

NATURAL HEALTH TRENDS CORP

Form DEF 14A

October 20, 2006

**Table of Contents**

**SCHEDULE 14A**  
**Proxy Statement Pursuant to Section 14(a) of the Securities Exchange Act of 1934**  
**(Amendment No. \_\_\_)**

- Filed by Registrant
- Filed by a Party other than the Registrant

Check the appropriate box:

- Preliminary Proxy Statement
- Definitive Proxy Statement
- Definitive Additional Materials
- Soliciting Material Pursuant to §240.14a-11(c) or §240.14a-12

**NATURAL HEALTH TRENDS CORP.**  
*(Name of Registrant As Specified in its Charter)*

Payment of Filing Fee (Check the appropriate box):

- No fee required.
- Fee computed on table below per Exchange Act Rules 14a-6(i)(4) and 0-11.

1) Title of each class of securities to which transaction applies:

N/A

2) Aggregate number of securities to which transaction applies:

N/A

3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11:<sup>(1)</sup>

N/A

4) Proposed maximum aggregate value of transaction:

N/A

5) Total fee paid

N/A

(1) Set forth the amount on which the filing fee is calculated and state how it was determined.

o Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and date of its filing.

1) Amount Previously Paid:

N/A

2) Form, Schedule or Registration Statement No.:

N/A

3) Filing Party:

N/A

4) Date Filed:

N/A

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**Table of Contents**

**NATURAL HEALTH TRENDS CORP.  
2050 DIPLOMAT DRIVE  
DALLAS, TEXAS 75234**

**NOTICE OF ANNUAL MEETING OF STOCKHOLDERS  
TO BE HELD ON NOVEMBER 17, 2006**

*To the Stockholders of Natural Health Trends Corp.:*

The 2006 annual meeting of stockholders of Natural Health Trends Corp. (the Company) will be held on November 17, 2006 at 2050 Diplomat Drive, Dallas, Texas 75234 at 9:00 a.m. local time (Central Daylight Time). At the meeting, the holders of the Company's outstanding common stock will act on the following matters:

1. Election of six (6) directors to the Board of Directors of the Company to serve until the next annual meeting of the Company's stockholders;
2. Ratification of the appointment of Lane Gorman Trubitt, L.L.P. as the Company's independent auditors for the fiscal year ending December 31, 2006;
3. Approval of the Company's 2007 Annual Incentive Plan;
4. Approval of the Company's 2007 Equity Incentive Plan; and
5. Any other matters that properly come before the meeting.

All holders of record of shares of the Company's common stock at the close of business on October 6, 2006 are entitled to vote at the meeting and any postponements or adjournments of the meeting.

BY ORDER OF THE BOARD OF DIRECTORS

October 20, 2006

/s/ Gary C. Wallace  
Gary C. Wallace  
Secretary

**WHETHER OR NOT YOU EXPECT TO BE PRESENT AT THE MEETING, PLEASE SIGN AND DATE THE ENCLOSED FORM OF PROXY AND MAIL IT PROMPTLY IN THE ENCLOSED ENVELOPE TO OUR TRANSFER AGENT. THIS PROXY STATEMENT AND PROXY CARD ARE BEING MAILED TO THE COMPANY'S STOCKHOLDERS ON OR ABOUT OCTOBER 20, 2006.**

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**Table of Contents**

**TABLE OF CONTENTS**

	<b>Page</b>
<u>ABOUT THE MEETING</u>	1
<u>What is the purpose of the meeting?</u>	1
<u>Who is entitled to vote at the meeting?</u>	1
<u>What are the voting rights of the holders of the Company's common stock?</u>	1
<u>Who can attend the meeting?</u>	1
<u>What constitutes a quorum?</u>	1
<u>How do I vote?</u>	2
<u>Can I revoke my proxy after I return it?</u>	2
<u>What are the Board of Directors' recommendations?</u>	2
<u>What vote is required to approve each item?</u>	2
<u>What types of expenses will the Company incur?</u>	3
 <u>STOCK OWNERSHIP</u>	 4
<u>Who are the owners of the Company's stock?</u>	4
<u>What is the status of Section 16(a) beneficial ownership reporting compliance?</u>	6
 <u>GOVERNANCE OF THE COMPANY</u>	 7
<u>Who are the current members of the Board of Directors?</u>	7
<u>Who is the Chairman of the Board?</u>	7
<u>Which directors are considered independent?</u>	8
<u>How often did the Board of Directors meet during fiscal 2005?</u>	8
<u>What is the role of the Board of Directors' committees?</u>	8
<u>What is the Executive Management Committee?</u>	10
<u>How are directors compensated?</u>	10
<u>How do stockholders communicate with the Board of Directors?</u>	11
<u>Does the Company have a Code of Ethics?</u>	11
<u>Certain Relationships and Related Transactions - What related party transactions involved directors, executive officers or significant stockholders?</u>	11
 <u>REPORT OF THE AUDIT COMMITTEE</u>	 15
 <u>EXECUTIVE COMPENSATION</u>	 16
<u>Report of the Compensation Committee on Executive Compensation</u>	16
<u>Compensation Committee Interlocks and Insider Participation</u>	17
<u>Executive Officers of the Company</u>	17
<u>Summary Compensation Table</u>	19
<u>Option Grants in Last Fiscal Year</u>	20
<u>Aggregate Option Exercises in Last Fiscal Year and Fiscal Year-End Option Values</u>	21
<u>Equity Compensation Plan Information</u>	21
<u>Employment Agreements</u>	22

<u>COMPARISON OF CUMULATIVE TOTAL RETURN</u>	24
<u>ITEM ONE: ELECTION OF DIRECTORS</u>	26

**Table of Contents**

	<b>Page</b>
<u>Biographical Summaries of Nominees for the Board of Directors</u>	26
<u>ITEM TWO: APPOINTMENT OF LANE GORMAN TRUBITT, L.L.P. AS INDEPENDENT AUDITORS FOR THE COMPANY FOR FISCAL YEAR ENDING DECEMBER 31, 2006</u>	28
<u>Audit and Other Professional Fees</u>	30
<u>Pre-approval Policies for Audit and Non-audit Services</u>	31
<u>ITEM THREE: Approval of the Company's 2007 Annual Incentive Plan</u>	31
<u>ITEM FOUR: Approval of the Company's 2007 Equity Incentive Plan</u>	35
<u>OTHER MATTERS</u>	43
<u>ADDITIONAL INFORMATION</u>	43
<u>Stockholder Proposals for the 2007 Annual Meeting and Other Stockholder Communications</u>	43
<u>Annual Report</u>	44
<u>HOUSEHOLDING INFORMATION</u>	44
Appendix A: Natural Health Trends Corp. 2007 Annual Incentive Plan	
Appendix B: Natural Health Trends Corp. 2007 Equity Incentive Plan	

**Table of Contents**

**NATURAL HEALTH TRENDS CORP.  
2050 Diplomat Drive, Dallas, Texas 75234  
PROXY STATEMENT**

This proxy statement contains information related to the annual meeting of stockholders of Natural Health Trends Corp. ( the Company ) to be held on November 17, 2006, beginning at 9:00 a.m., at the Company s executive offices, 2050 Diplomat Drive, Dallas, Texas 75234, and at any postponements or adjournments thereof. This proxy statement is being mailed to stockholders on or about October 20, 2006.

**ABOUT THE MEETING**

***What is the purpose of the meeting?***

At the annual meeting, stockholders will act upon the matters outlined in the Notice of Annual Meeting of Stockholders included with this proxy statement, including the election of Directors, and ratification of the appointment of the Company s independent public accountants.

***Who is entitled to vote at the meeting?***

Only stockholders of record at the close of business on October 6, 2006, the record date for the meeting (the Record Date ), are entitled to receive notice of and to participate in the annual meeting. If you were a stockholder of record on that date, you will be entitled to vote all of the shares that you held on that date at the meeting, or any postponements or adjournments of the meeting.

***What are the voting rights of the holders of the Company s common stock?***

Each outstanding share of the Company s common stock will be entitled to one vote on each matter considered at the meeting. Cumulative voting in the election of directors is prohibited by the Company s certificate of incorporation.

***Who can attend the meeting?***

All stockholders as of the record date, or their duly appointed proxies, may attend the meeting.

***What constitutes a quorum?***

The presence at the meeting, in person or by proxy, of the holders of a majority of the aggregate voting power of the stock outstanding on the record date will constitute a quorum, permitting the stockholders to act upon the matters outlined in the Notice of Annual Meeting of Stockholders. As of the record date, 8,199,933 shares of common stock, representing the same number of votes, were outstanding. Thus, the presence of the holders of common stock representing at least 4,181,966 shares of common stock will be required to establish a quorum.



**Table of Contents**

Proxies received but marked as abstentions and broker non-votes will be included in the calculation of the number of votes considered to be present at the meeting.

***How do I vote?***

If you complete and properly sign the accompanying form of proxy and return it to the Company, it will be voted as you direct. If you are a registered stockholder and attend the meeting, you may deliver your completed proxy in person.

***Can I revoke my proxy after I return it?***

Proxies given by stockholders of record for use at the annual meeting may be revoked at any time prior to the exercise of the powers conferred. In addition to revocation in any other manner permitted by law, stockholders of record giving a proxy may revoke the proxy by an instrument in writing, executed by the stockholder or his attorney authorized in writing or, if the stockholder is a corporation, under its corporate seal, by an officer or attorney thereof duly authorized, and deposited either at the corporate headquarters of the Company at any time up to and including the last business day preceding the day of the annual meeting, or any adjournment thereof, at which the proxy is to be used, or with the chairman of the annual meeting on the day of the annual meeting or adjournment thereof, and upon either of such deposits the proxy is revoked.

***What are the Board of Directors' recommendations?***

Unless you give other instructions on your returned proxy, the persons named as proxy holders on the proxy will vote in accordance with the recommendations of the Board of Directors. The Board of Directors' recommendations are set forth together with the description of each item in this proxy statement. In summary, the Board of Directors recommends a vote:

*for* election of the nominated slate of Directors (see Item One),

*for* ratification of the appointment of Lane Gorman Trubitt, L.L.P. as the Company's independent auditors for the fiscal year ending December 31, 2006 (see Item Two),

*for* the approval of the Company's 2007 Annual Incentive Plan (see Item Three), and

*for* the approval of the Company's 2007 Equity Incentive Plan (see Item Four).

With respect to any other matter that properly comes before the meeting, the proxy holders will vote as recommended by the Board of Directors or, if no recommendation is given, in their own discretion.

***What vote is required to approve each item?***

**Election of Directors.** The affirmative vote of a plurality of the votes cast at the meeting is required for the election of Directors. A properly executed proxy marked  Withhold

**Table of Contents**

Authority with respect to the election of all Directors will not be voted with respect to the Directors, although it will be counted for purposes of determining whether there is a quorum.

**Ratification of Independent Auditors.** For the ratification of the appointment of Lane Gorman Trubitt, L.L.P. as the Company's independent auditors for the fiscal year ending December 31, 2006 (Item Two), the affirmative vote of the holders of a majority of the shares represented in person or by proxy and entitled to vote on the item at the annual meeting will be required for approval. A properly executed proxy marked "Abstain" with respect to Item Two will not be voted, although it will be counted for purposes of determining whether there is a quorum. Accordingly, an abstention will have the effect of a negative vote for such Item.

**Approval of the Annual Incentive Plan and the Equity Incentive Plan.** For the approval of each of the Company's 2007 Annual Incentive Plan (Item Three) and the Company's 2007 Equity Incentive Plan (Item Four), the affirmative vote of the holders of a majority of the shares represented in person or by proxy and entitled to vote on each of the items at the annual meeting will be required for approval. A properly executed proxy marked "Abstain" with respect to Items Three and/or Four will not be voted for that Item, although it will be counted for purposes of determining whether there is a quorum. Accordingly, an abstention will have the effect of a negative vote for such Item.

Broker non-votes will count in determining if a quorum is present at the annual meeting. A broker non-vote occurs if a broker or other nominee attending the annual meeting in person or submitting a proxy does not have discretionary authority to vote on a particular item and has not received voting instructions with respect to that item.

***What types of expenses will the Company incur?***

The expense of preparing, printing and mailing this proxy statement and notice, exhibits and the proxies solicited hereby will be borne by the Company. In addition to the use of the mails, proxies may be solicited by officers and directors and regular employees of the Company, without additional remuneration, by personal interviews, telephone, telegraph or facsimile transmission. The Company may elect to engage a proxy solicitation firm to solicit stockholders to vote or grant a proxy with respect to the proposals contained in this proxy statement. The Company will request brokerage firms, nominees, custodians and fiduciaries to forward proxy materials to the beneficial owners of shares of common stock held of record and will provide reimbursements for the cost of forwarding the material in accordance with customary charges.

**Table of Contents****STOCK OWNERSHIP*****Who are the owners of the Company's stock?***

The following table shows the amount of the Company's common stock beneficially owned (unless otherwise indicated) as of the Record Date by (i) each stockholder we know is the beneficial owner of more than 5% of the Company's common stock, (ii) each director or director nominee, (iii) each of the executive officers named in the Summary Compensation Table set forth under Executive Compensation and (iv) all executive officers and directors as a group. Beneficial ownership is determined in accordance with the rules and regulations of the Securities and Exchange Commission and generally includes those persons who have voting or investment power with respect to the securities. Except as otherwise indicated, and subject to applicable community property laws, the persons named in the table have sole voting and investment power with respect to all shares of the Company's common stock beneficially owned by them.

Name and Address of Beneficial Owner <sup>(1)</sup>	Amount and Nature of Beneficial Ownership <sup>(2)</sup>	Percent of Class <sup>(2)</sup>
<b>Stephanie S. Hayano</b>		*
<b>Robert H. Hesse<sup>(3)</sup></b> <b>360 Thornton Road</b> <b>Englewood, NJ 07631</b>	6,984 <sup>(4)</sup>	*
<b>Anthony B. Martino</b>	7,500 <sup>(5)</sup>	*
<b>Randall A. Mason</b>	126,262 <sup>(6)</sup>	1.5%
<b>Terrence M. Morris</b>	7,500 <sup>(7)</sup>	*
<b>Colin J. O'Brien</b>	17,500 <sup>(8)</sup>	*
<b>Sir Brian Wolfson</b>	86,627 <sup>(9)</sup>	1.0%
<b>John Cavanaugh</b>	453,968 <sup>(10)</sup>	5.4%
<b>Chris Sharng</b>	27,932 <sup>(11)</sup>	*
<b>Richard S. Johnson</b>	23,000 <sup>(12)</sup>	*
<b>Keith C. Zagar</b> <b>704 Chaucer Court</b> <b>Southlake, TX 76092</b>		*
<b>Per Ahlund</b>		*

**Table of Contents**

Name and Address of Beneficial Owner <sup>(1)</sup>	Amount and Nature of Beneficial Ownership <sup>(2)</sup>	Percent of Class <sup>(2)</sup>
<b>Mark D. Woodburn</b> <sup>(13)</sup> <b>809 Dominion Drive</b> <b>Southlake, TX 76092</b>	16,921 <sup>(14)</sup>	*
<b>Terry A. LaCore</b> <sup>(15)</sup> <b>3105 Brookhollow Lane</b> <b>Flower Mound, TX 75028</b>	244,998 <sup>(16)</sup>	3.0%
<b>Krage &amp; Janvey, L.L.P.</b> <b>2100 Ross Avenue</b> <b>Suite 2600</b> <b>Dallas, Texas 75201</b>	1,081,066 <sup>(17)</sup>	13.2%
<b>Directors and Executive Officers As a Group (10 persons)</b>	1,831,355 <sup>(18)</sup>	21.1%

\* Indicates  
beneficial  
ownership of  
less than 1%

(1) Unless  
otherwise  
indicated, the  
address of each  
beneficial owner  
is c/o Natural  
Health Trends  
Corp., 2050  
Diplomat Drive,  
Dallas, Texas  
75234

(2) Any securities  
not outstanding  
that are subject  
to options or  
conversion  
privileges  
exercisable  
within 60 days  
of April 28,  
2006 are  
deemed

outstanding for the purpose of computing the percentage of outstanding securities of the class owned by any person holding such securities but are not deemed outstanding for the purpose of computing the percentage of the class owned by any other person in accordance with Item 403 of Regulation S-K of the Securities Act 1933 and Rule 13(d)-3 of the Securities Exchange Act, and based upon 8,199,933 shares of common stock outstanding (excluding treasury shares) as of the Record Date.

- (3) Mr. Hesse is a former director of the Company and the former Interim Chief Executive Office of the Company, and therefore the shares beneficially owned by him are not included in Directors and Executive Officers as a

Group.

- (4) Includes 1,984 shares of common stock issuable upon the exercise of warrants held by Mr. Hesse.
- (5) Includes 7,500 shares of common stock issuable upon the exercise of options held by Mr. Martino.
- (6) Includes
  - (i) 67,500 shares of common stock issuable upon the exercise of options held by Mr. Mason,
  - (ii) 27,399 shares owned by Marden Rehabilitation Associates, Inc., an entity controlled by Mr. Mason, and
  - (iii) 31,363 shares of common stock owned by Magco, Inc, an entity controlled by Mr. Mason.
- (7) Includes 7,500 shares of common stock issuable upon the exercise of options held by Mr. Morris.

(8)

Includes 7,500 shares of common stock issuable upon the exercise of options held by Mr. O'Brien.

- (9) Includes
- (i) 60,000 shares issuable upon the exercise of options held by Capital Development S.A, an entity controlled by Sir Brian Wolfson ( Capital Development ),
  - (ii) 1,984 shares of common stock issuable upon the exercise of warrants held by Capital Development,
  - (iii) 4,190 shares of common stock owned by Capital Development,
  - (iv) 12,953 shares of common stock owned by Schweco Nominee Limited, an entity controlled by Sir Brian Wolfson and
  - (v) 7,500 shares of common stock issuable upon the exercise of options held by Sir Brian Wolfson.

- (10) Includes  
(i) 253,580  
shares of  
common stock  
issuable upon  
the exercise of  
options held by  
Mr. Cavanaugh,  
and (ii) 1,984  
shares of  
common stock  
issuable upon  
the exercise of  
warrants held by  
Mr. Cavanaugh.



**Table of Contents**

- (11) Includes
  - (i) 1,984 shares of common stock issuable upon the exercise of warrants held by Mr. Sharng, and
  - (ii) 22,464 shares of common stock issuable upon the exercise of options held by Mr. Sharng.
  
- (12) Includes 23,000 shares of common stock issuable upon the exercise of options held by Mr. Johnson. Mr. Johnson is a former executive officer of the Company, and therefore the shares beneficially owned by him are not included in Directors and Executive Officers as a Group.
  
- (13) Mr. Woodburn is a former director and the former President and Secretary of the Company, and therefore the shares beneficially owned by him are not included

in Directors and Executive Officers as a Group.

- (14) Some elements of Mr. Woodburn's beneficial ownership are based on the Company's good faith estimates, but no assurance can be given that these estimates are correct. Includes (i) 14,937 shares of common stock held by the LaCore and Woodburn Partnership, a general partnership with respect to which Mr. Woodburn is a general partner, and (ii) 1,984 shares of common stock issuable upon the exercise of warrants held by the LaCore and Woodburn Partnership. Excludes 540,533 shares of common stock that are held in escrow by a third party for the benefit of the LaCore and Woodburn Partnership. See Governance of the Company -

Certain  
Relationships  
and Related  
Transactions.

- (15) Mr. LaCore is a former director of the Company and the former Chief Executive Officer of Lexus International, Inc., and therefore the shares beneficially owned by him are not included in Directors and Executive Officers as a Group.
- (16) Some elements of Mr. LaCore's beneficial ownership are based on the Company's good faith estimates, but no assurance can be given that these estimates are correct. Includes (i) 14,937 shares of common stock held by the LaCore and Woodburn Partnership, a general partnership with respect to which Mr. LaCore is a general partner, (ii) 1,984 shares of common stock issuable upon the

exercise of warrants held by the LaCore and Woodburn Partnership, and (iii) 1,984 shares of common stock issuable upon the exercise of warrants held by Mr. LaCore.

Excludes 540,533 shares of common stock that are held in escrow by a third party for the benefit of Mr. LaCore and 540,533 additional shares of common stock that are held in escrow by a third party for the benefit of the LaCore and Woodburn Partnership. See Governance of the Company Certain Relationships and Related Transactions.

- (17) On February 10, 2006, the Company entered into an Escrow Agreement with Mark Woodburn and Terry LaCore (each of whom are former officers and directors of the Company),

the LaCore and Woodburn Partnership, and Krage and Janvey LLP, as escrow agent. Pursuant to the Escrow Agreement, (i) the Company issued and deposited with the escrow agent stock certificates in the name of the escrow agent representing an aggregate of 1,081,066 shares of the Company's common stock, and (ii) the escrow agent granted an irrevocable proxy to the Company to vote the escrowed shares on all matters presented at meetings of stockholders or any written consent executed in lieu thereof. The parties have agreed that the escrow agent will hold the escrowed shares (as well as other escrowed assets) until it receives (i) joint written instructions from the Company,

Woodburn and LaCore, or (ii) a final non-appealable order from a court of competent jurisdiction.

- (18) Includes
- (i) 462,496 shares that may be acquired upon the exercise of outstanding options or warrants that currently are exercisable or will become exercisable within the next 60 days by the Company's directors and executive officers and
  - (ii) 1,081,066 shares of common stock issued to an escrow agent with respect to which the Company's board of directors has a right to vote such shares at meetings of stockholders or a written consent executed by stockholders in lieu of a meeting. See Governance of the Company Certain

Relationships  
and Related  
Transactions.

***What is the status of Section 16(a) beneficial ownership reporting compliance?***

Section 16(a) of the Securities Exchange Act of 1934 requires the Company's directors and executive officers, and persons who own more than ten percent (10%) of a registered class of

6

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**Table of Contents**

the Company's equity securities, to file with the Securities and Exchange Commission (SEC) initial reports of ownership and reports of changes in ownership of Common Stock and other equity securities of the Company. Officers, directors and greater than ten percent stockholders are required by SEC regulation to furnish the Company with copies of all Section 16(a) forms they file. To the Company's knowledge, based solely on its review of the copies of such reports furnished to the Company during the fiscal year ended December 31, 2005, all Section 16(a) filing requirements applicable to its officers, directors and greater than ten percent beneficial owners were satisfied, except the following: Mssrs. Martino, Morris and Ahlund did not file a Form 3 or a Form 4 for one transaction each; Mssrs. Sharnq and Davidson and Sir Brian Wolfson filed a Form 4 late for one transaction each; Mr. Hesse filed a Form 4 late for each of two transactions; and Mssrs. Sharnq and Mason failed to file a Form 4 for one transaction each.

**GOVERNANCE OF THE COMPANY*****Who are the current members of the Board of Directors?***

The members of the Board of Directors on the date of this proxy statement and the committees of the Board of Directors on which they currently serve are identified below.

<b>Director</b>	<b>Age</b>	<b>Audit Committee</b>	<b>Compensation Committee</b>	<b>Nominating Committee</b>
Stephanie S. Hayano	52			
Anthony B. Martino	64	C		
Randall A. Mason	47			
Terrence M. Morris	58	M	M	M
Colin J. O'Brien	67	M	C	
Sir Brian Wolfson	71			C

M = Member

C = Chair

***Who is the Chairman of the Board?***

Sir Brian Wolfson served as the Company's Chairman of the Board throughout 2005. On March 28, 2006, Sir Brian Wolfson resigned as Chairman for personal reasons, became Vice Chairman of the Board, and Mr. Mason was elected Chairman of the Board. The Chairman of the Board organizes the work of the Board of Directors and ensures that the Board of Directors has access to sufficient information to enable the Board of Directors to carry out its functions, including monitoring the Company's performance and the performance of management. In carrying out this role, the Chairman, among other things, presides over all meetings of the Board of Directors and stockholders, including executive sessions of the Board of Directors in which



**Table of Contents**

management directors and other members of management do not participate, establishes the annual agenda of the Board of Directors and agendas of each meeting in consultation with the President and oversees the distribution of information to directors.

***Which directors are considered independent?***

The Board of Directors has determined that Messrs. Martino, Morris and O'Brien and Sir Brian Wolfson are independent directors (as independence is defined in the rules of The Nasdaq Stock Market). In assessing the independence of the directors, the Board of Directors determines whether or not any director has a material relationship with us (either directly or indirectly as a partner, stockholder or officer of an organization that has a relationship with us) that would interfere with the exercise of independent judgment in carrying out the responsibilities of a director. The Board of Directors considers all relevant facts and circumstances in making independence determinations, including the existence and scope of any commercial, industrial, banking, consulting, legal, accounting, charitable and familial relationships.

***How often did the Board of Directors meet during fiscal 2005?***

The Board of Directors met seven times during the fiscal year ended December 31, 2005, and each director attended at least seventy-five percent (75%) of these meetings and the meetings of the committees of the Board of Directors on which such director served.

***What is the role of the Board of Directors committees?***

The Board of Directors has standing Audit, Compensation and Nominating Committees, and during the first quarter of 2006 formed a Search Committee to search for a chief executive officer for the Company. In August 2006, following the appointment of Stephanie S. Hayano as the Company's President and Chief Executive Officer, the Search Committee disbanded.

**Audit Committee.** Randall A. Mason (Chairman), Sir Brian Wolfson and Robert H. Hesse served on the Audit Committee of the Board of Directors during 2005. Messrs. Mason and Hesse resigned as members of the Audit Committee in the course of 2005 because they could no longer be considered independent in accordance with applicable rules.

On December 7, 2005, Anthony B. Martino (Chairman), Terrence M. Morris, and Colin J. O'Brien were elected to the Board of Directors and appointed to the Audit Committee. At such time, Sir Brian Wolfson resigned from the Audit Committee.

The Board of Directors has determined that the current members of the Audit Committee are independent and satisfy the other criteria set forth in the NASDAQ National Market listing standards and meet the independence requirements contained in Exchange Act Rule 10A-3(b)(1). The Board of Directors has determined that Mr. Martino meets the SEC criteria of an audit committee financial expert and at least one additional member meets the requirements of NASD Marketplace Rule 4350, financial oversight responsibilities.

The function of the Audit Committee is set forth in the Audit Committee Charter as approved by the Board. In general these responsibilities include meeting with the internal

**Table of Contents**

financial staff of the Company and the independent public accountants engaged by the Company to review (i) the scope and findings of the annual audit, (ii) quarterly financial statements, (iii) accounting policies and procedures and the Company financial reporting and (iv) the internal controls employed by the Company..

The Audit Committee is also directly and solely responsible for the appointment, retention, compensation, oversight and termination of the Company's independent accountants. In addition, the Audit Committee will also function as the Company's Qualified Legal Compliance Committee (the "QLCC"). The purpose of a QLCC is to receive, retain and investigate reports made directly, or otherwise made known, of evidence of material violations of any United States federal or state law, including any breach of fiduciary duty by the Company, its officers, directors, employees or agents, and if the QLCC believes appropriate, to recommend courses of action to the Company.

The Audit Committee's findings and recommendations are reported to management and the Board of Directors for appropriate action

**Compensation Committee.** The functions of the Compensation Committee are described below under the heading "Executive Compensation Report of the Compensation Committee.

**Nominating Committee.** The Nominating Committee operates pursuant to a charter approved by our Board of Directors, a copy of which is posted on our website at [www.naturalhealthtrends.com](http://www.naturalhealthtrends.com). The Nominating Committee is comprised of directors who are independent for purposes of the NASDAQ National Market listing standards. The Nominating Committee considers and makes recommendations to the Board of Directors with respect to the size and composition of the Board of Directors and identifies potential candidates to serve as directors. The Nominating Committee identifies candidates to the Board of Directors by introduction from management, members of the Board of Directors, employees or other sources and stockholders that satisfy the Company's policy regarding stockholder recommended candidates. The Nominating Committee does not evaluate director candidates recommended by stockholders differently than director candidates recommended by other sources. The Nominating Committee met once during 2005.

Stockholders wishing to submit recommendations for the 2006 annual meeting should write to the General Counsel c/o Natural Health Trends Corp., 2050 Diplomat Drive, Dallas, Texas 75234. Any such stockholder must meet and evidence the minimum eligibility requirements specified in Exchange Act Rule 14a-8 and submit, within the same timeframe for submitting a stockholder proposal required by Rule 14a-8: (i) evidence in accordance with Rule 14a-8 of compliance with the stockholder eligibility requirements, (ii) the written consent of the candidate(s) for nomination as a director, (iii) a resume or other written statement of the qualifications of the candidate(s) for nomination as a director, and (iv) all information regarding the candidate(s) and the submitting stockholder that would be required to be disclosed in a proxy statement filed with the SEC if the candidate(s) were nominated for election to the Board of Directors.

**Table of Contents**

In considering Board of Directors candidates, the Nominating Committee takes into consideration the Company's Board Candidate Guidelines (as set forth in the charter of the Nominating Committee), the Company's policy regarding stockholder recommended director candidates, as set forth above, and all other factors that they deem appropriate, including, but not limited to, the individual's character, education, experience, knowledge and skills.

To date, the Nominating Committee has not received a candidate recommendation from any stockholder (or group of stockholders) that beneficially owns more than five percent of the Company's common stock.

**Search Committee.** Following the termination of Mark D. Woodburn as the Company's President, the Board of Directors formed the Search Committee to identify and consider appropriate candidates to serve as the Company's next chief executive officer. Mr. O'Brien served as Chairman and Messrs. Martino and Mason also served on the Search Committee. The Search Committee did not formally meet during 2005. In August 2006, following the appointment of Stephanie S. Hayano as the Company's President and Chief Executive Officer, the Search Committee disbanded.

***What is the Executive Management Committee?***

On March 28, 2006, the Board of Directors authorized the formation of the Executive Management Committee to replace the prior Office of the Chief Executive. The Executive Management Committee was not a Committee of the Board of Directors, but rather was charged with managing the Company's day-to-day operations while the Search Committee conducted its search for a chief executive officer for the Company. The Executive Management Committee, consisted of Curtis Broome, the Company's President of NHT Global, Chris Sharng, the Company's Executive Vice President and Chief Financial Officer, and John Cavanaugh, the President of the Company's MarketVision subsidiary, and reported directly to the Board of Directors. Terrence M. Morris, a member of the Board of Directors attended Executive Management Committee meetings and acted as a liaison with the Board of Directors regarding matters addressed by the Executive Management Committee. In August 2006, following the appointment of Ms. Hayano as the Company's President and Chief Executive Officer, the Executive Management Committee disbanded.

***How are directors compensated?***

Employee directors do not receive compensation for their services as directors. Each non-employee member of our Board of Directors receives a cash retainer, plus the reimbursement of their respective out-of-pocket expenses incurred in connection with the performance of their duties as directors. The cash retainer is payable to each director monthly, with each of Messrs. Martino, Morris and O'Brien receiving a monthly retainer of \$3,333, Sir Brian Wolfson receiving a monthly retainer of \$4,167 and Mr. Mason receiving a monthly retainer of \$5,333. Mr. Martino receives an additional payment of \$2,000 per month for services rendered as Chairman of the Audit Committee. Mr. Morris received an additional payment of \$4,000 per month as compensation for his director duties associated with acting as a liaison between the Executive Management Committee and the Board of Directors from March 28, 2006

**Table of Contents**

to July 28, 2006. Mr. Morris also received \$4,000 for assisting the Company's new Chief Executive Officer during August 2006.

In 2005, the Company issued options to purchase 7,500 shares of common stock to each of Sir Brian Wolfson and Messrs. Hesse, Mason, Martino, Morris and O'Brien as compensation for serving as directors of the Company. It is anticipated that following the Company's stockholders meeting in November 2006, the Company will issue to each of the Company's non-employee directors options exercisable for 15,000 shares of common stock at a price per share equal to the fair market value of the Company's common stock on the date of grant (as reported by The Nasdaq Stock Market) as compensation for services rendered as members of the Board.

***How do stockholders communicate with the Board of Directors?***

Stockholders or other interested parties wishing to communicate with the Board of Directors, the independent directors as a group, or any individual director may do so in writing by sending an e-mail to the attention of Randall A. Mason, Chairman of the Board, at chairman@nhtglobal.com. Accounting controls and other financial matters will be referred to our Audit Committee chairperson. Other matters will be referred to the Board of Directors, the independent directors, or individual directors as appropriate. Stockholders may also have an opportunity to communicate with board members at the annual meeting, as the Company has a policy encouraging board member attendance at such meetings. One of the five then serving members of the Board of Directors attended the Company's 2005 annual meeting of stockholders.

***Does the Company have a Code of Ethics?***

The Company has a Code of Business Conduct and a Code of Ethics for Senior Financial Officers (collectively, the Codes) that apply to our employees, officers (including our principal executive officer and principal financial officer) and directors. The Codes are intended to establish standards necessary to deter wrongdoing and to promote compliance with applicable governmental laws, rules and regulations and honest and ethical conduct. The Codes cover all areas of professional conduct, including conflicts of interest, fair dealing, financial reporting and disclosure, protection of Company assets and confidentiality. Employees have an obligation to promptly report any known or suspected violation of the Codes without fear of retaliation. Waiver of any provision of the Codes for executive officers and directors may only be granted by the Board of Directors or one of its committees and any such waiver or modification of the Codes relating to such individuals will be disclosed by the Company.

***Certain Relationships and Related Transactions What related party transactions involved directors, executive officers or significant stockholders?***

**S&B Business Services.** In August 2001, the Company entered into a written lease agreement and an oral management agreement with S&B Business Services, an affiliate of Brad LaCore, the brother of Terry LaCore, former Chief Executive Officer of Lexxus International, Inc. (Lexxus U.S.) and former director of the Company, and Sherry LaCore, Brad LaCore's spouse. Under the terms of the two agreements, S&B Business Services provided warehouse facilities and certain equipment, managed and shipped inventory, provided independent

**Table of Contents**

distributor support services and disbursed payments to independent distributors. In exchange for these services, the Company paid \$18,000 annually for leasing the warehouse, \$3,600 annually for the lease of warehouse equipment and \$120,000 annually for the management services provided, plus an annual average of approximately \$12,000 for business related services. The Company paid S&B Business Services approximately \$150,000, \$160,000 and \$158,000 during 2003, 2004 and 2005, respectively, and approximately \$18,000 during the six month period ended June 30, 2006. The payment disbursement function was transferred to the Company's Dallas head office during the third quarter of 2005. In January 2006, the Company hired Sherry LaCore as an employee and simultaneously terminated the oral management agreement with S&B Business Services. Additionally, the Company closed the warehouse facility by the end of March 2006 and terminated the related lease agreement.

**William Woodburn.** In September 2001, the Company entered into an oral consulting agreement with William Woodburn, the father of Mark Woodburn, former President and director of the Company, pursuant to which William Woodburn provided the Company with management advice and other advisory assistance. In exchange for such services, the Company starting June 8, 2001 paid to Ohio Valley Welding, Inc., an affiliate of William Woodburn, \$6,250 on a bi-weekly basis. The Company paid \$168,750 and \$118,750 during 2003 and 2004, respectively, to Ohio Valley Welding, Inc. The consulting agreement between the Company and William Woodburn was terminated as of September 30, 2004.

**Former Controller Payments.** The Company's former controller is married to Mark Woodburn, former President and director of the Company. Her employment with the Company ended in August 2004. The Company paid her approximately \$100,000 in each of the years 2003 and 2004.

**MarketVision.** On March 31, 2004, the Company entered into a merger agreement with MarketVision Communications Corporation (MarketVision), pursuant to which the Company acquired all of the outstanding capital stock of MarketVision. As a founding stockholder of MarketVision, Terry LaCore, former Chief Executive Officer of Lexxus U.S. and former director of the Company, received 450,000 shares of the Company's common stock and was entitled to receive approximately \$840,000 plus interest from promissory notes issued by the Company. As a stockholder of MarketVision, John Cavanaugh received 196,420 shares of the Company's common stock, cash in the amount of \$1,094,000 and was entitled to receive approximately \$1,934,000 plus interest from promissory notes issued by the Company. In 2005, each of Messrs. LaCore and Cavanaugh received principal and interest payments under the notes totaling \$314,297, and as December 31, 2005 no amounts remained outstanding under the notes.

The Company also entered into a software license agreement (the Software License Agreement) with MarketVision Consulting Group, LLC, an entity owned by the former stockholders of MarketVision (other than Mr. LaCore) (the Licensee). Upon an Event of Default (as defined), the Software License Agreement grants, among other things, the Licensee with an irrevocable, exclusive, perpetual, royalty free, fully-paid, worldwide, transferable, sublicensable right and license to use, copy, modify, distribute, rent, lease, enhance, transfer, market, and create derivative works to the MarketVision software. An Event of Default under the Software License Agreement includes a Share Default, which is defined as the market value per share of the Company failing to equal or exceed \$10.00 per share for any one rolling

**Table of Contents**

period of six months for a certain period following the acquisition of MarketVision. The last time that the Company's stock closed at or above \$10.00 per share was February 16, 2006, and a Share Default would otherwise have occurred on August 17, 2006. In August and September 2006, the parties to the Software License Agreement amended that agreement to provide that no Share Default will occur prior to October 30, 2006.

Despite the granting of such a license to the Licensee if an Event of Default should occur, under the Software License Agreement, the Company and MarketVision retain the right to continue to use the MarketVision software for its internal use only and not as an application service provider or service bureau, but may not rent, lease, license, transfer or distribute the software without the Licensee's prior written consent. Moreover, the Company would have the right to receive certain application service provider services from Licensee. Although the Company does not believe that an Event of Default would, by itself, have a material adverse effect on the Company, it is possible that it could trigger other events that could have such an effect.

**2004 Private Placement.** On October 6, 2004, certain members of the Company's board of directors and certain of the Company's officers invested approximately \$25,000 and purchased 1,984 units upon the same terms and conditions as the other buyers in the private placement.

**Import Services.** A director of the Company's China subsidiary is the sole director of Access Intl (Zhuhai Ftz) Warehousing & Trading Co. Ltd. and its group (collectively, Access ), a transportation and logistics company, and the owner of Info Development Ltd. ( Info ), an import services company, both of which provided services to the Company's Hong Kong subsidiary. Payments totaling approximately \$5.2 million and \$0.2 million were paid to Access and Info during 2005, respectively and approximately \$382,000 were paid to Access and Info during the six month period ended June 30, 2006. At June 30, 2006, approximately \$18,000 was due to Info.

**Matters Relating to Messrs. Woodburn and LaCore.** On November 10, 2005, an independent investigator retained by the Company's Audit Committee learned that an entity controlled by Messrs. Woodburn and LaCore received payments from an independent distributor of the Company's products during 2001 through August 2005. The Company believes that Messrs. Woodburn and LaCore received from such independent distributor a total of approximately \$1.4 million and \$1.1 million, respectively. The Company believes that the fees paid by the Company to such independent distributor were not in excess of the amounts due under the Company's regular distributor compensation plan.

Approximately \$2.4 million of the funds paid by the independent distributor to Messrs. Woodburn and LaCore were paid at the direction of Messrs. Woodburn and LaCore to an entity that is partially owned by Mr. Woodburn's father and Randall A. Mason, the Company's current Chairman of the Board and former Chairman of the Audit Committee. The funds were subsequently paid to an entity controlled by Messrs. Woodburn and LaCore at their direction. After investigation by the Audit Committee, the Board of Directors of the Company concluded that Mr. Mason was unaware that these payments were directed by Messrs. Woodburn and LaCore to an entity partially owned by him until uncovered by the Audit's Committee's

**Table of Contents**

independent investigator on November 10, 2005, and that Mr. Mason was not involved in any misconduct and received no pecuniary benefit from the payments made by the independent distributor. However, since payments were directed into an entity that is partially owned by Mr. Mason, he could no longer be considered independent in accordance with the rules of The NASDAQ Stock Market and under the federal securities laws. Therefore, effective November 11, 2005, Mr. Mason resigned as Chairman and a member of the Company's Audit Committee.

On November 14, 2005, in light of the information learned by the Company's Audit Committee on November 10, 2005, the Company terminated the employment of each of Messrs. Woodburn and LaCore. No severance has been paid by the Company to Messrs. Woodburn and LaCore.

In addition, a loan made by the Company under the direction of Mr. Woodburn in the aggregate principal amount of \$256,000 in February 2004 was previously recorded as a loan to a third party. On November 10, 2005, the Audit Committee investigator learned that the Company actually loaned the funds to an entity owned and controlled by the parents of Mr. Woodburn. The loan was repaid in full, partially by an entity controlled by a third party and partially by an entity controlled by Mr. Woodburn in December 2004.

On February 10, 2006, the Company entered into an Escrow Agreement (the Agreement) with Messrs. Woodburn and LaCore, the LaCore and Woodburn Partnership, an affiliate of Woodburn and LaCore, and Krage and Janvey LLP, as escrow agent (the Agent). Pursuant to the Agreement, (i) the Company agreed to issue and deposit with the Agent stock certificates in the name of the Agent representing an aggregate of 1,081,066 shares of the Company's common stock (the Escrowed Shares) and (ii) Woodburn and LaCore deposited with the Agent \$1,206,000 in immediately available funds (the Cash Deposit). The Escrowed Shares are the shares of common stock issuable upon the cashless exercise of options issued in 2001 and 2002 to LaCore and the LaCore and Woodburn Partnership for 1,200,000 shares of common stock exercisable at \$1.00 and \$1.10 per share. The number of Escrow Shares is based upon the closing price of the Company's common stock on February 9, 2006 of \$10.14 and the surrender of 118,934 option shares as payment of the aggregate exercise price of \$1,206,000.

The Escrowed Shares were issued pursuant to Section 4(2) of the Securities Act of 1933, as amended, to the Agent upon receipt from the Agent of an irrevocable proxy (the Proxy) to the Company to vote the Escrowed Shares on all matters presented at meetings of stockholders or any written consent executed in lieu thereof. The parties have agreed that the Agent will hold the Escrowed Shares and the Cash Deposit until it receives (i) joint written instructions from the Company, Woodburn and LaCore, or (ii) a final non-appealable order from a court of competent jurisdiction. Each of the Company and Woodburn and LaCore has further agreed that all current and future rights, claims, defenses and causes of actions they have or may have against each other are preserved.

On March 23, 2006, an independent investigator retained by the Audit Committee of the Board of Directors confirmed that affiliates of immediate family members of Mr. Woodburn have owned since 1998, and continue to own, equity interests in Aloe Commodities (Aloe), the largest manufacturer of the Company and the supplier of the *Skindulgence*® Line and *LaVie* products, representing approximately 5% of the outstanding shares of Aloe. The Company paid

**Table of Contents**

Aloe and certain of its affiliates approximately \$2,348,000 and \$4,135,000 during the three and six month periods ended June 30, 2005, respectively. The Company paid Aloe and certain of its affiliates approximately \$1,557,000 during the three and six month periods ended June 30, 2006. At June 30, 2006, approximately \$816,000 was due to Aloe and certain of its affiliates.

In August 2006, the Company was advised by the Staff of the Securities and Exchange Commission that it is conducting an informal inquiry into matters that are the subject of previously disclosed investigations by the Company's Audit Committee, including the payments received by two former officers and directors of the Company from an independent distributor. In connection with the inquiry, the SEC staff has requested that the Company voluntarily provide it with certain information and documents, including information gathered by the independent investigator engaged by the Company's Audit Committee. The Company intends to cooperate with the SEC inquiry.

**REPORT OF THE AUDIT COMMITTEE**

*The following Report of the Audit Committee does not constitute soliciting material and shall not be deemed filed or incorporated by reference into any other Company filing under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934,*