

MANNATECH INC  
Form 10-Q  
May 12, 2015

---

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: March 31, 2015

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 April 30, 2015, the number of shares outstanding of the registrant’s sole class of common stock, par value \$0.0001 per share, was 2,679,411.

---

---

MANNATECH, INCORPORATED  
TABLE OF CONTENTS

<u>Special Note Regarding Forward-Looking Statements</u>	1
Part I – FINANCIAL INFORMATION	
Item 1. <u>Financial Statements</u>	2
<u>Consolidated Balance Sheets as of March 31, 2015 (Unaudited) and December 31, 2014</u>	2
<u>Consolidated Statements of Operations - Unaudited</u>	3
<u>Consolidated Statement of Comprehensive Income - Unaudited</u>	3
<u>Consolidated Statements of Shareholders' Equity - Unaudited</u>	4
<u>Consolidated Statements of Cash Flows - Unaudited</u>	5
<u>Notes to Unaudited Consolidated Financial Statements</u>	6
Item 2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	16
<u>Company Overview</u>	16
<u>Results of Operations</u>	17
<u>Liquidity and Capital Resources</u>	23
<u>Critical Accounting Policies and Estimates</u>	25
<u>Recent Accounting Pronouncements</u>	29
Item 3. <u>Quantitative and Qualitative Disclosures About Market Risk</u>	29
Item 4. <u>Controls and Procedures</u>	30
Part II – OTHER INFORMATION	
Item 1. <u>Legal Proceedings</u>	31
Item 1A. <u>Risk Factors</u>	31
Item 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	31
Item 3. <u>Defaults Upon Senior Securities</u>	31
Item 4. <u>Mine Safety Disclosures</u>	31
Item 5. <u>Other Information</u>	31
Item 6. <u>Exhibits</u>	31
<u>Signatures</u>	32

---

Table of Contents

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, 2014, 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;

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

§ new regulatory changes that may affect operations or products;

§ 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”.

Table of Contents

## PART I – FINANCIAL INFORMATION

## Item 1. Financial Statements

## MANNATECH, INCORPORATED AND SUBSIDIARIES

## CONSOLIDATED BALANCE SHEETS

(in thousands, except share and per share amounts)

	March 31, 2015 (unaudited)	December 31, 2014
<b>ASSETS</b>		
Cash and cash equivalents	\$ 28,399	\$ 27,999
Restricted cash	1,512	1,511
Accounts receivable, net of allowance of \$215 and \$213 in 2015 and 2014, respectively	378	504
Income tax receivable	10	4
Inventories, net	13,484	10,591
Prepaid expenses and other current assets	2,679	3,069
Deferred commissions	4,476	4,544
Deferred tax assets, net	926	1,141
Total current assets	51,864	49,363
Property and equipment, net	3,375	2,481
Construction in progress	1,299	1,622
Long-term restricted cash	6,984	7,045
Other assets	4,081	3,567
Long-term deferred tax assets, net	3,553	3,320
Total assets	\$ 71,156	\$ 67,398
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
Current portion of capital leases	\$ 1,257	\$ 901
Accounts payable	7,375	4,252
Accrued expenses	6,001	6,356
Commissions and incentives payable	6,540	7,908
Taxes payable	2,074	2,578
Current deferred tax liability	147	123
Deferred revenue	11,387	10,890
Total current liabilities	34,781	33,008
Capital leases, excluding current portion	1,343	852
Long-term deferred tax liabilities	1	26
Other long-term liabilities	2,137	2,136
Total liabilities	38,262	36,022
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 2,679,411 shares outstanding as of March 31, 2015 and 2,773,972 shares issued and 2,676,077 shares outstanding as of December 31, 2014	—	—
Additional paid-in capital	40,442	40,672
Accumulated earnings	3,849	2,750
Accumulated other comprehensive income (loss)	133	(109 )

Edgar Filing: MANNATECH INC - Form 10-Q

Less treasury stock, at average cost, 94,561 and 97,895 shares in 2015 and 2014, respectively	(11,530 )	(11,937 )
Total shareholders' equity	32,894	31,376
Total liabilities and shareholders' equity	\$ 71,156	\$ 67,398

See accompanying notes to unaudited consolidated financial statements.

2

---

Table of ContentsMANNATECH, INCORPORATED AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF OPERATIONS – (UNAUDITED)

(in thousands, except per share information)

	Three months ended March 31,	
	2015	2014
Net sales	\$44,370	\$42,963
Cost of sales	8,553	9,398
Gross profit	35,817	33,565
Operating expenses:		
Commissions and incentives	17,542	16,968
Selling and administrative expenses	8,813	7,876
Depreciation and amortization	396	386
Other operating costs	6,555	6,956
Total operating expenses	33,306	32,186
Income from operations	2,511	1,379
Interest income	30	1
Other expense, net	(932 )	(336 )
Income before income taxes	1,609	1,044
Provision for income taxes	510	816
Net income	\$1,099	\$228
<u>Earnings per common share:</u>		
Basic	\$0.41	\$0.09
Diluted	\$0.40	\$0.08

Weighted-average common shares outstanding:

Basic	2,677	2,654
Diluted	2,730	2,702

## CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME – (UNAUDITED)

(in thousands)

	Three months ended March 31,	
	2015	2014
Net income	\$1,099	\$228
Foreign currency translations	242	63
Comprehensive income	\$1,341	\$291

See accompanying notes to unaudited consolidated financial statements.



Table of ContentsMANNATECH, INCORPORATED AND SUBSIDIARIES  
CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY

– (UNAUDITED)

(in thousands)

	Common stock Par value	Additional paid in capital	Accumulated earnings	Accumulated other comprehensive income (loss)	Treasury stock	Total shareholders' equity
Balance at December 31, 2014	\$	—\$ 40,672	\$ 2,750	\$ (109 )	\$(11,937)	\$ 31,376
Net income		—	1,099	—	—	1,099
Charge related to stock-based compensation		— 141	—	—	—	141
Stock option exercises		— (387 )	—	—	407	20
Tax benefit from exercise of stock options		— 16	—	—	—	16
Foreign currency translations		—	—	242	—	242
Balance at March 31, 2015	\$	—\$ 40,442	\$ 3,849	\$ 133	\$(11,530)	\$ 32,894

See accompanying notes to unaudited consolidated financial statements.

Table of Contents

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

	Three months ended March 31,	
	2015	2014
<b><u>CASH FLOWS FROM OPERATING ACTIVITIES:</u></b>		
Net income	\$1,099	\$228
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation and amortization	396	386
Provision for inventory losses	196	851
Provision for doubtful accounts	128	166
Loss on disposal of assets	7	37
Accounting charge related to stock-based compensation expense	141	178
Tax benefit from exercise of stock options	(16 )	--
Deferred income taxes	(1 )	209
Changes in operating assets and liabilities:		
Accounts receivable	(26 )	67
Income tax receivable	(6 )	(6 )
Inventories	(3,124 )	(895 )
Prepaid expenses and other current assets	962	(378 )
Deferred commissions	58	(1,398 )
Other assets	(83 )	512
Accounts payable	3,126	346
Accrued expenses and other liabilities	(334 )	220
Taxes payable	(527 )	(390 )
Commissions and incentives payable	(1,347 )	(3,574 )
Deferred revenue	516	3,359
Change in restricted cash	9	(11 )
Net cash provided by (used in) operating activities	1,174	(93 )
<b><u>CASH FLOWS FROM INVESTING ACTIVITIES:</u></b>		
Acquisition of property and equipment	(787 )	(123 )
Net cash used in investing activities	(787 )	(123 )
<b><u>CASH FLOWS FROM FINANCING ACTIVITIES:</u></b>		
Proceeds from stock options exercised	20	—
Tax benefit from exercise of stock options	16	—
Repayment of capital lease obligations	(369 )	(266 )
Net cash used in financing activities	(333 )	(266 )
Effect of currency exchange rate changes on cash and cash equivalents	346	262
Net increase (decrease) in cash and cash equivalents	400	(220 )
Cash and cash equivalents at the beginning of the period	27,999	20,395
Cash and cash equivalents at the end of the period	\$28,399	\$20,175
<b><u>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:</u></b>		
Income taxes paid, net	\$3,245	\$851
Interest paid on capital leases	\$24	\$22
Assets acquired through capital leases	\$1,271	\$668

See accompanying notes to unaudited consolidated financial statements.



Table of Contents

MANNATECH, INCORPORATED AND SUBSIDIARIES  
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

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) North America (the United States, Canada 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 independent 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, 2014 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, 2014 and filed with the United States Securities and Exchange Commission (the “SEC”) on March 10, 2015 (the “2014 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 2014 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.

Reclassifications

Certain amounts in the prior years’ consolidated financial statements have been reclassified to conform to the current year’s presentation.

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.

Table of Contents

MANNATECH, INCORPORATED AND SUBSIDIARIES  
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

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. For each of the periods ended March 31, 2015 and December 31, 2014, credit card receivables were \$1.6 million and \$1.2 million, respectively, and cash and cash equivalents held in bank accounts in foreign countries totaled \$26.3 million and \$24.8 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.

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) Australia building lease collateral. As of March 31, 2015 and December 31, 2014, our total restricted cash was \$8.5 million and \$8.6 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 March 31, 2015 and December 31, 2014, receivables consisted primarily of amounts due from members and independent 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 March 31, 2015 and December 31, 2014, the Company held an allowance for doubtful accounts of \$0.2 million.

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 March 31, 2015 and December 31, 2014, other assets were \$4.1 million and \$3.6 million, respectively, and primarily consisted of deposits for building leases in various locations of \$2.1 million and \$1.5 million, respectively. Additionally, included in the March 31, 2015 and December 31, 2014 balances was \$1.7 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 the March 31, 2015 and December 31, 2014 balances was \$0.2 million of indefinite lived intangible assets relating to the Manapol® powder trademark.

Other Long-Term Liabilities

Other long-term liabilities were \$2.1 million at each of March 31, 2015 and December 31, 2014. At March 31, 2015 and December 31, 2014, 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 10-K, filed March 10, 2015). 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 each of March 31, 2015 and December 31, 2014, accrued restoration costs related to these leases amounted to \$0.4 million. At March 31, 2015 and December 31, 2014, 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 \$0.6 million (See Note 10, Employee Benefit Plans, of the Company's 10-K, filed March 10, 2015).

7

---

Table of ContentsMANNATECH, INCORPORATED AND SUBSIDIARIES  
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

## 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 March 31, 2015 and December 31, 2014, the Company's deferred revenue was \$11.4 million and \$10.9 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 or forfeited, which includes an estimate of the percentage of the unvested loyalty points that are expected to be forfeited. During the third quarter of 2014, the Company modified the program to allow loyalty points to vest more quickly. The deferred revenue associated with the loyalty program at March 31, 2015 and December 31, 2014 was \$9.7 million. 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 \$4.5 million at March 31, 2015 and December 31, 2014.

	(in thousands)
Loyalty program	
Loyalty deferred revenue as of January 1, 2014	\$ 5,456
Loyalty points forfeited	(4,664 )
Loyalty points used	(12,348 )
Loyalty points vested	19,580
Loyalty points unvested	1,679
Loyalty deferred revenue as of December 31, 2014	\$ 9,703
Loyalty deferred revenue as of January 1, 2015	\$ 9,703
Loyalty points forfeited	(1,381)
Loyalty points used	(3,592)
Loyalty points vested	3,144
Loyalty points unvested	1,846
Loyalty deferred revenue as of March 31, 2015	\$ 9,720

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 for 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 three months ended March 31, 2015, sales return reserve consisted of the following (in thousands):

Sales reserve as of January 1, 2015	\$207
-------------------------------------	-------



Edgar Filing: MANNATECH INC - Form 10-Q

Provision related to sales made in current period	510
Adjustment related to sales made in prior periods	(43 )
Actual returns or credits related to current period	(276)
Actual returns or credits related to prior periods	(158)
Sales reserve as of March 31, 2015	\$240

Table of ContentsMANNATECH, INCORPORATED AND SUBSIDIARIES  
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

## Shipping and Handling

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 and Accumulated Other Comprehensive Income (Loss)

Comprehensive income 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, foreign currency translation adjustments from its Japan, Republic of Korea, Taiwan, Norway, Sweden 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 March 31, 2015 and December 31, 2014, consisted of the following (in thousands):

	March 31, 2015	December 31, 2014
Raw materials	\$1,820	\$ 2,118
Finished goods	13,597	10,615
Inventory reserves for obsolescence	(1,933 )	(2,142 )
Total	\$13,484	\$ 10,591

## NOTE 3: INCOME TAXES

For the three months ended March 31, 2015 and 2014, the Company's effective tax rate was 31.7% and 78.1%, respectively, and was determined based on the estimated annual effective income tax rate.

The effective tax rates for the three months ended March 31, 2015 was slightly lower than what would have been expected if the U.S. federal statutory rate were applied to income before taxes. The decrease in the effective income tax rates is primarily due to favorable rate differences in foreign jurisdictions and release of valuation allowance due to profit in certain foreign jurisdictions, partially offset by permanent differences between the tax code and U.S. GAAP. The effective tax rates for the three months ended March 31, 2014 were higher than what would have been expected if the federal statutory rate were applied to income before taxes. Items increasing the effective income tax rate included the change in the valuation allowances associated with certain foreign deferred tax assets and the unfavorable rate differences from foreign jurisdictions.



Table of ContentsMANNATECH, INCORPORATED AND SUBSIDIARIES  
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

## NOTE 4: EARNINGS PER SHARE

The Company calculates basic Earnings Per Share (“EPS”) by dividing net income 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. The Company reported net income for the three months ended March 31, 2015 and approximately 0.1 million shares of the Company’s common stock subject to options were excluded from the diluted EPS calculation, as the effect would have been antidilutive. The Company reported net income for the three months ended March 31, 2014 and during that period a negligible amount of common stock subject to options was dilutive. In determining the potential dilution effect of outstanding stock options during the three months ended March 31, 2015 and 2014, the Company used the quarter’s average common stock close price of \$21.36 and \$16.76 per share, respectively.

## 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 reserves up to 200,000 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 held May 30, 2012 to increase the number of shares of common stock subject to the plan by 100,000. As of March 31, 2015, the 2008 Plan had 155,550 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. The Company did not grant any options during the three months ended March 31, 2015. During the three months ended March 31, 2014, the Company granted 66,000 stock options at a fair value of \$12.09 per share. The Company recognized compensation expense as follows for the three months ended March 31 (in thousands):

	Three months ending March 31, 2015 2014	
Total gross compensation expense	\$ 141	\$ 178
Total tax benefit associated with compensation expense	31	60
Total net compensation expense	\$ 110	\$ 118

As of March 31, 2015, the Company expects to record compensation expense in the future as follows (in thousands):

	Nine months ending December 31,	Year ending December 31,		
	2015	2016	2017	2018
Total gross unrecognized compensation expense	\$ 278	\$215	\$63	\$6
Tax benefit associated with unrecognized compensation expense	50	14	—	—
Total net unrecognized compensation expense	\$ 228	\$201	\$63	\$6

10

---

Table of ContentsMANNATECH, INCORPORATED AND SUBSIDIARIES  
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

## NOTE 6: SHAREHOLDERS' EQUITY

Accumulated Other Comprehensive Income (Loss)

Accumulated other comprehensive income (loss), displayed in the Consolidated Statements of Shareholders' Equity and Comprehensive Income, represents net 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 (loss), are as follows (in thousands):

	Foreign Currency Translation	Pension Postretirement Benefit Obligation	Accumulated Other Comprehensive Income (Loss), Net
Balance as of December 31, 2014	\$ (457 )	\$ 348	\$ (109 )
Current-period change <sup>1</sup>	242	—	242
Balance as of March 31, 2015	\$ (215 )	\$ 348	\$ 133

<sup>1</sup>No amounts reclassified from accumulated other comprehensive income (loss)

## 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 have 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. The parties remain engaged in the claim construction process.

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. This matter remains open.

Breach of Contract

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

11

---

Table of Contents


MANNATECH, INCORPORATED AND SUBSIDIARIES  
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

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 parties are in the initial stages of the discovery process. The Court has appointed a mediator; however, a date for mediation has not been scheduled. The Court set the case for trial on March 7, 2016. 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.

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 Corporate filed a Notice of Opposition to the Company's trademark application for UTH (stylized as ) with the USPTO. The Company has engaged counsel and intends to file its answer along with a counterclaim seeking to cancel Shaklee's registration of its YOUTH mark by the May 24, 2015 answer deadline.

It is not possible at this time to predict the outcome of this 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. This matter will remain open until it is resolved.

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.

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.

Table of ContentsMANNATECH, INCORPORATED AND SUBSIDIARIES  
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

## 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 Accounting Standards Codification (“FASB 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.

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 March 31, 2015. The table below presents the recorded amount of financial assets measured at fair value (in thousands) on a recurring basis as of March 31, 2015.

	Level 1	Level 2	Level 3	Total
Assets				
Money Market Funds – Fidelity, US	\$207	\$ —	\$ —	\$207
Interest bearing deposits – various banks	15,761	—	—	15,761
Total assets	\$15,968	\$ —	\$ —	\$15,968
Amounts included in:				
Cash and cash equivalents	\$9,464	\$ —	\$ —	\$9,464
Restricted cash	6,504	—	—	6,504
Total	\$15,968	\$ —	\$ —	\$15,968

## 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 products, and weight-management products through its network marketing distribution channels operating in twenty-four 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 and distributes its 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 twelve countries and sells product in twenty-four 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 and Mexico. Each facility services different geographic areas. We currently sell our products in three regions: (i) North America (the United States, Canada 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); (iii) Asia/Pacific (Australia, Japan, New Zealand, the Republic of Korea, Singapore, Taiwan and Hong Kong).

Table of ContentsMANNATECH, INCORPORATED AND SUBSIDIARIES  
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

Consolidated net sales shipped to customers in these regions, along with pack and product information for the three months ended March 31, were as follows (in millions, except percentages):

<u>Region</u>	Three months ended March 31			
	2015		2014	
North America	\$18.1	40.8 %	\$20.3	47.2 %
Asia/Pacific	22.7	51.1 %	19.0	44.2 %
EMEA	3.6	8.1 %	3.7	8.6 %
Total	\$44.4	100.0%	\$43.0	100.0%

	Three months ended March 31	
	2015	2014
Consolidated product sales	\$34.2	\$34.5
Consolidated pack sales	8.9	6.7
Consolidated other, including freight	1.3	1.8
Total	\$44.4	\$43.0

Long-lived assets, which include property and equipment and construction in progress for the Company and its subsidiaries, as of March 31, 2015 and December 31, 2014, reside in the following regions, as follows (in millions):

<u>Region</u>	March 31,	December 31,
	2015	2014
North America	\$ 3.6	\$ 3.1
Asia/Pacific	1.0	0.8
EMEA	0.1	0.2
Total	\$ 4.7	\$ 4.1

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

<u>Region</u>	March 31,	December 31,
	2015	2014
North America	\$ 5.1	\$ 4.0
Asia/Pacific	5.4	4.3
EMEA	3.0	2.3
Total	\$ 13.5	\$ 10.6

## NOTE 10: RECENT ACCOUNTING PRONOUNCEMENTS

In May 2014, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) No. 2014-09, Revenue from Contracts with Customers (Topic 606), which supersedes the revenue recognition requirements in Topic 605, Revenue Recognition. The core principle of the guidance is that an entity should recognize

revenue to depict the transfer of goods to customers in an amount that reflects the consideration to which the entity expects in exchange for those goods. To achieve that core principle, an entity should apply the following steps:

- Step 1: Identify the contract(s) with a customer.
- Step 2: Identify the performance obligations in the contract.
- Step 3: Determine the transaction price.

Table of Contents

MANNATECH, INCORPORATED AND SUBSIDIARIES  
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

- Step 4: Allocate the transaction price to the performance obligations in the contract.
- Step 5: Recognize revenue when (or as) the entity satisfies a performance obligation.

The standard is effective for the Company for annual reporting periods beginning after December 15, 2016, including interim periods within that reporting period, using either of the following transition methods: (i) a full retrospective approach reflecting the application of the standard in each prior reporting period with the option to elect certain practical expedients, or (ii) a retrospective approach with the cumulative effect of initially adopting ASU 2014-09 recognized at the date of adoption (which includes additional footnote disclosures.) Early application is not permitted. Management is currently evaluating the impact of the Company's pending adoption of ASU 2014-09 on the Company's consolidated financial statements and has not yet determined the method by which the Company will adopt the standard in 2017.

The Financial Accounting Standard Board has issued Accounting Standards Update 2015-01, Income Statement—Extraordinary and Unusual Items, which eliminates from GAAP the concept of extraordinary items. The update is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2015. Because this standard only impacts presentation and disclosure requirements, its adoption is not expected to have a material impact on the Company's consolidated results of operations or 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.

Table of Contents

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 months ended March 31, 2015 as compared to the same period in 2014, 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. Refer to the Non-GAAP Financial Measures section herein for a description of how Constant dollar ("Constant dollar") growth rate (a Non-GAAP financial metric) is 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) North America (the United States, Canada 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). Our Switzerland office manages certain day-to-day business needs of non-North American markets. By the end of the third quarter of 2015, we plan to operate in Colombia.

We conduct our business as a single operating segment and primarily sell our products through a network of approximately 230,000 active independent associates and members who have purchased our products and/or packs during the last 12 months, who we refer to as active independent associates and members. New recruits and pack sales are leading indicators for the long-term success of our business. New recruits include new independent associates and members purchasing our packs and products 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-four 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; 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 \$1.4 million, or 3.3%, during the three months ended March 31, 2015, as compared to the same period in 2014. For the three month period ended March 31, 2015, our net sales grew 7.4% on a Constant dollar basis (see Non-GAAP Financial Measures, below); unfavorable foreign exchange caused a \$1.8 million decline in GAAP net sales as compared to the same period in 2014. In other words, sales would have been \$1.8 million higher, except for the unfavorable impact of foreign exchange. Our operations outside of North America accounted for approximately 59.2% of our consolidated net sales.

The net sales comparisons for the three-month periods were affected by the North American launch of the U<sup>th</sup> skin care product ("U<sup>th</sup>") in the fourth quarter of 2013 and the implementation of the loyalty program. These two items affected net sales comparability as follows:

During the three months ended March 31, 2015, net sales in Asia Pacific and EMEA attributable to U<sup>th</sup> skin care products were \$0.7 million. U<sup>th</sup> skin care products were not sold in Asia Pacific or EMEA during the three months ended March 31, 2014.

·The loyalty program increased first quarter 2015 net sales by \$2.2 million, as compared to the same period in 2014.

Excluding the effects on net sales of the U<sup>th</sup> skin care product launch and the loyalty program, net sales would have decreased by \$1.2 million, or 2.8%, for the three months ended March 31, 2015, as compared to the same period in 2014. Independent associates and members decreased by 6.5% to 230,000 at March 31, 2015, compared to the same period in the prior year.



Table of Contents

## RESULTS OF OPERATIONS

Three Months Ended March 31, 2015 compared to Three Months Ended March 31, 2014

The table below summarizes our consolidated operating results in dollars and as a percentage of net sales for the three months ended March 31, 2015 and 2014 (in thousands, except percentages):

	2015		2014		Change		
	Total Dollars	% of net sales	Total dollars	% of net sales	Dollar	Percentage	
Net sales	\$44,370	100.0 %	\$42,963	100.0 %	\$1,407	3.3	%
Cost of sales	8,553	19.3 %	9,398	21.9 %	(845 )	(9.0	)%
Gross profit	35,817	80.7 %	33,565	78.1 %	2,252	6.7	%
Operating expenses:							
Commissions and incentives	17,542	39.5 %	16,968	39.5 %	574	3.4	%
Selling and administrative expenses	8,813	19.9 %	7,876	18.3 %	937	11.9	%
Depreciation and amortization	396	0.9 %	386	0.9 %	10	2.6	%
Other operating costs	6,555	14.8 %	6,956	16.2 %	(401 )	(5.8	)%
Total operating expenses	33,306	75.1 %	32,186	74.9 %	1,120	3.5	%
Income from operations	2,511	5.7 %	1,379	3.2 %	1,132	82.0	%
Interest income	30	0.1 %	1	0.0 %	29	2,900.0	%
Other expense, net	(932 )	(2.1 )%	(336 )	(0.8 )%	(596 )	(177.4	)%
Income before income taxes	1,609	3.6 %	1,044	2.4 %	565	54.1	%
Income tax provision	510	1.1 %	816	1.9 %	(306 )	(37.5	)%
Net income	\$1,099	2.5 %	\$228	0.5 %	\$871	382.0	%

Table of Contents

## Non-GAAP Financial Measures

To supplement our financial results presented in accordance with generally accepted accounting principles in the United States ("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, Deferred Revenue, Gross Profit, and Income 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 months ended March 31, 2015		Three months ended March 31, 2014	Reconciliation – Constant \$		
	GAAP Measure: Total \$	Non-GAAP Measure: Constant \$	GAAP Measure: Total \$	Dollar	Percent	
Net sales	\$44.4	\$ 46.2	\$ 43.0	\$3.2	7.4	%
Product	34.2	35.6	34.5	1.1	3.2	%
Pack	8.9	9.2	6.7	2.5	37.3	%
Other	1.3	1.4	1.8	(0.4)	(22.2)	)%
Deferred revenue	11.3	11.9	9.7	2.2	22.7	%
Gross profit	35.8	37.1	33.6	3.5	10.4	%
Income from operations	2.5	2.6	1.4	1.2	85.7	%

Consolidated net sales by region for the three months ended March 31, 2015 and 2014 were as follows (in millions, except percentages):

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

	Three months ended March 31, 2015			Three months ended March 31, 2014		
North America	\$18.1	40.8	%	\$20.3	47.2	%
Asia/Pacific	22.7	51.1	%	19.0	44.2	%
EMEA	3.6	8.1	%	3.7	8.6	%
Total	\$44.4	100.0	%	\$43.0	100.0	%

## Net Sales

Consolidated net sales for the three months ended March 31, 2015 increased by \$1.4 million, or 3.3%, to \$44.4 million, as compared to \$43.0 million for the same period in 2014.

North American net sales for the three months ended March 31, 2015 decreased by \$2.2 million, or 10.8%, to \$18.1 million, as compared to \$20.3 million for the same period in 2014. This decrease was primarily due to a 15.7% decline in active independent associates and members. These effects were partially offset by the loyalty program, which

increased first quarter 2015 net sales by \$1.2 million, as compared to the same period in 2014.

For the three months ended March 31, 2015, our operations outside of North America accounted for approximately 59.2% of our consolidated net sales, whereas in the same period in 2014, our operations outside of North America accounted for approximately 52.8% of our consolidated net sales.

For the three months ended March 31, 2015, Asia/Pacific net sales increased by \$3.7 million, or 19.5%, to \$22.7 million, as compared to \$19.0 million for the same period in 2014, on an increasing average order size. The loyalty program increased first quarter 2015 net sales by \$0.8 million, as compared to the same period in 2014. U<sup>th</sup> net sales were \$0.6 million during the three months ended March 31, 2015 and U<sup>th</sup> was not sold in Asia/Pacific during the three months ending March 31, 2014. U<sup>th</sup> sales and the loyalty program positively contributed \$1.4 million net sales for the three month period ending March 31, 2015, compared to the same period in the prior year; however, foreign currency exchange had the effect of decreasing revenue by \$1.3 million when the three month period ending March 31, 2015 is compared to the same period in the prior year. The currency impact is primarily due to the Japanese Yen, Korean Won, and Australian dollar. Also, the number of active independent associates and members decreased 1.9% during the three months ending March 31, 2015, compared to the same period in the prior year.

Table of Contents

For the three months ended March 31, 2015, EMEA net sales decreased by \$0.1 million, or 2.7%, to \$3.6 million as compared to \$3.7 million for the same period in 2014. The loyalty program increased first quarter 2015 net sales by \$0.2 million, as compared to the same period in 2014. U<sup>th</sup> net sales were \$0.1 million during the three months ended March 31, 2015 and U<sup>th</sup> was not sold in EMEA during the three months ending March 31, 2014. Active associates and members increased 16% as compared to the same period in the prior year. Foreign currency exchange had the effect of decreasing revenue by \$0.5 million when the three month period ending March 31, 2015 is compared to the same period in the prior year. The currency impact is primarily due to the South Africa Rand 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 independent 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 months ended March 31, was as follows (in millions, except percentages):

	2015	2014	Change		
			Dollar	Percentage	
Consolidated product sales	\$34.2	\$34.5	\$(0.3)	(0.9)	)%
Consolidated pack sales	8.9	6.7	2.2	32.8	%
Consolidated other, including freight	1.3	1.8	(0.5)	(27.8)	)%
Total consolidated net sales	\$44.4	\$43.0	\$1.4	3.3	%

Pack sales correlate to new independent associates who purchase starter packs and to continuing independent 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.

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. Product sales for the three months ended March 31, 2015 decreased by \$0.3 million, or 0.9%, as compared to the same period in 2014. The decrease in product sales was primarily due to a reduction in the average order value. The average order value for the three months ended March 31, 2015 was \$154 as compared to \$159 for the same period in 2014. The number of orders processed during the three months ended March 31, 2015 decreased by 0.6%, as compared to the same period in 2014. Offsetting these trends, the loyalty program increased first quarter 2015 net sales by \$2.2 million, as compared to the same period in 2014.

Table of Contents

## Pack Sales

Packs may be purchased by our independent associates who wish to build a Mannatech business. These packs are offered to our independent associates at a discount from published retail 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 and sell 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 to satisfy annual renewal requirements to continue to earn various commissions.

The dollar amount of pack sales associated with new and continuing associates was as follows, for the three months ended March 31 (in millions, except percentages):

	Three months ended		Change		
	March 31 2015	March 31 2014	Dollar	Percentage	
New	\$2.0	\$2.2	\$(0.2 )	(9.1 )%	
Continuing	6.9	4.5	2.4	53.3	%
Total	\$8.9	\$6.7	\$2.2	32.8	%

Total pack sales for the three months ended March 31, 2015 increased by \$2.2 million, or 32.8%, to \$8.9 million, as compared to \$6.7 million for the same period in 2014. Average pack value for the three months ended March 31, 2015 was \$236 as compared to \$263 for the same period in 2014. The total number of packs sold increased by 12,200, or 47.8%, to 37,700 for the three months ended March 31, 2015, as compared to the same period in 2014.

During 2014 and continuing into 2015, we took the following actions to recruit and retain associates and members:

- explored new international markets;
- 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 March 31, 2015 and 2014 were as follows:

2015	2014
------	------

Edgar Filing: MANNATECH INC - Form 10-Q

New	108,000	47.0 %	118,000	48.0 %
Continuing	122,000	53.0 %	128,000	52.0 %
Total Active	230,000	100.0%	246,000	100.0%

Recruiting of new independent associates and members decreased 0.4% in the first quarter of 2015 as compared to the first quarter of 2014. The number of new independent associates and members for the first quarter of 2015 was approximately 25,500, as compared to 25,600 for the same period in 2014.

#### 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 March 31, 2015, other sales decreased by \$0.5 million, or 27.8%, to \$1.3 million, as compared to \$1.8 million for the same period in 2014. The decrease was primarily due to an increase in sales returns. Total revenue from freight and shipping fees was approximately \$1.6 million and \$1.9 million for the three month periods ended March 31, 2015 and 2014, respectively.

## Table of Contents

### Gross Profit

For the three months ended March 31, 2015, gross profit increased by \$2.3 million, or 6.7%, to \$35.8 million, as compared to \$33.6 million for the same period in 2014. For the three months ended March 31, 2015, gross profit as a percentage of net sales increased to 80.7%, as compared to 78.1% for the same period in 2014. The improvement in gross profit was due to a charge to allowance for obsolete inventory of \$0.9 million during the three month period ending March 31, 2014.

### Commission and Incentives

Commission expenses for the three months ended March 31, 2015 increased by 2.4%, or \$0.4 million, to \$16.9 million, as compared to \$16.5 million for the same period in 2014. For the three months ended March 31, 2015, commissions as a percentage of net sales decreased to 38.0% from 38.3% for the same period in 2014.

Incentive costs for the three months ended March 31, 2015 increased by 40.0%, or \$0.2 million, to \$0.7 million, as compared to \$0.5 million for the same period in 2014 due to the timing of our global incentives. For the three months ended March 31, 2015, incentives as a percentage of net sales increased to 1.5% from 1.2% for the same period in 2014.

### 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 and marketing-related expenses, such as monthly magazine development costs and costs related to hosting our corporate-sponsored events.

For the three months ended March 31, 2015, selling and administrative expenses increased by \$0.9 million, or 11.9%, to \$8.8 million, as compared to \$7.9 million for the same period in 2014. The increase in selling and administrative expenses consisted primarily of a \$1.2 million increase in marketing related costs related to our annual MannaFest event that occurred during the first quarter in 2015 and during the second quarter during 2014. These costs were partially offset by a \$0.2 million decrease in payroll related costs. Selling and administrative expenses, as a percentage of net sales, for the three months ended March 31, 2015 increased to 19.9% from 18.3% for the same period in 2014.

### Other Operating Costs

Other operating costs include travel, accounting/legal/consulting fees, credit card processing fees, banking fees, off-site storage fees, utilities, and other miscellaneous operating expenses. Changes in other operating costs are associated with the changes in our net sales.

For the three months ended March 31, 2015, other operating costs decreased by \$0.4 million, or 5.8%, to \$6.6 million, as compared to \$7.0 million for the same period in 2014. For the three months ended March 31, 2015, other operating costs as a percentage of net sales decreased to 14.8% from 16.2% for the same period in 2014. The decrease in other operating costs was primarily due to a \$0.3 million decrease in travel and entertainment costs and a \$0.1 million decrease in legal costs.

### Depreciation and Amortization Expense

Depreciation and amortization expense for each of the three months ended March 31, 2015 and 2014 were \$0.4 million.

### Other Expense, Net



Due to foreign exchange losses, other expenses were \$0.9 million and \$0.3 million for the quarters ending March 31, 2015 and 2014, respectively.

Table of Contents

## Provision (benefit) for Income Taxes

Provision (benefit) 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 month periods ended March 31:

<u>Country</u>	2015	2014
Australia	30.0%	30.0%
Canada	26.5%	26.5%
Denmark	23.5%	23.5%
Japan	37.1%	37.1%
Mexico	30.0%	30.0%
Norway	27.0%	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%	21.0%
United States	37.5%	37.5%
Cyprus	12.5%	12.5%
Hong Kong	16.5%	16.5%
Ukraine	18.0%	18.0%
Gibraltar	10.0%	10.0%

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.

For each of the periods ended March 31, 2015 and December 31, 2014, we maintained or increased the following valuation allowances for deferred tax assets totaling \$9.6 million, as we believe the “more likely than not” criterion for recognition and realization purposes, as defined in FASB ASC Topic 740, cannot be met.

<u>Country</u>	2015	2014
Mexico	\$2.7	\$2.7
Norway	0.1	0.1
Sweden	0.1	0.1
Switzerland	1.0	1.2
Taiwan	1.2	1.2
Ukraine	0.1	0.1
United States	4.4	4.3
Total	\$9.6	\$9.7

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 months ended March 31, 2015 and 2014, the Company's effective tax rate was 31.7 % and 78.1%, respectively. The effective tax rates for the three months ended March 31, 2015 was slightly lower than what would have been expected if the U.S. federal statutory rate were applied to income before taxes. Items increasing the effective income tax rate are permanent differences between the tax code and U.S. GAAP. Items decreasing the effective income tax rates are primarily due to the favorable rate differences in certain foreign jurisdictions and release of valuation allowance due to profit in certain foreign jurisdictions. For the three months ended March 31, 2014, the effective tax rates were higher than what would have been expected if the federal statutory rate were applied to income before taxes. Items increasing the effective income tax rate included the change in the valuation allowances associated with certain foreign deferred tax assets and the unfavorable rate differences from particular foreign jurisdictions.

Table of Contents

## LIQUIDITY AND CAPITAL RESOURCES

## Cash and Cash Equivalents

As of March 31, 2015, our cash and cash equivalents increased by 1.4%, or \$0.4 million, to \$28.4 million from \$28.0 million as of December 31, 2014. At March 31, 2015 and December 31, 2014, our restricted cash balances were \$8.5 and \$8.6 million, respectively. Finally, fluctuations in currency rates produced an increase of \$0.3 million in cash and cash equivalents for the three month periods ending March 31, 2015 and 2014.

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 March 31, 2015, our working capital increased by \$0.7 million, or 4.3%, to \$17.1 million from \$16.4 million at December 31, 2014. The most significant changes to working capital were due to inventory and accounts payable.

## Net Cash Flows

Our net consolidated cash flows consisted of the following, for the three months ended March 31 (in millions):

Provided by / (used in):	2015	2014
Operating activities	\$1.2	\$(0.1)
Investing activities	\$(0.8)	\$(0.1)
Financing activities	\$(0.3)	\$(0.3)

## Operating Activities

Cash provided by operating activities was \$1.2 million for the three months ended March 31, 2015, as compared to cash used in operating activities of \$0.1 million for the same period in 2014. During the three months ended March 31, 2015, our accounts payable increased as we purchased inventory. Also, due to the timing of our commission payments, we used less cash to pay commissions during the three months ended March 31, 2015, compared to the same period in 2014.

## Investing Activities

For the three months ended March 31, 2015, we invested \$0.8 million in back-office software projects, compared to \$0.1 million for the same period in 2014.

## Financing Activities

For the three months ended March 31, 2015, we used \$0.4 million in the repayment of capital lease obligations, which was partially offset by cash provided by the exercise of stock options. For the three months ended March 31, 2014, we used \$0.3 million in the repayment of capital lease obligations.

Table of Contents

## General Liquidity and Cash Flows

## Short Term Liquidity

We believe our existing liquidity and anticipated return to positive 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.

## 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 March 31, 2015, for the years ending December 31 (in thousands):

Commitments and obligations	Remaining						
	2015	2016	2017	2018	2019	Thereafter	Total
Financing arrangements <sup>(1)</sup>	\$ 1,118	\$767	\$611	\$239	\$45	\$ 11	\$2,791
Purchase obligations <sup>(2)(3)</sup>	5,361	288	—	—	—	—	5,649
Operating leases	1,427	1,606	1,327	680	173	158	5,371
Post-employment royalty	10	—	—	—	—	—	10
Employment agreements	896	299	—	—	—	—	1,195
Royalty agreement	45	—	—	—	—	—	45
Tax liability <sup>(4)</sup>	34	266	485	—	—	—	785
Other obligations <sup>(5)</sup>	204	252	129	54	50	695	1,384
Total	\$ 9,095	\$3,478	\$2,552	\$973	\$268	\$ 864	\$17,230

(1) Includes capital lease obligations.

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:

(2) fixed or minimum quantities to be purchased; fixed, minimum or variable price provisions; and the approximate timing of the transaction.

(3) Excludes approximately \$10.3 million of finished product purchase orders that may be cancelled or with delivery dates that have changed as of March 31, 2015.

(4) Represents the tax liability associated with uncertain tax positions.

(5) Other obligations are composed of pension obligations related to the Company's international operations (approximately \$1.0 million) and lease restoration obligations (approximately \$0.4 million).

## Table of Contents

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.

## 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 March 31, 2015.

### 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.



Table of Contents

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.

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 March 31, 2015, the estimated useful lives and net carrying values of fixed assets were as follows:

	Estimated useful life	Net carrying value at March 31, 2015
Office furniture and equipment	5 to 7 years	\$0.6 million
Computer hardware and software	3 to 5 years	1.6 million
Automobiles	3 to 5 years	— million
Leasehold improvements	2 to 10 years <sup>(1)</sup>	1.2 million
Total net carrying value at March 31, 2015		\$3.4 million

---

<sup>(1)</sup> 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 three months ended March 31, 2015 and the year ended December 31, 2014.

#### Uncertain Income Tax Positions and Tax Valuation Allowances

As of March 31, 2015, 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.

Table of Contents

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 March 31, 2015, we maintained a valuation allowance for deferred tax assets arising from our operations of \$9.6 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 March 31, 2015, we had deferred tax assets, after valuation allowance, totaling \$9.6 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.

## 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 March 31, 2015 and December 31, 2014, deferred revenue was \$11.4 million and \$10.9 million, respectively. During the third quarter of 2013, we started a loyalty program through which customers earn loyalty points from qualified automatic orders, which can be applied to future purchases. We defer the dollar equivalent in revenue of these points until the points are applied or forfeited, which includes an estimate of the percentage of the unvested loyalty points that are expected to be forfeited. During the third quarter of 2014, we modified the program to allow loyalty points to vest more quickly. The deferred revenue associated with the loyalty program at each of March 31, 2015 and December 31, 2014 was \$9.7 million. 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 each of March 31, 2015 and December 31, 2014, deferred commissions were \$4.5 million.

	(in thousands)
Loyalty program	
Loyalty deferred revenue as of January 1, 2014	\$ 5,456
Loyalty points forfeited	(4,664 )
Loyalty points used	(12,348 )
Loyalty points vested	19,580
Loyalty points unvested	1,679
Loyalty deferred revenue as of December 31, 2014	\$ 9,703
Loyalty deferred revenue as of January 1, 2015	\$ 9,703
Loyalty points forfeited	(1,381)
Loyalty points used	(3,592)
Loyalty points vested	3,144
Loyalty points unvested	1,846
Loyalty deferred revenue as of March 31, 2015	\$ 9,720

## 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:

27

---

## Table of Contents

**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.

**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 ("calculated fair value"). 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.

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 March 31, 2015, we had 155,550 shares available for grant in the future. We did not grant any stock options during the three months ended March 31, 2015.

### 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.

Table of Contents

RECENT ACCOUNTING PRONOUNCEMENTS

See Note 10, Recent Accounting Pronouncements, to our 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 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.

Table of Contents

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) North America (Canada 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); (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 three months ended March 31, 2015 were as follows:

Country (foreign currency name)	Three months ended March 31, 2015			As of March 31, 2015
	Low	High	Average	Spot
Australia (Australian Dollar)	0.76084	0.82330	0.78788	0.76909
Various countries <sup>(1)</sup> (Euro)	1.04993	1.21430	1.12865	1.08517
Canada (Canadian Dollar)	0.78230	0.86220	0.80808	0.79103
Czech Republic (Koruna)	0.03840	0.04380	0.04088	0.03950
Denmark (Kroner)	0.14069	0.16310	0.15160	0.14530
Hong Kong (Hong Kong Dollar)	0.12875	0.12900	0.12895	0.12896
Japan (Yen)	0.00823	0.00857	0.00839	0.00836
Mexico (Peso)	0.06419	0.06885	0.06694	0.06565
New Zealand (New Zealand Dollar)	0.72479	0.78430	0.75313	0.75293
Norway (Krone)	0.12034	0.13460	0.12930	0.12515
Republic of Korea (Won)	0.00088	0.00093	0.00091	0.00091
Singapore (Singapore Dollar)	0.71835	0.75650	0.73789	0.72792
South Africa (Rand)	0.08021	0.08805	0.08528	0.08276
Sweden (Krona)	0.11471	0.12900	0.12028	0.11633
Switzerland (Franc)	0.98100	1.17090	1.05205	1.03722
Taiwan (New Taiwan Dollar)	0.03122	0.03212	0.03168	0.03205
United Kingdom (British Pound)	1.47478	1.55780	1.51613	1.48363

(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 March 31, 2015, 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.

30

---

Table of Contents

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, 2014, 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.

31

---

Table of Contents

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

MANNATECH, INCORPORATED

Dated: May 12, 2015 By: /s/ Robert A. Sinnott

Robert A. Sinnott

Chief Executive Officer and Chief Science Officer

(principal executive officer)

Dated: May 12, 2015 By: /s/ S. Mark Nicholls

S. Mark Nicholls

Chief Financial Officer

(principal financial officer)

Table of ContentsINDEX 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	333-631333.1		October 28, 1998
3.2	Certificate of Amendment to the Amended and Restated Articles of Incorporation of Mannatech, dated January 13, 2012.	8-K	000-246573.1		January 17, 2012
3.3	Fourth Amended and Restated Bylaws of Mannatech, dated August 8, 2001 (Corrected).	10-K	000-246573.2		March 16, 2007
3.4	First Amendment to the Fourth Amended and Restated Bylaws of Mannatech, effective November 30, 2007.	8-K	000-246573.1		December 6, 2007
4.1	Specimen Certificate representing Mannatech's common stock, par value \$0.0001 per share.	S-1	333-631334.1		October 28, 1998
<u>10.1*</u>	Executive Service Agreement between Mannatech Korea, Ltd. and Yong Jae (Patrick) Park, dated October 1, 2009.	*	*	*	*
<u>10.2*</u>	First Amendment to Employment Agreement between Mannatech Incorporated and Robert A. Sinnott, MNS, PhD, dated December 18, 2008.	*	*	*	*
<u>31.1*</u>	Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, of the Chief Executive Officer of Mannatech.	*	*	*	*
<u>31.2*</u>	Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, of the Chief Financial Officer of Mannatech.	*	*	*	*
<u>32.1*</u>	Certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, of the Chief Executive Officer of Mannatech.	*	*	*	*
<u>32.2*</u>	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.

Furnished herewith. In accordance with Rule 406T of Regulation S-T, the information in these exhibits shall not be deemed to be "filed" for purposes of Section 18 of the Securities Exchange Act of 1934, or otherwise subject to \*\*liability under that section, and shall not be incorporated by reference into any registration statement or other document filed under the Securities Act of 1933, as amended, except as expressly set forth by specific reference in such filing.