

MANNATECH INC  
Form 10-Q  
August 08, 2017

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

FORM 10-Q  
(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended: June 30, 2017

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, a smaller reporting company, or an emerging growth company. See definitions of "accelerated filer", "large accelerated filer", "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting Emerging Growth  
.. .. " company x Company "

If an emerging growth company, indicated by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

As of July 31, 2017, the number of shares outstanding of the registrant's sole class of common stock, par value \$0.0001 per share, was 2,711,372.



MANNATECH, INCORPORATED

TABLE OF CONTENTS

<u>Special Note Regarding Forward-Looking Statements</u>	1
Part I – FINANCIAL INFORMATION	
<u>Item 1. Financial Statements</u>	2
<u>Consolidated Balance Sheets as of June 30, 2017 (unaudited) and December 31, 2016</u>	2
<u>Consolidated Statements of Operations for the Three and Six Months Ended June 30, 2017 and 2016 (unaudited)</u>	3
<u>Consolidated Statements of Comprehensive Income for the Three and Six Months Ended June 30, 2017 and 2016 (unaudited)</u>	3
<u>Consolidated Statement of Shareholders’ Equity as of June 30, 2017 (unaudited) and December 31, 2016</u>	4
<u>Consolidated Statements of Cash Flows for the Six Months Ended June 30, 2017 and 2016 (unaudited)</u>	5
<u>Notes to Unaudited Consolidated Financial Statements</u>	6
<u>Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations</u>	20
<u>Company Overview</u>	21
<u>Results of Operations</u>	22
<u>Liquidity and Capital Resources</u>	32
<u>Critical Accounting Policies and Estimates</u>	34
<u>Recent Accounting Pronouncements</u>	38
<u>Item 3. Quantitative and Qualitative Disclosures About Market Risk</u>	39
<u>Item 4. Controls and Procedures</u>	40
Part II – OTHER INFORMATION	
<u>Item 1. Legal Proceedings</u>	41
<u>Item 1A. Risk Factors</u>	41
<u>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds</u>	41
<u>Item 3. Defaults Upon Senior Securities</u>	41
<u>Item 4. Mine Safety Disclosures</u>	41
<u>Item 5. Other Information</u>	41
<u>Item 6. Exhibits</u>	41
<u>Signatures</u>	42

## 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, 2016, 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 our planned changes to global associate career and compensation plans or incentives or the regulations thereto;
- the ability to attract and retain independent associates and members;
- new regulatory changes that may affect operations, products or compensation plans or incentives;
- the competitive nature of our business with respect to products and pricing;
- publicity related to our products or network-marketing; and
- the political, social, and economic climate of the countries in which we operate.

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”.

## PART I – FINANCIAL INFORMATION

## Item 1. Financial Statements

## MANNATECH, INCORPORATED AND SUBSIDIARIES

## CONSOLIDATED BALANCE SHEETS

(in thousands, except share and per share amounts)

ASSETS	June 30, 2017 (unaudited)	December 31, 2016
Cash and cash equivalents	\$ 35,561	\$ 28,687
Restricted cash	1,514	1,510
Accounts receivable, net of allowance of \$507 and \$463 in 2017 and 2016, respectively	405	298
Income tax receivable	3	1,587
Inventories, net	10,868	11,961
Prepaid expenses and other current assets, net	2,659	3,483
Deferred commissions	3,233	3,229
Total current assets	54,243	50,755
Property and equipment, net	3,234	3,611
Construction in progress	1,294	1,012
Long-term restricted cash	6,776	6,429
Other assets	3,617	4,013
Long-term deferred tax assets, net	5,595	5,368
Total assets	\$ 74,759	\$ 71,188
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
Current portion of capital leases	\$ 392	\$ 357
Accounts payable	6,130	5,223
Accrued expenses	5,139	5,605
Commissions and incentives payable	9,679	8,799
Taxes payable	1,528	1,040
Current notes payable	843	801
Deferred revenue	8,326	8,156
Total current liabilities	32,037	29,981
Capital leases, excluding current portion	182	261
Long-term deferred tax liabilities	30	29
Long-term notes payable	286	567
Other long-term liabilities	1,413	1,465
Total liabilities	33,948	32,303
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, 2,753,789 shares issued and 2,711,372 shares outstanding as of June 30, 2017 and 2,758,275 shares issued and 2,688,790 shares outstanding as of December 31, 2016	—	—
Additional paid-in capital	35,293	38,190
Retained earnings	7,202	7,331
Accumulated other comprehensive income	3,482	1,834
Treasury stock, at average cost, 42,417 shares as of June 30, 2017 and 69,485 shares as of December 31, 2016, respectively	(5,166)	(8,470)

Total shareholders' equity	40,811	38,885
Total liabilities and shareholders' equity	\$ 74,759	\$ 71,188
See accompanying notes to unaudited consolidated financial statements.		

MANNATECH, INCORPORATED AND SUBSIDIARIES  
 CONSOLIDATED STATEMENTS OF OPERATIONS – (UNAUDITED)

(in thousands, except per share information)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Net sales	\$47,686	\$48,810	\$88,327	\$89,518
Cost of sales	8,786	10,100	17,548	18,489
Gross profit	38,900	38,710	70,779	71,029
Operating expenses:				
Commissions and incentives	18,994	20,417	36,075	36,034
Selling and administrative expenses	9,978	9,730	18,632	18,322
Depreciation and amortization expense	453	477	955	920
Other operating costs	6,656	8,198	14,332	15,329
Total operating expenses	36,081	38,822	69,994	70,605
Income (loss) from operations	2,819	(112 )	785	424
Interest income	19	23	48	11
Other income (expense), net	(9 )	(1,037 )	32	(703 )
Income (loss) before income taxes	2,829	(1,126 )	865	(268 )
Income tax provision	(1,034 )	(206 )	(317 )	(472 )
Net income (loss)	\$1,795	\$(1,332 )	\$548	\$(740 )
Earnings (loss) per common share:				
Basic	\$0.66	\$(0.49 )	\$0.20	\$(0.27 )
Diluted	\$0.65	\$(0.49 )	\$0.19	\$(0.27 )
Weighted-average common shares outstanding:				
Basic	2,711	2,707	2,706	2,701
Diluted	2,778	2,707	2,775	2,701

MANNATECH, INCORPORATED AND SUBSIDIARIES  
 CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS) – (UNAUDITED)

(in thousands)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Net income (loss)	\$1,795	\$(1,332)	\$548	\$(740)
Foreign currency translations	(731 )	917	1,648	1,504
Comprehensive income (loss)	\$1,064	\$(415 )	\$2,196	\$764

See accompanying notes to unaudited consolidated financial statements.

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

	Common stock Par value	Additional paid in capital	Retained earnings	Accumulated other comprehensive income	Treasury stock	Total shareholders' equity
Balance at December 31, 2016	\$	—\$ 38,190	\$ 7,331	\$ 1,834	\$(8,470)	\$ 38,885
Net income	—	—	548	—	—	548
Declared dividends	—	—	(677 )	—	—	(677 )
Charge related to stock-based compensation	—	143	—	—	—	143
Issuance of unrestricted shares	—	(1,228 )	—	—	1,473	245
Stock option exercises	—	(1,748 )	—	—	1,831	83
Repurchase of common stock	—	(64 )	—	—	—	(64 )
Foreign currency translations	—	—	—	1,648	—	1,648
Balance at June 30, 2017	\$	—\$ 35,293	\$ 7,202	\$ 3,482	\$(5,166)	\$ 40,811

See accompanying notes to unaudited consolidated financial statements.

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

	Six Months Ended June 30,	
	2017	2016
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net income (loss)	\$548	\$(740 )
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation and amortization	955	920
Provision for inventory losses	202	157
Provision for doubtful accounts	73	422
Loss on disposal of assets	—	3
Stock-based compensation expense	388	360
Deferred income taxes	(191 )	(166 )
Changes in operating assets and liabilities:		
Accounts receivable	(169 )	(167 )
Income tax receivable	1,590	(8 )
Inventories	1,155	(2,412 )
Prepaid expenses and other current assets	1,207	590
Other assets	561	400
Deferred commissions	51	(674 )
Accounts payable	882	3,704
Accrued expenses and other liabilities	(701 )	(934 )
Taxes payable	493	469
Commissions and incentives payable	730	1,832
Deferred revenue	57	1,814
Change in restricted cash	(19 )	—
Net cash provided by operating activities	7,812	5,570
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Acquisition of property and equipment	(680 )	(1,408 )
Net cash used in investing activities	(680 )	(1,408 )
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Proceeds from stock options exercised	83	11
Repurchase of common stock	(64 )	—
Payment of cash dividends	(677 )	—
Repayment of capital lease obligations	(778 )	(723 )
Net cash used in financing activities	(1,436 )	(712 )
Effect of currency exchange rate changes on cash and cash equivalents	1,178	1,477
Net increase in cash and cash equivalents	6,874	4,927
Cash and cash equivalents at the beginning of the period	28,687	31,994
Cash and cash equivalents at the end of the period	\$35,561	\$36,921
<b>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:</b>		
Income taxes paid	\$479	\$1,519
Interest paid on capital leases and financing arrangements	\$37	\$63
Assets acquired through financing arrangements	\$130	\$409
See accompanying notes to unaudited consolidated financial statements.		

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 under the symbol “MTEX”. The Company develops, markets, and sells high-quality, proprietary nutritional supplements, topical and skin care and anti-aging products, and weight-management products. We currently sell our products into three regions: (i) the Americas (the United States, Canada, Colombia and Mexico); (ii) EMEA (Austria, the Czech Republic, Denmark, Estonia, Finland, Germany, the Republic of Ireland, Namibia, the Netherlands, Norway, South Africa, Spain, Sweden and the United Kingdom); and (iii) Asia/Pacific (Australia, Japan, New Zealand, the Republic of Korea, Singapore, Taiwan, Hong Kong, and China).

Independent associates (“associates”) purchase the Company’s products at published wholesale prices to either sell to retail customers or for personal use. Members purchase the Company’s products at a discount from published retail prices primarily for personal use. The Company cannot distinguish products sold for personal use from other sales because it is not involved with the products after delivery, other than usual and customary product warranties and returns. Only associates are eligible to earn commissions and incentives. In addition, the Company operates a non-direct selling business in mainland China. Our subsidiary in China, Meitai Daily Necessity & Health Products Co., Ltd. (“Meitai”), is operating as a traditional retailer under a cross-border e-commerce model in China. Meitai cannot legally conduct a direct selling business in China unless it acquires a direct selling license in China.

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, 2016 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, 2016 and filed with the United States Securities and Exchange Commission (the “SEC”) on March 14, 2017 (the “2016 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 2016 Annual Report.

#### Principles of Consolidation

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

#### Use of Estimates

The preparation of the Company's consolidated financial statements in accordance with GAAP 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.

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. As of June 30, 2017 and December 31, 2016, credit card receivables were \$2.6 million and \$0.5 million, respectively. As of June 30, 2017 and December 31, 2016, cash and cash equivalents held in bank accounts in foreign countries totaled \$32.3 million and \$27.5 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) the Australia building lease collateral. As of June 30, 2017 and December 31, 2016, our total restricted cash was \$8.3 million and \$7.9 million, respectively.

#### Accounts Receivable

Accounts receivable are carried at their estimated collectible amounts. Receivables are created upon shipment of an order if the credit card payment is rejected or does not match the order total. As of each of June 30, 2017 and December 31, 2016, receivables consisted primarily of amounts due from members and associates. The Company periodically evaluates its receivables for collectability based on historical experience, recent account activities, and the length of time receivables are past due and writes-off receivables when they become uncollectible. As of each of June 30, 2017 and December 31, 2016, the Company held an allowance for doubtful accounts of \$0.5 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 June 30, 2017 and December 31, 2016, other assets were \$3.6 million and \$4.0 million, respectively, and primarily consisted of deposits for building leases in various locations of \$1.8 million and \$2.2 million, respectively. Additionally, included in the June 30, 2017 and December 31, 2016 balances was \$1.6 million and \$1.5 million, respectively, representing a deposit with Mutual Aid Cooperative and Consumer in the Republic of Korea, an organization established by the Republic of Korea's Fair Trade Commission to protect consumers who participate in network marketing activities. Also included in each of the June 30, 2017 and December 31, 2016 balances was \$0.2 million of indefinite lived intangible assets relating to the Manapol® powder trademark.

#### Notes Payable

As of June 30, 2017 and December 31, 2016, notes payable were \$1.1 million and \$1.4 million, respectively, as a result of funding from a capital financing agreement related to our investment in computer hardware and software and

other financing arrangements. At June 30, 2017, the current portion was \$0.8 million and the long-term portion was \$0.3 million. At December 31, 2016, the current portion was \$0.8 million and the long-term portion was \$0.6 million.

#### Other Long-Term Liabilities

Other long-term liabilities were \$1.4 million and \$1.5 million as of June 30, 2017 and December 31, 2016, respectively. At each of June 30, 2017 and December 31, 2016, the Company recorded \$0.2 million in other long-term liabilities related to uncertain income tax positions (see Note 8, Income Taxes of the Company's annual report on Form 10-K for the year ended December 31, 2016, filed March 14, 2017). Certain operating leases for the Company's regional office facilities contain a restoration clause that requires the Company to restore the premises to its original condition. At June 30, 2017 and December 31, 2016, accrued restoration costs related to these leases amounted to \$0.5 million and \$0.6 million, respectively. At June 30, 2017 and December 31, 2016, 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 \$0.4 million and \$0.5 million, respectively. (see Note 10, Employee Benefit Plans, of the Company's 10-K, filed March 14, 2017).

MANNATECH, INCORPORATED AND SUBSIDIARIES  
 NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

Related Party Transactions

In connection with a confidential settlement agreement discussed in Note 7 Litigation, an associate position valued at \$0.8 million was transferred to NutraScoop, LLC. Jim Hill is the managing member and Marlin Ray Robbins is a member of NutraScoop, LLC. Mr. Robbins is a major shareholder and the father of Mr. Kevin Robbins, a member of the Company's Board of Directors.

Revenue Recognition and Deferred Commissions

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

The Company recognizes revenue from shipped packs and products upon receipt by the customer. Corporate-sponsored event revenue is recognized when the event is held. The Company defers certain components of its revenue. At June 30, 2017 and December 31, 2016, the Company's deferred revenue was \$8.3 million and \$8.2 million, respectively. Deferred revenue consisted primarily of: (i) sales of packs and products shipped but not received by the customers by the end of the respective period; (ii) revenue from the loyalty program; and (iii) prepaid registration fees from customers planning to attend a future corporate-sponsored event. The deferred revenue associated with the loyalty program at June 30, 2017 and December 31, 2016 was \$6.2 million and \$7.0 million, respectively. 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 \$3.2 million at each of June 30, 2017 and December 31, 2016.

Loyalty program	(in thousands)
Loyalty deferred revenue as of January 1, 2016	\$ 8,073
Loyalty points forfeited or expired	(6,963 )
Loyalty points used	(15,451 )
Loyalty points vested	20,085
Loyalty points unvested	1,289
Loyalty deferred revenue as of December 31, 2016	\$ 7,033
Loyalty deferred revenue as of January 1, 2017	\$7,033
Loyalty points forfeited or expired	(3,370 )
Loyalty points used	(6,957 )
Loyalty points vested	7,585
Loyalty points unvested	1,916
Loyalty deferred revenue as of June 30, 2017	\$6,207

The Company estimates a sales return reserve for expected sales refunds based on historical experience over a rolling six-month period. If actual results differ from our estimated sales return reserve due to various factors, the amount of revenue recorded each period could be materially affected. Historically, sales returns have not materially changed through the years, as the majority of our customers who return their merchandise do so within the first 90 days after the original sale. Sales returns have historically averaged 1.5% or less of our gross sales. For the six months ended June 30, 2017, our sales return reserve consisted of the following (in thousands):

Sales reserve as of January 1, 2017	\$129
-------------------------------------	-------

Provision related to sales made in current period	591
Adjustment related to sales made in prior periods	3
Actual returns or credits related to current period	(457 )
Actual returns or credits related to prior periods	(132 )
Sales reserve as of June 30, 2017	\$134

8

---

MANNATECH, INCORPORATED AND SUBSIDIARIES  
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

### Shipping and Handling Costs

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

### Commissions and Incentives

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

### Comprehensive Income and Accumulated Other Comprehensive Income

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, Denmark, Norway, Sweden, Colombia, Mexico and China operations, remeasurement of intercompany balances classified as equity in its Taiwan, Mexico and Cyprus operations, and changes in the pension obligation for its Japanese employees.

### Recently Adopted Accounting Pronouncements

The Company adopted Accounting Standard Updated ("ASU") 2015-17, Income Taxes (Topic 740), Balance Sheet Classification of Deferred Taxes during the first quarter of 2017 and applied it retrospectively to all deferred tax assets and liabilities. This ASU requires classification of deferred income taxes as non-current on the consolidated balance sheets. Deferred income taxes were previously required to be classified as current or non-current on the consolidated balance sheets. The adoption had an immaterial prior year balance sheet change in classification between current deferred tax assets and long-term deferred tax assets.

The Company adopted ASU 2016-09, Compensation - Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting during the first quarter of 2017. The updated guidance changes how companies account for certain aspects of stock-based payment awards to employees, including the accounting for income taxes, forfeitures, and statutory tax withholding requirements, as well as classification of such awards in the statement of cash flows. ASU 2016-09 became effective for us on January 1, 2017. ASU 2016-09 requires that excess tax benefits and deficiencies resulting from the vesting or exercise of stock-based compensation awards to be recognized in the income statement on a prospective basis. Previously, these amounts were recognized in additional paid-in capital. In addition, ASU 2016-09 requires excess tax benefits and deficiencies to be excluded from the assumed future proceeds in the calculation of diluted EPS under the treasury stock method. In accordance with the standard, we elected to continue our historical approach of estimating forfeitures during the award vesting period. ASU 2016-09 had no material impact to the calculation of weighted average shares outstanding for the three and six month periods ended June 30, 2017. The adoption of this standard did not have a material effect on our consolidated financial statements for the three and six month periods ended June 30, 2017.



MANNATECH, INCORPORATED AND SUBSIDIARIES  
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

Accounting Pronouncements Issued But Not Yet Effective

In May 2014, the Financial Accounting Standards Board ("FASB") issued ASU 2014-09, Revenue from Contracts with Customers. This new standard requires companies to recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which a company expects to be entitled in exchange for those goods or services. Under the new standard, revenue is recognized when a customer obtains control of a good or service. The standard allows for two transition methods - entities can either apply the new standard (i) retrospectively to each prior reporting period presented or (ii) retrospectively with the cumulative effect of initially applying the standard recognized at the date of initial adoption. In July 2015, the FASB issued ASU 2015-14, Revenue from Contracts with Customers, which defers the effective date by one year to December 15, 2017 for fiscal years, and interim periods within those fiscal years, beginning after that date. In March 2016, the FASB issued ASU 2016-08, Revenue from Contracts with Customers, Principal versus Agent Considerations (Reporting Revenue versus Net), in April 2016, the FASB issued ASU 2016-10, Revenue from Contracts with Customers, identifying Performance Obligations and Licensing, and in May 2016, the FASB issued ASU 2016-12, Revenue from Contracts with Customers, Narrow-Scope Improvements and Practical Expedients, which provide additional clarification on certain topics addressed in ASU 2014-09. ASU 2016-08, ASU 2016-10, and ASU 2016-12 follow the same implementation guidelines as ASU 2014-09 and ASU 2015-14. All of these aforementioned ASUs have been codified under ASC 606, Revenue from Contracts with Customers. We plan to adopt the guidance as of January 1, 2018 and expect to utilize the modified retrospective transition method. We have a project plan in place for the transition to revenue recognition in accordance with ASC 606, including necessary changes to accounting processes, procedures and internal controls. We are evaluating the impact of adopting this standard and the overall financial impact is unknown at this time.

In February 2016, the FASB issued ASU 2016-02, Leases (Topic 842). Under ASU 2016-02, an entity will be required to recognize right-of-use assets and lease liabilities on its balance sheet and disclose key information about leasing arrangements. ASU 2016-02 offers specific accounting guidance for a lessee, a lessor and sale and leaseback transactions. Lessees and lessors are required to disclose qualitative and quantitative information about leasing arrangements to enable a user of the financial statements to assess the amount, timing and uncertainty of cash flows arising from leases. For public companies, ASU 2016-02 is effective for annual reporting periods beginning after December 15, 2018, including interim periods within that reporting period, and requires a modified retrospective adoption, with early adoption permitted. Management is currently in the initial stages of evaluating the future impact of ASU 2016-02 on its consolidated financial position, results of operations and cash flows. The overall financial impact of adopting this standard is unknown at this time.

In November 2016, the FASB issued ASU 2016-18, Restricted Cash (Subtopic 230), which addresses the diversity in the classification and presentation of changes in restricted cash on the statement of cash flows. The amendment requires that a statement of cash flows explain the change during the period in the total of cash, cash equivalents, and restricted cash. Restricted cash amounts are to be included with cash and cash equivalents when reconciling the beginning and ending amounts of cash on the statement of cash flows. The guidance is effective for annual periods beginning after December 15, 2017. Early adoption is permitted. Management is currently in the initial stages of evaluating the future impact of ASU 2016-18 on its consolidated financial position, results of operations and cash flows.

In February 2017, the FASB issued ASU 2017-07, Compensation-Retirement Benefits (Topic 715 - Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost), which requires an entity to present the service cost component of the net periodic benefit cost in the same income statement line item(s) as other employee compensation costs arising from services rendered during the period. In addition, ASU 2017-07 requires an entity to present the other components separately from the line item(s) that includes the service cost and outside of any subtotal of operating income. The guidance is effective for fiscal years beginning after December 15, 2017 and interim periods within those years. Early adoption is permitted. The Company is currently evaluating the impact of this standard, but we do not expect it to have a material impact on the Company's consolidated results of operations and

financial condition.

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

MANNATECH, INCORPORATED AND SUBSIDIARIES  
 NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

## NOTE 2: INVENTORIES

Inventories consist of raw materials, finished goods, and promotional materials. The Company provides an allowance for any slow-moving or obsolete inventories. Inventories at June 30, 2017 and December 31, 2016, consisted of the following (in thousands):

	June 30, 2017	December 31, 2016
Raw materials	\$267	\$239
Finished goods	11,021	12,103
Inventory reserves for obsolescence	(420 )	(381 )
Total	\$10,868	\$11,961

## NOTE 3: INCOME TAXES

For the three and six months ended June 30, 2017, the Company's effective tax rate was 36.5% and 36.6%, respectively. For the three and six months ended June 30, 2016, the Company's effective income tax rate was (18.3)% and (175.9)%, respectively. For the three and six months ended June 30, 2017 and 2016, the Company's effective tax rate was determined based on the estimated annual effective tax rate.

The effective tax rate for the three months and six months ended June 30, 2017 was slightly higher than would have been expected if the federal statutory rate were applied to income before tax. Items increasing the effective income tax rate include the valuation allowances associated with certain deferred tax assets, "subpart F income" resulting from controlled foreign corporation operations and foreign permanent components. Items decreasing the effective income tax rate include the favorable rate differences from foreign jurisdictions, unrealized foreign exchange gains and deductions on non-qualified stock options.

The effective tax rates for the three and six months ended June 30, 2016 were different from the federal statutory rate due to the mix of earnings across jurisdictions and certain items that are discrete to the quarter. Items discrete to the quarter include foreign exchange losses and increased losses in jurisdictions for which no taxable benefit can be recorded. These items are partially offset by the effect of the release of the valuation allowance in Switzerland due to improved earnings.

## NOTE 4: EARNINGS (LOSS) PER SHARE

The Company calculates basic Earnings per Share ("EPS") by dividing net income (loss) by the weighted-average number of common shares outstanding for the period. Diluted EPS also reflects the potential dilution that could occur if common stock were issued for awards outstanding under the Mannatech, Incorporated 2017 Stock Incentive Plan. In determining the potential dilution effect of outstanding stock options during the three and six months ended June 30, 2017, the Company used the quarterly average common stock close price of \$17.28 and \$17.85 per share respectively. For the three and six months ended June 30, 2017, approximately 0.1 million and 0.3 million shares of the Company's common stock subject to options were excluded from the diluted EPS calculation, respectively, as the effect would have been antidilutive.

In determining the potential dilution effect of outstanding stock options during the three and six months ended June 30, 2016, the Company used the quarterly average common stock closing price of \$20.82 and \$19.69 per share, respectively. For the three and six months ended June 30, 2016, approximately 0.1 million and 0.2 million shares of the Company's common stock subject to options were excluded from the diluted EPS calculation, respectively, as the

effect would have been antidilutive. The Company reported a loss for both the three and six months ended June 30, 2016.

MANNATECH, INCORPORATED AND SUBSIDIARIES  
 NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

## NOTE 5: STOCK-BASED COMPENSATION

The Company currently has one active stock-based compensation plan, the Mannatech, Incorporated 2017 Stock Incentive Plan (the “2017 Plan”), which was adopted by the Company’s Board of Directors on April 17, 2017 and was approved by its shareholders on June 8, 2017. The 2017 Plan supersedes the Mannatech, Incorporated 2008 Stock Incentive Plan, as amended, which was set to expire on February 20, 2018. The Board has reserved a maximum of 250,000 shares of our common stock that may be issued under the 2017 Plan, consisting of 181,674 newly reserved shares and 68,326 shares that remained available for issuance under the 2008 Plan (subject to adjustments for stock splits, stock dividends or other changes in corporate capitalization). As of June 30, 2017, the Company had a total of 240,000 shares available for grant, which expires on April 16, 2027.

The 2008 Plan provided, and the 2017 Plan provides, for grants of incentive stock options, nonqualified stock options, stock appreciation rights, restricted stock, restricted stock units, performance stock and performance stock units to our employees, board members, and consultants. However, only employees of the Company and its corporate subsidiaries are eligible to receive incentive stock options. The exercise price per share for all stock options will be no less than the market value of a share of common stock on the date of grant. Any incentive stock option granted to an employee owning more than 10% of our common stock will have an exercise price of no less than 110% of our common stock’s market value on the grant date.

The majority of stock options vest over two or three years, and generally are granted with a term of ten years, or five years in the case of an incentive option granted to an employee who owns more than 10% of our common stock.

The Company records stock-based compensation expense related to granting stock options in selling and administrative expenses. During each of the three months ended June 30, 2017 and 2016, the Company granted 10,000 stock options. The fair value of stock options granted during the three months ended June 30, 2017 was approximately \$5.87 per share. The Company recognized compensation expense as follows for the three and six months ended June 30 (in thousands):

	Three months ending June 30		Six months ending June 30	
	2017	2016	2017	2016
Total gross compensation expense	\$67	\$141	\$143	\$360
Total tax benefit associated with compensation expense	15	28	28	47
Total net compensation expense	\$52	\$113	\$115	\$313

As of June 30, 2017, the Company expects to record compensation expense in the future as follows (in thousands):

	Six months ending December 31, 2017	Year ending December 31,		
		2018	2019	2020
Total gross unrecognized compensation expense	\$ 103	\$ 122	\$ 38	\$ —

Edgar Filing: MANNATECH INC - Form 10-Q

Tax benefit associated with unrecognized compensation expense	17	20	3	—
Total net unrecognized compensation expense	\$ 86	\$102	\$ 35	\$ —

12

---

MANNATECH, INCORPORATED AND SUBSIDIARIES  
 NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

NOTE 6: SHAREHOLDERS' EQUITY

Treasury Stock

On June 30, 2004, the Company's Board of Directors authorized the Company to repurchase, in the open market, the lesser of (i) 131,756 shares of its common stock and (ii) \$1.3 million of its shares, (the "June 2004 Plan"). On August 28, 2006, a second program permitting the Company to purchase, in the open market, up to \$20 million of its outstanding shares was approved by our Board of Directors (the "August 2006 Plan"). On July 14, 2011, the Company's Board of Directors authorized the Company to reactivate the June 2004 Plan. On August 31, 2016, the Company's Board of Directors reactivated the August 2006 Plan and authorized the Company to repurchase up to \$0.5 million of the Company's outstanding common shares in open market transactions. As of August 8, 2017, the maximum number of shares available for repurchase under the June 2004 Plan was 19,084, and the total number of shares purchased in the open market under the June 2004 Plan was 112,672. As of August 8, 2017, there was \$19.7 million remaining for repurchase under the August 2006 Plan, and the total value of shares repurchased in the open market under the August 2006 Plan was \$0.3 million. The Company does not have any stock repurchase plans or programs other than the June 2004 Plan and the August 2006 Plan.

During the three and six months ended June 30, 2017, the Company repurchased 4,486 shares at an average price of \$14.28.

Accumulated Other Comprehensive Income

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

	Foreign Currency Translation and Remeasurement <sup>(2)</sup>	Pension Postretirement Benefit Obligation	Accumulated Other Comprehensive Income, Net
Balance as of December 31, 2016	\$ 1,534	\$ 300	\$ 1,834
Current-period change <sup>(1)</sup>	1,648	—	1,648
Balance as of June 30, 2017	\$ 3,182	\$ 300	\$ 3,482

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

<sup>(2)</sup>Includes remeasurement of intercompany balances classified as equity in its Taiwan, Mexico and Cyprus operations.

Dividends

On February 23, 2017, the Board of Directors declared a dividend of \$0.125 per share that was paid on March 29, 2017 to shareholders of record on March 8, 2017.

On June 2, 2017, the Board of Directors declared a dividend of \$0.125 per share that was paid on June 28, 2017 to shareholders of record on June 21, 2017.



MANNATECH, INCORPORATED AND SUBSIDIARIES  
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

NOTE 7: LITIGATION

Breach of Contract

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

On February 18, 2015, Diana Anselmo and New Day Today Corporation (collectively, the “Plaintiffs”) filed suit against the Company alleging breach of contract pertaining to a portion of proceeds from a Mannatech associate position once held by Ray Gebauer, alleged to be Ms. Anselmo’s former husband. Plaintiffs sought damages under the contract of approximately \$600,000 in past commissions and between \$2.0 million and \$3.1 million in future commissions, as well as an award of attorney’s fees. As an alternative to future money damages, Plaintiffs sought a declaration that the Company must continue to pay Plaintiffs proceeds from Mr. Gebauer’s former account. The parties entered into a confidential settlement agreement on April 13, 2017. At March 31, 2017, the Company accrued \$0.5 million in accrued liabilities related to this matter. The Court entered a signed Agreed Order of Dismissal with Prejudice on July 14, 2017. The only remaining deadline under the settlement agreement provides that at year-end, the appropriate IRS forms will be issued. The Company considers this matter closed.

Administrative Proceedings

Mannatech Korea, Ltd. v. Busan Custom Office, Busan District Court, Korea

On or before 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, all of which was paid in January 2014. Both parties submitted a response to the Court’s inquiry on January 15, 2016. The final hearing for the case was held on May 26, 2016 where each party presented their respective arguments. The Court set the decision hearing on October 27, 2016, and the Court decided the case in the Company’s favor. However, on November 18, 2016, BCO filed an appeal to the Busan High Court. The first hearing occurred on March 31, 2017, and the second hearing occurred on April 21, 2017. The final hearing was held on June 2, 2017. The Court issued its decision on June 30, 2017 in favor of the BCO. The Company is appealing this decision. This matter remains open.

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 their 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 submitted its list of claim constructions/definitions and a

list of the supporting authority. Each party filed its opening brief and their respective responsive briefs. 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. The parties remain engaged in the claim construction process. Mediation on this matter was held on April 24, 2015 and a settlement was not reached.

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

MANNATECH, INCORPORATED AND SUBSIDIARIES  
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

On November 5, 2015, the Court issued an Order accepting Defendant's stipulation of infringement under the Court's claim interpretation and granted the Company's partial motion for summary judgment and issued a permanent injunction against Defendants' infringement of the Patents. The Court stayed the permanent injunction until the conclusion of Defendants' appeal to the U.S. Court of Appeals for the Federal Circuit (the "Court of Appeals"). On December 3, 2015, Defendants filed their Notice of Appeal which was docketed by the Court of Appeals on December 8, 2015. Defendants-Appellants filed their brief with the Court of Appeals on February 28, 2016. The Company-Appellee filed its brief with the Court of Appeals on March 24, 2016. Oral argument for the appeal was held on August 1, 2016. On August 5, 2016, the Court of Appeals issued a per curiam opinion affirming the trial court's judgment in favor of the Company. On August 10, 2016, the Company filed a motion to lift the stay of permanent injunction previously issued by the trial court. On August 24, 2016, the Company received confirmation from its counsel that Defendants changed the formulation of the infringing product to a formulation proposed by the Company. Defendants filed their response to the Company's motion on August 31, 2016. The parties conferred via telephone and electronic mail on August 31, 2016 and September 1, 2016 regarding the Company's motion and Defendants' response. On September 1, 2016, the Company filed an Amended Certificate of Conference with the Court advising that the Company's motion was now unopposed. On October 18, 2016, the Court entered an order lifting the stay and putting the permanent injunction back into full effect. The case is now in the damages phase and the Company will seek attorneys' fees and have initiated collection of discovery for the assessment of damages. On March 31, 2017, the Court entered the Agreed Scheduling Order for trial on damages and determination of willfulness. A trial date has not yet been set.

On June 22, 2017, bankruptcy counsel for Defendant Dr. McDaniel filed a Suggestion of Bankruptcy with the Court notifying the Court and the Company that on June 20, 2017, Defendant Dr. McDaniel filed a Chapter 7 Bankruptcy in the United States Bankruptcy Court for the Northern District of Texas in Cause No. 17-42560. This case is automatically stayed, which under the Bankruptcy Code, prevents any type of collection to continue including litigation against the debtor. Defendant Dr. McDaniel asserts that the stay includes Defendant Wellness Quest as it is wholly owned by Defendant Dr. McDaniel. Although stayed, the case has not been dismissed. This matter remains open.

This lawsuit continues the Company's enforcement of its patent rights, and the Company intends to vigorously prosecute these matters. 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, Xiong Lo, RBC Life Sciences, Inc. and RBC Life Sciences USA, Inc., 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.

In Re: Harley Reginald McDaniel, Case No. 17-42560 (U.S. Bankruptcy Court for the Northern District of Texas)

On June 22, 2017 the Company received notice that on June 20, 2017, Dr. H. Reginald McDaniel (the "Debtor") filed Chapter 7 Bankruptcy in the United States Bankruptcy Court for the Northern District of Texas. The Debtor's initial filings indicate that the Company is the largest creditor based on the Company's judgment against the Debtor in the patent litigation styled, Mannatech, Incorporated v. Wellness Quest, LLC and Harley Reginald McDaniel. The Debtor asserts that the value of the debt is \$700,000. The Company has engaged bankruptcy counsel. The first meeting of creditors is scheduled for August 8, 2017. Objections to Discharge must be filed by October 10, 2017. Currently, no property appears to be available to pay creditors; however, the Company will closely monitor this case to protect its interests. This matter remains open.

Trademark Opposition - U.S. Patent and Trademark Office

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

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

MANNATECH, INCORPORATED AND SUBSIDIARIES  
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

On September 15, 2015, Shaklee filed two more Notices of Opposition for the UTH & Design and UTH applications. The Company filed Answers and Counterclaims on November 20, 2015. On January 25, 2016, the Company filed a motion to strike Shaklee's affirmative defense on cancellation. On May 17, 2016, the TTAB granted the Company's motion to strike Shaklee's affirmative defense on cancellation. On August 9, 2016, Shaklee filed a Motion for Summary Judgment on the Company's cancellation filing of its YOUTH mark stating that their mark is in use and they have not abandoned their rights. On September 9, 2016, the Company filed a Motion for Request for Discovery to Respond to Summary Judgment under Rule 56(d) stating that the Company cannot respond without sufficient information due to lack in discovery. On September 28, 2016, Shaklee filed a response to the Company's motion to cancel the request for discovery. The Company filed a response in support of the motion under Rule 56(d) on October 18, 2016. On December 22, 2016, the TTAB requested that the Company send copies of the request for discovery to Shaklee by January 6, 2017. On March 28, 2017, the TTAB ruled on the 56(d) Motion, granting the Company's motion in part to oblige Shaklee to answer the Company's request for discovery related to Shaklee's use or non-use of the YOUTH mark. The Company took the deposition of Shaklee's designated witness on May 31, 2017.

On June 29, 2017, the Company filed Applicant's Opposition to Opposer's Motion for Summary Judgment on Applicant's Counterclaim for Abandonment and Applicant's Cross Motion for Summary Judgment on its Counterclaim for Abandonment. Shaklee's reply in support of their Motion for Summary Judgment and Response to the Company's Counterclaim is due on August 3, 2017. This matter remains ongoing.

It is not possible at this time to predict the outcome of this office 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 remains open.

#### Litigation in General

The Company has incurred several 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 by or 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.

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

#### NOTE 8: FAIR VALUE

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

Fair Value Measurements and Disclosure (Topic 820) of the FASB 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.

MANNATECH, INCORPORATED AND SUBSIDIARIES  
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

The primary objective of the Company's investment activities is to preserve principal while maximizing yields without significantly increasing risk. The investment instruments held by the Company are money market funds and interest bearing deposits for which quoted market prices are readily available. The Company considers these highly liquid investments to be cash equivalents. These investments are classified within Level 1 of the fair value hierarchy because they are valued based on quoted market prices in active markets. The Company does not have any material financial liabilities that were required to be measured at fair value on a recurring basis at June 30, 2017. The table below presents the recorded amount of financial assets measured at fair value (in thousands) on a recurring basis as of June 30, 2017 and December 31, 2016.

June 30, 2017	Level 1	Level 2	Level 3	Total
Assets				
Money Market Funds – Fidelity, US	\$202	\$	—\$	—\$202
Interest bearing deposits – various banks	24,547	—	—	24,547
Total assets	\$24,749	\$	—\$	—\$24,749
Amounts included in:				
Cash and cash equivalents	\$18,412	\$	—\$	—\$18,412
Restricted cash	741	—	—	741
Long-term restricted cash	5,596	—	—	5,596
Total	\$24,749	\$	—\$	—\$24,749

December 31, 2016	Level 1	Level 2	Level 3	Total
Assets				
Money Market Funds – Fidelity, US	\$12	\$	—\$	—\$12
Interest bearing deposits – various banks	19,357	—	—	19,357
Total assets	\$19,369	\$	—\$	—\$19,369
Amounts included in:				
Cash and cash equivalents	\$13,326	\$	—\$	—\$13,326
Restricted cash	737	—	—	737
Long-term restricted cash	5,306	—	—	5,306
Total	\$19,369	\$	—\$	—\$19,369

NOTE 9: SEGMENT INFORMATION

The Company's primary operating and sole reporting segment is one where we sell proprietary nutritional supplements, skin care and anti-aging products, and weight-management and fitness products through network marketing distribution channels operating in twenty-five countries. Each of the business units sells similar packs and products and possesses similar economic characteristics, such as selling prices and gross margins. In each country, the Company markets its products and pays commissions and incentives in similar market environments. The Company's management reviews its financial information by country and focuses its internal reporting and analysis of revenues by packs and product sales. The Company sells its products through its independent associates who occupy positions in our network and distribute products through similar distribution channels in each country. No single independent associate has ever accounted for more than 10% of the Company's consolidated net sales. The Company also operates a non-direct selling business in mainland China. Our subsidiary in China, Meitai, is operating as a traditional retailer under a cross-border e-commerce model. Meitai cannot legally conduct a direct selling business in China unless it

acquires a direct selling license in China.

The Company operates facilities in fourteen countries and sells product in twenty-six 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, Mexico, Hong Kong, Singapore, Colombia and China. Each facility services different geographic areas. We currently sell our products in three regions: (i) the Americas (the United States, Canada, Colombia and Mexico); (ii) EMEA (Austria, the Czech Republic, Denmark, Estonia, Finland, Germany, the Republic of Ireland, Namibia, the Netherlands, Norway, South Africa, Spain, Sweden and the United Kingdom); and (iii) Asia/Pacific (Australia, Japan, New Zealand, the Republic of Korea, Singapore, Taiwan, Hong Kong and China).

MANNATECH, 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 and six months ended June 30, were as follows (in millions, except percentages):

Region	Three months			Six months		
	2017	2016	%	2017	2016	%
Americas	\$19.5	\$19.0	40.9 %	\$35.0	\$35.0	39.6 %
Asia/Pacific	24.7	26.3	51.8 %	46.6	47.7	53.3 %
EMEA	3.5	3.5	7.3 %	6.7	6.8	7.6 %
Totals	\$47.7	\$48.8	100.0 %	\$88.3	\$89.5	100.0 %

	Three months		Six Months	
	2017	2016	2017	2016
Consolidated product sales	\$40.3	\$40.1	\$74.1	\$73.8
Consolidated pack sales	6.0	7.5	11.7	13.2
Consolidated other, including freight	1.4	1.2	2.5	2.5
Consolidated total net sales	\$47.7	\$48.8	\$88.3	\$89.5

Long-lived assets, which include property and equipment and construction in process for the Company and its subsidiaries, as of June 30, 2017 and December 31, 2016, reside in the following regions, as follows (in millions):

Region	June 30, 2017	December 31, 2016
Americas	\$ 3.1	\$ 3.1
Asia/Pacific	1.4	1.4
EMEA	—	0.1
Total	\$ 4.5	\$ 4.6

MANNATECH, INCORPORATED AND SUBSIDIARIES  
 NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

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

Region	June 30, 2017	December 31, 2016
Americas	\$4.1	\$ 4.8
Asia/Pacific	4.9	4.2
EMEA	1.9	3.0
Total	\$10.9	\$ 12.0

NOTE 10: SUBSEQUENT EVENTS

On July 1, 2017, the Company revised its Associate Compensation Plan (the "2017 Compensation Plan"), which was designed to stimulate business growth and development for our active business building associates and to enhance our product offering to our preferred customers. In doing so, the Company hopes to better utilize commission dollars to stimulate company growth. The 2017 Compensation Plan provides revised income streams, new leadership levels and titles, and modified various volume requirements for our Associates. In addition, the 2017 Compensation Plan re-designated members as preferred customers and modified their pricing structure. The impact of this plan change could cause actual results in the future to vary materially from historical results.

On July 10, 2017, the Company was apprised of the results of the Korea Income Tax Audit. The Korean National Tax Service assessed the Company with approximately \$1.1 million in additional income taxes as a result of the examination of the Company's 2012 through 2016 tax returns.

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

The following discussion is intended to assist in the understanding of our consolidated financial position and results of operations for the three and six months ended June 30, 2017 as compared to the same periods in 2016, and should be read in conjunction with Item 1 "Financial Statements" in Part I of this quarterly report on Form 10-Q. Unless stated otherwise, all financial information presented below, throughout this report, and in the consolidated financial statements and related notes includes Mannatech and all of our subsidiaries on a consolidated basis. To supplement our financial results presented in accordance with generally accepted accounting principles in the United States ("GAAP"), we disclose certain adjusted financial measures which we refer to as Constant dollar ("Constant dollar") measures, which are non-GAAP financial measures. Refer to the Non-GAAP Financial Measures section herein for a description of how such Constant dollar measures are determined.

## COMPANY OVERVIEW

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

We conduct our business as a single operating segment and primarily sell our products through a network of approximately 218,000 active independent associates and member positions held by individuals that had purchased our products and/or packs during the last 12 months, who we refer to as current independent associates and members. New pack sales and positions in our network are leading indicators for the long-term success of our business. New associate or member positions are created in our network when our packs and products are purchased for the first time under a new account. We operate as a seller of nutritional supplements, topical and skin care and anti-aging products, and weight-management products through our network marketing distribution channels operating in 25 countries and e-commerce retail in China. 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 current independent associates and members that occupy sales or purchasing positions in our network; entry into new markets and growth of existing markets; niche market development; new product introduction; and investment in our infrastructure. During the fourth quarter of 2016, we commenced a non-direct selling business in China. Our subsidiary in China, Meitai, is operating as a traditional retailer under a cross-border e-commerce model. Meitai cannot legally conduct a direct selling business in China unless it acquires a direct selling license in China.

### Current Economic Conditions and Recent Developments

Overall net sales decreased \$1.1 million, or 2.3%, to \$47.7 million, during the three months ended June 30, 2017, as compared to the same period in 2016. Net sales of \$47.7 million during the three months ended June 30, 2017 were \$7.1 million higher than net sales of \$40.6 million during the three months ended March 31, 2017. Net sales for the six months ended June 30, 2017 decreased by \$1.2 million, or 1.3%, as compared to the same period in 2016. For three and six months ended June 30, 2017, our net sales declined 3.5% and 3.0%, respectively on a Constant dollar basis (see Non-GAAP Measures, below); favorable foreign exchange caused an increase of \$0.6 million and \$1.5 million as compared to same periods in 2016. For the three and six months ended June 30, 2017, our operations outside of the Americas accounted for approximately 59.1% and 60.4%, respectively, of our consolidated net sales. The net sales comparisons for the three and six-month periods ended June 30, 2017 and June 30, 2016 were affected by the loyalty program and the number of pack orders placed.

The loyalty program increased net sales for the three and six months ended June 30, 2017 by \$0.7 million and \$1.1 million, respectively, as compared to the same period in 2016.

The number of packs sold to new and continuing independent associates and members decreased 12.8% during the second quarter of 2017 to approximately 30,700 as compared to 35,200 during the same period in 2016. This decrease was further impacted by a \$17 decrease in average pack sale, to \$195 for the three months ended June 30, 2017, as compared to \$212 for the same period in 2016. The number of packs sold to new and continuing independent associates and members decreased 8.2% for the six months ended June 30, 2017 to approximately 59,300 as compared to 64,600 during the same period in 2016. This decrease was further impacted by an \$8 decrease in average pack sale, to \$197 for the six months ended June 30, 2017, as compared to \$205 for the same period in 2016.

Excluding the effects due to the translation of foreign currencies into U.S. dollars, net sales would have declined \$1.7 million and \$2.7 million for the three and six months ended June 30, 2017, respectively. These adjusted net sales expressed in Constant dollars are a non-GAAP financial measure discussed in further detail below.

## RESULTS OF OPERATIONS

## Three Months Ended June 30, 2017 Compared to Three Months Ended June 30, 2016

The table below summarizes our consolidated operating results in dollars and as a percentage of net sales for the three months ended June 30, 2017 and 2016 (in thousands, except percentages):

	2017		2016		Change from 2017 to 2016		
	Total dollars	% of net sales	Total dollars	% of net sales	Dollar	Percentage	
Net sales	\$47,686	100.0 %	\$48,810	100.0 %	\$(1,124)	(2.3)	%
Cost of sales	8,786	18.4 %	10,100	20.7 %	(1,314)	(13.0)	%
Gross profit	38,900	81.6 %	38,710	79.3 %	190	0.5	%
Operating expenses:							
Commissions and incentives	18,994	39.8 %	20,417	41.8 %	(1,423)	(7.0)	%
Selling and administrative expenses	9,978	20.9 %	9,730	19.9 %	248	2.5	%
Depreciation and amortization expense	453	0.9 %	477	1.0 %	(24)	(5.0)	%
Other operating costs	6,656	14.0 %	8,198	16.8 %	(1,542)	(18.8)	%
Total operating expenses	36,081	75.7 %	38,822	79.5 %	(2,741)	(7.1)	%
Income (loss) from operations	2,819	5.9 %	(112)	(0.2)%	2,931	2,617.0	%
Interest income	19	—	23	—	(4)	(17.4)	%
Other income (expense), net	(9)	—	(1,037)	(2.1)%	1,028	99.1	%
Income (loss) before income taxes	2,829	5.9 %	(1,126)	(2.3)%	3,955	351.2	%
Provision for income taxes	(1,034)	(2.2)%	(206)	(0.4)%	(828)	(401.9)	%
Net income (loss)	\$1,795	3.8 %	\$(1,332)	(2.7)%	\$3,127	234.8	%

## Six Months Ended June 30, 2017 Compared to Six Months Ended June 30, 2016

The table below summarizes our consolidated operating results in dollars and as a percentage of net sales for the six months ended June 30, 2017 and 2016 (in thousands, except percentages):

	2017		2016		Change from 2017 to 2016		
	Total dollars	% of net sales	Total dollars	% of net sales	Dollar	Percentage	
Net sales	\$88,327	100.0 %	\$89,518	100.0 %	\$(1,191)	(1.3)	%
Cost of sales	17,548	19.9 %	18,489	20.7 %	(941)	(5.1)	%
Gross profit	70,779	80.1 %	71,029	79.3 %	(250)	(0.4)	%
Operating expenses:							
Commissions and incentives	36,075	40.8 %	36,034	40.3 %	41	0.1	%
Selling and administrative expenses	18,632	21.1 %	18,322	20.5 %	310	1.7	%
Depreciation and amortization expense	955	1.1 %	920	1.0 %	35	3.8	%
Other operating costs	14,332	16.2 %	15,329	17.1 %	(997)	(6.5)	%
Total operating expenses	69,994	79.2 %	70,605	78.9 %	(611)	(0.9)	%
Income (loss) from operations	785	0.9 %	424	0.5 %	361	85.1	%
Interest income (expense)	48	0.1 %	11	—	37	336.4	%
Other income (expense), net	32	—	(703)	(0.8)%	735	104.6	%

Edgar Filing: MANNATECH INC - Form 10-Q

Income (loss) before income taxes	865	1.0	%	(268	)	(0.3	)%	1,133	422.8	%	
Provision for income taxes	(317	)	(0.4	)%	(472	)	(0.5	)%	155	32.8	%
Net income (loss)	\$548	0.6	%	\$(740	)	(0.8	)%	\$1,288	174.1	%	

22

---

## Non-GAAP Financial Measures

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

Three-month period ended (in millions, except percentages)	June 30, 2017		June 30, 2016		Constant \$ Change	
	GAAP Measure: Total \$	Non-GAAP Measure: Constant \$	GAAP Measure: Total \$	Dollar	Percent	
Net sales	\$47.7	\$ 47.1	\$ 48.8	\$(1.7)	(3.5)	)%
Product	40.3	39.8	40.1	(0.3)	(0.7)	)%
Pack	6.0	5.9	7.5	(1.6)	(21.3)	)%
Other	1.4	1.4	1.2	0.2	16.7	%
Gross profit	38.9	38.4	38.7	(0.3)	(0.8)	)%
Income (loss) from operations	2.8	2.5	(0.1)	2.6	(2,600.0)	)%

Six-month period ended (in millions, except percentages)	June 30, 2017		June 30, 2016		Constant \$ Change	
	GAAP Measure: Total \$	Non-GAAP Measure: Constant \$	GAAP Measure: Total \$	Dollar	Percent	
Net sales	88.3	\$ 86.8	\$ 89.5	\$(2.7)	(3.0)	)%
Product	74.1	72.9	73.8	(0.9)	(1.2)	)%
Pack	11.7	11.4	13.2	(1.8)	(13.6)	)%
Other	2.5	2.5	2.5	—	—	%
Gross profit	70.8	69.6	71.0	(1.4)	(2.0)	)%
Income from operations	0.8	0.2	0.4	(0.2)	(50.0)	)%

## Net Sales

Consolidated net sales for the three months ended June 30, 2017 decreased by \$1.1 million, or 2.3%, to \$47.7 million as compared to \$48.8 million for the same period in 2016. Consolidated net sales for the six months ended June 30, 2017 decreased by \$1.2 million, or 1.3%, to \$88.3 million, as compared to \$89.5 million for the same period in 2016.

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

Consolidated net sales by region for the three months ended June 30, 2017 and 2016 were as follows (in millions, except percentages):

Region	Three Months Ended		Three Months Ended	
	June 30, 2017		June 30, 2016	
Americas	\$19.5	40.9 %	\$19.0	38.9 %
Asia/Pacific	24.7	51.8 %	26.3	53.9 %
EMEA	3.5	7.3 %	3.5	7.2 %
Total	\$47.7	100.0%	\$48.8	100.0%

Consolidated net sales by region for the six months ended June 30, 2017 and 2016 were as follows (in millions, except percentages):

Region	Six Months Ended		Six Months Ended	
	June 30, 2017		June 30, 2016	
Americas	\$35.0	39.6 %	\$35.0	39.1 %
Asia/Pacific	46.6	52.8 %	47.7	53.3 %
EMEA	6.7	7.6 %	6.8	7.6 %
Total	\$88.3	100.0%	\$89.5	100.0%

For the three months ended June 30, 2017, net sales in the Americas increased by \$0.5 million, or 2.6%, to \$19.5 million, as compared to \$19.0 million for the same period in 2016. This increase was primarily due to a 12.1% increase in revenue per active independent associate and member, which was partially offset by a 8.5% decline in the number of active independent associates and members. During the three months ended June 30, 2017, the loyalty program in the Americas increased sales by \$0.4 million, as compared to the same period in 2016.

Net sales in the Americas remained the same at \$35.0 million for both the six months ended June 30, 2017 and 2016. During this comparative period, the number of active independent associates and members decreased 8.0%, which was partially offset by a 9.2% increase in revenue per active independent associate and member. During the six months ended June 30, 2017, the loyalty program in the Americas increased sales by \$0.4 million, as compared to the same period in 2016.

For the three months ended June 30, 2017, our operations outside of the Americas accounted for approximately 59.1% of our consolidated net sales, whereas in the same period in 2016, our operations outside of the Americas accounted for approximately 61.1% of our consolidated net sales.

For the six months ended June 30, 2017, our operations outside of the Americas accounted for approximately 60.4% of our consolidated net sales, whereas in the same period in 2016, our operations outside of the Americas accounted for approximately 60.9% of our consolidated net sales.

For the three months ended June 30, 2017, Asia/Pacific net sales decreased by \$1.6 million, or 6.1%, to \$24.7 million, as compared to \$26.3 million for the same period in 2016. This decrease was primarily due to a 9.0% decrease in revenue per active independent associate and member, which was partially offset by a 3.2% increase in the number of

active independent associates and members. During the three months ended June 30, 2017, the loyalty program in Asia/Pacific increased sales by \$0.3 million, as compared to the same period in 2016. Foreign currency exchange had the effect of increasing revenue by \$0.4 million for the three months ended June 30, 2017, as compared to the same period in 2016. The currency impact is primarily due to the strengthening of the Korean Won and Taiwanese Dollar, which was partially offset by the weakening of the Japanese Yen and Chinese Yuan (Renminbi).

For the six months ended June 30, 2017, Asia/Pacific net sales decreased by \$1.1 million, or 2.3%, to \$46.6 million, as compared to \$47.7 million for the same period in 2016. This decrease was primarily due to a 5.3% decrease in revenue per active independent associate and member, which was partially offset by a 5.9% increase in the number of active independent associates and members. During the six months ended June 30, 2017, the loyalty program in Asia/Pacific increased sales by \$0.6 million, as compared to the same period in 2016. Foreign currency exchange had the effect of increasing revenue by \$1.1 million for the six months ended June 30, 2017, as compared to the same period in 2016. The currency impact is primarily due to the strengthening of the Korean Won, Australian Dollar, Taiwanese Dollar, and New Zealand Dollar, which was partially offset by the weakening of the Japanese Yen and Chinese Yuan (Renminbi).

EMEA net sales remained the same at \$3.5 million for the both the three months ended June 30, 2017 and 2016. During this comparative period, the number of active independent associates and members increased 1.0%, which was partially offset by a 1.0% decrease in revenue per active independent associate and member. Foreign currency exchange had the effect of increasing revenue by \$0.2 million when the three-month period ending June 30, 2017 is compared to the same period in 2016. The currency impact is primarily due to the strengthening of the South Africa Rand, which was partially offset by the weakening of the British Pound and the Euro.

For the six months ended June 30, 2017, EMEA net sales decreased by \$0.1 million, or 1.5%, to \$6.7 million, as compared to \$6.8 million for the same period in 2016. This decrease was primarily due to a 2.5% decrease in revenue per active independent associate and member, which was partially offset by a 0.9% increase in the number of active independent associates and members. During the six months ended June 30, 2017, the loyalty program in EMEA increased net sales by \$0.1 million. Foreign currency exchange had the effect of increasing revenue by \$0.4 million when the six-month period ending June 30, 2017 is compared to the same period in 2016. The currency impact is primarily due to the strengthening of the South Africa Rand, which was partially offset by the weakening of the British Pound and the Euro.

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

- changes in our sales prices;
- changes in shipping fees;
- 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 and six months ended June 30, was as follows (in millions, except percentages):

	Three Months Ended June 30,		Change		
	2017	2016	Dollar	Percentage	
Consolidated product sales	\$40.3	\$40.1	\$0.2	0.5	%
Consolidated pack sales	6.0	7.5	(1.5 )	(20.0 )	%
Consolidated other, including freight	1.4	1.2	0.2	16.7	%
Total consolidated net sales	\$47.7	\$48.8	\$(1.1)	(2.3 )	%

	Six Months Ended June 30,		Change		
	2017	2016	Dollar	Percentage	
Consolidated product sales	\$74.1	\$73.8	\$0.3	0.4	%
Consolidated pack sales	11.7	13.2	(1.5 )	(11.4 )	%
Consolidated other, including freight	2.5	2.5	—	—	%
Total consolidated net sales	\$88.3	\$89.5	\$(1.2)	(1.3 )	%

#### 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 June 30, 2017 increased by \$0.2 million, or 0.5%, as compared to the same period in 2016. For the comparative period, the increase in product sales was due to an increase in the average order size and an increase in revenue recognized from the loyalty program on qualified product orders, which was partially offset by a decrease in the number of orders placed. The average order value for the three months ended June 30, 2017 was \$178, as compared to \$174 for the same period in 2016. The number of orders processed during the three months ended June 30, 2017 decreased by 4.3%, as compared to the same period in 2016.

Product sales for the six months ended June 30, 2017 increased by \$0.3 million, or 0.4%, as compared to the same period in 2016. For the comparative period, the increase in product sales was due to an increase in the average order size and an increase in revenue recognized from the loyalty program on qualified product orders, which was partially offset by a decrease in the number of orders placed. The average order value for the six months ended June 30, 2017 was \$170, as compared to \$165 for the same period in 2016. The number of orders processed during the six months ended June 30, 2017 decreased by 5.8%, as compared to the same period in 2016.

#### Pack Sales

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



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

	Three Months Ended June 30,		Change	
	2017	2016	Dollar	Percentage
New	\$2.6	\$3.0	\$(0.4)	(13.3)%
Continuing	3.4	4.5	(1.1)	(24.4)%
Total	\$6.0	\$7.5	\$(1.5)	(20.0)%

	Six Months Ended June 30,		Change	
	2017	2016	Dollar	Percentage
New	\$4.8	\$5.2	\$(0.4)	(7.7)%
Continuing	6.9	8.0	(1.1)	(13.8)%
Total	\$11.7	\$13.2	\$(1.5)	(11.4)%

Total pack sales for the three months ended June 30, 2017 decreased by \$1.5 million, or 20.0%, to \$6.0 million, as compared to \$7.5 million for the same period in 2016. Average pack value for the three months ended June 30, 2017 was \$195, as compared to \$212 for the same period in 2016. The total number of packs sold decreased by 4,500, or 12.8%, to 30,700 for the three months ended June 30, 2017, as compared to the same period in 2016.

Total pack sales for the six months ended June 30, 2017 decreased by \$1.5 million, or 11.4%, to \$11.7 million, as compared to \$13.2 million for the same period in 2016. Average pack value for the six months ended June 30, 2017 was \$197, as compared to \$205 for the same period in 2016. The total number of packs sold decreased by 5,300, or 8.2%, to 59,300 for the six months ended June 30, 2017, as compared to the same period in 2016.

Pack sales correlate to new associate positions held by individuals in our network when a starter pack is purchased and to continuing associate positions held by individuals in our network when an upgrade or a renewal pack is purchased. However, there is no direct correlation between product sales and the number of new and continuing associate positions and member positions held by individuals in our network because associates and members utilize products at different volumes.

During 2016 and continuing into 2017, we took the following actions to recruit and retain associates and members:

- registered our most popular products with the appropriate regulatory agencies in all countries of operations;
- rolled out new products;
- launched an aggressive marketing and educational campaign;
- continued to strengthen compliance initiatives;
- concentrated on publishing results of research studies and clinical trials related to our products;
- initiated additional incentives;
- explored new advertising and educational tools to broaden name recognition; and
- implemented changes to our global associate career and compensation plan.

The approximate number of new and continuing active independent associates and members who purchased our packs or products during the twelve months ended June 30, 2017 and 2016 were as follows:

	2017		2016	
New	100,000	45.9 %	97,000	43.7 %
Continuing	118,000	54.1 %	125,000	56.3 %
Total	218,000	100.0%	222,000	100.0%

Recruitment of new independent associates and members decreased 6.7% in the second quarter of 2017, as compared to the second quarter of 2016. The number of new independent associate and member positions held by individuals in our network for the second quarter of 2017 was approximately 26,500, as compared to 28,400 for the same period in 2016.

#### 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 the Success Tracker™ customized electronic business-building and educational materials, databases and applications; (iv) training and event registration fees; and (v) a reserve for estimated sales refunds and returns. Promotional materials, training, database applications and business management tools support our independent associates, which in turn helps stimulate product sales.

For the three months ended June 30, 2017, other sales increased by \$0.2 million, or 16.7%, to \$1.4 million, as compared to \$1.2 million for the same period in 2016. The increase was primarily due to an increase in event revenue and a decrease in sales refunds, partially offset by lower freight revenue.

Other sales remained the same at \$2.5 million for both the six months ended June 30, 2017 and 2016. During this comparative period, there was a \$0.2 million decrease in freight revenue, offset by a \$0.2 million improvement from fewer sales refunds.

#### Gross Profit

For the three months ended June 30, 2017, gross profit increased by \$0.2 million, or 0.5%, to \$38.9 million, as compared to \$38.7 million for the same period in 2016. For the three months ended June 30, 2017, gross profit as a percentage of net sales increased to 81.6%, as compared to 79.3% for the same period in 2016. During the three months ended June 30, 2017 as compared to three months ended June 30, 2016, the increase in gross profit percentage was primarily due to favorable effects of foreign exchange, a better margin on our second quarter promotions, and a change in sales mix towards products with a better margin.

For the six months ended June 30, 2017, gross profit decreased by 0.3 million, or 0.4%, to \$70.8 million, as compared to \$71.0 million for the same period in 2016. For the six months ended June 30, 2017, gross profit as a percentage of net sales increased to 80.1%, as compared to 79.3% for the same period in 2016. During the six months ended June 30, 2017 as compared to the six months ended June 30, 2016, the increase in gross profit percentage was primarily due to favorable effects of foreign exchange, a better margin on our second quarter promotions, and a change in sales mix towards products with a better margin.

#### Commissions and Incentives

Commission expenses for the three months ended June 30, 2017 decreased by 5.7%, or \$1.1 million, to \$18.3 million, as compared to \$19.4 million for the same period in 2016. For the three months ended June 30, 2017, commissions as a percentage of net sales decreased to 38.5% from 39.7% for the same period in 2016. During the first quarter, we

recorded commission expense on the pre-launch in certain Asia/Pacific markets of new products that were available after our annual convention held in April 2017.

Commission expenses for the six months ended June 30, 2017 increased by 0.6%, or \$0.2 million, to \$34.8 million, as compared to \$34.6 million for the same period in 2016. For the six months ended June 30, 2017, commissions as a percentage of net sales increased to 39.5% from 38.7% for the same period in 2016 due to the change in mix between product and pack sales.

Incentive costs for the three months ended June 30, 2017 decreased by 30.0%, or \$0.3 million, to \$0.7 million, as compared to \$1.0 million for the same period in 2016. The decrease was due to a decline in the number of qualified individuals within the Americas attending incentive trips. For the three months ended June 30, 2017, incentives as a percentage of net sales decreased to 1.3% from 2.1% for the same period in 2016.

Incentive costs for the six months ended June 30, 2017 decreased by 14.3%, or \$0.2 million, to \$1.2 million, as compared to \$1.4 million for the same period in 2016. The decrease was due to a decline in the number of qualified individuals within the Americas attending incentive trips. For the six months ended June 30, 2017, incentives as a percentage of net sales decreased to 1.3% from 1.6% for the same period in 2016.

### 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 the costs related to hosting our corporate-sponsored events.

For the three months ended June 30, 2017, selling and administrative expenses increased by \$0.3 million, or 2.5%, to \$10.0 million, as compared to \$9.7 million for the same period in 2016. Our marketing related costs increased \$0.4 million due to increased expenses in respect of our Mannafest event held in Las Vegas. During the second quarter, we recorded severance charges of \$0.2 million, which were partially offset by decreases in other payroll costs stemming from fewer employees and a \$0.1 million decrease in stock based compensation expense. Selling and administrative expenses, as a percentage of net sales, for the three months ended June 30, 2017 increased to 20.9% from 19.9% for the same period in 2016.

For the six months ended June 30, 2017, selling and administrative expenses increased by \$0.3 million, or 1.7%, to \$18.6 million, as compared to \$18.3 million for the same period in 2016. The increase in selling and administrative expenses consisted of a \$0.1 million increase in marketing related costs. Our human resources costs were impacted by the second quarter severance charge, offset by \$0.2 million decrease in stock based compensation expense. Selling and administrative expenses, as a percentage of net sales, for the six months ended June 30, 2017 increased to 21.1% from 20.5% for the same period in 2016.

### Other Operating Costs

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

For the three months ended June 30, 2017, other operating costs decreased by \$1.5 million, or 18.8%, to \$6.7 million, as compared to \$8.2 million for the same period in 2016. For the three months ended June 30, 2017, other operating costs as a percentage of net sales decreased to 14.0% from 16.8% for the same period in 2016. The decrease was due to a \$0.7 million decrease in travel and entertainment costs, a \$0.3 million decrease in accounting and auditing fees, a \$0.3 million decrease in legal and consulting fees and a \$0.2 million in decrease in bad debt expense.

For the six months ended June 30, 2017, other operating costs decreased by \$1.0 million, or 6.5%, to \$14.3 million, as compared to \$15.3 million for the same period in 2016. For the six months ended June 30, 2017, other operating costs as a percentage of net sales decreased to 16.2% from 17.1% for the same period in 2016. The decrease was due to a \$1.0 million decrease in travel and entertainment costs, a \$0.4 million decrease in bad debt expenses, a \$0.2 million decrease in accounting and auditing fees, and a \$0.1 million decrease in credit card fees, offset by a \$0.5 million increase in legal and consulting fees (which includes \$0.5 million of liabilities in connection with the settlement of legal proceedings (see Note 7 Litigation), and a \$0.1 million increase in office expenses.

Depreciation and Amortization Expense

Depreciation and amortization expense was \$0.5 million for both the three months ended June 30, 2017 and 2016, respectively.

Depreciation and amortization expense was \$1.0 million and \$0.9 million for the six months ended June 30, 2017 and 2016, respectively.

## Other Income/Expense, Net

Due to foreign exchange gains and losses, other expense was \$1.0 million for the three months ended June 30, 2016.

Due to foreign exchange gains and losses, other expense was \$0.7 million for the six months ended June 30, 2016.

## Provision for Income Taxes

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

Country	2017	2016
Australia	30.0%	30.0%
Canada	26.5%	26.5%
China	25.0%	25.0%
Colombia	34.0%	25.0%
Cyprus	12.5%	12.5%
Denmark	22.0%	22.0%
Gibraltar	10.0%	10.0%
Hong Kong	16.5%	16.5%
Japan	34.8%	35.4%
Mexico	30.0%	30.0%
Norway	24.0%	25.0%
Republic of Korea	22.0%	22.0%
Russia <sup>(1)</sup>	20.0%	— %
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%
Ukraine <sup>(2)</sup>	18.0%	18.0%
United Kingdom	20.0%	20.0%
United States	37.5%	37.5%

<sup>(1)</sup>On Aug 1, 2016, the Company established a legal entity in Russia called Mannatech RUS Ltd., but currently does not operate in Russia. <sup>(2)</sup>On Mar 21, 2014, the Company suspended operations in Ukraine, but maintains the legal entity, Mannatech Ukraine LLC.

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 June 30, 2017 and December 31, 2016, we maintained the following valuation allowances for deferred tax assets totaling \$8.3 million and \$8.5 million, respectively, as we believe the “more likely than not” criterion for recognition and realization purposes, as defined in FASB ASC Topic 740, cannot be met.

Country	June 30, 2017	December 31, 2016
Colombia	\$ 0.3	\$ 0.3
Mexico	2.8	2.4
Sweden	0.1	0.1
Switzerland	—	0.1
Taiwan	0.8	1.3
Ukraine	0.1	0.1
United States	4.1	4.1
Other Jurisdictions	0.1	0.1
Total	\$ 8.3	\$ 8.5

The dollar amount of the provisions for income taxes is directly related to our profitability and any changes in the taxable income among countries. For the three and six months ended June 30, 2017, the Company’s effective income tax rate was 36.5% and 36.6% respectively, as compared to (18.3)% and (175.9)%, respectively, for the same periods in 2016.

The effective tax rate for the three months and six months ended June 30, 2017 was slightly higher than would have been expected if the federal statutory rate were applied to income before tax. Items increasing the effective income tax rate include the valuation allowances associated with certain deferred tax assets, “subpart F income” resulting from controlled foreign corporation operations and foreign permanent components. Items decreasing the effective income tax rate include the favorable rate differences from foreign jurisdictions, unrealized foreign exchange gains and deductions on non-qualified stock options.

The effective tax rates for the three and six months ended June 30, 2016 were different from the federal statutory rate due to the mix of earnings across jurisdictions and certain items that are discrete to the quarter. Items discrete to the quarter include foreign exchange losses and increased losses in jurisdictions for which no taxable benefit can be recorded. These items are partially offset by the effect of the release of the valuation allowance in Switzerland due to improved earnings from operations in Switzerland.

## LIQUIDITY AND CAPITAL RESOURCES

### Cash and Cash Equivalents

As of June 30, 2017, our cash and cash equivalents increased by 24.0%, or \$6.9 million, to \$35.6 million from \$28.7 million as of December 31, 2016. The Company is required to restrict cash for direct selling insurance premiums and credit card sales in the Republic of Korea. The current portion of restricted cash balances were \$1.5 million at each of June 30, 2017 and December 31, 2016. Finally, fluctuations in currency rates produced an increase of \$1.2 million and \$1.5 million in cash and cash equivalents for the six months period ending June 30, 2017 and 2016, respectively.

Our principal use of cash is to pay for operating expenses, including commissions and incentives, capital assets, inventory purchases, periodic cash dividends and stock buybacks. 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 June 30, 2017 and December 31, 2016, our working capital was \$22.2 million and \$20.8 million, respectively. The most significant changes to working capital were due to cash and cash equivalents, inventory, income tax receivable, commission payable and accounts payable.

### Net Cash Flows

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

Provided by/(Used in):	2017	2016
Operating activities	\$7.8	\$5.6
Investing activities	\$(0.7)	\$(1.4)
Financing activities	\$(1.4)	\$(0.7)

### Operating Activities

Cash provided by operating activities was \$7.8 million for the six months ended June 30, 2017, compared to cash provided by operating activities of \$5.6 million for the same period in 2016. During the six months ended June 30, 2017, we sold inventory, collected cash from our income tax receivable, and managed our prepaid expenses and other current assets, and accounts payable carefully. During the six months ended June 30, 2017 we deployed our cash to pay our accrued expenses and other liabilities.

### Investing Activities

For the six months ended June 30, 2017 and 2016, our investing activities used cash of \$0.7 million and \$1.4 million, respectively. During the six months ended June 30, 2017, we invested approximately \$0.5 million in back-office software projects, approximately \$0.1 million in leasehold improvements in various international offices and training centers and \$0.1 million in office equipment. During the six months ended June 30, 2016, we invested approximately \$1.0 million in back-office software projects and approximately \$0.4 million in leasehold improvements.

### Financing Activities

For the six months ended June 30, 2017 and 2016, our investing activities used cash of \$1.4 million and \$0.7 million, respectively. For the six months ended June 30, 2017, we used \$0.8 million in the repayment of capital lease obligations and \$0.7 million in payments of dividends to shareholders, which was partially offset by \$0.1 million of

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

## General Liquidity and Cash Flows

### Short Term Liquidity

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

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

### Long Term Liquidity

We believe our cash flows from operations should be adequate to fund our normal expected future business operations. As our primary source of liquidity is from our cash flows from operations, this will be dependent on our ability to maintain or improve revenue as compared to operational expenses.

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

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

## CONTRACTUAL OBLIGATIONS

The following summarizes our future commitments and obligations associated with various agreements and contracts as of June 30, 2017, for the years ending December 31 (in thousands):

Commitments and obligations	Remaining 2017	2018	2019	2020	2021	Thereafter	Total
Capital lease obligations	\$ 218	\$236	\$78	\$40	\$ 28	\$ 7	\$607
Purchase obligations <sup>(1)(2)</sup>	2,670	5,675	5,675	4,675	—	—	18,695
Operating leases	1,680	1,809	876	141	20	13	4,539
Note payable and other financing arrangements	518	641	—	—	—	—	1,159
Employment agreements	495	495	—	—	—	—	990
Royalty agreement	30	59	59	59	6	—	213
Tax liability <sup>(3)</sup>	605	—	—	—	—	161	766
Other obligations <sup>(4)</sup>	350	23	141	87	38	967	1,606
Total commitments and obligations	\$ 6,566	\$8,938	\$6,829	\$5,002	\$ 92	\$ 1,148	\$28,575

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

the transaction.

(2)Excludes approximately \$10.3 million of finished product purchase orders that may be canceled or with delivery dates that have changed as of June 30, 2017.

(3)Represents the tax liability associated with uncertain tax positions, see Note 3 "Income Taxes" to our Consolidated Financial Statements.

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

We have maintained purchase commitments with certain raw material suppliers to purchase minimum quantities and to ensure exclusivity of our raw materials and the proprietary nature of our products. Currently, we have one supply agreement that requires minimum purchase commitments. We also maintain other supply agreements and manufacturing agreements to protect our products, regulate product costs, and help ensure quality control standards. These other 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, deferred revenues, accounting for stock-based compensation, and contingencies and litigation. Historically, actual results have not materially deviated from our estimates. However, we caution readers that actual results could differ from our estimates and assumptions applied in the preparation of our consolidated financial statements. If circumstances change relating to the various assumptions or conditions used in our estimates, we could experience an adverse effect on our financial position, results of operations, and cash flows. We have identified the following applicable critical accounting policies and estimates as of June 30, 2017.

##### Inventory Reserves

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

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

if our estimates regarding inventory obsolescence are inaccurate or consumer demand for our products changes in an unforeseen manner, we may be exposed to additional material losses or gains in excess of our established estimated inventory reserves.

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

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

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

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

Historically, our estimates and assumptions related to the carrying value and the estimated useful lives of our fixed assets have not materially deviated from actual results. As of June 30, 2017, the estimated useful lives and net carrying values of fixed assets were as follows:

	Estimated useful life	Net carrying value at June 30, 2017
Office furniture and equipment	5 to 7 years	\$0.6 million
Computer hardware and software	3 to 5 years	1.7 million
Leasehold improvements <sup>(1)</sup>	2 to 10 years	0.9 million
Total net carrying value at June 30, 2017		\$3.2 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 six months ended June 30, 2017 and the year ended December 31, 2016.

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

As of June 30, 2017, we recorded \$0.2 million in other long-term liabilities and \$0.6 million in taxes payable on our consolidated balance sheet related to uncertain income tax positions. As required by FASB ASC Topic 740, Income Taxes, we use judgments and make estimates and assumptions related to evaluating the probability of uncertain income tax positions. We base our estimates and assumptions on the potential liability related to an assessment of whether the income tax position will "more likely than not" be sustained in an income tax audit. We are also subject to periodic audits from multiple domestic and foreign tax authorities related to income tax and other forms of taxation. These audits examine our tax positions, timing of income and deductions, and allocation procedures across multiple jurisdictions. As part of our evaluation of these tax issues, we establish reserves in our consolidated financial statements based on our estimate of current probable tax exposures. Depending on the nature of the tax issue, we could be subject to audit over several years. Therefore, our estimated reserve balances and liability related to uncertain income tax positions may exist for multiple years before the applicable statute of limitations expires or before an issue is resolved by the taxing authority. Additionally, we may be requested to extend the statute of limitations for tax years under audit. It is reasonably possible the tax jurisdiction may request that the statute of limitations be extended, which

may cause the classification between current and long-term to change. We believe our tax liabilities related to uncertain tax positions are based upon reasonable judgment and estimates; however, if actual results materially differ, our effective income tax rate and cash flows could be affected in the period of discovery or resolution. There are ongoing income tax audits in various international jurisdictions that we believe are not material to our financial statements.

We also review the estimates and assumptions used in evaluating the probability of realizing the future benefits of our deferred tax assets and record a valuation allowance when we believe that a portion or all of the deferred tax assets may not be realized. If we are unable to realize the expected future benefits of our deferred tax assets, we are required to provide a valuation allowance. We use our past history and experience, overall profitability, future management plans, and current economic information to evaluate the amount of valuation allowance to record. As of June 30, 2017, we had valuation allowance for deferred tax assets arising from our operations of \$8.3 million because they did not meet the “more likely than not” criteria as defined by the recognition and measurement provisions of FASB ASC Topic 740, Income Taxes. In addition, as of June 30, 2017, we had deferred tax assets, after valuation allowance, totaling \$5.6 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 June 30, 2017 and December 31, 2016, deferred revenue was \$8.3 million and \$8.2 million, respectively. When participating in the Company’s loyalty program, customers earn loyalty points from qualified automatic orders that can be applied to future purchases. We defer the dollar equivalent in revenue of these points until the points are applied, forfeited or expired, which includes an estimate of the percentage of the unvested loyalty points that are expected to be forfeited or expired. The deferred revenue associated with the loyalty program at June 30, 2017 and December 31, 2016, was \$6.2 million and \$7.0 million, respectively. Deferred revenue consisted primarily of: (i) sales of packs and products shipped but not received by the customers by the end of the respective period; (ii) revenue from the loyalty program; and (iii) prepaid registration fees from customers planning to attend a future corporate-sponsored event. In total current assets, the Company defers commissions on (i) the sales of packs and products shipped but not received by the customers by the end of the respective period and (ii) the loyalty program. Deferred commissions were \$3.2 million at each of June 30, 2017 and December 31, 2016.

Loyalty program	(in thousands)
Loyalty deferred revenue as of January 1, 2016	\$ 8,073
Loyalty points forfeited or expired	(6,963 )
Loyalty points used	(15,451 )
Loyalty points vested	20,085
Loyalty points unvested	1,289
Loyalty deferred revenue as of December 31, 2016	\$ 7,033
Loyalty deferred revenue as of January 1, 2017	\$7,033
Loyalty points forfeited or expired	(3,370 )
Loyalty points used	(6,957 )
Loyalty points vested	7,585
Loyalty points unvested	1,916
Loyalty deferred revenue as of June 30, 2017	\$6,207

## 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. Refunds are processed and returned in the same form of payment that was originally used in the sale. Each country in which we operate has specific product return guidelines. However, we allow our associates and members to exchange products as long as the products are unopened and in good condition. Our return policies for our retail customers and our associates and members are as follows:

**Retail Customer Product Return Policy.** This policy allows a retail customer to return any of our products to the original associate who sold the product and receive a full cash refund from the associate for the first 180 days following the product's purchase if located in the United States and Canada, and for the first 90 days following the product's purchase in other countries where we sell our products. 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 other countries where we sell our products 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 or three years. The fair value of the stock option award is calculated using the Black-Scholes option-pricing model. The Black-Scholes option-pricing model requires us to apply judgment and use highly subjective assumptions, including expected stock option life, expected volatility, expected average risk-free interest rates, and expected forfeiture rates. For the six months ended June 30, 2017, our assumptions and estimates used for the estimated fair value of stock options granted were as follows:

	June 2017 Grant
Estimated fair value per share of options granted:	\$5.87
Assumptions:	
Annualized dividend yield	3.5 %
Risk-free rate of return	1.7 %
Common stock price volatility	64.4 %
Expected average life of stock options (in years)	4.5

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

If we grant additional stock options in the future, we would be required to recognize additional compensation expense over the vesting period of such stock options in our consolidated statement of operations. As of June 30, 2017, we had 240,000 shares available for grant in the future. During three months ended June 30, 2017, the Company granted 10,000 stock options.

#### 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.

#### RECENT ACCOUNTING PRONOUNCEMENTS

In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers. This new standard requires companies to recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which a company expects to be entitled in exchange for those goods or services. Under the new standard, revenue is recognized when a customer obtains control of a good or service. The standard allows for two transition methods - entities can either apply the new standard (i) retrospectively to each prior reporting period presented, or (ii) retrospectively with the cumulative effect of initially applying the standard recognized at the date of initial adoption. In July 2015, the FASB issued ASU 2015-14, Revenue from Contracts with Customers, which defers the effective date by one year to December 15, 2017 for fiscal years, and interim periods within those fiscal years, beginning after that date. In March 2016, the FASB issued ASU 2016-08 Revenue from Contracts with Customers, Principal versus Agent Considerations (Reporting Revenue versus Net), in April 2016, the FASB issued ASU 2016-10, Revenue from Contracts with Customers, identifying Performance Obligations and Licensing, and in May 2016, the FASB issued ASU 2016-12, Revenue from Contracts with Customers, Narrow-Scope Improvements and Practical Expedients, which provide additional clarification on certain topics addressed in ASU 2014-09. ASU 2016-08, ASU 2016-10, and ASU 2016-12 follow the same implementation guidelines as ASU 2014-09 and ASU 2015-14. We are still evaluating the ASU for potential impacts to our consolidated financial statements. All of these aforementioned ASUs have been codified under ASC 606, Revenue from Contracts with Customers. We plan to adopt the guidance as of January 1, 2018 and expect to utilize the modified retrospective transition method. We have a project plan in place for the transition to revenue recognition in accordance with ASC 606, including necessary changes to accounting processes, procedures and internal controls. We are evaluating the impact of adopting this standard and the overall financial impact is unknown at this time.

In February 2016, the FASB issued ASU 2016-02, Leases (Topic 842). Under ASU 2016-02, an entity will be required to recognize right-of-use assets and lease liabilities on its balance sheet and disclose key information about leasing arrangements. ASU 2016-02 offers specific accounting guidance for a lessee, a lessor and sale and leaseback transactions. Lessees and lessors are required to disclose qualitative and quantitative information about leasing arrangements to enable a user of the financial statements to assess the amount, timing and uncertainty of cash flows arising from leases. For public companies, ASU 2016-02 is effective for annual reporting periods beginning after December 15, 2018, including interim periods within that reporting period, and requires a modified retrospective adoption, with early adoption permitted. We are in the process of evaluating the impact the amendment will have on our Consolidated Financial Statements. The overall financial impact of adopting this standard is unknown at this time.

See Note 1 to our Consolidated Financial Statements for further information on recent accounting pronouncements.



## 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.

We caution that we cannot predict with any certainty our future exposure to such currency exchange rate fluctuations or the impact, if any, such fluctuations may have on our future business, product pricing, operating expenses, and on our consolidated financial position, results of operations, or cash flows. However, to combat such market risk, we closely monitor our exposure to currency fluctuations. The regions and countries in which we currently have exposure to foreign currency exchange rate risk include (i) the Americas (Canada, Colombia and Mexico); (ii) EMEA (Austria, the Czech Republic, Denmark, Estonia, Finland, Germany, the Republic of Ireland, the Netherlands, Norway, South Africa, Spain, Sweden, Switzerland and the United Kingdom); and (iii) Asia/Pacific (Australia, Japan, New Zealand, the Republic of Korea, Singapore, Taiwan, Hong Kong, and China). The current (spot) rate, average currency exchange rates, and the low and high of such currency exchange rates as compared to the United States dollar, for each of these countries as of and for the six months ended June 30, 2017 were as follows:

Country (foreign currency name)	Six months ended June 30, 2017			As of June 30, 2017
	Low	High	Average	Spot
Australia (Australian Dollar)	0.72066	0.77228	0.75408	0.76640
Canada (Canadian Dollar)	0.72759	0.76839	0.74946	0.76785
China (Renminbi)	0.14383	0.14742	0.14545	0.14742
Colombia (Peso)	0.00033	0.00036	0.00034	0.00033
Czech Republic (Koruna)	0.03863	0.04345	0.04044	0.04345
Denmark (Kroner)	0.14032	0.15343	0.14556	0.15343
Hong Kong (Hong Kong Dollar)	0.12813	0.12896	0.12865	0.12813
Japan (Yen)	0.00850	0.00922	0.00890	0.00890
Mexico (Peso)	0.04562	0.05593	0.05162	0.05584
New Zealand (New Zealand Dollar)	0.68445	0.73257	0.70789	0.73040
Norway (Krone)	0.11542	0.12213	0.11803	0.11902
Republic of Korea (Won)	0.00083	0.00091	0.00088	0.00088
Singapore (Singapore Dollar)	0.69018	0.72560	0.71207	0.72447

Edgar Filing: MANNATECH INC - Form 10-Q

South Africa (Rand)	0.07210	0.08044	0.07580	0.07717
Sweden (Krona)	0.10943	0.11752	0.11283	0.11752
Switzerland (Franc)	0.97481	1.04402	1.00554	1.04402
Taiwan (New Taiwan Dollar)	0.03084	0.03401	0.03264	0.03289
United Kingdom (British Pound)	1.20519	1.30427	1.25854	1.29707
Various countries <sup>(1)</sup> (Euro)	1.04322	1.14106	1.08243	1.14106

<sup>(1)</sup>Austria, Germany, the Netherlands, Estonia, Finland, the Republic of Ireland and Spain

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

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

Changes in Internal Control over Financial Reporting

During the quarter ended June 30, 2017, 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.

## 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, 2016, 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

## Issuer Purchases of Equity Securities

During the three-month period ended June 30, 2017, we repurchased the following shares of our common stock:

Period	Total number of shares purchased	Average price paid per share	Total number of shares purchased as part of publicly announced programs <sup>(a)</sup>	Dollar value of shares that may yet be purchased <sup>(b)</sup> (in thousands)
April 1, 2017 - April 30, 2017	—	\$ —	—	\$ —
May 1, 2017 - May 31, 2017	—	\$ —	—	\$ —
June 1, 2017 - June 30, 2017	4,486	\$ 14.28	4,486	\$ 19,665
Total	4,486		4,486	

<sup>(a)</sup>We have an ongoing authorization, originally approved by our Board of Directors on August 28, 2006, and subsequently reactivated by our Board of Directors in August of 2016, to repurchase up to \$0.5 million (of the original \$20.0 million authorization) in shares of our common stock in the open market.

<sup>(b)</sup>Remaining value of the original \$20.0 million approved on August 28, 2006 (the "August 2006 Plan").

## 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.

41

---

SIGNATURES

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

MANNATECH,  
INCORPORATED

Dated: August 8, 2017 By: /s/ Alfredo Bala  
Alfredo Bala  
Chief Executive Officer  
(principal executive officer)

Dated: August 8, 2017 By: /s/ David A. Johnson  
David A. Johnson  
Chief Financial Officer  
(principal financial officer)

## INDEX TO EXHIBITS

Exhibit Number	Exhibit Description	Incorporated by Reference			Filing Date
		Form	File No.	Exhibit (s)	
<u>3.1</u>	Amended and Restated Articles of Incorporation of Mannatech, dated May 19, 1998.	S-1	333-63133	3.1	October 28, 1998
<u>3.2</u>	Certificate of Amendment to the Amended and Restated Articles of Incorporation of Mannatech, dated January 13, 2012.	8-K	000-24657	3.1	January 17, 2012
<u>3.3</u>	Fifth Amended and Restated Bylaws of Mannatech, dated August 25, 2014.	8-K	000-24657	3.1	August 27, 2014
<u>4.1</u>	Specimen Certificate representing Mannatech's common stock, par value \$0.0001 per share.	S-1	333-63133	4.1	October 28, 1998
10.1	Mannatech, Incorporated 2017 Stock Incentive Plan	*	*	*	*
10.2	Form of Performance Stock Unit Award Agreement	*	*	*	*
10.3	Form of Stock Option Award Agreement	*	*	*	*
10.4	Form of Restricted Stock Unit Award Agreement	*	*	*	*
10.5	Form of Stock Appreciation Rights Award Agreement	*	*	*	*
10.6	Form of Restricted Stock Award Agreement	*	*	*	*
10.7	Form of Performance Stock Award Agreement	*	*	*	*
31.1*	Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, of the Chief Executive Officer of Mannatech.	*	*	*	*
31.2*	Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, of the Chief Financial Officer of Mannatech.	*	*	*	*
32.1*	Certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, of the Chief Executive Officer of Mannatech.	*	*	*	*
32.2*	Certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, of the Chief Financial Officer of Mannatech.	*	*	*	*
101.INS*	XBRL Instance Document	*	*	*	*
101.SCH*	XBRL Taxonomy Extension Schema Document	*	*	*	*
101.CAL*	XBRL Taxonomy Extension Calculation Linkbase Document	*	*	*	*
101.LAB*	XBRL Taxonomy Extension Label Linkbase Document	*	*	*	*
101.PRE*	XBRL Taxonomy Extension Presentation Linkbase Document	*	*	*	*
101.DEF*	XBRL Taxonomy Extension Definition Linkbase Document	*	*	*	*

\*Filed herewith.

Exhibit 31.1

CERTIFICATION  
PURSUANT TO 17 CFR 240.13a-14  
PROMULGATED UNDER  
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Alfredo Bala, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Mannatech, Incorporated;

Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a

2. material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

Based on my knowledge, the financial statements, and other financial information included in this report, fairly

3. present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its (a) consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting (b) and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our (c) conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during (d) the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control (e) over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

All significant deficiencies and material weaknesses in the design or operation of internal control over financial (a) reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 8, 2017

/s/ Alfredo Bala

Alfredo Bala

Chief Executive Officer

(principal executive officer)



Exhibit 31.2

CERTIFICATION  
PURSUANT TO 17 CFR 240.13a-14  
PROMULGATED UNDER  
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, David A. Johnson, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Mannatech, Incorporated;  
Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a
2. material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;  
Based on my knowledge, the financial statements, and other financial information included in this report, fairly
3. present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;  
The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and
4. procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;  
Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting
  - (b) and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;  
Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our
  - (c) conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and  
Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during
  - (d) the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and  
The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control
  5. over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
    - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
    - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 8, 2017  
/s/ David A. Johnson  
David A. Johnson  
Chief Financial Officer  
(principal financial officer)



Exhibit 32.1

CERTIFICATION PURSUANT TO  
18 U.S.C. SECTION 1350,  
AS ADOPTED PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of Mannatech, Incorporated (the “Company”) on Form 10-Q for the period ending June 30, 2017 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Alfredo Bala, Chief Executive Officer of the Company, hereby certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

1. The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934;  
and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: August 8, 2017  
/s/ Alfredo Bala  
Alfredo Bala  
Chief Executive Officer  
(principal executive officer)

A SIGNED ORIGINAL OF THIS WRITTEN STATEMENT REQUIRED BY SECTION 906 HAS BEEN PROVIDED TO MANNATECH, INCORPORATED AND FURNISHED TO THE SECURITIES AND EXCHANGE COMMISSION OR ITS STAFF UPON REQUEST.

Exhibit 32.2

CERTIFICATION PURSUANT TO  
18 U.S.C. SECTION 1350,  
AS ADOPTED PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of Mannatech, Incorporated (the “Company”) on Form 10-Q for the period ending June 30, 2017 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, David A. Johnson, Chief Financial Officer of the Company, hereby certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

1. The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934;  
and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: August 8, 2017  
/s/ David A. Johnson  
David A. Johnson  
Chief Financial Officer  
(principal financial officer)

A SIGNED ORIGINAL OF THIS WRITTEN STATEMENT REQUIRED BY SECTION 906 HAS BEEN PROVIDED TO MANNATECH, INCORPORATED AND FURNISHED TO THE SECURITIES AND EXCHANGE COMMISSION OR ITS STAFF UPON REQUEST.