stock and Warrants, NHLT issued a seven year promissory note in the amount of \$20,000 dated January 22, 2001. Payments of principal and interest are payable annually in arrears. The note bears interest at the rate of seven-year treasury bonds, presently 5.5%.

**NOTE 8      PRO FORMA FINANCIAL INFORMATION**

MedSmart was acquired by NHLT during the three month and nine month periods ended March 31, 2001, and September 30, 2001, respectively. Noted below are the Pro Forma results of Consolidated Net Income of the Company assuming MedSmart and NHLT had been combined at the beginning of the noted periods.

	Three Months Ended <u>March 31,</u> <u>2001</u>	Three Months Ended <u>March 31,</u> <u>2000</u>	Nine Months Ended <u>September 30,</u> <u>2001</u>	Nine Months Ended <u>September, 30,</u> <u>2000</u>
Revenue	\$ 12,795	\$ 16,003	\$ 24,405	\$ 40,939
Income (Loss)from continuing operations	(404,056)	(279,141)	(872,892)	(871,933)
Net Income (Loss) before Extraordinary Items	(408,334)	(229,666)	(900,498)	(874,933)
Extraordinary Items	19,038	0	19,038	0
Net Income (Loss)	(389,296)	(229,666)	(881,460)	(874,933)
Basic Net Income (Loss) per Share	\$ ( 0.002)	\$ (0.004)	\$ ( 0.004)	\$ (0.015)
Fully Diluted Net Income (Loss) per Share	\$ (0.002)	\$ (0.004)	\$ (0.004)	\$ (0.015)

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**NOTE 9      SUBSEQUENT EVENTS**

Subsequent to September 30, 2001, NHLT settled an outstanding lawsuit with the Stein Group. In return for payment of \$100,000 cash, NHLT issued a total of 13,093,964 shares of restricted common stock to the Stein Group and agreed to appoint a representative of the Stein Group to its board of directors. Settlement of this lawsuit will result in the elimination of \$142,500 of accrued liabilities presently recorded on NHLT's books.

## **Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations**

The following information should be read in conjunction with our Consolidated Financial Statements and notes thereto appearing elsewhere in this Form 10-QSB.

In January 2001, we implemented our confirmed Plan of Reorganization under Chapter 11 of the U.S. Bankruptcy Code. Subsequent to implementing the Plan, we have changed the focus of our marketing efforts. Historically, we have marketed directly to consumers and to employer groups. In the future we expect to concentrate our marketing efforts on developing relationships with strategic distribution partners with established distribution networks. These may include marketing companies and development of a larger network of independent brokers. We expect to implement these relationships on a basis where the distribution partners will bear their own cost of marketing in return for a share of gross revenue from membership sales. Because we do not intend to market directly to consumers in the future, we anticipate that we will realize only nominal revenues until we can implement initiatives with strategic distribution partners. During the second quarter of 2001, we executed an agreement with DM Benefit Group, LLC, a marketing company that markets and distributes benefit programs to the credit union industry. We also began the process of reorganizing our independent broker network on a regional basis and recruiting brokers within these regions to market the New Benefits discount network.

In May 2001, we entered an agreement with New Benefits, Inc., under which we will outsource most back office functions including enrollment and processing of new members, fulfillment of membership kits, renewal notification and member support. Under this agreement, we will market the New Benefits medical discount network under a new brand name – Health VIP – to replace the POWERx brand. Under terms of the agreement, New Benefits receives a share of gross revenue generated from the sale of each membership card and, in return, bears its own cost of providing the back office services to enroll, maintain, service and renew each member. In the future we intend to concentrate efforts and resources on marketing and business development, with support services outsourced to New Benefits, rather than funded and maintained internally. We intend to phase out our existing brand, POWERx.

Also in May 2001, we entered a consulting agreement with First Advisors, Inc., of Austin, Texas to provide business consultation services. First Advisors is wholly owned by Gary J. Davis, our Chief Executive Officer. First Advisors will assist and advise MedSmart with the goal of facilitating a high volume implementation of its medical benefits discount program. In addition, First Advisors will assist us in refining our marketing and sales plans and establishing strategic relationships with prospective suppliers, customers and distribution partners. The consulting agreement with First Advisors was approved by a majority of our disinterested directors. Mr. Davis is being compensated through our arrangement with First Advisors. Since March 2001, Mr. Davis has not received compensation directly from us for his services as CEO.

When the Plan was implemented in January 2001, we received a cash infusion of \$600,000 from the sale of common stock, for payment of administrative claims associated with the Chapter 11 proceeding and for use as operating capital. This amount has proved inadequate to fund our

operations. To continue operations, we will require additional debt or equity funding to enable us to properly deploy our discount card membership program.

## Results of Operations

The following table sets forth our results of operations data expressed as a percentage of sales:

	Three Months Ended		Nine Months Ended	
	<u>Sept. 30, 2001</u>	<u>Sept. 30, 2000</u>	<u>Sept. 30, 2001</u>	<u>Sept. 30, 2000</u>
Sales	100%	100%	100%	100%
Cost of sales	33%	0%	24%	4%
Gross profit	67%	100%	76%	96%
Operating expenses	(4,681)%	(4,709)%	(3,652)%	(3,127)%
(Loss) from operations	(4,614)%	(4,609)%	(3,577)%	(3,031)%
Other (expenses)	(76)%	(521)%	(113)%	1,571%
Net income (loss)	(4,690)%	(5,130)%	(3,612)%	(1,460)%

### Results of Operations for the Three and Nine Months Ended September 30, 2001, as Compared to the Three and Nine Months Ended September 30, 2000

Total revenues for the three and nine month periods ended September 30, 2001 ("third quarter" and "nine months" of 2001, respectively), were \$3,495 and \$24,405, respectively, compared to \$900 and \$4,404 for the corresponding 2000 periods. The \$4,404 in sales reported for the nine months of 2000 represent monthly receipts for sales received during the first quarter 2000 for sales that were agreed to prior to October 1, 1999, the date we sold the POWERx network to MedSmart. For the most part, we concentrated our efforts in the nine months of 2001 on completing and implementing the Plan, negotiating the contract with New Benefits and finalizing its go forward marketing plan.

Cost of sales for the third quarter and nine months of 2001 were \$1,141 and \$5,972, respectively, compared to \$0 and \$185 for the comparable periods in 2000. In 2000, we had minimal cost and no operations after the POWERx sale in the first quarter. Going forward in 2001, we intend to outsource enrollment, fulfillment and customer service to New Benefits. Costs for these services will be paid on a revenue sharing, success basis as memberships are sold. In effect, we will pay for these services as a part of the wholesale purchase price of memberships paid to New Benefits, only when a new membership is sold. Under this arrangement we do not anticipate incurring significant, ongoing internal cost of sales related to increased personnel and infrastructure.

Operating expenses for the third quarter and nine months of 2001 were \$163,612 and \$891,325, respectively, compared to \$42,384 and \$137,696 for the comparable periods of 2000. During the nine months ended September 30, 2000, we had no operations or employees other than the Chief Financial Officer and paid no rent because office space was shared with MedSmart without charge. The 2001 periods represent administrative staffing and costs related to resumption of the operating activities upon the acquisition of MedSmart in January 2001. During second quarter 2001, we terminated all operations and personnel in our Philadelphia and Dallas offices, consolidating the related activities in Austin, Texas. In comparing second and third quarter

2001, recurring operating expenses were significantly lower in the third quarter. Operating expenses for the second quarter included compensation expenses of \$111,000 related to a one time payment in common stock to our directors for their efforts and work related to the bankruptcy and reorganization. The substantial increase in depreciation and amortization expense for 2001 periods compared to 2000 periods primarily relates to amortization costs related to the POWERx brand acquisition costs and software costs incurred by MedSmart to update our web site and membership management capabilities and the amortization of goodwill incurred upon the acquisition of NHLT.

Other income (expense) for the nine months of 2001 was \$(27,606) compared to \$69,167 for the first nine months of 2000. Other expense recorded in first half 2001 includes a \$9,904 loss on sale of office equipment related to termination of our Philadelphia office and a non-cash charge of \$182,778 resulting from the issuance of a comparable amount of common stock to satisfy certain anti-dilution provisions to certain shareholders that were included in our Plan of Reorganization. In addition, at the time of the Plan implementation and the acquisition of NHLT on January 22, 2001, NHLT had recorded an operating loss through January 22, 2001 of \$169,525. Since this amount was incurred prior to acquisition, in the consolidated financial statements it is a direct entry to equity and reduces the overall consolidated loss attributed to NHLT and included in loss from operations for first half 2001. Accordingly, \$169,525 is recorded in other income as "Subsidiary loss incurred prior to acquisition." During the nine months of 2000, we recorded \$83,035 in other income from the cancellation of common stock, while we had no cancellations of common stock in the first nine months of 2001.

Interest expense (income) for the third quarter and nine months of 2001 was \$(682) and \$1,118, respectively, compared to \$4,689 and \$13,868 for the comparable periods in 2000. The decrease in interest expense principally relates to the reduction in our debt occurring as part of the bankruptcy reorganization.

Net loss before extraordinary items for the third quarter and nine months of 2001 was \$163,906 and \$900,498, respectively, compared to losses of \$46,173 and \$64,310 for the comparable 2000 periods. In the nine months of 2001 and 2000 we recorded minimal revenue. Income and expense for the nine months quarter of 2000 do not include income or expense attributable to POWERx, which had been sold to MedSmart. As earlier noted, the operating expenses from MedSmart are consolidated into the results for the nine months of 2001.

### **Net Operating Losses**

At December 31, 2000, we had accumulated approximately \$10,950,000 of net operating loss carry-forwards, which may be offset against taxable income and income taxes in future years. The use of these losses to reduce future income taxes will depend on the generation of sufficient taxable income prior to the expiration of the net operating loss carry-forwards. The carry-forwards expire in the year 2018. In the event of certain changes in control, one of which may be deemed to have occurred as a result of our acquisition of MedSmart, there will be an annual limitation on the amount of net operating loss carry-forward which can be used. We reported no tax benefit the financial statements for first half 2001 because we believe the carry-forward may expire unused. Accordingly, the potential tax benefits of the loss carry-forward is offset by a valuation allowance of the same amount.

## Liquidity and Capital Resources

Historically, we have satisfied our working capital needs primarily through financing activities including private loans and raising capital through the sale of securities. Working capital at September 30, 2001, was a negative \$168,600 compared to a negative \$4,665,731 at September 30, 2000. The reduction in working capital deficit is primarily related to events occurring as a result of implementation of the Plan.

Upon implementation of the Plan, certain of our affiliates purchased 45,000,000 shares of newly issued common stock for total consideration of \$600,000. Approximately \$300,000 of these proceeds were utilized to pay administrative claims of the bankruptcy, thereby reducing accounts payable and accrued expenses-post petition by an equal amount. The balance of cash received was utilized to for working capital to fund our operations during the nine months of 2001.

Net cash used in operating activities for the third quarter and nine months of 2001 was \$5,224 and \$665,774, respectively, compared with \$39,644 and \$117,396 for the comparable periods in 2000. These increases relate primarily to the fact that the nine months 2001 operations include the consolidated activities of both NHLT and MedSmart, whereas the nine months of 2000 includes activities of only NHLT when we had one employee. This increase in net cash used in operations was funded through financing activities where we sold common stock for \$600,000 of cash.

During the nine months of 2001, a total of \$276,000 of expenses were paid through the issuance of common stock and a total of \$182,778 of expenses was paid through the issuance of Series A Preferred Stock. Other expense recorded for the nine months of 2001 includes a non-cash charge of \$182,778 resulting from the issuance of a comparable amount of common stock to satisfy certain anti-dilution provisions for certain shareholders that were included in the Plan. During third quarter 2001, we recorded general and administrative expense of \$87,500 related to issuance of 3,750,000 shares of common stock to First Advisors for consulting services.

Our ability to meet working capital needs and continuation as a going concern during fiscal 2001 will depend primarily on our ability to obtain additional future financing and successful implementation of MedSmart's marketing, distribution and sale of discount card memberships and related products.

As of September 30, 2001, we had total assets of \$1,434,996 and total stockholders' equity of \$1,084,924, compared to September 30, 2000 at which time we had total assets of \$64,059 and total stockholders' deficiency of \$4,697,693. The increase in assets relates to assets acquired under the Plan including the acquisition by MedSmart of NHLT and the cash proceeds received from the sale of common stock. Out of our total assets of \$1,434,996, intangible assets consisting of goodwill and POWERx brand and software assets total \$1,404,109. The reduction in stockholder's deficiency resulted primarily from the effects of the implementation of the Plan with the settlement of \$2,351,802 of liabilities in exchange for Series A Preferred units, recording \$1,936,149 as a fair value adjustment to equity during the acquisition by MedSmart, proceeds from the sale of new common stock for cash of \$600,000, and the payment of expenses totaling \$458,778 through the issuance of common and preferred stock.

## **Risk Factors and Cautionary Statements**

Forward-looking statements in this report are made pursuant to the "safe harbor" provisions of the Private Securities Litigation Reform Act of 1995. Actual results may differ substantially from such forward-looking statements. Forward-looking statements involve risks and uncertainties that could cause actual results to differ materially from those expressed in or implied by the statements, including, but not limited to, the following: our ability to continue as a viable concern post implementation of the Plan, our ability to obtain financing in order to implement our business plan and other risks detailed in our periodic report filings with the Securities and Exchange Commission.

## **PART II. OTHER INFORMATION**

### **Item 1. Legal Proceedings**

None

### **Item 2. Changes in Securities and Use of Proceeds**

In the third quarter of 2001, we issued the following securities that were not registered under the Securities Act of 1933 (the "Securities Act"):

During the third quarter of 2001, we issued 3,750,000 shares of Common Stock to a consulting company owned by our president for consulting services rendered in managing the company. We recorded \$87,500 compensation expense for the stock. These shares were issued pursuant to a contract for services negotiated between the parties in a private transaction, in reliance on Section 4(2) of the Securities Act.

During the third quarter of 2001, we issued 599,910 shares of Common Stock upon conversion of 119,982 shares of Series A Preferred Stock. These shares are exempt from the registration provisions of the Securities Act pursuant to Section 1145 of the U.S. Bankruptcy Code.

### **Item 5. Other Information**

None

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

#### **(a) Exhibits**

None.

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

None.

## Signatures

Pursuant to the requirements of Section 13 or 15(d) 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.

NATIONAL HEALTH & SAFETY CORPORATION

Date: March 1, 2002

Gary J. Davis  
Gary J. Davis, President and Chief Executive Officer

Date: March 1, 2002

Jimmy E. Nix, II  
Jimmy E. Nix, II, Chief Financial Officer