MANNATECH INC
Form 10-Q
August 04, 2011

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

FORM 10-Q
(Mark One)

[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF1934
For the quarterly period ended: June 30, 2011

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 (State or other Jurisdiction of Incorporation or Organization)	75-2508900 (I.R.S. Employer Identification No.)
600 S. Royal Lane, Suite 200, Coppell, Texas (Address of Principal Executive Offices)	75019 (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 [X] 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 [X] 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 [X]

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

As of July 29, 2011, the number of shares outstanding of the registrant’s sole class of common stock, par value $0.0001 per share, was 26,485,184.

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Special Note Regarding Forward-Looking Statements

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

§ management’s plans and objectives for future operations;

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

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

§ the realization of net deferred tax assets;

§ the ability to curtail operating expenditures;

§ global statutory tax rates remaining unchanged;

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

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

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

§ the outcome of new or existing litigation matters;

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

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

Although we believe that the expectations included in these forward-looking statements are reasonable, these forward-looking statements are subject to certain events, risks, assumptions, and uncertainties, including those discussed below, the “Risk Factors” section in Part I, Item 1A of our Form 10-K for the year ended December 31, 2010, 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 could affect operations and/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.

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, 2011 (unaudited)	December 31, 2010
Cash and cash equivalents	$ 17,321	$ 21,584
Restricted cash	1,274	1,265
Accounts receivable, net of allowance of $20 and $21 in 2011 and 2010, respectively	129	416
Income tax receivable	893	917
Inventories, net	18,778	24,070
Prepaid expenses and other current assets	5,022	4,356
Deferred tax assets	2,993	2,607
Total current assets	46,410	55,215
Property and equipment, net	14,196	18,449
Construction in progress	46	524
Long-term restricted cash	3,621	3,532
Other assets	2,960	3,054
Long-term deferred tax assets	250	649
Total assets	$ 67,483	$ 81,423
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current portion of capital leases	$ 1,196	$ 1,328
Accounts payable	5,037	5,534
Accrued expenses	9,516	10,318
Commissions and incentives payable	7,961	9,166
Taxes payable	2,005	3,721
Current deferred tax liability	159	243
Deferred revenue	1,922	1,930
Total current liabilities	27,796	32,240
Capital leases, excluding current portion	980	1,204
Long-term deferred tax liabilities	1,550	1,903
Other long-term liabilities	5,862	4,996
Total liabilities	36,188	40,343
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, 27,697,560 shares issued and 26,490,466 shares outstanding as of June 30, 2011 and December 31, 2010	3	3

Additional paid-in capital		42,251		42,049
Retained earnings		5,099		15,127
Accumulated other comprehensive loss		(1,267)		(1,308)
Less treasury stock, at cost, 1,207,094 shares in 2011 and 2010		(14,791)		(14,791)
Total shareholders’ equity		31,295		41,080
Total liabilities and shareholders’ equity	$	67,483	$	81,423

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, 2011	Three months ended June 30, 2010	Six months ended June 30, 2011	Six months ended June 30, 2010
Net sales	$ 51,362	$ 57,606	$ 102,262	$ 118,271
Cost of sales	7,543	8,091	14,757	16,716
Commissions and incentives	22,896	24,509	44,603	51,508
	30,439	32,600	59,360	68,224
Gross profit	20,923	25,006	42,902	50,047
Operating expenses:				
Selling and administrative	14,811	15,297	30,829	31,768
Depreciation and amortization	2,687	3,002	5,488	5,919
Other operating costs	7,746	8,836	15,812	17,381
Total operating expenses	25,244	27,135	52,129	55,068
Loss from operations	(4,321)	(2,129)	(9,227)	(5,021)
Interest income (expense)	21	10	1	(19)
Other income (expense), net	196	(715)	463	(575)
Loss before income taxes	(4,104)	(2,834)	(8,763)	(5,615)
(Provision) benefit for income taxes	(1,146)	(981)	(1,265)	(981)
Net loss	$ (5,250)	$ (3,815)	$ (10,028)	$ (6,596)
Net loss per share:				
Basic	$ (0.20)	$ (0.14)	$ (0.38)	$ (0.25)
Diluted	$ (0.20)	$ (0.14)	$ (0.38)	$ (0.25)
Weighted-average common shares outstanding:				
Basic	26,490	26,490	26,490	26,486
Diluted	26,490	26,490	26,490	26,486

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

	Three months ended June 30, 2011	Three months ended June 30, 2010	Six months ended June 30, 2011	Six months ended June 30, 2010
Net loss	$ (5,250)	$ (3,815)	$ (10,028)	$ (6,596)

Foreign currency translations	20	(188)	41	(163)
Comprehensive loss	$(5,230)	$(4,003)	$ (9,987)	$(6,759)

See accompanying notes to unaudited consolidated financial statements.

MANNATECH, INCORPORATED AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
AND COMPREHENSIVE INCOME (LOSS) – (UNAUDITED)
(in thousands, except per share information)

	Common stock Par value	Additional paid in capital	Retained earnings	Accumulated other comprehensive loss	Treasury stock	Total shareholders' equity
Balance at December 31, 2010	$ 3	$ 42,049	$ 15,127	$ (1,308)	$(14,791)	$ 41,080
Net loss	—	—	(10,028)	—	—	(10,028)
Charge related to stock-based compensation	—	202	—	—	—	202
Foreign currency translations	—	—	—	41	—	41
Balance at June 30, 2011	$ 3	$ 42,251	$ 5,099	$ (1,267)	$(14,791)	$ 31,295

See accompanying notes to unaudited consolidated financial statements.

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

	Six months ended June 30, 2011	Six months ended June 30, 2010
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	$ (10,028)	$ (6,596)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Depreciation and amortization	5,488	5,919
Provision for inventory losses	1,744	945
Provision for doubtful accounts	42	24
Loss on disposal of assets	68	61
Accounting charge related to stock-based compensation expense	202	391
Deferred income taxes	(401)	(1,629)
Changes in operating assets and liabilities:		
Accounts receivable	244	537
Income tax receivable	24	7,416
Inventories	3,647	2,115
Prepaid expenses and other current assets	(645)	(387)
Other assets	180	(164)
Accounts payable	(504)	(4,959)
Accrued expenses	(116)	968
Taxes payable	(1,738)	1,512
Commissions and incentives payable	(1,266)	(2,424)
Deferred revenue	(11)	(438)
Net cash provided by (used in) operating activities	(3,070)	3,291
CASH FLOWS FROM INVESTING ACTIVITIES:		
Acquisition of property and equipment	(476)	(997)
Proceeds from sales of assets	2	—
Change in restricted cash	65	1,255
Net cash provided by (used in) investing activities	(409)	258
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from stock options exercised	—	28
Repayment of capital lease obligations	(642)	(603)
Net cash used in financing activities	(642)	(575)
Effect of currency exchange rate changes on cash and cash equivalents	(142)	215
Net decrease in cash and cash equivalents	(4,263)	3,189
Cash and cash equivalents at the beginning of the period	21,584	17,367
Cash and cash equivalents at the end of the period	$ 17,321	$ 20,556
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Income taxes received (paid), net	$ (292)	$ 7,442
Interest paid on capital leases	$ 96	$ 43

See accompanying notes to unaudited consolidated financial statements

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NOTE 1: ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Mannatech, Incorporated (together with its subsidiaries, the “Company”), located in Coppell, Texas, was incorporated in the state of Texas on November 4, 1993 and is listed on the NASDAQ Global Select Market under the symbol “MTEX”. The Company develops, markets, and sells high-quality, proprietary nutritional supplements, topical and skin care products, and weight-management products that are primarily sold to independent associates and members located in the United States, Canada, Australia, the United Kingdom, Japan, New Zealand, the Republic of Korea, Taiwan, Denmark, Germany, South Africa, Singapore, Austria, the Netherlands, Norway, Sweden, Mexico, and beginning June 11, 2011, the Czech Republic, Estonia, Finland and the Republic of Ireland.

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

The accompanying unaudited consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information and with instructions for Form 10-Q and Rule 10-01 of Regulation S-X. Accordingly, the Company’s consolidated financial statements and footnotes contained herein do not include all of the information and footnotes required by accounting principles generally accepted in the United States of America (“GAAP”) to be considered “complete financial statements”. However, in the opinion of the Company’s management, the accompanying unaudited consolidated financial statements and footnotes contain all adjustments, including normal recurring adjustments, considered necessary for a fair presentation of the Company’s consolidated financial information as of, and for, the periods presented. The Company cautions that its consolidated results of operations for an interim period are not necessarily indicative of its consolidated results of operations to be expected for its fiscal year. The December 31, 2010 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, 2010 and filed with the United States Securities and Exchange Commission on March 10, 2011 (the “2010 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 2010 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. Actual results may differ from these estimates under different assumptions or conditions.

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

Cash and Cash Equivalents

The Company considers all highly liquid investments with original maturities of three months or less to be cash equivalents. The Company includes in its cash and cash equivalents credit card receivables due from its credit card processor, as the cash proceeds from credit card receivables are received within 24 to 72 hours. As of June 30, 2011 and December 31, 2010, credit card receivables were $2.6 million and $0.9 million, respectively. Additionally, as of June 30, 2011 and December 31, 2010, cash and cash equivalents held in bank accounts in foreign countries totaled $12.9 million and $12.7 million, respectively.

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, 2011 and December 31, 2010, our total restricted cash was $4.9 million and $4.8 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 June 30, 2011 and December 31, 2010, receivables consisted primarily of amounts due from members and associates. The Company periodically evaluates its receivables for collectability based on historical experience, recent account activities, and the length of time receivables are past due and writes-off receivables when they become uncollectible. At June 30, 2011 and December 31, 2010, the Company held an allowance for doubtful accounts of less than $0.1 million.

Inventories

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

Other Assets

As of June 30, 2011 and December 31, 2010, other assets were $3.0 million and $3.1 million, respectively, and primarily consisted of deposits for building leases in various locations and certain intangible assets. Also included in the June 30, 2011 and December 31, 2010 balance was a $1.0 million 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.

Commissions and Incentives

Independent associates earn commissions and incentives based on their direct and indirect commissionable net sales over 13 business periods. Each business period equals 28 days. The Company accrues commissions and incentives when earned by independent 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.

Other Long-Term Liabilities

In August 2003, the Company entered into a Long-Term Post-Employment Royalty Agreement with Dr. Bill McAnalley, the Company's former Chief Science Officer, pursuant to which the Company is required to pay Dr. McAnalley, or his heirs, royalties for ten years beginning September 2005 and continuing through August 2015. Quarterly payments related to this Long-Term Post-Employment Royalty Agreement are based on certain applicable annual global product sales by the Company in excess of $105.4 million. At the time the Company entered into this royalty agreement, it was considered a post-employment benefit and the Company was required to measure and accrue the present value of the estimated future royalty payments related to this benefit, and recognize it over the life of Dr. McAnalley's employment agreement, which was two years. As of June 30, 2011, the Company's liability related to this royalty agreement was $1.4 million, of which $0.3 million was currently due and included in accrued expenses. As of December 31, 2010, the Company's long-term liability related to this royalty agreement was $1.6 million, of which $0.3 million was currently due and included in accrued expenses.

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. As of June 30, 2011 and December 31, 2010, accrued restoration costs related to these leases amounted to $0.4 million. At June 30, 2011 and December 31, 2010, the Company also recorded a long-term liability for an estimated deferred benefit obligation related to a deferred benefit plan for its Japan operations of $1.1 million and $1.0 million, respectively.

Comprehensive Income (loss) and Accumulated Other Comprehensive Income (loss)

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

Revenue Recognition

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 independent 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, 2011 and December 31, 2010, the Company's deferred revenue was $1.9 million, and consisted primarily of revenue received from: (i) sales of packs and products shipped but not received by the customers by period end; and (ii) prepaid registration fees from customers planning to attend a future corporate-sponsored event.

We estimate a sales return reserve for expected sales refunds based on our 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, our 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 averaged 1.5% or less of our gross sales. For the six months ended June 30, 2011 our sales return reserve consisted of the following (in thousands):

	June 30, 2011
Sales reserve as of January 1, 2011	$ 388
Provision related to sales made in current period	783
Provision related to sales made in prior periods	(68)
Actual returns or credits related to current period	(475)
Actual returns or credits related to prior periods	(331)
Sales reserve as of June 30, 2011	$ 297

Shipping and Handling Costs

The Company records freight and shipping fees collected from its customers as revenue. The Company records inbound freight as cost of sales and records shipping and handling costs associated with shipping products to customers as selling and administrative expenses. Total shipping and handling costs included in selling and administrative expenses were approximately $2.7 million and $3.0 million for the three months ended June 30, 2011 and 2010, respectively, and $5.6 million and $6.1 million for the six months ended June 30, 2011 and 2010, respectively.

Reclassifications

Certain reclassifications have been made to the financial statements for prior periods to conform to the current period presentation.

NOTE 2: INVENTORIES

Inventories consist of raw materials and finished goods, including promotional materials. The Company provides an allowance for any slow-moving or obsolete inventories. Inventories at June 30, 2011 and December 31, 2010, consisted of the following (in thousands):

	June 30, 2011	December 31, 2010
Raw materials	$ 7,645	$ 8,846
Finished goods	12,966	16,785
Inventory reserves for obsolescence	(1,833)	(1,561)
Total	$ 18,778	$ 24,070

NOTE 3: INCOME TAXES

For the three and six months ended June 30, 2011, the Company's effective tax rate was (27.9)% and (14.4)%, respectively. For the three and six months ended June 30, 2010, the Company's effective tax rate was (34.6)% and (17.5)%, respectively. For the three and six months ended June 30, 2011 and 2010, the Company's effective income tax rate was determined based on the estimated annual effective income tax rate.

The effective tax rate for the three and six months ended June 30, 2011 was lower than what would have been expected if the federal statutory rate were applied to income before taxes. Items reducing the effective income tax rate included the change in the valuation allowances associated with certain deferred tax assets, and the change in reserves related to uncertain income tax positions. The effective tax rate for the three and six months ended June 30, 2010 was lower than what would have been expected if the federal statutory rate were applied to income before taxes due to the mix of income between tax jurisdictions, the change in the valuation allowances associated with certain deferred tax assets, and the change in reserves related to uncertain income tax positions.

NOTE 4: LOSS PER SHARE

Basic Earnings (Loss) Per Share ("EPS") calculations are based on the weighted-average number of the Company's common shares outstanding during the period. Diluted EPS calculations are based on the calculated weighted-average number of common shares and dilutive common share equivalents outstanding during each period.

The following data shows the amounts used in computing the Company's EPS and the corresponding effect on the Company's weighted-average number of common shares and dilutive common share equivalents for the three months ended June 30, 2011 and 2010. For the three months ended June 30, 2011, approximately 1.6 million shares of the Company's common stock subject to options were excluded from diluted EPS calculations using an average closing price of $1.31 per share, because their effect was antidilutive. For the three months ended June 30, 2010, approximately 1.7 million shares of the Company's common stock subject to options were excluded from diluted EPS calculations using an average close price of $3.09 per share, because their effect was antidilutive. The amounts below are rounded to the nearest thousands, except for per share amounts.

	For the three months ended June 30,					
	2011			2010		
	Loss (numerator)	Shares (denominator)	Per share amount	Loss (numerator)	Shares (denominator)	Per share amount
Basic EPS:						
Net loss attributable to common shareholders	$(5,250)	26,490	$ (0.20)	$(3,815)	26,490	$(0.14)
Effect of dilutive securities:						
Stock options	—	—	—	—	—	—
Diluted EPS:						
Net loss attributable to common shareholders plus assumed conversions	$(5,250)	26,490	$ (0.20)	$(3,815)	26,490	$(0.14)

The following data shows the amounts used in computing the Company's EPS and the corresponding effect on the Company's weighted-average number of common shares and dilutive common share equivalents for the six months ended June 30, 2011 and 2010. For the six months ended June 30, 2011, approximately 1.5 million shares of the Company's common stock subject to options were excluded from diluted EPS calculations using an average closing price of $1.57 per share, because their effect was antidilutive. For the six months ended June 30, 2010, approximately 1.6 million shares of the Company's common stock subject to options were excluded from diluted EPS calculations using an average close price of $3.20 per share, because their effect was antidilutive. The amounts below are rounded to the nearest thousands, except for per share amounts.

	For the six months ended June 30,					
	2011			2010		
	Loss (numerator)	Shares (denominator)	Per share amount	Loss (numerator)	Shares (denominator)	Per share amount
Basic EPS:						
Net loss attributable to common shareholders	$(10,028)	26,490	$ (0.38)	$(6,596)	26,486	$ (0.25)
Effect of dilutive securities:						
Stock options	—	—	—	—	—	—
Diluted EPS:						
Net loss attributable to	$(10,028)	26,490	$ (0.38)	$(6,596)	26,486	$ (0.25)

common shareholders plus assumed conversions

NOTE 5: STOCK-BASED COMPENSATION

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

In February 2008, the Company's Board of Directors approved the Mannatech, Incorporated 2008 Stock Incentive Plan, as amended (the "2008 Plan"), which reserves up to 1,000,000 shares of common stock for issuance of stock options and restricted stock to our employees, board members, and consultants, plus any shares reserved under the Company's then-existing, unexpired stock plans for which options had not yet been issued, and any shares underlying outstanding options under the then-existing stock option plans that terminate without having been exercised in full. The 2008 Plan was approved by the Company's shareholders at the 2008 Annual Shareholders' Meeting. As of June 30, 2011, the 2008 Plan had 90,307 stock options available for grant before the plan expires on February 20, 2018.

The Company records stock-based compensation expense related to granting stock options in selling and administrative expenses. During the three months ended June 30, 2011 and 2010, the Company granted 348,158 and 169,836 stock options, respectively. During the six months ended June 30, 2011 and 2010, the Company granted 348,158 and 306,336 stock options, respectively. The fair value of stock options granted during the three months ended June 30, 2011 ranged from $0.64 to $0.94. The fair value of stock options granted during the three months ended June 30, 2010 ranged from $1.18 to $1.86. The fair value of stock options granted during the six months ended June 30, 2011 ranged from $0.64 to $0.94 per share. The fair value of stock options granted during the six months ended June 30, 2010 ranged from $1.18 to $2.03 per share. The Company recognized compensation expense as follows for the three months ended June 30 (in thousands):

	Three months		Six months	
	2011	2010	2011	2010
Total gross compensation expense	$ 105	$ 182	$ 202	$ 391
Total tax benefit associated with compensation expense	34	38	51	57
Total net compensation expense	$ 71	$ 144	$ 151	$ 334

In the second quarter of 2011, 263,158 stock options were granted to two non-employee directors in connection with their re-election to the Company's Board of Directors by shareholders at the 2011 Annual Shareholders' Meeting held on June 9, 2011. One-third of these stock options was immediately vested on the date of grant, another one-third vests on the first anniversary of the date of grant, and the remaining one-third vests on the second anniversary of the date of grant.

As of June 30, 2011, the Company expects to record compensation expense in the future as follows (in thousands):

	Six months ending December 31,	Year ending December 31,		
	2011	2012	2013	2014
Total gross unrecognized compensation expense	$ 159	$ 235	$ 112	$ 8
Tax benefit associated with unrecognized compensation expense	27	40	16	—
Total net unrecognized compensation expense	$ 132	$ 195	$ 96	$ 8

NOTE 6: SHAREHOLDERS' EQUITY

On September 16, 2010, the Company entered into an Investment Agreement (the "Investment Agreement") with Dutchess Opportunity Fund, II, LP, a Delaware limited partnership (the "Investor"), whereby the Company may sell up to $10 million of the Company's common stock to the Investor over a period of 36 months from the first trading day following the effectiveness of a registration statement registering the resale of shares pursuant to the Investment Agreement (the "Equity Line"). The aggregate number of shares of common stock issuable by the Company and purchasable by the Investor under the Investment Agreement is 5,000,000.

The Company may draw on the Equity Line from time to time, as and when it determines appropriate in accordance with the terms and conditions of the Investment Agreement. The Company is not permitted to draw on the Equity Line unless there is an effective registration statement to cover the resale of the shares. The Company filed a registration statement with the SEC, and on October 28, 2010, the SEC declared effective the Company's Registration Statement on Form S-3 (File No. 333-169774), which registers up to 5,000,000 shares of common stock that may be resold by the Investor pursuant to the Investment Agreement.

Investors should read the Investment Agreement together with the other information concerning the Company that the Company publicly files in reports and statements with the SEC.

As of August 4, 2011, no shares of common stock have been issued pursuant to the Investment Agreement.

NOTE 7: LITIGATION

Patent Infringement Litigation

Mannatech, Inc. v. Country Life, LLC, et al., Case No. 3:10-cv-00533-O, United States District Court, Northern District of Texas, Dallas Division

On March 16, 2010, the Company filed a patent infringement lawsuit against Country Life, LLC; Country Life Manufacturing, LLC; EvenBetterNow, LLC; Micro Health Solutions, LLC; New Sun, Inc.; Oasis Advanced Wellness, LLC; Roex, Inc.; VDF FutureCeuticals, Inc.; and John Does 1-20, alleging the defendants infringed on one or more of the following patents: United States Patent Nos. 6,929,807, 7,157,431, and 7,202,220, all entitled “Compositions of Plant Carbohydrates as Dietary Supplements” (“Patents-in-Suit”). In this lawsuit, the Company requested both monetary damages from the defendants and an injunction to prohibit the defendants from making, offering for sale or selling dietary supplement products which are covered by any claim of the Patents-in-Suit. On May 14, 2010, the Company amended its complaint to add patent infringement claims against three more defendants: Angel Care USA, Inc.; Florida Nutri Labs, LLC; and Wy’s Enterprises of Springfield, Inc. In response to the lawsuit, several of the defendants asserted counterclaims seeking a declaratory judgment that the Patents-in-Suit are invalid.

The Company settled with nine of the eleven defendants: EvenBetterNow, Oasis Advanced Wellness, Micro Health Solutions, Wy's Enterprises of Springfield, Florida Nutri Labs, Angel Care, USA, New Sun, Country Life, and VDF, and voluntarily dismissed its claims without prejudice against two of the defendants, Country Life Manufacturing, LLC and Roex, Inc. Final judgments were entered against each of the settling defendants which prohibit them from making, using, offering to sell, or otherwise distributing the accused infringing products or colorable imitations thereof (the “Enjoined Products”); inducing infringement of the patents by encouraging or assisting others in selling the Enjoined Products; or supplying or causing to be supplied all or a substantial portion of the components of the Enjoined Products, for the term of the Patents-in-Suit. On April 15, 2011, the Court entered an order dismissing all remaining claims with prejudice, denying any outstanding motions and closing the case. This order marked the end of the lawsuit.

Business Arbitration and Litigation

Marinova Pty. Limited v. Mannatech, Incorporated & Mannatech (International) Limited, Case No. 50-122-T-00635-09, International Centre for Dispute Resolution, a division of the American Arbitration Association

On December 10, 2009, Marinova Pty. Limited (“Marinova”) filed a Notice of Arbitration and Statement of Claim with the International Centre for Dispute Resolution, which is a division of the American Arbitration Association, against the Company and its subsidiary, Mannatech (International) Limited. Marinova’s claims stem from the parties’ April 27, 2007 purchase agreement, which was entered into between the parties. Through the purchase agreement, Marinova agreed to sell and the Company agreed to buy set quantities of glyconutrient powder that the Company uses to manufacture some of its products. Marinova claims that the Company breached the purchase agreement by not buying certain quantities of Marinova’s product. Marinova alternatively claims that the Company tortiously interfered with the purchase agreement. Finally, Marinova claims that the Company made fraudulent representations to Marinova upon which Marinova claims it relied in executing the purchase agreement. Marinova claims that the Company’s actions have caused them over $5,000,000 in damages, as well as attorneys’ fees and costs.

On January 15, 2010, the Company filed its Answering Statement and Counterclaims, through which the Company asserted affirmative defenses in response to Marinova’s claims, including that Marinova’s own actions or omissions contributed to or caused Marinova’s alleged injury. The Company also filed a counterclaim for breach of contract, through which the Company alleges that Marinova sold the Company non-conforming powder and then refused to reimburse the Company the amount it paid for the non-conforming powder, thereby breaching the purchase agreement. The Company further alleges that Marinova separately breached the purchase agreement by marketing its powder to one or more of the Company’s competitors in violation of the purchase agreement’s exclusivity clause. Finally, the Company requested declaratory judgments from the arbitration panel, including a judgment that the Company is not obligated to purchase any additional product from Marinova because Marinova breached the purchase agreement. The Company is seeking damages in the amount it paid for the non-conforming product, as well as damages from Marinova’s breach of the parties’ exclusivity agreement, attorneys’ fees, and costs.

On August 31, 2010, Marinova filed its Amended Statement of Claims, in which it claims that, in addition to its other claims against the Company, the Company breached the purchase agreement because the Company allegedly falsely warranted that it was not the subject of any lawsuits or investigations.

On February 3, 2011, the parties and the panel of three arbitrators in the arbitration of this matter held a preliminary hearing to address scheduling matters. After the hearing, the parties executed an agreed scheduling order, through which the parties agreed that the arbitration hearing will commence on December 6, 2011. The parties are currently in the process of discovery. On April 5, 2011, the Company served its first requests for production of documents on Marinova. Marinova timely responded and produced documents. The Company is currently reviewing those documents.

The final arbitration hearing is set to begin on December 6, 2011. The Company intends to vigorously defend against Marinova's claims and prosecute its counterclaim.

Product Liability Litigation

Susan Chon vs. Mannatech, Inc. dba Mannatech Dietary Supplements; Eun-Sook Cho; Gina Park; Good News Acupunture/Couples Acupuncture, Case No. BC460029, Los Angeles County Superior Court

On April 21, 2011, Susan Chon, an individual, filed suit against the Company in Los Angeles Country Superior Court. The plaintiff is one of the Company's former independent associates and has alleged sustaining injuries and enduring complications from breast cancer as the result of taking Ambrotose, one of the Company's products. The plaintiff also alleges that co-defendants En-Sook Cho, Gina Park and Good News Acupuncture represented to her that the Ambrotose product cured serious medical problems. Unspecified damages are sought against all defendants.

The Company tendered this matter to its insurance carrier and retained outside counsel. The Company filed an answer on June 16, 2011. Co-defendant Gina Park separately filed an answer on June 8, 2011. The parties are engaged in the initial stages of written discovery. A pretrial conference is scheduled for April 10, 2012, and an initial trial setting conference is scheduled for April 23, 2012.

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

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 or as they become determinable.

The outcome of litigation is uncertain, and despite management's views of the merits of any litigation, or the reasonableness of the Company's estimates and reserves, the Company's financial statements could nonetheless be materially affected by an adverse judgment. The Company believes it has adequately reserved for the contingencies arising from the above legal matters where an outcome was deemed to be probable, and the loss amount could be reasonably estimated. While it is not possible to predict what liability or damages the Company might incur in connection with any of the above-described lawsuits, based on the advice of counsel and management review of the existing facts and circumstances related to these lawsuits, and related legal fees, the Company has accrued $0.3 million as of June 30, 2011 for these matters, which is included in accrued expenses in its Consolidated Balance Sheet.

NOTE 8: RECENT ACCOUNTING PRONOUNCEMENTS

In June 2011, the FASB issued Accounting Standards Update No. 2011-05, Comprehensive Income (Topic 220)—Presentation of Comprehensive Income (“ASU 2011-05”), to require an entity to present the total of comprehensive income, the components of net income, and the components of other comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements. ASU 2011-05 eliminates the option to present the components of other comprehensive income as part of the statement of equity. ASU 2011-05 is effective for interim and annual financial periods beginning after December 15, 2011. Since early adoption is permitted, the Company revised its presentation of comprehensive income starting with this quarterly report on Form 10-Q to comply with the updated disclosure requirements. The adoption of this guidance did not have a material impact on the Company’s consolidated financial statements.

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.

NOTE 9: 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 ASC establishes a fair value hierarchy that requires the use of observable market data, when available, and prioritizes the inputs to valuation techniques used to measure fair value in the following categories:

- Level 1 – Quoted unadjusted prices for identical instruments in active markets.

- Level 2 – Quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active and model-derived valuations in which all observable inputs and significant value drivers are observable in active markets.

- Level 3 – Model-derived valuations in which one or more significant inputs or significant value drivers are unobservable, including assumptions developed by the Company.

The primary objective of the Company’s investment activities is to preserve principal while maximizing yields without significantly increasing risk. The investment instruments held by the Company are money market funds and interest bearing deposits for which quoted market prices are readily available. The Company considers these highly liquid investments to be cash equivalents. These investments are classified within Level 1 of the fair value hierarchy because they are valued based on quoted market prices in active markets. The Company does not have any material financial liabilities that were required to be measured at fair value on a recurring basis at June 30, 2011. The table below presents the recorded amount of financial assets measured at fair value (in thousands) on a recurring basis as of June 30, 2011.

	Level 1	Level 2	Level 3	Total
Assets				

Money Market Funds – Fidelity, US	$ 2,535	$ —	$ —	$ 2,535
Interest bearing deposits – various banks, Korea	2,662	—	—	2,662
Total assets	$ 5,197	$ —	$ —	$ 5,197
Amounts included in:				
Cash and cash equivalents	$ 2,628	$ —	$ —	$ 2,628
Long-term restricted cash	2,569	—	—	2,569
Total	$ 5,197	$ —	$ —	$ 5,197

NOTE 10: SEGMENT INFORMATION

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

The Company operates facilities in ten countries and sells product in twenty-one countries around the world. These facilities are located in the United States, Canada, Switzerland, Australia, the United Kingdom, Japan, the Republic of Korea (South Korea), Taiwan, South Africa, and Mexico. Each facility services different geographic areas. The Switzerland office was created to manage certain day-to-day business needs of non-North American markets.

By country of operation, consolidated net sales shipped to customers in these locations, along with pack and product information for the three and six months ended June 30, are as follows (in millions, except percentages):

	Three months(1)				Six months(1)			
Country	2011		2010		2011		2010	
United States	$21.3	41.4%	$26.0	45.1%	$ 43.7	42.7%	$ 53.8	45.5%
Japan	7.7	15.0%	8.2	14.2%	15.2	14.9%	16.9	14.3%
Republic of Korea	6.2	12.1%	5.7	9.9%	11.4	11.1%	11.1	9.4%
Australia	4.5	8.8%	4.8	8.3%	9.0	8.8%	10.1	8.5%
Canada	4.3	8.3%	5.0	8.7%	8.2	8.0%	9.4	7.9%
South Africa	2.2	4.3%	2.9	5.0%	4.3	4.2%	6.1	5.2%
Taiwan	1.0	1.9%	1.4	2.4%	2.3	2.2%	3.6	3.0%
Singapore	0.8	1.6%	0.4	0.7%	1.4	1.4%	1.0	0.8%
New Zealand	0.7	1.3%	0.9	1.7%	1.2	1.2%	1.8	1.5%
Mexico(2)	0.6	1.2%	—	—	1.3	1.3%	—	—
Germany	0.5	1.0%	0.6	1.0%	1.0	1.0%	1.2	1.0%
United Kingdom	0.5	0.9%	0.6	1.0%	0.8	0.8%	1.2	1.0%
Norway	0.4	0.8%	0.4	0.7%	0.9	0.9%	0.7	0.6%
The Netherlands	0.3	0.6%	0.2	0.4%	0.6	0.6%	0.3	0.3%
Austria	0.2	0.4%	0.3	0.5%	0.5	0.4%	0.6	0.5%
Denmark	0.1	0.2%	0.1	0.2%	0.2	0.2%	0.3	0.3%
Sweden	0.1	0.2%	0.1	0.2%	0.3	0.3%	0.2	0.2%
Totals	$51.4	100%	$57.6	100%	$102.3	100%	$118.3	100%

(1) The Company began operations in the Czech Republic, Estonia, Finland, and the Republic of Ireland in June 2011. Their combined consolidated sales for the three and six months ended June 30, 2011 were less than $0.1 million.

(2) The Company began operations in Mexico in January 2011.

	Three months		Six months	
	2011	2010	2011	2010
Consolidated product sales	$ 43.4	$ 46.9	$ 86.6	$ 95.4
Consolidated pack sales	5.9	8.4	11.4	18.1
Consolidated other, including freight	2.1	2.3	4.3	4.8
Consolidated total net sales	$ 51.4	$ 57.6	$ 102.3	$ 118.3

Long-lived assets, which include property and equipment and construction in progress for the Company and its subsidiaries, reside in the following countries (in millions):

Country	June 30, 2011	December 31, 2010
Australia	$ 0.2	$ 0.3
Canada	0.1	0.1
Japan	0.1	0.2
Mexico	0.6	0.3
Republic of Korea	0.7	0.8
South Africa	0.1	0.1
Switzerland	0.3	0.4
Taiwan	0.1	0.1
United Kingdom	0.1	0.1
United States	11.9	16.6
Total	$ 14.2	$ 19.0

Inventory balances by country, which consist of raw materials, work in progress, and finished goods, including promotional materials, and offset by obsolete inventories, were as follows (in millions):

Country	June 30, 2011	December 31, 2010
Australia	$ 1.3	$ 1.5
Canada	1.0	1.5
Japan	1.1	1.6
Mexico	0.6	0.8
Republic of Korea	0.7	0.8
South Africa	0.9	1.3
Switzerland	0.4	0.3
Taiwan	0.3	0.4
United Kingdom	1.1	1.1
United States	11.4	14.8
Total	$ 18.8	$ 24.1

NOTE 11: SUBSEQUENT EVENTS

On July 14, 2011, the Company's Board of Directors authorized the Company to reactivate the stock repurchase program previously approved by the Board of Directors on June 30, 2004 (the "June 2004 Plan"). Under the June 2004 Plan, the Company is authorized to repurchase, in the open market, up to 5% of its outstanding shares, or approximately 1.3 million. During July 2011, the Company repurchased 5,282 shares of its common stock in the open market under the June 2004 Plan. The total cost and average price per share were approximately $5,000 and $0.89, respectively. As of August 4, 2011, the maximum number of shares available for repurchase under the June 2004 Plan, previously approved by the Board of Directors, was 190,842.

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 six months ended June 30, 2011 as compared to the same period in 2010, and should be read in conjunction with Item I "Financial Statements" in Part I of this quarterly report on Form 10-Q. Unless stated otherwise, all financial information presented below, throughout this report, and in the consolidated financial statements and related notes includes Mannatech, Incorporated and all of our subsidiaries on a consolidated basis.

COMPANY OVERVIEW

Since November 1993, we have continued to develop innovative, high-quality, proprietary nutritional supplements, topical and skin care products, and weight-management products that are sold through a global network marketing system. We operate in the United States, Canada, Australia, the United Kingdom, Japan, New Zealand, the Republic of Korea, Taiwan, Denmark, Germany, South Africa, Singapore, Austria, the Netherlands, Norway, Sweden, Mexico, and beginning June 11, 2011, the Czech Republic, Estonia, Finland, and the Republic of Ireland. The Switzerland office was created to manage certain day-to-day business needs of non-North American markets.

We conduct our business as a single operating segment and primarily sell our products through a network of approximately 385,000 independent associates and members who have purchased our products and/or packs within the last 12 months, who we refer to as current independent associates and members. New recruits and pack sales are leading indicators for the long-term success of our business. New recruits include new independent associates and members purchasing our packs and products for the first time. We operate as a seller of nutritional supplements, topical and skin care products, and weight-management products through our network marketing distribution channels operating in twenty-one countries. We review and analyze net sales by geographical location and by packs and products on a consolidated basis. Each of our subsidiaries sells similar products and exhibits similar economic characteristics, such as selling prices and gross margins.

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

Current Economic Conditions and Recent Developments

We remain focused on restoring profitability and generating positive cash flow. On June 23, 2011, we announced a restructuring of our U.S. operations and elimination of 98 workforce positions. The strategic move impacted 64 employees, or approximately 20% of headquarters-based workers, and 34 other open positions. The restructuring is expected to provide approximately $12.0 million in savings on an annualized basis, including significant operating expense reductions across virtually every area of the company.

We continue to expand internationally and, in January 2011, began selling products in Mexico. We have office locations in both Guadalajara and Mexico City, as well as a distribution center located in Monterrey. In addition, in June 2011, we expanded our business to four central and eastern European countries – the Czech Republic, Estonia, Finland, and the Republic of Ireland. We believe these expansions are important for our long-term goals.

Our primary goal for 2011 and beyond is to restore sales volume, profitability, and generate positive cash flow, and we are taking aggressive actions to achieve this goal. We anticipate that our cost reduction initiatives, international expansion, and financial discipline will help us effectively manage through challenging times. Achieving desired levels of revenues and profitability in the future will depend largely upon our ability to attract and retain associates, so we remain focused on increasing consumer confidence, emphasizing the value and benefits of our flagship product, Ambrotose®, and continuing the Give for RealSM initiative.

RESULTS OF OPERATIONS

The table below summarizes our consolidated operating results in dollars and as a percentage of net sales for the three months ended June 30, 2011 and 2010 (in thousands, except percentages):

	2011		2010		Change from 2011 to 2010	
	Total dollars	% of net sales	Total dollars	% of net sales	Dollar	Percentage
Net sales	$ 51,362	100%	$ 57,606	100%	$ (6,244)	(10.8)%
Cost of sales	7,543	14.7%	8,091	14.0%	(548)	(6.8)%
Commissions and incentives	22,896	44.6%	24,509	42.5%	(1,613)	(6.6)%
	30,439	59.3%	32,600	56.6%	(2,161)	(6.6)%
Gross profit	20,923	40.7%	25,006	43.4%	(4,083)	(16.3)%
Operating expenses:						
Selling and administrative expenses	14,811	28.8%	15,297	26.6%	(486)	(3.2)%
Depreciation and amortization	2,687	5.2%	3,002	5.2%	(315)	(10.5)%
Other operating costs	7,746	15.1%	8,836	15.3%	(1,090)	(12.3)%
Total operating expenses	25,244	49.1%	27,135	47.1%	(1,891)	(7.0)%
Loss from operations	(4,321)	(8.4)%	(2,129)	(3.7)%	(2,192)	(103.0)%
Interest income	21	0.0%	10	0.0%	11	110.0%
Other income, net	196	0.4%	(715)	(1.2)%	911	127.4%
Loss before income taxes	(4,104)	(8.0)%	(2,834)	(4.9)%	(1,270)	(44.8)%
Provision for income taxes	(1,146)	(2.2)%	(981)	(1.7)%	(165)	(16.8)%
Net loss	$ (5,250)	(10.2)%	$ (3,815)	(6.6)%	$ (1,435)	(37.6)%

The table below summarizes our consolidated operating results in dollars and as a percentage of net sales for the six months ended June 30, 2011 and 2010 (in thousands, except percentages):

	2011		2010		Change from 2011 to 2010	
	Total dollars	% of net sales	Total dollars	% of net sales	Dollar	Percentage
Net sales	$ 102,262	100%	$ 118,271	100%	$ (16,009)	(13.5)%
Cost of sales	14,757	14.4%	16,716	14.1%	(1,959)	(11.7)%
Commissions and incentives	44,603	43.6%	51,508	43.6%	(6,905)	(13.4)%
	59,360	58.0%	68,224	57.7%	(8,864)	(13.0)%
Gross profit	42,902	42.0%	50,047	42.3%	(7,145)	(14.3)%

Operating expenses:						
Selling and administrative expenses	30,829	30.1%	31,768	26.9%	(939)	(3.0)%
Depreciation and amortization	5,488	5.4%	5,919	5.0%	(431)	(7.3)%
Other operating costs	15,812	15.5%	17,381	14.7%	(1,569)	(9.0)%
Total operating expenses	52,129	51.0%	55,068	46.6%	(2,939)	(5.3)%
Loss from operations	(9,227)	(9.0)%	(5,021)	(4.2)%	(4,206)	(83.8)%
Interest income (expense)	1	0.0%	(19)	0.0%	20	105.3%
Other income, net	463	0.5%	(575)	(0.5)%	1,038	180.5%
Loss before income taxes	(8,763)	(8.6)%	(5,615)	(4.7)%	(3,148)	(56.1)%
Provision for income taxes	(1,265)	(1.2)%	(981)	(0.8)%	(284)	(29.0)%
Net loss	$ (10,028)	(9.8)%	$ (6,596)	(5.6)%	$ (3,432)	(52.0)%

Consolidated net sales by customer location for the three months ended June 30, 2011 and 2010 were as follows (in millions, except percentages):

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

	2011(1)		2010	
United States	$ 21.3	41.4%	$ 26.0	45.1%
Japan	7.7	15.0%	8.2	14.2%
Republic of Korea	6.2	12.1%	5.7	9.9%
Australia	4.5	8.8%	4.8	8.3%
Canada	4.3	8.3%	5.0	8.7%
South Africa	2.2	4.3%	2.9	5.0%
Taiwan	1.0	1.9%	1.4	2.4%
Singapore	0.8	1.6%	0.4	0.7%
New Zealand	0.7	1.3%	0.9	1.7%
Mexico(2)	0.6	1.2%	—	—
Germany	0.5	1.0%	0.6	1.0%
United Kingdom	0.5	0.9%	0.6	1.0%
Norway	0.4	0.8%	0.4	0.7%
The Netherlands	0.3	0.6%	0.2	0.4%
Austria	0.2	0.4%	0.3	0.5%
Denmark	0.1	0.2%	0.1	0.2%
Sweden	0.1	0.2%	0.1	0.2%
Total	$ 51.4	100%	$ 57.6	100%

(1)We began operations in the Czech Republic, Estonia, Finland, and the Republic of Ireland in June 2011. Their combined consolidated sales for the three months ended June 30, 2011 were less than $0.1 million.
(2) We began operations in Mexico in January 2011.

Consolidated net sales by customer location for the six months ended June 30, 2011 and 2010 were as follows (in millions, except percentages):

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

	2011(1)		2010	
United States	$ 43.7	42.7%	$ 53.8	45.5%
Japan	15.2	14.9%	16.9	14.3%
Republic of Korea	11.4	11.1%	11.1	9.4%
Australia	9.0	8.8%	10.1	8.5%
Canada	8.2	8.0%	9.4	7.9%
South Africa	4.3	4.2%	6.1	5.2%
Taiwan	2.3	2.2%	3.6	3.0%
Singapore	1.4	1.4%	1.0	0.8%
Mexico(2)	1.3	1.3%	—	—
New Zealand	1.2	1.2%	1.8	1.5%
Germany	1.0	1.0%	1.2	1.0%
Norway	0.9	0.9%	0.7	0.6%
United Kingdom	0.8	0.8%	1.2	1.0%
The Netherlands	0.6	0.6%	0.3	0.3%
Austria	0.5	0.4%	0.6	0.5%
Sweden	0.3	0.3%	0.2	0.2%
Denmark	0.2	0.2%	0.3	0.3%
Total	$ 102.3	100%	$ 118.3	100%

(1) We began operations in the Czech Republic, Estonia, Finland, and the Republic of Ireland in June 2011. Their combined consolidated sales for the six months ended June 30, 2011 were less than $0.1 million.
(2) We began operations in Mexico in January 2011.

Net Sales

For the three and six months ended June 30, 2011, our operations outside of the United States accounted for approximately 58.6% and 57.3%, respectively, of our consolidated net sales, whereas in the same period in 2010, our operations outside of the United States accounted for approximately 54.9% and 54.5%, respectively, of our consolidated net sales.

Consolidated net sales for the three months ended June 30, 2011 decreased by $6.2 million, or 10.8%, to $51.4 million as compared to the same period in 2010. United States sales decreased by $4.7 million, or 18.0%, to $21.3 million, while international sales decreased $1.5 million, or 5.0%, to $30.1 million for the three months ended June 30, 2011 as compared to the same period in 2010.

Consolidated net sales for the six months ended June 30, 2011 decreased by $16.0 million, or 13.5%, to $102.3 million as compared to the same period in 2010. United States sales decreased by $10.1 million, or 19.0%, to $43.7 million, while international sales decreased $5.9 million, or 9.0%, to $58.6 million for the six months ended June 30, 2011 as compared to the same period in 2010.

Fluctuation in foreign currency exchange rates had an overall favorable impact on our net sales of approximately $2.8 million and $4.4 million for the three and six months ended June 30, 2011, respectively. The net sales impact is calculated as the difference between (1) the current period’s net sales in USD and (2) the current period’s net sales in local currencies converted to USD by applying average exchange rates for the same periods ended June 30, 2010.

Net sales by country in transactional currency for the three and six months ended June 30, 2011 and 2010 were as follows (in millions, except percentages):

		Three Months		Change	
Country	Transactional Currency	2011	2010	Transactional currency	Percentage
Australia	AUD	4.2	5.9	(1.7)	(28.8)%
Austria, Germany, the Netherlands, the Czech Republic, Estonia, Finland, the Republic of Ireland	EUR	0.7	0.8	(0.1)	(12.5)%
Denmark	DKK	0.5	0.9	(0.4)	(44.4)%
Japan	JPY	618.8	747.4	(128.6)	(17.2)%
Mexico(1)	MXN	7.3	—	—	—
New Zealand	NZD	0.8	1.2	(0.4)	(33.3)%
Norway	NOK	2.3	2.0	0.3	15.0%
Republic of Korea	KRW	6,707.9	6,619.9	88.0	1.3%
Singapore(2)	SGD	1.0	—	—	—
South Africa	ZAR	15.0	21.8	(6.8)	(31.2)%
Sweden	SEK	0.6	0.8	(0.2)	(25.0)%
Taiwan	TWD	30.1	45.2	(15.1)	(33.4)%
United Kingdom	GBP	0.3	0.4	(0.1)	(25.0)%

(1) We began operations in Mexico in January 2011.
(2) In March 2011, we started transacting sales in Singapore dollars (SGD). Prior to March 2011, sales were transacted in Australian dollars.

		Six Months		Change	
Country	Transactional Currency	2011	2010	Transactional currency	Percentage
Australia	AUD	9.1	12.4	(3.3)	(26.6)%
Austria, Germany, the Netherlands, the Czech Republic, Estonia, Finland, the Republic of Ireland	EUR	1.4	1.5	(0.1)	(6.7)%
Denmark	DKK	1.1	1.7	(0.6)	(35.3)%
Japan	JPY	1,231.5	1,526.3	(294.8)	(19.3)%
Mexico(1)	MXN	15.2	—	—	—
New Zealand	NZD	1.6	2.6	(1.0)	(38.5)%
Norway	NOK	4.9	3.7	1.2	32.4%
	KRW	12,525.8	12,816.4	(290.6)	(2.3)%

Republic of Korea					
Singapore(2)	SGD	1.1	—	—	—
South Africa	ZAR	29.6	45.4	(15.8)	(34.8)%
Sweden	SEK	1.5	1.4	0.1	7.1%
Taiwan	TWD	66.5	114.3	(47.8)	(41.8)%
United Kingdom	GBP	0.6	0.9	(0.3)	(33.3)%

(1) We began operations in Mexico in January 2011.
(2) In March 2011, we started transacting sales in Singapore dollars (SGD). Prior to March 2011, sales were transacted in Australian dollars.

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

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

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

	Three Months		Change	
	2011	2010	Dollar	Percentage
Consolidated product sales	$ 43.4	$ 46.9	$ (3.5)	(7.5)%
Consolidated pack sales	5.9	8.4	(2.5)	(29.8)%
Consolidated other, including freight	2.1	2.3	(0.2)	(8.7)%
Total consolidated net sales	$ 51.4	$ 57.6	$ (6.2)	(10.8)%

	Six Months		Change	
	2011	2010	Dollar	Percentage
Consolidated product sales	$ 86.6	$ 95.4	$ (8.8)	(9.2)%
	11.4	18.1	(6.7)	(37.0)%

Consolidated pack sales				
Consolidated other, including freight	4.3	4.8	(0.5)	(10.4)%
Total consolidated net sales	$102.3	$ 118.3	$(16.0)	(13.5)%

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

Product Sales

Product sales for the three months ended June 30, 2011 decreased $3.5 million, or 7.5%, as compared to the same period in 2010. The decrease in product sales was primarily due to the reduction in the number of new associates and the loss of existing associates, which resulted in a decline in the number of orders placed during the period. The average order value for the three months ended June 30, 2011 was $155 as compared to $146 for the same period in 2010. The 6% increase in average order value resulted in approximately $2.6 million in additional revenue which partially offset the overall decline in product sales. The number of orders processed during the three months ended June 30, 2011 decreased by 13% as compared to the same period in 2010. This decrease was consistent with the 14.4% decline in the number of continuing independent associates and members as described in detail below.

Product sales for the six months ended June 30, 2011 decreased $8.8 million, or 9.2%, as compared to the same period in 2010. The decrease in product sales was primarily due to the reduction in the number of new associates and the loss of existing associates, which resulted in a decline in the number of orders processed during the period. The average order value for the six months ended June 30, 2011 was $154 as compared to $146 for the same period in 2010. The 5% increase in average order value resulted in approximately $4.8 million in additional revenue which partially offset the overall decline in product sales. The number of orders placed during the six months ended June 30, 2011 decreased by 14% as compared to the same period in 2010. This decrease was consistent with the 14.4% decline in the number of continuing independent associates and members as described in detail below.

Pack Sales

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

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

	Three Months		Change	
	2011	2010	Dollar	Percentage
New	$ 4.1	$ 5.9	$ (1.8)	(30.5)%
Continuing	1.8	2.5	(0.7)	(28.0)%
Total	$ 5.9	$ 8.4	$ (2.5)	(29.8)%

	Six Months		Change	
	2011	2010	Dollar	Percentage
New	$ 7.8	$ 12.1	$ (4.3)	(35.5)%
Continuing	3.6	6.0	(2.4)	(40.0)%
Total	$ 11.4	$ 18.1	$ (6.7)	(37.0)%

Total pack sales for the three months ended June 30, 2011 decreased by $2.5 million, or 29.8%, to $5.9 million, as compared to $8.4 million for the same period in 2010. Average pack value for the three months ended June 30, 2011 was $252 as compared to $304 for the same period in 2010. The total number of packs sold decreased by 15.8% and the average pack value decreased by $52 or 17.1% for the three months ended June 30, 2011 as compared to the same period in 2010. Approximately $1.2 million of the reduction in pack sales resulted from the decrease in average pack value with the remaining decrease attributable to the decline in the number of packs sold during the period.

Total pack sales for the six months ended June 30, 2011 decreased by $6.7 million, or 37.0%, to $11.4 million, as compared to $18.1 million for the same period in 2010. Average pack value for the six months ended June 30, 2011 was $247 as compared to $320 for the same period in 2010. The total number of packs sold decreased by 18.2% and the average pack value decreased by $73 or 22.8% for the six months ended June 30, 2011 as compared to the same period in 2010. Approximately $3.4 million of the reduction in pack sales resulted from the decrease in average pack value with the remaining decrease attributable to the decline in the number of packs sold during the period.

The number of new and continuing independent associates and members who purchased our packs or products during the twelve months ended June 30, 2011 and 2010 were as follows:

	2011		2010	
New	84,000	21.9%	108,000	24.0%
Continuing	301,000	78.1%	342,000	76.0%
Total	385,000	100%	450,000	100%

There was an overall decrease of 65,000, or 14.4%, for the twelve months ended June 30, 2011 in the number of associates as compared to the same period in 2010, which was due both to a decline in the number of new independent associates and members, as well as fewer continuing independent associates and members.

During 2010 and 2011, we took the following actions to recruit and retain independent associates and members:

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

Other Sales

Other sales consisted of: (i) sales of promotional materials; (ii) training and event registration fees; (iii) monthly fees collected for the Success TrackerTM tool, a customized electronic business-building and educational materials database for our independent associates that helps stimulate product sales and provide business management; (iv) freight revenue charged to our independent associates and members; and (v) a reserve for estimated sales refunds and returns.

Other sales for the three months ended June 30, 2011 decreased by $0.2 million to $2.1 million as compared to $2.3 million for the same period in 2010. Other sales for the six months ended June 30, 2011 decreased by $0.5 million to $4.3 million as compared to $4.8 million for the same period in 2010. The decrease in both periods was primarily due to a decrease in freight fees for product and pack shipments.

Gross Profit

Gross profit for the three months ended June 30, 2011 decreased by $4.1 million, or 16.3%, to $20.9 million as compared to $25.0 million for the same period in 2010. For the three months ended June 30, 2011, gross profit as a percentage of net sales decreased to 40.7% as compared to 43.4% for the same period in 2010; this decrease resulted from an increase in commissions and incentives as a percentage of net sales, which was offset by a decrease in cost of sales.

Gross profit for the six months ended June 30, 2011 decreased by $7.1 million, or 14.3% to $42.9 million as compared to $50.0 million for the same period in 2010. Gross profit as a percentage of net sales decreased to 42.0% as compared to 42.3% for the same period in 2010; this decrease resulted from a slight increase in cost of sales as a percentage of net sales.

Cost of sales during the three months ended June 30, 2011 decreased by 6.8%, or $0.6 million, to $7.5 million as compared to $8.1 million for the same period in 2010. Cost of sales as a percentage of net sales for the three months ended June 30, 2011 was 14.7% as compared to 14.0% for the same period in 2010 partially, due to higher inventory reserves taken against overstocked items.

Cost of sales during the six months ended June 30, 2011 decreased $1.9 million, or 11.7%, to $14.8 million as compared to $16.7 million for the same period in 2010. Cost of sales as a percentage of net sales for the six months ended June 30, 2011 increased to 14.4% as compared to 14.1% for the same period in 2010 primarily due to higher inventory reserves taken against overstocked items.

Commission costs for the three months ended June 30, 2011 decreased by 7.6%, or $1.8 million, to $21.8 million as compared to $23.6 million for the same period in 2010. The decrease in commissions was due to the decrease in commissionable net sales. For the three months ended June 30, 2011, commissions as a percentage of net sales increased to 42.4% from 41.0% for the same period of 2010.

Commission costs for the six months ended June 30, 2011 decreased by 13.5%, or $6.6 million, to $42.4 million as compared to $49.0 million for the same period in 2010. Commissions as a percentage of net sales for the six months ended June 30, 2011 remained flat at 41.4% as compared to the same period in 2010.

Incentive costs for the three months ended June 30, 2011 increased by 22.2%, or $0.2 million, to $1.1 million as compared to $0.9 million for the same period in 2010. For the three months ended June 30, 2011, the costs of incentives, as a percentage of net sales increased to 2.1% from 1.6% for the same period in 2010.

Incentive costs for the six months ended June 30, 2011 decreased by 12.0%, or $0.3 million, to $2.2 million as compared to $2.5 million for the same period in 2010. For the six months ended June 30, 2011, the costs of incentives, as a percentage of net sales remained relatively flat at 2.2% as compared to 2.1% for the same period in 2010.

The decrease in commission and incentive costs for the six months ended June 30, 2011 compared to the same period in 2010 was largely due to the decrease in the number of new and continuing independent associates and members who purchase our packs or products. As a result, there was a decrease in the number of independent associates who qualified for the annual incentive trip to approximately 640 associates as compared to 750 associates in 2010.

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

Selling and administrative expenses for the three months ended June 30, 2011 decreased by $0.5 million, or 3.2%, to $14.8 million as compared to $15.3 million for the same period in 2010. The decrease in selling and administrative expenses consisted primarily of a $0.3 million decrease in freight costs, $0.1 million decrease in contract labor costs, and a $0.1 million decrease in stock-based compensation expense. As a percentage of net sales, selling and administrative expenses increased to 28.8% from 26.6% for the same period in 2010. Included in selling and administrative expenses was a $0.6 million reserve related to a restructuring of our U.S. operations and elimination of certain workforce positions.

Selling and administrative expenses for the six months ended June 30, 2011 decreased by $1.0 million, or 3.0%, to $30.8 million as compared to $31.8 million for the same period in 2010. The decrease in selling and administrative expenses consisted primarily of a $0.5 million decrease in freight costs, $0.3 million decrease in contract labor costs, and a $0.2 million decrease in stock-based compensation expense. As a percentage of net sales, selling and administrative expenses increased to 30.1% from 26.9% for the same period in 2010.

Depreciation and Amortization Expense

Depreciation and amortization expense for the three months ended June 30, 2011 decreased by 10.5%, or $0.3 million, to $2.7 million as compared to $3.0 million for the same period in 2010. As a percentage of net sales, depreciation and amortization expense remained flat at 5.2% for the both periods in 2011 and 2010.

Depreciation and amortization expense for the six months ended June 30, 2011 decreased by 7.3%, or $0.4 million, to $5.5 million as compared to $5.9 million for the same period in 2010. As a percentage of net sales, depreciation and amortization expense increased slightly to 5.4% from 5.0% for the same period in 2010.

Other Operating Costs

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

Other operating costs for the three months ended June 30, 2011 decreased by $1.1 million, or 12.3%, to $7.7 million as compared to $8.8 million for the same period in 2010. For the three months ended June 30, 2011, other operating costs as a percentage of net sales decreased to 15.1% from 15.3% for the same period in 2010. The decrease in other operating costs was primarily due to a reduction in accounting and consulting fees of $0.4 million, office expenses of $0.3 million, travel related costs of $0.2 million, and credit card fees of $0.2 million.

Other operating costs for the six months ended June 30, 2011 decreased by $1.6 million, or 9.0%, to $15.8 million as compared to $17.4 million for the same period in 2010. For the six months ended June 30, 2011, other operating costs as a percentage of net sales increased to 15.5% from 14.7% for the same period in 2010. The decrease in other operating costs was primarily due to a reduction in accounting and consulting fees of $0.6 million, credit card fees of $0.4 million, office expenses of $0.3 million, legal fees of $0.2 million, and travel related costs of $0.1 million.

Other Income (Expense), Net

Other income (expense), net primarily consists of foreign currency gains and losses related to translating our foreign subsidiaries' assets, liabilities, revenues, and expenses to the United States dollar and revaluing monetary accounts in the United States, Switzerland, Japan, Republic of Korea, Taiwan, Norway, Sweden, and Mexico using current and weighted-average currency exchange rates. Net foreign currency transaction gains and losses are the result of the United States dollar fluctuating in value against foreign currencies.

Other income, net for the three months ended June 30, 2011 was $0.2 million, as compared to other expense, net of $0.7 million for the same periods in 2010.

Other income, net for the six months ended June 30, 2011 was $0.5 million, as compared to other expense, net of $0.6 million for the same periods in 2010.