

MANNATECH INC
Form 10-Q
May 06, 2010

March 2010

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

FORM 10-Q
(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR
15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended: March 31, 2010

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 <input checked="" type="checkbox"/>	Non-accelerated filer <input type="checkbox"/>	Smaller reporting company <input type="checkbox"/>
<input type="checkbox"/>			

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

As of April 30, 2010, the number of shares outstanding of the registrant's sole class of common stock, par value \$0.0001 per share, was 26,490,466.

MANNATECH, INCORPORATED
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Special Note Regarding Forward-Looking Statements

Certain disclosures and analysis 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, or the Securities Act, Section 21E of the Securities Exchange Act of 1934, as amended, or 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 and in the "Risk Factors" section in 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)

	March 31, 2010 (unaudited)	December 31, 2009
ASSETS		
Cash and cash equivalents	\$ 14,709	\$ 17,367
Restricted cash	1,287	1,288
Accounts receivable, net of allowance of \$26 and \$17 in 2010 and 2009, respectively	453	664
Income tax receivable	8,973	8,075
Inventories, net	30,944	31,290
Prepaid expenses and other current assets	3,644	3,139
Deferred tax assets	2,762	2,662
Total current assets	62,772	64,485
Property and equipment, net	24,698	27,144
Construction in progress	304	317
Long-term restricted cash	6,159	7,201
Other assets	2,348	2,503
Long-term deferred tax assets	555	652
Total assets	\$ 96,836	\$ 102,302
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current portion of capital leases	\$ 1,162	\$ 847
Accounts payable	7,526	11,319
Accrued expenses	13,591	14,231
Commissions and incentives payable	11,934	10,624
Taxes payable	2,160	2,577
Current deferred tax liability	423	274
Deferred revenue	2,325	2,807
Total current liabilities	39,121	42,679
Capital leases, excluding current portion	777	1,068
Long-term deferred tax liabilities	3,070	3,923
Other long-term liabilities	5,110	3,348
Total liabilities	48,078	51,018
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, 27,695,482 shares issued and 26,488,388 shares outstanding in 2010 and 27,687,882 shares issued and 26,480,788 shares outstanding in 2009	3	3
Additional paid-in capital	41,672	41,442

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Retained earnings	22,962	25,743
Accumulated other comprehensive loss	(1,088)	(1,113)
Less treasury stock, at cost, 1,207,094 shares in 2010 and 2009	(14,791)	(14,791)
Total shareholders' equity	48,758	51,284
Total liabilities and shareholders' equity	\$ 96,836	\$ 102,302

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 March 31,	
	2010	2009
Net sales	\$ 60,665	\$ 70,701
Cost of sales	8,625	11,731
Commissions and incentives	26,999	33,726
	35,624	45,457
Gross profit	25,041	25,244
Operating expenses:		
Selling and administrative expenses	16,471	18,215
Depreciation and amortization	2,917	3,146
Other operating costs	8,545	9,562
Total operating expenses	27,933	30,923
Loss from operations	(2,892)	(5,679)
Interest income (expense)	(29)	74
Other income (expense), net	140	(1,418)
Loss before income taxes	(2,781)	(7,023)
(Provision) benefit for income taxes	—	2,248
Net loss	\$ (2,781)	\$ (4,775)
Loss per share:		
Basic	\$ (0.11)	\$ (0.18)
Diluted	\$ (0.11)	\$ (0.18)
Weighted-average common shares outstanding:		
Basic	26,482	26,461
Diluted	26,482	26,461

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 outstanding Shares	Par value	Additional paid in capital	Retained earnings	Accumulated other comprehensive loss	Treasury stock Shares	Amounts	Total shareholders' equity
Balance at December 31, 2009	26,481	\$ 3	\$ 41,442	\$ 25,743	\$ (1,113)	1,207	\$ (14,791)	\$ 51,284
Charge related to stock-based compensation	—	—	209	—	—	—	—	209
Proceeds from stock options exercised	7	—	21	—	—	—	—	21
Components of comprehensive loss:								
Foreign currency translations	—	—	—	—	25	—	—	25
Net loss	—	—	—	(2,781)	—	—	—	(2,781)
Total comprehensive loss								(2,756)
Balance at March 31, 2010	26,488	\$ 3	\$ 41,672	\$ 22,962	\$ (1,088)	1,207	\$ (14,791)	\$ 48,758

See accompanying notes to unaudited consolidated financial statements.

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

	Three months ended March 31,	
	2010	2009
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	\$(2,781)	\$ (4,775)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	2,917	3,146
Provision for doubtful accounts	15	(12)
Provision for inventory losses	101	250
Loss on disposal of assets	7	—
Accounting charge related to stock-based compensation expense	209	139
Deferred income taxes	(709)	(53)
Changes in operating assets and liabilities:		
Accounts receivable	198	8
Income tax receivable	(893)	(2,164)
Inventories	347	628
Prepaid expenses and other current assets	(146)	(374)
Other assets	170	24
Accounts payable	(3,800)	781
Accrued expenses	1,104	(2,916)
Taxes payable	(445)	(868)
Commissions and incentives payable	1,276	2,664
Deferred revenue	(482)	(162)
Net cash used in operating activities	(2,912)	(3,684)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property and equipment	(371)	(718)
Change in restricted cash	1,237	(204)
Net cash provided by (used in) investing activities	866	(922)