

MANNATECH INC
Form 10-Q
May 10, 2007
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March 2007

**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, 2007**

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)

**600 S. Royal Lane, Suite 200
Coppell, Texas 75019**

75-2508900
(I.R.S. Employer
Identification No.)

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(Address of Principal Executive Offices, including 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 is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer or large accelerated filer in Rule 12b-2 of the Exchange Act.

Large accelerated filer Accelerated filer Non-accelerated filer
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, 2007, the number of shares outstanding of the registrant's sole class of common stock, par value \$0.0001 per share, was 26,426,487.

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Mannatech, Incorporated

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Forward-Looking Statements

Certain disclosure and analysis in this report, including information incorporated by reference, includes 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. These forward-looking statements are subject to certain events, risks, and uncertainties that may be outside of Mannatech's control. 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;

expanding international operations;

global statutory tax rates remaining unchanged;

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

effect of consumer uncertainty;

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.

Actual results and developments could materially differ from those expressed in or implied by such statements due to a number of factors, including:

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overall expected 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 plan or incentives;

the ability to attract and retain independent associates and members;

new regulatory changes that may affect operations and/or products;

any impact of competition, competitive products, and pricing;

any impact related to media or publicity;

the political, social, and economic climate; and

the risk factors described in this report, as well as other reports filed with the United States Securities and Exchange Commission. Forward-looking statements generally can be identified by use of phrases or terminology such as may, will, should, could, would, expects, intends, anticipates, believes, estimates, approximates, predicts, projects, potential, and continues or other similar words or the n 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 and uncertainties and any other cautionary statements in this report, as all of the forward-looking statements contained herein speak only as of the date of this report.

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

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

Table of Contents**PART I FINANCIAL INFORMATION****Item 1. Financial Statements****MANNATECH, INCORPORATED****CONSOLIDATED BALANCE SHEETS***(in thousands, except share and per share amounts)*

	December 31,	March 31,
	2006	2007 (unaudited)
ASSETS		
Cash and cash equivalents	\$ 45,701	\$ 39,718
Restricted cash	2,251	2,267
Accounts receivable, net of allowance of \$0.2 million in 2006 and 2007	999	119
Income tax receivable	2,155	1,759
Inventories, net	23,923	25,057
Prepaid expenses and other current assets	4,323	5,654
Deferred tax assets	1,478	951
Total current assets	80,830	75,525
Long-term investments	25,375	25,375
Property and equipment, net	16,523	16,839
Construction in progress	24,725	29,469
Long-term restricted cash	3,132	3,771
Other assets	1,372	1,511
Long-term deferred tax assets	278	304
Total assets	\$ 152,235	\$ 152,794
LIABILITIES AND SHAREHOLDERS EQUITY		
Current portion of capital lease	\$ 92	\$ 94
Accounts payable	3,339	7,956
Accrued expenses	26,841	17,306
Commissions and incentives payable	15,511	18,298
Taxes payable	3,556	2,435
Deferred revenue	2,697	275
Total current liabilities	52,036	46,364
Capital lease, excluding current portion	349	314
Long-term royalties due to an affiliate	2,879	2,768
Long-term deferred tax liabilities	7,444	7,986
Other long-term liabilities	730	2,413
Total liabilities	63,438	59,845
Commitments and contingencies		
Shareholders equity:		

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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,

27,507,048 shares issued and 26,840,899 shares outstanding in 2006 and

27,628,581 shares issued and 26,421,487 shares outstanding in 2007

Additional paid-in capital	38,941	39,292
Retained earnings	66,393	70,059
Accumulated other comprehensive loss	(1,749)	(1,614)

	103,588	107,740
Less treasury stock, at cost, 1,207,094 shares in 2006 and 2007	(14,791)	(14,791)

Total shareholders equity	88,797	92,949
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Total liabilities and shareholders equity	\$ 152,235	\$ 152,794
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See accompanying notes to unaudited consolidated financial statements.

Table of Contents**MANNATECH, INCORPORATED****CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED)***(in thousands, except per share information)*

	Three months ended March 31,	
	2006	2007
Net sales	\$ 98,971	\$ 104,799
Cost of sales	14,561	14,693
Commissions and incentives	45,374	46,953
	59,935	61,646
Gross profit	39,036	43,153
Operating expenses:		
Selling and administrative expenses	17,777	19,719
Depreciation and amortization	998	1,465
Other operating costs	11,006	12,148
Total operating expenses	29,781	33,332
Income from operations	9,255	9,821
Interest income	572	647
Other expense, net	(514)	(36)
Income before income taxes	9,313	10,432
Provision for income taxes	(3,405)	(3,543)
Net income	\$ 5,908	\$ 6,889
<u>Earnings per share:</u>		
Basic	\$ 0.22	\$ 0.26
Diluted	\$ 0.22	\$ 0.26
<u>Weighted-average common shares outstanding:</u>		
Basic	26,764	26,418
Diluted	27,392	26,979

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See accompanying notes to unaudited consolidated financial statements.

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MANNATECH, INCORPORATED

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS EQUITY

AND COMPREHENSIVE INCOME (UNAUDITED)

FOR THE THREE MONTHS ENDED MARCH 31, 2006 and 2007

(in thousands, except per share information)

	Common Stock				Accumulated	Treasury stock		Total	
	Issued	Par	Additional paid in	Retained	other				shareholders equity
					comprehensive	Shares	Amounts		
Balance at December 31, 2005	27,404	\$3	\$36,699	\$42,505	(\$1,098)	666	(\$7,791)	\$70,318	
Proceeds from stock options exercised	103		668					668	
Tax benefit from exercise of stock options			275					275	
Charge related to stock-based compensation			158					158	
Charge related to stock warrants			48					48	
Declared dividends of \$0.08 per share				(2,147)				(2,147)	
<u>Components of comprehensive income:</u>									
Foreign currency translations					100			100	
Unrealized gain from investments classified as available-for-sale, net of tax of \$4					6			6	
Net income				5,908				5,908	
Total comprehensive income								6,014	
Balance at March 31, 2006	27,507	\$3	\$37,848	\$46,266	(\$992)	666	(\$7,791)	\$75,334	

	Common Stock				Accumulated	Treasury stock		Total	
	Issued	Par	Additional paid in	Retained	other				shareholders equity
					comprehensive	Shares	Amounts		
Balance at December 31, 2006	27,617	\$3	\$38,941	\$66,393	(\$1,749)	1,207	(\$14,791)	\$88,797	
Cumulative impact of a change in accounting for income tax uncertainties pursuant to FIN 48				(845)				(845)	
Proceeds from stock options exercised	12		25					25	
Charge related to stock-based compensation			308					308	
Charge related to stock warrants			18					18	
Declared dividends of \$0.09 per share				(2,378)				(2,378)	
<u>Components of comprehensive income:</u>									
Foreign currency translation					134			134	

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Unrealized gain from investments classified as available-for-sale, net of tax of \$1						1			1
Net income				6,889					6,889
Total comprehensive income									7,024
Balance at March 31, 2007	27,629	\$3	\$39,292	\$70,059	(\$1,614)	1,207	(\$14,791)		\$92,949

See accompanying notes to unaudited consolidated financial statements.

Table of Contents**MANNATECH, INCORPORATED****CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)***(in thousands)*

	Three months ended March 31,	
	2006	2007
<u>CASH FLOWS FROM OPERATING ACTIVITIES:</u>		
Net income	\$ 5,908	\$ 6,889
<i>Adjustments to reconcile net income to net cash provided by operating activities:</i>		
Depreciation and amortization	998	1,465
Write-down of inventories	104	26
Loss on disposal of assets	28	1
Accounting charge related to stock warrants	48	18
Accounting charge related to stock-based compensation	158	308
Deferred income taxes	1,225	1,048
Accrued interest on note receivable	(2)	
<i>Changes in operating assets and liabilities:</i>		
(Increase) decrease in accounts receivable	(373)	879
(Increase) decrease in income tax receivable	(2,389)	406
(Increase) decrease in inventories	2,666	(1,120)
Increase in prepaid expenses and other current assets	(2,920)	(1,331)
Decrease in other assets	(43)	(138)
Increase (decrease) in accounts payable	(1,980)	4,616
Decrease in accrued expenses and taxes payable	(1,861)	(9,926)
Increase in commissions and incentives payable	2,742	2,785
Increase (decrease) in deferred revenue	818	(2,422)
Net cash provided by operating activities	5,127	3,504
<u>CASH FLOWS FROM INVESTING ACTIVITIES:</u>		
Purchase of property and equipment	(5,890)	(6,534)
Increase in restricted cash	(9)	(696)
Net cash used in investing activities	(5,899)	(7,230)
<u>CASH FLOWS FROM FINANCING ACTIVITIES:</u>		
Tax benefit from exercise of stock options	275	
Payment of cash dividends	(2,147)	(2,378)
Proceeds from stock options exercised	668	25
Repayment of capital lease obligations	(3)	(33)
Net cash used in financing activities	(1,207)	(2,386)
Effect of exchange rate changes on cash and cash equivalents	34	129
Net decrease in cash and cash equivalents	(1,945)	(5,983)
Cash and cash equivalents at the beginning of period	56,207	45,701
Cash and cash equivalents at the end of period	\$ 54,262	\$ 39,718

SUMMARY OF NON-CASH INVESTING AND FINANCING ACTIVITIES:

Declaration of dividends	\$ 2,147	\$ 2,378
Unrealized losses from investments	\$ 10	\$

See accompanying notes to unaudited consolidated financial statements.

Table of Contents**MANNATECH, INCORPORATED****NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS*****NOTE 1 ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES***

Mannatech, Incorporated (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 National Market under the symbol MTEX. The Company develops high-quality, proprietary, nutritional supplements, skin care and topical 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, and Germany.

Independent associates (associates) purchase the Company's products at published wholesale prices for the primary purpose of personal consumption or sale to retail customers. Members (members) purchase the Company's products at a discount from published retail prices primarily for personal consumption. The Company cannot distinguish its personal consumption sales from its other sales because it has no involvement in its products after delivery other than usual and customary product returns. Only independent associates are eligible to earn commissions and incentives. The Company has fifteen wholly-owned subsidiaries; however, only the following subsidiaries are currently active:

Wholly-owned subsidiary name	Date incorporated	Location of subsidiary	Date operations began
Mannatech Australia Pty Limited	April 1998	St. Leonards, Australia	October 1998
Mannatech Limited	November 1998	Didcot, Oxfordshire, United Kingdom	November 1999
Mannatech Japan, Inc.	January 2000	Tokyo, Japan	June 2000
Mannatech Korea Ltd.	February 2004	Seoul, Republic of Korea	September 2004
Mannatech Taiwan Corporation	June 2004	Coppell, Texas*	June 2005
Mannatech (International) Limited	December 2005	Gibraltar	December 2005

*Mannatech Taiwan Corporation operates a branch office in Taipei, Taiwan.

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 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 statement 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. For further information, refer to the Company's consolidated financial statements and accompanying footnotes included in its annual report on Form 10-K for the year ended December 31, 2006 and filed with the United States Securities and Exchange Commission on March 16, 2007.

Principles of Consolidation

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

Use of Estimates

In preparing the consolidated financial statements in conformity with accounting principles generally accepted in the United States of America, management is required to make certain estimates and assumptions that could affect its reported amounts of assets, liabilities, revenues, and expenses during the reporting periods, as well as disclosures about its contingent assets and liabilities. Significant estimates for the Company include inventory obsolescence, deferred revenue, sales returns, and valuation allowance for deferred tax assets. Actual results could differ from such estimates.

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Cash and Cash Equivalents

The Company considers all highly liquid investments, including credit card receivables, with original maturities of three months or less to be cash equivalents.

As of December 31, 2006 and March 31, 2007, the Company included in its cash and cash equivalents credit card receivables due from its credit card processor because the cash proceeds from credit card receivables are received within 24 to 72 hours after receiving the approval code from the credit card processor. As of December 31, 2006 and March 31, 2007, credit card receivables were \$3.7 million and \$2.0 million, respectively. As of December 31, 2006 and March 31, 2007, cash and cash equivalents held in bank accounts in foreign countries totaled \$33.8 million and \$24.6 million, respectively.

Restricted Cash

The Company is required to restrict cash related to direct selling and credit card sales in the Republic of Korea, which, as of December 31, 2006 and March 31, 2007, was \$2.9 million and \$3.6 million, respectively. In addition, the Company is required to restrict cash related to its Canada operations, which, as of December 31, 2006 and March 31, 2007, was \$0.4 million. The Company also restricts cash related to a term deposit in an Australian bank, totaling \$0.2 million, as collateral for its Australian building lease. The restricted term deposit is expected to be renewed through March 2008, when the Australian building lease expires.

The Company offers an annual travel incentive for its independent associates who qualify for its annual travel incentive. The United States travel incentive for 2007 is a cruise on a Royal Caribbean International® cruise ship. Royal Caribbean requires its customers to provide a letter of credit as a security deposit against damages to the ship. At December 31, 2006 and March 31, 2007, the Company restricted cash related to the letter of credit totaling \$1.9 million as collateral for its travel incentive.

Accounts Receivable

At December 31, 2006 and March 31, 2007, account receivables were carried at their estimated collectible amounts, and consisted of a receivable due from a bank, payments due from manufacturers for purchases of raw material inventories, and a note receivable due from an affiliate. During 2006, the Company recorded an allowance for doubtful accounts of \$0.2 million. In addition, at December 31, 2006 and March 31, 2007, accounts receivable included a receivable due from MannaRelief, a related party, of \$0.2 million and \$0.1 million, respectively. The Company writes off receivables when they become uncollectible.

Other Assets

At December 31, 2006 and March 31, 2007, other assets primarily consisted of deposits for building leases in various locations totaling \$1.3 million.

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 certain of its commissions related to product sales three weeks following the business period end and pays commissions related to its pack sales five weeks following the business period end.

Long-Term Liabilities

Other long-term liabilities consisted of a liability associated with income tax uncertainty, long-term management non-equity incentive bonus, deferred benefit obligation, and liabilities related to its building leases.

At December 31, 2006 and March 31, 2007, the Company maintained building operating leases for its subsidiary office facilities located in the United Kingdom, Japan, the Republic of Korea, and Taiwan and accrued restoration costs related to certain of these leases totaling \$0.2 million. At December 31, 2006 and March 31, 2007, the Company also recorded a long-term liability for an estimated deferred benefit obligation related to its deferred benefit plan for its Japan operations of \$0.4 million. In addition, as of March 31, 2007, the Company recorded a \$0.2 million accrual related to its management non-equity incentive bonus. See income tax footnote discussion for the liability related to the Company's adoption of FIN 48.

Table of Contents**Comprehensive Income**

Comprehensive income is defined as the change in equity of a business enterprise during a period from transactions and other events and circumstances from nonowner sources and includes all changes in equity during a period except those resulting from investments by owners and distributions to owners. The Company's comprehensive income consists of the Company's net income, foreign currency translation adjustments from its Japan, Republic of Korea, and Taiwan operations, and unrealized gains/losses from its investments classified as available-for-sale, net of income taxes.

Revenue Recognition

The Company's revenues are derived from sales of its products, sales of its starter and renewal packs, and shipping fees. Substantially all of the Company's product sales are sold to independent associates at published wholesale prices and to members at discounted published retail prices. The Company recognizes revenue upon receipt of packs and products by its customers. The Company records revenue net of any sales taxes and records a reserve for expected sales refunds based on its historical experience.

The Company defers certain of its revenue. Total deferred revenue consists of i) revenue received from sales of packs and products, which were shipped but not received by customers by period end; ii) revenue received related to a one-year magazine subscription; iii) revenue received from pack sales when the pack sale price exceeded the wholesale value of all individual components within the pack; and iv) revenue received related to prepaid registration fees from customers planning to attend a future corporate-sponsored event. The Company recognizes deferred revenue related to shipped packs and products upon receipt of payment, by the customer. All other deferred revenue is recognized over one year. Components of deferred revenue are as follows:

	December 31, 2006	March 31, 2007
Revenue related to undelivered packs and products	\$ 1.9 million	\$ million
Revenue related to a one-year magazine subscription and pack sales exceeding the wholesale value of individual components sold	0.5 million	0.3 million
Revenue related to future corporate-sponsored events	0.3 million	million
Total deferred revenue	\$ 2.7 million	\$ 0.3 million

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 its customers as selling and administrative expenses. Total shipping and handling costs included in selling and administrative expenses were approximately \$4.5 million and \$4.4 million for the three months ended March 31, 2006 and 2007, respectively.

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The Company classifies its investments as available-for-sale. At December 31, 2006 and March 31, 2007, the Company's investments consisted of the following:

	December 31, 2006 and March 31, 2007		
	Amortized cost	Gross unrealized loss (in thousands)	Fair value
State or federal agency backed obligations	\$ 25,375	\$	\$ 25,375
Total investments, classified as long-term	\$ 25,375	\$	\$ 25,375

The fair values of the Company's investments by contractual maturity at December 31, 2006 and March 31, 2007, were as follows:

	December 31, March 31,	
	2006 (in thousands)	2007
Due in one year or less	\$	\$
Due between one and five years		
Due after ten years	25,375	25,375
	\$ 25,375	\$ 25,375

NOTE 3 INVENTORIES

Inventories consist of raw materials, work in progress, finished goods, and sales aids that are stated at the lower of cost (using standard costs that approximate average costs) or market. Work in progress includes raw materials shipped to a third-party manufacturer to process for further use into certain finished goods. The Company provides an allowance for any slow-moving or obsolete inventories. Inventories at December 31, 2006 and March 31, 2007, consisted of the following:

	December 31, March 31,	
	2006 (in thousands)	2007
Raw materials	\$ 5,188	\$ 4,739
Work in progress	2,598	2,673
Finished goods, less inventory reserves for obsolescence of \$392 in 2006 and \$338 in 2007	16,137	17,645
	\$ 23,923	\$ 25,057

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On June 30, 2004, the Company's Board of Directors authorized the Company to repurchase up to 5% of its outstanding shares, or approximately 1.3 million shares, of its common stock in the open market. On August 28, 2006, a second program permitting the Company to purchase, in the open market, up to \$20 million of its outstanding shares was approved by its Board of Directors. During the three months ended March 31, 2006 and 2007, the Company did not repurchase any of its shares in the open market. However, as of March 31, 2007, the Company can repurchase in the open market up to 196,124 of its shares under the June 2004 plan and is also authorized to purchase up to \$20 million of its outstanding shares in the open market under its August 2006 plan.

Earnings Per Share

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

The following summarizes the amounts used in computing the Company's EPS and its effect on the Company's weighted-average number of common shares and dilutive common share equivalents for the three months ended March 31, 2006 and 2007. For 2006, 61,757 shares of the Company's common stock subject to options were excluded from diluted EPS calculations using a weighted-average close price of \$13.54 per share, as their effect was antidilutive. For 2007, 68,616 shares of the Company's common stock subject to options were excluded from its diluted EPS calculations using a weighted-average close price of \$15.21 per share, as their effect was antidilutive. The amounts below are rounded to the nearest thousands, except for per share amounts.

	Income	2006 Shares	As of March 31,		2007 Shares	Per share
			Income	Per share		
	(numerator)	(denominator)	amount	(numerator)	(denominator)	amount
Basic EPS:						
Net income available to common shareholders	\$ 5,908	26,764	\$ 0.22	\$ 6,889	26,418	\$ 0.26
Effect of dilutive securities:						
Stock options		523			453	
Warrants		105			108	
Diluted EPS:						
Net income available to common shareholders plus assumed conversions	\$ 5,908	27,392	\$ 0.22	\$ 6,889	26,979	\$ 0.26

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The Company has three stock-based compensation plans, all of which were approved by its shareholders (collectively, the "Stock Option Plans"). In February 2007, the Company's Board of Directors approved its 2007 Stock Incentive Plan (the "2007 Plan"), which reserves for issuance up to 1,000,000 shares of its common stock for stock options and restricted stock to its employees, board members, and consultants. The 2007 Plan will be submitted for approval to the Company's shareholders at its Annual Shareholders' Meeting to be held on June 14, 2007.

The Company generally grants stock options to its employees 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 Company has not granted any stock options to non-employees other than its non-employee board members. The stock options generally vest over two or three years. Shareholders who own 10% or more of the Company's outstanding stock may be 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, have a term no greater than five years, and vest over four years.

For the three months ended March 31, 2006 and 2007, the Company recorded in selling, general and administrative expenses, compensation expense related to its stock-based compensation of \$0.2 million and \$0.3 million, respectively. This compensation expense related to existing unvested stock options outstanding and the granting of 36,000 stock options in 2007. For the three months ended March 31, 2006 and 2007, the Company recorded a tax benefit related to stock option exercises of \$0.3 million and \$0.1 million, respectively. As of March 31, 2007, the Company expects to record compensation expense, in the future, as follows:

	Total gross	Total tax benefit	Total net
	unrecognized	associated with	unrecognized
	compensation	unrecognized	compensation
	expense	compensation expense	expense
For the nine months ended December 31, 2007	\$ 0.6 million	\$ 0.2 million	\$ 0.4 million
For the twelve months ended December 31, 2008	0.4 million	0.2 million	0.2 million
For the twelve months ended December 31, 2009	0.2 million	0.1 million	0.1 million
	\$ 1.2 million	\$ 0.5 million	\$ 0.7 million

On February 20, 2007, the Company granted each of its independent directors, Mr. Gilbert, Mr. Kennedy, Professor Axford, and Ms. Wier, 8,000 stock options, and granted 4,000 stock options to Mr. Jobe. One-third of the stock options vest immediately and the remaining two-thirds vest on the second and third anniversary dates of grant. The exercise price of the stock options is \$15.60 per share and the options expire in ten years.

NOTE 6 TRANSACTIONS WITH AFFILIATES AND RELATED PARTIES**Agreement with J. Stanley Fredrick**

In November 2003, the Company entered into a Lock-Up Agreement whereby the Company pays Mr. J. Stanley Fredrick, the Company's Lead Director on its Board of Directors and a major shareholder, \$185,000 per year for his agreement not to sell or transfer his shares to an outside party unless approved by the Company's Board of Directors. In June 2004, the Company's Board of Directors authorized Mr. Fredrick to sell up to 350,000 shares of his stock and as a result, during 2004, Mr. Fredrick sold 350,000 shares of his common stock in the open market. In December 2006, Mr. Fredrick transferred 1,250,000 shares of his Company stock to a family partnership, JSF Resources, LTD, for estate planning purposes. As of March 31, 2007, Mr. Fredrick beneficially owned 3,150,000 shares of the Company's common stock.

In November 2003, the Company also agreed to pay Mr. Fredrick \$0.1 million annually to act as its Lead Director for its Board of Directors. In 2006, the Company agreed to pay Mr. Fredrick for attendance at its Board of Directors and Committee meetings. For the three months ending March 2006 and 2007, the Company paid Mr. Fredrick approximately \$10,000 and \$10,500, respectively, related to attendance at its Board meetings.

Table of Contents**Consulting Fees with Professor Axford and Clinical Studies with St. George's Hospital**

St. George's Hospital & Medical School, located in London, England, employs Professor John Axford, one of the Company's board members. Professor Axford serves as the principal investigator in the Company's funded clinical trials for St. George's Hospital & Medical School. In June 2004, the Company signed a three-year agreement totaling \$0.7 million with St. George's Hospital & Medical School to fund research costs related to a clinical trial involving one of its products. As of March 31, 2007, the Company accrued fees of \$0.1 million related to this clinical trial.

In January 2007, the Company entered into another agreement with St. George's Hospital & Medical School to fund costs totaling \$0.4 million related to a three-year clinical trial called Ambrotose® Dosing and Optimization Studies. Professor Axford will also serve as principal investigator for this clinical trial. As of December 31, 2006, the Company accrued fees of \$0.2 million and as of March 31, 2007, the Company accrued fees of \$0.2 million related to this clinical trial.

Agreements with Dr. Bill McAnalley

On August 7, 2005, the two-year employment agreement with Dr. Bill McAnalley, who served as the Company's Chief Science Officer, expired. As a result, the Company entered into a release agreement and a consulting agreement, in which the Company was required to pay Dr. McAnalley a total of \$0.9 million. In August 2006, the Company extended this consulting agreement to reduce the monthly payments and extend the agreement terms through August 8, 2007. For the first three months ended March 31, 2006 and 2007, the Company paid Dr. McAnalley \$0.6 million and \$0.2 million, respectively, in connection with services provided under this Consulting Agreement.

In August 2003, the Company also entered into a long-term post-employment royalty agreement with Dr. McAnalley, pursuant to which the Company is required to pay Dr. McAnalley or his heirs royalties for ten years, beginning September 2005 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 long-term post-employment 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 the post-employment royalty benefit and recognize it over the life of Dr. McAnalley's employment agreement, which was 2 years. As of December 31, 2006, the Company accrued a long-term liability related to this royalty agreement of \$3.4 million, of which \$0.5 million was currently due and included in accrued expenses at December 31, 2006. As of March 31, 2007, the Company accrued \$3.3 million related to this royalty agreement, of which \$0.5 million was currently due and included in accrued expenses at March 31, 2007.

Transactions involving MannaRelief Ministries

Mr. Samuel Caster, the Company's Chairman of the Board and Chief Executive Officer, founded MannaRelief Ministries in 1999 and has served as its Chairman since inception. Defined under the United States Internal Revenue Code, MannaRelief Ministries is a 501(c)(3) charitable organization that provides charitable services for children. Donald Herndon, the Company's Vice President of Field Services, also serves on MannaRelief's board of directors. Mr. Herndon is the brother-in-law of Mr. Caster and the brother-in-law of Terry L. Persinger, who is the Company's President and Chief Operating Officer, and a member of the Company's Board of Directors.

Historically, Company transactions with MannaRelief Ministries have included making cash donations, selling products at cost plus shipping and handling charges, and shipping products purchased by MannaRelief Ministries to its chosen recipients. In addition, certain Company employees and consultants periodically volunteer to work or host various fund raising projects and events for MannaRelief Ministries at no cost to MannaRelief Ministries. The Company has made cash donations and sold products to MannaRelief Ministries, at cost plus shipping and handling, as follows:

	Three months ended March 31,	
	2006	2007
Sold Products	\$ 0.3 million	\$ 0.2 million
Cash Donations	\$ 0.1 million	\$ 0.2 million

Table of Contents**Certain Transactions with Ray Robbins**

Mr. Ray Robbins is a member of the Company's Board of Directors and a major shareholder. Mr. Robbins holds four positions in the Company's associate global downline network-marketing system related to the cancellation of an agreement between the Company and Mr. Robbins in June 1999. Mr. Robbins also holds other positions in the Company's associate global downline network-marketing system. The Company pays commissions and incentives to its independent associates and for the three months ended March 31, 2006 and 2007, the Company paid commissions and incentives to Mr. Robbins totaling \$0.8 million and \$1.0 million, respectively. In addition, several of Mr. Robbins' family members hold positions in the Company's associate global downline network-marketing system and were paid associate commissions and earned incentives of approximately \$25,000 and \$0.1 million for the three months ended March 31, 2006 and 2007, respectively. All commissions and incentives paid to Mr. Robbins and his family members were paid in accordance with the Company's global associate career and compensation plan.

NOTE 7 INCOME TAXES

In July 2006, the Financial Accounting Standards Board issued Interpretation No. 48, Accounting for Uncertainty in Income Taxes—an interpretation of FASB Statement No. 109, (FIN 48). FIN 48 clarifies the accounting for uncertainty in income taxes recognized in an entity's financial statements in accordance with FAS 109 and prescribes a recognition threshold and measurement attribute for financial statement disclosure of tax positions taken or expected to be taken on an income tax return. Additionally, FIN 48 provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. FIN 48 requires a company to record the cumulative effect as an adjustment to its retained earnings at the beginning of the period in which it is adopted.

Effective January 1, 2007, the Company adopted FIN 48 and recognized a cumulative effect of \$0.8 million to retained earnings. As of March 31, 2007, the Company had approximately \$1.5 million of total gross unrecognized tax benefits, recorded as other long-term liability on its balance sheet, which, if recognized, would impact the Company's effective income tax rate. The following table summarized the incremental effects of adopting FIN 48 on the Company's Consolidated Financial Statements:

	Pre FIN 48	FIN 48	Post FIN 48
	adoption	adjustment	adoption
	(in thousands, except per share information)		
Liabilities:			
Accrued expenses	\$ 17,934	(\$ 628)	\$ 17,306
Taxes payable	\$ 2,433	\$ 2	\$ 2,435
Other long-term liabilities	\$ 942	\$ 1,471	\$ 2,413
Shareholders' Equity:			
Retained earnings	\$ 66,393	\$ 845	\$ 65,548

The Company accrues interest and penalties related to unrecognized income tax benefits in its provision for income taxes. At the adoption date of FIN 48, the Company had approximately \$0.2 million accrued for interest and penalties.

The Company files income tax returns in the U.S. federal jurisdiction, and various state and foreign jurisdictions. As of January 1, 2007, the tax years that remain subject to examination by major tax jurisdiction for the Company's most significant subsidiaries were as follows:

Jurisdiction	Open Years
Japan	2001-2006
United States	2002-2006

The Company anticipates that it is reasonably possible that the total amount of unrecognized income tax benefits could decrease in 2007 due to the closure of tax years by expiration of the statute of limitations. However, the decrease would not have a material impact to its consolidated financial statements.

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NOTE 8 LITIGATION

The Company has been sued in three securities class action lawsuits, which remain pending at March 31, 2007:

First, on August 1, 2005, Mr. Jonathan Crowell filed a putative class action lawsuit against the Company and Mr. Samuel L. Caster, its Chief Executive Officer, on behalf of himself and all others who purchased or otherwise acquired the Company's common stock between August 10, 2004 and May 9, 2005, inclusive, and who were damaged thereby.

Second, on August 30, 2005, Mr. Richard McMurry filed a class action lawsuit against the Company, Mr. Caster, Mr. Terry L. Persinger, its President and Chief Operating Officer, and Mr. Stephen D. Fenstermacher, its Chief Financial Officer.

Third, on September 5, 2005, Mr. Michael Bruce Zeller filed a class action lawsuit against the Company, Mr. Caster, Mr. Persinger, and Mr. Fenstermacher.

These three lawsuits were initially filed in the District of New Mexico and consolidated on December 12, 2005 into the civil action styled *In re Mannatech, Incorporated Securities Litigation*. The Mannatech Group, consisting of Mr. Austin Chang, Ms. Naomi S. Miller, Mr. John Ogden, and the Plumbers and Pipefitters Local 51 Pension Fund, has been appointed as lead plaintiffs, Lerach Coughlin Stoia Geller Rudman & Robbins LLP has been appointed as lead counsel and Claxton & Hill, PLLC has been appointed local counsel, for the putative class.

On January 29, 2007, the Court in the District of New Mexico granted the Company's motion to transfer venue to the United States District Court for the Northern District of Texas, Dallas Division. On March 9, 2007, an unopposed Motion for Leave to File Amended Consolidated Class Action Complaint for Securities Fraud was filed by lead plaintiffs for the putative class. The Amended Consolidated Complaint proposed by the lead plaintiffs is substantively similar to the Consolidated Class Action Complaint filed on March 3, 2006. Lead plaintiffs allege the Company violated Sections 10(b) and 20(a) of the Securities Exchange Act of 1934, and Rule 10b-5 promulgated thereunder, by artificially inflating the value of the Company's common stock by knowingly allowing independent contractors to recklessly misrepresent the efficacy of its products during the purported class period. The Amended Complaint expands the class period, as alleged in the Consolidated Class Action Complaint, to October 27, 2006, and also adds new allegations based on news reports of potential regulatory or enforcement actions by the State of Texas involving selling and promotional activities of the Company and/or its independent associates. The Company is required to answer or move to dismiss the Amended Complaint by May 21, 2007.

Shortly after the commencement of the class action litigation, the Company was sued in three shareholder derivative lawsuits, which remain pending at March 31, 2007:

First, on October 18, 2005, a shareholder derivative lawsuit was filed by Norma Middleton, Derivatively and on Behalf of Nominal Defendant, Mannatech, Incorporated against Samuel L. Caster, Terry L. Persinger, Donald A. Buchholz, J. Stanley Fredrick, Gerald E. Gilbert, Alan D. Kennedy, Marlin Ray Robbins, and Patricia A. Wier, in the United States District Court for the Northern District of Texas, Dallas Division.

Second, on January 11, 2006, a shareholder derivative action was filed by Kelly Schrimpf, Derivatively and on Behalf of Nominal Defendant Mannatech, Incorporated against Samuel L. Caster, Terry L. Persinger, Steven W. Lemme, and Stephen D. Fenstermacher in the 162nd District Court of Dallas County, Texas, Dallas Division.

Third, on January 13, 2006, a shareholder derivative action was filed by Frances Nystrom, Derivatively and on Behalf of Nominal Defendant Mannatech, Incorporated against Samuel L. Caster, Terry L. Persinger, Stephen D. Fenstermacher, John Stuart Axford, J. Stanley Fredrick, Gerald E. Gilbert, Alan D. Kennedy, Marlin Ray Robbins, Patricia A. Wier, and Donald A. Buchholz in the United States District Court for the Northern District of Texas.

Each of these shareholder derivative lawsuits makes allegations similar to the allegations of the shareholder class action litigation described above.

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In 2005, the Company's independent directors appointed a Special Litigation Committee (SLC) to review the initial three derivative actions and determine the proper corporate response. This review was completed on August 26, 2006 and the SLC issued its report, determining that it is in the Company's best interest to dismiss the derivative lawsuits. Statements by the Company to this effect were filed with the courts in the respective derivative cases on September 13, 2006.

The Company filed motions to dismiss the Middleton and Nystrom complaints on March 12, 2007. The motions seek dismissal under Texas Business Corporation Act Article 5.14 for the failure to properly meet the Texas derivative demand requirements, and on the basis of the SLC's determination that the derivative lawsuits are not in the best interest of the Company and should be dismissed.

The Schrimpf state court lawsuit has been stayed pending the outcome of the Middleton federal lawsuit, the first-filed derivative action. On February 5, 2007, the Court administratively closed the Schrimpf action, subject to being reopened when the case again becomes active. Additionally, on January 30, 2007, the Court in the Middleton and Nystrom lawsuits denied without prejudice the motions to consolidate the two actions, as well as the competing motions to appoint lead derivative plaintiff and lead counsel. Mediated settlement discussions were conducted on December 20, 2006 and March 7, 2007 involving the Company and its lead counsel in the putative securities class action litigation, and counsel for each of the derivative plaintiffs. These discussions did not produce a settlement.

Following the mediation in December 2006, the Company received separate derivative demand letters on behalf of shareholders Frances Nystrom, one of the derivative plaintiffs noted above, and Duncan Gardner, a separate shareholder represented by the same law firm that represents derivative plaintiff Kelly Schrimpf. These demand letters were received on January 9, 2007 and January 19, 2007, respectively. Both demand letters request that the Company initiate legal proceedings against unnamed directors and officers with regard to the Company's funding of various scientific research projects.

On April 25, 2007, Mr. Gardner filed suit Derivatively and on Behalf of Nominal Defendant Mannatech, Incorporated against Samuel L. Caster, Terry L. Persinger, Stephen D. Fenstermacher, J. Stanley Fredrick, Patricia A. Wier, Alan D. Kennedy, John Stewart Axford, Marlin Ray Robbins, Gerald E. Gilbert, and Larry A. Jobe in the 162nd District Court of Dallas County, Texas. Mr. Gardner alleges that the Company's directors and officers have violated their fiduciary duties by approving funding for unsubstantiated scientific research projects.

The SLC has begun an inquiry into the allegations of Ms. Nystrom and Mr. Gardner regarding the Company's funding of scientific research projects.

Plaintiffs in the consolidated putative class actions and in the shareholder derivative actions seek an unspecified amount of compensatory damages, interest, and costs, including legal and expert fees.

In response to these actions, the Company continues to work with its experienced securities litigation counsel to vigorously defend itself and its officers and directors. The Company also believes this type of litigation is inherently unpredictable. It should be noted that a court must certify a class before a case can proceed as a class action lawsuit and that the determination has not been made in the consolidated securities cases. The Company believes these types of repetitive lawsuits (seeking class action status) are common in today's litigious society and many reputable companies have successfully defended themselves against such litigation. It is not possible at this time to predict whether the Company will incur any liability, or to estimate the damages or the range of damages, if any, that it might incur in connection with any of these above mentioned securities and derivative lawsuits.

On March 16, 2006, the Company filed a patent infringement lawsuit against Glycobiotics International, Inc. for alleged infringement of its utility United States Patent No. 6,929,807 (Compositions of Plant Carbohydrates as Dietary Supplements) in the United States District Court of the Northern District of Texas, Dallas Division. On February 9, 2007, the Company filed an Amended Complaint, adding patent infringement claims related to its recently issued United States Patent No. 7,157,431 (Compositions of Plant Carbohydrates as Dietary Supplements). The Company's Amended Complaint, it seeks to force Glycobiotics to cease the manufacture, sale, and use of its glyconutritional product marketed under its brand name Glycomannan, and alleges additional claims for unfair competition and business disparagement due to false and misleading statements about the Company and its flagship product Ambrotose® complex. On February 20, 2007, Glycobiotics filed its Original Answer and Counterclaims to the Company's Amended Complaint. The Counterclaims allege various antitrust claims based on the Company's exclusive contract to purchase a proprietary

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formula of arabinogalactan used in Ambrotose® complex. The Company filed its answer on March 12, 2007, denying all of the claims.

On December 22, 2006, Glycobiotics filed a Motion for Claim Construction (i.e., Markman motion) and a Partial Motion for Summary Judgment. Those motions were amended on March 2, 2007 to address the claims added in the Amended Complaint. The Company's response to those motions was due on March 21, 2007. On March 2, 2007, the Company filed a Motion for Partial Summary Judgment on Glycobiotics infringement of its United States Patent No. 7,157,431. All motions for summary judgment, as well as the Defendant's motion for claim construction, are fully briefed and pending determination by the Court. The Company continues to vigorously prosecute this case, and is actively pursuing discovery relating to the defendant's conduct and its infringement of both patents. The case is currently set for trial in June 2007.

By April 27, 2007, the parties had fully briefed the Court on Glycobiotics' Motion for *Markman* Claim Construction, the cross Motions for Partial Summary Judgment, and related evidentiary issues, in anticipation of a trial setting in June 2007. However, at the beginning of May 2007, the case was transferred to another court, which set aside the June trial date. The new court has issued a new scheduling order to address the outstanding motions and the remaining discovery on the Company's patent infringement claims and Glycobiotics' antitrust counterclaims. It is expected that the new court will rule on the Motion for *Markman* Claim Construction by July 2007 and the Motions for Partial Summary Judgment by August 2007, with a new trial setting expected for late fall 2007.

On May 5, 2006, the Company also filed a patent infringement lawsuit against Techmedica Health Inc., or Techmedica, for alleged infringement of its utility United States Patent No. 6,929,807 in the United States District Court of the Northern District of Texas, Dallas Division. The Company sued Techmedica to cease the manufacture, sale, and use of its glyconutritional product marketed under their brand name Nutratose and for alleged unfair competition due to false and misleading statements. In June 2006, the Company filed its response to the motion to transfer venue filed by Techmedica. The Court agreed with its position and denied Techmedica's motion to transfer on August 3, 2006.

After discovering that Triton Nutra, Inc. manufactures Nutratose for Techmedica, the Company filed an Amended Complaint on February 6, 2007 to add Triton Nutra as a named defendant and to assert patent infringement claims against both Techmedica and Triton Nutra related to the Company's United States Patent No. 6,929,807 and its recently issued United States Patent No. 7,157,431. The Company and Techmedica agreed to lift the Scheduling Order pending Triton Nutra's answer and appearance in the case. But when Triton Nutra failed to answer the Amended Complaint, the Company filed a Motion for Default against Triton Nutra, which was entered by the clerk of the court on May 3, 2007. Techmedica has resisted continuing with the case and on May 2, 2007, it filed a Motion to Stay the case pending Triton Nutra's appearance and a ruling on the *Markman* motion in the Glycobiotics case. The Company's response to Techmedica's motion is due at the end of this month, and the Company intends to oppose the motion and continue the proceedings against Techmedica in order to maintain the anticipated March 2008 trial date.

The Company also has several other pending claims incurred in the normal course of business. In the Company's opinion, such claims can be resolved without any material affect on its consolidated financial position, results of operations, or cash flows.

The Company maintains certain liability insurance; however, certain costs of defending lawsuits, such as those below the insurance deductible amount, are not covered by or only partially covered by its insurance policies, or its insurance carriers could refuse to cover certain of these claims in whole or in part. The Company accrues costs to defend itself from litigation as it is incurred or as it becomes determinable.

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NOTE 9 RECENT ACCOUNTING PRONOUNCEMENTS

FAS 159. In February 2007, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities—Including an Amendment of FASB Statement No. 115," (FAS 159). FAS 159 allows measurement at fair value of eligible financial assets and liabilities that are not otherwise measured at fair value. If the fair value option for an eligible item is elected, unrealized gains and losses on that item shall be reported in current earnings at each subsequent reporting date. FAS 159 also establishes presentation and disclosure requirements designed to draw comparison between the different measurement attributes the company elects for similar types of assets and liabilities. FAS 159 is effective for fiscal years beginning after November 15, 2007. Early adoption is permitted. The Company is currently assessing the impact of FAS 159 on its consolidated financial statements.

From time to time, new accounting pronouncements are issued by the Financial Accounting Standards Board or other standards setting bodies, which the Company adopts as of the specified effective date. Unless otherwise discussed, the Company believes the impact of recently issued standards that are not yet effective will not have a material impact on its consolidated financial statements upon adoption.

NOTE 10 SEGMENT INFORMATION

The Company conducts its business within one industry segment. No single independent associate has ever accounted for more than 10% of the Company's total sales.

The Company aggregates all of its operating units because it operates as a single reportable segment as a seller of nutritional supplements through its network-marketing distribution channels operating in ten countries. 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. Each of the Company's operations sells similar packs and products and possesses similar economic characteristics, such as selling prices and gross margins.

The Company has six active subsidiaries that operate in six physical locations and sells products in ten different countries around the world. The six physical locations include the United States, Australia, the United Kingdom, Japan, the Republic of Korea, and Taiwan. Each of the Company's physical locations service different geographical areas. The United States parent processes orders for Canada; however, products and packs sold in Canada are shipped through a third-party distribution facility located in Canada. The Company's Australian location processes orders for both Australia and New Zealand, and the orders are shipped for Australia and New Zealand through a third-party distribution facility located in Australia. The Company's United Kingdom location processes and ships orders for the United Kingdom, Denmark, and Germany.

All of the Company's six active subsidiaries are fully operating subsidiaries, except for Australia and the United Kingdom. The Company's Australian and United Kingdom subsidiaries operate as limited-risk service providers and are responsible for providing management, marketing and administrative services, processing and shipping orders, and overseeing the payment of cost of sales and commissions for processed orders on behalf of the parent operating in the United States. For these services, the limited-risk service providers are paid a management fee from its United States parent, which is eliminated in the Company's consolidated financial statements. In addition to the processing and shipping of orders in the United States and Canada, the United States parent owns all of the sales and inventories and accrues all commissions and costs related to activities in New Zealand, Australia, the United Kingdom, Denmark, and Germany.

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By country of operation, consolidated net sales shipped to customers in these locations, along with pack and product information for the three months ended March 31, 2006 and 2007 are as follows:

	Three months ended March 31,			
	2006		2007	
	(in millions)			
United States	\$ 67.1	67.8%	\$ 68.5	65.4%
Canada	7.3	7.4%	6.7	6.4%
Australia	7.9	8.0%	7.3	7.0%
United Kingdom	2.0	2.0%	1.7	1.6%
Japan	9.2	9.3%	9.7	9.3%
New Zealand	2.5	2.5%	1.9	1.8%
Republic of Korea	1.6	1.6%	6.3	6.0%
Taiwan	0.8	0.8%	1.1	1.0%
Denmark	0.6	0.6%	0.5	0.5%
Germany*		%	1.1	1.0%
Totals	\$ 99.0	100%	\$ 104.8	100%

* United Kingdom began shipping packs and products to Germany in March 2006.

	Three months ended March 31,	
	2006	2007
	(in millions)	
Consolidated product sales	\$ 74.6	\$ 77.1
Consolidated pack sales	20.6	20.7
Consolidated other, including freight	3.8	7.0
Consolidated total net sales	\$ 99.0	\$ 104.8

Long-lived assets, which include property, plant and equipment and construction in progress for the Company and its subsidiaries, are as follows:

Country	December 31,	March 31,
	2006	2007
	(in millions)	
Australia	\$ 0.2	\$ 0.2
Japan	0.3	0.3
Republic of Korea	0.6	0.7
Taiwan	0.2	0.2
United Kingdom	0.5	0.4
United States	39.4	44.5
Total long-lived assets	\$ 41.2	\$ 46.3

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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 the consolidated financial position and results of operations for the three months ended March 31, 2007 as compared to the same period in 2006. 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 developed innovative, high-quality, proprietary nutritional supplements, topical and skin care products, and weight-management products that are sold through a global network-marketing system operating in the United States, Canada, Australia, the United Kingdom, Japan, New Zealand, the Republic of Korea, Taiwan, Denmark, and Germany. New Zealand is serviced by our Australian subsidiary and Denmark and Germany are serviced by our United Kingdom subsidiary. Our Australian and United Kingdom subsidiaries each operate as limited-risk service providers for the United States parent. The United States parent owns all of the sales and inventories and accrues all commissions and cost of sales in New Zealand, Australia, the United Kingdom, Denmark, and Germany. The United States parent pays the limited-risk service providers a management fee for processing and shipping orders in Australia, New Zealand, the United Kingdom, Denmark, and Germany.

We operate as a single segment and primarily sell our products through a network of approximately 553,000 independent associates and members who have purchased our products or packs within the last 12 months, which we refer to as *current independent associates and members*. We operate as a seller of nutritional supplements through our network-marketing distribution channels operating in ten different countries. We review and analyze our net sales by geographical location and further analyze our net sales by packs and by products. Each of our subsidiaries sells the same type of products and possesses similar economic characteristics, such as selling prices and gross margins.

At the end of March 2007, we had to delay processing orders for approximately one week, as we began implementing Phase II of Globalview, our internally-developed software system. Although we communicated this to our independent associates and members in order to avoid any unanticipated delays associated with shipments, this one week delay decreased our cash and deferred revenue at March 31, 2007, and may have attributed to the decline in the number of new independent associates and members.

For the three months ended March 31, 2007, our net sales, net income, and diluted earnings per share increased; however, the number of new independent associates and members has slowed as compared to the percentage increases in prior periods. To help increase the number of new independent associates and members, we plan to launch new products and continue to register our products in all countries in which we operate. In the future, we also plan to expand into additional countries.

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Critical Accounting Policies and Estimates

In response to SEC Release No. 33-8040, *Cautionary Advice Regarding Disclosure About Critical Accounting Policies*, we review our policies related to the portrayal of our consolidated financial position and consolidated results of operations that require the application of significant judgment by management. We also analyze the need for certain estimates, including the need for such items as inventory reserves, capitalization of software development costs, tax valuation allowances, revenue recognition and deferred revenue, accounting for stock-based compensation, and contingencies and litigation. Our estimates are based on historical experience, industry standards, and various other assumptions that we believe are applicable and reasonable under the circumstances. We caution readers that actual results could differ from estimates under different assumptions or conditions, and if circumstances change relating to the various assumptions or conditions used in our estimates, we could experience an adverse effect on our consolidated financial position, consolidated results of operations, and consolidated cash flows. We have identified the following applicable critical accounting policies and estimates as of March 31, 2007:

Inventory Reserves

We review our inventory carrying value and compare it to its estimated fair market value. Any inventory value in excess of estimated fair market value is written down. In addition, we review our inventory for obsolescence and any inventory identified as obsolete is reserved or written off. Our determination of obsolescence is based on assumptions about the demand for our products, product expiration dates, estimated future sales, and future plans. If actual sales are less favorable than those originally projected by us, additional inventory reserves or write-downs may be required. At March 31, 2007, our net inventories were valued at \$25.1 million, which included an inventory reserve for slow-moving and obsolete inventories of approximately \$0.3 million.

Capitalization of Software Development Costs

We capitalize costs associated with internally-developed software projects and amortize costs associated with these projects over their useful lives, which is usually five years. If accounting standards change or if the capitalized software becomes obsolete, we may be required to write-off our unamortized capitalized software or accelerate the amortization period.

During 2004, we began the development and/or configuration of several large-scaled information technology projects that are intended to increase functionality of our operations and expand our reporting capabilities. One of these projects was the configuration of our internally-developed global re-architecture software project, also called our Globalview our fully-integrated internally-developed software project. As of March 31, 2007, we had approximately \$3.3 million of unamortized capitalized software development costs included in property and equipment and \$29.2 million included in construction in progress, which we plan to put in service in April 2007 and amortize ratably over 5 years.

Tax Valuation Allowances

We evaluate the probability of realizing the future benefits of our deferred tax assets and record a valuation allowance when we believe that a portion or all of our deferred tax assets may not be realized. If we are unable to realize the expected future benefits of our deferred tax assets, we are required to provide a valuation allowance. As of March 31, 2007, our total gross deferred tax assets were \$5.8 million, and we recorded a valuation allowance of \$0.9 million related to certain deferred tax assets for our operations in Taiwan and the Republic of Korea as they do not meet the *more likely than not* criteria, as defined by the recognition and measurement provisions of Statement of Financial Accounting Standards No. 109, *Accounting for Income Taxes*.

Table of Contents**Revenue Recognition and Deferred Revenue**

We defer all revenues until our customers receive their shipments. We also defer a portion of our revenues from the sales of certain starter and renewal packs that contain a one-year magazine subscription and defer a portion of revenue from each pack in which the total price of the pack exceeds the total wholesale value of all individual components included in such packs. We amortize deferred revenue associated with our one-year magazine subscriptions and any pack sales that exceed the total wholesale value of the individual components included in such packs over one year. Although we have no immediate plans to significantly change the contents of our packs or our shipping methods, any such change in the future could result in additional revenue deferrals or cause us to recognize deferred revenue over a longer period of time. For example, if we were to decrease the number of items included in our packs but not change the sales price of our packs, we would have to defer additional revenue and recognize the additional deferred revenue over one year.

In June 2006, the Financial Accounting Standards Board Emerging Issues Task Force reached a consensus on Issue No. 06-3, How Taxes Collected from Customers and Remitted to Governmental Authorities Should be Presented in the Income Statement (That Is, Gross versus Net Presentation), (EITF 06-3). EITF 06-3 requires disclosure of an entity's accounting policy regarding the presentation of taxes assessed by a governmental authority that are directly imposed on a revenue-producing transaction between a seller and a customer, including sales, use, value added and some excise taxes. Our policy is to exclude all such taxes from revenue on a net reporting basis.

Accounting for Stock-Based Compensation

Beginning on January 1, 2006, we adopted Statement of Financial Accounting Standards No. 123(R), Share Based Payments, (FAS 123(R)), which requires a company to measure and recognize compensation expense related to any unvested stock options outstanding as of January 1, 2006 and recognize compensation expense for any new stock options granted after December 31, 2005 over the vesting period. For the three months ended March 31, 2007, the compensation measurement is based on various assumptions, which are as follows:

average dividend yield of 2.31%;

expected average risk-free interest rate of 4.68%;

expected market price volatility of 67.7%;

expected forfeiture rate of 0%;

expected average life of stock options of 4.5 years; and

the calculated fair value of options granted during the period of \$7.76.

Based on the above assumptions, we calculated compensation expense and will record it in our Consolidated Statements of Operations over the stock options' vesting periods, which are generally two or three years. As of March 31, 2007, we anticipate recognizing \$1.2 million in gross compensation expense through 2009 related to unvested stock options outstanding. In addition, as of March 31, 2007, we had 224,687 stock options available to grant in the future.

Contingencies and Litigation

Each quarter, we evaluate the need to accrue for legal claims or assessments. We base our accrual evaluation on our estimated amount of damages and the probability of losing any threatened legal claim. If circumstances change, or we experience an unanticipated adverse outcome of any legal action, we would be required to record an estimated amount related to any potential legal action.

Table of Contents**Results of Operations**

The table below summarizes our consolidated operating results in dollars (rounded to the nearest thousand), except per share amounts, and as a percentage of net sales for the three months ended March 31, 2006 and 2007.

Consolidated Operating Results for the three months ended March 31, 2006 and 2007

	2006		2007		Change from	
	Total	% of	Total	% of	2006 to 2007	2006 to 2007
	dollars	net sales	dollars	net sales	Dollar	Percentage
Net sales	\$ 98,971	100%	\$ 104,799	100%	\$ 5,828	5.9%
Cost of sales	14,561	14.7%	14,693	14.0%	132	0.9%
Commissions and incentives	45,374	45.9%	46,953	44.8%	1,579	3.5%
	59,935	60.6%	61,646	58.8%	1,711	2.9%
Gross profit	39,036	39.4%	43,153	41.2%	4,117	10.5%
Operating expenses:						
Selling and administrative expenses	17,777	18.0%	19,719	18.8%	1,942	10.9%
Depreciation and amortization	998	1.0%	1,465	1.4%	467	46.8%
Other operating costs	11,006	11.1%	12,148	11.6%	1,142	10.4%
Total operating expenses	29,781	30.1%	33,332	31.8%	3,551	11.9%
Income from operations	9,255	9.3%	9,821	9.4%	566	6.1%
Interest income	572	0.6%	647	0.6%	75	13.1%
Other expense, net	(514)	(0.5%)	(36)	0.0%	478	(93.0%)
Income before income taxes	9,313	9.4%	10,432	10.0%	1,119	12.0%
Provision for income taxes	(3,405)	(3.4%)	(3,543)	(3.4%)	(138)	4.1%
Net income	\$ 5,908	6.0%	\$ 6,889	6.6%	\$ 981	16.6%
Earnings per share						
Basic	\$ 0.22		\$ 0.26		\$ 0.04	18.2%
Fully-diluted	\$ 0.22		\$ 0.26		\$ 0.04	18.2%

Table of Contents**Three Months Ended March 31, 2007 Compared With the Same Period in 2006****Net Sales**

We sell our products through network-marketing distribution channels operating in ten different countries. We review and analyze our net sales by geographical location and further analyze our net sales by packs and products. Each of our subsidiaries sells the same types of products and possesses similar economic characteristics, such as selling prices and gross margins.

For geographical purposes, consolidated net sales primarily shipped to customers in these locations, in dollars and as a percentage of consolidated net sales, for the three months ended March 31, were as follows:

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

	2006	Three months ended March 31,		
		(in millions)	2007	
United States	\$67.1	67.8%	\$68.5	65.4%
Canada	7.3	7.4%	6.7	6.4%
Australia	7.9	8.0%	7.3	7.0%
United Kingdom	2.0	2.0%	1.7	1.6%
Japan	9.2	9.3%	9.7	9.3%
New Zealand	2.5	2.5%	1.9	1.8%
Republic of Korea	1.6	1.6%	6.3	6.0%
Taiwan	0.8	0.8%	1.1	1.0%
Denmark	0.6	0.6%	0.5	0.5%
Germany*		%	1.1	1.0%
Totals	\$99.0	100%	\$104.8	100%

* United Kingdom began shipping packs and products to Germany in March 2006.

Overall, our consolidated net sales for the three months ended March 31, 2007 increased by \$5.8 million, or 5.9%, as compared to the same period in 2006. Overall, the increase in net sales related to shipping packs and products into Germany, which generated \$1.1 million in net sales, introducing Phytomatrix into the United States in November 2006, and our Optimal Skin Care System into Japan in May 2006, into other Asian countries in the second half of 2006, and then into the United States in March 2007. A small amount of our first quarter net sales were delayed until the second quarter because during the last week in March 2007, we began implementing Phase II of Globalview, our internally-developed software system, which fully interfaces all countries with one operation and financial database. In order to implement the new system at the end of March 2007, we delayed order processing for approximately one week. During the first quarter of 2007, we communicated the timing and effect of the implementation to our independent associates and members in order to allow them to plan for placement of their pack and product orders.

We also experienced a decline in net sales in some countries. We believe the decrease in net sales in Australia and New Zealand may be the result of consumer uncertainty related to our original Advanced Ambrotose introduced in the second half of 2005. To address this situation we introduced a reformulated Advanced Ambrotose in mid 2006, which contains a compound created using the latest technology that allows for a more potent concentration of the full size range of mannose-containing polysaccharides occurring naturally in aloe into a more stable powdered form. This process allows the compound to possess the most potent and profound immunostimulatory properties because it does not strip the compound of its natural mineral counterparts by organic solvent precipitation, and most importantly, allows the compound to retain a high proportion of molecular weight polysaccharides, which are believed to be responsible for the effective immune stimulating properties of aloe. This enhanced immune stimulating capability has been demonstrated by independent biological assays conducted by Hyperion Biotechnology. To help offset the decrease in net sales attributable to consumer uncertainty, we launched multi-faceted educational and marketing programs to better explain the science behind the superior quality and potency of our reformulated product. Additionally, with the cooperation of our independent associates, we developed a multi-faceted marketing program, which includes a number of published articles, tours, other

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publications, marketing materials, web casts, and conference calls in an effort to further emphasize the advantages of our reformulated Advanced Ambrotose.

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We believe the decline in the United Kingdom and Denmark net sales resulted from heightened activities from opening the new market of Germany.

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 competitors' products;

changes in economic conditions;

changes in regulations;

announcements of new scientific studies and breakthroughs;

introduction of new products;

discontinuation of existing products;

consumer uncertainty;

adverse publicity; and

changes in our commissions and incentives programs.

Our sales mix for the three months ended March 31, was as follows:

	Dollar and			
	For the three months ended March 31, percentage change			
	2006	2007	2007 over 2006	
	(in millions)			
Consolidated product sales	\$ 74.6	\$ 77.1	\$ 2.5	3.4%
Consolidated pack sales	20.6	20.7	0.1	0.5%
Consolidated other, including freight	3.8	7.0	3.2	84.2%
Consolidated total net sales	\$ 99.0	\$ 104.8	\$ 5.8	5.9%

Overall, the dollar increase in our consolidated net sales consisted of a change in mix of net sales and an increase in volume of products sold. Pack sales relate to new independent associates and members who purchase packs. Pack sales also consists of continuing independent associates who purchase upgrade or renewal packs. Although there is a correlation, we believe there is a strict direct correlation between the increase in the number of new independent associates and members purchasing packs and the amount of the increase in product sales because independent associates and members may consume different products at different consumption levels.

Product Sales

Overall product sales grew 3.4%, or \$2.5 million, for the three months ended March 31, 2007 as compared to the same period in 2006. The growth of product sales was fueled by the introduction of new products which increased net sales by \$6.8 million. Since March 2006, we have introduced Phytomatrix and Optimal Skin Care System. This increase was partially offset by a decrease in the sale of existing products of \$4.3 million was due to a decrease in the number of new independent associates and members and the delay of order processing at the end of March 2007, related to implementing Phase II of Globalview, our internally-developed software system.

Pack Sales

We sell starter packs to our independent associates, which entitles the independent associate to purchase our products at wholesale prices. We also sell members a starter pack, which entitles them to purchase our products at a discount from published retail prices. Depending on the type of pack purchased, a starter pack may include certain products, promotional and educational information, and policies and procedures. Independent associates can also purchase upgrade packs, entitling the independent associate to additional promotional materials and achievement of additional commissions and incentives. Our business-building independent associates also purchase annual renewal packs.

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The number of new and continuing independent associates and members who purchased packs during the 12-months ended March 31, 2006 and 2007 were as follows:

	For the twelve months ended March 31,					
	2006		2007		Number and percentage change	
New	228,000	45.0%	198,000	35.8%	(30,000)	(13.2%)
Continuing	282,000	55.0%	355,000	64.2%	73,000	25.9%
Total	510,000	100.0%	553,000	100.0%	43,000	8.4%

Overall, the number of independent associates and members increased by 8.4% as compared to the same period in 2006. We experienced an increase in the number of continuing independent associates who purchase our upgrade and renewal packs. However, we experienced a decrease in the number of new independent associates and members purchasing packs. We believe the decrease in new pack sales from new independent associates and members for the three months ended March 31, 2007 as compared to the same period in 2006, may have related to (i) consumer uncertainty over Advanced Ambrose®; (ii) our on-going class-action litigation; and (iii) the delay in order processing for approximately one week at the end of March 2007 to implement our internally-developed, fully-interfaced, software system. We believe we are proactively seeking ways to increase the number of independent associates and members purchasing our packs and products by the following:

registering our new Phytomatrix product in all countries;

exploring new international markets;

launching an aggressive marketing campaign;

expanding our 2007 annual travel incentive for two additional business periods;

initiating additional incentives; and

exploring new advertising tools to broaden our name recognition.

Pack sales associated with new independent associates and members and pack sales from continuing independent associates were as follows:

	For the three months ended March 31,				
	2006	2007	Dollar and percentage change of pack sales		
New	\$13.1 million	\$12.1 million	(\$1.0 million)		(7.6%)
Continuing	7.5 million	8.6 million	.1 million		14.7%
Total	\$20.6 million	\$20.7 million	\$0.1 million		0.5%

Other Sales

Other sales primarily consist of the following:

freight and shipping fees charged to our independent associates and members;

sales of sales aids or promotional materials;

training and event registration fees;

monthly fees collected for Success Tracker , a customized electronic business-building and educational materials database for independent associates that helps stimulate product sales and provide business management;

a reserve for estimated sales refunds; and

a change in deferred revenue that primarily pertains to the timing of recognition of revenue for pack and product shipments.

For the three months ended March 31, 2007, other sales increased by \$3.2 million as compared to the same period in 2006. The increase in other sales was composed of a decrease of \$3.3 million for deferred revenue associated with the timing of revenue recognition, a decrease in sales refund reserves of \$0.2 million, partially offset by an increase of \$0.3 million in training and freight fees.

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Cost of Sales

Cost of sales primarily consists of products purchased from third-party manufacturers, costs of promotional materials sold to our independent associates, in-bound freight, provisions for slow-moving or obsolete inventories, and costs associated with complementary shipped products. Our cost of sales as a percentage of net sales is affected by unit costs for purchased products and the mix of products and packs sold because product sales have higher gross margins than pack sales.

At March 31, 2007, inventories increased by \$1.2 million, or 0.5%, to \$25.1 million as compared to \$23.9 million at March 31, 2006. The increase in inventories consisted of an increase of \$1.6 million in finished goods, work in process, and promotional materials on hand related to the timing of ordering inventory and the order processing interruptions at the end of March 2007. The increase in finished goods inventory related to the introduction of new products. In addition, raw materials on hand associated with required purchase commitments increased by \$0.4 million. Our inventories turned at an annual rate of 2.4 times during the first three months of 2007 as compared to 3.1 times during the first three months of 2006. The decrease in inventory turnover is attributable to the increase in raw materials and an increase in finished goods.

For the three months ended March 31, 2007, cost of sales increased by 0.9%, or \$0.1 million, to \$14.7 million as compared to \$14.6 million for the same period in 2006. The changes in our cost of sales consisted of an increase of \$0.1 million in cost of sales related to sales of promotional materials and an increase of \$0.4 million in deferred costs associated with timing of revenue recognition. These increases were partially offset by a decrease in costs of finished goods of \$0.4 million related to efficiencies in the supply chain process achieved through the use of more economical product components created by new production technology. Cost of sales as a percentage of sales decreased by 0.7% to 14.0% from 14.7%, which was primarily related to efficiencies in the supply chain process achieved through the use of more economical product components created by new production technology.

Commissions and Incentives

Commissions and incentives are heavily dependent on the sales mix and types of incentives offered and generally account for between 41% to 46% of net sales. Commissions are earned by independent associates in accordance with our global associate career and compensation plan. Incentives consist of contests and travel incentives offered to our independent associates. Commissions and incentives are calculated using commissionable net sales, which consist of finished product and pack sales and are based on the following criteria:

the independent associate's earned placement and position within our overall global associate career and compensation plan;

specific timing and sales volume of an independent associate's direct and indirect commissionable sales; and

the achievement of certain sales levels.

Our unique global associate career and compensation plan allows new and existing independent associates to build their individual global networks by expanding their existing downlines into international markets rather than requiring them to establish new downlines to qualify for commissions and incentives within each country of operation.

Commissions

For the three months ended March 31, 2007, commissions increased by 3.5%, or \$1.6 million, to \$43.8 million as compared to \$42.2 million for the same period in 2006. The increase in commissions primarily related to the increase in commissionable net sales.

For the three months ended March 31, 2007, commissions as a percentage of net sales decreased to 41.7% from 42.7% for the same three month period of 2006. The decrease related to the shift in mix of net sales.

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Incentives

Each year, we offer new travel incentives and contests that are designed to stimulate both pack and product sales. We accrue costs associated with the travel incentives during the months when independent associates qualify to win the trips. In 2007, the qualification period for the travel incentives started in January and has been extended until June as compared to 2006 when the travel incentive ended in May. For the three months ended March 31, 2007, the cost of incentives remained the same at \$3.2 million as compared to the same period in 2006. For the three months ended March 31, 2007, the cost of incentives, as a percentage of net sales, decreased to 3.1% as compared to 3.2% for the same period in 2006. This percentage decrease was due to an increase in net sales.

Gross Profit

For the three months ended March 31, 2007, gross profit increased as compared to the same period in 2006. The increase in gross profit was the result of a shift in the mix of net commissionable sales and efficiencies gained in the supply chain process.

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

For the three months ended March 31, 2007, selling and administrative expenses increased by \$1.9 million, or 10.9%, to \$19.7 million as compared to \$17.8 million for the same period in 2006. As a percentage of net sales, selling and administrative expenses increased from 18.0% to 18.8% of net sales. The dollar increase in selling and administrative expenses consisted of the following:

a net increase of \$1.5 million in compensation and compensation-related costs, which included an increase in payroll and payroll-related costs of \$1.8 million and an increase in temporary and contract labor of \$0.2 million, partially offset by capitalizing \$0.5 million in compensation costs were largely associated with our internally-developed software project;

an increase of \$0.3 million related to compensation expense for stock options, as required by FAS 123(R); and

an increase of \$0.1 million in freight-out and third party warehouse costs associated with a decrease in sales.

Depreciation and Amortization Expense

For the three months ended March 31, 2007, depreciation and amortization expenses increased by \$0.5 million to \$1.5 million as compared to \$1.0 million for the same period in 2006. As a percentage of net sales, depreciation and amortization expense increased from 1.0% to 1.4% of net sales. The dollar increase in depreciation and amortization expense related to purchasing of fixed assets and capitalization of internally developed software costs.

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Other Operating Costs

Other operating costs generally include accounting/legal/consulting fees, royalties, credit card processing fees, research and development costs, and other miscellaneous operating expenses such as travel, banking fees, storage fees, and utilities. Generally, changes in other operating costs are associated with the changes in our net sales.

For the three months ended March 31, 2007, other operating costs increased by \$1.1 million, or 10.4%, to \$12.1 million as compared to \$11.0 million for the same period in 2006. For the three months ended March 31, 2007, other operating cost as a percentage of net sales increased to 11.6% compared to 11.1% for the same period in 2006. Specific changes in other operating costs include the following:

Accounting, legal, and consulting fees

For the three months ended March 31, 2007, accounting, legal, and consulting fees increased by \$0.2 million to \$2.5 million as compared to \$2.3 million for the same period in 2006. This increase included an increase of \$0.3 million in activity related to legal fees associated with ongoing lawsuits and regulatory matters and an increase of \$0.5 million in accounting fees related to tax related services. These increases were partially offset by a decrease in consulting fees of \$0.6 million primarily related to capitalizing costs associated with our Globalview internally-developed software project.

Royalties

For the three months ended March 31, 2007, royalty expense decreased by \$0.1 million to \$0.2 million as compared to \$0.3 million for the same period in 2006. The decrease in royalty expense related to change in mix of net sales.

Credit card processing fees

For the three months ended March 31, 2007, credit card processing fees increased by \$0.2 million to \$2.3 million as compared to \$2.1 million for the same period in 2006. The increase is the result of an increase in net sales.

Research and development costs

For the three months ended March 31, 2007, research and development costs increased by \$0.4 million to \$0.5 million as compared to \$0.1 million for the same period in 2006. The increase was directly related to the development of our skin care formulation and timing of other research and development activities.

Other miscellaneous operating expenses

The remaining miscellaneous operating expenses are primarily variable in nature and relate directly to the change in net sales. Variable costs included in other miscellaneous operating expenses consist of bank charges, telephone, postage, insurance, and offsite storage fees. For the three months ended March 31, 2007, other miscellaneous operating expenses increased by \$0.4 million to \$6.6 million as compared to \$6.2 million in 2006.

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Interest Income

We maintain interest-bearing accounts for certain of our cash equivalents and investments. For the three months ended March 31, 2007, interest income remained the same at \$0.6 million as compared to the same period in 2006.

Other Expense, Net

Other expense, net consists of foreign currency transaction gains and losses related to translating our foreign subsidiaries' assets, liabilities, revenues, and expenses to the United States dollar and translating the United States parent's monetary accounts held in foreign locations 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. For the three months ended March 31, 2007, we recorded a net transaction gain from our foreign operations of \$0.1 million as compared to \$0.5 million for the same period in 2006.

Provision for Income Taxes

Moreover, if we were to participate in a reportable transaction with a significant purpose to avoid or evade tax, or in any listed transaction, you may be subject to (i) significant accuracy-related penalties with a broad scope, (ii) for those persons otherwise entitled to deduct interest on federal tax deficiencies, non-deductibility of interest on any resulting tax liability, and (iii) in the case of a listed transaction, an extended statute of limitations.

Common unitholders should consult their tax advisors concerning any possible disclosure obligation under the regulations governing tax shelters with respect to the dispositions of their interests in us.

Constructive Termination

Subject to the electing large partnership rules described below, we will be considered to have been terminated for U.S. federal income tax purposes if there is a sale or exchange of 50% or more of the total interests in our capital and profits within a 12-month period.

Our termination would result in the close of our taxable year for all holders of common units. In the case of a holder reporting on a taxable year other than a fiscal year ending on our year-end, the closing of our taxable year may result in more than 12 months of our taxable income or loss being includable in the holder's taxable income for the year of termination. We would be required to make new tax elections after a termination, including a new tax election under Section 754 of the Internal Revenue Code if applicable. A termination could also result in penalties if we were unable to determine that the termination had occurred. Moreover, a termination might either accelerate the application of, or subject us to, any tax legislation enacted before the termination.

Elective Procedures for Large Partnerships

The Internal Revenue Code allows large partnerships to elect streamlined procedures for income tax reporting. This election would reduce the number of items that must be separately stated on the Schedules K-1 that are issued to the common unitholders, and such Schedules K-1 would have to be provided to common

unitholders on or before the first March 15 following the close of each taxable year. In addition, this election would prevent us from suffering a technical termination (which would close our taxable year) if within a 12-month period there is a sale or exchange of 50 percent or more of our total interests. It is possible we might make such an election, if eligible. If we make such election, IRS audit adjustments will flow through to holders of the common units for the year in which the adjustments take effect, rather than the holders of common units in the year to which the adjustment relates. In addition, we, rather than the holders of the common units individually, generally will be liable for any interest and penalties that result from an audit adjustment.

Treatment of Amounts Withheld

If we are required to withhold any U.S. tax on distributions made to any common unitholder, we may pay such withheld amount to the IRS. That payment, if made, will be treated as a distribution of cash to the common unitholder with respect to whom the payment was made and will reduce the amount of cash to which such common unitholder would otherwise be entitled.

Withholding and Backup Withholding

For each calendar year, we will report to you and the IRS the amount of distributions we made to you and the amount of U.S. federal income tax (if any) that we withheld on those distributions. The proper application to us of rules for withholding under Section 1441 of the Internal Revenue Code (applicable to certain dividends, interest and similar items) is unclear. Because the documentation we receive may not properly reflect the identities of partners at any particular time (in light of possible sales of common units), we may over-withhold or under-withhold with respect to a particular holder of common units. For example, we may impose withholding, remit that amount to the IRS and thus reduce the amount of a distribution paid to a non-U.S. Holder. It may turn out, however, the corresponding amount of our income was not properly allocable to such holder, and the withholding should have been less than the actual withholding. Such holder would be entitled to a credit against the holder's U.S. tax liability for all withholding, including any such excess withholding, but if the withholding exceeded the holder's U.S. tax liability, the holder would have to apply for a refund to obtain the benefit of the excess withholding. Similarly, we may fail to withhold on a distribution, and it may turn out the corresponding income was properly allocable to a non-U.S. Holder and withholding should have been imposed. In that event, we intend to pay the under-withheld amount to the IRS, and we may treat such under-withholding as an expense that will be borne by all partners on a pro rata basis (since we may be unable to allocate any such excess withholding tax cost to the relevant non-U.S. Holder).

Under the backup withholding rules, you may be subject to backup withholding tax (at the rate of 28%) with respect to distributions paid unless: (1) you are a corporation or come within another exempt category and demonstrate this fact when required or (2) you provide a taxpayer identification number, certify as to no loss of exemption from backup withholding tax and otherwise comply with the applicable requirements of the backup withholding tax rules. If you are an exempt holder, you should indicate your exempt status on a properly completed IRS Form W-9. A non-U.S. Holder may qualify as an exempt recipient by submitting a properly completed IRS Form W-8BEN. Backup withholding is not an additional tax. The amount of any backup withholding from a payment to you will be allowed as a credit against your U.S. federal income tax liability and may entitle you to a refund.

If you do not timely provide us (or the clearing agent or other intermediary, as appropriate) with IRS Form W-8 or W-9, as applicable, or such form is not properly completed, we may become subject to U.S. backup withholding taxes in excess of what would have been imposed had we received certifications from all investors. Such excess U.S. backup withholding taxes may be treated by us as an expense that will be borne by all investors on a pro rata basis (since we may be unable to allocate any such excess withholding tax cost to the holders that failed to timely provide the proper U.S. tax certifications).

Additional Withholding Requirements

Under legislation enacted in 2010, as well as final regulations and other administrative guidance, the relevant withholding agent may be required to withhold 30% of any interest, dividends and other fixed or determinable annual or periodical gains, profits and income from sources within the United States paid after June 30, 2014 or gross proceeds from the sale of any property of a type which can produce interest or dividends from sources within the United States occurring after December 31, 2016 paid to (i) a foreign financial institution (for which purposes includes foreign broker-dealers, clearing organizations, investment companies, hedge funds and certain other investment entities) unless such foreign financial institution agrees to verify, report and disclose its U.S. accountholders and meets certain other specified requirements or (ii) a non-financial foreign entity that is a beneficial owner of the payment unless such entity certifies that it does not have any substantial U.S. owners or provides the name, address and taxpayer identification number of each substantial U.S. owner and such entity meets certain other specified requirements or otherwise qualifies for an exemption from this withholding. Non-U.S. and U.S. Holders are encouraged to consult their own tax advisors regarding the possible implications of this proposed legislation on their investment in our common units.

Nominee Reporting

Persons who hold an interest in our partnership as a nominee for another person are required to furnish to us:

- (a) the name, address and taxpayer identification number of the beneficial owner and the nominee;
- (b) whether the beneficial owner is (1) a person that is not a U.S. person, (2) a foreign government, an international organization or any wholly-owned agency or instrumentality of either of the foregoing, or (3) a tax-exempt entity;
- (c) the amount and description of common units held, acquired or transferred for the beneficial owner; and
- (d) specific information including the dates of acquisitions and transfers, means of acquisitions and transfers and acquisition cost for purchases, as well as the amount of net proceeds from sales.

Brokers and financial institutions are required to furnish additional information, including whether they are U.S. persons and specific information on common units they acquire, hold or transfer for their own account. A penalty of \$50 per failure, up to a maximum of \$100,000 per calendar year, is imposed by the Internal Revenue Code for failure to report that information to us. The nominee is required to supply the beneficial owner of the common units with the information furnished to us.

New Legislation or Administrative or Judicial Action

The U.S. federal income tax treatment of common unitholders depends in some instances on determinations of fact and interpretations of complex provisions of U.S. federal income tax law for which no clear precedent or authority may be available.

The rules dealing with U.S. federal income taxation are constantly under review by persons involved in the legislative process, the IRS and the U.S. Treasury Department, frequently resulting in revised interpretations of established concepts, statutory changes, revisions to regulations and other modifications and interpretations. No assurance can be given as to whether, or in what form, any proposals affecting us or our common unitholders will be enacted. The IRS pays close attention to the proper application of tax laws to partnerships. The present U.S. federal income tax treatment of an investment in our common units may be modified by administrative, legislative or judicial interpretation at any time, and any such action may affect investments and commitments previously made. Changes to the U.S. federal income tax laws and interpretations thereof could make it more difficult or impossible to meet the Qualifying Income Exception for us to be treated as a partnership that is not taxable as a corporation for U.S. federal income tax purposes, affect or cause us to change our investments and commitments, affect the tax considerations of an investment in us, change the character or treatment of portions

of our income (including, for instance, the treatment of carried interest as ordinary income rather than capital gain) and adversely affect an investment in our common units. See **Risk Factors** **Risks Related to U.S. Taxation** Our structure involves complex provisions of U.S. federal income tax law for which no clear precedent or authority may be available. Our structure also is subject to potential legislative, judicial or administrative change and differing interpretations, possibly on a retroactive basis, **Risk Factors** **Risks Related to Our Company** Although not enacted, the U.S. Congress has considered legislation that would have: (i) in some cases after a ten-year transition period, precluded us from qualifying as a partnership for U.S. federal income tax purposes or required us to hold carried interest through taxable subsidiary corporations; and (ii) taxed certain income and gains at increased rates. If any similar legislation were to be enacted and apply to us, the after tax income and gain related to our business, as well as our distributions to common unitholders and the market price of our common units, could be reduced and **Risk Factors** **Risks Related to Our Company** Additional proposed changes in the U.S. taxation of businesses could adversely affect us, as described on the section entitled **Risk Factors** in our Annual Report, which is incorporated by reference in this prospectus. In addition, statutory changes, revisions to regulations and other modifications and interpretations with respect to the tax laws of the states and other jurisdictions in which we operate could result in us or our common unitholders having to pay additional taxes. Our organizational documents and agreements permit the board of directors to modify the amended and restated operating agreement from time to time, without the consent of the common unitholders, in order to address certain changes in U.S. federal and state income tax regulations, legislation or interpretation. In some circumstances, such revisions could have a material adverse impact on some or all of our common unitholders.

THE FOREGOING DISCUSSION IS NOT INTENDED AS A SUBSTITUTE FOR CAREFUL TAX PLANNING. THE TAX MATTERS RELATING TO CARLYLE AND ITS UNITHOLDERS ARE COMPLEX AND ARE SUBJECT TO VARYING INTERPRETATIONS. MOREOVER, THE MEANING AND IMPACT OF TAX LAWS AND OF PROPOSED CHANGES WILL VARY WITH THE PARTICULAR CIRCUMSTANCES OF EACH PROSPECTIVE UNITHOLDER. PROSPECTIVE UNITHOLDERS SHOULD CONSULT THEIR TAX ADVISORS WITH RESPECT TO THE FEDERAL, STATE, LOCAL AND OTHER TAX CONSEQUENCES OF ANY INVESTMENT IN THE COMMON UNITS.

UNDERWRITING

We and J.P. Morgan Securities L.L.C., Citigroup Global Markets Inc. and Goldman, Sachs & Co., as representatives (the representatives) of the several underwriters, have entered into an underwriting agreement with respect to the common units being offered. Subject to certain conditions, each underwriter has severally agreed to purchase the number of common units indicated in the following table:

Underwriter	Number of Common Units
J.P. Morgan Securities L.L.C.	
Citigroup Global Markets Inc.	
Goldman, Sachs & Co.	
Credit Suisse Securities (USA) LLC	
Merrill Lynch, Pierce, Fenner & Smith Incorporated.	
Total	12,000,000

The underwriters are committed to take and pay for all of the common units being offered, if any are taken, other than the common units covered by the option described below unless and until this option is exercised.

In addition, the underwriters have an option to buy up to an additional 1,800,000 common units from us. They may exercise that option for 30 days. If any common units are purchased pursuant to this option, the underwriters will severally purchase common units in approximately the same proportion as set forth in the table above.

The following table shows the per unit and total underwriting discount to be paid to the underwriters by us. Such amounts are shown assuming both no exercise and full exercise of the underwriters' option to purchase 1,800,000 additional common units from the us.

	Paid by Us	
	No Exercise	Full Exercise
Per common unit	\$	\$
Total	\$	\$

Common units sold by the underwriters to the public will initially be offered at the public offering price set forth on the front cover of this prospectus. If all the common units are not sold at the public offering price, the underwriters may change the offering price and the other selling terms. The offering of the common units by the underwriters is subject to receipt and acceptance and subject to the underwriters' right to reject any order in whole or in part.

We have agreed that we will not (i) offer, pledge, announce the intention to sell, sell, contract to sell, sell any option or contract to purchase, purchase any option or contract to sell, grant any option, right or warrant to purchase, lend or otherwise transfer or dispose of, directly or indirectly, or file with the SEC a registration statement under the Securities Act relating to, any of our common units or securities convertible into or exchangeable or exercisable for our common units, or publicly disclose the intention to make any offer, sale, pledge, disposition or filing, or (ii) enter into any swap or other arrangement that transfers, in whole or in part, any of the economic consequences of ownership of any of our common units or any such other securities (regardless of whether any of these transactions are to be settled by the delivery of common units or such other securities, in cash or otherwise), in each case without the prior written consent of the representatives for a period of 90 days after the date of this prospectus. These restrictions do not apply to certain sales, issuances, distributions and transfers.

The directors and officers of our general partner and Mubadala have entered into lock up agreements with the underwriters prior to the commencement of this offering pursuant to which each of these persons or entities, with limited exceptions, for a period of 90 days after the date of this prospectus, may not, without the prior written consent of the representatives, (1) offer, pledge, sell, contract to sell, sell any option or contract to purchase, purchase any option or contract to sell, grant any option, right or warrant to purchase, lend or otherwise transfer or dispose of, directly or indirectly, any of our common units or any securities convertible into or exercisable or exchangeable for our common units (including, without limitation, common units or such other securities which may be deemed to be beneficially owned by such directors, executive officers, and in accordance with the rules and regulations of the SEC and securities which may be issued upon exercise of an option or warrant) or publicly disclose the intention to make any offer, sale, pledge or disposition or (2) enter into any swap or other agreement that transfers, in whole or in part, any of the economic consequences of ownership of the common units or such other securities, whether any such transaction described in clause (1) or (2) above is to be settled by delivery of common units or such other securities, in cash or otherwise, or (3) make any demand for or exercise any right with respect to the registration of any of our common units or any security convertible into or exercisable or exchangeable for our common units. These restrictions do not apply to the sale of common units to the underwriters pursuant to the underwriting agreement or to certain sales, issuances, distributions and transfers.

The representatives in their sole discretion may release any of the securities subject to these lock-up agreements at any time without notice. The representatives have no present intent or arrangement to release any of the securities subject to these lock-up agreements. The release of any lock-up is considered on a case-by-case basis. Factors in deciding whether to release common units may include the length of time before the lock-up expires, the number of common units involved, the reason for the requested release, market conditions, the trading price of our common units, historical trading volumes of our common units and whether the person seeking the release is an officer, director or affiliate of us.

Our common units are listed on the NASDAQ Global Select Market under the symbol CG. The last reported sale price of the common units on the NASDAQ Global Select Market on February 28, 2014 was \$36.27 per common unit.

In connection with this offering, the underwriters may purchase and sell common units in the open market. These transactions may include short sales, stabilizing transactions and purchases to cover positions created by short sales. Short sales involve the sale by the underwriters of a greater number of common units than they are required to purchase in this offering. Covered short sales are sales made in an amount not greater than the underwriters' option to purchase additional common units from us. The underwriters may close out any covered short position by either exercising their option to purchase additional common units or purchasing common units in the open market. In determining the source of common units to close out the covered short position, the underwriters will consider, among other things, the price of common units available for purchase in the open market as compared to the price at which they may purchase additional common units pursuant to the option granted to them. Naked short sales are any sales in excess of such option. The underwriters must close out any naked short position by purchasing common units in the open market. A naked short position is more likely to be created if the underwriters are concerned that there may be downward pressure on the price of the common units in the open market after pricing that could adversely affect investors who purchase in this offering. Stabilizing transactions consist of various bids for or purchases of common units made by the underwriters in the open market prior to the completion of the offering.

The underwriters may also impose a penalty bid. This occurs when a particular underwriter repays to the underwriters a portion of the underwriting discount received by it because the representatives have repurchased common units sold by or for the account of such underwriter in stabilizing or short covering transactions.

Purchases to cover a short position and stabilizing transactions, as well as other purchases by the underwriters for their own accounts, may have the effect of preventing or retarding a decline in the market price of our common units, and together with the imposition of the penalty bid, may stabilize, maintain or otherwise

affect the market price of our common units. As a result, the price of our common units may be higher than the price that otherwise might exist in the open market. If these activities are commenced, they may be discontinued at any time. These transactions may be effected on the NASDAQ Global Select Market, in the over-the-counter market or otherwise.

We estimate that the expenses of this offering payable by us, other than underwriting discounts, will be approximately \$514,370.

We have agreed to indemnify the several underwriters against certain liabilities, including liabilities under the Securities Act.

Relationships

The underwriters and their respective affiliates are full service financial institutions engaged in various activities, which may include securities trading, commercial and investment banking, financial advisory, investment management, investment research, principal investment, hedging, financing and brokerage activities. Certain of the underwriters and their respective affiliates have from time to time performed, and may in the future perform, various financial advisory and investment banking services for the company and its affiliates, including our investment funds and our funds portfolio companies, for which they received, or will receive, customary fees and expenses. In particular, J.P. Morgan Securities LLC, Citigroup Global Markets Inc., Goldman, Sachs & Co., Credit Suisse Securities (USA) LLC, and Merrill Lynch, Pierce, Fenner & Smith Incorporated and/or certain of their respective affiliates act as joint lead arrangers and bookrunners, syndication agents and/or lenders under our revolving credit facility. Certain employees of the underwriters or their affiliates invest in investment funds managed by Carlyle or its affiliates.

In the ordinary course of their various business activities, the underwriters and their respective affiliates may make or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities) and financial instruments (including bank loans) for their own account and for the accounts of their customers, and such investment and securities activities may involve securities and/or instruments of the issuer.

The underwriters and their respective affiliates may also make investment recommendations and/or publish or express independent research views in respect of such securities or instruments and may at any time hold, or recommend to clients that they acquire, long and/or short positions in such securities and instruments.

European Economic Area

In relation to each Member State of the European Economic Area which has implemented the Prospectus Directive (each, a Relevant Member State), each underwriter has represented and agreed that with effect from and including the date on which the Prospectus Directive is implemented in that Relevant Member State (the Relevant Implementation Date) it has not made and will not make an offer of common units to the public in that Relevant Member State prior to the publication of a prospectus in relation to the common units which has been approved by the competent authority in that Relevant Member State or, where appropriate, approved in another Relevant Member State and notified to the competent authority in that Relevant Member State, all in accordance with the Prospectus Directive, except that it may, with effect from and including the Relevant Implementation Date, make an offer of common units to the public in that Relevant Member State at any time:

(a) to legal entities which are authorized or regulated to operate in the financial markets or, if not so authorized or regulated, whose corporate purpose is solely to invest in securities;

(b) to any legal entity which has two or more of (1) an average of at least 250 employees during the last financial year; (2) a total balance sheet of more than 43,000,000 and (3) an annual net turnover of more than 50,000,000, as shown in its last annual or consolidated accounts;

(c) to fewer than 100 natural or legal persons (other than qualified investors as defined in the Prospectus Directive) subject to obtaining the prior consent of the representatives for any such offer; or

(d) in any other circumstances which do not require the publication by us of a prospectus pursuant to Article 3 of the Prospectus Directive.

For the purposes of this provision, the expression an offer of common units to the public in relation to any common units in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and the common units to be offered so as to enable an investor to decide to purchase or subscribe for the common units, as the same may be varied in that Relevant Member State by any measure implementing the Prospectus Directive in that Relevant Member State and the expression Prospectus Directive means Directive 2003/71/EC and includes any relevant implementing measure in each Relevant Member State.

Each underwriter has represented and agreed that:

(a) it has only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of Section 21 of the Financial Services and Markets Act (the FSMA) received by it in connection with the issue or sale of the common units in circumstances in which Section 21(1) of the FSMA does not apply to us; and

(b) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to the common units in, from or otherwise involving the United Kingdom.

Hong Kong

The common units may not be offered or sold by means of any document other than (i) in circumstances which do not constitute an offer to the public within the meaning of the Companies Ordinance (Cap. 32, Laws of Hong Kong), or (ii) to professional investors within the meaning of the Securities and Futures Ordinance (Cap. 571, Laws of Hong Kong) and any rules made thereunder, or (iii) in other circumstances which do not result in the document being a prospectus within the meaning of the Companies Ordinance (Cap. 32, Laws of Hong Kong), and no advertisement, invitation or document relating to the common units may be issued or may be in the possession of any person for the purpose of issue (in each case whether in Hong Kong or elsewhere), which is directed at, or the contents of which are likely to be accessed or read by, the public in Hong Kong (except if permitted to do so under the laws of Hong Kong) other than with respect to common units which are or are intended to be disposed of only to persons outside Hong Kong or only to professional investors within the meaning of the Securities and Futures Ordinance (Cap. 571, Laws of Hong Kong) and any rules made thereunder.

Singapore

This prospectus has not been registered as a prospectus with the Monetary Authority of Singapore. Accordingly, this prospectus and any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of the common units may not be circulated or distributed, nor may the common units be offered or sold, or be made the subject of an invitation for subscription or purchase, whether directly or indirectly, to persons in Singapore other than (i) to an institutional investor under Section 274 of the Securities and Futures Act, Chapter 289 of Singapore (the SFA), (ii) to a relevant person, or any person pursuant to Section 275(1A), and in accordance with the conditions, specified in Section 275 of the SFA or (iii) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA.

Where the common units are subscribed or purchased under Section 275 by a relevant person which is: (a) a corporation (which is not an accredited investor) the sole business of which is to hold investments and the entire share capital of which is owned by one or more individuals, each of whom is an accredited investor; or (b) a trust (where the trustee is not an accredited investor) whose sole purpose is to hold investments and each beneficiary is an accredited investor, shares, debentures and units of shares and debentures of that corporation or the beneficiaries rights and interest in that trust shall not be transferable for 6 months after that corporation or that trust has acquired the common units under Section 275 except: (1) to an institutional investor under Section 274

of the SFA or to a relevant person, or any person pursuant to Section 275(1A), and in accordance with the conditions, specified in Section 275 of the SFA; (2) where no consideration is given for the transfer; or (3) by operation of law.

Japan

The securities have not been and will not be registered under the Financial Instruments and Exchange Law of Japan (the Financial Instruments and Exchange Law) and each underwriter has agreed that it will not offer or sell any securities, directly or indirectly, in Japan or to, or for the benefit of, any resident of Japan (which term as used herein means any person resident in Japan, including any corporation or other entity organized under the laws of Japan), or to others for re-offering or resale, directly or indirectly, in Japan or to a resident of Japan, except pursuant to an exemption from the registration requirements of, and otherwise in compliance with, the Financial Instruments and Exchange Law and any other applicable laws, regulations and ministerial guidelines of Japan.

Switzerland

This prospectus does not constitute an issue prospectus pursuant to Article 652a or Article 1156 of the Swiss Code of Obligations and the common units will not be listed on the SIX Swiss Exchange. Therefore, this prospectus may not comply with the disclosure standards of the listing rules (including any additional listing rules or prospectus schemes) of the SIX Swiss Exchange. Accordingly, the common units may not be offered to the public in or from Switzerland, but only to a selected and limited circle of investors who do not subscribe to the common units with a view to distribution. Any such investors will be individually approached by the underwriters from time to time.

Bermuda

The offering of the common units to investors in Bermuda may constitute carrying on business in Bermuda for purposes of the Companies Act 1981 (the Bermuda Companies Act). Carrying on business in Bermuda by an overseas company requires a license under Section 134 of the Bermuda Companies Act. We are an overseas company and are not licensed under Section 134 of the Bermuda Companies Act. As long as we do not have a physical presence in Bermuda and the common units are offered to Bermuda investors only at such time as they are outside of Bermuda, such offering will generally not constitute carrying on business in Bermuda. The offering of the common units to investors in Bermuda may, in some circumstances, require a license to carry on investment business under the Investment Business Act 2003 of Bermuda. However, such requirement will only apply where the person or entity offering the common units has a physical presence in Bermuda. Neither we nor any of the underwriters has a physical presence in Bermuda.

Dubai International Financial Centre

This prospectus relates to an Exempt Offer in accordance with the Offered Securities Rules of the Dubai Financial Services Authority (DFSA). This prospectus is intended for distribution only to persons of a type specified in the Offered Securities Rules of the DFSA. It must not be delivered to, or relied on by, any other person. The DFSA has no responsibility for reviewing or verifying any documents in connection with Exempt Offers. The DFSA has not approved this prospectus nor taken steps to verify the information set forth herein and has no responsibility for the prospectus. The common units to which this prospectus relates may be illiquid and/or subject to restrictions on their resale. Prospective purchasers of the common units offered should conduct their own due diligence on the common units. If you do not understand the contents of this prospectus you should consult an authorized financial advisor.

LEGAL MATTERS

The validity of the common units representing limited partner interests will be passed upon for us by Simpson Thacher & Bartlett LLP, New York, New York. An investment vehicle composed of certain partners of Simpson Thacher & Bartlett LLP, members of their families, related parties and others owns interests representing less than 1% of the capital commitments of certain investment funds advised by Carlyle. Certain legal matters in connection with this offering will be passed upon for the underwriters by Skadden, Arps, Slate, Meagher & Flom LLP, New York, New York. Skadden, Arps, Slate, Meagher & Flom LLP has in the past performed, and may continue to perform, legal services for Carlyle.

EXPERTS

The consolidated financial statements of The Carlyle Group L.P. appearing in The Carlyle Group L.P.'s Annual Report (Form 10-K) for the year ended December 31, 2013, and the effectiveness of The Carlyle Group L.P.'s internal control over financial reporting as of December 31, 2013 have been audited by Ernst & Young LLP, independent registered public accounting firm, as set forth in their reports thereon, included therein, and incorporated herein by reference. Such consolidated financial statements and The Carlyle Group L.P. management's assessment of the effectiveness of internal control over financial reporting as of December 31, 2013 are incorporated herein by reference in reliance upon such reports given on the authority of such firm as experts in accounting and auditing.

WHERE YOU CAN FIND MORE INFORMATION

We have filed with the SEC a registration statement on Form S-3 under the Securities Act with respect to the common units offered in this prospectus. This prospectus, filed as part of the registration statement, does not contain all of the information set forth in the registration statement and its exhibits and schedules, portions of which have been omitted as permitted by the rules and regulations of the SEC. For further information about us and our common units, we refer you to the registration statement and to its exhibits and schedules. Statements in this prospectus about the contents of any contract, agreement or other document are not necessarily complete and, in each instance, we refer you to the copy of such contract, agreement or document filed as an exhibit to the registration statement, with each such statement being qualified in all respects by reference to the document to which it refers. Anyone may inspect the registration statement and its exhibits and schedules without charge at the public reference facilities the SEC maintains at 100 F Street, N.E., Washington, D.C. 20549. You may obtain copies of all or any part of these materials from the SEC upon the payment of certain fees prescribed by the SEC. You may obtain further information about the operation of the SEC's Public Reference Room by calling the SEC at 1-800-SEC-0330. You may also inspect these reports and other information without charge at a website maintained by the SEC. The address of this site is <http://www.sec.gov>.

We are subject to the informational requirements of the Securities Exchange Act of 1934, as amended, and are required to file reports and other information with the SEC. You may inspect and copy these reports and other information at the public reference facilities maintained by the SEC at the address noted above. You also are able to obtain copies of this material from the Public Reference Room of the SEC as described above, or inspect them without charge at the SEC's website. We intend to make available to our common unitholders annual reports containing consolidated financial statements audited by an independent registered public accounting firm.

The SEC's rules allow us to incorporate by reference information into this prospectus. This means that we can disclose important information to you by referring you to another document. Any information referred to in this way is considered part of this prospectus from the date we file that document. Any reports filed by us with the SEC after the date of this prospectus and before the date that the offerings of the common units by means of this prospectus are terminated will automatically update and, where applicable, supersede any information contained in this prospectus or incorporated by reference in this prospectus.

We incorporate by reference into this prospectus the following documents or information filed with the SEC:

Annual Report on Form 10-K for the fiscal year ended December 31, 2013, filed on February 27, 2014 (File No. 001-35538);

Registration Statement on Form 8-A for registration of the common units pursuant to Section 12(b) of the Exchange Act, filed on May 3, 2012; and

All documents filed, but not furnished, by The Carlyle Group L.P. under Sections 13(a), 13(c), 14 or 15(d) of the Exchange Act after the date of this prospectus and before the termination of the offerings to which this prospectus relates.

We will provide without charge to each person, including any beneficial owner, to whom this prospectus is delivered, upon his or her written or oral request, a copy of any or all documents referred to above which have been or may be incorporated by reference into this prospectus, excluding exhibits to those documents unless they are specifically incorporated by reference into those documents. You may request copies of those documents from The Carlyle Group L.P., 1001 Pennsylvania Avenue, NW, Washington, D.C. 20004. You also may contact us at (202) 729-5626 or visit our website at <http://www.carlyle.com> for copies of those documents. Our website and the information contained on our website are not a part of this prospectus, and you should not rely on any such information in making your decision whether to invest in our common units.

PART II**INFORMATION NOT REQUIRED IN PROSPECTUS****Item 14. Other Expenses of Issuance and Distribution**

The following table sets forth the costs and expenses payable by us in connection with the sale and distribution of the securities being registered. All amounts except the registration fee are estimated.

SEC Registration Fee	\$ 64,370
Accounting Fees and Expenses	100,000
Legal Fees and Expenses	300,000
Miscellaneous	50,000
Total	\$ 514,370

Item 15. Indemnification of Directors and Officers

The section of the prospectus entitled "Material Provisions of the Carlyle Group L.P. Partnership Agreement - Indemnification" discloses that we will generally indemnify our general partner, officers, directors and affiliates of the general partner and certain other specified persons to the fullest extent permitted by the law against all losses, claims, damages or similar events and is incorporated herein by this reference. Subject to any terms, conditions or restrictions set forth in the partnership agreement, Section 17-108 of the Delaware Revised Uniform Limited Partnership Act empowers a Delaware limited partnership to indemnify and hold harmless any partner or other persons from and against all claims and demands whatsoever.

Item 16. Exhibits

Exhibit Number	Exhibit Description
1.1*	Form of Underwriting Agreement.
1.2*	Form of Unit Purchase Agreement.
4.1	Certificate of Limited Partnership of The Carlyle Group L.P. (incorporated herein by reference to Exhibit 3.1 to the Registrant's Registration Statement on Form S-1 (File No. 333-176685) filed with the SEC on September 8, 2011).
4.2	Amended and Restated Agreement of Limited Partnership of The Carlyle Group L.P. (incorporated herein by reference to Exhibit 3.1 to Form 8-K filed with the SEC on May 8, 2012).
5.1*	Opinion of Simpson Thacher & Bartlett LLP regarding the legality of the securities being registered.
8.1*	Opinion of Simpson Thacher & Bartlett LLP regarding specified tax matters.
23.1*	Consent of Simpson Thacher & Bartlett LLP (included in Exhibit 5.1).
23.2*	Consent of Ernst & Young LLP.
24.1*	Power of Attorney (included on signature page to this Registration Statement).

* Filed herewith

Item 17. Undertakings

The undersigned registrant hereby undertakes:

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(a) Insofar as indemnification for liabilities arising under the Securities Act of 1933 may be permitted to directors, officers and controlling persons of the registrant pursuant to the provisions described under Item 15

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above, or otherwise, the registrant has been advised that in the opinion of the Securities and Exchange Commission, such indemnification is against public policy as expressed in the Securities Act of 1933 and is, therefore, unenforceable. In the event that a claim for indemnification against such liabilities (other than the payment by the registrant of expenses incurred or paid by a director, officer or controlling person of the registrant in the successful defense of any action, suit or proceeding) is asserted by such director, officer or controlling person in connection with the securities being registered, the registrant will, unless in the opinion of its counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question whether such indemnification by it is against public policy as expressed in the Securities Act of 1933 and will be governed by the final adjudication of such issue.

(b) For purposes of determining any liability under the Securities Act of 1933, each filing of the registrant's annual report pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934 (and, where applicable, each filing of an employee benefit plan's annual report pursuant to Section 15(d) of the Securities Exchange Act of 1934) that is incorporated by reference in the registration statement shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial bona fide offering thereof.

(c) For purposes of determining any liability under the Securities Act of 1933, the information omitted from the form of prospectus filed as part of this registration statement in reliance upon Rule 430A and contained in a form of prospectus filed by the registrant pursuant to Rule 424(b)(1) or (4) or 497(h) under the Securities Act shall be deemed to be part of this registration statement as of the time it was declared effective.

(d) For the purpose of determining any liability under the Securities Act of 1933, each post-effective amendment that contains a form of prospectus shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial bona fide offering thereof.

SIGNATURES

Pursuant to the requirements of the Securities Act of 1933, as amended, the Registrant certifies that it has reasonable grounds to believe that it meets all of the requirements for filing on Form S-3 and the Registrant has duly caused this Registration Statement to be signed on its behalf by the undersigned, thereunto duly authorized, in Washington, D.C. on the 3rd day of March, 2014.

THE CARLYLE GROUP L.P.

By: Carlyle Group Management L.L.C., its

general partner

By: /s/ Adena T. Friedman
 Name: Adena T. Friedman
 Title: Chief Financial Officer

POWER OF ATTORNEY

KNOW ALL MEN BY THESE PRESENTS, that each of the undersigned directors and officers of the general partner of the Registrant, which is filing a Registration Statement on Form S-3 with the Securities and Exchange Commission, Washington, D.C. 20549 under the provisions of the Securities Act of 1933 hereby constitutes and appoints William E. Conway, Daniel A. D Aniello, David M. Rubenstein, Adena T. Friedman and Jeffrey W. Ferguson, and each of them, any of whom may act without joinder of the other, the individual s true and lawful attorneys-in-fact and agents, with full power of substitution and resubstitution, for the person and in his or her name, place and stead, in any and all capacities, to sign this Registration Statement and any or all amendments or supplements to this Registration Statement, including post-effective amendments, including a prospectus or an amended prospectus therein and any registration statement for the same offering that is to be effective upon filing pursuant to Rule 462(b) under the Securities Act of 1933, and to file the same, with all exhibits thereto, and other documents in connection therewith with the Securities and Exchange Commission, and does hereby grant unto said attorneys-in-fact and agents, and each of them, full power and authority to do and perform each and every act and thing requisite and necessary to be done in and about the premises, as fully to all intents and purposes as he or she might or could do in person, hereby ratifying and confirming all that said attorneys-in-fact and agents or any of them, or their substitute or substitutes, may lawfully do or cause to be done by virtue hereof.

Pursuant to the requirements of the Securities Act of 1933, as amended, this Registration Statement has been signed by the following persons in the capacities indicated on the 3rd day of March, 2014.

Signature	Title
/s/ William E. Conway, Jr.	Co-Chief Executive Officer and Director
William E. Conway, Jr.	(Co-Principal Executive Officer)
/s/ Daniel A. D Aniello	Chairman and Director
Daniel A. D Aniello	(Co-Principal Executive Officer)
/s/ David M. Rubenstein	Co-Chief Executive Officer and Director
David M. Rubenstein	(Co-Principal Executive Officer)
/s/ Jay S. Fishman	Director
Jay S. Fishman	

Signature	Title
/s/ Lawton W. Fitt Lawton W. Fitt	Director
/s/ James H. Hance, Jr. James H. Hance, Jr.	Director
/s/ Janet Hill Janet Hill	Director
/s/ Edward J. Mathias Edward J. Mathias	Director
/s/ Thomas S. Robertson Dr. Thomas S. Robertson	Director
/s/ William J. Shaw William J. Shaw	Director
/s/ Adena T. Friedman Adena T. Friedman	Chief Financial Officer (Principal Financial Officer)
/s/ Curtis L. Buser Curtis L. Buser	Chief Accounting Officer (Principal Accounting Officer)

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Certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 of the Chief Financial Officer of Mannatech.

* * * *

* filed herewith.

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SIGNATURES

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

MANNATECH, INCORPORATED

May 10, 2007

/S/ SAMUEL L. CASTER
Samuel L. Caster
Chief Executive Officer and Chairman of the Board
(principal executive officer)

May 10, 2007

/S/ STEPHEN D. FENSTERMACHER
Stephen D. Fenstermacher
Chief Financial Officer and Senior Vice President
(principal financial officer)

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Exhibit		Incorporated by Reference			
Number	Exhibit Description	Form	File No.	Exhibit (s)	Filing Date
3.1	Amended and Restated Articles of Incorporation of Mannatech, dated May 19, 1998.	S-1	333-63133	3.1	October 28, 1998
3.2	Fourth Amended and Restated Bylaws of Mannatech, dated August 8, 2001 (Corrected).	10-K	000-24657	3.2	March 16, 2006
4.1	Specimen Certificate representing Mannatech's common stock, par value \$0.0001 per share.	S-1	333-63133	4.1	October 28, 1998
10.1	Trademark License and Supply Agreement between Mannatech and Carrington Laboratories, Inc., dated January 25, 2007, (Portions of this exhibit were omitted pursuant to a confidential treatment request submitted pursuant to Rule 24b-2 of the Exchange Act).	8-K	000-24657	10.1	January 31, 2007
10.2	Extension of the Letter of Understanding Agreement between Mannatech and Professor John Axford, dated February 18, 2007.	8-K	000-24657	99.1	February 21, 2007
10.3*	Supply Agreement between Mannatech (International) Limited and Marinova Pty. Limited, effective August 9, 2007, and dated May 7, 2007, (Portions of this exhibit were omitted pursuant to a confidential treatment request submitted pursuant to Rule 24b-2 of the Exchange Act).	*	*	*	*
31.1*	Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 of the Chief Executive Officer of Mannatech.	*	*	*	*
31.2*	Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 of the Chief Financial Officer of Mannatech.	*	*	*	*
32.1*	Certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, of the Chief Executive Officer of Mannatech.	*	*	*	*
32.2*	Certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 of the Chief Financial Officer of Mannatech.	*	*	*	*

* filed herewith.