NATURAL HEALTH TRENDS CORP
Form DEF 14A
March 04, 2016

Schedule 14A

Schedule 14A Information

Proxy Statement Pursuant to Section 14(a) of the
Securities Exchange Act of 1934

Filed by the Registrant þ Filed by a party other than the Registrant ¨

Check the appropriate box:

¨ Preliminary Proxy Statement
¨ Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))
þ Definitive Proxy Statement – 2016 Annual Meeting of Stockholders
¨ Definitive Additional Materials
¨ Soliciting Material Pursuant to § 240.14a-12

NATURAL HEALTH TRENDS CORP.
(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):
þ No fee required
¨ Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.
(1) Title of each class of securities to which transaction applies:
(2) Aggregate number of securities to which transaction applies:
(3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):
(4) Proposed maximum aggregate value of transaction:
(5) Total fee paid:
¨ Fee paid previously with preliminary materials.
¨ 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 the date of its filing.
(1) Amount Previously Paid:
(2) Form, Schedule or Registration Statement No.:
(3) Filing Party:
(4) Date Filed:

NATURAL HEALTH TRENDS CORP.
609 DEEP VALLEY DRIVE, SUITE 395
ROLLING HILLS ESTATES, CALIFORNIA 90274

NOTICE OF ANNUAL MEETING OF STOCKHOLDERS
TO BE HELD ON APRIL 7, 2016

To the Stockholders of Natural Health Trends Corp.:

The 2016 annual meeting of stockholders of Natural Health Trends Corp. (the “Company”) will be held on April 7, 2016, beginning at 9:00 a.m. local time, at Zürich Marriott Hotel, Neumuehlequai 42, 8006 Zürich, Switzerland. At the meeting, the holders of the Company’s outstanding common stock will act on the following matters:

- Election of five (5) directors to the Board of Directors of the Company to serve until the next annual meeting of the Company’s stockholders;
- Approval of the material terms of the Natural Health Trends Corp. Annual Incentive Plan for purposes of qualifying compensation paid pursuant to such plan for deductibility under Section 162(m) of the Internal Revenue Code;
- Approval of the material terms of the Natural Health Trends Corp. 2014 Long-Term Incentive Plan for purposes of qualifying compensation paid pursuant to such plan for deductibility under Section 162(m) of the Internal Revenue Code;
- Approval of the Natural Health Trends Corp. 2016 Equity Incentive Plan; and
- Ratification of the appointment of Lane Gorman Trubitt, PLLC as independent registered public accounting firm for the Company for fiscal year ending December 31, 2016.

All holders of record of shares of the Company’s common stock at the close of business on February 22, 2016 are entitled to vote at the meeting and any postponements or adjournments of the meeting.

By Order Of The Board Of Directors,

/s/ Timothy S. Davidson
Timothy S. Davidson
Corporate Secretary,
Senior Vice President
and Chief Financial Officer

March 4, 2016

WHETHER OR NOT YOU EXPECT TO BE PRESENT AT THE MEETING, PLEASE EXERCISE YOUR VOTING RIGHTS. THE PROXY STATEMENT IS FIRST BEING MAILED TO THE COMPANY’S STOCKHOLDERS ON OR ABOUT MARCH 4, 2016.

Important Notice Regarding the Availability of Proxy Materials for the Annual Meeting of Stockholders to Be Held on April 7, 2016: This Notice of Annual Meeting of Stockholders, the proxy statement, the proxy, and the Company’s annual report to stockholders are available at https://materials.proxyvote.com/63888P. You may also obtain a copy of such documents by calling 1-800-579-1639 or sending on email to sendmaterial@proxyvote.com.

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NATURAL HEALTH TRENDS CORP.
609 Deep Valley Drive, Suite 395
Rolling Hills Estates, California 90274

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 April 7, 2016 beginning at 9:00 a.m. local time, at Zürich Marriott Hotel, Neumuehlequai 42, 8006 Zürich, Switzerland, and at any postponements or adjournments thereof. This proxy statement is first being made available to stockholders on or about March 4, 2016.

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.

Who is entitled to vote at the meeting?

Only stockholders of record at the close of business on February 22, 2016, the record date for the meeting, 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 and where is it being held?

All stockholders as of the record date, or their duly appointed proxies, may attend the meeting. The meeting is being held at the location identified above. To obtain directions to attend the meeting in person, please contact the Company at 310-541-0888.

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, 11,692,437 shares of common stock, representing the same number of votes, were outstanding. Thus, the presence of the holders of common stock representing at least 5,846,219 shares of common stock will be required to establish a quorum.

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?

| | |
|---|---|
| By Mail: | If you complete and properly sign the accompanying form of proxy card and return it to the indicated address, it will be voted as you direct. |
| In Person: | If you are a registered stockholder and attend the meeting, you may vote in person at the meeting. If you are a beneficial owner of shares registered in the name of your broker, bank or other agent, you must obtain a valid legal proxy from your broker, bank or other agent to vote in person at the meeting. |
| Via Internet: | Log on to http://www.proxyvote.com and follow the on-screen instructions. |

Can I change my vote or revoke my proxy?

Yes. You can change your vote or revoke your proxy. If you are a registered stockholder, you may revoke your proxy in any one of four ways.

- You may send a written notice that you are revoking your proxy to the Company's Corporate Secretary at Natural Health Trends Corp., 609 Deep Valley Drive, Suite 395, Rolling Hills Estates, 90274, Attention: Timothy S. Davidson.
- You may timely grant another proxy via the Internet.
- You may submit another properly completed proxy card with a later date.
- You may attend the annual meeting and vote in person. Simply attending the annual meeting will not, by itself, revoke your proxy.

Your most current proxy, whether submitted by proxy card, or via the Internet, is the one that is counted.

If your shares are held by your broker, bank or other agent, you should follow the instructions provided by your broker, bank or other agent.

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 approval of the material terms of the Natural Health Trends Corp. Annual Incentive Plan for purposes of qualifying compensation paid pursuant to such plan for deductibility under Section 162(m) of the Internal Revenue Code (see Item Two);
- for approval of the material terms of the Natural Health Trends Corp. 2014 Long-Term Incentive Plan for purposes of qualifying compensation paid pursuant to such plan for deductibility under Section 162(m) of the Internal Revenue Code (see Item Three);
- for approval of the Natural Health Trends Corp. 2016 Equity Incentive Plan (see Item Four); and
- for ratification of the appointment of Lane Gorman Trubitt, PLLC as Independent registered public accounting firm for the Company for fiscal year ending December 31, 2016 (see Item Five).

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 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.

Approval of the Material Terms of the Annual Incentive Plan and the 2014 Long-Term Incentive Plan to Allow Compensation Paid Under Such Plans to Qualify for Deductibility Under Section 162(m) of the Internal Revenue Code. For the approval of each of the Company's Annual Incentive Plan (Item Two) and the Company's 2014

Long-Term Incentive Plan (Item Three), 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 Two and/or Three 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. Inasmuch as brokers do not have discretionary authority to vote on Items Two and/or Three without voting instructions, broker non-votes will not have any effect upon voting for either such Item.

Approval of the 2016 Equity Incentive Plan. For the approval of the Company's 2016 Equity Incentive Plan (Item Four), the affirmative vote of the holders of a majority of the shares represented in person or by proxy are 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 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. Inasmuch as brokers do not have discretionary authority to vote on Item Four without voting instructions, broker non-votes will not have any effect upon voting for Item Four.

Ratification of Independent Registered Public Accounting Firm. For the ratification of the appointment of Lane Gorman Trubitt, PLLC as independent registered public accounting firm for the Company for fiscal year ending December 31, 2016 (Item Five), 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 Five 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.

What types of expenses will the Company incur?

The expense of preparing, printing and mailing proxy materials, as well as all expenses of soliciting proxies, 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 brokers, banks, nominees, custodians, fiduciaries and other agents 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.

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 February 22, 2016 by (i) each stockholder known to us to be the beneficial owner of more than 5% of the Company's common stock, (ii) each director or director nominee, (iii) each of the Company's named executive officers 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 (1) | Amount and Nature of Beneficial Ownership (2) | Percent of Class (2) | |
|---|---|---|---|
| Executive Officers and Directors: | | | |
| Chris T. Sharng | 428,018 (3) | 3.7 | % |
| Timothy S. Davidson | 213,604 (4) | 1.8 | % |
| George K. Broady | 1,071,963 (5) | 9.2 | % |

| | | | |
|---|---|---|---|
| Yiu T. Chan | — | — | |
| Kin Y. Chung | 3,058 (6) | * | |
| Randall A. Mason | 252,733 (7) | 2.2 | % |
| Christopher R. O'Brien | 3,436 (6) | * | |
| All executive officers and directors as a group (7 persons) | 1,972,812 (8) | 16.9 | % |
| Stockholders Beneficially Owning 5% or More<br>The Jane Eleanor Broady Irrevocable Trust | 2,245,128 (9) | 19.2 | % |

* Less than 1% of the Company's outstanding common stock.

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(1) Unless otherwise indicated, the address of each beneficial owner is c/o Natural Health Trends Corp., 609 Deep Valley Drive, Suite 395, Rolling Hills Estates, California 90274.

(2) Any securities not outstanding that are subject to conversion privileges exercisable within 60 days of February 22, 2016 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 promulgated under the Securities Exchange Act of 1934 (as amended, the “Exchange Act”) and Rules 13(d)-3 of the Exchange Act, and based upon 11,692,437 shares of common stock outstanding as of February 22, 2016.

(3) Includes 18,556 shares of restricted stock subject to vesting. Mr. Sharng shares voting and investment power over 2,375 of the shares with his wife.

(4) Includes 5,634 shares of restricted stock subject to vesting.

(5) All shares of stock are held by the George K. Broady 2012 Irrevocable Trust, of which Mr. Broady is the trustee and a beneficiary, and includes 1,810 shares of restricted stock subject to vesting.

(6) Includes 2,038 shares of restricted stock subject to vesting.

(7) Includes (i) 27,399 shares owned by Marden Rehabilitation Associates, Inc., an entity controlled by Mr. Mason, and (ii) 2,677 shares of restricted stock subject to vesting.

(8) Includes 32,753 shares of restricted stock subject to vesting.

(9) Jane Eleanor Broady, the spouse of George K. Broady, is a beneficiary of The Jane Eleanor Broady 2012 Irrevocable Trust.

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

Section 16(a) of the Exchange Act requires the Company’s directors and executive officers, and persons who own more than ten percent (10%) of a registered class of the Company’s equity securities, to file with the Securities and Exchange Commission 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 Securities and Exchange Commission 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, 2015 and thereafter, all Section 16(a) filing requirements applicable to its officers, directors and greater than ten percent beneficial owners were satisfied, except the following:

George K. Broady filed a late Form 4 to report two gifts of shares to The Jane Eleanor Broady 2012 Irrevocable Trust, of which his wife is a beneficiary. The trust and its then-trustees, George V. Broady, John M. Broady and Magdalena Steinbrunner, filed a late Form 3 to report that they became ten percent beneficial owners as a result of that gift. (The trustees are no longer ten percent beneficial owners.) The trust also filed nine late Forms 4 to report a total of 11 transactions; however, Mr. Broady had previously reported all of such transactions on his own Forms 4. In addition, Mr. Broady filed eight late Forms 4 reporting a total of 20 other transactions.

GOVERNANCE OF THE COMPANY

Who are the current members of the Board of Directors and on which committees do they serve?

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 serve are identified below.

| Director | Age | Audit Committee | Compensation Committee | Nominating and Corporate Governance Committee |
|---|---|---|---|---|
| George K. Broady | 77 | — | — | — |

| | | | | |
|---|---|---|---|---|
| Yiu T. Chan | 49 | M | C | M |
| Kin Y. Chung | 76 | M | M | M |
| Randall A. Mason | 57 | C | — | C |
| Christopher R. O'Brien | 50 | — | — | — |
| Chris T. Sharng | 52 | — | — | — |

M = Member
C = Chair

The size of the Board of Directors was expanded from three members to five members on February 11, 2015. The Board of Directors formed the Audit Committee, Compensation Committee, and Nominating and Corporate Governance Committee on February 11, 2015. On December 14, 2015, the Board of Directors was expanded from five members to six members. Mr. Yiu T. Chan was at that time elected as a director of the Company and was appointed to the Audit Committee, Compensation Committee and Nominating and Corporate Governance Committee.

Who is the Chairman of the Board of Directors?

Mr. Mason has served as Chairman of the Board of Directors since March 2006. The Chairman of the Board of Directors 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, establishes the annual agenda of the Board of Directors, established the 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 adopted the requirements in Nasdaq Marketplace Rule 5605(a)(2) as its standard in determining the "independence" of members of its Board of Directors. The Board of Directors has determined that each of the following individuals who are nominated for election as a director qualifies as an "independent director" under this standard:

Yiu T. Chan
Kin Y. Chung
Randall A. Mason

In making its determination that Mr. Chan is independent, the Board considered that prior to being elected as a director Mr. Chan served as a consultant to the Company, but received no compensation for his brief service. In addition, with respect to Mr. Chung, the Board considered that prior to being elected as a director Mr. Chung was a consultant to the Company and, in such capacity, received far less compensation from the Company than that which would disqualify Mr. Chung from being considered "independent" under the Nasdaq Marketplace Rule referenced above. The Board of Directors has separately determined that each of Messrs. Chan, Chung, and Mason meets the criteria for independence set forth in Rule 10A-3(b)(1) promulgated under the Exchange Act, as required for service on the Audit Committee.

How often did the Board of Directors meet during fiscal 2015?

The Board of Directors met or acted by unanimous written consent a total of eleven times during the fiscal year ended December 31, 2015, and each director attended at least seventy-five percent (75%) of these meetings. In addition, the Board of Directors conducted weekly conference calls with management, closely monitoring the progress of the Company's business.

What is the role of the Board of Directors' Audit, Compensation, and Nominating and Corporate Governance Committees?

Audit Committee. Mr. Mason serves as Chairman of the Audit Committee, and Messrs. Chan and Chung also serve as members of the Audit Committee. The Board of Directors has determined that each of Messrs. Mason, Chan and

Chung is independent and satisfies the other criteria set forth in the Nasdaq Marketplace Rules for service on the Audit Committee. The Board of Directors has also determined that each of Messrs. Mason and Chan meets the Securities and Exchange Commission criteria of an “audit committee financial expert” and that each also meets the requirements of Nasdaq Marketplace Rule 5605 relating to financial oversight responsibility. The Audit Committee, which was formed on February 11, 2015, met or acted by unanimous written consent a total of eleven times during the fiscal year ended December 31, 2015.

The functions of the Audit Committee are set forth in the Audit Committee Charter as approved by the Board of Directors and as posted on our website at www.naturalhealthtrendscorp.com. In general, these responsibilities include meeting with the internal financial staff of the Company and the independent registered public accounting firm 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 (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 registered public accounting firm. The Audit Committee’s findings and recommendations are reported to management and the Board of Directors for appropriate action.

Compensation Committee. The Compensation Committee operates pursuant to a charter approved by the Board of Directors, a copy of which is posted on our website at www.naturalhealthtrendscorp.com. The members of our Compensation Committee are Yiu T. Chan and Kin Y. Chung, with Mr. Chan serving as Chairman of the Compensation Committee. Each of the members of the Compensation Committee qualifies as an “independent director” within the meaning of the Nasdaq Marketplace Rules. The Compensation Committee is charged with responsibility to oversee our compensation policies and programs, including developing compensation, providing oversight of the implementation of the policies, and specifically addressing the compensation of our executive officers and directors, including the negotiation of employment agreements with executive officers. The Compensation Committee is not authorized to delegate to another body or person any of its responsibilities (other than to a subcommittee of the Compensation Committee), although it may seek compensation-related input from the Company’s management, consultants and other third parties. The Compensation Committee, which was formed on February 11, 2015, met or acted by unanimous written consent a total of eight times during the fiscal year ended December 31, 2015. Inasmuch as the Company's non-employee directors considered and determined 2015 compensation for the Company’s executive officers prior to the formation of the Compensation Committee, the Compensation Committee did not determine compensation for the Company's executive officers in 2015 (similarly, the Board of Directors, rather than the Compensation Committee, considered and determined compensation for the Company’s non-employee directors in 2015. In connection therewith, the non-employee directors consulted with management and then set performance goals for executive officers under the Company’s incentive plans. During 2015, the Compensation Committee engaged Sibson Consulting, a compensation consulting firm, to assess the market competitiveness of the compensation packages for the Company's executive officers. Based upon the Compensation Committee’s assessment of the Sibson review, the Company's executive officers’ compensation was considered appropriate when compared with peer companies and no additional action was taken. The Company’s management did not recommend or otherwise participate in the decision to engage Sibson Consulting.

Nominating and Corporate Governance Committee. The Nominating and Corporate Governance 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.naturalhealthtrendscorp.com. The members of the Nominating Committee are Randall A. Mason, Yiu T. Chan and Kin Y. Chung, with Mr. Mason serving as Chairman of the Nominating Committee. Each of the members of the Nominating Committee qualifies as an “independent director” within the meaning of the Nasdaq Marketplace Rules. 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, which was formed on February 11, 2015, met or acted by unanimous written consent one time during the fiscal year ended December 31, 2015.

Stockholders wishing to submit recommendations for the 2017 annual meeting should write to Natural Health Trends Corp. at the address of its headquarters (609 Deep Valley Drive, Suite 395, Rolling Hills Estates, 90274, Attention: Timothy S. Davidson). 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 Securities and Exchange Commission if the candidate(s) were nominated for election to the Board of Directors.

In considering Board of Director candidates, the Nominating Committee takes into consideration the Company's "New Director Candidates" factors (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 judgment, skill, diversity, integrity, and experience. In evaluating whether an incumbent director should be nominated for re-election to the Board of Directors, the Nominating Committee takes into consideration the same factors established for other director candidates and also takes into account the incumbent director's performance as a member of the Board of Directors.

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.

What is the Board of Directors' role in risk oversight?

Our Board of Directors has responsibility for the oversight of risks that could affect the Company. This oversight is conducted primarily through the Board of Directors with respect to significant matters, including the strategic direction of the Company, and by the various committees of the Board of Directors in accordance with their charters. The Board of Directors continually works, with the input of its committees and of the Company's management to assess and analyze the most likely areas of future risk for the Company. Directors also have complete and open access to all of our employees and are free to, and do, communicate directly with our management. In addition to our formal compliance efforts, the Board of Directors encourages management to promote a corporate culture that incorporates risk management into the Company's corporate strategy and day-to-day business operations.

How are directors compensated?

Our employee director did not receive compensation for his service as director. Information with respect to the compensation of the non-employee members of our Board of Directors is set forth below under the caption "Compensation of Named Executive Officers and Directors—Director Compensation."

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 compliance@nhtglobal.com, or by mail to Natural Health Trends Corp. at the address of its headquarters (609 Deep Valley Drive, Suite 395, Rolling Hills Estates, California 90274, Attention: Timothy S. Davidson). Complaints or concerns that appear to involve Mr. Davidson may be directed to the Chairman of the Audit Committee at audit.chair@nhtglobal.com. Complaints or concerns relating to the Company's accounting, internal accounting controls or auditing matters, and concerns regarding questionable accounting or auditing matters are referred to the Chairman of the Audit Committee. Other Board communications are referred to the Chairman of the Board of Directors, provided that advertisements, solicitations for periodical or other subscriptions, and similar communications generally are not forwarded. The Company held an annual stockholders meeting on May 13, 2015, and the Company does not, at this time, have a policy regarding director attendance at annual stockholder meetings.

Does the Company have a Code of Ethics?

The Company has a Worldwide Code of Business Conduct (the "Code") that applies to our employees, officers (including our principal executive officer and principal financial officer) and directors. The Code is 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 Code covers many areas of professional conduct, including conflicts of interest, financial reporting and disclosure, protection of Company assets and confidentiality. Employees have an obligation to promptly report any known or suspected violation of the Code without fear of retaliation. Waiver of any provision of the Code for executive officers and directors may only be granted by the Board of Directors and any such waiver or any modification of the Code relating to such individuals will be disclosed by the Company on its website at www.naturalhealthtrendscorp.com.

What are the Company's policies and procedures for handling related party transactions?

The Company maintains policies and procedures for the review, oversight and approval of transactions between the Company and its directors, executive officers, significant stockholders, or members of any of their respective immediate families. Our policies and procedures, which are contained in our Worldwide Code of Business Conduct and the Charter of the Audit Committee, provide that any such transaction shall be prohibited, unless approved by the

Audit Committee.

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

The Company is a party to several agreements and transactions with George K. Broady, a director of the Company and owner of more than 5% of its outstanding shares of common stock.

Broady Health Sciences Royalties. On April 29, 2015, the Company entered into a Royalty Agreement and License with Broady Health Sciences, L.L.C., a Texas limited liability company, (“BHS”) regarding the manufacture and sale of a product called Soothe™. The Company began selling this product in the fourth quarter of 2012 with the permission of BHS. George K. Broady is the owner of BHS. Under the agreement, the Company agreed to pay BHS a royalty of 2.5% of sales revenue in return for the right to manufacture (or have manufactured), market, import, export and sell this product worldwide. The Company recognized royalties of $7,000 payable to BHS during 2015. The Company is not required to purchase any product under the agreement, and the agreement may be terminated at any time on 120 days' notice. Otherwise the agreement terminates March 31, 2020.

In February 2013, the Company entered into a Royalty Agreement and License with BHS regarding the manufacture and sale of a product called ReStor™. Under this agreement, the Company agreed to pay BHS a royalty of 2.5% of sales revenue in return for the right to manufacture (or have manufactured), market, import, export and sell this product worldwide, with certain rights being exclusive outside the United States. On April 29, 2015, the Company and BHS amended the Royalty Agreement and License to change the royalty to a price per unit instead of 2.5% of sales revenue. This provision was effective retroactive to January 1, 2015. The Company recognized royalties of $555,000 payable to BHS during 2015. The Company is not required to purchase any product under the agreement, and the agreement may be terminated at any time on 120 days' notice or, under certain circumstances, with no notice. Otherwise the agreement terminates March 31, 2020.

Broady Stock Repurchase Agreements. On October 28, 2015, the Company entered into a Stock Repurchase Agreement with Mr. Broady that provided for the Company's purchase of common stock from Mr. Broady in off-the-market, private transactions at a rate equal to 0.4066 times the number of shares purchased by the Company's broker in conjunction with the stock repurchase program authorized by the Company's Board of Directors on July 28, 2015. The Company's purchases from Mr. Broady concluded on October 30, 2015, were completed at a per share purchase price equal to the weighted average price per share paid by the Company's broker in its open-market purchases, and resulted in an aggregate purchase price of $1.4 million.

On July 31, 2015, the Company entered into a Stock Repurchase Agreement with Mr. Broady that provided for the Company's purchase of common stock from Mr. Broady in off-the-market, private transactions at a rate equal to 0.4085 times the number of shares purchased by the Company's broker in conjunction with the stock repurchase program authorized by the Company's Board of Directors on July 28, 2015. The Company's purchases from Mr. Broady concluded on August 6, 2015, were completed at a per share purchase price equal to the weighted average price per share paid by the Company's broker in its open-market purchases, and resulted in an aggregate purchase price of $1.5 million.

On May 7, 2015, the Company entered into a Stock Repurchase Agreement with Mr. Broady that provided for the Company's purchase of common stock from Mr. Broady in off-the-market, private transactions at a rate equal to 0.4286 times the number of shares purchased by the Company's broker in conjunction with the stock repurchase program authorized by the Company's Board of Directors on May 4, 2015. The Company's purchases from Mr. Broady concluded on May 13, 2015, were completed at a per share purchase price equal to the weighted average price per share paid by the Company's broker in its open-market purchases, and resulted in an aggregate purchase price of $1.5 million.

On January 22, 2015, the Company entered into a Stock Repurchase Agreement with Mr. Broady that provided for the Company's purchase from Mr. Broady in off-the-market, private transactions of a total of 91,817 shares of the Company's common stock, which were purchased at the rate of 5,000 shares each trading day following the date of the agreement until all of such shares were purchased. The shares were purchased at a per share price equal to the closing price per share of the Company's common stock on the preceding trading day, as reported on the primary market in which the Company's common stock was then publicly traded. The Company's purchases under the agreement concluded on February 19, 2015, and resulted in an aggregate purchase price of $1.1 million.

EXECUTIVE OFFICERS

Certain information concerning executive officers of the Company is set forth below:

| Name | Age | Position(s) with the Company |
| --- | --- | --- |

| | | |
|---|---|---|
| Chris T. Sharng | 52 | President |
| Timothy S. Davidson | 45 | Chief Financial Officer, Senior Vice President and Corporate Secretary |

Chris T. Sharng. Mr. Sharng has served as President of the Company since February 2007, and as a director since March 2012. He served as Executive Vice President and Chief Financial Officer of the Company from August 2004 to February 2007. Mr. Sharng also performed the functions of the principal executive officer of the Company from April 2006 to August 2006. From March 2006 to August 2006, Mr. Sharng served as a member of the Company's Executive Management Committee, which was charged with managing the Company's day-to-day operations while a search was conducted for a new chief executive officer for the Company. From March 2004 through July 2004, Mr. Sharng was the Chief Financial Officer of NorthPole Limited, a privately held Hong Kong-based manufacturer and distributor of outdoor recreational equipment. From October 2000 through February 2004, Mr. Sharng was the Senior Vice President and Chief Financial Officer of Ultrak Inc., which changed its name to American

Building Control Inc. in 2002, a Texas-based, publicly traded company listed on The NASDAQ Stock Market that designed and manufactured security systems and products. From March 1989 through July 2000, Mr. Sharng worked at Mattel, Inc., most recently as the Vice President of International Finance. Mr. Sharng has an MBA from Columbia University and received his bachelor degree from National Taiwan University.

Timothy S. Davidson. Mr. Davidson has served as the Company’s Chief Financial Officer and Senior Vice President since February 2007, and as the Company’s Corporate Secretary since January 2014. He previously served as the Company’s Chief Accounting Officer from September 2004 to February 2007. From March 2001 to September 2004, Mr. Davidson was Corporate Controller for a telecommunications company, Celion Networks, Inc., located in Richardson, Texas. From February 2000 to February 2001, Mr. Davidson was Manager of Financial Reporting for another Dallas-based telecommunications company, IP Communications, Inc. From December 1994 through January 2000, Mr. Davidson was employed by Arthur Andersen, LLP, most recently as an Audit Manager. Mr. Davidson has a master degree in professional accounting from the University of Texas at Austin and received his bachelor degree from Texas A&M University at Commerce.

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 Exchange Act, except to the extent the Company specifically incorporates this Report of the Audit Committee by reference therein.

We have reviewed and discussed the consolidated financial statements of the Company set forth at Item 8 in the Company’s Annual Report on Form 10-K for the year ended December 31, 2015 with management of the Company and Lane Gorman Trubitt, PLLC (“Lane Gorman”).

We have discussed with Lane Gorman the matters required to be discussed by Public Company Accounting Oversight Board (PCAOB) Auditing Standard No. 61, “Communications with Audit Committees.”

We have received the written disclosures and the letter from Lane Gorman required by applicable requirements of the PCAOB regarding the independent accountant’s communications with the audit committee concerning independence, and have also discussed with Lane Gorman that firm’s independence. The Audit Committee has concluded that Lane Gorman’s services provided to the Company are compatible with Lane Gorman’s independence.

Based on our review and discussions with management of the Company and Lane Gorman referred to above, we recommended to the Board of Directors that the consolidated financial statements of the Company be included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2015.

It is not the duty of the Audit Committee to plan or conduct audits or to determine that the Company’s consolidated financial statements are complete and accurate and in accordance with accounting principles generally accepted in the United States of America; that is the responsibility of management and the Company’s independent registered public accounting firm. In giving its recommendation to the Board of Directors, the Audit Committee has relied on (i) management’s representation that such financial statements have been prepared with integrity and objectivity and in conformity with accounting principles generally accepted in the United States of America and (ii) the reports of the Company’s independent registered public accounting firm with respect to such financial statements.

Members of the Audit Committee of the Board of Directors

Randall A. Mason (Chairman)

Yiu T. Chan
Kin Y. Chung

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EQUITY COMPENSATION PLAN INFORMATION

The following table sets forth information regarding all compensation plans under which the Company's equity securities were authorized for issuance as of December 31, 2015:

| Plan Category | Number of securities to be issued upon exercise of outstanding options, warrants and rights (a) | Weighted-average exercise price of outstanding options, warrants and rights (b) | Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)) (c) |
|---|---|---|---|
| Equity compensation plans approved by security holders | — | $— | 1,083 |
| Equity compensation plans not approved by security holders | — | $— | — |
| Total | — | $— | 1,083 |

The foregoing securities remaining available for issuance were reserved under the Company's 2007 Equity Incentive Plan; however, the Board of Directors terminated this plan on March 1, 2016 and such shares are no longer available for issuance.

COMPENSATION OF NAMED EXECUTIVE OFFICERS AND DIRECTORS

Summary Named Executive Officer Compensation Information

The following table provides information concerning the compensation for the years ended December 31, 2015 and 2014 of our principal executive officer and one other executive officer (collectively, the “named executive officers”):

SUMMARY COMPENSATION TABLE

| Name and Principal Position | Year | Salary ($) | Stock Awards[1] ($) | Non-Equity Incentive Plan Compensation ($) | | All Other Compensation ($) | | Total ($) |
|---|---|---|---|---|---|---|---|---|
| Chris T. Sharng, President | 2015 | $571,923 | $1,035,000 | $4,606,263 | (2) | $763,689 | (6) | $6,976,875 |
| | 2014 | 500,000 | 341,777 | 1,655,419 | (3) | 30,335 | (7) | 2,527,531 |
| Timothy S. Davidson, | 2015 | 308,423 | 300,000 | 1,366,041 | (4) | 265,380 | (8) | 2,239,844 |
| Senior Vice President and Chief Financial Officer | 2014 | 270,000 | 103,815 | 526,843 | (5) | 25,947 | (9) | 926,605 |

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(1) The stock amount represents the aggregate grant date fair value computed in accordance with FASB ASC Topic 718.

(2)

Represents $3,105,053 earned under the Company’s 2014 Long-Term Incentive Plan and $1,501,210 earned under the Company’s Annual Incentive Plan. See Named Executive Officer Compensation Arrangements below for information regarding payment terms specific to each plan.

(3) Represents $1,025,317 earned under the Company's 2014 Long-Term Incentive Plan and $630,102 earned under the Company's Annual Incentive Plan. See Named Executive Officer Compensation Arrangements below for information regarding payment terms specific to each plan.

(4) Represents $900,000 earned under the Company’s 2014 Long-Term Incentive Plan and $466,041 earned under the Company’s Annual Incentive Plan. See Named Executive Officer Compensation Arrangements below for information regarding payment terms specific to each plan.

(5) Represents $311,440 earned under the Company's 2014 Long-Term Incentive Plan and $215,403 earned under the Company's Annual Incentive Plan. See Named Executive Officer Compensation Arrangements below for information regarding payment terms specific to each plan.

(6) Represents $11,925 in employer matching contributions under the Company’s defined contribution plan, $518,557 in tax gross-up payments and $233,207 in relocation assistance payments.

(7) Represents $11,700 in employer matching contributions under the Company’s defined contribution plan and $18,635 in tax gross-up payments.

(8) Represents $11,925 in employer matching contributions under the Company’s defined contribution plan, $171,019 in tax gross-up payments and $82,436 in relocation assistance payments.

(9) Represents $11,700 in employer matching contributions under the Company’s defined contribution plan and $14,247 in tax gross-up payments.

Named Executive Officer Compensation Arrangements

Chris T. Sharng. The Company is a party to an employment agreement with Mr. Sharng that provides for a base annual salary and also entitles Mr. Sharng to participate in our annual incentive plan, equity incentive plan and other standard U.S. employee benefit programs. Mr. Sharng’s base annual salary was raised to $400,000 effective August 1, 2011 and to $500,000 effective December 1, 2013. Upon relocating the Company’s headquarters from Texas to California, Mr. Sharng’s salary was increased 20% as a cost-of-living adjustment. Mr. Sharng earned $1,501,210 and $630,012 in 2015 and 2014, respectively, under our Annual Incentive Plan due to the achievement of performance goals based upon the Company’s net sales and earnings before interest, taxes, depreciation and amortization (EBITDA). Such annual incentive awards are payable one-third upfront and the remainder in periodic installments over the calendar year following the calendar year in which the award is earned. Mr. Sharng also earned $3,105,053 and $1,025,317 in 2015 and 2014, respectively, under our 2014 Long-Term Incentive Plan, 50% of which is payable in monthly installments over the three calendar years following the calendar year in which the award was earned and 50% of which is payable in monthly installments commencing in February 2021 and ending December 2023. As described in Items Two and Three of this Proxy Statement, the payment of amounts awarded for 2015 to Mr. Sharng under the Annual Incentive Plan and 2014 Long-Term Incentive Plan has been postponed, and is conditional on stockholder approval of Items Two and Three, respectively. Except in some limited circumstances, payments under both the Annual Incentive Plan and 2014 Long-Term Incentive Plan are subject to Mr. Sharng continuing to provide services to the Company. In 2015 and 2014, Mr. Sharng also received certain gross-up payments for both federal taxes payable in connection with the vesting of restricted stock grants made to him and also relocation assistance payments. Mr. Sharng serves on the Company’s Board of Directors, but does not receive any additional compensation for his service in that capacity.

Timothy S. Davidson. The Company is a party to an employment agreement with Mr. Davidson that provides for a base annual salary and also entitles Mr. Davidson to participate in our annual incentive plan, equity incentive plan and other standard U.S. employee benefit programs. Mr. Davidson’s base annual salary was raised to $235,000 effective August 1, 2011 and to $270,000 effective December 1, 2013. Upon relocating the Company’s headquarters from Texas to California, Mr. Davidson’s salary was increased 20% as a cost-of-living adjustment. Mr. Davidson earned $466,041 and $215,403 in 2015 and 2014, respectively, under our Annual Incentive Plan due to the achievement of performance goals based upon the Company’s net sales and EBITDA. Such annual incentive awards are payable one-third upfront and the remainder in periodic installments over the calendar year following the calendar year in which the award is earned. Mr. Davidson also earned $900,000 and $311,440 in 2015 and 2014, respectively, under our 2014 Long-Term Incentive Plan, 50% of which is payable in monthly installments over the three calendar years following the calendar year in which the award was earned and 50% of which is payable in monthly installments commencing in February 2021 and ending December 2023. As described in Items Two and Three of this Proxy Statement, the payment of amounts awarded for 2015 to Mr. Davidson under the Annual Incentive Plan and 2014 Long-Term Incentive Plan has been postponed, and is conditional on stockholder approval of Items Two and Three, respectively. Except in some limited circumstances, payments under both the Annual Incentive Plan and 2014 Long-Term Incentive Plan are subject to Mr. Davidson continuing to provide services to the Company. In 2015 and 2014, Mr. Davidson also received certain gross-up payments for both federal taxes payable in connection with the vesting of restricted stock grants made to him and also relocation assistance payments.

Outstanding Equity Awards at December 31, 2015

The following table provides information concerning outstanding equity awards to our named executive officers that remained subject to vesting at December 31, 2015.

| Name | Number of Shares of Stock That Have Not Vested (1) | Market Value of Shares of Stock That Have Not Vested |
|---|---|---|
| Chris T. Sharng | 18,556 | $622,183 |
| Timothy S. Davidson | 5,634 | $188,908 |

(1) In January 2015, the Board of Directors granted 27,823 and 8,454 shares of restricted stock to each of Messrs. Sharng and Davidson, respectively, in recognition of their outstanding performance in 2014. These shares vest on a quarterly basis over the three-year period following the date of grant and are subject to forfeiture in the event of the executive's termination of service to the Company under specified circumstances.

Severance and Post-Termination Payment Arrangements

Under the employment agreements with our name executive officers, we may be required to provide compensation to these officers in the event of the termination of the executive's employment under certain circumstances. Details for each named executive officer are set forth below.

Chris T. Sharng. Our employment agreement with Mr. Sharng provides that if Mr. Sharng's employment with us is terminated voluntarily by him for "good reason," as defined in the employment agreement (and subject to such "reason" not being cured by us on 30-days' prior notice), or is terminated by us without "cause," other than in connection with a "change of control," then Mr. Sharng will be entitled to the continuation of the payment of his salary, plus health and medical insurance coverage, for a period of up to one year following the termination date, or until the earlier date upon which he becomes engaged in any "competitive activity," as defined in his non-competition agreement with us, or otherwise breaches the terms and conditions of such non-competition agreement.

If Mr. Sharng's employment with us is terminated by us without "cause" during the period commencing on the date that is 30 days prior to a change of control through and including a date that is 18 months following the change of control, he is entitled to the continuation of the payment of his salary, plus health and medical insurance coverage, for a period of up to two years following the termination date. This payment is due in a lump sum 30 days after the termination date.

In order to be entitled to receive the severance amount in either of the above scenarios, Mr. Sharng must execute a full general release of all claims against us and our affiliates.

A "change of control" is defined as: (i) when any "person" as defined in Section 3(a)(9) of the Exchange Act, and as used in Section 13(d) and 14(d) thereof, including a "group" as defined in Section 13(d) of the Exchange Act, but excluding the Company or any subsidiary or any affiliate of the Company or any employee benefit plan sponsored or maintained by the Company or any subsidiary of the Company (including any trustee of such plan acting as trustee), becomes the "beneficial owner" (as defined in Rule 13d-3 under the Exchange Act) of securities of the Company representing more than 50% of the combined voting power of the Company's then outstanding securities; or (ii) when, during any period of 24 consecutive months, the individuals who, at the beginning of such period constituted the Board of Directors (the "Incumbent Directors") cease for any reason other than death to constitute at least a majority thereof, provided, however, that a director who was not a director at the beginning of such 24-month period shall be deemed to have satisfied such 24-month requirement (and be an Incumbent Director) if such director was elected by, or on the recommendation of or with the approval of, at least two-thirds of the directors who then qualified as Incumbent Directors either actually (because they were directors at the beginning of such 24 month period) or through the operation of this provision; or (iii) the occurrence of a transaction requiring stockholder approval under applicable state law for the acquisition of the

Company by an entity other than the Company or a subsidiary or an affiliated company of the Company through purchase of assets, or by merger, or otherwise; provided however, that none of the foregoing shall constitute a change of control if such transaction, event or occurrence is approved by, or consented to, by Mr. Sharng.

Under the terms of Mr. Sharng's non-competition agreement, he is subject to a covenant not to compete for six months, and a non-solicitation covenant for one year, following his termination. Further, Mr. Sharng is not entitled to continue receiving severance payments under his employment agreement following the date upon which he commences to engage in any "competitive activity" (other than severance in connection with a change of control).

Timothy S. Davidson. Our employment and non-competition agreements with Mr. Davidson contain the same severance, change of control and non-competition provisions as those set out in our agreements with Mr. Sharng.

Director Compensation

The following table shows the compensation earned by each non-employee member of the Company's Board of Directors for 2015:

Director Compensation

| Name | Fees Earned or Paid in Cash ($) | Stock Awards[1] ($) | All Other Compensation[2] ($) | Total ($) |
|---|---|---|---|---|
| George K. Broady | $400,000 | $33,328 | $ 21,851 | $455,179 |
| Yiu T. Chan | 29,167 | — | — | 29,167 |
| Kin Y. Chung | 413,690 | 33,328 | — | 447,018 |
| Randall A. Mason | 448,000 | 49,329 | 32,341 | 529,670 |
| Christopher R. O'Brien | 238,690 | 33,328 | 21,854 | 293,872 |

(1) The stock amount represents the aggregate grant date fair value computed in accordance with FASB ASC Topic 718.

(2) Represents tax gross-up payments for 2015 associated with the vesting of restricted stock.

During 2015 each non-employee member of our Board of Directors, with the exception of Mr. Chan who was elected to the Board of Directors on December 14, 2015, earned a cash retainer of $8,333 per month and a cash bonus of $125,000 for their services during 2015, plus the reimbursement of their respective out-of-pocket expenses incurred in connection with the performance of their duties as directors. Mr. Mason earned an additional retainer of $4,000 per month as Chairman of the Board of Directors in 2015. On February 11, 2015, upon election to the Board of Directors, Messrs. Chung and O'Brien received $25,000 cash and a prorated payment of the $8,333 monthly cash retainer covering the period from the date of their election to February 28, 2015. Upon election to the Board of Directors, Mr. Chan received $25,000 cash, a prorated payment of the $8,333 monthly cash retainer covering the period from the date of his election to December 31, 2015, plus the reimbursement of his respective out-of-pocket expenses incurred in connection with the performance of his duties as director. Finally, Messrs. Mason, Broady and Chung will receive an additional $175,000 for their services during 2015 following the annual meeting of stockholders.

ITEM ONE

ELECTION OF DIRECTORS

Under the Company's bylaws, the number of directors shall not be less than three nor more than eleven, with the exact number fixed from time to time by action of the stockholders or of the Board of Directors.

The Company's Board of Directors presently consists of six directors whose terms expire at the annual meeting of stockholders. Christopher R. O'Brien has notified the Company that he has decided not to stand for re-election as a director at the annual meeting of stockholders. Accordingly, the Nominating Committee recommended, and the Board of Directors has approved, a reduction in the size of the Board of Directors to five directors effective with the date of the annual meeting of stockholders. The Nominating Committee recommended, and the Board of Directors has nominated, the five directors identified below.

Biographical summaries of the five persons who have been nominated to stand for election at the annual meeting are provided below for your information. The Board of Directors recommends that these persons be elected at the annual meeting to serve until the next annual meeting of stockholders. Proxies will be voted for the election of the five nominees listed below as directors of the Company unless otherwise specified on the proxy. A plurality of the votes cast by holders of common stock present in person or represented by proxy at the annual meeting will be necessary to elect the directors listed below. If, for any reason, any of the nominees shall be unable or unwilling to serve, the proxies will be voted for a substitute nominee who will be designated by the Board of Directors at the annual meeting. Stockholders may withhold authority from voting for one or more nominees by marking the appropriate boxes on the enclosed proxy card. Withheld votes shall be counted separately and shall be used for purposes of calculating whether a quorum is present at the meeting.

Biographical Summaries of Nominees for the Board of Directors

George K. Broady. Mr. Broady, age 77, has served as a director of the Company since October 2008. He has been involved in business for more than 40 years, and he is currently active in the direct selling industry and is the principal owner of several privately held companies in the fields of telecommunications and enterprise software. He founded Network Security Corporation, Interactive Technologies Inc. and Ultrak Inc., and brought each of them public on The NASDAQ Stock Market. He was chairman of all three organizations and CEO of both Network Security and Ultrak. All three companies were involved in electronic security, including CCTV and access control. Earlier in his career, Mr. Broady was an investment analyst with both a private investment firm, Campbell Henderson & Co., and with the First National Bank in Dallas. Mr. Broady served twice in the U.S. Army and holds a Bachelor of Science degree from Iowa State University.

Mr. Broady is an experienced investor and businessman who also brings welcome insight into management, operations, and finances. As a long-time investor in the Company, and incumbent director, Mr. Broady has a deep understanding of the business of the Company and its industry. He is owner of Broady Health Sciences, a leader in dietary supplements invigorating the production of Ca2+ATPase, an enzyme found in every cell of the body, and Soothe, a formula that helps to restore and repair dry skin.

Yiu T. Chan. Mr. Chan, age 49, has been a director of the Company since December 2015. Mr. Chan currently serves as a self-employed business and tax advisor. Mr. Chan served as a Partner in Grant Thornton’s Tax and Business Advisory group in Guangzhou, China from October 2012 to October 2015, and from 2002 to 2011 served in several senior positions with both Ernst & Young (including Tax Director and Partner from June 2006 to December 2011) and PricewaterhouseCoopers, also located in Guangzhou, China. Mr. Chan served as Director of Investment and Planning from July to September 2012 for Blue Ocean Corporation Limited, which provides business and tax advisory services to foreign companies investing in China and Chinese companies investing overseas.

Mr. Chan has extensive experience in advising companies operating in China, helping to navigate complicated tax and business compliance matters. Mr. Chan holds a bachelor degree in accounting from City University of Hong Kong and is a member of both the Hong Kong Institute of Certified Public Accountants and Association of Chartered Certified Accountants.

Kin Y. Chung. Mr. Chung, age 76, has been a director of the Company since February 2015. Mr. Chung founded Bioherb Technology Company, Ltd. in 1988 and served as President of that company from the date of its founding through 2013, at which time he retired. Bioherb Technology Company, Ltd. was a private Hong Kong company that served as an importing company for food and food manufacturing products. Mr. Chung was also a consultant with Blue Ocean Corporation Limited, which provided business consulting services to the Company from June 2009 through June 2010. Mr. Chung has directly provided business consulting services to the Company since July 2010, but ceased doing so prior to his election to the Company’s Board of Directors.

Mr. Chung has been a life-long entrepreneur and businessperson, active in Greater China, by far our most important market. He is extensively experienced in business practices, culture and protocol, particularly those of Hong Kong and China. Mr. Chung also is an expert in importing and exporting consumer products for our core markets.

Randall A. Mason. Mr. Mason, age 57, has been a director of the Company since May 2003 and has served as Chairman of the Board of Directors since March 2006. Mr. Mason founded and has served as President and Chief Executive Officer of Marden Rehabilitation Associates, Inc. since 1989. Marden Rehabilitation Associates, Inc. is a private, Midwest U.S. ancillary provider of rehabilitative therapy services and home healthcare. Mr. Mason has a bachelor degree in chemical engineering from the University of Pittsburgh.

Mr. Mason is an experienced businessman with valued insight into management, operations, finances and governance issues. As a long-time member of the Company's Board of Directors, Mr. Mason understands the business of the Company and potential risks and pitfalls.

Chris T. Sharng. The biographical information for Mr. Sharng, the Company's President, is set forth above under the caption "Executive Officers."

As the Company's President since 2007, and as the Chief Financial Officer prior to that, Mr. Sharng has developed a deep understanding of our business globally. His leadership has been integral to our success in recent years.

The Board of Directors recommends that stockholders vote "FOR" each of the persons nominated by the Board of Directors. Unless otherwise instructed or unless authority to vote is withheld, the enclosed proxy will be voted FOR the election of the above listed nominees and AGAINST any other nominees.

ITEM TWO

APPROVAL OF THE MATERIAL TERMS OF THE NATURAL HEALTH TRENDS CORP. ANNUAL INCENTIVE PLAN FOR PURPOSES OF QUALIFYING COMPENSATION PAID PURSUANT TO SUCH PLAN FOR DEDUCTIBLITY UNDER SECTION 162(m) OF THE INTERNAL REVENUE CODE

On April 4, 2014, the Board of Directors approved the Natural Health Trends Corp. Annual Incentive Plan (the “Annual Plan”) for employees, including its named executive officers, designated by the Board of Directors (or a committee thereof) to participate in the Annual Plan for a specified year by providing them with the opportunity to earn financial rewards for their role in supporting the Company's efforts to meet its objectives based upon the extent to which specified performance or other goals are achieved or exceeded for an applicable year. The Compensation Committee subsequently approved an amendment to the Annual Plan to adjust the timing by which distributions will be made from the plan. The Annual Plan has now been restated in its entirety, effective as of January 1, 2016.

Under Section 162(m) of the Internal Revenue Code (“Section 162(m)”), in order for compensation in excess of $1 million paid in any year to any “covered employee” to be deductible by the Company, such compensation must qualify as “performance-based compensation”. A “covered employee” is defined by Section 162(m) to include the Company’s Chief Executive Officer and the three other most highly compensated executive officers required to be disclosed under the Exchange Act (other than the Chief Executive Officer and Chief Financial Officer). The Company has structured the Annual Plan in a manner such that payments can satisfy the requirements for “performance-based compensation” within the meaning of Section 162(m).

In order to allow for certain awards under the Annual Plan to qualify as tax-deductible “performance-based compensation” within the meaning of Section 162(m), the Company is asking stockholders to approve the material terms of the performance goals under the Annual Plan. One of the requirements of “performance-based compensation” for purposes of Section 162(m) is that the material terms of the performance goals under which compensation may be paid be disclosed to and approved by the Company's stockholders before payment and be reapproved every five years after the initial stockholder approval. For purposes of Section 162(m) the material terms of the performance goals under which compensation may be paid include (i) the employees eligible to receive compensation, (ii) a description of the business criteria on which the performance goals are based and (iii) the maximum amount of compensation that can be paid to an employee under the performance goals.

If the stockholders approve this proposal, and unless the material terms are subsequently changed, the Company believes that the material terms for payment of performance-based compensation under the Annual Plan will meet the stockholder approval requirements for another five years.

The Board of Directors believes that it is in the best interests of the Company and its stockholders to provide for a stockholder-approved plan under which incentive compensation paid to eligible employees, as defined by the Annual Plan, can be deducted by the Company for federal income tax purposes. Approval of the material terms of the performance goals under the Annual Plan may reduce the Company's tax expense, as the Company will be able to maximize its tax deductions for compensation expenses. The following summary of the material features of the Annual Plan is qualified in its entirety by reference to the complete text of the Annual Plan. The full text of the Annual Plan is attached hereto as Appendix A.

Stockholders are not being asked to approve any amendment to the Annual Plan or to approve the Annual Plan itself, but are only asked to approve the material terms for compliance with Section 162(m) of the Internal Revenue Code.

Administration

The Annual Plan is administered by the Compensation Committee, which typically consists of two or more "outside directors" as such term is defined under Section 162(m). The Compensation Committee shall have complete authority to make any and all decisions regarding the administration of the Annual Plan, including interpreting the terms and provisions of the Annual Plan, selecting the participants to receive awards under the Annual Plan, determining the terms of the awards made under the Annual Plan, and establishing any incentive program under the Annual Plan.

The Compensation Committee may delegate various functions to a subcommittee or certain officers of the Company to the extent such delegation is not inconsistent with Section 162(m).

Eligibility

Participants in the Annual Plan are the Company's President and Chief Financial Officer and such other employees of the Company as selected by the Compensation Committee.

Description of Performance Goals and Business Criteria

Within 90 days after the end of each fiscal year, the Compensation Committee may establish an incentive program under the Annual Plan for the then-current 12-month performance period by determining the objective, non-discretionary performance criteria to be used to determine amounts payable to participants under the Annual Plan and the potential range of performance bonus amounts payable to each participant under the Annual Plan, which amounts will be based upon one or more performance criteria and/or the level of achievement with respect thereto. In its sole discretion, the Compensation Committee may also reduce, but may not increase, a covered employee's incentive calculated under an award under the Annual Plan.

The objective performance criteria can be measured individually or in combination and can be applied to the Company(including any division or operating unit thereof) or individual measures, stated in either absolute terms or relative terms. The outcome of each goal must be substantially uncertain at the time established by the Compensation Committee. The performance criteria will include one or more of the following: (i) rates of growth or improvement; (ii) the attainment by a share of common stock of a specified fair market value for a specified period of time; (iii) earnings per share; (iv) earnings per share excluding non-recurring, special or extraordinary items; (v) return to stockholders (including dividends); (vi) return on capital; (vii) return on total capital deployed; (viii) return on assets; (ix) return on equity; (x) earnings of the Company before or after taxes and/or interest; (xi) revenues; (xii) revenue increase; (xiii) distributor counts, including new distributors, distributor growth, retention, and attrition; (xiv) repeat purchase rate; (xv) recurring revenue; (xvi) recurring revenue increase; (xvii) market share; (xviii) cash flow or cost reduction goals; (xix) cash flow provided by operations; (xx) net cash flow; (xxi) short-term or long-term cash flow return on investment; (xxii) interest expense after taxes; (xxiii) return on investment; (xxiv) return on investment capital; (xxv) economic value created; (xxvi) operating margin; (xxvii) gross profit margin; (xxviii) net profit margin; (xxix) pre-tax income margin; (xxx) net income margin; (xxxi) net income before or after taxes; (xxxii) pretax earnings before interest, depreciation and amortization; (xxxiii) pre-tax operating earnings after interest expense and before incentives, and/or extraordinary or special items; (xxxiv) operating earnings; (xxxv) net cash provided by operations; and (xxxvi) strategic business criteria, consisting of one or more objectives based on meeting specified market penetration, geographic business expansion goals, cost targets, customer satisfaction, reductions in errors and omissions, reductions in lost business, management of employment practices and employee benefits, supervision of litigation and information technology, quality and quality audit scores, productivity, efficiency, and goals relating to acquisitions or divestitures.

Committee Certification and Determination of Awards

As soon as practicable after the end of each performance period under the Annual Plan, the Compensation Committee will determine the level of achievement with respect to the performance criteria and targets established under the Annual Plan for each employee who is subject to Section 162(m).

Based on applying the results that have been certified by the Compensation Committee for the 2015 performance period under the Annual Plan to the performance goals and criteria that have been established by the Compensation Committee for the 2016 performance period, the maximum amount of compensation that can be paid to an employee under the performance goals is $2,500,000.

Payment of Awards and Continuous Employment Requirement

Following the Compensation Committee’s determination of awards to be paid to employees, such awards shall be made in installments, with one-third of the total award payable in a single lump-sum by the last day of February of the calendar year immediately following the conclusion of the performance period to which the award relates and the remaining two-thirds of the award distributed in equal installments over the remainder of the applicable distribution year in accordance with the Company's applicable local payroll practices. To be eligible for an installment payment, an employee must remain in a continuous employment or other service provider relationship with the Company, through both the conclusion of the fiscal year to which an award relates and through the date on which each installment payment is actually made.

Duration and Amendment

The Board of Directors may suspend or terminate the Annual Plan at any time, although the effect on any Annual Plan participant of any suspension or termination of the Annual Plan would be subject to the terms of any applicable employment agreement. Additionally, the Board of Directors may amend the Annual Plan as it deems advisable except that no amendment which is material for purposes of stockholder approval imposed by applicable law, including the requirement of Section 162(m), shall be effective without the approval of the stockholders of the Company.

The Board of Directors recommends a vote "FOR" the approval of the material terms of the Annual Plan for purposes of qualifying compensation paid pursuant to the Annual Plan for deductibility under Section 162(m) of the Internal Revenue Code.

ITEM THREE

APPROVAL OF THE MATERIAL TERMS OF THE NATURAL HEALTH TRENDS CORP. 2014 LONG-TERM INCENTIVE PLAN FOR PURPOSES OF QUALIFYING COMPENSATION PAID PURSUANT TO SUCH PLAN FOR DEDUCTIBILITY UNDER SECTION 162(m) OF THE INTERNAL REVENUE CODE

On April 4, 2014, the Board of Directors approved the Natural Health Trends Corp. 2014 Long-Term Incentive Plan (the "LTI Plan") for employees, including its named executive officers, designated by the Board of Directors (or a committee thereof) to participate in the LTI Plan for a specified performance period by providing them with the opportunity to earn financial rewards for their role in supporting the Company's efforts to meet its long-term objectives based upon the extent to which specified performance or other goals are achieved or exceeded for an applicable performance period. The Compensation Committee subsequently approved an amendment to the LTI Plan to adjust the timing by which distributions will be made from the plan. The LTI Plan has now been restated in its entirety, effective as of January 1, 2016.

The performance period under the LTI Plan shall mean each individual calendar year over the seven-year period commencing on January 1, 2014 and ending on December 31, 2020 for which performance or other goals are actually established by the Compensation Committee. The Compensation Committee shall establish one or more objective performance goals for each participant or for any group of participants based on one or more measures as stated in the LTI Plan.

Under Section 162(m), in order for compensation in excess of $1 million paid in any year to any "covered employee" to be deductible by the Company, such compensation must qualify as "performance-based compensation." A "covered employee" is defined by Section 162(m) to include the Company's Chief Executive Officer and the three other most highly compensated executive officers required to be disclosed under the Exchange Act (other than the Chief Executive Officer and Chief Financial Officer). The Company has structured the LTI Plan in a manner such that payments can satisfy the requirements for "performance-based compensation" within the meaning of Section 162(m).

In order to allow for certain awards under the LTI Plan to qualify as tax-deductible "performance-based compensation" within the meaning of Section 162(m), the Company is asking stockholders to approve the material terms of the performance goals under the LTI Plan. One of the requirements of "performance-based compensation" for purposes of Section 162(m) is that the material terms of the performance goals under which compensation may be paid be disclosed to and approved by the Company's stockholders before payment and be reapproved every five years after the initial stockholder approval. For purposes of Section 162(m) the material terms of the performance goals under which compensation may be paid include (i) the employees eligible to receive compensation, (ii) a description of the business criteria on which the performance goals are based and (iii) the maximum amount of compensation that can be paid to an employee under the performance goals.

If the stockholders approve this proposal, and unless the material terms are subsequently changed, the Company believes that the material terms for payment of performance-based compensation under the LTI Plan will meet the stockholder approval requirements for another five years.

The Board of Directors believes that it is in the best interests of the Company and its stockholders to provide for a stockholder-approved plan under which incentive compensation paid to its eligible employees, as defined by the LTI Plan, can be deducted by the Company for federal income tax purposes. Approval of the material terms of the performance goals under the LTI Plan may reduce the Company's tax expense as the Company will be able to maximize its tax deductions for compensation expenses. The following summary of the material features of the LTI Plan is qualified in its entirety by reference to the complete text of the LTI Plan. The full text of the LTI Plan is attached hereto as Appendix B.

Stockholders are not being asked to approve any amendment to the LTI Plan or to approve the LTI Plan itself, but are only asked to approve the material terms for compliance with Section 162(m) of the Internal Revenue Code.

Administration

The LTI Plan is administered by the Compensation Committee, which typically consists of two or more “outside directors” as such term is defined under Section 162(m). The Compensation Committee shall have complete authority to make any and all decisions regarding the administration of the LTI Plan, including interpreting the terms and provisions of the LTI Plan, selecting the participants to receive awards under the LTI Plan, determining the terms of the awards made under the LTI Plan, and establishing any incentive program under the LTI Plan.

The Compensation Committee may delegate various functions to a subcommittee or certain officers of the Company to the extent such delegation is not inconsistent with Section 162(m).

Eligibility

Participants in the LTI Plan are the Company's President and Chief Financial Officer and such other employees of the Company as selected by the Compensation Committee.

Description of Performance Goals and Business Criteria

Within 90 days after the end of each fiscal year, the Compensation Committee may establish an incentive program under the LTI Plan for the then-current 12-month performance period by determining the objective, non-discretionary performance criteria to be used to determine amounts payable to participants under the LTI Plan and the potential range of performance bonus amounts payable to each participant under the LTI Plan, which amounts will be based upon one or more performance criteria and/or the level of achievement with respect thereto. In its sole discretion, the Compensation Committee may also reduce, but may not increase, a covered employee's incentive calculated under an award under the LTI Plan.

The objective performance criteria can be measured individually or in combination and can be applied to the Company (including any division or operating unit thereof) or individual measures, stated in either absolute terms or relative terms. The outcome of each goal must be substantially uncertain at the time established by the Compensation Committee. The performance criteria will include one or more of the following: (i) rates of growth or improvement; (ii) the attainment by a share of common stock of a specified fair market value for a specified period of time; (iii) earnings per share; (iv) earnings per share excluding non-recurring, special or extraordinary items; (v) return to stockholders (including dividends); (vi) return on capital; (vii) return on total capital deployed; (viii) return on assets; (ix) return on equity; (x) earnings of the Company before or after taxes and/or interest; (xi) revenues; (xii) revenue increase; (xiii) distributor counts, including new distributors, distributor growth, retention, and attrition; (xiv) repeat purchase rate; (xv) recurring revenue; (xvi) recurring revenue increase; (xvii) market share; (xviii) cash flow or cost reduction goals; (xix) cash flow provided by operations; (xx) net cash flow; (xxi) short-term or long-term cash flow return on investment; (xxii) interest expense after taxes; (xxiii) return on investment; (xxiv) return on investment capital; (xxv) economic value created; (xxvi) operating margin; (xxvii) gross profit margin; (xxviii) net profit margin; (xxix) pre-tax income margin; (xxx) net income margin; (xxxi) net income before or after taxes; (xxxii) pretax earnings before interest, depreciation and amortization; (xxxiii) pre-tax operating earnings after interest expense and before incentives, and/or extraordinary or special items; (xxxiv) operating earnings; (xxxv) net cash provided by operations; and (xxxvi) strategic business criteria, consisting of one or more objectives based on meeting specified market penetration, geographic business expansion goals, cost targets, customer satisfaction, reductions in errors and omissions, reductions in lost business, management of employment practices and employee benefits, supervision of litigation and information technology, quality and quality audit scores, productivity, efficiency, and goals relating to acquisitions or divestitures.

Committee Certification and Determination of Awards

As soon as practicable after the end of each performance period under the LTI Plan, the Compensation Committee will determine the level of achievement with respect to the performance criteria and targets established under the LTI Plan for each employee who is subject to Section 162(m).

Based on applying the results that have been certified by the Compensation Committee for the 2015 performance period under the LTI Plan to the performance goals and criteria that have been established by the Compensation Committee for the 2016 performance period, the maximum amount of compensation that can be paid to an employee under the performance goals is $6,000,000.

Payment of Awards and Continuous Employment Requirement

Following the Compensation Committee's determination of awards to be paid to employees, such awards shall be made as follows: (i) one-half of the aggregate award amount earned during a performance period will be payable in cash or shares of common stock in thirty-five equal consecutive monthly installments beginning in February of the calendar year immediately following the conclusion of the performance period to which the award relates; and (ii) the remaining one-half of the aggregate payment earned during the performance period will be payable in cash or shares of common stock in thirty-five equal consecutive monthly installments beginning in February 2021 and ending in December 2023.

To be eligible to receive any installment payment under the LTI Plan, employees must remain in a continuous employment or other service provider relationship with the Company or an affiliate, through both the conclusion of the fiscal year to which an award relates and through the date on which each installment payment is actually made.

Duration and Amendment

The Board of Directors may suspend or terminate the LTI Plan at any time, although the effect on any LTI Plan participant of any suspension or termination of the LTI Plan would be subject to the terms of any applicable employment agreement. Additionally, the Board of Directors may amend the LTI Plan as it deems advisable except that no amendment which is material for purposes of stockholder approval imposed by applicable law, including the requirement of Section 162(m), shall be effective without the approval of the stockholders of the Company.

The Board of Directors recommends a vote "FOR" the approval of the material terms of the LTI Plan for purposes of qualifying compensation paid pursuant to the LTI Plan for deductibility under Section 162(m) of the Internal Revenue Code.

ITEM FOUR

APPROVAL OF THE NATURAL HEALTH TRENDS CORP. 2016 EQUITY INCENTIVE PLAN

The Company is asking its stockholders to approve the Natural Health Trends Corp. 2016 Equity Incentive Plan (the "Equity Plan"). Subject to stockholder approval, the Board of Directors approved the Equity Plan on March 1, 2016. The Equity Plan is intended to replace our 2007 Equity Incentive Plan. If the Equity Plan is approved by stockholders, it will become effective on the day of the Annual Meeting. The Equity Plan is a broad-based equity compensation plan pursuant to which awards may be made to employees, officers, directors, contractors, consultants, or advisors of the Company or any of its world-wide affiliates. The Board of Directors believes that the award of incentive compensation continues to be a factor in attracting, motivating and retaining management and other key personnel and that it aligns their interests with those of the Company's stockholders through equity-based compensation that rewards performance based on annual, long-term, and strategic goals. The following summary of the material features of the Equity Plan is qualified in its entirety by reference to the complete text of the Equity Plan. The full text of the Equity Plan is attached hereto as Appendix C.

Purpose

The purpose of granting awards under the Equity Plan is to provide a means by which eligible recipients may be given an opportunity to benefit from increases in the value of the Company's common stock, to retain the services of such recipients, to attract and retain the services of new persons eligible to receive awards, and to provide incentives for recipients to exert maximum efforts for the success the Company and its affiliates.

In determining the number of shares to be authorized under the proposed Equity Plan, the Board of Directors considered the purposes of the plan, as well as its cost:

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The Company operates in a competitive market and its success depends in large part on its ability to attract, retain and reward talented and competent employees and other service providers. To be able to do so, the Company must offer competitive compensation. The Board of Directors believes that the Equity Plan will serve a critical role in attracting and motivating valuable people that will be essential to the future success of the Company.

- The estimated dilution, based on the shares initially requested of 2,500,000, is approximately 21.4% as of February 22, 2016.

- As shown in the following table, the Company's three-year average annual burn rate of 0.59% is well below the Institutional Shareholder Services, Inc. ("ISS") burn rate cap of 3.26% applied to our industry.

| Year | Options Granted (a) | Full Value Awards Granted (b) | Unadjusted Total (a) + (b) | Adjusted Total (1) | Weighted Average Number of Common Shares Outstanding | Unadjusted Burn Rate = Unadjusted Total/Common Shares Outstanding | Adjusted Burn Rate = Adjusted Total/Common Shares Outstanding |
|---|---|---|---|---|---|---|---|
| 2015 | — | 91,060 | 91,060 | 136,590 | 12,371,597 | 0.74 % | 1.10 % |
| 2014 | — | 25,342 | 25,342 | 38,013 | 12,599,578 | 0.20 % | 0.30 % |
| 2013 | — | 26,676 | 26,676 | 40,014 | 11,330,826 | 0.24 % | 0.35 % |

(1) Adjusted total includes the "Full Value Awards Granted" column as adjusted to reflect that ISS considers full-value awards to be more valuable than stock options. The adjustment is made based on the Company's three year stock price volatility, such that one full-value award will count as three option shares

Types of Awards

The Equity Plan permits the issuance of stock options (both incentive stock options designed to comply with Section 422 of the Internal Revenue Code and nonstatutory stock options that will not so comply) and other stock awards (including shares, stock units, stock appreciation rights, and other similar awards).

Administration

The Compensation Committee is designated as the administrator of the Equity Plan, which has the authority to select those to whom awards are to be made, the number of shares to be covered by each award, and the type of award, as well as to determine the terms and conditions of these awards. However, with respect to grants to certain employees who are not executive officers, the Compensation Committee may from time to time delegate its authority to one or more officers of the Company or its affiliates.

Eligibility

Awards under the Equity Plan may be granted to employees, officers, directors (including non-employee or outside Board members), contractors, consultants, and advisors of the Company and its world-wide affiliates. Incentive stock options may be granted only to Company employees or employees of a Company subsidiary.

Number of Shares and Limitations

The Equity Plan provides that the aggregate number of shares that may be issued pursuant to awards granted under the Equity Plan after stockholder approval shall not exceed 2,500,000 shares. Unless the Board of Directors determines otherwise, this limit in the number of shares available for award under the Equity Plan will automatically increase on January 1st of each year for the next ten (10) years so that the number of shares that may be issued under the Equity Plan consistently remains equal to 17.7% of the total number of shares of the Company’s common stock outstanding on December 31st of the preceding calendar year, inclusive of the shares reserved for issuance under the Equity Plan. In no event, however, will the application of the adjustment in the preceding sentence result in a reduction of the aggregate number of shares available for award under the Equity Plan below 2,500,000.

Shares that are subject to issuance pursuant to any awards granted after stockholder approval that expire or are canceled, terminated, or forfeited shall again be available for future grant of awards under the Equity Plan. If shares are withheld or tendered as payment of the exercise price or for withholding tax liability in connection with an award, the shares withheld or tendered may not be reissued or otherwise treated as available for additional awards under the Equity Plan. The shares subject to the Equity Plan may be either shares reacquired by the Company, including shares purchased by the Company or any of its affiliates in the open market, or authorized but unissued shares.

No awards under the Equity Plan have been made subject to stockholder approval of this proposal. The grant of awards under the Equity Plan is discretionary, and we cannot determine the number or type of awards to be granted in the future to any particular person or group.

The administrator may authorize conversion or substitution under the Equity Plan of any or all stock awards held by service providers of an entity acquired by the Company at less than 100% of fair market value on the date of conversion or substitution. These awards shall neither reduce the shares authorized for issuance under the Equity Plan or the applicable limitations on grants to a participant, nor be added to the shares available for issuance under the Equity Plan.

Awards that are intended to qualify as "qualified performance-based awards" under Section 162(m) awarded to any one awardee during a 12-month period may not exceed 125,000 shares or have a maximum payment with a value greater than $4,000,000 (if the award is defined in cash rather than shares).

The maximum number of shares reserved for issuance under incentive stock options may not exceed 2,500,000 shares.

Performance Awards

The Equity Plan provides that the Compensation Committee will establish performance criteria and the level of achievement versus these criteria governing the grant, issuance, retention and /or vesting of each stock award or the shares subject thereto, which may be based on financial performance, personal performance evaluations, and/or the completion of service by the awardee. The performance criteria for any portion of an award that is intended to satisfy the requirements for performance-based compensation will be based on one or more "qualifying performance criteria" selected by the Compensation Committee no later than the 90th day after the commencement of the period of service to which the performance goals relate, provided that the outcome is substantially uncertain at that time (or in such other manner that complies with Section 162(m)). Notwithstanding the satisfaction of the performance criteria, the number of shares, options, or other benefits under an award may be reduced by the Compensation Committee in its sole discretion.

Performance Criteria

The performance criteria can be measured individually or in combination and can be applied to the Company's performance as a whole or, alternatively, to individual measures, stated in either absolute terms or relative terms. The outcome of each goal must be substantially uncertain at the time established by the Compensation Committee. The performance criteria will include one or more of the following: (i) rates of growth or improvement; (ii) the attainment by a share of common stock of a specified fair market value for a specified period of time; (iii) earnings per share; (iv) earnings per share excluding non-recurring, special or extraordinary items; (v) return to stockholders (including dividends); (vi) return on capital; (vii) return on total capital deployed; (viii) return on assets; (ix) return on equity; (x) earnings of the Company before or after taxes and/or interest; (xi) revenues; (xii) revenue increase; (xiii) distributor counts, including new distributors, distributor growth, retention, and attrition; (xiv) repeat purchase rate; (xv) recurring revenue; (xvi) recurring revenue increase; (xvii) market share; (xviii) cash flow or cost reduction goals; (xix) cash flow provided by operations; (xx) net cash flow; (xxi) short-term or long-term cash flow return on investment; (xxii) interest expense after taxes; (xxiii) return on investment; (xxiv) return on investment capital; (xxv) economic value created; (xxvi) operating margin; (xxvii) gross profit margin; (xxviii) net profit margin; (xxix) pre-tax income margin; (xxx) net income margin; (xxxi) net income before or after taxes; (xxxii) pretax earnings before interest, depreciation and amortization; (xxxiii) pre-tax operating earnings after interest expense and before incentives, and/or extraordinary or special items; (xxxiv) operating earnings; (xxxv) net cash provided by operations; and (xxxvi) strategic business criteria, consisting of one or more objectives based on meeting specified market penetration, geographic business expansion goals, cost targets, customer satisfaction, reductions in errors and omissions, reductions in lost business, management of employment practices and employee benefits, supervision of litigation and information technology, quality and quality audit scores, productivity, efficiency, and goals relating to acquisitions or divestitures.

The Compensation Committee, in its discretion, may, within the time prescribed by Section 162(m), adjust or modify the calculation in order to prevent the dilution or enlargement of the rights of participants (i) in the event of, or in anticipation of, any unusual or extraordinary corporate item, transaction, event, or development, or (ii) in recognition of, or in anticipation of, any other unusual or nonrecurring events affecting the Company, or the financial statements of the Company, or in response to, or in anticipation of, changes in applicable law, accounting principles, or business conditions.

Option Awards

Each option is evidenced by a stock option agreement. The Equity Plan allows the Compensation Committee broad discretion to determine the terms of individual options.

The Compensation Committee determines the exercise price of options at the time they are granted. The exercise price may not be less than 100% of the fair market value of the Company’s common stock on the date of grant (incentive stock options granted to employees who are also 10% stockholders must have an exercise price not less than 110% of the fair market value of the stock on the date of grant). The fair market value of our common stock is determined generally as the closing price on the grant date. The Compensation Committee determines when options become vested and exercisable, and in its discretion may reduce or eliminate any restrictions surrounding any participant’s right to exercise all or part of an option. However, the Compensation Committee may not modify or amend an option to accelerate vesting for reasons other than death, disability or Change in Control (as defined in the Equity Plan), reprice outstanding options to reduce the exercise price without stockholder approval, or provide for a vesting schedule of less than one year. The Equity Plan permits payment to be made by cash, check, wire transfer, other shares of common stock (with some restrictions), acceptable “cashless exercise” procedures, any other form of consideration and method of payment permitted by the administrator and applicable law, or any combination thereof.

The term of an option may be no more than 10 years from the date of grant; provided that an incentive stock option granted to an employee who is also a 10% stockholder must have a term that is no more than five years from the date of grant. No option may be exercised after the expiration of its term.

If an optionee’s employment or other service provider relationship terminates for any reason (other than the optionee’s death or disability), then all options held by the optionee under the Equity Plan will terminate immediately; provided that the Compensation Committee may in the stock option agreement specify a period of time (but not beyond the expiration date of the option) following the optionee’s termination during which the optionee may exercise the option as to shares that were vested and exercisable as of the optionee’s termination date.

Stock Awards

Each stock award is evidenced by an award agreement. The Equity Plan allows the Compensation Committee broad discretion to determine the terms of individual stock awards.

Stock awards may be stock grants, stock units, or stock appreciation rights. Stock grants are awards of a specific number of shares of common stock, which may be subject to vesting requirements and other transfer restrictions. Stock appreciation rights are rights to receive cash and/or shares of common stock based on a change in the fair market value of a specific number of shares of common stock. Stock units are awards of a specific number of shares of common stock and represent a promise to deliver at a future date an amount of cash, property, or shares of common stock equal to the fair value of such shares. Shares may be granted under the Equity Plan as stock awards or stock units without requiring the participant to pay us an amount equal to the fair market value of the common stock as of the award date in order to acquire the shares.

Each stock award agreement will contain provisions regarding: (i) the number of shares subject to such stock award or a formula for determining such number, (ii) the purchase price of the shares, if any, and the means of payment, (iii) the performance criteria, if any, and level of achievement versus the criteria that will determine the number of shares granted, issued, retainable, and/or vested, (iv) such terms and conditions on the grant, issuance, vesting, and/or forfeiture of the shares as may be determined from time to time by the Compensation Committee, provided that the Compensation Committee may not modify or amend an award to accelerate vesting for reasons other than death, disability or Change in Control (as defined in the Equity Plan) and the vesting schedule for stock appreciation rights may not be less than one year, (v) restrictions on transferability, and (vi) such further terms and conditions, in each case not inconsistent with the Equity Plan, as may be determined from time to time by the Compensation Committee.

Stock units will be documented in the form of an award agreement, which will contain all provisions regarding: (i) the number of stock units subject to such award or a formula for determining such number, (ii) the performance criteria (including qualifying performance criteria), if any, and level of achievement versus these criteria that shall determine the number of stock units granted, issued, retainable and/or vested, (iii) such terms and conditions on the grant, issuance, vesting and/or forfeiture of the stock units as may be determined from time to time by the administrator, provided that the Compensation Committee may not modify or amend an option to accelerate vesting for reasons other than death, disability or Change in Control (as defined in the Equity Plan), (iv) the form and timing of any payment earned by virtue of vested stock units, (v) the terms and rights of a participant with respect to dividend equivalents, and (vi) such further terms and conditions, in each case not inconsistent with the Equity Plan, as may be required by law or as may be determined from time to time by the Compensation Committee.

In the case of stock awards, including stock units, unless the Compensation Committee determines otherwise, the outstanding stock or stock units will be forfeited upon the participant’s termination of employment or other service provider relationship, provided that we will have the right to repurchase any unvested shares that have been issued at such price and on such terms and conditions as the Compensation Committee determines.

Adjustments Upon Certain Fundamental Changes

Subject to any required action by our stockholders, there will be an adjustment for any increase or decrease in the number or kind of issued shares resulting from a stock split, reverse stock split, stock dividend, combination or reclassification of our common stock, or any other increase or decrease in the number of issued shares of common stock effected without receipt of consideration.

In the event of a liquidation or dissolution and unless otherwise determined by the Compensation Committee, any unexercised options or other stock awards pursuant to which shares have not yet been issued will terminate.

In the event of a Change in Control (as defined in the Equity Plan), as determined by the Compensation Committee, the Compensation Committee, in its discretion, may provide for the assumption, substitution, or adjustment to each outstanding award, accelerate the vesting of options and terminate any restrictions on cash awards or stock awards, or terminate awards on such terms and conditions as the Compensation Committee deems appropriate, including for a cash payment to the awardee.

Nontransferability of Awards

Unless otherwise determined by the Compensation Committee, awards granted under the Equity Plan are not transferable other than by a beneficiary designation, will, or the laws of descent and distribution, and incentive stock options may be exercised during the optionee’s lifetime only by the optionee. The Compensation Committee will have the sole discretion to permit the transfer of an award; however, the transferability of incentive stock options is restricted under the Internal Revenue Code.

Amendment and Termination

The Board or administrator may amend, alter, or discontinue the Equity Plan or award agreement, subject to stockholder approval in the manner and to the extent required by law or any exchange on which the Company has listed shares. In addition, unless approved by stockholders, no such amendment shall materially increase the number of shares for which awards may be granted (with certain exceptions), reduce the minimum exercise price at which options may be granted, result in a repricing of options, or change the class of persons eligible to receive awards under the Equity Plan. No such action by the Board or stockholders may impair any award previously granted under the Equity Plan without the written consent of the participant (except for certain changes specified in the Equity Plan).

Compensation Recovery

The Company may recover some or all awards, some or all of the amounts paid with respect to awards, or recoup some or all of the value thereof by offset from the amounts paid from other amounts owed to a participant at any time during the three calendar years following the award, if the administrator determines that applicable law or the listing requirements of the exchange on which the Company’s stock is listed so require, the performance criteria required for an award were not met, or not met to the extent necessary to support the amount of the award that was paid, or an award or payment was based on the achievement of financial results, as reported in periodic reports filed with the Securities and Exchange Commission that were subsequently the subject of a restatement due to material noncompliance of the Company with any financial reporting requirement under the Federal securities laws (other than as a result of a change in accounting principles).

Federal Income Tax Consequences

The following is only a summary of the effect of U.S. Federal income taxation upon awardees and the Company with respect to the grant and exercise of awards under the Plan. It does not purport to be complete and does not discuss the tax consequences arising in the context of the employee’s death or the income tax laws of any municipality, state, or foreign country in which the award recipient’s income or gain may be taxable.

Incentive Stock Options

An optionee who is granted an incentive stock option does not recognize taxable income at the time the option is granted or upon its exercise, although the exercise is an adjustment item for alternative minimum tax purposes and may subject the optionee to the alternative minimum tax.

Upon a disposition of the shares acquired on exercise of an incentive stock option more than two years after grant of the option and one year after exercise of the option, the optionee will recognize long-term capital gain or loss equal to the difference between the sale price and the exercise price. If this holding period is not satisfied, then a disqualifying disposition of the shares

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will occur. A disqualifying disposition generally requires the optionee to recognize, as ordinary income, the difference between the incentive stock option exercise price and the fair market value of the shares at the time the option is exercised. The amount of the ordinary income will be added to the basis of the shares to determine the capital gain that must be recognized on the disqualifying disposition. If the sale price of the shares exceeds the exercise price of the option, in addition to the ordinary income, the optionee will recognize capital gain equal to the excess of the sale price over the adjusted basis of the shares. If, however, the price that the optionee receives for the shares in a disqualifying disposition is less than the fair market value of the stock on the exercise date, then the amount of ordinary income that the holder of the shares would generally recognize is the excess, if any, of the amount realized on the sale or exchange over the adjusted basis of the shares. Unless limited by other applicable provisions of the Internal Revenue Code, the Company or affiliate is entitled to a deduction in the same year that the optionee’s disqualifying disposition of the shares occurs and in the same amount as the ordinary income that is recognized by the optionee on account of the disposition.

Nonstatutory Stock Options

An optionee does not recognize any taxable income at the time a nonstatutory stock option is granted. Upon exercise of vested shares, the optionee recognizes taxable income generally measured by the excess of the then fair market value of the shares over the exercise price. Any taxable income recognized in connection with an option exercise by an employee is subject to tax withholding. Unless limited by other applicable provisions of the Internal Revenue Code, the Company or affiliate is entitled to a deduction in the same amount as, and in the same year that, the optionee recognizes ordinary income. Upon a disposition of such shares by the optionee, any difference between the sale price and the exercise price, to the extent not recognized as taxable income as provided above, is treated as long-term or short-term capital gain or loss, depending on the holding period.

Stock Awards

Awards of stock appreciation rights will generally be taxed in the same manner as nonstatutory stock options. A recipient of a stock appreciation right will not have taxable income upon the grant of the stock appreciation right. The recipient will recognize ordinary income upon exercise in an amount equal to the difference between the fair market value of the shares and the exercise price on the date of exercise. Any gain or loss recognized upon any later disposition of the shares generally will be a capital gain or loss.

For awards of shares of stock, unless vested or the employee elects under Section 83(b) of the Internal Revenue Code (as described below) to be taxed at the time of grant, the employee will not have taxable income upon the grant, but upon vesting will recognize ordinary income equal to the fair market value of the shares at the time of vesting less the amount paid for such shares (if any). Any gain or loss recognized upon any later disposition of the shares generally will be a capital gain or loss.

The stock award recipient may accelerate his or her recognition of ordinary income, if any, in connection with the issuance of restricted shares and begin his or her capital gains holding period by timely filing (i.e., within 30 days of the award) an election pursuant to Section 83(b) of the Internal Revenue Code. In such an event, the ordinary income recognized, if any, is measured as the difference between the amount paid for the stock, if any, and the fair market value of the stock on the date of award, and the capital gain holding period commences on such date. The ordinary income recognized by an employee will be subject to tax withholding.

A participant is not deemed to receive any taxable income at the time an award of stock units is granted. When vested stock units (and dividend equivalents, if any) are settled and distributed, the participant will recognize ordinary income equal to the amount of cash and/or the fair market value of shares received less the amount paid for such stock units (if any).

Unless limited by Section 162(m), the Company or affiliate is entitled to a deduction in the same amount and at the time the recipient recognizes ordinary incom