

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

FORM 8-K

CURRENT REPORT

Pursuant to Section 13 OR 15(d) of The Securities Exchange Act of 1934

Date of Report (Date of earliest event reported) December 8, 2006.  
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NATURAL HEALTH TRENDS CORP.  
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(Exact name of Company as specified in its charter)

Delaware	0-26272	59-2705336
(State or other jurisdiction of incorporation)	(Commission File Number)	IRS Employer Identification No.)

2050 Diplomat Drive	Dallas, TX	75234
(Address of principal executive offices)		(Zip Code)

Company's telephone number, including area code (972) 241-4080  
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(Former name or former address, if changed since last report.)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the Company under any of the following provisions (see General Instruction A.2. below):

- Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
- Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
- Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
- Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

Item 1.01 Entry into a Material Definitive Agreement  
Item 1.02 Termination of a Material Definitive Agreement

In connection with the acquisition by Natural Health Trends Corp. (the "Company") of MarketVision Communications Corporation ("MarketVision") in March 2004, the Company entered into an employment agreement with John Cavanaugh for a term of three years. On December 8, 2006, the Company, MarketVision and Mr. Cavanaugh entered into a new employment that replaces and supercedes the previous agreement in its entirety. The new agreement has a three year term and provides that Mr. Cavanaugh will continue to serve as President of MarketVision. The employment agreement provides Mr. Cavanaugh with a retention bonus of \$89,200 along with an annual salary of \$205,000 through December 21, 2006. Commencing on January 1, 2007 and on each January 1st thereafter during the term of the agreement, Mr. Cavanaugh's salary will increase by 3% if his performance is satisfactory.

Mr. Cavanaugh will be entitled to severance in the event that his employment is

terminated by the Company without Cause (as defined in the Agreement) or in connection with a Change of Control (as defined in the Agreement). He is also entitled to severance in the event that he terminates his employment for Good Reason (as defined in the Agreement). Mr. Cavanaugh shall receive as severance the continuation of his base salary for up to two (2) years for a termination without Cause or for Good Reason, and up to three (3) years for a termination in connection with a Change of Control, but in either case only for so long as Mr. Cavanaugh has not breached the Proprietary Rights Assignment Agreement described below and has not engaged in a Competitive Activity (as defined in that agreement).

In addition, the Company and Mr. Cavanaugh entered into a Non-Competition and Proprietary Rights Assignment Agreement dated December 8, 2006 pursuant to which Mr. Cavanaugh has agreed (i) to keep certain Company information confidential, (ii) to assign the rights to certain work product to the Company, (iii) not to compete with the Company during the term of his employment and for six (6) months thereafter, and (iv) not to solicit Company customers or distributors during the term of his employment and for twelve (12) months thereafter.

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Item 9.01 Financial Statements and Exhibits

(d) Exhibits

10.1 Employment Agreement dated December 8, 2006 among the Company, MarketVison and John Cavanaugh.

10.2 Non-Competition and Proprietary Rights Assignment Agreement dated December 8, 2006 between the Company and John Cavanaugh.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Company has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

NATURAL HEALTH TRENDS CORP.

Date: December 13, 2006

By: /s/ STEPHANIE S. HAYANO

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Name: Stephanie S. Hayano  
Title: President and Chief Executive  
Officer

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EXHIBIT INDEX

Exhibit Description

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10.1 Employment Agreement dated December 8, 2006 among the Company, MarketVison and John Cavanaugh.

10.2 Non-Competition and Proprietary Rights Assignment Agreement dated December 8, 2006 between the Company and John Cavanaugh.

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EMPLOYMENT AGREEMENT  
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THIS EMPLOYMENT AGREEMENT, dated as of December 8 , 2006 (this "Agreement"), is by and between MARKETVISION COMMUNICATIONS CORPORATION, a Delaware corporation (the "Company"), Natural Health Trends Corp., a Delaware corporation ("Parent"), and JOHN CAVANAUGH, an individual residing in the State of Minnesota (the "Executive").

WITNESSETH :  
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WHEREAS, the Company desires to continue to secure the services of the Executive upon the terms and conditions hereinafter set forth, and the Executive desires to continue to render services to the Company upon the terms and conditions hereinafter set forth; and

WHEREAS, the Company is a wholly-owned subsidiary of Parent;

NOW, THEREFORE, for good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, the parties mutually agree as follows:

Section 1. Employment. The Company hereby employs Executive as the President of the Company, and the Executive hereby accepts such employment, subject to the terms and conditions set forth in this Agreement.

Section 2. Duties; Exclusive Services; Best Efforts.  
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(a) The Executive shall perform all duties incident to the position of President of the Company, as well as any other duties as may from time to time be assigned to him by the Board of Directors or the Chairman of the Board of the Company or her designee, and agrees to abide by all bylaws, policies, practices, procedures or rules of the Company and (to the extent possible) Parent consistent with his position as President of the Company. The Executive agrees to devote his best efforts, energies and skill to the discharge of the duties and responsibilities attributable to his position, and to this end, he will devote his full time and attention to the business and affairs of the Company. The Executive also agrees that he shall not take personal advantage of any business opportunities which arise during his employment and which may benefit the Company, Parent or any other subsidiary of Parent (each, including the Company and Parent, a "Group Member"). All material facts regarding such opportunities must be promptly reported to the Chairman of the Board for consideration by the Company. Notwithstanding the foregoing, the Executive may expend his time and efforts in other activities so long as such endeavors do not affect his ability to perform his duties under this Agreement and such endeavors do not involve the Executive providing computer programming services. However, if such programming services do not affect his ability to perform his duties under this Agreement, the Executive may provide computer programming services to other entities so long as the Board of Directors of the Company has given its prior written consent, which consent may be withheld, conditioned or delayed in its sole discretion. If requested by the Company, the Executive shall serve on the Board of Directors or any committee thereof without additional compensation.

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(b) In performing his duties hereunder, the Executive shall work at the offices of the Company located in Eden Prairie, Minnesota, or such other location(s) as the Company and the Executive shall mutually agree. However, the Executive shall also render services at such other place or places within or without the United States as the Board of Directors or Chairman of the Board may direct from time to time; provided that the Executive shall not be required to render services away from the such location for more than thirty business days in any given twelve-month period.

Section 3. Term of Employment; Vacation.  
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(a) Unless extended in writing by both the Company and the Executive, the term of the Executive's employment shall be for a period of

thirty six (36) months commencing on the date hereof, subject to earlier termination by the parties pursuant to Sections 5 and 6 hereof (the "Term").

(b) The Executive shall be entitled to four (4) weeks vacation during each year of the Term.

Section 4. Compensation of Executive.  
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4.1 Salary; Bonus. Until December 31, 2006, the Company shall pay to Executive a base salary of \$205,000 per annum (the "Base Salary"), subject to such deductions as shall be required to be withheld by applicable law and regulations. From and after January 1, 2007, the Base Salary shall increase by 3% each fiscal year, if Employee's performance is satisfactory to the Company and Parent. The Base Salary shall be paid at such regular weekly, biweekly or semi-monthly time or times as the U.S. operating subsidiaries of Parent ("U.S. Group Members") make payment of their regular payroll in the regular course of business. Executive shall be entitled to participate in Parent's annual incentive compensation program with goals specific to the Company.

4.2 Expenses. During the Term, the Company shall promptly reimburse the Executive for all reasonable and necessary travel expenses and other disbursements incurred by the Executive on behalf of the Company, in performance of the Executive's duties hereunder, assuming Executive has received prior approval for such travel expenses and disbursements by Parent to the extent possible consistent with corporate practices with respect to the reimbursement of expenses incurred by the senior executives of U.S. Group Members.

4.3 Benefits. The Company shall establish at its sole cost and expense, and the Executive shall be permitted during the Term to participate, in a Minnesota based hospitalization and health care benefit program on an individual or family coverage basis, at the Executive's election. In addition, the Executive may participate in pension plans, bonus plans or similar benefits ("Insurance Benefits") that may be available to other executives of U.S. Group Members, subject to such eligibility rules as are

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applied to senior managers generally. The Company shall use its best efforts to obtain disability coverage for its employees so long as the cost of such coverage is not unreasonably expensive.

4.4 Retention Bonus. Upon execution of this Agreement, the Company shall pay Employee a retention bonus of \$89,200.

Section 5. Disability of the Executive. If the Executive is incapacitated or disabled by accident, sickness or otherwise so as to render the Executive mentally or physically incapable of performing the services required to be performed under this Agreement for a period of 90 consecutive days or 120 days in any period of 360 consecutive days (a "Disability"), the Company may, at the time or during the period of such Disability, at its option, terminate the employment of the Executive under this Agreement immediately upon giving the Executive written notice to that effect.

Section 6. Termination.  
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(a) The Company may terminate the employment of the Executive and all of the Company's obligations under this Agreement at any time for Cause (as hereinafter defined) by giving the Executive notice of such termination, with reasonable specificity of the details thereof. For purposes of this Agreement, "Cause" shall mean and include any:

(i) failure or neglect by the Executive to perform the material duties of the Executive's position which failure or neglect shall have a material adverse effect on the Company or any Group Member;

(ii) failure of the Executive to obey the lawful orders given by the Board of Directors or Chairman of the Board of the Company, or by the Board of Directors or any authorized officer of Parent, in each case commensurate with his title and responsibilities which failure or neglect shall have a material adverse effect on the Company, Parent or any other Group Member;

(iii) willful misconduct by the Executive in connection with the performance of any of his duties, including, without limitation, misappropriation of funds or property of any Group Member, securing or attempting to secure personally any profit in connection with any transaction entered into on behalf of the Company or other Group Member, misrepresentation to the Company or other Group Member, or any violation of law or regulations on any Group Member premises or to which any Group Member is subject;

(iv) commission by the Executive of an act involving moral turpitude, dishonesty, theft or unethical business conduct, or conduct that is demonstrably and materially injurious to the Company or other Group Member, whether monetarily or otherwise;

(v) failure by the Executive to devote his full time and best efforts to the Company's business and affairs;

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(vi) failure to fully cooperate in any investigation by the Company or any other Group Member;

(vii) any material breach of this Agreement or rules, policies or codes of conduct of the Company or Parent;

(viii) Executive's abuse of alcohol or other drugs or controlled substances; or

(ix) death of or resignation by the Executive hereunder; provided however, that if the Executive resigns as a result of a material breach by the Company of this Agreement, or in accordance with Section 6(c), such resignation shall not be considered "Cause" hereunder.

A termination pursuant to this Section 6(a) shall take effect 10 days after the giving of written notice to the Executive unless the Executive shall, during such 10-day period, remedy to the reasonable satisfaction of the Board of Directors of the Company the misconduct, disregard, abuse or breach specified in such notice; provided, however, that such termination shall take effect immediately upon the giving of such notice if the Board of Directors of the Company or Parent shall, in its reasonable discretion, have determined that such misconduct, disregard, abuse or breach is not remediable (which determination shall be stated in such notice).

(b) The Company may terminate the employment of the Executive and all of the Company's obligations under this Agreement (except as hereinafter provided) at any time during the Term without Cause by giving the Executive written notice of such termination, to be effective fifteen days following the giving of such written notice.

(c) The Executive may terminate his employment hereunder (and the Term) for "Good Reason" after the occurrence, without the written consent of the Executive, of an event constituting a material breach of this Agreement by the Company that has not been fully cured within ten (10) days after written notice thereof has been given by the Executive to the Company; provided that, without limiting the generality of the foregoing, any one of the following events shall be deemed a material breach of this Agreement:

(i) A reduction by the Company in the Executive's Base Salary as in effect on the commencement date of this Agreement or as the same may be increased from time to time; or

(ii) The relocation of the Executive's principal place of employment to a location more than twenty (20) miles from the Executive's principal place of employment described in Section 2(b) hereof, except for travel on the Company's business to an extent necessary and reasonable in light of the Company's business needs and objectives, not to exceed thirty business days in any given twelve-month period.

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For convenience of reference, the date upon which any termination of the employment of the Executive pursuant to Sections 5 or 6 shall be effective shall be hereinafter referred to as the "Termination Date".

## Section 7. Severance Rights.

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(a) Executive will be entitled to Severance Payments (as defined below) if any of the following events occur:

(i) Executive's employment is terminated by the Company without Cause (as defined above) or by Executive with Good Reason (as defined above) during the period commencing on the date that is thirty (30) days prior to a Change of Control (as defined below) through and including the date that is 18 months following such Change of Control (a "Change of Control Termination");

(ii) Executive provides the Company with written notice of his resignation for Good Reason and the Company has not cured such event within 10 days following its receipt of such written notice; or

(iii) Executive's employment is terminated by the Company without Cause (other than in connection with a Change of Control as contemplated in (i) above).

(b) Notwithstanding the foregoing, in order to receive any Severance Payments, Executive must execute and deliver to the Company a full general release of all claims against the Company and all Group Members in form and substance satisfactory to the Board of Directors of the Company.

(c) As used herein, the term:

(i) "Severance Payments" shall mean the continuation of the payment of Executive's base salary then in effect (plus health and medical insurance coverage as previously provided to Executive) for a period of up to two (2) years following the termination date, or until such earlier date on which Executive becomes engaged in any Competitive Activity (as defined in the Non-Competition Agreement required by Section 8 below) or otherwise breach the terms and conditions of the Non-Competition Agreement (each, a "Severance Payment Termination Event"); provided however, that with respect to a Change of Control Termination, Executive shall be entitled to receive Severance Payments for a period of up to three (3) years only, subject to earlier discontinuation following a Severance Payment Termination Event; and

(ii) "Change of Control" shall mean: (i) when any "person" as defined in Section 3(a)(9) of the Securities and Exchange Act of 1934, as amended (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 Parent or any other Group Member or any employee benefit plan sponsored or maintained by Parent or any other Group Member (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 Parent

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representing more than 50% of the combined voting power of Parent's then outstanding securities; or (ii) when, during any period of twenty-four (24) consecutive months, the individuals who, at the beginning of such period, constitute the Board of Directors of Parent (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 Parent by an entity other than Parent or a subsidiary or an affiliated company of Parent through the 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 shall be approved by, or consented to, by Executive.

Section 8. Non-Competition and Confidentiality Agreement. Parent and the Company agree to provide Executive with confidential and proprietary information of Parent and its subsidiaries, including the Company, so that

Executive may perform his duties hereunder. Executive agrees to enter into a Non-Competition and Proprietary Rights Assignment Agreement, a form of which is attached hereto as Exhibit A (the "Non-Competition Agreement"), pursuant to which Executive will agree to keep in confidence the Company's confidential information, not compete with the Company, and not solicit employees or independent distributors of Parent or any of its subsidiaries.

Section 9. Miscellaneous.

9.1 Governing Law. THIS AGREEMENT SHALL BE DEEMED TO BE A CONTRACT MADE UNDER THE LAWS OF TEXAS AND FOR ALL PURPOSES SHALL BE CONSTRUED IN ACCORDANCE WITH THE LAWS OF SAID STATE APPLICABLE TO CONTRACTS MADE AND TO BE PERFORMED WITHIN SAID STATE.

9.2 Entire Agreement. This Agreement (together with the exhibits attached hereto, which hereby are incorporated by reference) contains the entire agreement of the parties hereto relating to the employment of Executive by Employer and the other matters discussed herein and supersedes all prior agreements and understandings with respect to such subject matter, and the parties hereto have made no agreements, representations or warranties relating to the subject matter of this Agreement which are not set forth herein.

9.3 Withholding Taxes. Employer may withhold from any compensation or other benefits payable under this Agreement all federal, state, city or other taxes as shall be required pursuant to any law or governmental regulation or ruling.

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9.4 Arbitration. All disputes between Parties in connection with arising out of the existence, validity, construction, performance and termination of this Agreement shall be finally settled by arbitration. The arbitration shall be held in Dallas, Texas in accordance with the Rules of the American Arbitration Association by one or more arbitrators appointed in accordance with the said Rules and the award of such arbitrators shall be final and binding upon the Parties. The non-prevailing party shall pay for all reasonable costs and expenses incurred in connection with such dispute, including filing and arbitrator fees as well as the reasonable costs and expenses of opposing legal counsel.

9.5 Supplements and Amendments. This Agreement may be supplemented or amended only upon the written consent of each of the parties hereto.

9.6 Assignment. Except as expressly provided below, this Agreement shall not be assignable, in whole or in part, by either party without the prior written consent of the other party. The Company may, without the prior written consent of the Executive, assign its rights and obligations under this Agreement to any other Group Member into which the Company may merge or consolidate, or to which the Company may sell or transfer assets; provided, however, that such assignment may be made without Executive's prior written consent only if (i) such assignment has a valid business purpose and is not for the purpose of avoiding the Company's obligations hereunder or Executive's realization of the benefits of this Agreement and (b) the assignee expressly assumes in writing all obligations and liabilities to Executive hereunder. The Company will cause any purchaser of all or substantially all of its assets, by agreement in form and substance reasonably satisfactory to Executive, to expressly assume and agree to perform this Agreement in the same manner and to the same extent that the Company would be required to perform it if no such purchase had taken place. This Agreement shall be binding upon and inure to the benefit of Employer and their respective successors and permitted assigns. This Agreement and all rights of Executive hereunder shall inure to the benefit of and be enforceable by Executive's heirs, personal or legal representatives and beneficiaries.

9.7 No Waiver. No term or condition of this Agreement shall be deemed to have been waived, nor shall there be any estoppel to enforce any provisions of this Agreement, except by a statement in writing signed by the party against whom enforcement of the waiver or estoppel is sought. Any written waiver shall not be deemed a continuing waiver unless specifically stated, shall operate only as to the specific term or condition waived and shall not constitute a waiver of such term or condition for the future or as to any act

other than that specifically waived.

9.8 Severability. The provisions of this Agreement are severable, and if any one or more provisions may be determined to be judicially unenforceable and/or invalid by a court of competent jurisdiction, in whole or in part, the remaining provisions shall nevertheless be binding, enforceable and in full force and effect.

9.9 Titles and Headings. The titles and headings of the various Sections of this Agreement are intended solely for convenience of reference and not intended for any purpose whatsoever to explain, modify or place any construction upon any of the provisions hereof.

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9.10 Injunctive Relief. The Executive agrees that it would be difficult to compensate the Company fully for damages for any violation of the provisions of Sections 6 and 8 hereof. Accordingly, the Executive specifically agrees that the Company shall be entitled to temporary and permanent injunctive relief to enforce such provisions of this Agreement. This provision with respect to injunctive relief shall not, however, diminish the right of the Company to claim and recover damages in addition to injunctive relief.

9.11 Notices. For the purpose of this Agreement, notices and all other communications provided for in this Agreement shall be in writing and shall be deemed to have been duly given when hand delivered (which shall include personal delivery and delivery by courier, messenger or overnight delivery service) or mailed by certified mail, return receipt requested, postage prepaid, addressed as follows: (i) if to Executive: At his home address in accordance with the Company's records, and (ii) if to the Company, c/o Natural Health Trends Corp., 2050 Diplomat Drive, Dallas, Texas 75234, Attention: Stephanie Hayano, or (in each case) to such other address of which either party gives notice to the other party in accordance herewith, except that notices of change of address shall be effective only upon receipt.

9.12 Counterparts. This Agreement may be executed in any number of counterparts and each of such counterparts shall for all purposes be deemed to be an original, and all such counterparts shall together constitute but one and the same instrument.

9.13 Post Employment Obligations. The Executive agrees that both during and after his employment he shall, at the request of the Company, render all assistance and perform all lawful acts that the Company considers necessary or advisable in connection with any litigation involving the Company or any director, officer, employee, shareholder, agent, representative, consultant, client or vendor of the Company or other Group Member. Reasonable expenses incurred by the Executive in rendering such assistance shall be promptly reimbursed by the Company.

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

The Company:

MARKETVISION COMMUNICATIONS  
CORPORATION

By: /s/ JOHN CAVANAUGH

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Name: John Cavanaugh  
Title: President

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Parent:

NATURAL HEALTH TRENDS CORP.  
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By: /s/ STEPHANIE S. HAYANO



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Name: Stephanie S. Hayano  
Title: President and CEO

The Executive:

/s/ JOHN CAVANAUGH

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JOHN CAVANAUGH

NATURAL HEALTH TRENDS CORP.

NON-COMPETITION AND PROPRIETARY RIGHTS

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ASSIGNMENT AGREEMENT  
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Employee's Name: John Cavanaugh ("Employee")

Date: December 8, 2006

In consideration of Employee's continued employment by or other similar relationship with MarketVision Communications Corp. ("MarketVision"), a wholly-owned subsidiary of Natural Health Trends Corp. (together with MarketVision and all of its other subsidiaries, successors and assigns, the "Company") and in consideration for and as a condition to the transactions contemplated by that certain Employment Agreement dated as of the date hereof by and between MarketVision and Employee (the "Employment Agreement"), Employee hereby agrees with the Company as follows:

1. Confidential Information. During the term of this Agreement and in the course of Employee's performance of services for the Company, Employee may receive and otherwise be exposed to confidential or competitively sensitive information of the Company, or of a third party with which the Company has a business relationship, relating to the Company's or such third party's current or prospective business, research and development activities, products, technology, strategy, organization and/or finances (collectively, "Confidential Information"). Such Confidential Information, which may be disclosed orally or in writing, shall include, without limitation, Technology (as defined in Section 2(a)), Work Product (as defined in Section 2(a)), plans, strategies, negotiations, customer or prospect identities, market analyses, projections, forecasts, cost and performance data, sales data, financial statements, price lists, pre-release information regarding the Company's products, personnel lists and data, and all documents and other materials (including any notes, drawings, reports, manuals, notebooks, summaries, extracts or analyses), whether in written or electronic form, that disclose or embody such Confidential Information.

Confidential Information shall not include information that is now, or hereafter becomes, through no act or failure to act on Employee's part, generally known to the public; information that was rightfully in Employee's possession without confidentiality restriction prior to the Company's disclosure to Employee; information that was rightfully obtained by Employee from a third party who has the right, without obligation to the Company, to transfer or disclose such information; or information which Employee is required to disclose pursuant to judicial order, provided that in the latter case Employee shall promptly notify the Company and take reasonable steps to assist the Company in protecting the Company's rights prior to disclosure. At all times, both during Employee's relationship with the Company and after the termination thereof, Employee will keep all Confidential Information in strict confidence; will not use Confidential Information except for the purpose of providing services to the Company; and will not divulge, publish, disclose or communicate Confidential Information, in whole or in part, to any third party. Employee further agrees that Employee will not allow any unauthorized person access to Confidential Information, either before or after the termination of this Agreement, and will take all action reasonably necessary and satisfactory to the Company to protect the confidentiality of Confidential Information. Employee agrees not to reproduce or copy by any means Confidential Information, except as reasonably required to accomplish the purposes of the Employment Agreement, and further agrees not to remove any proprietary rights legend from such Confidential

Information or copies thereof made in accordance with this Agreement. Employee will not erase, discard or destroy any tangible or electronic materials that disclose or embody Confidential Information without specific instructions from the Company to do so.

Upon termination of Employee's services for any reason, or upon demand by the Company at any time, Employee's right to use Confidential Information shall immediately terminate, and Employee shall return promptly to the Company,

or destroy, at the Company's option, all tangible and electronic materials that disclose or embody Confidential Information.

2. Assignment of Work Product.

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- (a) For purposes of this Agreement: "Technology" shall mean all ideas, concepts, inventions, discoveries, developments, creations, methods, techniques, processes, machines, products, devices, compositions of matter, improvements, modifications, designs, systems, specifications, schematics, formulas, mask works, works of authorship, software, algorithms, data and know-how, whether or not patentable or copyrightable, and all related notes, drawings, reports, manuals, notebooks, summaries, memoranda and other documentation; "Intellectual Property Rights" shall mean all worldwide intellectual property rights including, without limitation, all rights relating to the protection of inventions, including patents, patent applications and certificates of invention; all rights associated with works of authorship, including copyrights and moral rights; all rights relating to the protection of trade secrets and confidential information; all rights related to the protection of trademarks, logos and service marks; any rights analogous to those set forth herein, and all other proprietary rights related to intangible property; and "Work Product" shall mean any and all Technology made, conceived, designed, created, discovered, invented or reduced to practice by Employee during the term of this Agreement that (i) results from Employee's performance of services for the Company, (ii) is related to the business of the Company or (iii) is based upon the use of Confidential Information.
  - (b) Employee agrees to promptly disclose to the Company in writing all Work Product upon the development, conception or creation thereof by Employee, as well as, at any time, upon the request of the Company.
  - (c) Employee agrees that all Work Product shall be the sole and exclusive property of the Company, and does hereby irrevocably and unconditionally transfer and assign to the Company, its successors and assigns, all right, title and interest Employee may have or acquire in or to any Work Product, including all Intellectual Property Rights therein. Employee further agrees that any and all works of authorship created, authored or developed by Employee hereunder shall be deemed to be "works made for hire" within the meaning of the United States copyright law and, as such, all rights therein including copyright shall belong solely and exclusively to the Company from the time of their creation. To the extent any such work of authorship may not be deemed to be a work made for hire, Employee agrees to, and does hereby, irrevocably and unconditionally transfer and assign to the Company all right, title, and interest including copyright in and to such work.
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- (d) Upon request by the Company, Employee agrees to execute and deliver all such documents, certificates, assignments and other writings, and take such other actions, as may be necessary or desirable to vest in the Company ownership in all Work Product as provided in this Section 2, including, but not limited to, the execution and delivery of all applications for securing all United States and foreign patents, copyrights and other Intellectual Property Rights

relating to Work Product. The Company shall reimburse Employee for any reasonable expenses incurred by Employee at the Company's request to secure title or legal protection on the Company's behalf for any such Work Product. In the event that the Company is unable to secure Employee's signature to any document, or if Employee otherwise fails to take any action deemed necessary by the Company to protect or maintain the Company's ownership of Work Product and Intellectual Property Rights therein, then the Company may, and Employee hereby irrevocably designates and appoints the Company and its duly authorized officers and agents as Employee's agent and attorney-in-fact to act on and in Employee's behalf and stead to, execute and file any such applications and perform all other lawfully permitted acts to perfect Employee's assignment and transfer of ownership rights to the Company with the same legal force and effect as if executed, filed and performed by Employee.

- (e) For purposes of this Section 2(e), "Background Technology" shall mean Technology owned by or licensed to Employee as of the date that Employee was first employed by the Company or developed or otherwise obtained by Employee following the that Employee was first employed by the Company independently of the performance of services hereunder by Employee. The Company acquires no rights in the Background Technology, except as specifically provided in this Agreement and, as between the parties, Employee retains all rights therein. Employee hereby grants to Company a royalty-free, worldwide, non-exclusive, perpetual, sublicensable and irrevocable right and license to use, for all purposes in Company's business, Background Technology that has been disclosed by Employee to Company or that is embodied within or related to the use, operation or improvement of Work Product created by Employee in connection with Employee's performance of services for the Company.

3. Representation. Employee hereby represents to the Company that the Work Product Employee creates under the Employment Agreement will be original, and that Employee's performance of services under the Employment Agreement and the Company's use of Employee's Work Product will not breach any agreement Employee has with any third party or the intellectual property rights or other rights of any third party.

4. Return of Materials. All documents, records, apparatus, equipment and other physical property, whether or not pertaining to Confidential Information, which are furnished to Employee by the Company or are produced by Employee in connection with Employee's services will be and remain the sole property of the Company. Employee will return to the Company all such materials and property as and when requested by the Company. In any event, Employee will return all such materials and property immediately upon termination of

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Employee's services for any reason. Employee will not retain any such material or property or any copies thereof upon such termination.

5. Competitive Activities. From the date hereof until the six (6) month anniversary of the later of the date on which Employee no longer is employed by the Company, serves as a consultant to the Company or serves as a member of the Board of Directors of the Company (the "Non-Compete Restricted Period"), Employee will not, directly or indirectly, whether as owner, partner, shareholder, director, agent, employee, co-venturer or otherwise, without the written consent of the Company, engage, participate, invest in, or provide computer programming or other services to, any business activity with respect to any multi-level marketing that indirectly or directly competes with the Company in recruiting for independent distributors (collectively, the "Competitive Activities"). The prohibition set forth in this Section 5 shall not restrict Employee from owning or holding up to two percent (2%) of the shares of stock of

any company registered or sold on any recognized stock exchange or sold in the over-the-counter market. Employee understands and agrees that the restrictions set forth in this Section 5 are intended to protect the Company's reasonable competitive business interests, its interest in its Confidential Information and established and prospective customer relationships and goodwill, and agree that such restrictions are reasonable and appropriate for this purpose.

6. Nonsolicitation of Customers and Distributors. During the Non-Compete Restricted Period plus six (6) months (the "Nonsolicitation Period"), Employee will not, in any capacity, directly or indirectly:

- (a) solicit business or patronage of any customer or prospective customer (collectively, "Customer"), or distributor or prospective distributor (collectively, "Distributor") of the Company in connection with any Competitive Activity;
- (b) divert, entice, or otherwise take away from the Company the business or patronage of any Customer or Distributor, or attempt to do so;
- (c) solicit, induce or assist any Customer, Distributor or supplier to terminate or reduce its relationship with the Company;
- (d) assist with the provision of any services to a Customer or Distributor (except in Employee's capacity as an employee of the Company); or
- (e) refer a Customer, Distributor or supplier to another person engaged (or to be engaged) in Competitive Activities.

7. Nonsolicitation of Employees. During the Nonsolicitation Period, Employee will not:

- (a) hire or employ, directly or indirectly through any enterprise with which Employee is associated, any current employee of the Company or any individual who had been employed by the Company within one (1) year preceding Employee's termination (other than persons whose employment by the Company was terminated by or at the request of the Company); or

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- (b) recruit, solicit or induce (or in any way assist another person or enterprise in recruiting, soliciting or inducing) any employee or director of the Company to terminate his or her employment or other relationship with the Company.

8. Acknowledgments. Employee acknowledges and agrees that the restrictions set forth in this Agreement are intended to protect the Company's interest in Confidential Information and its commercial relationships and goodwill (with its Customers, Distributors, vendors, directors and employees), and are reasonable and appropriate for these purposes.

9. Disclosure of Agreement. Employee will disclose the existence and terms of this Agreement to any prospective employer, partner, co-venturer, investor or lender prior to entering into an employment, partnership or other business relationship with such person or entity.

10. Third-Party Agreements and Rights. Employee hereby confirms that Employee is not bound by the terms of any agreement with any previous employer or other party which restricts in any way Employee's use or disclosure of information or Employee's engagement in any business, except as may be disclosed in Schedule A attached to this Agreement prior to its acceptance by the Company. Employee has delivered to the Company true and complete copies of any agreements listed on Schedule A. Employee represents to the Company that Employee's execution of this Agreement, Employee's employment with the Company and the performance of Employee's proposed duties for the Company will not violate any obligations Employee may have to any such previous employer or other

party. In Employee's work for the Company, Employee will not disclose or make use of any information in violation of any agreements with or rights of any such previous employer or other party, and Employee will not bring to the premises of the Company any copies or other tangible embodiments of non-public information belonging to or obtained from any such previous employment or other party.

11. Injunction. Employee agrees that it would be difficult to measure any damages caused to the Company which might result from any breach by Employee of the promises set forth in this Agreement, and that in any event money damages would be an inadequate remedy for any such breach. Accordingly, Employee agrees that if Employee breaches, or proposes to breach, any portion of this Agreement, the Company shall be entitled, in addition to all other remedies that it may have, to an injunction or other appropriate equitable relief to restrain any such breach without showing or proving any actual damage to the Company.

12. Binding Effect. This Agreement will be binding upon Employee and Employee's heirs, executors, administrators and legal representatives and will inure to the benefit of the Company, any subsidiary of the Company, and its and their respective successors and assigns.

13. Enforceability. If any portion or provision of this Agreement is to any extent declared illegal or unenforceable by a court of competent jurisdiction, then the remainder of this Agreement, or the application of such portion or provision in circumstances other than those as to which it is so declared illegal or unenforceable, will not be affected thereby, and each portion and provision of this Agreement shall be valid and enforceable to the fullest extent permitted by law. In the event that any provision of this Agreement is determined by any court of competent jurisdiction to be unenforceable by reason of excessive scope as to geographic, temporal or functional coverage, such provision will be deemed to extend only over the maximum geographic, temporal and functional scope as to which it may be enforceable.

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14. Entire Agreement. This Agreement constitutes the entire agreement between the Company and Employee with respect to the subject matter hereof, and supersedes all prior representations and agreements with respect to such subject matter. This Agreement may not be amended, modified or waived except by a written instrument duly executed by the person against whom enforcement of such amendment, modification or waiver is sought. The failure of any party to require the performance of any term or obligation of this Agreement, or the waiver by any party of any breach of this Agreement, in any particular case will not prevent any subsequent enforcement of such term or obligation or to be deemed a waiver of any separate or subsequent breach.

15. Notices. Any notices, requests, demands and other communications provided for by this Agreement will be sufficient if in writing and delivered in person or sent by registered or certified mail, postage prepaid, to Employee at the last address which Employee has filed in writing with the Company or, in the case of any notice to the Company, at its main offices, to the attention of the undersigned officer.

16. Governing Law. The validity, interpretation, performance and enforcement of this agreement shall be governed by the laws of the State of Texas, without applying the conflict of laws provisions thereof.

17. Arbitration. All disputes between Parties in connection with or arising out of the existence, validity, construction, performance and termination of this Agreement shall be finally settled by arbitration. The arbitration shall be held in the Dallas, Texas in accordance with the Rules of the American Arbitration Association by one or more arbitrators appointed in accordance with the said Rules and the award of such arbitrators shall be final and binding upon the Parties. The non-prevailing party shall pay for all reasonable costs and expenses incurred in connection with such dispute, including filing and arbitrator fees as well as the reasonable costs and expenses of opposing legal counsel.

18. Escrow. If Employee is terminated for cause and, within 30 days of such termination, initiates an arbitration proceeding disputing that the termination was for cause, then the Company will either (a) on each regular pay day of the Company occurring following the expiration of 10 days after such

arbitration is commenced, pay into an escrow account an amount equal to the Severance Payment (net of payroll taxes) that would be due to Employee under the Employment Agreement if the termination was without cause until six months of such Severance Payments have been made, or (b) release Employee from any remaining obligations under Section 5, 6 or 7 of this Agreement. If the Company fails to make any such escrow payment, then the Company will be deemed to have released Employee from any further obligation under Section 5, 6 or 7 of this Agreement.

19. Prior Material Breach. Notwithstanding anything to the contrary in this Agreement, the failure of the Company to make any payment to Employee that is required under the Employment Agreement or this Agreement shall, if such failure is not excused (as provided below) and continues for five business days after written notice to the Company of such failure, excuse Employee from complying with Sections 5, 6 and 7 of this Agreement. The failure of the Company to pay Employee under the Employment Agreement shall be excused by Employee's prior material breach of this Agreement or the Employment Agreement.

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EMPLOYEE UNDERSTANDS THAT THIS AGREEMENT AFFECTS IMPORTANT RIGHTS. EMPLOYEE HAS READ IT CAREFULLY AND IS SATISFIED THAT EMPLOYEE UNDERSTANDS IT COMPLETELY.

NATURAL HEALTH TRENDS CORP.

EMPLOYEE

By: /s/ STEPHANIE S. HAYANO

By: /s/ JOHN CAVANAUGH

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Name: Stephanie S. Hayano  
Title: President and CEO

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Name: John Cavanaugh

Dated: December 8, 2006  
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Dated: December 8, 2006  
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Schedule A  
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[None]