

MANNATECH INC
Form 10-Q
August 05, 2014

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, 2014

OR

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

For the transition period from _____ to _____.

Commission File No. 000-24657

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

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

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

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

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

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

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

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

Edgar Filing: MANNATECH INC - Form 10-Q

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

As of July 31, 2014, the number of shares outstanding of the registrant's sole class of common stock, par value
\$0.0001 per share, was 2,666,578.

MANNATECH, INCORPORATED
TABLE OF CONTENTS

<u>Special Note Regarding Forward-Looking Statements</u>	1
Part I – FINANCIAL INFORMATION	
Item 1. <u>Financial Statements</u>	2
<u>Consolidated Balance Sheets as of June 30, 2014 (unaudited) and December 31, 2013</u>	2
<u>Consolidated Statements of Operations - Unaudited</u>	3
<u>Consolidated Statements of Comprehensive Loss - Unaudited</u>	3
<u>Consolidated Statement of Shareholders' Equity - Unaudited</u>	4
<u>Consolidated Statements of Cash Flows - Unaudited</u>	5
<u>Notes to Unaudited Consolidated Financial Statements</u>	6
Item 2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	15
<u>Company Overview</u>	15
<u>Results of Operations</u>	16
<u>Liquidity and Capital Resources</u>	26
<u>Critical Accounting Policies and Estimates</u>	28
<u>Recent Accounting Pronouncements</u>	32
Item 3. <u>Quantitative and Qualitative Disclosures About Market Risk</u>	33
Item 4. <u>Controls and Procedures</u>	34
Part II – OTHER INFORMATION	
Item 1. <u>Legal Proceedings</u>	35
Item 1A. <u>Risk Factors</u>	35
Item 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	35
Item 3. <u>Defaults Upon Senior Securities</u>	35
Item 4. <u>Mine Safety Disclosures</u>	35
Item 5. <u>Other Information</u>	35
Item 6. <u>Exhibits</u>	35
<u>Signatures</u>	36

Table of Contents

Special Note Regarding Forward-Looking Statements

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

§ management’s plans and objectives for future operations;

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

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

§ the realization of net deferred tax assets;

§ the ability to curtail operating expenditures;

§ global statutory tax rates remaining unchanged;

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

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

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

§ the outcome of new or existing litigation matters;

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

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

Although we believe that the expectations included in these forward-looking statements are reasonable, these forward-looking statements are subject to certain events, risks, assumptions, and uncertainties, including those discussed below, the “Risk Factors” section in Part I, Item 1A of our Form 10-K for the year ended December 31, 2013, and the “Risk Factors” section in Part II, Item 1A of this Form 10-Q, and elsewhere in this Form 10-Q and the documents incorporated by reference herein. If one or more of these risks or uncertainties materialize, or if our underlying assumptions prove to be incorrect, actual results and developments could materially differ from those expressed in or implied by such forward-looking statements. For example, any of the following factors could cause actual results to vary materially from our projections:

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

§ plans for expected future product development;

§ changes in manufacturing costs;

§ shifts in the mix of packs and products;

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

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

§ new regulatory changes that may affect operations or products;

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

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

§ the political, social, and economic climate.

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

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

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

1

Table of Contents

PART I – FINANCIAL INFORMATION

Item 1. Financial Statements

MANNATECH, INCORPORATED AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

(in thousands, except share amounts)

	June 30, 2014	December 31, 2013
ASSETS	(unaudited)	
Cash and cash equivalents	\$ 26,478	\$ 20,395
Restricted cash	1,518	1,519
Accounts receivable, net of allowance of \$269 and \$142 in 2014 and 2013, respectively	221	423
Income tax receivable	20	4
Inventories, net	13,519	13,988
Prepaid expenses and other current assets	3,873	3,061
Deferred commissions	4,784	2,706
Deferred tax assets, net	1,494	1,578
Total current assets	51,907	43,674
Property and equipment, net	4,423	3,239
Long-term restricted cash	4,422	4,254
Other assets	3,913	3,591
Long-term deferred tax assets, net	1,193	1,303
Total assets	\$ 65,858	\$ 56,061
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current portion of capital leases	\$ 928	\$ 704
Accounts payable	4,979	4,794
Customer deposits	3,277	202
Accrued expenses	7,404	5,796
Commissions and incentives payable	8,380	10,210
Taxes payable	3,043	1,858
Current deferred tax liability	102	114
Deferred revenue	11,284	6,380
Total current liabilities	39,397	30,058
Capital leases, excluding current portion	247	450
Other long-term liabilities	2,227	2,101
Total liabilities	41,871	32,609
Commitments and contingencies		
Shareholders' equity:		
Preferred stock, \$0.01 par value, 1,000,000 shares authorized, no shares issued or outstanding	—	—
Common stock, \$0.0001 par value, 99,000,000 shares authorized, 2,773,972 shares issued and 2,666,578 shares outstanding as of June 30, 2014 and 2,773,972 shares issued and 2,653,913 shares outstanding as of December 31, 2013	—	—
Additional paid-in capital	41,410	42,592
Accumulated deficit	(4,210)	(3,746)

Edgar Filing: MANNATECH INC - Form 10-Q

Accumulated other comprehensive loss	(115)	(743)
Less treasury stock, at cost, 107,394 and 120,059 shares as of June 30, 2014 and December 31, 2013, respectively	(13,098)	(14,651)
Total shareholders' equity	23,987	23,452
Total liabilities and shareholders' equity	\$ 65,858	\$ 56,061

See accompanying notes to unaudited consolidated financial statements.

2

Table of Contents

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

(in thousands, except per share information)

	Three months ended		Six months ended	
	June 30,		June 30,	
	2014	2013	2014	2013
Net sales	\$46,302	\$44,801	\$89,265	\$86,467
Cost of sales	9,738	8,694	19,136	16,391
Gross profit	36,564	36,107	70,129	70,076
Operating expenses:				
Commissions and incentives	19,782	19,181		