MANNATECH INC
Form 10-Q
August 09, 2016

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

FORM 10-Q
(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended: June 30, 2016

OR
TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from ___________ to ___________.

Commission File No. 000-24657

MANNATECH, INCORPORATED
(Exact Name of Registrant as Specified in its Charter)

| | |
|---|---|
| Texas | 75-2508900 |
| (State or other Jurisdiction of Incorporation or Organization) | (I.R.S. Employer Identification No.) |

| | |
|---|---|
| 600 S. Royal Lane, Suite 200, Coppell, Texas | 75019 |
| (Address of Principal Executive Offices) | (Zip Code) |

Registrant's Telephone Number, including Area Code: (972) 471-7400

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See definitions of "accelerated filer", "large accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).
Yes No

As of July 31, 2016, the number of shares outstanding of the registrant’s sole class of common stock, par value $0.0001 per share, was 2,701,986.

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Special Note Regarding Forward-Looking Statements

Certain disclosures and analyses in this Form 10-Q, including information incorporated by reference, may include forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended (the "Securities Act"), Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and the Private Securities Litigation Reform Act of 1995 that are subject to various risks and uncertainties. Opinions, forecasts, projections, guidance, or other statements other than statements of historical fact are considered forward-looking statements and reflect only current views about future events and financial performance. Some of these forward-looking statements include statements regarding:

§ management's plans and objectives for future operations;

§ existing cash flows being adequate to fund future operational needs;

§ future plans related to budgets, future capital requirements, market share growth, and anticipated capital projects and obligations;

§ the realization of net deferred tax assets;

§ the ability to curtail operating expenditures;

§ global statutory tax rates remaining unchanged;

§ the impact of future market changes due to exposure to foreign currency translations;

§ the possibility of certain policies, procedures, and internal processes minimizing exposure to market risk;

§ the impact of new accounting pronouncements on financial condition, results of operations, or cash flows;

§ the outcome of new or existing litigation matters;

§ the outcome of new or existing regulatory inquiries or investigations; and

§ other assumptions described in this report underlying such forward-looking statements.

Although we believe that the expectations included in these forward-looking statements are reasonable, these forward-looking statements are subject to certain events, risks, assumptions, and uncertainties, including those discussed below, the "Risk Factors" section in Part I, Item 1A of our Form 10-K for the year ended December 31, 2015, and the "Risk Factors" section in Part II, Item 1A of this Form 10-Q, and elsewhere in this Form 10-Q and the documents incorporated by reference herein. If one or more of these risks or uncertainties materialize, or if our underlying assumptions prove to be incorrect, actual results and developments could materially differ from those expressed in or implied by such forward-looking statements. For example, any of the following factors could cause actual results to vary materially from our projections:

§ overall growth or lack of growth in the nutritional supplements industry;

§ plans for expected future product development;

§ changes in manufacturing costs;

§ shifts in the mix of packs and products;

§ the future impact of any changes to global associate career and compensation plans or incentives or the regulations thereto;

§ the ability to attract and retain independent associates and members;

§ new regulatory changes that may affect operations, products or compensation plans or incentives;

§ the competitive nature of our business with respect to products and pricing;

§ publicity related to our products or network-marketing; and

§ the political, social, and economic climate.

Forward-looking statements generally can be identified by use of phrases or terminology such as “may,” “will,” “should,” “could,” “would,” “expects,” “plans,” “intends,” “anticipates,” “believes,” “estimates,” “approximates,” “predicts,” “projects,” “continues” or other similar words or the negative of such terms and other comparable terminology. Similarly, descriptions of Mannatech’s objectives, strategies, plans, goals, or targets contained herein are also considered forward-looking statements. Readers are cautioned when considering these forward-looking statements to keep in mind these risks, assumptions, and uncertainties and any other cautionary statements in this report, as all of the forward-looking statements contained herein speak only as of the date of this report.

Unless stated otherwise, all financial information throughout this report and in the Consolidated Financial Statements and related Notes include Mannatech, Incorporated and all of its subsidiaries on a consolidated basis and may be referred to herein as “Mannatech,” “the Company,” “its,” “we,” “our,” or “their.”

Our products are not intended to diagnose, cure, treat, or prevent any disease, and any statements about our products contained in this report have not been evaluated by the Food and Drug Administration, also referred to herein as the “FDA”.

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PART I – FINANCIAL INFORMATION
Item 1. Financial Statements

MANNATECH, INCORPORATED AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(in thousands, except share and per share amounts)

| ASSETS | June 30, 2016 (unaudited) | December 31, 2015 |
|---|---|---|
| Cash and cash equivalents | $ 36,921 | $ 31,994 |
| Restricted cash | 1,512 | 1,511 |
| Accounts receivable, net of allowance of $441 and $261 in 2016 and 2015, respectively | 116 | 369 |
| Income tax receivable | 13 | 4 |
| Inventories, net | 11,714 | 9,199 |
| Prepaid expenses and other current assets | 2,512 | 2,905 |
| Deferred commissions | 4,208 | 3,443 |
| Deferred tax assets, net | 490 | 460 |
| Total current assets | 57,486 | 49,885 |
| Property and equipment, net | 3,388 | 3,848 |
| Construction in progress | 1,826 | 839 |
| Long-term restricted cash | 6,664 | 6,586 |
| Other assets | 3,687 | 3,759 |
| Long-term deferred tax assets, net | 3,986 | 3,725 |
| Total assets | $ 77,037 | $ 68,642 |
| LIABILITIES AND SHAREHOLDERS’ EQUITY | | |
| Current portion of capital leases | $ 397 | $ 447 |
| Accounts payable | 6,427 | 2,683 |
| Accrued expenses | 5,383 | 6,221 |
| Commissions and incentives payable | 8,805 | 6,818 |
| Taxes payable | 1,301 | 736 |
| Current deferred tax liability | 85 | 84 |
| Current notes payable | 859 | 713 |
| Deferred revenue | 10,698 | 8,677 |
| Total current liabilities | 33,955 | 26,379 |
| Capital leases, excluding current portion | 430 | 612 |
| Long-term deferred tax liabilities | 26 | 24 |
| Long-term notes payable | 843 | 1,069 |
| Other long-term liabilities | 2,084 | 1,994 |
| Total liabilities | 37,338 | 30,078 |
| | | |
| Commitments and contingencies | | |
| | | |
| Shareholders’ equity: | | |
| Preferred stock, $0.01 par value, 1,000,000 shares authorized, no shares issued or outstanding | — | — |
| Common stock, $0.0001 par value, 99,000,000 shares authorized, 2,773,972 shares issued and 2,706,986 shares outstanding as of June 30, 2016 and 2,773,972 shares issued and 2,682,078 shares outstanding as of December 31, 2015 | — | — |
| Additional paid-in capital | 37,825 | 40,494 |
| Retained earnings | 7,849 | 8,589 |

| | | |
|---|---|---|
| Accumulated other comprehensive income | 2,190 | 686 |
| Treasury stock, at average cost, 66,986 shares as of June 30, 2016 and 91,894 shares as of December 31, 2015, respectively | (8,165 ) | (11,205 ) |
| Total shareholders’ equity | 39,699 | 38,564 |
| Total liabilities and shareholders’ equity | $ 77,037 | $ 68,642 |

See accompanying notes to unaudited consolidated financial statements.

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MANNATECH, INCORPORATED AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS – (UNAUDITED)
(in thousands, except per share information)

| | Three months ended June 30, 2016 | Three months ended June 30, 2015 | Six months ended June 30, 2016 | Six months ended June 30, 2015 |
|---|---|---|---|---|
| Net sales | $48,810 | $46,726 | $89,518 | $91,096 |
| Cost of sales | 10,100 | 8,270 | 18,489 | 16,823 |
| Gross profit | 38,710 | 38,456 | 71,029 | 74,273 |
| Operating expenses: | | | | |
| Commissions and incentives | 20,417 | 18,887 | 36,034 | 36,429 |
| Selling and administrative expenses | 9,730 | 8,598 | 18,322 | 17,411 |
| Depreciation and amortization | 477 | 495 | 920 | 891 |
| Other operating costs | 8,198 | 5,866 | 15,329 | 12,421 |
| Total operating expenses | 38,822 | 33,846 | 70,605 | 67,152 |
| Income (loss) from operations | (112) | 4,610 | 424 | 7,121 |
| Interest income | 23 | 31 | 11 | 61 |
| Other expense, net | (1,037) | (452) | (703) | (1,384) |
| Income (loss) before income taxes | (1,126) | 4,189 | (268) | 5,798 |
| Provision for income taxes | (206) | (1,046) | (472) | (1,556) |
| Net income (loss) | $(1,332) | $3,143 | $(740) | $4,242 |
| Earnings (loss) per common share: | | | | |
| Basic | $(0.49) | $1.17 | $(0.27) | $1.58 |
| Diluted | $(0.49) | $1.15 | $(0.27) | $1.55 |
| Weighted-average common shares outstanding: | | | | |
| Basic | 2,707 | 2,680 | 2,701 | 2,678 |
| Diluted | 2,707 | 2,729 | 2,701 | 2,730 |

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS) – (UNAUDITED)
(in thousands)

| | Three months ended June 30, 2016 | Three months ended June 30, 2015 | Six months ended June 30, 2016 | Six months ended June 30, 2015 |
|---|---|---|---|---|
| Net income (loss) | $(1,332) | $3,143 | $(740) | $4,242 |
| Foreign currency translations | 917 | (274) | 1,504 | (32) |
| Comprehensive income (loss) | $(415) | $2,869 | $764 | $4,210 |

See accompanying notes to unaudited consolidated financial statements.

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MANNATECH, INCORPORATED AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY
– (UNAUDITED)
(in thousands)

| | Common stock Par value | Additional paid in capital | Retained earnings | Accumulated other comprehensive income | Treasury stock | Total shareholders' equity |
|---|---|---|---|---|---|---|
| Balance at December 31, 2015 | $ — | $ 40,494 | $ 8,589 | $ 686 | $ (11,205) | $ 38,564 |
| Net loss | — | — | (740 ) | — | — | (740 ) |
| Charge related to stock-based compensation | — | (2,436 ) | — | — | 2,796 | 360 |
| Stock option exercises | — | (233 ) | — | — | 244 | 11 |
| Foreign currency translations | — | — | — | 1,504 | — | 1,504 |
| Balance at June 30, 2016 | $ — | $ 37,825 | $ 7,849 | $ 2,190 | $ (8,165 ) | $ 39,699 |

See accompanying notes to unaudited consolidated financial statements.

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MANNATECH, INCORPORATED AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS – (UNAUDITED)
(in thousands)

| | Six months ended June 30, 2016 | 2015 |
|---|---|---|
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Net income ( loss) | $(740 ) | $4,242 |
| Adjustments to reconcile net income (loss) to net cash provided by operating activities: | | |
| Depreciation and amortization | 920 | 891 |
| Provision for inventory losses | 157 | 345 |
| Provision for doubtful accounts | 422 | 194 |
| Loss on disposal of assets | 3 | 8 |
| Stock-based compensation expense | 360 | 301 |
| Tax benefit from exercise of stock options | — | (16 ) |
| Deferred income taxes | (166 ) | (139 ) |
| Changes in operating assets and liabilities: | | |
| Accounts receivable | (167 ) | (55 ) |
| Income tax receivable | (8 ) | (11 ) |
| Inventories | (2,412 ) | (4,242 ) |
| Prepaid expenses and other current assets | 590 | 962 |
| Other assets | 400 | (97 ) |
| Deferred commissions | (674 ) | 351 |
| Accounts payable | 3,704 | 2,164 |
| Accrued expenses and other liabilities | (934 ) | 177 |
| Taxes payable | 469 | (17 ) |
| Commissions and incentives payable | 1,832 | 910 |
| Deferred revenue | 1,814 | (1,038 ) |
| Change in restricted cash | — | (449 ) |
| Net cash provided by operating activities | 5,570 | 4,481 |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | |
| Acquisition of property and equipment | (1,408 ) | (1,174 ) |
| Net cash used in investing activities | (1,408 ) | (1,174 ) |
| CASH FLOWS FROM FINANCING ACTIVITIES: | | |
| Proceeds from stock options exercised | 11 | 29 |
| Tax benefit from exercise of stock options | — | 16 |
| Repayment of capital lease obligations | (723 ) | (981 ) |
| Net cash used in financing activities | (712 ) | (936 ) |
| Effect of currency exchange rate changes on cash and cash equivalents | 1,477 | 293 |
| Net increase in cash and cash equivalents | 4,927 | 2,664 |
| Cash and cash equivalents at the beginning of the period | 31,994 | 27,999 |
| Cash and cash equivalents at the end of the period | $36,921 | $30,663 |
| SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION: | | |
| Income taxes paid | $1,519 | $3,959 |
| Interest paid on capital leases and financing arrangements | $63 | $47 |
| Assets acquired through financing arrangements | $409 | $1,250 |

See accompanying notes to unaudited consolidated financial statements

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NOTE 1: ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Mannatech, Incorporated (together with its subsidiaries, the "Company"), located in Coppell, Texas, was incorporated in the state of Texas on November 4, 1993 and is listed on the NASDAQ Global Select Market ("Nasdaq") under the symbol "MTEX". The Company develops, markets, and sells high-quality, proprietary nutritional supplements, topical and skin care products, and weight-management products. We currently sell our products in three regions: (i) the Americas (the United States, Canada, Colombia and Mexico); (ii) Europe/the Middle East/Africa ("EMEA") (Austria, the Czech Republic, Denmark, Estonia, Finland, Germany, the Republic of Ireland, Namibia, the Netherlands, Norway, South Africa, Spain, Sweden, and the United Kingdom); and (iii) Asia/Pacific (Australia, Japan, New Zealand, the Republic of Korea, Singapore, Taiwan and Hong Kong).

Independent associates ("associates") purchase the Company's products at published wholesale prices to either sell to retail customers or for personal use. Members purchase the Company's products at a discount from published retail prices primarily for personal use. The Company cannot distinguish products sold for personal use from other sales because it is not involved with the products after delivery, other than usual and customary product warranties and returns. Only associates are eligible to earn commissions and incentives.

The accompanying unaudited consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information and with instructions for Form 10-Q and Rule 10-01 of Regulation S-X. Accordingly, the Company's consolidated financial statements and footnotes contained herein do not include all of the information and footnotes required by accounting principles generally accepted in the United States of America ("GAAP") to be considered "complete financial statements". However, in the opinion of the Company's management, the accompanying unaudited consolidated financial statements and footnotes contain all adjustments, including normal recurring adjustments, considered necessary for a fair presentation of the Company's consolidated financial information as of, and for, the periods presented. The Company cautions that its consolidated results of operations for an interim period are not necessarily indicative of its consolidated results of operations to be expected for its fiscal year. The December 31, 2015 consolidated balance sheet was included in the audited consolidated financial statements in the Company's annual report on Form 10-K for the year ended December 31, 2015 and filed with the United States Securities and Exchange Commission (the "SEC") on March 15, 2016 (the "2015 Annual Report"), which includes all disclosures required by GAAP. Therefore, these unaudited consolidated financial statements should be read in conjunction with the consolidated financial statements of the Company included in the 2015 Annual Report.

Principles of Consolidation

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

Use of Estimates

The preparation of the Company's consolidated financial statements in accordance with generally accepted accounting principles requires the use of estimates that affect the reported value of assets, liabilities, revenues and expenses. These estimates are based on historical experience and various other factors. The Company continually evaluates the information used to make these estimates as the business and economic environment changes. Historically, actual results have not varied materially from the Company's estimates, and the Company does not currently anticipate a significant change in its assumptions related to these estimates. However, actual results may differ from these estimates under different assumptions or conditions.

The use of estimates is pervasive throughout the consolidated financial statements, but the accounting policies and estimates considered the most significant are described in this note to the consolidated financial statements, Organization and Summary of Significant Accounting Policies.

Cash and Cash Equivalents

The Company considers all highly liquid investments with original maturities of three months or less to be cash equivalents. The Company includes in its cash and cash equivalents credit card receivables due from its credit card processor, as the cash proceeds from credit card receivables are received within 24 to 72 hours of submission to the credit card processor. As of June 30, 2016 and December 31, 2015, credit card receivables were $3.0 million and $0.4 million, respectively. As of June 30, 2016 and December 31, 2015, cash and cash equivalents held in bank accounts in foreign countries totaled $32.1 million and $31.3 million, respectively. The Company invests cash in liquid instruments, such as money market funds and interest bearing deposits. The Company also holds cash in high quality financial institutions and does not believe it has an excessive exposure to credit concentration risk.

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Restricted Cash

The Company is required to restrict cash for: (i) direct selling insurance premiums and credit card sales in the Republic of Korea; (ii) reserve on credit card sales in the United States and Canada; and (iii) the Australia building lease collateral. As of June 30, 2016 and December 31, 2015, our total restricted cash was \$8.2 million and \$8.1 million, respectively.

Accounts Receivable

Accounts receivable are carried at their estimated collectible amounts. Receivables are created upon shipment of an order if the credit card payment is rejected or does not match the order total. As of each of June 30, 2016 and December 31, 2015, receivables consisted primarily of amounts due from members and associates. The Company periodically evaluates its receivables for collectability based on historical experience, recent account activities, and the length of time receivables are past due and writes-off receivables when they become uncollectible. At June 30, 2016 and December 31, 2015, the Company held an allowance for doubtful accounts of \$0.4 million and \$0.3 million, respectively.

Inventories

Inventories consist of raw materials, finished goods, and promotional materials that are stated at the lower of cost (using standard costs that approximate average costs) or market. The Company periodically reviews inventories for obsolescence, and any inventories identified as obsolete are reserved or written off.

Other Assets

As of June 30, 2016 and December 31, 2015, other assets were \$3.7 million and \$3.8 million, respectively, and primarily consisted of deposits for building leases in various locations of \$1.8 million and \$1.9 million, respectively. Additionally, included in each of the June 30, 2016 and December 31, 2015 balances was \$1.6 million, representing a deposit with Mutual Aid Cooperative and Consumer in the Republic of Korea, an organization established by the Republic of Korea’s Fair Trade Commission to protect consumers who participate in network marketing activities. Also included in each of the June 30, 2016 and December 31, 2015 balances was \$0.2 million of indefinite lived intangible assets relating to the Manapol® powder trademark.

Notes Payable

Notes payable were \$1.7 million and \$1.8 million as of June 30, 2016 and December 31, 2015, respectively, as a result of funding from a capital financing agreement related to our investment in computer hardware and software and other financing arrangements. At June 30, 2016, the current portion was \$0.9 million and the long-term portion was \$0.8 million. At December 31, 2015, the current portion was \$0.7 million and the long-term portion was \$1.1 million.

Other Long-Term Liabilities

Other long-term liabilities were \$2.1 million and \$2.0 million as of June 30, 2016 and December 31, 2015, respectively. At each of June 30, 2016 and December 31, 2015, the Company recorded \$0.7 million in other long-term liabilities related to uncertain income tax positions (see Note 8, Income Taxes of the Company’s annual report on Form 10-K for the year ended December 31, 2015, filed March 15, 2016). Certain operating leases for the Company’s regional office facilities contain a restoration clause that requires the Company to restore the premises to its original condition. At June 30, 2016 and December 31, 2015, accrued restoration costs related to these leases amounted to \$0.5 million and \$0.4 million, respectively. At each of June 30, 2016 and December 31, 2015, the Company also recorded a long-term liability for estimated defined benefit obligation related to a non-U.S. defined benefit plan for its Japan operations of $0.5 million (see Note 10, Employee Benefit Plans, of the Company’s 10-K, filed March 15, 2016).

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Revenue Recognition and Deferred Commissions

The Company's revenue is derived from sales of individual products, sales of its starter and renewal packs, and shipping fees. Substantially all of the Company's product and pack sales are made to associates at published wholesale prices and to members at discounted published retail prices. The Company records revenue net of any sales taxes and records a reserve for expected sales returns based on its historical experience.

The Company recognizes revenue from shipped packs and products upon receipt by the customer. Corporate-sponsored event revenue is recognized when the event is held. The Company defers certain components of its revenue. At June 30, 2016 and December 31, 2015, the Company's deferred revenue was $10.7 million and $8.7 million, respectively. When participating in the Company's loyalty program, customers earn loyalty points from qualified automatic orders that can be applied to future purchases. The Company defers the dollar equivalent in revenue of these points until the points are applied, forfeited, or expired, which includes an estimate of the percentage of the unvested loyalty points that are expected to be forfeited or expired. The deferred revenue associated with the loyalty program at June 30, 2016 and December 31, 2015, was $8.3 million and $8.1 million, respectively. Deferred revenue consisted primarily of: (i) sales of packs and products shipped but not received by the customers by the end of the respective period; (ii) revenue from the loyalty program; and (iii) prepaid registration fees from customers planning to attend a future corporate-sponsored event. In total current assets, the Company defers commissions on (i) the sales of packs and products shipped but not received by the customers by the end of the respective period and (ii) the loyalty program. Deferred commissions were $4.2 million and $3.4 million at June 30, 2016 and December 31, 2015, respectively.

| Loyalty program | (in thousands) |
|---|---|
| Loyalty deferred revenue as of January 1, 2015 | $ 9,703 |
| Loyalty points forfeited or expired | (8,801) |
| Loyalty points used | (15,077) |
| Loyalty points vested | 20,403 |
| Loyalty points unvested | 1,845 |
| Loyalty deferred revenue as of December 31, 2015 | $ 8,073 |

| | |
|---|---|
| Loyalty deferred revenue as of January 1, 2016 | $8,073 |
| Loyalty points forfeited or expired | (3,326) |
| Loyalty points used | (7,910) |
| Loyalty points vested | 9,171 |
| Loyalty points unvested | 2,333 |
| Loyalty deferred revenue as of June 30, 2016 | $8,341 |

The Company estimates a sales return reserve for expected sales refunds based on historical experience over a rolling six month period. If actual results differ from our estimated sales return reserve due to various factors, the amount of revenue recorded each period could be materially affected. Historically, sales returns have not materially changed through the years, as the majority of our customers who return their merchandise do so within the first 90 days after the original sale. Sales returns have historically averaged 1.5% or less of our gross sales. For the six months ended June 30, 2016 our sales return reserve consisted of the following (in thousands):

| | |
|---|---|
| Sales reserve as of January 1, 2016 | $147 |
| Provision related to sales made in current period | 707 |
| Adjustment related to sales made in prior periods | 7 |
| Actual returns or credits related to current period | (535) |
| Actual returns or credits related to prior periods | (143) |
| Sales reserve as of June 30, 2016 | $183 |

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Shipping and Handling Costs

The Company records freight and shipping fees collected from its customers as revenue. The Company records inbound freight as a component of inventory and cost of sales.

Commissions and Incentives

Associates earn commissions and incentives based on their direct and indirect commissionable net sales over 13 business periods each year. Each business period equals 28 days. The Company accrues commissions and incentives when earned by associates and pays commissions on product sales three weeks following the business period end and pays commissions on its pack sales five weeks following the business period end.

Comprehensive Income (Loss) and Accumulated Other Comprehensive Income

Comprehensive income (loss) is defined as the change in equity of a business enterprise during a period from transactions and other events and circumstances from non-owner sources and includes all changes in equity during a period except those resulting from investments by owners and distributions to owners. The Company's comprehensive income consists of the Company's net income (loss), foreign currency translation adjustments from its Japan, Republic of Korea, Taiwan, Denmark, Norway, Sweden, Colombia, and Mexico operations, and changes in the pension obligation for its Japanese employees.

NOTE 2: INVENTORIES

Inventories consist of raw materials, finished goods, and promotional materials. The Company provides an allowance for any slow-moving or obsolete inventories. Inventories at June 30, 2016 and December 31, 2015, consisted of the following (in thousands):

| | June 30, 2016 | December 31, 2015 |
|---|---|---|
| Raw materials | $ 628 | $ 1,187 |
| Finished goods | 11,874 | 9,277 |
| Inventory reserves for obsolescence | (788 ) | (1,265 ) |
| Total | $ 11,714 | $ 9,199 |

NOTE 3: INCOME TAXES

For the three and six months ended June 30, 2016, the Company's effective tax rate was (18.3)% and (175.9)% respectively. For the three and six months ended June 30, 2015, the Company's effective income tax rate was 25.0% and 26.8%, respectively. For the three and six months ended June 30, 2016 and 2015, the Company's effective tax rate was determined based on the estimated annual effective tax rate.

The overall effective tax rate differs from the federal statutory rate due to the mix of earnings across jurisdictions and certain items that are discrete to the second quarter. Items discrete to the second quarter of 2016 include foreign exchange losses and increased losses in jurisdictions for which no taxable benefit can be recorded. These items were partially offset by the effect of the release of the valuation allowance in Switzerland due to improved earnings there.

The effective tax rates for the three and six months ended June 30, 2015 were lower than what would have been expected if the federal statutory rate were applied to income before taxes. Items decreasing the effective income tax rate include the favorable rate differences from foreign jurisdictions and release of valuation allowances associated with deferred tax assets of net operating loss carryforward.

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NOTE 4: EARNINGS (LOSS) PER SHARE

The Company calculates basic Earnings Per Share (“EPS”) by dividing net income (loss) by the weighted-average number of common shares outstanding for the period. Diluted EPS also reflects the potential dilution that could occur if common stock were issued for awards outstanding under the 2008 Stock Incentive Plan. In determining the potential dilution effect of outstanding stock options during the three months ended June 30, 2015, the Company used the quarter’s average common stock closing price of $20.08 per share. For the three months ended June 30, 2016, shares of the Company’s stock subject to options were excluded from the diluted EPS calculation as their effect would have been antidilutive. In determining the potential dilution effect of outstanding stock options during the six months ended June 30, 2015, the Company used the six-month average common stock closing price of $20.71 per share. For the six months ended June 30, 2016, shares of the Company’s stock subject to options were excluded from the diluted EPS calculation as their effect would have been antidilutive. The Company reported a net loss for the three and six months ended June 30, 2016.

NOTE 5: STOCK-BASED COMPENSATION

The Company currently has one active stock-based compensation plan, which was approved by shareholders. The Company grants stock options to employees, consultants, and board members at the fair market value of its common stock, on the date of grant, with a term no greater than ten years. The majority of stock options vest over two or three years. Shareholders who own 10% or more of the Company’s outstanding stock are granted incentive stock options at an exercise price that may not be less than 110% of the fair market value of the Company’s common stock on the date of grant and have a term no greater than five years.

In February 2008, the Company’s Board of Directors approved the Mannatech, Incorporated 2008 Stock Incentive Plan, as amended (the “2008 Plan”), which reserved up to 100,000 (as adjusted for a 1-for-10 reverse stock split) shares of common stock for issuance of stock options and restricted stock to our employees, board members, and consultants, plus any shares reserved under the Company’s then-existing, unexpired stock plans for which options had not yet been issued, and any shares underlying outstanding options under the then-existing stock option plans that terminate without having been exercised in full. The 2008 Plan was approved by the Company’s shareholders at the 2008 Annual Shareholders’ Meeting and was amended at the 2012 Annual Shareholders’ Meeting to increase the number of shares of common stock subject to the plan by 100,000 and amended again at the 2014 Annual Shareholders’ Meeting to increase the number of shares of common stock subject to the plan by an additional 130,000. As of June 30, 2016, the 2008 Plan had 85,397 stock options available for grant before the plan expires on February 20, 2018.

The Company records stock-based compensation expense related to granting stock options in selling and administrative expenses. During the three months ended June 30, 2016 and 2015, the Company granted 10,000 and 20,000 stock options, respectively. The fair value of stock options granted during the three months ended June 30, 2016 was approximately $12.18 per share. During the six months ended June 30, 2016 and 2015, the Company granted 10,000 and 20,000 stock options, respectively. The fair value of stock options granted during the six months ended June 30, 2016 was approximately $12.18 per share. The Company recognized compensation expense as follows for the three and six months ended June 30 (in thousands):

| | Three months ending June 30 | | Six months ending June 30 | |
|---|---|---|---|---|
| | 2016 | 2015 | 2016 | 2015 |
| Total gross compensation expense | $141 | $161 | $360 | $301 |
| Total tax benefit associated with compensation expense | 28 | 43 | 47 | 86 |
| Total net compensation expense | $113 | $118 | $313 | $215 |

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As of June 30, 2016, the Company expects to record compensation expense in the future as follows (in thousands):

| | Six months ending December 31, 2016 | Year ending December 31, 2017 | 2018 | 2019 |
|---|---|---|---|---|
| Total gross unrecognized compensation expense | $221 | $297 | $91 | $29 |
| Tax benefit associated with unrecognized compensation expense | 29 | 33 | 7 | — |
| Total net unrecognized compensation expense | $192 | $264 | $84 | $29 |

NOTE 6: SHAREHOLDERS' EQUITY

Accumulated Other Comprehensive Income

Accumulated other comprehensive income, displayed in the Consolidated Statements of Shareholders' Equity and Comprehensive Income, represents net income (loss) plus the results of certain shareholders' equity changes not reflected in the Consolidated Statements of Operations, such as foreign currency translation and certain pension and post-retirement benefit obligations. The after-tax components of accumulated other comprehensive income, are as follows (in thousands):

| | Foreign Currency Translation | Pension Postretirement Benefit Obligation | Accumulated Other Comprehensive Income, Net |
|---|---|---|---|
| Balance as of December 31, 2015 | $ 358 | $ 328 | $ 686 |
| Current-period change [1] | 1,504 | — | 1,504 |
| Balance as of June 30, 2016 | $ 1,862 | $ 328 | $ 2,190 |

[1] No amounts reclassified from accumulated other comprehensive income.

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NOTE 7: LITIGATION

Patent Litigation

Mannatech, Incorporated v. Wellness Quest, LLC and Harley Reginald McDaniel, Case No. 3:14-cv-2497, U.S. District Court, for the Northern District of Texas, Dallas Division

On July 11, 2014 the Company filed a patent infringement lawsuit against Wellness Quest, LLC and Dr. H. Reginald McDaniel ("Defendants") alleging the Defendants infringe United States Patent Nos. 7,157,431 and 7,202,220, both entitled "Compositions of Plant Carbohydrates as Dietary Supplements" (the "Patents") and seeking to stop the Defendants' manufacture, offer, and sale of infringing glyconutritional dietary supplement products. On July 16, 2014, the Company filed a Motion for Preliminary Injunction preventing Defendants from infringing the Patents pending a final decision on the merits. On August 29, 2014, the Defendants filed their Response to Plaintiff's Motion for Preliminary Injunction and Brief in Support along with their Answer and Affirmative Defenses. On November 4, 2014, the Court denied the Company's Motion for Preliminary Injunction and Motion to Expedite Discovery. On December 15, 2014, the Company deposed Dr. Reginald McDaniel. Each party has submitted its list of claim constructions/definitions and a list of the supporting authority. Each party has filed its opening brief and its respective responsive brief. Defendants designated an expert and the Company deposed the expert on January 27, 2015 regarding his claim construction opinions while reserving the right to examine him later regarding other matters. Mediation on this matter was held on April 24, 2015. A settlement was not reached.

On May 12, 2015 the Company received notice of an Order of Transfer advising that the case had been reassigned from Judge Ed Kinkeade to Judge David C. Godbey for all further proceedings. On July 20, 2015, the Court issued its Markman ruling adopting the Company's proposed claim construction for all disputed terms except for "dietary supplement composition" which it found needed no construction. On August 20, 2015, Defendants filed a request for an interlocutory appeal, and the Company filed a reply on October 6, 2015. The Company also filed a separate motion requesting entry of a final judgment and permanent injunction on September 8, 2015.

On November 5, 2015 the Court issued an Order accepting Defendants' stipulation of infringement under the Court's claim interpretation and granted the Company's partial motion for summary judgment and issued a permanent injunction against Defendants' infringement of the Patents. The Court stayed the permanent injunction until the conclusion of Defendants' appeal to the U.S. Court of Appeals for the Federal Circuit (the "Court of Appeals"). On December 3, 2015, Defendants filed their Notice of Appeal which was docketed by the Court of Appeals on December 8, 2015. Defendants-Appellants filed their brief with the Court of Appeals on February 28, 2016. The Company-Appellee filed its brief with the Court of Appeals on March 24, 2016. Oral argument for the appeal was held on August 1, 2016. Each side was given fifteen minutes for argument before the Appellate Court. On August 5, 2016, the Court of Appeals issued a per curium opinion affirming the trial court's judgement in favor of the company.

This lawsuit continues the Company's enforcement of its patent rights, and the Company intends to vigorously prosecute this matter. Based on the previous successful patent infringement lawsuits against Country Life, LLC, Glycobiotics International, Inc., Techmedica Health, Inc., IonX Holdings, Inc., Boston Mountain Laboratories, Inc., Green Life, LLC, and Xiong Lo, the Company believes there is a strong likelihood that it will obtain permanent injunctions against the manufacture and sale of any infringing products for the duration of the Company's patents.

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Breach of Contract

Diana Anselmo and New Day Today Corporation v. Mannatech, Incorporated, Case No. DC-15-01904, Judicial District Court, Dallas County, Texas

On February 18, 2015 Ms. Diana Anselmo and New Day Today Corporation (collectively, the “Plaintiffs”) filed suit against Mannatech alleging breach of contract pertaining to a portion of proceeds from a Mannatech Associate position once held by Ms. Anselmo’s former husband, Ray Gebauer. Plaintiffs are seeking damages in excess of $1,000,000 and a declaration that the Company continue to pay Plaintiffs proceeds from Mr. Gebauer’s former account.

The Company filed its answer on March 23, 2015 denying the Plaintiffs’ allegations. The Court set the case for trial on March 7, 2016; however, on December 7, 2015 the Court granted the parties Agreed Motion for Continuation and reset the trial for September 26, 2016. The Court issued a mediation order on April 20, 2015. The Company filed a Motion for Summary Judgment and the hearing on that motion has been set for August 12, 2016. Mediation was conducted on June 17, 2016. The parties entered into a Mediation Settlement Agreement (“MSA”) that is contingent upon the Plaintiff reaching an acceptable compromise and settlement with the Internal Revenue Service on or before July 18, 2016. On July 11, 2016, the Company was notified that Plaintiffs did not reach an acceptable compromise with the IRS, thus making the MSA null and void. The parties have scheduled additional depositions and remain engaged in the discovery process. It is not possible at this time to predict whether the Company will incur any liability, or to estimate the ranges of damages, if any, which may be incurred in connection with this matter. However, the Company believes it has a valid defense and will vigorously defend this claim. This matter remains open.

Uniscience Solution v. Chang, et al.; Chang, et al. v. Uniscience Solution, Randy Lee, and Mannatech, Inc. (cross-defendant), Case No. 16K03995 (Superior Court of California, Los Angeles Co.)

On June 1, 2016 the Company received notice that on May 20, 2016 Vivian Hsiaoling Chang and Alan Jyh Woei Hsu (collectively, the “Cross-plaintiffs”) filed an unverified cross-complaint against the Company and Uniscience Solution, and Randy Lee alleging breach of contract. Cross-plaintiffs, Uniscience Solution, and Randy Lee are independent distributors of the Company who entered into an agreement, separate and apart from their respective distributor agreements with the Company. The Cross-plaintiffs assert that Mannatech is a party to such other agreement; which it is not. The Company filed an answer denying the assertions in the unverified cross-complaint. It is not possible at this time to predict whether the Company will incur any liability, or to estimate the ranges of damages, if any, which may be incurred in connection with this matter. However, the Company believes it has a valid defense and will vigorously defend this claim. This matter remains open.

Trademark Opposition – U.S. Patent and Trademark Office (“USPTO”)

United States Trademark Opposition No. 91221493, Shaklee Corporation v. Mannatech, Incorporated re: UTH

On April 15, 2015 the Company received notice that Shaklee Corporation filed a Notice of Opposition to the Company’s trademark application for UTH (stylized as $^{th}\bar{U}$) with the USPTO. On May 19, 2015, the Company filed an answer to the opposition and also filed a counterclaim seeking to cancel Shaklee’s registration of its YOUTH mark. Shaklee filed an extension to oppose the UTH mark on June 18, 2015, and the request to extend time to oppose was granted until July 18, 2015. Shaklee filed a second extension on July 17, 2015, and the request to extend time to oppose has been granted until September 16, 2015. Shaklee filed motions to strike the Company’s Affirmative Defenses to the Opposition and Counterclaim to cancel their registrations. The Company filed responses and the Trademark Trial and Appeal Board (“TTAB”) ruled in Shaklee’s favor. The Company filed an amended Answer to the Opposition and Amended Counterclaim on November 18, 2015. Shaklee then filed an answer to the Company’s Counterclaim on December 30, 2015.

On September 15, 2015 Shaklee filed two more Notices of Opposition for the UTH & Design and ŪTH applications. The Company filed Answers and Counterclaims on November 20, 2015. On January 25, 2016, the Company filed a motion to strike Shaklee's affirmative defense on cancellation. On May 17, 2016, the TTAB granted the Company's motion to strike Shaklee's affirmative defense on cancellation. The parties remain engaged in the discovery process. This matter remains open.

It is not possible at this time to predict the outcome of the USPTO action or whether the Company will incur any liability, or to estimate the ranges of damages, if any, which may be incurred in connection with this matter. However, the Company believes it has a valid defense and will vigorously defend this claim.

Arbitration Proceeding

Mannatech v. Samuel L. Caster and Wonder Enterprises, LLC, Demand for Arbitration, Case No. 01-15-0003-6812.

On May 29, 2015 the Company initiated arbitration proceedings against Samuel L. Caster and Wonder Enterprises, LLC ("Respondents") alleging breach of contract by Mr. Caster and his company, Wonder Enterprises, under a series of consulting agreements entered into by the parties. Mannatech seeks to recover actual damages, costs of court and prejudgment interest together with disgorgement of all benefits received by the Respondents. The Company estimates its damages to be between $500,000 and $3,500,000. On June 12, 2015 Respondents contacted the Company's counsel to request mediation. The parties agreed to mediate this dispute, and mediation was held on August 17, 2015. However, a settlement was not reached. A preliminary hearing for arbitration was held on September 18, 2015, and a final hearing commenced on April 25, 2016. A hearing was held on March 2, 2016 where the arbitrator granted Respondents' request to file a motion for summary judgment and granted the Company until March 21, 2016 to issue its response. The arbitrator also granted the Company's motion to compel the Respondents to produce the customer list for Mr. Caster's former company, EM Squared. The Company filed its response to Respondents' Motion for Summary Judgment on March 21, 2016. The arbitration hearing is scheduled to begin on August 29, 2016. The parties have scheduled depositions and remain engaged in the discovery process. This matter remains open.

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Administrative Proceedings

On April 12, 2015 Mannatech Korea, Ltd. filed a suit against the Busan Custom Office ("BCO") to challenge BCO's method of calculation regarding its assessment notice issued on July 11, 2013. The assessment notice included an audit of the Company's imported goods covering fiscal years 2008 through 2012 and required the Company to pay $1.0 million for this assessment, which was paid in January 2014. Both parties submitted a response to the Court's inquiry on January 15, 2016. The Court set the hearing for March 24, 2016, which was delayed to April 28, 2016 due to scheduling conflicts. At the hearing held on April 28, 2016, the presiding judge expressed concerns that the underpaid customs duty was assessed while the overpaid customs duty was not refunded. The final hearing for the case was held on May 26, 2016, where each party presented their respective arguments. The judge originally set the decision hearing for June 30, 2016; however, that date has been moved to August 18, 2016. This matter remains open.

There are other ongoing audits in various international jurisdictions that the Company does not expect will have a material effect on our financial statements.

Litigation in General

The Company is or may become subject to claims in the normal course of business. The Company believes such claims can be resolved without any material adverse effect on its consolidated financial position, results of operations, or cash flows.

The Company maintains certain liability insurance; however, certain costs of defending lawsuits are not covered or are only partially covered by its insurance policies, including claims that are below insurance deductibles. Additionally, insurance carriers could refuse to cover certain claims, in whole or in part. The Company accrues costs to defend itself from litigation as they are incurred or as they become determinable.

The outcome of litigation is uncertain, and despite management's views of the merits of any litigation, or the reasonableness of the Company's estimates and reserves, the Company's financial statements could nonetheless be materially affected by an adverse judgment. The Company believes it has adequately reserved for the contingencies arising from current legal matters where an outcome was deemed to be probable, and the loss amount could be reasonably estimated.

NOTE 8: FAIR VALUE

The Company utilizes fair value measurements to record fair value adjustments to certain financial assets and to determine fair value disclosures.

Fair Value Measurements and Disclosure Topic 820 of the Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") establishes a fair value hierarchy that requires the use of observable market data, when available, and prioritizes the inputs to valuation techniques used to measure fair value in the following categories:

- Level 1 – Quoted unadjusted prices for identical instruments in active markets.
- Level 2 – Quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active and model-derived valuations in which all observable inputs and significant value drivers are observable in active markets.
- Level 3 – Model-derived valuations in which one or more significant inputs or significant value drivers are unobservable, including assumptions developed by the Company.

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The primary objective of the Company’s investment activities is to preserve principal while maximizing yields without significantly increasing risk. The investment instruments held by the Company are money market funds and interest bearing deposits for which quoted market prices are readily available. The Company considers these highly liquid investments to be cash equivalents. These investments are classified within Level 1 of the fair value hierarchy because they are valued based on quoted market prices in active markets. The Company does not have any material financial liabilities that were required to be measured at fair value on a recurring basis at June 30, 2016. The table below presents the recorded amount of financial assets measured at fair value (in thousands) on a recurring basis as of June 30, 2016 and December 31, 2015.

| June 30, 2016 | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| Assets | | | | |
| Money Market Funds – Fidelity, US | $1,311 | $ — | $ — | $1,311 |
| Interest bearing deposits – various banks | 24,815 | — | — | 24,815 |
| Total assets | $26,126 | $ — | $ — | $26,126 |
| Amounts included in: | | | | |
| Cash and cash equivalents | $19,887 | $ — | $ — | $19,887 |
| Restricted cash | 739 | — | — | 739 |
| Long-term restricted cash | 5,500 | — | — | 5,500 |
| Total | $26,126 | $ — | $ — | $26,126 |

| December 31, 2015 | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| Assets | | | | |
| Money Market Funds – Fidelity, US | $319 | $ — | $ — | $319 |
| Interest bearing deposits – various banks | 14,134 | — | — | 14,134 |
| Total assets | $14,453 | $ — | $ — | $14,453 |
| Amounts included in: | | | | |
| Cash and cash equivalents | $8,281 | $ — | $ — | $8,281 |
| Restricted cash | 737 | — | — | 737 |
| Long-term restricted cash | 5,435 | — | — | 5,435 |
| Total | $14,453 | $ — | $ — | $14,453 |

NOTE 9: SEGMENT INFORMATION

The Company conducts its business as a single operating segment, consolidating all of its business units into a single reportable entity, as a seller of proprietary nutritional supplements, topical and skin care and anti-aging products, and weight-management and fitness products through its network marketing distribution channels operating in twenty-five countries. Each of the Company’s business units sells similar packs and products and possesses similar economic characteristics, such as selling prices and gross margins. In each country, the Company markets its products and pays commissions and incentives in similar market environments. The Company’s management reviews its financial information by country and focuses its internal reporting and analysis of revenues by packs and product sales. The Company sells its products through its independent associates who occupy positions in our network and distribute products through similar distribution channels in each country. No single independent associate has ever accounted for more than 10% of the Company’s consolidated net sales.

The Company operates facilities in thirteen countries and sells product in twenty-five countries around the world. These facilities are located in the United States, Canada, Switzerland, Australia, the United Kingdom, Japan, the Republic of Korea (South Korea), Taiwan, South Africa, Hong Kong, Singapore, Colombia and Mexico. Each facility services different geographic areas. We currently sell our products in three regions: (i) the Americas (the United States, Canada, Colombia and Mexico); (ii) EMEA (Austria, the Czech Republic, Denmark, Estonia, Finland, Germany, the Republic of Ireland, Namibia, the Netherlands, Norway, South Africa, Spain, Sweden and the United

Kingdom); and (iii) Asia/Pacific (Australia, Japan, New Zealand, the Republic of Korea, Singapore, Taiwan and Hong Kong).

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Consolidated net sales shipped to customers in these regions, along with pack and product information for the three and six months ended June 30, were as follows (in millions, except percentages):

| | Three months | | | | Six months | | | |
|---|---|---|---|---|---|---|---|---|
| Region | 2016 | | 2015 | | 2016 | | 2015 | |
| Americas | $19.0 | 38.9 % | $18.8 | 40.3 % | $35.0 | 39.1 % | $36.9 | 40.5 % |
| Asia/Pacific | 26.3 | 53.9 % | 23.6 | 50.5 % | 47.7 | 53.3 % | 46.3 | 50.8 % |
| EMEA | 3.5 | 7.2 % | 4.3 | 9.2 % | 6.8 | 7.6 % | 7.9 | 8.7 % |
| Totals | $48.8 | 100.0% | $46.7 | 100.0% | $89.5 | 100.0% | $91.1 | 100.0% |

| | Three months | | Six months | |
|---|---|---|---|---|
| | 2016 | 2015 | 2016 | 2015 |
| Consolidated product sales | $40.1 | $36.3 | $73.8 | $70.5 |
| Consolidated pack sales | 7.5 | 8.9 | 13.2 | 17.8 |
| Consolidated other, including freight | 1.2 | 1.5 | 2.5 | 2.8 |
| Consolidated total net sales | $48.8 | $46.7 | $89.5 | $91.1 |

Long-lived assets, which include property and equipment and construction in process for the Company and its subsidiaries, as of June 30, 2016 and December 31, 2015, reside in the following regions, as follows (in millions):

| Region | June 30, 2016 | December 31, 2015 |
|---|---|---|
| Americas | $ 3.9 | $ 3.5 |
| Asia/Pacific | 1.2 | 1.1 |
| EMEA | 0.1 | 0.1 |
| Total | $ 5.2 | $ 4.7 |

Inventory balances, which consist of raw materials, work in process, finished goods, and promotional materials, as offset by the allowance for slow moving or obsolete inventories, reside in the following regions (in millions):

| Region | June 30, 2016 | December 31, 2015 |
|---|---|---|
| Americas | $ 4.7 | $ 3.4 |
| Asia/Pacific | 5.1 | 4.3 |
| EMEA | 1.9 | 1.5 |
| Total | $ 11.7 | $ 9.2 |

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NOTE 10: RECENT ACCOUNTING PRONOUNCEMENTS

In May 2014, the FASB issued Accounting Standards Update “ASU” 2014-09, Revenue from Contracts with Customers. This new standard requires companies to recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which a company expects to be entitled in exchange for those goods or services. Under the new standard, revenue is recognized when a customer obtains control of a good or service. The standard allows for two transition methods—entities can either apply the new standard (i) retrospectively to each prior reporting period presented, or (ii) retrospectively with the cumulative effect of initially applying the standard recognized at the date of initial adoption. In July 2015, the FASB issued ASU 2015-14, Revenue from Contracts with Customers, which defers the effective date by one year to December 15, 2017 for fiscal years, and interim periods within those fiscal years, beginning after that date. Early adoption of the standard is permitted, but not before the original effective date of December 15, 2016. In March 2016, the FASB issued ASU 2016-08 Revenue from Contracts with Customers, Principal versus Agent Considerations (Reporting Revenue versus Net), in April 2016, the FASB issued ASU 2016-10, Revenue from Contracts with Customers, identifying Performance Obligations and Licensing, and in May 2016, the FASB issued ASU 2016-12, Revenue from Contracts with Customers, Narrow-Scope Improvements and Practical Expedients, which provide additional clarification on certain topics addressed in ASU 2014-09. ASU 2016-08, ASU 2016-10, and ASU 2016-12 follow the same implementation guidelines as ASU 2014-09 and ASU 2015-14. The Company is evaluating this updated standard to determine if adoption will have a material impact on the Company’s consolidated financial statements.

In March 2016, the FASB issued ASU 2016-09, Compensation – Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting, which is intended to simplify the accounting for stock based compensation.  The areas for simplification in ASU 2016-09 involve several aspects of the accounting for share-based payment transaction, including the income tax consequences, classification of awards as either equity or liabilities, and classification on the update is effective for annual periods beginning after December 15, 2016, and interim periods within those annual periods. Early adoption is permitted, provided that, if an entity early adopts the amendments in an interim period, any adjustments should be reflected as of the beginning of the fiscal year that includes that interim period, and all amendments are adopted in the same period. Certain detailed transition provisions apply if an entity elects to early adopt.  The Company is currently evaluating the impact of this standard on the Company’s consolidated results of operations and financial condition.

Other recently issued accounting pronouncements did not or are not believed by management to have a material impact on the Company’s present or future financial statements.

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Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations

The following discussion is intended to assist in the understanding of our consolidated financial position and results of operations for the three and six months ended June 30, 2016 as compared to the same periods in 2015, and should be read in conjunction with Item I “Financial Statements” in Part I of this quarterly report on Form 10-Q. Unless stated otherwise, all financial information presented below, throughout this report, and in the consolidated financial statements and related notes includes Mannatech and all of our subsidiaries on a consolidated basis. To supplement our financial results presented in accordance with generally accepted accounting principles in the United States ("GAAP"), we disclose certain adjusted financial measures which we refer to as Constant dollar (“Constant dollar”) measures, which are non-GAAP financial measures. Refer to the Non-GAAP Financial Measures section herein for a description of how such Constant dollar measures are determined.

COMPANY OVERVIEW

Since November 1993, we have continued to develop innovative, high quality, proprietary nutritional supplements, topical, skin care and anti-aging products, and weight-management products that are sold through a global network marketing system. We operate in three regions: (i) the Americas (the United States, Canada, Colombia and Mexico); (ii) EMEA (Austria, the Czech Republic, Denmark, Estonia, Finland, Germany, the Republic of Ireland, Namibia, the Netherlands, Norway, South Africa, Spain, Sweden and the United Kingdom); and (iii) Asia/Pacific (Australia, Japan, New Zealand, the Republic of Korea, Singapore, Taiwan and Hong Kong). By the fourth quarter of 2016, we anticipate commencing a non-direct selling business segment in China.

We currently conduct our business as a single operating segment and primarily sell our products through a network of approximately 222,000 active independent associate and member positions held by individuals that purchased our products and/or packs during the last 12 months, who we refer to as current independent associates and members. New pack sales and positions in our network are leading indicators for the long-term success of our business. New associate or member positions are created in our network when our packs and products are purchased for the first time. We operate as a seller of nutritional supplements, topical skin care and anti-aging products, and weight-management products through our network marketing distribution channels operating in twenty-five countries. We review and analyze net sales by geographical location and by packs and products on a consolidated basis. Each of our subsidiaries sells similar products and exhibits similar economic characteristics, such as selling prices and gross margins.

Because we sell our products through network marketing distribution channels, the opportunities and challenges that affect us most are: recruitment of new and retention of active independent associates and members who occupy sales or purchasing positions in our network; entry into new markets and growth of existing markets; niche market development; new product introduction; and investment in our infrastructure.

Current Economic Conditions and Recent Developments

Overall net sales increased $2.1 million, to $48.8 million, during the three months ended June 30, 2016, as compared to the same period in 2015. Net sales of $48.8 million during the three months ended June 30, 2016 were $8.1 million higher than net sales of $40.7 million during the three months ended March 31, 2016,. Net sales decreased $1.6 million, or 1.7% during the six months ended June 30, 2016, as compared to the same period in 2015. For the three and six months ended June 30, 2016, our operations outside of the Americas accounted for approximately 61.1% and 60.9%, respectively, of our consolidated net sales.

The net sales comparisons for the three- and six-month periods were affected by the loyalty program and the launch of our TruHealth weight loss product line in select markets in the Americas and Asia/Pacific during the second quarter of 2016. The loyalty program decreased second quarter 2016 net sales by $1.7 million and decreased net sales for the six months ended June 30, 2016 by $2.1 million, as compared to the same periods in 2015. Offsetting this are the sales attributable to our TruHealth weight loss product line.

Excluding the effects due to the translation of foreign currencies into U.S. dollars, net sales would have increased $3.5 million and $1.9 million for the three and six months ended June 30, 2016, respectively. These adjusted net sales expressed in Constant dollars are a non-GAAP financial measure discussed in further detail below.

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RESULTS OF OPERATIONS

Three Months Ended June 30, 2016 compared to Three Months Ended June 30, 2015

The table below summarizes our consolidated operating results in dollars and as a percentage of net sales for the three months ended June 30, 2016 and 2015 (in thousands, except percentages):

| | 2016 Total dollars | 2016 % of net sales | 2015 Total dollars | 2015 % of net sales | Change from 2015 to 2016 Dollar | Change from 2015 to 2016 Percentage |
|---|---|---|---|---|---|---|
| Net sales | $48,810 | 100.0 % | $46,726 | 100.0 % | $2,084 | 4.5 % |
| Cost of sales | 10,100 | 20.7 % | 8,270 | 17.7 % | 1,830 | 22.1 % |
| Gross profit | 38,710 | 79.3 % | 38,456 | 82.3 % | 254 | 0.7 % |
| Operating expenses: | | | | | | |
| Commissions and incentives | 20,417 | 41.8 % | 18,887 | 40.4 % | 1,530 | 8.1 % |
| Selling and administrative expenses | 9,730 | 19.9 % | 8,598 | 18.4 % | 1,132 | 13.2 % |
| Depreciation and amortization | 477 | 1.0 % | 495 | 1.1 % | (18 ) | (3.6 )% |
| Other operating costs | 8,198 | 16.8 % | 5,866 | 12.5 % | 2,332 | 39.8 % |
| Total operating expenses | 38,822 | 79.5 % | 33,846 | 72.4 % | 4,976 | 14.7 % |
| Income (loss) from operations | (112 ) | (0.2 )% | 4,610 | 9.9 % | (4,722) | (102.4 )% |
| Interest income | 23 | — % | 31 | 0.1 % | (8 ) | (25.8 )% |
| Other expense, net | (1,037 ) | (2.1 )% | (452 ) | (1.0 )% | (585 ) | 129.4 % |
| Income (loss) before income taxes | (1,126 ) | (2.3 )% | 4,189 | 9.0 % | (5,315) | (126.9 )% |
| Provision for income taxes | (206 ) | (0.4 )% | (1,046 ) | (2.3 )% | 840 | 80.3 % |
| Net income (loss) | $(1,332 ) | (2.7 )% | $3,143 | 6.7 % | $(4,475) | (142.4 )% |

Six Months Ended June 30, 2016 compared to Six Months Ended June 30, 2015

The table below summarizes our consolidated operating results in dollars and as a percentage of net sales for the six months ended June 30, 2016 and 2015 (in thousands, except percentages):

| | 2016 Total dollars | 2016 % of net sales | 2015 Total dollars | 2015 % of net sales | Change from 2015 to 2016 Dollar | Change from 2015 to 2016 Percentage |
|---|---|---|---|---|---|---|
| Net sales | $89,518 | 100.0 % | $91,096 | 100.0 % | $(1,578) | (1.7 )% |
| Cost of sales | 18,489 | 20.7 % | 16,823 | 18.5 % | 1,666 | 9.9 % |
| Gross profit | 71,029 | 79.3 % | 74,273 | 81.5 % | (3,244) | (4.4 )% |
| Operating expenses: | | | | | | |
| Commissions and incentives | 36,034 | 40.3 % | 36,429 | 40.0 % | (395 ) | (1.1 )% |
| Selling and administrative expenses | 18,322 | 20.5 % | 17,411 | 19.1 % | 911 | 5.2 % |
| Depreciation and amortization | 920 | 1.0 % | 891 | 1.0 % | 29 | 3.3 % |
| Other operating costs | 15,329 | 17.1 % | 12,421 | 13.6 % | 2,908 | 23.4 % |
| Total operating expenses | 70,605 | 78.9 % | 67,152 | 73.7 % | 3,453 | 5.1 % |
| Income from operations | 424 | 0.5 % | 7,121 | 7.8 % | (6,697) | (94.0 )% |
| Interest income | 11 | — % | 61 | 0.1 % | (50 ) | (82.0 )% |
| Other expense, net | (703 ) | (0.8 )% | (1,384 ) | (1.5 )% | 681 | 49.2 % |

| | | | | | | |
|---|---|---|---|---|---|---|
| Income (loss) before income taxes | (268 ) | (0.3 )% | 5,798 | 6.4 % | (6,066) | (104.6 )% |
| Provision for income taxes | (472 ) | (0.5 )% | (1,556 ) | (1.7 )% | 1,084 | 69.7 % |
| Net income (loss) | $(740 ) | (0.8 )% | $4,242 | 4.7 % | $(4,982) | (117.4 )% |

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Non-GAAP Financial Measures

To supplement our financial results presented in accordance with GAAP, we disclose operating results that have been adjusted to exclude the impact of changes due to the translation of foreign currencies into U.S. dollars, including changes in: Net Sales, Gross Profit, and Income (Loss) from Operations. We refer to these adjusted financial measures as Constant dollar items, which are non-GAAP financial measures. We believe these measures provide investors an additional perspective on trends. To exclude the impact of changes due to the translation of foreign currencies into U.S. dollars, we calculate current year results and prior year results at a constant exchange rate, which is the prior year's rate. Currency impact is determined as the difference between actual growth rates and constant currency growth rates.

| Three month period ended (in millions, except percentages) | June 30, 2016 | | June 30, 2015 | Change | |
|---|---|---|---|---|---|
| | GAAP Measure: Total $ | Non-GAAP Measure: Constant $ | GAAP Measure: Total $ | Dollar | Percent |
| Net Sales | $48.8 | $ 50.2 | $ 46.7 | $3.5 | 7.5 % |
| Product | 40.1 | 41.1 | 36.3 | 4.8 | 13.2 % |
| Pack | 7.5 | 7.8 | 8.9 | (1.1) | (12.4 )% |
| Other | 1.2 | 1.3 | 1.5 | (0.2) | (13.3 )% |
| Gross Profit | 38.7 | 39.7 | 38.5 | 1.2 | 3.1 % |
| Income (loss) from Operations | (0.1 ) | — | 4.6 | (4.6) | (100.0)% |

| Six month period ended (in millions, except percentages) | June 30, 2016 | | June 30, 2015 | Change | |
|---|---|---|---|---|---|
| | GAAP Measure: Total $ | Non-GAAP Measure: Constant $ | GAAP Measure: Total $ | Dollar | Percent |
| Net Sales | $89.5 | $ 93.0 | $ 91.1 | $1.9 | 2.1 % |
| Product | 73.8 | 76.5 | 70.5 | 6.0 | 8.5 % |
| Pack | 13.2 | 14.0 | 17.8 | (3.8) | (21.3 )% |
| Other | 2.5 | 2.5 | 2.8 | (0.3) | (10.7 )% |
| Gross Profit | 71.0 | 73.6 | 74.3 | (0.7) | (0.9 )% |
| Income from Operations | 0.4 | 0.8 | 7.1 | (6.3) | (88.7 )% |

Net Sales

Consolidated net sales for the three months ended June 30, 2016 increased by $2.1 million, or 4.5%, to $48.8 million, as compared to $46.7 million for the same period in 2015. Consolidated net sales for the six months ended June 30, 2016 decreased by $1.6 million, or 1.7%, to $89.5 million, as compared to $91.1 million for the same period in 2015.

Net Sales in Dollars and as a Percentage of Consolidated Net Sales

Consolidated net sales by region for the three months ended June 30, 2016 and 2015 were as follows (in millions, except percentages):

| Region | Three months ended June 30, 2016 | Three months ended June 30, 2015 |
|---|---|---|

| | | | | | | |
|---|---|---|---|---|---|---|
| Americas | $ 19.0 | 38.9 | % | $ 18.8 | 40.3 | % |
| Asia/Pacific | 26.3 | 53.9 | % | 23.6 | 50.5 | % |
| EMEA | 3.5 | 7.2 | % | 4.3 | 9.2 | % |
| Total | $ 48.8 | 100.0 | % | $ 46.7 | 100.0 | % |

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Consolidated net sales by region for the six months ended June 30, 2016 and 2015 were as follows (in millions, except percentages):

| Region | Six months ended June 30, 2016 | | | Six months ended June 30, 2015 | | |
|---|---|---|---|---|---|---|
| Americas | $ 35.0 | 39.1 | % | $ 36.9 | 40.5 | % |
| Asia/Pacific | 47.7 | 53.3 | % | 46.3 | 50.8 | % |
| EMEA | 6.8 | 7.6 | % | 7.9 | 8.7 | % |
| Total | $ 89.5 | 100.0 | % | $ 91.1 | 100.0 | % |

For the three months ended June 30, 2016, net sales in the Americas increased by $0.2 million, or 1.1%, to $19.0 million, as compared to $18.8 million for the same period in 2015. This increase was primarily due to a 13.2% increase in revenue per active independent associate and member offset by a 10.7% decline in the number of active independent associates and members. Further, during the three months ended June 30, 2016, the loyalty program decreased sales by $1.0 million, as compared to the same period in 2015 and this was offset by sales from the launch of the TruHealth weight loss product line in the Americas.

For the six months ended June 30, 2016, net sales in the Americas decreased by $1.9 million, or 5.1%, to $35.0 million, as compared to $36.9 million for the same period in 2015. This decrease was primarily due to a 14.9% decline in the number of active independent associates and members partially offset by a 6.2% increase in revenue per active independent associate and member.

For the three months ended June 30, 2016, our operations outside of the Americas accounted for approximately 61.1% of our consolidated net sales, whereas in the same period in 2015, our operations outside of the Americas accounted for approximately 59.7% of our consolidated net sales.

For the six months ended June 30, 2016, our operations outside of the Americas accounted for approximately 60.9% of our consolidated net sales, whereas in the same period in 2015, our operations outside of the Americas accounted for approximately 59.5% of our consolidated net sales.

For the three months ended June 30, 2016, Asia/Pacific net sales increased by $2.7 million, or 11.4%, to $26.3 million, as compared to $23.6 million for the same period in 2015. During the three months ended June 30, 2016, the loyalty program decreased sales by $0.4 million, as compared to the same period in 2015 and this decrease was offset by increased sales of $1.9 million from the launch of the TruHealth weight loss product line in Asia/Pacific. Foreign currency exchange had the effect of decreasing revenue by $0.8 million for the three months ended June 30, 2016, as compared to the same period in 2015. The currency impact is primarily due to the weakening of the Korean Won, Australian Dollar, New Zealand Dollar, and Singapore Dollar partially offset by the strengthening of the Japanese Yen. This was offset by an increase of 9.7% in revenue per active independent associate and member during the three months ended June 30, 2016, as compared to the same period in 2015.

For the six months ended June 30, 2016, Asia/Pacific net sales increased by $1.4 million, or 3.0%, to $47.7 million, as compared to $46.3 million for the same period in 2015. The loyalty program decreased sales for the six months ended June 30, 2016 by $0.8 million, as compared to the same period in 2015. Foreign currency exchange had the effect of decreasing revenue by $2.2 million for the six months ended June 30, 2016, as compared to the same period in 2015. The currency impact is primarily due to the weakening of the Korean Won, Australian Dollar, New Zealand Dollar, and Singapore Dollar partially offset by the strengthening of the Japanese Yen. This was partially offset by an increase of 2.6% in the number of active independent associates and members during the six months ended June 30, 2016, as compared to the same period in 2015.

For the three months ended June 30, 2016, EMEA net sales decreased by $0.8 million, or 18.6%, to $3.5 million, as compared to $4.3 million for the same period in 2015. Revenue per active independent associate and member decreased by 23.4% as compared to the same period in 2015 and this was offset by sales from the launch of the TruHealth weight loss product line in EMEA. This was partially offset by an increase of 6.3% in active associates and members as compared to the same period in 2015. Foreign currency exchange had the effect of decreasing revenue by $0.6 million when the three-month period ending June 30, 2016 is compared to the same period in 2015. The currency impact is primarily due to the weakening of the South Africa Rand and British Pound.

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For the six months ended June 30, 2016, EMEA net sales decreased by $1.1 million, or 13.9%, to $6.8 million, as compared to $7.9 million for the same period in 2015. Revenue per active independent associate and member decreased by 19.0% as compared to the same period in 2015. This was partially offset by an increase of 7.3% in active associates and members as compared to the same period in 2015. Foreign currency exchange had the effect of decreasing revenue by $1.2 million when the six-month period ending June 30, 2016 is compared to the same period in 2015. The currency impact is primarily due to the weakening of the South Africa Rand, British Pound and Euro.

Our total sales and sales mix could be influenced by any of the following:

- changes in our sales prices;
- changes in consumer demand;
- changes in the number of associates and members;
- changes in competitors' products;
- changes in economic conditions;
- changes in regulations;
- announcements of new scientific studies and breakthroughs;
- introduction of new products;
- discontinuation of existing products;
- adverse publicity;
- changes in our commissions and incentives programs;
- direct competition; and
- fluctuations in foreign currency exchange rates.

Our sales mix for the three and six months ended June 30, was as follows (in millions, except percentages):

| | Three Months Ended June 30 | | Change | |
|---|---|---|---|---|
| | 2016 | 2015 | Dollar | Percentage |
| Consolidated product sales | $ 40.1 | $ 36.3 | $3.8 | 10.5 % |
| Consolidated pack sales | 7.5 | 8.9 | (1.4) | (15.7 )% |
| Consolidated other, including freight | 1.2 | 1.5 | (0.3) | (20.0 )% |
| Total consolidated net sales | $ 48.8 | $ 46.7 | $2.1 | 4.5 % |

| | Six Months Ended June 30 | | Change | |
|---|---|---|---|---|
| | 2016 | 2015 | Dollar | Percentage |
| Consolidated product sales | $ 73.8 | $ 70.5 | $3.3 | 4.7 % |
| Consolidated pack sales | 13.2 | 17.8 | (4.6) | (25.8 )% |

| | | | | |
|---|---|---|---|---|
| Consolidated other, including freight | 2.5 | 2.8 | (0.3) | (10.7)% |
| Total consolidated net sales | $ 89.5 | $ 91.1 | $(1.6) | (1.8)% |

Product Sales

Our product sales are made to our independent associates at published wholesale prices. We also sell our products to members at discounted published retail prices.

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Product sales for the three months ended June 30, 2016 increased by $3.8 million, or 10.5%, as compared to the same period in 2015. The increase in product sales was primarily due to an increase in the average order size. The average order value for the three months ended June 30, 2016 was $174, as compared to $156 for the same period in 2015. The number of orders processed during the three months ended June 30, 2016 increased by 3.1%, as compared to the same period in 2015.

Product sales for the six months ended June 30, 2016 increased by $3.3 million, or 4.7%, as compared to the same period in 2015. The increase in product sales was primarily due to an increase in the average order size. The average order value for the six months ended June 30, 2016 was $165, as compared to $155 for the same period in 2015. The number of orders processed during the six months ended June 30, 2016 increased by 1.2%, as compared to the same period in 2015.

Pack Sales

Packs may be purchased by our independent associates who wish to build a Mannatech business. These packs contain products that are discounted from both the published retail and associate prices. There are several pack options available to our independent associates. In certain markets, pack sales are completed during the final stages of the registration process and can provide new independent associates with valuable training and promotional materials, as well as products for resale to retail customers, demonstration purposes, and personal consumption. Business-building independent associates can also purchase an upgrade pack, which provides the associate with additional promotional materials, additional products, and eligibility for additional commissions and incentives. Many of our business-building independent associates also choose to purchase renewal packs.

The dollar amount of pack sales associated with new and continuing associates was as follows, for the three and six months ended June 30 (in millions, except percentages):

| | Three Months Ended June 30 | | Change | |
|---|---|---|---|---|
| | 2016 | 2015 | Dollar | Percentage |
| New | $3.0 | $2.4 | $0.6 | 25.0 % |
| Continuing | 4.5 | 6.5 | (2.0) | (30.8)% |
| Total | $7.5 | $8.9 | $(1.4) | (15.7)% |

| | Six Months Ended June 30 | | Change | |
|---|---|---|---|---|
| | 2016 | 2015 | Dollar | Percentage |
| New | $5.2 | $4.3 | $0.9 | 20.9 % |
| Continuing | 8.0 | 13.5 | (5.5) | (40.7)% |
| Total | $13.2 | $17.8 | $(4.6) | (25.8)% |

Total pack sales for the three months ended June 30, 2016 decreased by $1.4 million, or 15.7%, to $7.5 million, as compared to $8.9 million for the same period in 2015. Average pack value for the three months ended June 30, 2016 was $212, as compared to $249 for the same period in 2015. The total number of packs sold decreased by 700, or 1.9%, to 35,200 for the three months ended June 30, 2016, as compared to the same period in 2015.

Total pack sales for the six months ended June 30, 2016 decreased by $4.6 million, or 25.8%, to $13.2 million, as compared to $17.8 million for the same period in 2015. Average pack value for the six months ended June 30, 2016 was $205, as compared to $242 for the same period in 2015. The total number of packs sold decreased by 9,000, or 12.2%, to 64,600 for the six months ended June 30, 2016, as compared to the same period in 2015.

Pack sales correlate to new associates who purchase starter packs and to continuing associates who purchase upgrade or renewal packs. However, there is no direct correlation between product sales and the number of new and continuing associates and members because associates and members utilize products at different volumes.

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During 2015 and continuing into 2016, we took the following actions to recruit and retain associates and members:

- explored new international markets;
- rolled out new products;
- launched an aggressive marketing and educational campaign;
- continued to strengthen compliance initiatives;
- concentrated on publishing results of research studies and clinical trials related to our products;
- initiated additional incentives;
- explored new advertising and educational tools to broaden name recognition; and
- implemented changes to our global associate career and compensation plan.

The approximate number of new and continuing active independent associates and members who purchased our packs or products during the twelve months ended June 30, 2016 and 2015 were as follows:

| | 2016 | | 2015 | |
|---|---|---|---|---|
| New | 97,000 | 43.7 % | 102,000 | 44.8 % |
| Continuing | 125,000 | 56.3 % | 126,000 | 55.2 % |
| Total | 222,000 | 100.0% | 228,000 | 100.0% |

Recruitment of new independent associates and members increased 11.1% during the three months ended June 30, 2016 as compared to the same period in 2015. The number of new independent associate and member positions held by individuals in our network for the three months ended June 30, 2016 was approximately 28,400, as compared to 25,600 for the same period in 2015.

Other Sales

Other sales consisted of: (i) freight revenue charged to our independent associates and members; (ii) sales of promotional materials; (iii) monthly fees collected for Success Tracker™ and Navig8™ customized electronic business-building and educational materials, databases and applications; (iv) training and event registration fees; and (v) a reserve for estimated sales refunds and returns. Promotional materials, training, database applications and business management tools support our independent associates, which in turn helps stimulate product sales.

For the three months ended June 30, 2016, other sales decreased by $0.3 million, or 20.0%, to $1.2 million, as compared to $1.5 million for the same period in 2015. The decrease was primarily due to the decrease in freight revenue as a result of lower sales in markets where shipping and handling is included in the price of products and not separately charged to the customer and the increase in sales refunds, partially offset by an increase in event fees.

For the six months ended June 30, 2016, other sales decreased by $0.3 million, or 10.7%, to $2.5 million, as compared to $2.8 million for the same period in 2015. The decrease was primarily due to the decrease in freight revenue from lower sales, partially offset by an increase in event fees.

Gross Profit

For the three months ended June 30, 2016, gross profit increased by $0.2 million, or 0.7%, to $38.7 million, as compared to $38.5 million for the same period in 2015. For the three months ended June 30, 2016, gross profit as a percentage of net sales decreased to 79.3%, as compared to 82.3% for the same period in 2015. During the three months ending June 30, 2016 as compared to the three months ending June 30, 2015, the decline in gross profit percentage was due to promotional discounting, increases in transportation costs, and the effect of foreign exchange.

For the six months ended June 30, 2016, gross profit decreased by $3.3 million, or 4.4%, to $71.0 million, as compared to $74.3 million for the same period in 2015, primarily due to the change in sales and the change in gross profit as a percentage of net sales. For the six months ended June 30, 2016, gross profit as a percentage of net sales decreased to 79.3%, as compared to 81.5% for the same period in 2015. The decline in gross profit percentage was primarily due to promotional discounting, increases in transportation costs, and the effects of foreign exchange.

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Commissions and Incentives

Commission expenses for the three months ended June 30, 2016 increased by 6.6%, or $1.2 million, to $19.4 million, as compared to $18.2 million for the same period in 2015. For the three months ended June 30, 2016, commissions as a percentage of net sales increased to 39.7% from 38.9% for the same period in 2015.

Commission expenses for the six months ended June 30, 2016 decreased by 1.2%, or $0.4 million, to $34.6 million, as compared to $35.0 million for the same period in 2015. For the six months ended June 30, 2016, commissions as a percentage of net sales increased to 38.7% from 38.5% for the same period in 2015.

Incentive costs for the three months ended June 30, 2016 increased by 46.6%, or $0.3 million, to $1.0 million, as compared to $0.7 million for the same period in 2015. For the three months ended June 30, 2016, incentives as a percentage of net sales increased to 2.1% from 1.5% for the same period in 2015.

Incentive costs for the six months ended June 30, 2016 increased by 2.1%, or less than $0.1 million, to $1.4 million, as compared to $1.4 million for the same period in 2015. For the six months ended June 30, 2016, incentives as a percentage of net sales increased to 1.6% from 1.5% for the same period in 2015.

Selling and Administrative Expenses

Selling and administrative expenses include a combination of both fixed and variable expenses. These expenses consist of compensation and benefits for employees, temporary and contract labor, warehousing costs and marketing-related expenses, such as the costs to introduce our new brand, and the costs related to hosting our corporate-sponsored events.

For the three months ended June 30, 2016, selling and administrative expenses increased by $1.1 million, or 13.2%, to $9.7 million, as compared to $8.6 million for the same period in 2015. The increase in selling and administrative expenses consisted primarily of a $0.6 million increase in marketing related costs related to the timing of our annual MannaFest event that occurred during the second quarter in 2016 and during the first quarter of 2015, a $0.4 million increase in payroll related costs and a $0.1 million increase in warehouse charges. Selling and administrative expenses, as a percentage of net sales, for the three months ended June 30, 2016 increased to 19.9% from 18.4% for the same period in 2015.

For the six months ended June 30, 2016, selling and administrative expenses increased by $0.9 million, or 5.2%, to $18.3 million, as compared to $17.4 million for the same period in 2015. The increase in selling and administrative expenses consisted primarily of a $0.7 million increase in payroll related costs and a $0.2 million increase in warehousing costs, partially offset by a decrease of $0.2 million in marketing costs. Selling and administrative expenses, as a percentage of net sales, for the six months ended June 30, 2016 increased to 20.5% from 19.1% for the same period in 2015.

Other Operating Costs

Other operating costs include accounting/legal/consulting fees, travel and entertainment, credit card processing fees, utilities, bad debt, and other miscellaneous operating expenses. Changes in other operating costs are associated with the changes in our net sales.

For the three months ended June 30, 2016, other operating costs increased by $2.3 million, or 39.8%, to $8.2 million, as compared to $5.9 million for the same period in 2015. For the three months ended June 30, 2016, other operating costs as a percentage of net sales increased to 16.8% from 12.5% for the same period in 2015. The increase in other operating costs was due to a $1.0 million increase in legal, consulting, and other contractor fees, a $0.1 million increase in bad debt expenses, $0.1 million increase in miscellaneous administrative costs, and a $1.1 million increase in travel and entertainment costs related to the timing of our annual MannaFest event that occurred during the second quarter in 2016 and during the first quarter of 2015.

For the six months ended June 30, 2016, other operating costs increased by $2.9 million, or 23.4%, to $15.3 million, as compared to $12.4 million for the same period in 2015. For the six months ended June 30, 2016, other operating costs as a percentage of net sales increased to 17.1% from 13.6% for the same period in 2015. The increase in other operating costs was due to a $1.3 million increase in travel and entertainment costs, a $1.4 million increase in legal, consulting, and other contractor fees, a $0.2 million increase in bad debt, and a $0.1 million increase in miscellaneous administrative costs.

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Depreciation and Amortization Expense

Depreciation and amortization expense for the three months ended June 30, 2016 was unchanged at $0.5 million, as compared the same period in 2015.

Depreciation and amortization expense for the six months ended June 30, 2016 was unchanged at $0.9 million, as compared to the same period in 2015.

Other Expense, Net

Due to foreign exchange losses, other expense was $1.0 million and $0.5 million for the three months ending June 30, 2016 and 2015, respectively.

Due to foreign exchange losses, other expense was $0.7 million and $1.4 million for the six months ending June 30, 2016 and 2015, respectively.

Provision for Income Taxes

Provision for income taxes include current and deferred income taxes for both our domestic and foreign operations. Our statutory income tax rates by jurisdiction are as follows, for the three and six months ended June 30:

| Country | 2016 | 2015 |
|---|---|---|
| Australia | 30.0% | 30.0% |
| Canada | 26.5% | 26.5% |
| Cyprus | 12.5% | 12.5% |
| Colombia[1] | 25.0% | — % |
| Denmark | 22.0% | 23.5% |
| Gibraltar | 10.0% | 10.0% |
| Hong Kong | 16.5% | 16.5% |
| Japan | 35.4% | 35.4% |
| Mexico | 30.0% | 30.0% |
| Norway | 25.0% | 27.0% |
| Republic of Korea | 22.0% | 22.0% |
| Singapore | 17.0% | 17.0% |
| South Africa | 28.0% | 28.0% |
| Sweden | 22.0% | 22.0% |
| Switzerland | 16.2% | 16.2% |
| Taiwan | 17.0% | 17.0% |
| United Kingdom | 20.0% | 20.0% |
| United States | 37.5% | 37.5% |

(1) On February 13, 2016, the Company started operations in Colombia.

Income from our international operations is subject to taxation in the countries in which we operate. Although we may receive foreign income tax credits that would reduce the total amount of income taxes owed in the United States, we may not be able to fully utilize our foreign income tax credits in the United States.

We use the recognition and measurement provisions of Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") Topic 740, Income Taxes ("Topic 740"), to account for income taxes. The provisions of Topic 740 require a company to record a valuation allowance when the "more likely than not" criterion for realizing net deferred tax assets cannot be met. Furthermore, the weight given to the potential effect of such evidence should be commensurate with the extent to which it can be objectively verified. As a result, we reviewed the operating results, as well as all of the positive and negative evidence related to realization of such deferred tax assets, to evaluate the need for a valuation allowance in each tax jurisdiction.

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For the periods ended June 30, 2016 and December 31, 2015, we maintained the following valuation allowances for deferred tax assets totaling $8.5 million and $9.0 million, respectively, as we believe the "more likely than not" criterion for recognition and realization purposes, as defined in FASB ASC Topic 740, cannot be met.

| Country | June 30, 2016 | December 31, 2015 |
|---|---|---|
| Mexico | $ 2.4 | $ 2.5 |
| Sweden | 0.1 | 0.1 |
| Switzerland | 0.6 | 1.0 |
| Taiwan | 1.2 | 1.2 |
| Ukraine | 0.1 | 0.1 |
| United States | 4.0 | 4.0 |
| Other Jurisdictions | 0.1 | 0.1 |
| Total | $ 8.5 | $ 9.0 |

The dollar amount of the provisions for income taxes is directly related to our profitability and changes in the taxable income among countries. For the three and six months ended June 30, 2016, the Company's effective income tax rate was (18.3)% and (175.9)% respectively, as compared to 25.0% and 26.8%, respectively, for the same periods in 2015.

The overall effective tax rate differs from the federal statutory rate due to the mix of earnings across jurisdictions and certain items that are discrete to the quarter. Items discrete to the second quarter of 2016 include foreign exchange losses and increased losses in jurisdictions for which no taxable benefit can be recorded. These items were partially offset by the effect of the release of the valuation allowance in Switzerland due to improved earnings there.

The effective tax rates for the three and six months ended June 30, 2015 were lower than what would have been expected if the federal statutory rate were applied to income before taxes. Items decreasing the effective income tax rate include the favorable rate differences from foreign jurisdictions and release of valuation allowances associated with deferred tax assets of net operating loss carryforward.

## LIQUIDITY AND CAPITAL RESOURCES

### Cash and Cash Equivalents

As of June 30, 2016, our cash and cash equivalents increased by 15.4%, or $4.9 million, to $36.9 million from $32.0 million as of December 31, 2015. At June 30, 2016 and December 31, 2015, our restricted cash balances were $8.2 million and $8.1 million, respectively. Finally, fluctuations in currency rates produced an increase of $1.5 million and $0.3 million in cash and cash equivalents for the six month periods ending June 30, 2016 and 2015, respectively.

Our principal use of cash is to pay for operating expenses, including commissions and incentives, capital assets, inventory purchases, and international expansion. The quarterly cash dividend has been suspended since August 2009. Business objectives, operations, and expansion of operations are funded through net cash flows from operations rather than incurring long-term debt.

### Working Capital

Working capital represents total current assets less total current liabilities. At each of June 30, 2016 and December 31, 2015, our working capital was $23.5 million.

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Net Cash Flows

Our net consolidated cash flows consisted of the following, for the six months ended June 30 (in millions):

| Provided by/(Used in): | 2016 | 2015 |
|---|---|---|
| Operating activities | $5.6 | $4.5 |
| Investing activities | $(1.4) | $(1.2) |
| Financing activities | $(0.7) | $(0.9) |

Operating Activities

Cash provided by operating activities was $5.6 million for the six months ended June 30, 2016, as compared to cash provided by operating activities of $4.5 million for the same period in 2015. During the six months ended June 30, 2016, our accounts payable increased as we purchased inventory. Due to the timing of our commission payments, we used less cash to pay commissions during the six months ended June 30, 2016, compared to the same period in 2015. We defer certain components of our revenue and commission expense as discussed in Revenue Recognition and Deferred Commissions in Note 1 Organization and Summary of Significant Accounting Policies. We defer the recognition of revenue on payments received and related commission expenses on payments made. Payments received related to the revenue deferral resulted in a source of $1.8 million in cash for the six months ended June 30, 2016, as compared to a use of $1.0 million for the same period in 2015. Commission payments related to the increased revenue deferral were a use of $0.7 million in cash for the six months ended June 30, 2016, as compared to a source of $0.4 million for the same period in 2015.

Investing Activities

For the six months ended June 30, 2016, we invested cash of $1.4 million.  For the six months ended June 30, 2015, we invested cash of $1.2 million.  During the six months ended June 30, 2016, we invested approximately $1.0 million in back-office software projects and approximately $0.4 million in leasehold improvements.  During the six months ended June 30, 2015, we invested approximately $0.9 million in back-office software projects and approximately $0.3 million in leasehold improvements in various international offices and training centers.

Financing Activities

For the six months ended June 30, 2016, we used $0.7 million in the repayment of capital lease obligations. For the six months ended June 30, 2015, we used $1.0 million in the repayment of capital lease obligations, which was partially offset by cash provided by the exercise of stock options.

General Liquidity and Cash Flows

Short Term Liquidity

We believe our existing liquidity and cash flows from operations are adequate to fund our normal expected future business operations and possible international expansion costs for the next 12 months. As our primary source of liquidity is our cash flow from operations, this will be dependent on our ability to maintain and increase revenue and/or continue to reduce operational expenses. However, if our existing capital resources or cash flows become insufficient to meet current business plans, projections, and existing capital requirements, we may be required to raise additional funds, which may not be available on favorable terms, if at all.

We are engaged in ongoing audits in various tax jurisdictions and other disputes in the normal course of business. It is impossible at this time to predict whether we will incur any liability, or to estimate the ranges of damages, if any, in connection with these matters. Adverse outcomes on these uncertainties may lead to substantial liability or enforcement actions that could adversely affect our cash position. For more information, see Note 3 Income Taxes and Note 7 Litigation to our consolidated financial statements.

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Long Term Liquidity

We believe our cash flows from operations should be adequate to fund our normal expected future business operations and possible international expansion costs for the long term. As our primary source of liquidity is from our cash flows from operations, this will be dependent on our ability to maintain and and/or improve revenue as compared to operational expenses.

However, if our existing capital resources or cash flows become insufficient to meet anticipated business plans and existing capital requirements, we may be required to raise additional funds, which may not be available on favorable terms, if at all.

Our future access to the capital markets may be adversely impacted if we fail to maintain compliance with the Nasdaq Marketplace Rules for the continued listing of our stock. We continuously monitor our compliance with the Nasdaq continued listing rules.

CONTRACTUAL OBLIGATIONS

The following summarizes our future commitments and obligations associated with various agreements and contracts as of June 30, 2016, for the years ending December 31 (in thousands):

| Commitments and obligations | Remaining 2016 | 2017 | 2018 | 2019 | 2020 | Thereafter | Total |
|---|---|---|---|---|---|---|---|
| Capital lease obligations | $ 233 | $371 | $206 | $51 | $12 | $ — | $873 |
| Operating leases | 1,445 | 1,761 | 1,101 | 456 | 126 | — | 4,889 |
| Employment agreements | 644 | 559 | — | — | — | — | 1,203 |
| Royalty agreement | 30 | 59 | 59 | 59 | 59 | 6 | 272 |
| Tax liability (3) | 121 | 548 | — | — | — | 152 | 821 |
| Notes payable and other financing arrangements | 548 | 648 | 579 | — | — | — | 1,775 |
| Other obligations(4) | 339 | 187 | 58 | 57 | 114 | 787 | 1,542 |
| Total commitments and obligations(1)(2) | $ 3,360 | $4,133 | $2,003 | $623 | $311 | $ 945 | $11,375 |

(1) For purposes of the table, a purchase obligation is defined as an agreement to purchase goods or services that is non-cancelable, enforceable and legally binding on the Company that specifies all significant terms, including: fixed or minimum quantities to be purchased; fixed, minimum or variable price provisions; and the approximate timing of the transaction.

(2) Excludes approximately $15.8 million of finished product purchase orders that may be cancelled or for which delivery dates have changed as of June 30, 2016.

(3) Represents the tax liability associated with uncertain tax positions, see Note 3 "Income Taxes" to our consolidated financial statements.

(4) Other obligations are composed of pension obligations related to the Company’s international operations (approximately $1.1 million) and lease restoration obligations (approximately $0.5 million).

We have maintained purchase commitments with certain raw material suppliers to purchase minimum quantities and to ensure exclusivity of our raw materials and the proprietary nature of our products. Currently, we have one supply agreement that requires minimum purchase commitments. We also maintain other supply agreements and manufacturing agreements to protect our products, regulate product costs, and help ensure quality control standards. These agreements do not require us to purchase any set minimums. We have no present commitments or agreements with respect to acquisitions or purchases of any manufacturing facilities; however, management from time to time explores the possible benefits of purchasing a raw material manufacturing facility to help control costs of our raw materials and help ensure quality control standards.

OFF-BALANCE SHEET ARRANGEMENTS

We do not have any special-purpose entity arrangements, nor do we have any off-balance sheet arrangements.

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## CRITICAL ACCOUNTING POLICIES AND ESTIMATES

Our consolidated financial statements are prepared in accordance with accounting principles generally accepted in the United States of America. The application of GAAP requires us to make estimates and assumptions that affect the reported values of assets and liabilities at the date of our financial statements, the reported amounts of revenues and expenses during the reporting period, and the related disclosures of contingent assets and liabilities. We use estimates throughout our financial statements, which are influenced by management's judgment and uncertainties. Our estimates are based on historical trends, industry standards, and various other assumptions that we believe are applicable and reasonable under the circumstances at the time the consolidated financial statements are prepared. Our Audit Committee reviews our critical accounting policies and estimates. We continually evaluate and review our policies related to the portrayal of our consolidated financial position and consolidated results of operations that require the application of significant judgment by our management. We also analyze the need for certain estimates, including the need for such items as allowance for doubtful accounts, inventory reserves, long-lived fixed assets and capitalization of internal-use software development costs, reserve for uncertain income tax positions and tax valuation allowances, revenue recognition, sales returns, and deferred revenues, accounting for stock-based compensation, and contingencies and litigation. Historically, actual results have not materially deviated from our estimates. However, we caution readers that actual results could differ from our estimates and assumptions applied in the preparation of our consolidated financial statements. If circumstances change relating to the various assumptions or conditions used in our estimates, we could experience an adverse effect on our financial position, results of operations, and cash flows. We have identified the following applicable critical accounting policies and estimates as of June 30, 2016.

### Inventory Reserves

Inventory consists of raw materials, finished goods, and promotional materials that are stated at the lower of cost (using standard costs that approximate average costs) or market. We record the amounts charged by the vendors as the costs of inventory. Typically, the net realizable value of our inventory is higher than the aggregate cost. Determination of net realizable value can be complex and, therefore, requires a high degree of judgment. In order for management to make the appropriate determination of net realizable value, the following items are considered: inventory turnover statistics, current selling prices, seasonality factors, consumer demand, regulatory changes, competitive pricing, and performance of similar products. If we determine the carrying value of inventory is in excess of estimated net realizable value, we write down the value of inventory to the estimated net realizable value.

We also review inventory for obsolescence in a similar manner and any inventory identified as obsolete is reserved or written off. Our determination of obsolescence is based on assumptions about the demand for our products, product expiration dates, estimated future sales, and general future plans. We monitor actual sales compared to original projections, and if actual sales are less favorable than those originally projected by us, we record an additional inventory reserve or write-down. Historically, our estimates have been close to our actual reported amounts. However, if our estimates regarding inventory obsolescence are inaccurate or consumer demand for our products changes in an unforeseen manner, we may be exposed to additional material losses or gains in excess of our established estimated inventory reserves.

### Long Lived Fixed Assets and Capitalization of Software Development Costs

In addition to capitalizing long lived fixed asset costs, we also capitalize costs associated with internally-developed software projects (collectively "fixed assets") and amortize such costs over the estimated useful lives of such fixed assets. Fixed assets are carried at cost, less accumulated depreciation computed using the straight-line method over the assets' estimated useful lives. Leasehold improvements are amortized over the shorter of the remaining lease terms or the estimated useful lives of the improvements. Expenditures for maintenance and repairs are charged to operations as incurred. If a fixed asset is sold or otherwise retired or disposed of, the cost of the fixed asset and the related accumulated depreciation or amortization is written off and any resulting gain or loss is recorded in other operating costs in our consolidated statement of operations.

We review our fixed assets for impairment whenever an event or change in circumstances indicates the carrying amount of an asset or group of assets may not be recoverable, such as plans to dispose of an asset before the end of its previously estimated useful life. Our impairment review includes a comparison of future projected cash flows generated by the asset, or group of assets, with its associated net carrying value. If the net carrying value of the asset or group of assets exceeds expected cash flows (undiscounted and without interest charges), an impairment loss is recognized to the extent the carrying amount exceeds the fair value. The fair value is determined by calculating the discounted expected future cash flows using an estimated risk-free rate of interest. Any identified impairment losses are recorded in the period in which the impairment occurs. The carrying value of the fixed asset is adjusted to the new carrying value, and any subsequent increases in fair value of the fixed asset are not recorded. In addition, if we determine the estimated remaining useful life of the asset should be reduced from our original estimate; the periodic depreciation expense is adjusted prospectively, based on the new remaining useful life of the fixed asset.

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The impairment calculation requires us to apply judgment and estimates concerning future cash flows, strategic plans, useful lives, and discount rates. If actual results are not consistent with our estimates and assumptions, we may be exposed to an additional impairment charge, which could be material to our results of operations. In addition, if accounting standards change, or if fixed assets become obsolete, we may be required to write off any unamortized costs of fixed assets, or if estimated useful lives change, we would be required to accelerate depreciation or amortization periods and recognize additional depreciation expense in our consolidated statement of operations.

Historically, our estimates and assumptions related to the carrying value and the estimated useful lives of our fixed assets have not materially deviated from actual results. As of June 30, 2016, the estimated useful lives and net carrying values of fixed assets were as follows:

| | Estimated useful life | Net carrying value at June 30, 2016 |
|---|---|---|
| Office furniture and equipment | 5 to 7 years | $0.4 million |
| Computer hardware and software | 3 to 5 years | 1.9 million |
| Automobiles | 3 to 5 years | 0.0 million |
| Leasehold improvements | 3 to 5 years[(1)] | 1.1 million |
| Total net carrying value at June 30, 2016 | | $3.4 million |

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(1) We amortize leasehold improvements over the shorter of the useful estimated life of the leased asset or the lease term.

The net carrying costs of fixed assets are exposed to impairment losses if our assumptions and estimates of their carrying values change, there is a change in estimated future cash flow, or there is a change in the estimated useful life of the fixed asset. Based on management’s analysis, no impairment indicators existed for the six months ended June 30, 2016 and the year ended December 31, 2015.

Uncertain Income Tax Positions and Tax Valuation Allowances

As of June 30, 2016, we recorded $0.7 million in other long-term liabilities and $0.1 million in taxes payable on our consolidated balance sheet related to uncertain income tax positions. As required by FASB ASC Topic 740, Income Taxes, we use judgments and make estimates and assumptions related to evaluating the probability of uncertain income tax positions. We base our estimates and assumptions on the potential liability related to an assessment of whether the income tax position will “more likely than not” be sustained in an income tax audit. We are also subject to periodic audits from multiple domestic and foreign tax authorities related to income tax and other forms of taxation. These audits examine our tax positions, timing of income and deductions, and allocation procedures across multiple jurisdictions. As part of our evaluation of these tax issues, we establish reserves in our consolidated financial statements based on our estimate of current probable tax exposures. Depending on the nature of the tax issue, we could be subject to audit over several years. Therefore, our estimated reserve balances and liability related to uncertain income tax positions may exist for multiple years before the applicable statute of limitations expires or before an issue is resolved by the taxing authority. Additionally, we may be requested to extend the statute of limitations for tax years under audit. It is reasonably possible the tax jurisdiction may request that the statute of limitations be extended, which may cause the classification between current and long-term to change. We believe our tax liabilities related to uncertain tax positions are based upon reasonable judgment and estimates; however, if actual results materially differ, our effective income tax rate and cash flows could be affected in the period of discovery or resolution. There are ongoing income tax audits in various international jurisdictions that we believe are not material to our financial statements.

We also review the estimates and assumptions used in evaluating the probability of realizing the future benefits of our deferred tax assets and record a valuation allowance when we believe that a portion or all of the deferred tax assets may not be realized. If we are unable to realize the expected future benefits of our deferred tax assets, we are required to provide a valuation allowance. We use our past history and experience, overall profitability, future management plans, and current economic information to evaluate the amount of valuation allowance to record. As of June 30, 2016, we had valuation allowance for deferred tax assets arising from our operations of $8.5 million because they did not meet the “more likely than not” criteria as defined by the recognition and measurement provisions of FASB ASC Topic 740, Income Taxes. In addition, as of June 30, 2016, we had deferred tax assets, after valuation allowance, totaling $4.5 million, which may not be realized if our assumptions and estimates change, which would affect our effective income tax rate and cash flows in the period of discovery or resolution.

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Revenue Recognition and Deferred Commissions

Our revenue is derived from sales of individual products, sales of starter and renewal packs, and shipping fees. Substantially all of our product and pack sales are to associates at published wholesale prices and to members at discounted published retail prices. We record revenue net of any sales taxes and record a reserve for expected sales returns based on historical experience.

We recognize revenue from shipped packs and products upon receipt by the customer. Corporate-sponsored event revenue is recognized when the event is held. We defer certain components of revenue. At June 30, 2016 and December 31, 2015, deferred revenue was $10.7 million and $8.7 million, respectively. When participating in the Company's loyalty program, customers earn loyalty points from qualified automatic orders that can be applied to future purchases. We defer the dollar equivalent in revenue of these points until the points are applied, forfeited or expired, which includes an estimate of the percentage of the unvested loyalty points that are expected to be forfeited or expired. The deferred revenue associated with the loyalty program at each of June 30, 2016 and December 31, 2015 was $8.3 million and $8.1 million, respectively. Deferred revenue consisted primarily of: (i) sales of packs and products shipped but not received by the customers by the end of the respective period; (ii) revenue from the loyalty program; and (iii) prepaid registration fees from customers planning to attend a future corporate-sponsored event. In total current assets, the Company defers commissions on (i) the sales of packs and products shipped but not received by the customers by the end of the respective period and (ii) the loyalty program. At June 30, 2016 and December 31, 2015, deferred commissions were $4.2 million and $3.4 million, respectively.

| Loyalty program | (in thousands) |
|---|---|
| Loyalty deferred revenue as of January 1, 2015 | $ 9,703 |
| Loyalty points forfeited or expired | (8,801) |
| Loyalty points used | (15,077) |
| Loyalty points vested | 20,403 |
| Loyalty points unvested | 1,845 |
| Loyalty deferred revenue as of December 31, 2015 | $ 8,073 |

| | |
|---|---|
| Loyalty deferred revenue as of January 1, 2016 | $8,073 |
| Loyalty points forfeited or expired | (3,326) |
| Loyalty points used | (7,910) |
| Loyalty points vested | 9,171 |
| Loyalty points unvested | 2,333 |
| Loyalty deferred revenue as of June 30, 2016 | $8,341 |

Product Return Policy

We stand behind our packs and products and believe we offer a reasonable and industry-standard product return policy to all of our customers. We do not resell returned products. Refunds are not processed until proper approval is obtained. All refunds must be processed and returned in the same form of payment that was originally used in the sale. Each country in which we operate has specific product return guidelines. However, we allow our associates and members to exchange products as long as the products are unopened and in good condition. Our return policies for our retail customers and our associates and members are as follows:

- Retail Customer Product Return Policy. This policy allows a retail customer to return any of our products to the original associate who sold the product and receive a full cash refund from the associate for the first 180 days following the product's purchase if located in the United States and Canada, and for the first 90 days following the product's purchase in the remaining countries. The associate may then return or exchange the product based on the associate product return policy.

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- Associate and Member Product Return Policy. This policy allows the associate or member to return an order within one year of the purchase date upon terminating his/her account. If an associate or member returns a product unopened and in good condition, he/she may receive a full refund minus a 10% restocking fee. We may also allow the associate or member to receive a full satisfaction guarantee refund if they have tried the product and are not satisfied for any reason, excluding promotional materials. This satisfaction guarantee refund applies in the United States and Canada, only for the first 180 days following the product's purchase, and applies in the remaining countries for the first 90 days following the product's purchase; however, any commissions earned by an associate will be deducted from the refund. If we discover abuse of the refund policy, we may terminate the associate's or member's account.

Historically, sales returns estimates have not materially deviated from actual sales returns, as the majority of our customers who return merchandise do so within the first 90 days after the original sale. Based upon our return policies and historical experience, we estimate a sales return reserve for expected sales refunds over a rolling six month period. If actual results differ from our estimated sales returns reserves due to various factors, the amount of revenue recorded each period could be materially affected. Historically, our sales returns have not materially changed through the years and have averaged 1.5% or less of our gross sales.

Accounting for Stock-Based Compensation

We grant stock options to our employees, board members, and consultants. At the date of grant, we determine the fair value of a stock option award and recognize compensation expense over the requisite service period, or the vesting period of such stock option award, which is two to four years. The fair value of the stock option award is calculated using the Black-Scholes option-pricing model. The Black-Scholes option-pricing model requires us to apply judgment and use highly subjective assumptions, including expected stock option life, expected volatility, expected average risk-free interest rates, and expected forfeiture rates. For the six months ended June 30, 2016, our assumptions and estimates used for the calculated fair value of stock options granted were as follows:

| | June 2016 Grant | |
|---|---|---|
| Estimated fair value per share of options granted: | $12.18 | |
| Assumptions: | | |
| Annualized dividend yield | — | % |
| Risk-free rate of return | 1.1 | % |
| Common stock price volatility | 73.5 | % |
| Expected average life of stock options (in years) | 4.5 | |

The assumptions we use are based on our best estimates and involve inherent uncertainties related to market conditions that are outside of our control. If actual results are not consistent with the assumptions we use, the stock-based compensation expense reported in our consolidated financial statements may not be representative of the actual economic cost of stock-based compensation. For example, if actual employee forfeitures significantly differ from our estimated forfeitures, we may be required to make an adjustment to our consolidated financial statements in future periods.

If we grant additional stock options in the future, we would be required to recognize additional compensation expense over the vesting period of such stock options in our consolidated statement of operations. As of June 30, 2016, we had 85,397 shares available for grant in the future.

Contingencies and Litigation

Each quarter, we evaluate the need to establish a reserve for any legal claims or assessments. We base our evaluation on our best estimates of the potential liability in such matters. The legal reserve includes an estimated amount for any damages and the probability of losing any threatened legal claims or assessments. We consult with our general and outside counsel to determine the legal reserve, which is based upon a combination of litigation and settlement strategies. Although we believe that our legal reserve and accruals are based on reasonable judgments and estimates, actual results could differ, which may expose us to material gains or losses in future periods. If actual results differ, if circumstances change, or if we experience an unanticipated adverse outcome of any legal action, including any claim or assessment, we would be required to recognize the estimated amount which could reduce net income, earnings per share, and cash flows.

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RECENT ACCOUNTING PRONOUNCEMENTS

See Note 10, Recent Accounting Pronouncements in the Notes to our Unaudited Consolidated Financial Statements.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

We do not engage in trading market risk sensitive instruments and do not purchase investments as hedges or for purposes “other than trading” that are likely to expose us to certain types of market risk, including interest rate, commodity price, or equity price risk. Although we have investments, we believe there has been no material change in our exposure to interest rate risk. We have not issued any variable rate debt instruments, entered into any forward or futures contracts, purchased any options, or entered into any swap agreements.

We are exposed, however, to other market risks, including changes in currency exchange rates as measured against the United States dollar. Because the change in value of the United States dollar measured against foreign currency may affect our consolidated financial results, changes in foreign currency exchange rates could positively or negatively affect our results as expressed in United States dollars. For example, when the United States dollar strengthens against foreign currencies in which our products are sold or weakens against foreign currencies in which we may incur costs, our consolidated net sales or related costs and expenses could be adversely affected. We translate our revenues and expenses in foreign markets using an average rate. We believe inflation has not had a material impact on our consolidated operations or profitability.

We maintain policies, procedures, and internal processes in an effort to help monitor any significant market risks and we do not use any financial instruments to manage our exposure to such risks. We assess the anticipated foreign currency working capital requirements of our foreign operations and maintain a portion of our cash and cash equivalents denominated in foreign currencies sufficient to satisfy most of these anticipated requirements.

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We caution that we cannot predict with any certainty our future exposure to such currency exchange rate fluctuations or the impact, if any, such fluctuations may have on our future business, product pricing, operating expenses, and on our consolidated financial position, results of operations, or cash flows. However, to combat such market risk, we closely monitor our exposure to currency fluctuations. The regions and countries in which we currently have exposure to foreign currency exchange rate risk include (i) the Americas (Canada, Colombia and Mexico); (ii) EMEA (Austria, the Czech Republic, Denmark, Estonia, Finland, Germany, the Republic of Ireland, the Netherlands, Norway, South Africa, Spain, Sweden, Switzerland and the United Kingdom); and (iii) Asia/Pacific (Australia, Japan, New Zealand, the Republic of Korea, Singapore, Taiwan and Hong Kong). The current (spot) rate, average currency exchange rates, and the low and high of such currency exchange rates as compared to the United States dollar, for each of these countries as of and for the six months ended June 30, 2016 were as follows:

| | Six months ended June 30, 2016 | | | As of June 30, 2016 |
|---|---|---|---|---|
| Country (foreign currency name) | Low | High | Average | Spot |
| Australia (Australian Dollar) | 0.68691 | 0.78026 | 0.73399 | 0.74189 |
| Canada (Canadian Dollar) | 0.68483 | 0.79791 | 0.75220 | 0.76897 |
| Colombia (Peso) | 0.00029 | 0.00036 | 0.00032 | 0.00034 |
| Czech Republic (Koruna) | 0.03980 | 0.04271 | 0.04131 | 0.04087 |
| Denmark (Kroner) | 0.14414 | 0.15513 | 0.14985 | 0.14903 |
| Hong Kong (Hong Kong Dollar) | 0.12785 | 0.12903 | 0.12875 | 0.12889 |
| Japan (Yen) | 0.00825 | 0.00982 | 0.00896 | 0.00975 |
| Mexico (Peso) | 0.05237 | 0.05824 | 0.05545 | 0.05349 |
| New Zealand (New Zealand Dollar) | 0.63880 | 0.72090 | 0.67753 | 0.70955 |
| Norway (Krone) | 0.11191 | 0.12447 | 0.11859 | 0.11852 |
| Republic of Korea (Won) | 0.00081 | 0.00088 | 0.00085 | 0.00086 |
| Singapore (Singapore Dollar) | 0.69341 | 0.74766 | 0.72458 | 0.74081 |
| South Africa (Rand) | 0.05949 | 0.07039 | 0.06502 | 0.06662 |
| Sweden (Krona) | 0.11607 | 0.12544 | 0.12009 | 0.11771 |
| Switzerland (Franc) | 0.97787 | 1.05040 | 1.01868 | 1.02022 |
| Taiwan (New Taiwan Dollar) | 0.02968 | 0.03127 | 0.03056 | 0.03095 |
| United Kingdom (British Pound) | 1.33113 | 1.48192 | 1.43463 | 1.33986 |
| Various countries (1) (Euro) | 1.07517 | 1.15428 | 1.11628 | 1.10841 |

(1) Austria, Germany, the Netherlands, Estonia, Finland, the Republic of Ireland and Spain

## Item 4. Controls and Procedures

### Evaluation of Disclosure Controls and Procedures

Our management, with the participation of our Chief Executive Officer (principal executive officer) and our Chief Financial Officer (principal financial officer), have concluded, based on their evaluation as of the end of the period covered by this report, that our disclosure controls and procedures (as defined in Rule 13a-15(e) or Rule 15d-15(e) under the Exchange Act) are effective to ensure that information required to be disclosed by us in reports filed or submitted under the Exchange Act is recorded, processed, summarized, and reported within the time periods specified in the SEC’s rules and forms and include controls and procedures designed to ensure that information required to be disclosed by us in such reports is accumulated and communicated to our management, including our principal executive and financial officers, as appropriate, to allow timely decisions regarding required disclosure.

### Changes in Internal Control over Financial Reporting

During the quarter ended June 30, 2016, there were no changes in our internal control over our financial reporting that we believe materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

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PART II - OTHER INFORMATION

Item 1. Legal Proceedings

See Note 7, “Litigation,” of our Notes to Unaudited Consolidated Financial Statements, which is incorporated herein by reference.

Item 1A. Risk Factors

In addition to the other information set forth in this report, you should carefully consider the factors discussed in Part I, “Item 1A. Risk Factors” in our Annual Report on Form 10-K for the year ended December 31, 2015, which could materially affect our business or our consolidated financial position, results of operations, and cash flows. The risks described in our Annual Report on Form 10-K are not the only risks we face. Additional risks and uncertainties not currently known to us or that we currently deem to be insignificant also may become materially adverse or may affect our business in the future or our consolidated financial position, results of operations, or cash flows.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

None.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

Not Applicable.

Item 5. Other Information

None.

Item 6. Exhibits

See Index to Exhibits following the signature page of this Quarterly Report on Form 10-Q.

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SIGNATURES

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

| | |
|---|---|
| | MANNATECH, INCORPORATED |
| Dated: August 9, 2016 | By: /s/ Alfredo Bala<br>Alfredo Bala<br>Chief Executive Officer<br>(principal executive officer) |
| Dated: August 9, 2016 | By: /s/ David A. Johnson<br>David A. Johnson<br>Chief Financial Officer<br>(principal financial officer) |

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INDEX TO EXHIBITS

| Exhibit Number | Exhibit Description | Incorporated by Reference | | | |
|---|---|---|---|---|---|
| | | Form | File No. | Exhibit (s) | Filing Date |
| 3.1 | Amended and Restated Articles of Incorporation of Mannatech, dated May 19, 1998. | S-1 | 333-63133 | 3.1 | October 28, 1998 |
| 3.2 | Certificate of Amendment to the Amended and Restated Articles of Incorporation of Mannatech, dated January 13, 2012. | 8-K | 000-24657 | 3.1 | January 17, 2012 |
| 3.3 | Fifth Amended and Restated Bylaws of Mannatech, dated August 25, 2014. | 8-K | 000-24657 | 3.1 | August 27, 2014 |
| 4.1 | Specimen Certificate representing Mannatech's common stock, par value $0.0001 per share. | S-1 | 333-63133 | 4.1 | October 28, 1998 |
| 31.1* | Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, of the Chief Executive Officer of Mannatech. | * | * | * | * |
| 31.2* | Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, of the Chief Financial Officer of Mannatech. | * | * | * | * |
| 32.1* | Certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, of the Chief Executive Officer of Mannatech. | * | * | * | * |
| 32.2* | Certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, of the Chief Financial Officer of Mannatech. | * | * | * | * |
| 101.INS* | XBRL Instance Document | * | * | * | * |
| 101.SCH* | XBRL Taxonomy Extension Schema Document | * | * | * | * |
| 101.CAL* | XBRL Taxonomy Extension Calculation Linkbase Document | * | * | * | * |
| 101.LAB* | XBRL Taxonomy Extension Label Linkbase Document | * | * | * | * |
| 101.PRE* | XBRL Taxonomy Extension Presentation Linkbase Document | * | * | * | * |
| 101.DEF* | XBRL Taxonomy Extension Definition Linkbase Document | * | * | * | * |

*Filed herewith.