

MANNATECH INC
Form 10-K
March 11, 2019

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

FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2018

or

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

For the transition period from _____ to _____

Commission File No. 000-24657

MANNATECH, INCORPORATED

(Exact Name of Registrant as Specified in its Charter)

Texas

75-2508900

(State or other Jurisdiction of Incorporation or Organization)

(I.R.S. Employer Identification No.)

1410 Lakeside Parkway, Suite 200, Flower Mound, Texas

75028

(Address of Principal Executive Offices)

(Zip Code)

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

Securities Registered Pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
---------------------	-------------------------------------------

Common Stock, par value \$0.0001 per share	The Nasdaq Stock Market LLC
--------------------------------------------	-----------------------------

Securities Registered Pursuant to Section 12(g) of the Act: None

Indicate by check mark if the Registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.
Yes No

Indicate by check mark if the Registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Exchange Act. Yes No

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

Indicate by check mark whether the Registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (Section 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the Registrant was required to submit such files). Yes No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (Section 229.405 of this Chapter) is not contained herein, and will not be contained, to the best of Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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

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Large accelerated filer	Accelerated filer	Non-accelerated filer	Smaller reporting company	Emerging growth company
<input type="radio"/>	<input type="radio"/>	<input checked="" type="radio"/>	<input checked="" type="radio"/>	<input type="radio"/>

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

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

At June 29, 2018, the last business day of the registrant's most recently completed second quarter, the aggregate market value of the common stock held by non-affiliates of the Registrant was \$33,457,599 based on the closing sale price of \$20.50, as reported on The Nasdaq Global Select Market.

The number of shares of the Registrant's common stock outstanding as of February 28, 2019 was 2,395,717 shares.

Documents Incorporated by Reference

Mannatech, Incorporated incorporates information required by Part III (Items 10, 11, 12, 13, and 14) of this report by reference to its definitive proxy statement for its 2019 annual shareholders' meeting to be filed pursuant to Regulation 14A no later than 120 days after the end of its fiscal year.

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Special Note Regarding Forward-Looking Statements

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

- management’s plans and objectives for future operations;
- existing cash flows being adequate to fund future operational needs;
- future plans related to budgets, future capital requirements, market share growth, and anticipated capital projects and obligations;
- the realization of net deferred tax assets;
- the ability to curtail operating expenditures;
- global statutory tax rates remaining unchanged;
- the impact of future market changes due to exposure to foreign currency translations;
- the possibility of certain policies, procedures, and internal processes minimizing exposure to market risk;
- the impact of new accounting pronouncements on financial condition, results of operations, or cash flows;
- the outcome of new or existing litigation matters;
- the outcome of new or existing regulatory inquiries or investigations; and
- other assumptions described in this report underlying such forward-looking statements.

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

- overall growth or lack of growth in the nutritional supplements industry;
- plans for expected future product development;
- changes in manufacturing costs;
- shifts in the mix of packs and products;
- the future impact of any changes to global associate career and compensation plans or incentives or the regulations governing such plans and incentives;
- the ability to attract and retain independent associates and preferred customers;
- new regulatory changes that may affect operations, products or compensation plans and incentives;
 - the competitive nature of our business with respect to products and pricing;
- publicity related to our products or network marketing; and
- the political, social, and economic climate of the countries in which we operate.

Forward-looking statements generally can be identified by use of phrases or terminology such as “may,” “will,” “should,” “could,” “would,” “expects,” “plans,” “intends,” “anticipates,” “believes,” “estimates,” “approximates,” “predicts,” “projects,” “potential,” and “continues” or other similar words or the negative of such terms and other comparable terminology. Similarly, descriptions of Mannatech’s objectives, strategies, plans, goals, or targets contained herein are also

considered forward-looking statements. Readers are cautioned when considering these forward-looking statements to keep in mind these risks, assumptions, and uncertainties and any other cautionary statements in this report, as all of the forward-looking statements contained herein speak only as of the date of this report.

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

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PART I

Item 1. Business

Overview

Mannatech is a global wellness solution provider, which was incorporated and began operations in November 1993. We develop and sell innovative, high quality, proprietary nutritional supplements, topical and skin care and anti-aging products, and weight-management products that target optimal health and wellness. We currently sell our products in three regions: (i) the Americas (the United States, Canada, Colombia and Mexico); (ii) Europe/the Middle East/Africa (“EMEA”) (Austria, the Czech Republic, Denmark, Estonia, Finland, Germany, the Republic of Ireland, Namibia, the Netherlands, Norway, South Africa, Spain, Sweden and the United Kingdom); and (iii) Asia/Pacific (Australia, Japan, New Zealand, the Republic of Korea, Singapore, Taiwan, Hong Kong, and China).

We primarily sell our products through network marketing via our associates (“independent associate” or “associates”) and directly to our “preferred customers,” which we believe is the most cost-effective way to quickly and effectively introduce our products and communicate information about our business to the global marketplace. Network marketing minimizes upfront costs, as compared to conventional marketing methods, and allows us to be more responsive to the ever-changing overall market conditions, as well as continue to research and develop high quality products and focus on controlled successful international expansion. We believe the network marketing channel also allows us to effectively communicate the potential benefits and unique properties of our proprietary products to our consumers. In addition, network marketing provides our business-building associates with an avenue to supplement their income and develop financial freedom by building their own business centered on our business philosophies and unique products. As of December 31, 2018, we had approximately 200,000 active associate and preferred customer positions held by individuals in our network associated with the purchase of our products and packs and/or payment of associate fees within the last 12 months.

The Company also operates a non-direct selling business in mainland China. In 2016, we formed our China subsidiary, Meitai Daily Necessities & Health Products Co., Ltd. (“Meitai”). Unlike Mannatech’s business operations in other markets, Meitai operates under a cross-border e-commerce model, where consumers in China can buy Mannatech products manufactured overseas via Meitai’s website. Meitai is currently not a direct selling company in China nor will it operate under a multi-level marketing model in China. Products purchased on Meitai’s website are for personal use and not for resale. Meitai offers a rewards program to incentivize existing customers to refer other customers to purchase products from Meitai’s website. Customs regulations in China include purchase limits to ensure that purchased products are for personal consumption.

On July 1, 2017, we revised our 2017 Associate Compensation Plan (the “2017 Associate Compensation Plan”), which was designed to stimulate business growth and development for our active business building associates and to maximize the buying experience for our preferred customers. In doing so, the Company hopes to better utilize commission dollars to stimulate Company growth. The 2017 Associate Compensation Plan provides revised income streams, new leadership levels and titles, and modified various volume requirements for our independent associates. In addition, the 2017 Associate Compensation Plan re-designated members as preferred customers and modified their pricing structure.

Our common stock is currently trading on The Nasdaq Global Select Market (“Nasdaq”) under the symbol “MTEX”. Information for each of our two most recent fiscal years, with respect to our net sales, results of operations, and identifiable assets is set forth in the Consolidated Financial Statements of this report.

Available Information

On our website (<https://www.mannatech.com>), we make available free of charge our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and certain other information filed or furnished with the Securities and Exchange Commission (the "SEC") as soon as reasonably practicable after electronically filing or furnishing such material. The SEC maintains a website that contains reports, proxy and information statements, and other information regarding issuers, including Mannatech, that electronically file with the SEC at <http://www.sec.gov>. Additionally, such materials are available in print upon the written request of any shareholder to our principle executive office located at 1410 Lakeside Parkway, Suite 200, Flower Mound, Texas 75028, Attention: Investor Relations, or by contacting our investor relations department at (972) 471-6512 or IR@mannatech.com.

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Business Segment, Products and Product Development

Business Segment. The Company's sole reporting segment is one where we sell proprietary nutritional supplements, skin care and anti-aging products, and weight-management and fitness products through network marketing distribution channels operating in twenty-five countries. Mannatech's subsidiary in China, Meitai, operates under a cross-border e-commerce model, where consumers in China can buy Mannatech products directly from Meitai via the internet.

Products. Scientists have discovered that a healthy body consists of many sophisticated components working in harmony to achieve optimal health and wellness and requires cellular communication to function at an optimal level. Scientists also discovered that there are more than 200 monosaccharides that form naturally. Specific monosaccharides are considered vital components for cellular communication in the human body. Furthermore, scientists discovered that these monosaccharides attach themselves to certain proteins, which then form a molecule called glycoprotein. Harper's Biochemistry, a leading and nationally recognized biochemistry reference, has recognized that these molecules are found in human glycoproteins, and are believed to be essential in helping to promote and provide effective cell-to-cell communication in the human body.

The history of our proprietary ingredients and products is as follows:

In 1994, we developed and began selling our first products containing Manapol[®] powder, an ingredient formulated to support cell-to-cell communication.

In 1996, we enhanced our products based on the study of glycoproteins and our scientists developed our own proprietary compound, Ambrotose[®] complex, which we patented. Our Ambrotose[®] complex is a blend of polysaccharides (composed of monosaccharides) that helps provide support for the immune system.

In 2001, we broadened our proprietary ingredients by developing the Ambroglycin[®] blend, a balanced food-mineral matrix which helps deliver nutrients to the body and which is used in our proprietary Catalyst[™] and Glycentia[®] vitamin/mineral supplements.

In 2004, we introduced our proprietary blend of antioxidant nutrients, MTech AO Blend[®] ingredient, which is used in our proprietary antioxidant Ambrotose AO[®] product.

In 2006, we introduced a unique blend of plant-based minerals, natural vitamins, and standardized phytochemicals for use in our proprietary PhytoMatrix[®] product. We also introduced a compound used in reformulated Advanced Ambrotose[®] complex. This compound allows a more potent concentration of the full range of mannose-containing polysaccharides occurring naturally in aloe to be produced in a stable powdered form.

In 2007, we introduced into the United States market our skin care and anti-aging line of products that supports skin's natural texture, beauty, and elasticity. We also launched our PhytoMatrix[®] caplets, Advanced Ambrotose[®] capsules and Manna•Bear[™] Supplement into international markets.

In 2008, we introduced a proprietary proteolytic enzyme and phytosterol dietary supplement that supports the body's natural recovery processes associated with physical activity in our BounceBack[®] capsules. We also introduced a proprietary version of whey protein peptide technology that assists targeted fat loss when combined with exercise and a healthy diet in our OsoLean[™] powder.

In 2009, we introduced our Omega-3, which features EPA/DHA essential acids, PhytoBurst[™] Nutritional Chews formulated with vitamins, minerals, and phytonutrients from food-sourced ingredients, and GI-ProBalance[™] Slimstick, which is a symbiotic digestive product containing probiotics, prebiotics, and digestive enzymes. In addition, we improved our Ambrotose[®] products to include beta-Carotene.

In 2010, we launched our Mannatech LIFT[™] Skin Care System, which is paraben-free and formulated to give skin a more natural youthful appearance.

In 2011, we introduced our reformulated version of our Omega-3 supplement, which now includes Vitamin D3 and features EPA/DHA essential acids. We expanded several previously launched products from our domestic line to our international markets.

In 2012, we launched our NutriVerus™ powder, a single product that features all of our core scientific technologies at a very affordable price. This unique, ground-breaking product combines our core glyconutrient technologies with vitamins, minerals, antioxidants and stabilized rice bran, all based on Real Food Technology solutions.

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In 2013, we launched Uth® skin cream, a breakthrough in anti-aging that incorporates Mannatech's glyconutrient technology along with a microsphere delivery system that supports more thorough delivery of the active ingredients to all levels of the skin.

In 2014, we launched GlycoBOOM™ Advanced Immune Support Supplement (now known as MannaBoom®), packed with nutrients that are designed to support the body's natural defenses.

In 2015, Mannatech introduced a new brain supplement, Cognitate™, featuring a proprietary blend of natural ingredients to aid memory, recall and cognition.

In 2016, Mannatech rebranded the Company, including all new packaging and labels, introduced a line of Essential Oils, along with an innovative, natural fat-loss system, TruHealth™. Comprised in the system is the TruPLENISH™ Nutritional Shake, TruPURE® Cleanse Slimsticks and TruSHAPE™ Fat-Loss Capsules.

In 2017, Mannatech launched several new products, including: GinMAX®, a fast-acting, long-lasting ginseng supplement that utilizes both fermented red and fermented white ginseng, fortified with glyconutrients; GlycoCafé®, a glyconutritional coffee made with the whole coffee fruit; and Luminovation, a line of mass-market and premium Korean beauty products.

In 2018, Mannatech launched a unique fitness drink, Empact+®, combining fueling, hydration and recovery in one product. Mannatech also introduced significant enhancements to its signature Ambrotose® product with the launch of Ambrotose Life™, with more than double the Manapobf its Advanced Ambrotose® formula along with healthy additions of modified citrus pectin, and stabilized rice bran. Ambrotose Life™ is available in a bulk canister (unflavored), along with flavored single serving sachets.

Mannatech offers products that include glyconutrients, a unique category of nutrients sourced from plants and designed to provide a variety of health benefits. We focus on producing products that are from natural sources, as well as other scientifically based efficacious sources.

Integrative Health, which offers a variety of nutritional supplements that aid in optimizing overall health and wellness. This category includes a variety of daily nutritional supplements, health solutions for children, and additional nutrients designed to help keep specific body systems at optimal levels.

Targeted Health, which gives bodies an extra edge with products designed to target specific areas and provide additional nutrients that help support body system health.

Weight and Fitness, which offers products designed to curb appetite and burn fat, build lean muscle tissue, and support recovery from overexertion.

Skin Care, which offers several products formulated with more than 30 botanical ingredients that are designed to give the skin a more natural, youthful appearance by moisturizing, hydrating and reducing the appearance of fine lines and wrinkles.

Home Living, a category of products designed to make homes a peaceful haven which supplement wellness.

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The following table summarizes our products by category:

Product Category	Representative Products
Integrative Health	Ambrotose® complex, Ambrotose AO®, Advanced Ambrotose®, Ambrotose Life™, Catalyst™, Cognitate™, GinMAX™, Manapol® Powder, MannaBears™, Nutriverus™, Optimal Support Packets, PhytoMatrix® and PLUS™
Targeted Health	BounceBack®, CardioBALANCE®, GI Pro Balance® Slimstick, GI-Zyme®, GlycoCafe®, ImmunoSTART®, Manna-C™, MannaBOOM® Slimsticks, MannaCLEANSE™, Omega-3 with Vitamin D ₃ and PhytAloe®.
Weight and Fitness	OsoLean™, SPORT™, TruHealth Fat Loss System, including: TruPLENISH™, TruPURE®, TruSHAPE™, Tru-C™ and TruCoffee Americano™
Skin Care	Emprizone®, FIRM with Ambrotose®, Uth® Facial Cleanser, Uth® Skin Rejuvenation Crème, Uth® Moisturizer, FreshDen™, Gel Mask, Organt and Luminovation, Uth® Lash Serum.
Home Living	Serenity Home Diffuser, Essential Oils: Eucalyptus, Fractionated Coconut and Aloe, Frankincense, Lavender, Lemon, No. 1 Protective Blend, Orange, Peppermint, and Sweet Almond and Aloe.

A significant portion of our revenue is derived from our Advanced Ambrotose®, Ambrotose Life™, TruHealth Manapol® Powder and Ambrotose® products. Revenue from these products were as follows for the years ended December 31, 2018 and 2017 (in thousands, except percentages):

	2018		2017	
		% of		% of
	Sales by total product net sales		Sales by total product net sales	
Advanced Ambrotose®	\$44,054	25.4 %	\$52,592	29.8 %
Ambrotose Life™	18,824	10.9 %	—	— %
TruHealth™	17,537	10.1 %	16,652	9.4 %
Manapol® Powder	8,636	5.0 %	11,183	6.3 %
Ambrotose				