

MANNATECH INC  
Form 10-K  
March 18, 2014

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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, 2013

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File No. 000-24657  
MANNATECH, INCORPORATED  
(Exact Name of Registrant as Specified in its Charter)

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

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

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

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

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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 or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

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

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

At June 30, 2013, the aggregate market value of the common stock held by non-affiliates of the Registrant was \$18,768,721 based on the closing sale price of \$11.09, as reported on the NASDAQ Global Select Market.

The number of shares of the Registrant's common stock outstanding as of March 10, 2014 was 2,653,913 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 2014 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;
- the ability to attract and retain independent associates and members;
- new regulatory changes that may affect operations or products;
  - the competitive nature of our business with respect to products and pricing;
- publicity related to our products or network marketing; and
- the political, social, and economic climate.

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

forward-looking statements contained herein speak only as of the date of this report.

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

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

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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 products, and weight-management products that target optimal health and wellness. We currently sell our products in three regions: (i) North America (the United States, Canada 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, Sweden, the United Kingdom, and Ukraine); (iii) Asia/Pacific (Australia, Japan, New Zealand, the Republic of Korea, Singapore, Taiwan and Hong Kong). We conduct our business as a single operating segment and primarily sell our products and packs through a network of independent associates and members. As of December 31, 2013, we had approximately 245,000 active independent associates and members who had purchased our products and packs within the last 12 months.

We sell our products through network marketing, 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 independent 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.

Our common stock is currently traded 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

We make available free of charge on our Internet website (<https://www.mannatech.com>) 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 600 S. Royal Lane, Suite 200, Coppell, Texas 75019, Attention: Investor Relations, or by contacting our investor relations department at (972) 471-6512 or [IR@mannatech.com](mailto:IR@mannatech.com).

Business Segment, Products and Product Development

**Business Segment.** We conduct our business as a single operating segment – primarily through sales of nutritional supplements, topical and skin care products, and weight management products through network marketing distribution channels in twenty-four countries. For more information with respect to the financial results and conditions of our business segment, including financial information about geographic areas, see Note 16 to our Consolidated Financial Statements, Segment Information.

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. In its most basic form, a body's internal communication occurs at the cellular level, and is referred to as cell-to-cell communication. Scientists also discovered that there are more than 200 monosaccharides, also called sugar molecules, which 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.

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

In 1994, we developed and began selling our first products containing Manapol<sup>®</sup> 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<sup>®</sup> complex, which we patented. Our Ambrotose<sup>®</sup> 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<sup>®</sup> blend, a balanced food-mineral matrix which helps deliver nutrients to the body and which is used in our proprietary Catalyst<sup>™</sup> and Glycentials<sup>®</sup> vitamin/mineral supplements.

In 2004, we introduced our proprietary blend of antioxidant nutrients, MTech AO Blend<sup>®</sup> ingredient, which is used in our proprietary antioxidant Ambrotose AO<sup>®</sup> product.

In 2006, we introduced a unique blend of plant-based minerals, natural vitamins, and standardized phytochemicals for use in our proprietary PhytoMatrix<sup>®</sup> product. We also introduced a compound used in reformulated Advanced Ambrotose<sup>®</sup> 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 line of products that supports skin's natural texture, beauty, and elasticity. We also launched our PhytoMatrix<sup>®</sup> caplets, Advanced Ambrotose<sup>®</sup> capsules and Manna•Bears<sup>™</sup> 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<sup>™</sup> 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<sup>™</sup> powder.

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

In 2010, we launched our Mannatech LIFT<sup>™</sup> 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 D<sub>3</sub> and features EPA/DHA essential acids. We also introduced GI-ProBalance<sup>™</sup> Slimstick in North America and expanded several previously launched products from our domestic line to our international markets.

In 2012, we launched our NutriVerus<sup>™</sup> 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.

In 2013, we launched U<sup>™</sup> 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.



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Mannatech offers products based on Real Food Technology solutions, an approach that offers standardized amounts of nutrients sourced from real foods and plants. We focus on producing products that are from all-natural sources, with no synthetic or chemically derived additives. There are three major categories of our products:

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.

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

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Skin Care, which offers several products that are formulated with more than 30 botanical ingredients, contain our Jeunesse 7™ proprietary blend – a unique combination of montmorillonite and glyconutrients, and are designed to give the skin a more natural youthful appearance by moisturizing, hydrating and reducing the appearance of fine lines and wrinkles. In addition, we added our Ūth skin rejuvenation crème to our skin care line.

The following table summarizes our products by category:

Product Category	Representative Products
Health	Ambrotose® complex, Ambrotose AO®, Advanced Ambrotose®, PhytoMatrix®, MannaBears™, Catalyst™, PLUS™, Manna-C™, CardioBALANCE®, ImmunoSTART®, BounceBack®, MannaCLEANSE™, PhytAloe®, GI-Zyme®, Omega-3 with Vitamin D <sub>3</sub> , PhytoBurst™ Nutritional Chews, NutriVerus™, Optimal Support Packets, and GI Pro Balance™ Slimstick.
Weight and Fitness	OsoLean™, GlycoSlim®, AmbroStart®, SPORT™, and EM-PACT®.
Skin Care	Emprizone®, FIRM with Ambrotose®, LIFT™ Exfoliating Facial Cleanser, LIFT™ Multiphase Serum, LIFT™ Day Moisturizer, LIFT™ Night Repair Crème, Ūth Skin Rejuvenation Crème, and LIFT™ Body Lotion.

A significant portion of our revenue is derived from our core Ambrotose® complex products which include the Ambrotose® products and Advanced Ambrotose® products. Product revenue from the core Ambrotose® products were as follows for the years ended December 31, 2013 and 2012 (in thousands, except percentages):

	2013		2012			
	Sales by product	% of total net sales	Sales by product	% of total net sales		
Advanced Ambrotose®	\$59,894	33.8	% \$66,280	38.2	%	
Ambrotose®	10,939	6.2	% 12,143	7.0	%	
Total	\$70,833	40.0	% \$78,423	45.2	%	

Product Development. Our product committee continues to focus on potential new products and compounds that help target or promote overall health and wellness. When considering new products and compounds, our product committee considers the following criteria:

- marketability and proprietary nature of the product;
- demand for the product;
- competitors’ products;
- regulatory considerations;
- availability of ingredients; and
- data supporting claims of efficacy and safety.

To maintain a flexible operating strategy and the ability to increase production capacity, we contract with third-parties to manufacture all of our products, which allows us to effectively respond to fluctuations in demand with minimal investment and helps control our operating costs. We believe our suppliers and manufacturers are capable of meeting our current and projected inventory requirements over the next several years. However, as a safety measure, we continue to identify and approve alternative suppliers and manufacturers to ensure that our global demands are met in

a timely manner and to help minimize any risk of business interruption.

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Industry Overview

Nutrition Industry

We operate in the nutritional supplement industry and distribute and sell our products through our own global network marketing channel. The nutritional supplement industry is fast-paced, highly fragmented, and intensely competitive. It includes companies that manufacture and distribute products that are intended to enhance the body's performance and well-being. Nutritional supplements include vitamins, minerals, dietary supplements, herbs, botanicals, and compounds derived therefrom. Prior to 1990, all dietary supplements in the United States were tightly regulated by the FDA and only included essential nutrients such as vitamins, minerals, and proteins. In 1990, the Nutrition Labeling and Education Act expanded the category to include "herbs or similar nutritional substances", but the FDA maintained control over pre-market approval. However, in 1994, the Dietary Supplement Health and Education Act of 1994 ("DSHEA") was passed in the United States, drastically changing the dietary supplement marketplace. The DSHEA was instrumental in expanding the category of dietary supplements to further include herbal and botanical supplements and ingredients such as ginseng, fish oils, enzymes, and various mixtures of these ingredients. Under DSHEA, vendors of dietary supplements are now able to educate consumers regarding the effects of certain component ingredients.

Nutritional supplements are available through mass-market retailers, drug stores, supermarkets, discount stores, health food stores, mail order companies, and direct sales organizations. Direct selling, of which network marketing is a significant segment, has grown significantly and has been enhanced in the past decade as a distribution channel due to advancements in technology and communications resulting in improved product distribution and faster dissemination of information.

Direct Selling/Network Marketing Channel

Since the 1990s, the direct selling and network marketing sales channel has grown in popularity and general acceptance, including acceptance by prominent investors and capital investment groups who have invested in direct selling companies. This has provided direct selling companies with additional recognition and credibility in the growing global marketplace. In addition, many large corporations have diversified their marketing strategy by entering the direct selling arena. Several consumer-product companies have launched their own direct selling businesses with international operations often accounting for the majority of their revenues. Consumers and investors are beginning to realize that direct selling provides unique opportunities and a competitive advantage in today's markets. Businesses are able to quickly communicate and develop strong relationships with their customers, bypass expensive ad campaigns, and introduce products and services that would otherwise be difficult to promote through traditional distribution channels such as retail stores. Direct selling is a channel of distribution with healthy cash flow, high return on invested capital, and long-term prospects for global expansion. According to the worldwide direct sales data published by the World Federation of Direct Selling Association, in 2012 approximately 87 million global direct sellers collectively generated annual retail sales of \$166.9 billion.

Operating Strengths

High-Quality, Innovative, Proprietary Products. We base our product concept on the scientific belief that certain glyconutrients, also known as monosaccharides or sugar molecules, are essential for maintaining a healthy immune system. We believe the addition of effective nutritional supplements to a well-balanced diet, coupled with an effective exercise program, will enhance and help maintain optimal health and wellness. We focus on producing products that are from all-natural sources with no synthetic or chemically derived additives. We formulate our products with predominately naturally-occurring, plant-derived, carbohydrate-based, safe ingredients that are designed to use nutrients working through normal physiology to help achieve and maintain optimal health and wellness, rather than developing common synthetic, carbohydrate-based products.

We believe that our patented proprietary blend, Ambrotose® complex, included in many of our products distinguishes us as a leader in the global nutritional supplements industry and that no other combination of vitamins, minerals, amino acids, or herbals can provide the benefits found in Ambrotose® complex. We also believe the use of unique compounds found in our products allows us to effectively differentiate and distinguish our products from those of our competitors.

Research and Development Efforts. We are steadfast in our commitment to quality-driven research and development. We use systematic processes for the research and development of our unique proprietary product formulas, as well as the identification of quality suppliers and manufacturers. Our research and quality assurance programs are outlined on our corporate websites [www.mannatechscience.org](http://www.mannatechscience.org), [www.mannatech.com](http://www.mannatech.com), and [www.allaboutmannatech.com](http://www.allaboutmannatech.com).

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Dr. Robert Sinnott, our CEO and Chief Science Officer, leads our team of experienced researchers and scientists. This team continually reviews the latest published research data, attends scientific conferences, and draws upon its vast knowledge and expertise to develop new products and support existing ones. In addition, this team works in collaboration with other research firms, universities, institutes, and scientists. Our products have been the focus of numerous pre-clinical and clinical studies.

To support our research and development efforts, we have strategic alliances with our suppliers, consultants, and manufacturers that allow us to effectively identify and develop high-quality, innovative, proprietary products that increase our competitive advantage in the marketplace.

These efforts include developing and maintaining quality standards, supporting development efforts for new ingredients and compounds, and improving or enhancing existing products or ingredients. In addition, our research and development team identifies other quality-driven suppliers and manufacturers for both our global and regional needs.

Research and development costs related to new product development, enhancement of existing products, clinical studies and trials, FDA compliance studies, general supplies, internal salaries, third-party contractors, and consulting fees were approximately \$1.6 million and \$1.9 million for the years ended December 31, 2013 and 2012, respectively.

Quality Assurance Program. Mannatech uses only qualified manufacturing contractors to produce, test, and package our finished products. These contractors must be compliant and current with required certifications and they must strictly adhere to our own quality standards for all markets. Certifications and guidelines that our contract manufacturers are required to carry and/or follow include:

- the FDA's current Good Manufacturing Practices for manufacturing, packaging, labeling, and holding of dietary supplements;
- the FDA's Good Manufacturing Practices for human food;
- the requirements of the Natural Health Products Directorate of Canada;
- the Korean Food and Drug Administration;
- certification by the Therapeutic Goods Administration of Australia, when necessary;
- the European Union's Food Supplement Directive and Nutrition and Health Claims Regulations, as well as individual member state legislation;
- the Taiwan Food and Drug Administration;
- the Japan Ministry of Health Labor and Welfare;
- the Singapore Health Sciences Authority; and
- the South African Department of Health and Medicines Control Council.

We have an established quality assurance program designed to ensure our manufacturers' compliance with these certifications and guidelines, and to ensure that proper controls are maintained during the manufacturing, evaluation, packaging, storage, and distribution of our products. These controls include a comprehensive supplier audit and surveillance program, third-party certifications, and continuous product monitoring.

A team of professionals, many of whom have extensive experience in the pharmaceutical industry, leads our in-house quality assurance program and continually monitors the quality of our products, including the production process. In addition, they work with suppliers and manufacturers to develop quality standards for raw material components and products, and perform tests and inspections to ensure that finished products are safe and of high quality prior to release.

We require our dietary supplements to be packaged with seals to help minimize the risk of tampering. We also perform stability studies under both controlled ambient and accelerated temperature storage conditions to ensure label claims throughout the shelf life of our products.

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To further ensure product quality, we seek qualified independent organizations to conduct further product testing. To date, numerous products have been tested, and:

ten products are certified according to the NSF/ANSI 173 Dietary Supplement Standard—the only American National Standard for dietary supplements. This certification ensures that this product contains only the ingredients indicated on the label and is free of impurities, and that Good Manufacturing Practices were used in the manufacturing facility; and

·twenty-six products have been tested and confirmed to be gluten-free by Covance Laboratories.

High-Caliber, Industry-Leading Independent Associates. Our global team of independent associates is comprised of dedicated, hard-working, high-caliber individuals, many of whom have been associated with the network marketing industry for decades and have been loyal to us since our beginning in 1993. To capitalize on their wealth of knowledge and experience, we sponsor a panel of independent associates, called the “North American Associate Advisory Council” (the “Advisory Council”), which help identify and effectively relay the needs of our independent business-building associates to us. The members of the Advisory Council are elected by their peers and serve a three-year term. The Advisory Council meets periodically with our team of senior management to recommend changes, discuss issues, and provide new ideas or concepts, including a full spectrum of innovative ideas for additional quality-driven nutritional supplements aimed at maintaining optimal health and wellness.

Support Philosophy for Our Independent Associates and Members. We are fully committed to providing the highest level of support services to our independent associates and members and believe that we meet expectations and build customer loyalty through the following:

·providing efficient order processing centers to support operations;

·offering highly-personalized and responsive customer service;

·offering a satisfaction guarantee product return policy;

·providing comprehensive corporate websites ([www.mannatech.com](http://www.mannatech.com), [www.allaboutmannatech.com](http://www.allaboutmannatech.com), [www.mannatechscience.org](http://www.mannatechscience.org) and [www.mannathink.com](http://www.mannathink.com)), that provide instant access to Internet ordering, marketing, technical and educational information, and unique and innovative marketing tools;

·maintaining an extensive web-based downline management system called Success Tracker™ that provides access to web conferencing and downline organization reporting for our independent associates at minimal costs;

·offering, in the United States and Canada, an effective compilation of online marketing and training tools, including MannaPages webnotes and our Navig8 Global Business System;

·offering updated training/orientation and compliance programs for our independent associates;

·providing strategically based distribution fulfillment centers to ensure products are shipped on time and at minimal cost;

·inviting customer input on innovative product ideas, which is gathered and tabulated on [www.mannathink.com](http://www.mannathink.com); and

·sponsoring several marketing events, designed to provide information, education, and motivation for our dedicated business-building associates and to help stimulate business development. These events provide an interactive venue for introducing new products and services and allow interaction between our management teams, outside researchers,



and independent associates.

Flexible Operating Strategy. We believe efficiency, focus, and flexibility are paramount to our operations. For over a decade, we have contracted with third parties to supply and manufacture our proprietary raw materials and products, which we believe allows us to minimize capital expenditures, capitalize on such parties' expertise, and build additional resources for strategic alliances in the areas of distribution and logistics, product registration, and export requirements. By contracting with various suppliers and manufacturers and by outsourcing distribution for all 6. of our operations, we believe we can quickly adapt operations to current demands in a timely, efficient, and cost-effective manner. We monitor the performance of our third party contractors to ensure they maintain a high quality of service. In addition, we identify alternative sources for our raw materials suppliers and finished goods manufacturers to help prevent any risk of interruption in production should any existing contractors become unable to perform satisfactorily.

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Experience and Depth of Our Management Team and Board of Directors. We believe that our team of executives has extensive experience in every aspect of business operations and is highly focused on our success. Our Board of Directors is composed of six directors, including four independent directors. We believe our board members have a wealth of knowledge and experience in most aspects of our business operations and are especially well versed in network marketing, finance, nutritional products, regulatory matters, and corporate governance. Our entire management team is committed to delivering high-quality products and superior service.

## Business Strategy

Our long-term goal is to be one of the world's leading network marketing companies founded on the best science-based proprietary products by incorporating a powerful global independent network distribution model into our social entrepreneur consumption program. To achieve our goal, we believe we must focus on the following business priorities:

Strengthening our Financial Results and Adding Value to Our Shareholders and Independent Associates. We focus on improving financial results by striving to increase our revenues in both our domestic and foreign operations and to control our operating costs.

Attracting New Independent Associates and Retaining Existing Independent Associates. We continually examine our global associate career and compensation plan and periodically offer incentives in order to attract, motivate, and retain independent associates. We believe our global associate career and compensation plan encourages greater associate retention, motivation, and productivity.

Carefully Planning and Executing New Market Entries. In order to expand efficiently around the globe, we must continue to present maximum opportunity to our current independent associates as well as those who will join us in the future.

Developing New Products and Enhancing Existing Products. We continue to focus on new areas for future product development. We continue our research efforts and strive to ensure that all of our products are made from high quality, effective ingredients that contain one or more of our proprietary compounds, which we believe supports our goal to be a cutting-edge industry leader. We expect that any future products we develop will further complement and enhance our existing products.

## Intellectual Property

Trademarks. We pursue registrations for various trademarks associated with our key products and branding initiatives. As of December 31, 2013, we had 37 registered trademarks in the United States and four trademark applications pending with the United States Patent and Trademark Office. As of December 31, 2013, we had 535 registered trademarks in 36 countries and 25 trademark applications pending in nine foreign jurisdictions. Globally, the protection available in foreign jurisdictions may not be as extensive as the protection available to us in the United States. Where available, we rely on common law trademark rights to protect our unregistered trademarks, even though such rights do not provide us with the same level of protection as afforded by a United States federal trademark registration. Common law trademark rights are limited to the geographic area in which the trademark is actually used. A United States federal trademark registration enables us to stop infringing use of the trademark by a third party anywhere in the United States provided the unauthorized third party user does not have superior common law rights in the trademark within a specific geographical area of a particular state or region prior to the date our mark federally registers. In the United States (and in many foreign jurisdictions) a registered trademark is valid for ten years and may be renewed subject to the trademark owner demonstrating continued use of the mark in commerce.

Patents. The Company applies for patent protection in various countries for the technology related to our product formulations. As of December 31, 2013, we had 51 patents for technology related to our Ambrotose® formulation, five of which are in the United States and the remainder of which are in 31 foreign jurisdictions. Overall, as of December 31, 2013, 93 patents have been issued to Mannatech worldwide for the technology relating to our Ambrotose®, Ambrotose AO®, GI-ProBalance™, and PhytoMatrix® product formulations, as well as in the field of biomarker assays. Currently, we have 58 patent applications pending in various jurisdictions relating to the technology supporting the above listed products. Patent protection means that the patented invention cannot be commercially made, used, distributed or sold without the patent owner's consent. These patent rights are usually enforced in a court, which, in most jurisdictions, holds the authority to stop patent infringement. The protection is granted for a limited period, generally 20 years. In most jurisdictions, renewal annuities or maintenance fees must be paid regularly during the term of the patent to keep the patent in force.

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Associate Distribution System

Overview. Our sales philosophy is to distribute our products through network marketing channels where consumers purchase products for personal consumption or resale. Members purchase our products for personal use at a discounted retail value, but do not participate in our global associate career and compensation plan. Independent associates purchase our products at a discounted wholesale value and are eligible to participate in our global associate career and compensation plan. All of our associates are independent contractors. We provide each new independent associate with our policies and procedures that require the independent associates to comply with regulatory guidelines and act in a consistent and professional manner.

Our revenues are heavily dependent upon the retention and productivity of independent associates who help us achieve long-term growth. We believe the introduction of new innovative incentives, such as travel incentives, will continue to motivate our independent associates and help expand our global purchasing base. We remain actively committed to expanding the number of our independent associates through recruitment, support, motivation, and incentives. We had approximately 245,000 active independent associates and members purchasing our products and packs during the 12 months ended December 31, 2013, and we had approximately 229,000 active independent associates and members purchasing our products and packs during the 12 months ended December 31, 2012. We have a loyalty program through which consumers earn loyalty points from qualified automatic orders, which can be applied to future purchases.

Independent Associate Development. Network marketing consists of enrolling individuals who build a network of independent associates, members, and retail customers who purchase products. We support our independent associates by providing an array of support services that can be tailored to meet individual needs, including:

- offering educational meetings and corporate-sponsored events that emphasize business-building and compliance related information;
- sponsoring various informative and science-based conference calls, web casts, and seminars;
- providing automated services through the Internet and telephone that offer a full spectrum of information and business-building tools;
- maintaining an efficient decentralized ordering and distribution system;
- providing highly personalized and responsive order processing and customer service support accessible by multiple communication channels including telephone, Internet, or e-mail;
- offering 24-hour, seven days a week access to information and ordering through the Internet;
- offering Success Tracker™, a customized business-building genealogy system, which contains graphs, maps, alerts, reports, and web video conferencing for our independent associates;
- offering, in the United States and Canada, a compilation of online marketing and training tools, including MannaPages webnotes and our Navig8 Global Business System; and
- providing a wide assortment of business-building and educational materials to help stimulate product sales and simplify enrollment.

We provide product and network marketing training and education for new independent associates. This includes a unique global training/orientation program that uses audio, video and web components to familiarize new associates

with the Company, and includes short, segmented trainings on how to succeed as part of the sales force. We also regularly provide training on using online tools such social media and our own suite of web marketing tools specifically designed for associates to use. We also offer a variety of brochures, monthly newsletters, and other promotional materials to associates to assist in their sales efforts, training, and continuing education. We continually update our training and promotional materials to provide our associates with the most current information and motivational tools.

Our global associate career and compensation plan consists of eight independent associate achievement levels; from lowest to highest, these include regional, national, executive, presidential, bronze, silver, gold, and platinum. These achievement levels are determined by the growth and volume of the independent associates' direct and indirect commissionable net sales, as well as expanding their networks, which are all assigned a point volume. Promotional materials and training aids are not assigned a point volume. This point volume system, referred to as our global seamless downline structure, allows independent associates to build their network by expanding their existing downlines into all international markets. Our global associate career and compensation plan is intended to comply with all applicable governmental regulations that govern the various aspects of payments to independent associates in each country.

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Based upon our knowledge of industry-related network marketing compensation plans, we believe our global associate career and compensation plan remains strong in the industry and is currently among the most financially rewarding plans offered. Together, our commissions and incentives range approximately from 41% to 43% of our consolidated net sales.

Our global associate career and compensation plan pays various types of commissions and incentives based upon a point system that calculates a percentage of the independent associate's commissionable direct and indirect net sales and the attainment of certain associate achievement levels. All payments to our independent associates are made after they have earned their commissions. We believe our global associate career and compensation plan fairly compensates our independent associates at every stage of building their business by quickly rewarding an independent associate for both the breadth and depth of their global seamless downline structure.

Our global associate career and compensation plan identifies and pays 17 types of commissions to our qualified independent associates, which are based on the following:

- generating product sales from an independent associate's global downline to earn certain achievement levels;
- enrolling new independent associates or members who place a product order;
- obtaining certain achievement levels and enrolling other independent associates who place monthly automatic orders in a downline;
- obtaining and developing certain achievement levels within their downline organizations to qualify for additional bonuses; and
- various other incentive programs.

Management of Independent Associates. We actively monitor our independent associates' sales of our products and the promotion of certain business opportunities by requiring our independent associates to abide by our policies and procedures. However, we have limited control over the actions of our independent associates. To aid in our monitoring efforts, we provide each independent associate with a copy of our policies and procedures prior to or upon signing up as an independent associate. We also use various media formats to distribute changes to our mandatory policies and procedures, including our corporate website, conference calls, educational meetings, corporate events, seminars, and webcasts.

Our legal/compliance department, in cooperation with other departments and associates, periodically evaluates the conduct of our independent associates and the need for new or revised policies and procedures. Our monitoring efforts include reviewing associates' websites, promotional materials, and meetings. Our legal/compliance program assists in maintaining high ethical standards among our independent associates, which helps our independent associates in their sales efforts.

To help manage our associates, our legal/compliance department periodically monitors independent associates' websites for content. In addition, associates may use our anonymous compliance reporting system to report non-compliant websites to the compliance department, which then further investigates such websites. In an effort to decrease the number of independent websites owned by our independent associates and to preserve and protect our trademarks, we offer standardized personal web pages to our associates that help them with their sales efforts and provides consistent, standardized information, and education. We also offer our independent associates and members a free standardized website through our Navig8 Global Business System service.

Our legal/compliance program also provides our independent associates with a standardized and anonymous complaint process. When a complaint is filed against an independent associate, our legal/compliance department conducts a mandatory investigation of the allegations, if warranted. Depending on the nature of the violation, we may suspend or terminate the non-compliant associate's agreement or we may impose various sanctions, including written warnings, probation, withholding commissions, and termination of associate status. We will terminate any associate's

agreement for making claims that our products can treat, cure, mitigate or prevent any disease, unless such claim is de minimus and isolated.

Product Return Policy. We stand behind our packs and products and believe we offer a reasonable and industry-standard product return policy to all of our customers. We do not resell returned products. Refunds are not processed until proper approval is obtained. All refunds must be processed and returned in the same form of payment that was originally used in the sale. Each country in which we operate has specific product return guidelines. However, we allow our independent associates and members to exchange products as long as the products are unopened and in good condition. Our return policies for our retail customers and our independent associates and members are as follows:

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**Retail Customer Product Return Policy.** This policy allows a retail customer to return any of our products to the original independent associate who sold the product and receive a full cash refund by the independent associate for the first 180 days following the product's purchase, if located in the United States and Canada, and for the first 90 days following the product's purchase in the remaining countries. The independent associate may then return or exchange the product based on the independent associate product return policy.

**Independent Associate and Member Product Return Policy.** This policy allows the independent associate or member to return an order within one year of the purchase date upon terminating his/her account. If an independent associate or member returns a product unopened and in good condition, he/she may receive a full refund minus a 10% fee. We may also allow the independent associate or member to receive a full satisfaction guarantee refund if they have tried the product and are not satisfied for any reason, excluding promotional materials. This satisfaction guarantee refund applies in the United States and Canada, only for the first 180 days following the product's purchase, and applies in the remaining countries for the first 90 days following the product's purchase; however, any commissions earned by an independent associate will be deducted from the refund. If we discover abuse of the refund policy, we may terminate the independent associates' or member's account.

## Information Technology Systems

Our information technology and e-commerce systems include a transaction-processing database, financial systems, an associate management system, and comprehensive management tools that are designed to:

- minimize the time required to process orders and distribute products;
- provide customized ordering information;
- quickly respond to information requests, including providing detailed and accurate information to independent associates about qualification and downline activity;
- provide detailed reports about paid commissions and incentives;
- support order processing and customer service departments; and
- help monitor, analyze, and report operating and financial results.

To complement our transaction database, we developed a comprehensive management tool called Success Tracker™ that is used both internally and by our independent associates to manage and optimize their business organizations. With this tool, independent associates have constant access to graphs, maps, alerts, and reports on the status of their individual organizations, which helps to optimize their earnings.

We also maintain a written service continuity disaster recovery plan, which was developed using the guidelines published by the National Institute of Standards of Technology to minimize the risk of loss due to any interruption in business. Our disaster recovery plan encompasses all critical aspects of our business and identifies contacts and resources. Additionally, we perform daily backup procedures and proactively monitor various software, hardware, and network infrastructure systems. We also perform routine maintenance procedures and periodically upgrade our software and hardware to help ensure that our systems work efficiently and effectively and to minimize the risk of business interruption. Although we maintain an extensive disaster recovery plan, a long-term failure or impairment of any of our information technology systems could adversely affect our ability to conduct day-to-day business. Please see "Risk Factors – If our information technology system fails, our operations could suffer."

We continue to enhance our information technology, websites, and e-commerce platforms to remain competitive and efficient.



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### Government Regulations

Domestic Regulations. In the United States, governmental regulations, laws, administrative determinations, court decisions, and similar legal requirements at the federal, state, and local levels regulate companies such as ours and network marketing activities. Such regulations address, among other things:

- direct selling and network marketing systems;
- transfer pricing and similar regulations affecting the amount of foreign taxes and customs duties paid;
- taxation of independent associates and requirements to collect taxes and maintain appropriate records;
- how a company manufactures, packages, labels, distributes, imports, sells, and stores products;
- product ingredients;
- product claims;
- advertising; and
- the extent to which companies may be responsible for claims made by independent associates.

The following governmental agencies regulate various aspects of our business and our products in the United States:

- the FDA;
- the Federal Trade Commission (the “FTC”);
- the Consumer Product Safety Commission;
- the Department of Agriculture;
- the Environmental Protection Agency;
- the United States Postal Service;
- state attorney general offices; and
- various agencies of the states and localities in which our products are sold.

The FDA regulates the formulation, manufacturing, packaging, storage, labeling, promotion, distribution, and sale of foods, dietary supplements, over-the-counter drugs, medical devices, and pharmaceuticals. In January 2000, the FDA issued a final rule called “Statements Made for Dietary Supplements Concerning the Effect of the Product on the Structure or Function of the Body”. In the rule and its preamble, the FDA distinguished between permitted claims under the Federal Food, Drug and Cosmetic Act (the “Act”) relating to the effect of dietary supplements on the structure or functions of the body, and impermissible direct or implied claims of the effect of dietary supplements on any disease. In June 2007, the FDA issued a rule, as authorized under the Act that defined current Good Manufacturing Practices in the manufacture and holding of dietary supplements. Effective January 1, 2006, legislation required specific disclosures in labeling where a food, including a dietary supplement, contains an ingredient derived from any of eight named allergens. Legislation passed at the end of 2006 now requires us to report to the FDA any reports of “serious adverse events” associated with the use of a dietary supplement or an over-the-counter drug that is not covered by new drug approval reporting.

The Dietary Supplement Health and Education Act of 1994, referred to as DSHEA, revised the provisions of the Act concerning the composition and labeling of dietary supplements and statutorily created a new class entitled “dietary supplements.” Dietary supplements include vitamins, minerals, herbs, amino acids, and other dietary substances used to supplement diets. A majority of our products are considered dietary supplements as outlined in the Act, which requires us to maintain evidence that a dietary supplement is reasonably safe. A manufacturer of dietary supplements may make statements concerning the effect of a supplement or a dietary ingredient on the structure or any function of the body, in accordance with the regulations described above. As a result, we make such statements with respect to our products. In some cases, such statements must be accompanied by a statutory statement that the claim has not been evaluated by the FDA and that the product is not intended to treat, cure, mitigate, or prevent any disease, and the FDA must be notified of such claim within 30 days of first use.



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The FDA oversees product safety, manufacturing, and product information, such as claims on a product's label, package inserts, and accompanying literature. The FDA has promulgated regulations governing the labeling and marketing of dietary and nutritional supplement products. The regulations include:

- the identification of dietary or nutritional supplements and their nutrition and ingredient labeling;
- requirements related to the wording used for claims about nutrients, health claims, and statements of nutritional support;
- labeling requirements for dietary or nutritional supplements for which "high potency," "antioxidant," and "trans-fatty acids" claims are made;
- notification procedures for statements on dietary and nutritional supplements; and
- pre-market notification procedures for new dietary ingredients in nutritional supplements.

We develop and maintain product substantiation dossiers, which contain the scientific literature pertinent to each product and its ingredients. An independent scientist reviews these dossiers, which provide the scientific basis for product claims. We periodically update our substantiation program for evidence for each of our product claims and notify the FDA of certain types of performance claims made in connection with our products.

In certain markets, including the United States, specific claims made with respect to a product may change the regulatory status of a product. For example, a product sold as a dietary supplement but marketed as a treatment, prevention, or cure for a specific disease or condition would likely be considered by the FDA or other regulatory bodies as unapproved and thus an illegal drug. To maintain the product's status as a dietary supplement, its labeling and marketing must comply with the provisions in DSHEA and the FDA's extensive regulations. As a result, we have procedures in place to promote and assure compliance by our employees and independent associates related to the requirements of DSHEA, the Food, Drug and Cosmetic Act, and various other regulations.

Dietary supplements are also subject to the Nutrition, Labeling and Education Act and various other acts that regulate health claims, ingredient labeling, and nutrient content claims that characterize the level of nutrients in a product. These acts prohibit the use of any specific health claim for dietary supplements unless the health claim is supported by significant scientific research and is pre-approved by the FDA.

The FTC and other regulators regulate marketing practices and advertising of a company and its products. In the past several years, regulators have instituted various enforcement actions against numerous dietary supplement companies for false and/or misleading marketing practices, as well as misleading advertising of products. These enforcement actions have resulted in consent decrees and significant monetary judgments against the companies and/or individuals involved. Regulators require a company to convey product claims clearly and accurately and further require marketers to maintain adequate substantiation for their claims. More specifically, the FTC requires such substantiation to be competent and reliable scientific evidence and requires a company to have a reasonable basis for the expressed and implied product claim before it disseminates an advertisement. A reasonable basis is determined based on the claims made, how the claims are presented in the context of the entire advertisement, and how the claims are qualified. The FTC's standard for evaluating substantiation is designed to ensure that consumers are protected from false and/or misleading claims by requiring scientific substantiation of product claims at the time such claims are first made. The failure to have this substantiation violates the Federal Trade Commission Act.

Due to the diverse scope of regulations applicable to our products and the various regulators enforcing these requirements, determining how to conform to all requirements is often open to interpretation and debate. However, our policy is to fully cooperate with any regulatory agency in connection with any inquiries or other investigations. We can make no assurances that regulators will not question our actions in the future, even though we continue to make efforts to comply with all applicable regulations, inquiries, and investigations.

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International Regulations. We are also subject to extensive regulations in each country in which we operate. Currently we sell our products in three regions: (i) North America (the United States, Canada and Mexico); (ii) EMEA (Austria, the Czech Republic, Denmark, Estonia, Finland, Germany, the Republic of Ireland, Namibia, the Netherlands, Norway, South Africa, Sweden, the United Kingdom, and Ukraine); (iii) Asia/Pacific (Australia, Japan, New Zealand, the Republic of Korea, Singapore, Taiwan and Hong Kong). Some of the country-specific regulations include the following:

- the National Provincial Laws, Natural Health Product Regulations of Canada, and the Federal Competition Act in Canada;
- the Therapeutic Goods Administration and the Trade Practices Act in Australia;
- federal and state regulations in Australia;
- national regulations including the Local Trading Standards Offices in the United Kingdom;
- regulations from the Ministry of International Trade and Industry in Japan;
- regulations from the Commerce Commission and the Fair Trade Act of 1993 in New Zealand;
- the Fair Trade Commission, which oversees the Door to Door Sales Act and the Health and Functional Food Act enforced by the Korea Food and Drug Administration in the Republic of Korea;
- the Fair Trade Law, which is enforced by the Taiwan Fair Trade Commission and the Administration of Food Hygiene, Health Food Products Administration Act enforced by the Taiwan Department of Health;
- the Danish Health Board, the Danish Marketing Practice Act, the Danish Consumer Ombudsman, the Danish Executive Order on Dietary Supplements, the Guidelines for food supplements, and the Danish Act on Foodstuffs in Denmark;
- the German Unfair Competition Act, German Regulation on food supplements, and German Law on food and feed;
- regulations governing business practices in South Africa;
- the Consumer Protection Act, the Sale of Food Act, and various regulations that are governed by the Ministry of Trade and Industry in Singapore;
- the Austrian Trade Law (1994), the Food Safety and Consumer Protection Law (2006), and the Food Code in Austria;
- the Food and Consumer Products and the Unfair Trade Practices Act, Door to Door Selling Act and Provisions of the General Dutch Civil Code relating to terms and conditions and misleading advertising in the Netherlands;
- the Consumer Sales Act, Marketing Practices Act, Distance and Doorstep Sales Act, the Product Liability Act, Product Safety Act, the Companies Act and the Food Act in Sweden;
- the Law on Marketing and Contract Conditions, the Law on Repentance Right, the Statutory Order on Self Inspection of Food Provisions, the Law on Food products and Food Safety, and various guidelines from the Norwegian Consumers Agency on telephone selling and internet marketing, in Norway;

the Health Law and various Official Mexican Standards, the consumer protection law, the Mexican Corporate law, the Foreign Investment Law, the Federal Labor law in Mexico, as well as various municipal and state regulations and codes;

various Business, Civil, and Labor Codes in the Czech Republic as well as the Consumer Protection Act, and regulations and edicts of various government agencies such as The Ministry of Health, National Institute of Public Health, State Institute of Drug Control and the Czech Agriculture and Food Inspection Authority;

the Consumer Protection Act in Estonia, and in the area of food supplements the Veterinary and Food Board also enforces local legislation including Estonia Food Act and Medicine Act;

the Finnish Food Act, the Finnish Food Packaging and Consumer Protection Acts, Act on Unfair Business Practice Act, Decrees and other regulations in Finland;

the Consumer Protection Act of 2007, the Distance Selling Regulations Act of 2001 in Ireland;

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various European Union (“EU”) regulations and pronouncements address both our selling activities and the sale of food supplements in EU member nations, however, at the current time the local statutes and regulations stated above are ascendant to the EU pronouncements if in conflict. The primary EU regulations pertaining to Food Supplements include: the EU Food Supplement Directive (2002/46/EC) and Nutrition and Health Claims Regulations (2006/1924/EC);

the Civil Code of Ukraine, the Law of Ukraine on Protections of Consumer Rights, and the Law of Ukraine on Safety and Quality of Food Products No. 771/97-BP; and

the Food and Drugs (Composition and Labeling) Regulations, the Pyramid Schemes Prohibition Ordinance, the Personal Data (Privacy) Ordinance, and the Import and Export Ordinance in Hong Kong.

Regulations Regarding Network Marketing System and Our Products. Our network marketing system and our global associate career and compensation plan are also subject to a number of governmental regulations including various federal and state statutes administered by the FTC, various state authorities, and foreign government agencies. The legal requirements governing network marketing organizations are directed, in part, to ensure that product sales are ultimately made to consumers. In addition, earnings within a network marketing company must be based on the sale of products rather than compensation for (i) the recruitment of distributors or associates, (ii) investments in the organization, or (iii) other non-retail sales-related criteria. For instance, some countries limit the amount associates may earn from commissions on sales by other distributors or independent associates that are not directly sponsored by that distributor or independent associate. Prior to expanding our operations into any foreign jurisdiction, we must first obtain regulatory approval for our network marketing system in jurisdictions requiring such approval. To help ensure regulatory compliance, we rely on the advice of our outside legal counsel and regulatory consultants in each specific country.

As a network marketing company, we are also subject to regulatory oversight, including routine inquiries and enforcement actions, from various United States state attorneys general offices. Each state has specific acts referred to as Little FTC Acts. Each state act is similar to the federal laws. As a result, each state may perform its own inquiries about our organization and business practices, including allegations related to distributors or independent associates. To combat such industry-specific risk, we provide a copy of our published associate policies and procedures to each independent associate, publish these policies on our corporate website, and provide educational seminars and publications. In addition, we maintain a legal/compliance department to cooperate with all regulatory agencies and investigate allegations of improper conduct by our independent associates.

In Canada, our network marketing system is regulated by both national and provincial laws. Under Canada’s Federal Competition Act, we must make sure that any representations relating to compensation to our independent associates or made to prospective new independent associates constitute fair, reasonable, and timely disclosure and that such representations meet other legal requirements of the Federal Competition Act. All Canadian provinces and territories, other than Ontario, have legislation requiring that we register or become licensed as a direct seller within that province to maintain the standards of the direct selling industry and to protect consumers. Some other Canadian provinces require that both we and our independent associates be licensed as direct sellers.

In Australia, our network marketing system is subject to Australia’s federal and local regulations. Our global associate career and compensation plan is designed to comply with Australian law and the requirements of Australia’s Trade Practices Act. The Australian Trade Practices Administration and various other governmental entities regulate our business and trade practices, as well as those of our independent associates. Australia’s Therapeutic Goods Act, together with the Trade Practices Act, regulates any claims or representations relating to our products and our global associate career and compensation plan. An agreement to establish a joint scheme for the regulation of therapeutic products was signed by both the New Zealand and Australian governments in December 2003. The agency was initially expected to begin operating in July 2005, but on July 16, 2007, the New Zealand government announced that

it would not proceed with legislation for the establishment of the joint agency because it did not have sufficient support of the New Zealand parliament. However, both the Australian and New Zealand governments remain committed to the vision of the joint agency and are expected to revisit it again in the future. The proposed harmonization of laws and regulatory bodies is anticipated to provide a more consistent approach to dietary supplement laws between the two countries.

In New Zealand, our network marketing system and our operations are subject to regulations of the Commerce Commission and the Ministry of Health, New Zealand Medical Devices Safety Authority, the Unsolicited Goods Act of 1975, the Privacy Act of 1993, and the Fair Trading Act of 1993. These regulations enforce specific kinds of business or trade practices and regulate the general conduct of network marketing companies. The Commerce Commission also enforces the Consumer Guarantees Act, which establishes specific rights and remedies with respect to transactions involving the provisions of goods and services to consumers. Finally, the New Zealand Commerce Commission and the Ministry of Health both enforce the Door-to-Door Sales Act of 1967 and the NZ Medicines Act, which govern the conduct of our independent associates.

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In the United Kingdom, our network marketing system is subject to national regulations of the United Kingdom. Our global associate career and compensation plan is designed to comply with the United Kingdom's national requirements, the requirements of the Fair Trading Act of 1973, the Data Protection Act of 1998, the Trading Schemes Regulations of 1997, and other similar regulations. The U.K. Code of Advertising and Sales Promotion regulates our business and trade practices and the activities of our independent associates, while the Trading Standards Office regulates any claims or representations relating to our operations. Our products are regulated by the Medicines and Healthcare Products Regulatory Agency.

In Japan, our network marketing system, overall business operations, trade practices, global associate career and compensation plan, and our independent associates are governed by Japan's Door-to-Door Sales Law as enacted in 1976 by the Ministry of International Trade and Industry. Our global associate career and compensation plan is designed to meet Japan's governmental requirements. Our product claims are subject to the Pharmaceutical Affairs Law, which prohibits the making and publication of "drug effectiveness" claims regarding products that have not received approval from Japan's Ministry of Health, Welfare and Labor.

In the Republic of Korea, the primary body of law applicable to our operations is the Door-to-Door Sales Act, which governs the behavior of network marketing companies and affiliated distributors. The Door-to-Door Sales Act is enforced by the Fair Trade Commission. In the Republic of Korea, our products are categorized as health and functional foods and are regulated by the Health and Functional Food Act of 2004, with which the Company complies.

In Taiwan, our network marketing system, overall operations and trade practices are governed by the Fair Trade Law and the Consumer Protection Law. Such laws contain a wide range of provisions covering trade practices. Our products are governed by the Taiwan Department of Health and various legislation in Taiwan including the Health Food Control Act of 1999. This Act was enacted to enhance the management and supervision of matters relating to health, food, protecting the health of people and safeguarding the rights and interests of consumers.

In Denmark, the notion of door-to-door selling is prohibited. As a result, under Danish law, the trader is not allowed to contact the consumer at his home, place of work, or other non-public place in order to conclude a contract on certain subjects. However, the prohibition has an exemption when the consumer asks the trader for a contact in writing or upon written prior consent. In addition, the Danish Marketing Practices Act, the Guidelines from the Danish Consumerombudsman and the rules contained in the Danish Consumer Contracts Act govern our network marketing system. There is no requirement for pre-approval of our products in Denmark; however, our products are subject to a yearly inspection carried out by the Food authorities. Further, all our activities are subject to Self Inspection, the results of which are also controlled once a year by the Food authorities. The rules for marketing and sale of dietary supplements are covered by the Danish Executive Order on Food Supplements, as well as by the Danish Act on Foodstuffs and various EU-regulations. Denmark also subjects the marketing of a company's food supplements to a notification procedure (with a pre-market approval process for certain substances), before a product may be lawfully marketed in Denmark. Full product compliance with all Danish provisions is reviewed by the Food authorities once a year.

In Germany, there is no specific legal regulation covering network marketing company practices. However, under certain circumstances network marketing systems may have to follow the German Unfair Competition Act. Our independent associates' conduct is subject to the German statute that governs the conduct of a commercial agent. In addition, direct selling operations are governed by the Industrial Code, which requires direct sellers to hold itinerant trader's cards. The German Regulation on food supplements and the German Law on food and feed govern vitamin and mineral substances and herbs and other substances, respectively.

In South Africa, there are no specific regulations for the network marketing industry. In general, the Consumer Affairs Act 1988, the Competition Act 1998, and the Advertising Standards Authority Code of Advertising Practice (a



voluntary code enforced by the media) govern business practices. The products are classified as complementary medicines for which there are no specific regulations. The Foodstuffs, Cosmetics and Disinfectants Act 1972, and the Medicines and Related Substances Act 1965 currently apply.

In Singapore, the network marketing industry is governed by the Multi-Level Marketing and Pyramid Selling (Prohibition) (Amendment) Act and the accompanying Pyramid Selling (Excluded Schemes and Arrangements) Order 2000 and Order 2001. General business practices and advertising are regulated under the Consumer Protection (Fair Trading) Act 2003, as amended, and its accompanying regulations. The products are classified as food and supplements of a food nature, which are governed by the Sale of Food Act and the Singapore Food Regulations. Cosmetics and products that rise to the level of medicinal and other health-related products are regulated under various regulations such as the Medicines Act, the Poisons Act, the Sale of Drugs Act, the Medicines (Advertisement and Sale) Act and the Misuse of Drug Regulations.

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In Austria, the Austrian Trade Law of 1994 (Novelle 2002) prohibits the offer of direct sale to an individual consumer of food supplement and cosmetic products. The provision, however, has generally not been enforced in recent years and sales made via the Internet or mail order or made to a non-consumer distributor do not fall under this prohibition. The Austrian Trade Law is predominantly administered through the National Ministry of Economy and Labor. Our business operations within Austria are conducted from beyond the borders of Austria, which is the common practice in our industry. Our distributors qualify as “traders” for purposes of Austrian state and municipal laws. Traders are regulated by the local chambers of commerce and must obtain licenses from the respective chambers of commerce. Regulation of food supplements and cosmetics is generally harmonized throughout the EU and must conform to EU standards. Austrian-specific food regulations include the Food Safety and Consumer Protection Law (2006), supporting ordinances to this law, the Food Supplement Law, and the Austrian Food Codex, which is primarily administered by the National Ministry of Health, Office for Health and Food Security, and the Local Health Authority.

In Sweden various provisions of the Consumer Sales Act (1990), the Marketing Practices Act (2008), the Distance and Doorstep Sales Act (2005), the Product Liability Act (1992), the Product Safety Act (2004), and the Companies Act (2005) all serve to govern our multi-level marketing and business activities. The Food Act (2006) provides regulations and guidelines for the sale of food and food supplements. We are subject to the authority of the Swedish Consumer Office, the Swedish Companies Registration Office, the Swedish Tax Office, Swedish Customs, Medical Products Agency, and the National Food Administration. As in all EU countries various EU regulations and guidelines apply.

In the Netherlands, the Food and Consumer Product and the Unfair Trade Practices Act are the most relevant legislations relating to our business practices. The first is enforced by the Food and Consumer Product Safety Authority and the latter is enforced by the Consumer Authority. Furthermore, various EU regulations apply as well as the Dutch Door to Door Selling Act, and all provisions of the Dutch Civil Code with particular emphasis to those regulations dealing with general terms and conditions, and those regarding misleading advertising.

Norway exercises a border control of products and their composition upon importation. Import products must be registered in an Import Reporting Registry, and the regulations are enforced by the customs authorities. Our products must be compliant with Norwegian regulations in order to be admitted for admission through customs into Norway. In Norway Door-to-Door Selling is allowed, provided the Guidelines from the Norwegian Consumer Agency are followed. Likewise, telephone-selling is allowed provided the agency’s guidelines are followed. Home-selling in Norway is also allowed. All of our sales in Norway are subject to a 14-day right to cancel by the consumers.

In Mexico, as in many other markets, there are no specific regulations directly related to the direct selling or network marketing industry. However, all product sales and business offerings must comply with the Consumer Protection Law, which is enforced by the Consumer Protection Agency. Food supplements and medicines are subject to the Health Law and various Official Mexican Standards, which are enforced by the Health Ministry and The Federal Commission for Protection Against Sanitary Risk. Mexican Customs Law and its regulations govern the general importation of our products into Mexico. We are subject to the Mexican Corporate Law, which is enforced by the Mexican courts and to the Federal Labor Law enforced by the Labor Courts. In Mexico, we are also subject to the Foreign Investment Law and its regulations administered by the Ministry of Economy. We are required to register before the Mexican System for Business Information at the appropriate Business Chamber under the Organizations Law.

In the Czech Republic, there are no specific regulations or special legislation that limit the network marketing industry. Network marketing is considered to be a specific form of general sale and is generally subject to various provisions of the Business Code (Act. Nr. 513/1992 Coll.), Civil Code (Act. Nr. 40/1964 Coll.), Labor Code (Act. No. 262/2006 Coll.), Trade License Act (Act. Nr. 455/1991 Coll.), Consumer Protection Act (Act. Nr. 634/1992 Coll.) and related legislation. The status of independent contractor/sales distributor is primarily regulated by the Trade License Act (Act. Nr. 455/1991 Coll), which requires sales distributors to maintain a trade license. Additionally, the regulation of food supplements is harmonized throughout the EU and, therefore, the supplements must conform to the EU

standards. Enforcement of Czech-specific regulations is undertaken by the Ministry of Health, National Institute of Public Health, State Institute of Drug Control and the Czech Agriculture and Food Inspection Authority.

In Estonia, there are no specific regulations governing the network marketing business, but the business is generally regulated under the Consumer Protection Act. Also, independent distributors are required to register as sole proprietors with the Tax and Customs Board before entry into associate agreements. Mannatech must also comply with various EU regulations. The Veterinary and Food Board also enforces local legislation including Estonia Food Act and Medicine Act.

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In Finland, the Finnish Food Act, the Finnish Food Packaging and Consumer Protection Acts, Act on Unfair Business Practice Act, Decrees and other regulations, as well as applicable EU regulations, regulate Mannatech products, product information, and the way Mannatech promotes its products. Additionally, certain principals applicable to multi-level marketing under the Money Collection Act (255/2006) apply to Mannatech's activities. Lastly, persons engaged in the manufacture, commission of manufacture or import of food supplements, must submit a written notification to the Finnish Food Safety Authority when marketing and selling in Finland. A notification is also required when the composition of preparation changes in terms of characteristics of substances or the preparation is withdrawn from the market.

In the Republic of Ireland, the primarily relevant legislation is the Consumer Protection Act of 2007, the Distance Selling Regulations Act of 2001, and the codes of practice of the Direct Selling Association of Ireland and the Advertising Standards Authority for Ireland. There is no equivalent in Irish law to the UK Trading Schemes Regulations, but the Direct Selling Association of Ireland codes, while not as prescriptive, contain many similar requirements. Lastly, the regulation of food and food supplements are generally harmonized throughout the EU and must conform to EU standards.

In Ukraine, there is no special law or regulation that governs our network marketing business model. However, such business is governed by various laws, primarily by general provisions of the Civil Code of Ukraine and the Commercial Code of Ukraine. Furthermore, we are subject to the Law of Ukraine On Protections of Consumer Rights No. 1023-XII. Our products are governed by the Law of Ukraine On Safety and Quality of Food Products No. 771/97-BP, which provides general requirements for production, marketing and import of products including dietary supplements.

In Hong Kong, our network marketing system, overall operations and trade practices are governed by a number of Ordinances including the Sale of Goods Ordinance, the Control of Exemption Clauses Ordinance, the Pyramid Schemes Prohibition Ordinance and the Personal Data (Privacy) Ordinance. Such Ordinances include a number of consumer protections (including data privacy) and regulate trading practices. Importation and registration of our products permitting their sale in Hong Kong are controlled by the Import and Export Ordinance and its subsidiary legislation, the Import and Export (Registration) Regulations.

Other Regulations. Our operations are also subject to a variety of other regulations, including:

- social security taxes;
- value-added taxes;
- goods and services taxes;
- sales taxes;
- consumption taxes;
- income taxes;
- customs duties;
- employee/independent contractor regulations;
- employment, service pay, retirement pay, and profit sharing requirements;

- import/export regulations;
- federal securities laws; and
- antitrust laws.

In many markets, we are limited by the types of rules we can impose on our independent associates, including rules in connection with cooling off periods and termination criteria. If we do not comply with these requirements, we may be required to pay social security, unemployment benefits, workers' compensation, or other tax or tax-type assessments on behalf of our independent associates and may incur severance obligations if we terminate one of our independent associates.

In some countries, including the United States, we are also governed by regulations concerning the activities of our independent associates. Regulators may find that we are ultimately responsible for the conduct of our independent associates and may request or require that we take additional steps to ensure that our independent associates comply with these regulations. The types of conduct governed by these types of regulations may include:

- claims made about our products;
- promises or claims of income or other promises or claims by our independent associates; and
- sales of products in markets where the products have not been approved or licensed.

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In some markets, including the United States, improper product claims by independent associates could result in our products being overly scrutinized by regulatory authorities. This review could result in our products being re-classified as drugs or classified into another product category that requires stricter regulations or labeling changes.

We continuously research and monitor the laws governing the conduct of our independent associates, our operations, our global associate career and compensation plan, and our products and sales aids within each of the countries in which we sell our products. We provide education for our independent associates regarding acceptable business conduct in each market through our policies and procedures, seminars, and other training materials and programs. However, we cannot guarantee that our independent associates will always abide by our policies and procedures and/or act in a professional and consistent manner.

### Competition

Other Nutritional Supplement Companies. The nutritional supplement industry is steadily gaining momentum and is intensely competitive. Our current direct competitors selling similar nutritional products include:

- AdvoCare International
- GNC Holdings, Inc.;
- Herbalife Ltd.;
- Nature's Sunshine Products, Inc.;
- Nerium International
- NOW Foods;
- Nu Skin Enterprises, Inc.;
- Reliv' International, Inc.;
- Solgar Vitamin and Herb Company, Inc.;
- Swanson Health Products;
- Usana Health Sciences, Inc.; and
- Vitamin Shoppe Industries, Inc.

Network Marketing. Nutritional supplements are offered for sale in a variety of ways. Network marketing has a limited number of individuals interested in participating in the industry, and we must compete for those types of individuals. We believe network marketing is the best sales approach to sell our products for the following reasons:

our products can be introduced into the global marketplace at a much lower up-front cost than through conventional methods;

our key ingredients and differential components found in our proprietary products can be better explained through network marketing;

- the network marketing approach can quickly and easily adapt to changing market conditions;
- consumers appreciate the convenience of ordering from home, through a sales person, by telephone, or on the Internet; and
- network marketing enables independent associates to earn financial rewards.

We compete with other direct selling and network marketing companies for new independent associates and for retention of continuing independent associates. Some of our competitors have longer operating histories, are better known, or have greater financial resources. These companies include:

- Amway Corporation;
- Forever Living Products, Inc.;

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- Herbalife International, Inc.;
- Mary Kay, Inc.;
- Nature’s Sunshine Products, Inc.;
- Nu Skin Enterprises, Inc.;
- Reliv’ International, Inc.;
- Shaklee Worldwide; and
- Usana Health Sciences, Inc.

The availability of independent associates decreases when other network marketing companies successfully recruit and retain independent associates for their operations. We believe we can successfully compete for independent associates by emphasizing the following:

- our unique patented, proprietary blend of high-quality products;
- our 20-year track record in the business of selling nutritional products;
- our model which does not require our independent associates to carry inventory or accounts receivable;
- our unique and financially rewarding global associate career and compensation plan;
- our innovative marketing and educational tools; and
- our easy and convenient delivery system.

Employees

At December 31, 2013 and 2012, we employed 296 and 310 people, respectively, as set forth below:

	2013	2012
North America	182	182
Asia/Pacific	80	92
EMEA	34	36
Total	296	310
	2013	2012
Full-time employees	290	303
Part-time employees	6	7
Total	296	310

These numbers do not include our independent associates, who are independent contractors and are not employees.



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Item 1A. Risk Factors

In addition to the other risks described in this report, the following risk factors should be considered in evaluating our business and future prospects:

1. If we are unable to attract and retain independent associates, our business may suffer.

Our future success depends largely upon our ability to attract and retain a large active base of independent associates and members who purchase our packs and products. We cannot give any assurances that the number of our independent associates will continue at their current levels or increase in the future. Several factors affect our ability to attract and retain independent associates and members, including:

- on-going motivation of our independent associates;
- general economic conditions;
- significant changes in the amount of commissions paid;
- public perception and acceptance of the wellness industry;
- public perception and acceptance of network marketing;
- public perception and acceptance of our business and our products, including any negative publicity;
- the limited number of people interested in pursuing network marketing as a business;
- our ability to provide proprietary quality-driven products that the market demands; and
- competition in recruiting and retaining independent associates.

2. The loss of key high-level independent associate leaders could negatively impact our associate growth and our revenue.

As of December 31, 2013, we had approximately 245,000 active independent associates and members who purchased our products within the last 12 months, of which 135 occupied the highest associate levels under our global compensation plan. These independent associate leaders are important in maintaining and growing our revenue. As a result, the loss of a high-level independent associate or a group of leading associates in the independent associates' networks of downlines, whether by their own choice or through disciplinary actions by us for violations of our policies and procedures, could negatively impact our associate growth and our revenue.

3. Changes to our associate compensation arrangements could be viewed negatively by some independent associates, could cause failure to achieve desired long-term results and have a negative impact on revenue.

Our associate compensation plan includes components that differ from market to market. We modify components of our compensation plan from time to time in an attempt to remain competitive and attractive to existing and potential independent associates including such modifications:

- to address changing market dynamics;
- to provide incentives to independent associates that are intended to help grow our business;
- to conform to local regulations; and

·to address other business needs.

Because of the size of our associate force and the complexity of our compensation plans, it is difficult to predict how independent associates will view such changes and whether such changes will achieve their desired results.

4. An increase in the amount of commissions and incentives paid to independent associates and members reduces our profitability.

The payment of commissions and incentives, including bonuses and prizes, is our most significant expense. Together, our commissions and incentives range approximately from 41% to 43% of our consolidated net sales. We closely monitor the amount of commissions and incentives as a percentage of net sales, and may periodically adjust our compensation plan to better manage these costs. There can be no assurance that changes to the compensation plan will be successful in achieving target levels of commissions and incentives as a percentage of net sales and preventing these costs from having a significant adverse effect on our earnings. Furthermore, such changes may make it difficult to attract and retain independent associates or cause us to lose some of our existing independent associates.

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5. The loss of key management personnel could adversely affect our business.

We depend on the continued services of our executive officers and senior management team as they work closely with independent associate leaders and are responsible for our day-to-day operations. Our success depends in part on our ability to retain our executive officers, to compensate our executive officers at attractive levels, and to continue to attract additional qualified individuals to our management team. Although we have entered into employment agreements with certain members of our senior management team, and do not believe that any of them are planning to leave or retire in the near term, we cannot assure you that our senior managers will remain with us. The loss or limitation of the services of any of our executive officers or members of our senior management team, including our regional and country managers, or the inability to attract additional qualified management personnel could have a material adverse effect on our business, financial condition, results of operations, or independent associate relations.

The Company entered into a renewable consulting agreement, which expired February 28, 2014, with WonderEnterprises, LLC (f/k/a Salinda Enterprises, LLC; hereinafter "Wonder") for the consulting services of Mr. Samuel L. Caster, the Company's founder and former Chairman of the Board, who is also an owner and an employee of Wonder. However, the parties did not renew the Agreement (see Note 9 to our Consolidated Financial Statements, Transactions with Related Parties and Affiliates). The loss or limitation of these consulting services could have a material adverse effect on our business, financial condition, results of operations, or independent associate relations.

6. If government regulations regarding network marketing change or are interpreted or enforced in a manner adverse to our business, we may be subject to new enforcement actions and material limitations regarding our overall business model.

Network marketing is always subject to extensive governmental regulations, including foreign, federal, and state regulations. Any change in legislation and regulations could affect our business. Furthermore, significant penalties could be imposed on us for failure to comply with various statutes or regulations. Violations may result from:

- ambiguity in statutes;
- regulations and related court decisions;
- the discretion afforded to regulatory authorities and courts interpreting and enforcing laws; and
- new regulations or interpretations of regulations affecting our business.

7. Independent associates could fail to comply with our associate policies and procedures or make improper product, compensation, marketing or advertising claims that violate laws or regulations, which could result in claims against us that could harm our financial condition and operating results.

We sell our products worldwide to a sales force of independent associates. The independent associates are independent contractors and, accordingly, we are not in a position to provide the same direction, motivation, and oversight as we would if associates were our own employees. As a result, there can be no assurance that our associates will participate in our marketing strategies or plans, accept our introduction of new products, or comply with our associate policies and procedures. All independent associates sign a written contract and agree to adhere to our policies and procedures, which prohibit associates from making false, misleading or other improper claims regarding products or income potential from the distribution of the products. However, independent associates may from time to time, without our knowledge and in violation of our policies, create promotional materials or otherwise provide information that does not accurately describe our marketing program. There is a possibility that some jurisdictions could seek to hold us responsible for independent associate activities that violate applicable laws or regulations, which could result in government or third party actions or fines against us, which could harm our

financial condition and operating results.

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8. We may be held responsible for certain taxes or assessments relating to the activities of our independent associates, which could harm our financial condition and operating results.

Our independent associates are subject to taxation and, in some instances, legislation or governmental agencies impose an obligation on us to collect taxes, such as value added taxes, and to maintain appropriate tax records. In addition, we are subject to the risk in some jurisdictions of being responsible for social security and similar taxes with respect to our distributors. In the event that local laws and regulations require us to treat our independent distributors as employees, or if our distributors are deemed by local regulatory authorities to be our employees, rather than independent contractors, we may be held responsible for social security and related taxes in those jurisdictions, plus any related assessments and penalties, which could harm our financial condition and operating results.

9. Challenges by private parties to the form of our network marketing system could harm our business.

We may be subject to challenges by private parties, including our independent associates and members, to the form of our network marketing system or elements of our business. In the United States, the network marketing industry and regulatory authorities have relied on the implementation of distributor rules and policies designed to promote retail sales to protect consumers, prevent inappropriate activities, and distinguish between legitimate network marketing distribution plans and unlawful pyramid schemes. We have adopted rules and policies based on case law, rulings of the FTC, discussions with regulatory authorities in several states, and domestic and global industry standards. Legal and regulatory requirements concerning network marketing systems, however, involve a high level of subjectivity, are inherently fact-based, and are subject to judicial interpretation. Because of this, we can provide no assurance that we would not be harmed by the application or interpretation of statutes or regulations governing network marketing, particularly in any civil challenge by a current or former independent associate or member.

10. If our network marketing activities do not comply with government regulations, our business could suffer.

Many governmental agencies regulate our network marketing activities. A government agency's determination that our business or our independent associates have significantly violated a law or regulation could adversely affect our business. The laws and regulations for network marketing intend to prevent fraudulent or deceptive schemes. Our business faces constant regulatory scrutiny due to the interpretive and enforcement discretion given to regulators, periodic misconduct by our independent associates, adoption of new laws or regulations, and changes in the interpretation of new or existing laws or regulations. For example, in July 2007, the Texas Attorney General filed suit against us, MannaRelief Ministries, Samuel L.Caster, the Fisher Institute, and H. Reginald McDaniel alleging violations of the Texas Deceptive Trade Practices Act and the Texas Food, Drug and Cosmetic Act. We subsequently reached an agreement with the Texas Attorney General's office settling the enforcement action. Without admitting any wrongdoing, we agreed to refund up to \$4 million to certain members and paid \$2 million to cover fees and expenses of Texas regulators. We also made certain corporate governance changes required by the Texas Attorney General's office and have taken a number of actions to address concerns raised by the Texas Attorney General. If we are unable to comply fully with the provisions of the settlement, Texas regulators could pursue further remedies that may impact our business.

In addition, in the past, and because of the industry in which we operate, we have experienced inquiries regarding specific independent associates.

11. If we violate governmental regulations or fail to obtain necessary regulatory approvals, our operations could be adversely affected.

Our operation is subject to extensive laws, governmental regulations, administrative determinations, court decisions, and similar constraints at the federal, state, and local levels in our domestic and foreign markets. These regulations primarily involve the following:

- the formulation, manufacturing, packaging, labeling, distribution, importation, sale, and storage of our products;
- the health and safety of dietary supplements, cosmetics and foods;
- trade practice laws and network marketing laws;
- our product claims and advertising by our independent associates;
- our network marketing system;
- pricing restrictions regarding transactions with our foreign subsidiaries or other related parties and similar regulations that affect our level of foreign taxable income;
- the assessment of customs duties;
- further taxation of our independent associates, which may obligate us to collect additional taxes and maintain additional records; and
- export and import restrictions.

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Any unexpected new regulations or changes in existing regulations could significantly restrict our ability to continue operations, which could adversely affect our business. For example, changes regarding health and safety and food and drug regulations for our nutritional products could require us to reformulate our products to comply with such regulations.

In some foreign countries, nutritional products are considered foods, while other countries consider them drugs. Future health and safety or food and drug regulations could delay or prevent our introduction of new products or suspend or prohibit the sale of existing products in a given country or marketplace. In addition, if we expand into other foreign markets, our operations or products could also be affected by the general stability of such foreign governments and the regulatory environment relating to network marketing and our products. If our products are subject to high customs duties, our sales and competitive position could suffer as compared to locally produced goods. Furthermore, import restrictions in certain countries and jurisdictions could limit our ability to import products from the United States.

12. Increased regulatory scrutiny of nutritional supplements as well as new regulations that are being adopted in some of our markets with respect to nutritional supplements could result in more restrictive regulations and harm our results if our supplements or advertising activities are found to violate existing or new regulations or if we are not able to effect necessary changes to our products in a timely and efficient manner to respond to new regulations.

There has been an increasing movement in the United States and other markets to increase the regulation of dietary supplements, which could impose additional restrictions or requirements on us and increase the cost of doing business. In several of our markets, new regulations have been adopted, or are likely to be adopted, in the near-term that will impose new requirements, make changes in some classifications of supplements under the regulations, or limit the claims we can make. In addition, there has been increased regulatory scrutiny of nutritional supplements and marketing claims under existing and new regulations. In Europe, for example, we are unable to market supplements that contain ingredients that have not been previously marketed in Europe without going through an extensive registration and approval process. Europe is also expected to adopt additional regulations in the near future to set new limits on acceptable levels of nutrients. The FDA has implemented Good Manufacturing Practices for the U.S. nutritional supplement industry. Our operations could be harmed if new regulations require us to reformulate products or effect new registrations, if regulatory authorities make determinations that any of our products do not comply with applicable regulatory requirements, if the cost of complying with regulatory requirements increases materially, or if we are not able to effect necessary changes to our products in a timely and efficient manner to respond to new regulations. In addition, our operations could be harmed if governmental laws or regulations are enacted that restrict the ability of companies to market or distribute nutritional supplements or impose additional burdens or requirements on nutritional supplement companies.

13. If we are unable to protect the proprietary rights of our products, our business could suffer.

Our success and competitive position largely depends on our ability to protect the following proprietary rights:

- our Ambrotose<sup>®</sup> complex, a glyconutritional dietary supplement ingredient consisting of a blend of monosaccharides, or sugar molecules, used in the majority of our products;
- the MTech AO Blend<sup>®</sup> formulation, our proprietary antioxidant technology used in the Ambrotose AO<sup>®</sup> complex; and
- a compound used in our reformulated Advanced Ambrotose<sup>®</sup> complex that allows for a more potent concentration of the full range of mannose-containing polysaccharides occurring naturally in aloe.

We have filed patent applications for the technology relating to our Ambrotose<sup>®</sup>, Ambrotose AO<sup>®</sup>, Phytomatrix<sup>®</sup> and GI-ProBalance<sup>®</sup>™ products in the United States and certain foreign countries. As of December 31, 2013, we had

received 51 patents for the technology relating to Ambrotose® complex, five of which were issued in the United States and the remainder of which were issued in 31 foreign jurisdictions. In addition, we have entered into confidentiality agreements with our independent associates, suppliers, manufacturers, directors, officers, and consultants to help protect our proprietary rights. Nevertheless, we continue to face the risk that our pending patent applications for our products may not issue or that the patent protection granted is more limited than originally requested. As a precaution, we consult with outside legal counsel and consultants to help ensure that we protect our proprietary rights. However, our business, profitability, and growth prospects could be adversely affected if we fail to receive adequate protection of our proprietary rights.

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14. Our inability to develop and introduce new products that gain independent associate, member, and market acceptance could harm our business.

A critical component of our business is our ability to develop new products that create enthusiasm among our independent associates and members. If we are unable to introduce new products, our independent associate productivity could be harmed. In addition, if any new products fail to gain market acceptance, are restricted by regulatory requirements or have quality problems, this would harm our results of operations. Factors that could affect our ability to continue to introduce new products include, among others, government regulations, the inability to attract and retain qualified research and development staff, the termination of third-party research and collaborative arrangements, proprietary protections of competitors that may limit our ability to offer comparable products, and the difficulties in anticipating changes in consumer tastes and buying preferences.

15. Our failure to appropriately respond to changing consumer preferences and demand for new products or product enhancements could significantly harm our relationship with independent associates and members, our product sales, as well as our financial condition and operating results.

Our business is subject to changing consumer trends and preferences, including rapid and frequent changes in demand for products, new product introductions, and enhancements. Our failure to accurately predict these trends could negatively impact consumer opinion of our products, which in turn could harm our independent associate and member relationships and cause the loss of sales. The success of our new product offerings and enhancements depends upon a number of factors, including our ability to:

- accurately anticipate consumer needs;
- innovate and develop new products or product enhancements that meet these needs;
  - successfully commercialize new products or product enhancements in a timely manner;
- price our products competitively;
- manufacture and deliver our products in sufficient volumes and in a timely manner; and
- differentiate our product offerings from those of our competitors.

If we do not introduce new products or make enhancements to meet the changing needs of our independent associates, members and customers in a timely manner, some of our products could be rendered obsolete, which could negatively impact our revenues, financial condition, and operating results.

16. If our outside suppliers and manufacturers fail to supply products in sufficient quantities and in a timely fashion, our business could suffer.

Outside manufacturers make all of our products. Our profit margins and timely product delivery are dependent upon the ability of our outside suppliers and manufacturers to supply us with products in a timely and cost-efficient manner. Our ability to enter new markets and sustain satisfactory levels of sales in each market depends on the ability of our outside suppliers and manufacturers to provide required levels of ingredients and products and to comply with all applicable regulations. As a precaution, we have approved alternate suppliers and manufacturers for our products. However, the failure of our primary suppliers or manufacturers to supply ingredients or produce our products could adversely affect our business operations.

We believe we have dependable suppliers for all of our ingredients and we have identified alternative sources for all of our ingredients, except Arabinogalactan. Due to the unique nature of Arabinogalactan, an important component used in the formulation of our Ambrotose<sup>®</sup> complex, we are unable to identify an alternative supplier at this time. If our suppliers are unable to perform, any delay in replacing or substituting such ingredients could affect our business.

17. The loss of suppliers or shortages of raw materials could have an adverse effect on our business, financial condition, or results of operations.

We depend on outside suppliers for raw materials. Our contract manufacturers acquire all of the raw materials for manufacturing our products from third-party suppliers. In the event we were to lose any significant suppliers and have trouble in finding or transitioning to alternative suppliers, it could result in product shortages or product back orders, which could harm our business. There can be no assurance that suppliers will be able to provide our contract manufacturers the raw materials in the quantities and at the appropriate level of quality that we request or at a price that we are willing to pay. We are also subject to delays caused by any interruption in the production of these materials including weather, crop conditions, climate change, transportation interruptions and natural disasters or other catastrophic events.

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18. If we are exposed to product liability claims, we may be liable for damages and expenses, which could affect our overall financial condition.

We could face financial liability from product liability claims if the use of our products results in significant loss or injury. We can make no assurances that we will not be exposed to any substantial future product liability claims. Such claims may include claims that our products contain contaminants, that we provide our independent associates and consumers with inadequate instructions regarding product use, or that we provide inadequate warnings concerning side effects or interactions of our products with other substances. We believe that we, our suppliers, and our manufacturers maintain adequate product liability insurance coverage. However, a substantial future product liability claim could exceed the amount of insurance coverage or could be excluded under the terms of an existing insurance policy, which could adversely affect our overall future financial condition.

In recent years a discovery of Bovine Spongiform Encephalopathy, (“BSE”), which is commonly referred to as “Mad Cow Disease”, has caused concern among the general public. As a result, some countries have banned the importation or sale of products that contain bovine materials sourced from locations where BSE has been identified. We have changed the vast majority of our capsules to a vegetable base. However, if a vegetable base is not available or practical for use, certifications are required to ensure the capsule material is BSE-free. The higher costs could affect our financial condition, results of operations, and our cash flows.

## 19. Concentration Risk

A significant portion of our revenue is derived from our core Ambrotose<sup>®</sup> complex products, which include the Ambrotose<sup>®</sup> products and Advanced Ambrotose<sup>®</sup> products. A decline in sales value of such legacy products could have a material adverse effect on our earnings, cash flows, and financial position. Revenue from the core Ambrotose<sup>®</sup> products were as follows for the years ended December 31, 2013 and 2012 (in thousands, except percentages):

	2013		2012		
	Sales by product	% of total net sales	Sales by product	% of total net sales	
Advanced Ambrotose <sup>®</sup>	\$59,894	33.8	% \$66,280	38.2	%
Ambrotose <sup>®</sup>	10,939	6.2	% 12,143	7.0	%
Total	\$70,833	40.0	% \$78,423	45.2	%

Our business is not currently exposed to customer concentration risk given that no independent associate has ever accounted for more than 10% of our consolidated net sales.

20. If we incur substantial liability from litigation, complaints, or enforcement actions or incur liabilities or penalties resulting from misconduct by our independent associates, our financial condition could suffer.

Routine enforcement actions and complaints are common in our industry. Although we believe we fully cooperate with regulatory agencies and use various means to address misconduct by our independent associates, including maintaining policies and procedures to govern the conduct of our independent associates and conducting training seminars, it is still difficult to detect and correct all instances of misconduct. Violations of our policies and procedures by our independent associates could lead to litigation, formal or informal complaints, enforcement actions, and inquiries by various federal, state, or foreign regulatory authorities against us and/or our independent associates in each country. Because we have expanded into foreign countries, our policies and procedures for our independent associates differ depending on the different legal requirements of each country in which an independent associate does business. Any future litigation, complaints, and enforcement actions involving us and/or our independent associates could consume considerable amounts of financial and other corporate resources, which could have a negative impact on our business, profitability, and growth prospects.



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21. The global nutrition and skin care industries are intensely competitive and the strengthening of any of our competitors could harm our business.

The global nutrition and skin care industries are intensely fragmented and competitive. We compete for independent associates with other network marketing companies outside the global nutrition and skin care industries. Many of our competitors have greater name recognition and financial resources, which may give them a competitive advantage. Our competitors may also be able to devote greater resources to marketing, promotional, and pricing campaigns that may influence our continuing and potential independent associates and members to buy products from competitors rather than from us. Such competition could adversely affect our business and current market share.

22. A downturn in the economy has affected consumer purchases of discretionary items such as the health and wellness products that we offer, which could continue to have an adverse effect on our business, financial condition, profitability, and cash flows.

We appeal to a wide demographic consumer profile and offer a broad selection of health and wellness products. A downturn in the economy has adversely impacted consumer purchases of discretionary items such as health and wellness products. During the last few years, the United States and global economies slowed dramatically as a result of a variety of problems, including turmoil in the credit and financial markets, concerns regarding the stability and viability of major financial institutions, the state of the housing markets, and volatility in worldwide stock markets. Given the significance and widespread nature of these nearly unprecedented circumstances, the U.S. and global economies could remain significantly challenged in a recessionary state for an indeterminate period of time. These economic conditions could cause many of our existing and potential associates to delay or reduce purchases of our products for some time, which in turn could continue to harm our business by adversely affecting our revenues, results of operations, cash flows and financial condition. We cannot predict the duration of these economic conditions or the impact they will have on our consumers or business. For additional information regarding current economic conditions and their impact on our results of operations, refer to Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations.

23. If our international markets are not successful, our business could suffer.

We currently sell our products in the international markets of Canada, Mexico, Austria, the Czech Republic, Denmark, Estonia, Finland, Germany, the Republic of Ireland, Namibia, Netherlands, Norway, South Africa, Sweden, the United Kingdom, Ukraine, Australia, Japan, New Zealand, the Republic of Korea, Singapore, Taiwan and Hong Kong. Our international operations could experience changes in legal and regulatory requirements, as well as difficulties in adapting to new foreign cultures and business customs. If we do not adequately address such issues, our international markets may not meet growth expectations. Our international operations and future expansion plans are subject to political, economic, and social uncertainties, including:

- inflation;
- the renegotiation or modification of various agreements;
- increases in custom duties and tariffs;
- changes and limits in export controls;
- government regulations and laws;
- trademark availability and registration issues;

- changes in exchange rates;
- changes in taxation;
- wars and other hostilities; and
- changes in the perception of network marketing.

Any negative changes related to these factors could adversely affect our business, profitability, and growth prospects. Furthermore, any negative changes in our distribution channels may force us to invest significant time and money related to our distribution and sales to maintain our position in certain international markets.

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24. Adverse or negative publicity could cause our business to suffer.

Our business depends, in part, on the public's perception of our integrity and the safety and quality of our products. Any adverse publicity could negatively affect the public's perception about our industry, our products, or our reputation and could result in a significant decline in our operations and/or the number of our independent associates. Specifically, we are susceptible to adverse or negative publicity regarding:

- the nutritional supplements industry;
- skeptical consumers;
- competitors;
- the safety and quality of our products and/or our ingredients;
- regulatory investigations of our products or our competitors' products;
- the actions of our independent associates;
- the direct selling/network marketing industry; and
- scandals within the industries in which we operate.

25. If our information technology system fails or if the implementation of new information technology systems is not executed efficiently and effectively, our business, financial position, and our operating results could be adversely affected.

Like many companies, our business is heavily dependent upon our information technology infrastructure to effectively manage and operate many of our key business functions, including:

- order processing;
- supply chain management;
- customer service;
- product distribution;
- commission processing;
- cash receipts and payments; and
- financial reporting.

These systems and operations are vulnerable to damage and interruption from fires, earthquakes, telecommunications failures, and other events. They are also subject to break-ins, sabotage, intentional acts of vandalism and similar misconduct. Although we maintain an extensive security system and disaster recovery program that was developed under the guidelines published by the National Institute of Standards of Technology, a long-term failure or impairment of any of our information technology systems could adversely affect our ability to conduct day-to-day business.

Occasionally information technology systems must be upgraded or replaced and if this system implementation is not executed efficiently and effectively, the implementation may cause interruptions in our primary management information systems, which may make our website or services unavailable thereby preventing us from processing transactions, which would adversely affect our financial position or operating results.

26. Taxation and transfer pricing affect our operations and we could be subjected to additional taxes, duties, interest, and penalties in material amounts, which could harm our business.

As a multinational corporation, in many countries, including the United States, we are subject to transfer pricing and other tax regulations designed to ensure that our intercompany transactions are consummated at prices that have not been manipulated to produce a desired tax result, that appropriate levels of income are reported as earned by the local entities, and that we are taxed appropriately on such transactions. Regulators closely monitor our corporate structure, intercompany transactions, and how we effectuate intercompany fund transfers. If regulators challenge our corporate structure, transfer pricing methodologies or intercompany transfers, our operations may be harmed and our effective tax rate may increase.

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A change in applicable tax laws or regulations or their interpretation could result in a higher effective tax rate on our worldwide earnings and such change could be significant to our financial results. In the event any audit or assessments are concluded adversely to us, these matters could have a material impact on our financial condition.

27. Currency exchange rate fluctuations could reduce our overall profits.

In 2013 and 2012, we recognized 63.3% and 59.2%, respectively, of net sales in markets outside of the United States. In preparing our consolidated financial statements, we are required to translate certain financial information from foreign currencies to the United States dollar using either the spot rate or the weighted-average exchange rate. If the United States dollar changes relative to applicable local currencies, there is a risk our reported sales, operating expenses, and net income could significantly fluctuate. For example, in 2013, our net sales declined \$5 million compared to 2012 due to unfavorable foreign exchange, but grew 5.2% on a Constant dollar basis (see Item 7, Non-GAAP Financial Measures). There can be no assurance that foreign currency fluctuations will not have a material adverse effect on our business, assets, financial condition, liquidity, results of operations or cash flows. We are not able to predict the degree of exchange rate fluctuations, nor can we estimate the effect any future fluctuations may have upon our future operations. To date, we have not entered into any hedging contracts or participated in any hedging or derivative activities.

28. Our stock price is volatile and may fluctuate significantly.

The price of our common stock is subject to sudden and material increases and decreases. Decreases could adversely affect investments in our common stock. The price of our common stock and the price at which we could sell securities in the future could significantly fluctuate in response to:

- broad market fluctuations and general economic conditions;
- fluctuations in our financial results;
- future securities offerings;
- changes in the market's perception of our products or our business, including false or negative publicity;
- governmental regulatory actions;
- the outcome of any lawsuits;
- financial and business announcements made by us or our competitors;
- the general condition of the industry; and
- the sale of large amounts of stock by insiders.

In addition, the stock market has experienced extreme price and volume fluctuations in recent years that have significantly affected the quoted prices of the securities of many companies. The changes sometimes appear to occur without regard to specific operating performance. The price of our common stock in the open market could fluctuate based on factors that have little or nothing to do with us or that are outside of our control.

29. Certain shareholders, directors, and officers own a significant amount of our stock, which could allow them to influence corporate transactions and other matters.

As of December 31, 2013, our directors, executive officers, and a major shareholder, collectively with their families and affiliates, beneficially owned approximately 37.3% of our total outstanding common stock. As a result, if two or more of these shareholders choose to act together based on their current share ownership, they may be able to control a significant percentage of the total outstanding shares of our common stock, which could affect the outcome of a shareholder vote on the election of directors, the adoption of stock option plans, the adoption or amendment of provisions in our articles of incorporation and bylaws, or the approval of mergers and other significant corporate transactions.

30. We have implemented anti-takeover provisions that may help discourage a change of control.

Certain provisions in our articles of incorporation, bylaws, and the Texas Business Organizations Code help discourage unsolicited proposals to acquire our Company, even if the proposal may benefit our shareholders. Our articles of incorporation authorize the issuance of preferred stock without shareholder approval. Our Board of Directors has the power to determine the price and terms of any preferred stock. The ability of our Board of Directors to issue one or more series of preferred stock without shareholders' approval could deter or delay unsolicited changes of control by discouraging open market purchases of our common stock or a non-negotiated tender or exchange offer for our common stock. Discouraging open market purchases may be disadvantageous to our shareholders who may otherwise desire to participate in a transaction in which they would receive a premium for their shares.

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In addition, other provisions may also discourage a change of control by means of a tender offer, open market purchase, proxy contest or otherwise. Our charter documents provide for three classes of directors on our Board of Directors with members of each class serving staggered three year terms. In addition, the Texas Business Organization Code restricts, subject to exceptions, business combinations with any "affiliated shareholder." Any or all of these provisions could delay, deter or help prevent a takeover of our Company and could limit the price investors are willing to pay for our common stock.

31. Our failure to comply with the NASDAQ Global Select Market continued listing standards may adversely affect the price and liquidity of our shares of common stock as well as our ability to raise capital in the future.

Our common stock is currently listed on the NASDAQ Global Select Market. Continued listing of a security on Nasdaq is conditioned upon compliance with various continued listing standards. There can be no assurance that we will continue to satisfy the requirements for maintaining listing on Nasdaq. If we are unsuccessful in maintaining compliance with the continued listing requirements of Nasdaq, then our common stock could be delisted. If our common stock is delisted and we cannot obtain listing on another major market or exchange, our common stock's liquidity would suffer, and we would likely experience reduced investor interest. Such factors may result in a decrease in our common stock's trading price. Delisting may also restrict us from issuing additional securities or securing financing.

To continue to have our common stock eligible for continued listing on Nasdaq, we would need to satisfy criteria under at least one of the three standards set forth by the Nasdaq Stock Market. Under Equity Standard Listing Rules 5450(a) and 5450(b)(1), these criteria require that:

- we have shareholders' equity of at least \$10 million;
- our common stock has at least \$1.00 minimum bid for 30 consecutive business days;
- our public float must consist of at least 750,000 shares with a market value of at least \$5 million (public float is defined under Nasdaq's rules as the shares held by persons other than officers, directors and beneficial owners of greater than 10% of our total outstanding shares);
- there be at least 400 shareholders;
- there be at least two market makers for our common stock; and
- we comply with certain corporate governance requirements.

As of the date of issuance of this report, we were in compliance with these continued listing requirements. However, we cannot assure you that we will be successful in continuing to meet all requisite continued listing criteria.

32. We are not required to pay dividends, and our Board of Directors may decide not to declare dividends in the future.

The declaration of dividends on our common stock is solely within the discretion of our Board of Directors, subject to limitations under Texas law stipulating that dividends may not be paid if payment therefore would cause the corporation to be insolvent or if the amount of the dividend would exceed the surplus of the corporation. Our Board of Directors may decide not to declare dividends or we could be prevented from declaring a dividend because of legal or contractual restrictions. The failure to pay dividends could reduce our stock price. Our Board of Directors suspended dividends in August 2009. We may not resume payment of dividends in the future.



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33. We rely upon our existing cash balances and cash flow from operations to fund our business. In the event that we do not generate adequate cash flow from operations, we will need to raise money through a debt or equity financing, if available, or curtail operations.

The adequacy of our cash resources to continue to meet our future operational needs depends, in large part, on our ability to increase product sales and/or reduce operating costs. If we are unsuccessful in generating positive cash flow from operations, we could exhaust our available cash resources and be required to secure additional funding through a debt or equity financing, significantly scale back our operations, and/or discontinue many of our activities, which could negatively affect our business and prospects. Additional funding may not be available or may only be available on unfavorable terms.

34. The reduced disclosure requirements applicable to us as a "smaller reporting company" may make our common stock less attractive to investors.

We are a "smaller reporting company" as defined in Rule 12b-2 of the Exchange Act. As a smaller reporting company we prepare and file SEC forms similar to other SEC reporting companies; however, the information disclosed may differ and be less comprehensive. If some investors find our common stock less attractive as a result of less comprehensive information we may disclose pursuant to the exemptions available to us as a smaller reporting company, there may be a less active trading market for our common stock and our stock price may be more volatile than that of an otherwise comparable company that does not avail itself of the same or similar exemptions.

Circumstances and conditions may change. Accordingly, additional risks and uncertainties not currently known, or that we currently deem not material, may also adversely affect our business operations.

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## Item 1B. Unresolved Staff Comments

None.

## Item 2. Properties

We lease property at several locations for our headquarters and distribution facilities, including:

<u>Location</u>	<u>Size</u>	<u>Expiration date</u>
Coppell, Texas (corporate headquarters)	110,000sq. feet	March 2018
Coppell, Texas (distribution center)	75,000 sq. feet <sup>(1)</sup>	March 2018
St. Leonards, Australia (Australian headquarters)	850 sq. meters <sup>(2)</sup>	December 2018
Milton Park, Oxfordshire (U.K. headquarters)	3,240 sq. feet	August 2017
Minato-ku, Tokyo, Japan (Japanese headquarters)	296 Tsubos <sup>(3)</sup>	December 2014
Ganganm-gu, Seoul, Korea (Republic of Korea headquarters)	717 Pyong <sup>(4)</sup>	June 2016
Seo-gu, Daejun, Korea ( Regional center)	113 Pyong <sup>(5)</sup>	June 2014
Taipei, Taiwan (Taiwan headquarters)	254 Pings <sup>(6)</sup>	April 2014
Kaohsiung, Taiwan (Taiwan training center)	101 Pings <sup>(7)</sup>	June 2014
Zug, Switzerland (Switzerland headquarters)	680 sq. meters <sup>(8)</sup>	November 2015
Markham, Ontario (Canada headquarters)	3,097 sq. feet	September 2014
Richmond, BC (Canada training center)	1,963 sq. feet	September 2017
Bedfordview, South Africa (Office)	383 sq. meters <sup>(9)</sup>	March 2015
Cape Province, South Africa (Office)	36 sq. meters <sup>(10)</sup>	Monthly
Guadalajara, Mexico (customer service center)	1550 sq. meters <sup>(11)</sup>	February 2016
Mexico City, Mexico (customer service center)	179 sq. meters <sup>(12)</sup>	November 2015
Monterrey, Mexico (customer service center)	280 sq. meters <sup>(13)</sup>	March 2014
Kyiv, Ukraine (Ukraine headquarters)	158 sq. meters <sup>(14)</sup>	June 2016

(1) The Company subleases a majority of this space to Integrated Distribution and Logistics Direct, LLC, which provides warehousing and distribution services.

- (2) Approximately 9,150 square feet. (8) Approximately 7,320 square feet.  
 (3) Approximately 10,533 square feet. (9) Approximately 4,123 square feet.  
 (4) Approximately 25,514 square feet. (10) Approximately 388 square feet.  
 (5) Approximately 4,021 square feet. (11) Approximately 16,685 square feet.  
 (6) Approximately 9,037 square feet. (12) Approximately 1,927 square feet.  
 (7) Approximately 3,594 square feet. (13) Approximately 3,014 square feet.  
 (14) Approximately 1,701 square feet.

To maximize our operating strategy and minimize costs, we contract with third-party distribution and fulfillment facilities in our three regions: (i) North America, (ii) EMEA and (iii) Asia/Pacific. By entering into these third-party distribution facility agreements, our offices maintain flexible operating capacity, minimize shipping costs, and are able to process an order within 24-hours after order placement and receipt of payment.

## Item 3. Legal Proceedings

See Note 13 to our Consolidated Financial Statement, Litigation, which is incorporated herein by reference.

Item 4. Mine Safety Disclosures

Not Applicable.

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## PART II

## Item 5. Market for Registrant's Common Equity, Related Shareholder Matters and Issuer Purchases of Equity Securities

Market for Our Common Stock. On February 12, 1999, we completed our initial public offering. Our common stock is currently trading on Nasdaq under the symbol "MTEX." Effective January 13, 2012, we amended our Amended and Restated Articles of Incorporation to effect a reverse stock split of our common stock at a ratio of 1-for-10. The primary purpose of the reverse stock split was to increase the per-share market price of our common stock in order to maintain our listing on Nasdaq. As of March 10, 2014, we had an aggregate of 2,653,913 shares of our common stock outstanding and the closing price on such date was \$16.00. Below are the high and low closing prices of our common stock as reported on the Nasdaq for each quarter of the fiscal years ended December 31, 2013 and 2012:

<u>2013:</u>	Low	High
First Quarter	\$5.55	\$6.75
Second Quarter	\$6.15	\$12.75
Third Quarter	\$10.85	\$34.80
Fourth Quarter	\$16.78	\$29.51
<u>2012:</u>	Low	High
First Quarter	\$3.55	\$4.90
Second Quarter	\$3.35	\$7.00
Third Quarter	\$5.12	\$7.68
Fourth Quarter	\$4.80	\$7.74

Holders. As of March 10, 2014, there were 1,275 shareholders of record.

Dividends. In the third quarter of 2009, our Board of Directors suspended the quarterly cash dividend payment to shareholders due to the Company's financial performance, protracted worldwide economic recession, and the internal funding needs of new initiatives designed to accelerate sales and associate recruitment. See "Risk Factors—We are not required to pay dividends, and our Board of Directors may decide not to declare dividends in the future" in Item 1A of this Form 10-K for further discussion related to future payment of dividends.

Recent Sales of Unregistered Securities.

None.

Uses of Proceeds from Registered Securities.

None.

Issuer Purchases of Equity Securities.

None.

## Item 6. Selected Financial Data

Not applicable for a Smaller Reporting Company



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Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion is intended to assist in the understanding of our consolidated financial position and our results of operations for each of the two years ended December 31, 2013 and 2012. This discussion should be read in conjunction with "Item 15. – Consolidated Financial Statements and related notes," beginning on page F-1 of this report and with other financial information included elsewhere in this report. Unless stated otherwise, all financial information presented below, throughout this report, and in the consolidated financial statements and related notes includes Mannatech and all of our subsidiaries on a consolidated basis. Refer to the Non-GAAP Financial Measure section herein for a description of how Constant dollar ("Constant dollar") growth rate (a Non-GAAP financial metric) is determined.

COMPANY OVERVIEW

Since November 1993, we have continued to develop innovative, high quality, proprietary nutritional supplements, topical and skin care products, and weight-management products that are sold through a global network marketing system. We operate in three regions: (i) North America (the United States, Canada and Mexico); (ii) EMEA (Austria, the Czech Republic, Denmark, Estonia, Finland, Germany, the Republic of Ireland, Namibia, the Netherlands, Norway, South Africa, Sweden, the United Kingdom and Ukraine); and (iii) Asia/Pacific (Australia, Japan, New Zealand, the Republic of Korea, Singapore Taiwan and Hong Kong). Our Switzerland office manages certain day-to-day business needs of non-North American markets.

We conduct our business as a single operating segment and primarily sell our products through a network of approximately 245,000 active independent associates and members who had purchased our products and/or packs during the last 12 months, who we refer to as current independent associates and members. New recruits and pack sales are leading indicators for the long-term success of our business. New recruits include new independent associates and members purchasing our packs and products for the first time. We operate as a seller of nutritional supplements, topical and skin care products, and weight-management products through our network marketing distribution channels operating in twenty-one countries. We review and analyze net sales by geographical location and by packs and products on a consolidated basis. Each of our subsidiaries sells similar products and exhibits similar economic characteristics, such as selling prices and gross margins.

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

Current Economic Conditions and Recent Developments

During 2013, we increased the number of active independent associates and members by 7.0% as compared to 2012. This increase was due to an increase in the recruitment of both independent associates and members attributed in part to compensation plan changes targeting independent associates. We implemented enhancements to our sign-up packs globally, which we believe will lead to increases in the recruitment of business-building independent associates. The number of new independent associates for 2013 increased 29.9% to approximately 82,200 as compared to approximately 63,300 for the same period in 2012. These improvements led to an overall increase in revenue of \$4.0 million, or 2.3% compared to 2012. By July 2013, we completed our world-wide implementation of the compensation plan to enhance the compensation received by independent associates for the sale of finished products. During the third quarter of 2013, we started a loyalty program through which customers earn loyalty points from qualified automatic orders, which can be applied to future purchases.

During 2013, our operating expenses (excluding depreciation, commissions, and incentives) decreased by \$2.4 million as compared to the same period in 2012. The decrease in other operating costs was primarily due to a reduction in legal and consulting fees, office expenses, payroll and payroll-related costs, offset by an increase in travel. During 2012, we reduced transactional sales tax expense accruals by \$0.9 million relating to the expiration of certain statute of limitations. Also, in 2012 we reduced our estimate of future royalty payments related to the post-employment royalty payable to Dr. McAnalley, which favorably impacted other operating expenses by \$0.9 million. Improvements in our operational efficiencies generated \$4.8 million of operating income during 2013, as compared to an operating loss of \$1.0 million during the same period in 2012.

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## RESULTS OF OPERATIONS

Year Ended December 31, 2013 compared to Year Ended December 31, 2012

The tables below summarize our consolidated operating results in dollars and as a percentage of net sales for the years ended December 31, 2013 and 2012 (in thousands, except percentages).

	2013		2012		Change		
	Total Dollars	% of net sales	Total dollars	% of net sales	Dollar	Percentage	
Net sales	\$177,423	100.0%	\$173,447	100.0%	\$3,976	2.3	%
Cost of sales	36,097	20.3 %	34,641	20.0 %	1,456	4.2	%
Gross profit	141,326	79.7 %	138,806	80.0 %	2,520	1.8	%
Operating expenses:							
Commissions and incentives	75,633	42.6 %	73,823	42.6 %	1,810	2.5	%
Selling and administrative expenses	33,758	19.0 %	37,176	21.4 %	(3,418)	(9.2)	)%
Depreciation and amortization	2,120	1.2 %	4,755	2.7 %	(2,635)	(55.4)	)%
Other operating costs	25,059	14.1 %	24,032	13.9 %	1,027	4.4	%
Total operating expenses	136,570	77.0 %	139,786	80.6 %	(3,216)	(2.3)	)%
Income from operations	4,756	2.7 %	(980 )	(0.6 )%	5,736	585.2	%
Interest income	22	0.0 %	50	0.0 %	28	56.0	%
Other income (expense), net	(1,969 )	(1.1 )%	630	0.4 %	(2,599)	(412.5)	)%
Income before income taxes	2,809	1.6 %	(300 )	(0.2 )%	3,109	1,036.3	%
Income tax benefit (provision)	365	(0.2 )%	(1,088 )	(0.6 )%	1,453	133.5	%
Net income (loss)	\$3,174	1.8 %	\$(1,388 )	(0.8 )%	\$4,562	328.7	%

## Non-GAAP Financial Measures

To supplement our financial results presented in accordance with generally accepted accounting principles in the United States ("GAAP"), we disclose operating results that have been adjusted to exclude the impact of changes due to the translation of foreign currencies into U.S. dollars, including changes in: Net Sales, Deferred Revenue, Gross Profit, and Income/(Loss) from Operations. We refer to these adjusted financial measures as Constant dollar items, which are Non-GAAP financial measures. We believe these measures provide investors an additional perspective on trends. To exclude the impact of changes due to the translation of foreign currencies into U.S. dollars, we calculate current year results and prior year results at a constant exchange rate, which is the prior year's rate. Currency impact is determined as the difference between actual growth rates and constant currency growth rates.

	2013		2012		Reconciliation – Constant \$	
	GAAP Measure:	Non-GAAP Constant \$	GAAP Measure:	Dollar	Percent	
Net Sales	\$177.4	\$182.4	\$173.4	\$9.0	5.2	%
Product	143.5	147.9	155.8	(7.9)	(5.1)	)%
Pack	26.2	26.5	11.4	15.1	132.5	%
Other	7.7	8.0	6.2	1.8	29.0	%
Deferred Revenue	6.4	6.6	1.5	5.1	340.0	%
Gross Profit	141.3	145.2	138.8	6.4	4.6	%

Income/(Loss) from Operations 4.8 4.9 (1.0 ) 5.9 590.0 %

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Consolidated net sales by region for the years ended December 31, 2013 and 2012 were as follows (in millions, except percentages):

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

	2013		2012	
North America	\$82.2	46.3 %	\$86.5	49.9 %
Asia/Pacific	80.3	45.3 %	70.6	40.7 %
EMEA	14.9	8.4 %	16.3	9.4 %
Total	\$177.4	100.0%	\$173.4	100.0%

## Net Sales

For the year ended December 31, 2013, our operations outside of North America accounted for approximately 53.7% of our consolidated net sales, whereas in the same period in 2012, our operations outside of North America accounted for approximately 50.1% of our consolidated net sales.

Consolidated net sales for the year ended December 31, 2013 increased by \$4.0 million, or 2.3%, to \$177.4 million, as compared to \$173.4 million for the same period in 2012. North America sales decreased by \$4.3 million, or 5.0%, to \$82.2 million as compared to \$86.5 million for the same period in 2012. Asia/Pacific sales increased by \$9.8 million, or 13.9%, to \$80.3 million as compared to \$70.6 million for the same period in 2012. EMEA sales decreased by \$1.5 million, or 9.1%, to \$14.9 million as compared to \$16.3 million for the same period in 2012.

During 2013, fluctuations in foreign currency exchange rates had an overall unfavorable impact on our net sales. In constant dollars, a non-GAAP financial measure that calculates 2013 financial results in the prior year exchange rates, net sales for the year ending December 31, 2013 grew by \$9.0 million, compared to 2012. The net sales impact is calculated as the difference between (1) the current period's net sales in USD and (2) the current period's net sales in local currencies converted to USD by applying average exchange rates for the year ended December 31, 2012.

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

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

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Our sales mix for the years ended December 31, was as follows (in millions, except percentages):

	2013	2012	Change		
			Dollar	Percentage	
Consolidated product sales	\$143.5	\$155.8	\$(12.3)	(7.9	)%
Consolidated pack sales	26.2	11.4	14.8	129.8	%
Consolidated other, including freight	7.7	6.2	1.5	24.2	%
Total consolidated net sales	\$177.4	\$173.4	\$4.0	2.3	%

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

## Product Sales

Substantially all of our product sales are to independent associates at published wholesale prices. We also sell our products to independent members at discounted published retail prices.

Product sales for the year ended December 31, 2013 decreased by \$12.3 million, or 7.9% to \$143.5 million as compared to \$155.8 million for the same period in 2012. The increase in the number of orders processed during the twelve months ending December 31, 2013 was offset by decreases in revenue attributed to a reduction in the average order size and deferred revenue in our loyalty program (see Note 1 to our Consolidated Financial Statements, Organization and Summary of Significant Accounting Policies). The number of orders processed during the twelve months ended December 31, 2013 increased by 7.4%, as compared to the same period in 2012, resulting in a \$10.3 million increase in revenue, which was offset by a decrease in the average order value for the twelve months ended December 31, 2013. Average order value was \$154, as compared to \$172 for the same period in 2012, and this decrease resulted in a \$17.1 million reduction in revenue. The reduction in product sales revenue is also due to \$5.5 million deferred revenue.

## Pack Sales

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

The dollar amount of pack sales associated with new and continuing independent associates was as follows, for the years ended December 31 (in millions, except percentages):

	2013	2012	Change		
			Dollar	Percentage	
New	\$10.1	\$7.7	\$2.4	31.2	%
Continuing	16.1	3.7	12.4	335.1	%
Total	\$26.2	\$11.4	\$14.8	129.8	%

Total pack sales for the year ended December 31, 2013 increased by \$14.8 million, or 129.8%, to \$26.2 million, as compared to \$11.4 million for the same period in 2012 as the number of packs sold increased 58.3% and the average value of the pack increased. Average pack value for the year ended December 31, 2013 was \$228, as compared to \$157 for the same period in 2012.

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The approximate number of active new and continuing independent associates and members who purchased our packs or products during the twelve months ended December 31 was as follows:

	2013		2012	
New	116,000	47.0 %	97,000	42.0 %
Continuing	129,000	53.0 %	132,000	58.0 %
Total	245,000	100.0 %	229,000	100.0 %

During 2013 and 2012, we took the following actions to help increase the number of independent associates and members:

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

#### Other Sales

Other sales consisted of: (i) freight revenue charged to our independent associates and members; (ii) sales of promotional materials; (iii) monthly fees collected for Success Tracker™ and Navig8™ customized electronic business-building and educational materials, databases and applications; (iv) training and event registration fees; and (v) a reserve for estimated sales refunds and returns. Promotional materials, training, database applications and business management tools support our independent associates, which in turn helps stimulate product sales.

For the year ended December 31, 2013, other sales increased by \$1.5 million, or 24.2%, to \$7.7 million, as compared to \$6.2 million for the same period in 2012. The increase was primarily due to an increase in freight fees for product and pack shipments.

#### Gross Profit

For the year ended December 31, 2013, gross profit increased by \$2.5 million, or 1.8%, to \$141.3 million, as compared to \$138.8 million for the same period in 2012. For the year ended December 31, 2013, gross profit as a percentage of net sales decreased slightly to 79.7% as compared to 80.0% for the year ended December 31, 2012.

#### Commission and Incentives

Commission costs increased for the year ended December 31, 2013, by 1.9%, or \$1.4 million, to \$72.1 million, as compared to \$70.7 million for the same period in 2012. The increase in commissions was due to the increase in commissionable net sales. Commissions as a percentage of net sales were 40.6% for the year ending December 31, 2013 and 40.8% for the same period in the prior year.

Incentive costs increased for the year ended December 31, 2013 by 17.2%, or \$0.5 million, to \$3.6 million, as compared to \$3.1 million for the same period in 2012. The costs of incentives, as a percentage of net sales increased to 2.0% for the year ended December 31, 2013, as compared to 1.8% for the same period in 2012.

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

For the year ended December 31, 2013, overall selling and administrative expenses decreased by \$3.4 million, or 9.2%, to \$33.8 million, as compared to \$37.2 million for the same period in 2012. Selling and administrative expenses, as a percentage of net sales decreased to 19.0%, as compared to 21.4% for the same period of 2012. The decrease in selling and administrative expenses consisted of a \$3.4 million decrease in payroll and payroll-related costs.

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## Other Operating Costs

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

For the year ended December 31, 2013, other operating costs increased by \$1.1 million, or 4.4%, to \$25.1 million, as compared to \$24.0 million for the same period in 2012. For the year ended December 31, 2013, other operating costs, as a percentage of net sales, were 14.1%, as compared to 13.9% for the same period in 2012. The increase in other operating costs was primarily due to a \$0.7 million increase in travel costs and a \$0.9 million increase attributed to transaction tax adjustments. These cost increases were partially offset by decreases in legal and consulting fees, facilities, repairs and maintenance cost. During 2012, the Company reduced by \$0.9 million the accrued present value of the estimated future royalty payments related to the post-employment royalty benefit payable to Dr. McAnalley to a \$0.13 million liability at December 31, 2012. The estimated post-employment royalty benefit payable to Dr. McAnalley was a \$0.07 million liability at December 31, 2013.

## Depreciation and Amortization Expense

For the year ended December 31, 2013, depreciation and amortization expense was \$2.1 million, as compared to \$4.8 million for the same period in 2012. As a percentage of net sales, depreciation and amortization expense decreased to 1.2% from 2.7% for the same period in 2012.

## Other income (expense), net

For the year ending December 31, 2013 and 2012, other income (expense), net was (\$2.0) million and \$0.6 million, respectively. During 2013, the other expense included (\$1.0) million of customs taxes and (\$1.0) of foreign exchange loss. During 2012, other income resulted from foreign exchange gains.

## Provision for Income Taxes

Provision for income taxes include current and deferred income taxes for both our domestic and foreign operations. Our statutory income tax rates by jurisdiction are as follows, for the years ended December 31:

<u>Country</u>	2013	2012
Australia	30.0%	30.0%
Canada	26.5%	26.0%
Denmark	25.0%	25.0%
Japan	39.4%	42.0%
Mexico	30.0%	30.0%
Norway	28.0%	28.0%
Republic of Korea	22.0%	22.0%
Singapore	17.0%	17.0%
South Africa	28.0%	28.0%
Sweden	22.0%	26.3%
Switzerland	16.2%	16.2%
Taiwan	17.0%	17.0%
United Kingdom	23.0%	24.0%
United States	37.5%	37.5%
Cyprus	12.5%	--

Hong Kong	16.5% --
Ukraine	19.0% --

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Income from our international operations is subject to taxation in the countries in which we operate. Although we may receive foreign income tax credits that would reduce the total amount of income taxes owed in the United States, we may not be able to utilize our foreign income tax credits in the United States.

We use the recognition and measurement provisions of Financial Accounting Standards Board (“FASB”) Accounting Standards Codification (“ASC”) Topic 740, Income Taxes (“Topic 740”), to account for income taxes. The provisions of Topic 740 require a company to record a valuation allowance when the “more likely than not” criterion for realizing net deferred tax assets cannot be met. Furthermore, the weight given to the potential effect of such evidence should be commensurate with the extent to which it can be objectively verified. As a result, we reviewed the operating results, as well as all of the positive and negative evidence related to realization of such deferred tax assets to evaluate the need for a valuation allowance in each tax jurisdiction.

As of December 31, 2013 and 2012, we maintained our valuation allowance for deferred tax assets in the following table (in millions), as we believe the “more likely than not” criterion for recognition and realization purposes, as defined in Topic 740, cannot be met.

Country	2013	2012
Mexico	\$ 2.7	\$ 2.3
Norway	0.2	0.2
Sweden	0.1	0.1
Switzerland	0.2	1.0
Taiwan	1.2	1.2
Ukraine	0.1	--
United States	0.8	3.7
Total	\$ 5.3	\$ 8.5

The dollar amount of the provisions for income taxes is directly related to our profitability and changes in the taxable income among countries. For the years ended December 31, 2013 and 2012, our effective tax rate was (13.0)% and (363.1)% respectively. For 2013, the effective income tax rate was lower than what would be expected if the federal statutory income tax rate were applied to income before taxes primarily because of the tax benefit recognized from an IRS tax audit settlement, reversal of valuation allowances against net deferred tax assets and differences from foreign operations (see Note 14 to our Consolidated Financial Statements, Litigation). For 2012, we had a provision for income tax despite the pre-tax losses primarily because of differences from foreign operations and increases in uncertain income tax positions.

## SEASONALITY

We believe the impact of seasonality on our consolidated results of operations is minimal. We have experienced and believe we will continue to experience variations on our quarterly results of operations in response to, among other things:

- the timing of the introduction of new products and incentives;
- our ability to attract and retain associates and members;
- the timing of our incentives and contests;
- the general overall economic outlook;
- government regulations;

- the outcome of certain lawsuits;
- the perception and acceptance of network marketing; and
- the consumer perception of our products and overall operations.

As a result of these and other factors, our quarterly results may vary significantly in the future. Period-to-period comparisons should not be relied upon as an indication of future performance since we can give no assurances that revenue trends in new markets, as well as in existing markets, will follow our historical patterns. The market price of our common stock may also be adversely affected by the above factors.

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## LIQUIDITY AND CAPITAL RESOURCES

## Cash and Cash Equivalents

As of December 31, 2013, our cash and cash equivalents increased by 41.9%, or \$6.0 million, to \$20.4 million from \$14.4 million as of December 31, 2012. Our restricted cash balance increased during the period ending December 31, 2013 by \$0.5 million. Finally, fluctuations in currency rates produced a decline of \$0.4 million in cash and cash equivalents in 2013 as compared to a decline of \$0.8 million in 2012.

Our principal use of cash is to pay for operating expenses, including commissions and incentives, capital assets, inventory purchases, and international expansion. In August 2009, the quarterly cash dividend was suspended and remained suspended as of December 31, 2013. We fund our business objectives, operations, and expansion of our operations through net cash flows from operations rather than incurring long-term debt.

## Working Capital

Working capital represents total current assets less total current liabilities. At December 31, 2013, our working capital increased by \$2.4 million, or 21.6%, to \$13.5 million from \$11.1 million at December 31, 2012. The increase in working capital is primarily due to an increase in cash, prepaid expenses and deferred commissions, offset by commissions payable and deferred revenue. Deferred commissions and deferred revenue increased during 2013 due to the loyalty program (see Note 1 to our Consolidated Financial Statements, Organization and Summary of Significant Accounting Policies).

## Net Cash Flows

Our net consolidated cash flows consisted of the following, for the years ended December 31 (in millions):

Provided by / (used in):	2013	2012
Operating activities	\$8.6	\$(1.5)
Investing activities	\$(0.6)	\$(0.3)
Financing activities	\$(1.6)	\$(1.1)

## Operating Activities

Due to improvements in profitability and the cash used in working capital, cash provided in operating activities was \$8.6 million for the year ended December 31, 2013 compared to cash used in operating activities of \$1.5 million for the same period in 2012.

## Investing Activities

For the year ended December 31, 2013, our net investing activities used cash of \$0.6 million compared to cash used of \$0.3 million for the same period of 2012. During the year ended December 31, 2013, we used cash of \$0.6 million to purchase capital assets as compared to purchasing \$0.4 million in capital assets for the same period in 2012.

## Financing Activities

For the years ended December 31, 2013 and 2012, we used cash of \$1.6 million and \$1.1 million, respectively, primarily to repay capital lease obligations.

## General Liquidity and Cash Flows

### Short Term Liquidity

We believe our existing liquidity and anticipated return to positive cash flows from operations are adequate to fund our normal expected future business operations and possible international expansion costs for the next 12 months. As our primary source of liquidity is our cash flow from operations, this will be dependent on our ability to maintain and increase revenue and/or continue to reduce operational expenses. However, if our existing capital resources or cash flows become insufficient to meet current business plans, projections, and existing capital requirements, we may be required to raise additional funds, which may not be available on favorable terms, if at all.

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We entered into an Investment Agreement with Dutchess Opportunity Fund, II, LP, a Delaware limited partnership (the “Investor”) on September 16, 2010. The Investor committed to purchase, subject to certain restrictions and conditions, up to \$10 million of our common stock, over a period of 36 months from the first trading following the effectiveness of the registration statement, which was October 28, 2010. This agreement expired on October 28, 2013. No shares of our common stock were issued pursuant to the Investment Agreement.

We are engaged in ongoing audits in various tax jurisdictions and other disputes in the normal course of business. It is impossible at this time to predict whether we will incur any liability, or to estimate the ranges of damages, if any, in connection with these matters. Adverse outcomes on these uncertainties may lead to substantial liability or enforcement actions that could adversely affect our cash position. For more information, see Note 8 Income Taxes and Note 13 Litigation to our Consolidated Financial Statements.

## Long Term Liquidity

We believe our return to positive cash flows from operations should be adequate to fund our normal expected future business operations and possible international expansion costs for the long term. As our primary source of liquidity is from our cash flow from operations, this will be dependent on our ability to maintain and increase revenue and/or continue to reduce operational expenses.

However, if our existing capital resources or cash flows become insufficient to meet anticipated business plans and existing capital requirements, we may be required to raise additional funds, which may not be available on favorable terms, if at all.

Our future access to the capital markets may be adversely impacted if we fail to maintain compliance with the Nasdaq Marketplace Rules for the continued listing of our stock. We continuously monitor our compliance with the Nasdaq continued listing rules.

## CONTRACTUAL OBLIGATIONS

The following summarizes our future commitments and obligations associated with various agreements and contracts as of December 31, 2013, for the years ending December 31 (in thousands):

	2014	2015	2016	2017	2018	2019	Thereafter	Total
Capital lease obligations and other financing arrangements	\$776	\$337	\$130	\$15	\$2	\$—	\$—	\$1,260
Purchase obligations <sup>(1)(2)</sup>	4,522	1,200	300	—	—	—	—	6,022
Operating leases	1,620	1,443	1,229	1,158	563	—	—	6,013
Post-employment royalty	50	25	—	—	—	—	—	75
Employment agreements	940	—	—	—	—	—	—	940
Royalty agreement	84	66	—	—	—	—	—	150
Tax liability <sup>(3)</sup>	37	33	144	—	—	—	—	214
Other obligations <sup>(4)</sup>	90	518	136	67	50	77	461	1,399
Total commitments and obligations	\$8,119	\$3,622	\$1,939	\$1,240	\$615	\$77	\$461	\$16,073

For purposes of the table, a purchase obligation is defined as “an agreement to purchase goods or services that is non-cancelable, enforceable and legally binding on the Company that specifies all significant terms, including: (1) fixed or minimum quantities to be purchased; fixed, minimum or variable price provisions; and the approximate timing of the transaction.”



(2) Excludes approximately \$13.2 million of finished product purchase orders that may be cancelled or with delivery dates that have changed as of December 31, 2013.

(3) Represents the tax liability associated with uncertain tax positions, see Note 8 to our Consolidated Financial Statements, Income Taxes to our consolidated financial statements.

Other obligations are composed of pension obligations related to the Company's Japan operations (approximately (4) \$0.9 million), lease restoration obligations (approximately \$0.3 million), and long-term license obligations (approximately \$0.2 million).

We have maintained purchase commitments with certain raw material suppliers to purchase minimum quantities and to ensure exclusivity of our raw materials and the proprietary nature of our products. Currently, we have one supply agreement that requires minimum purchase commitments. We also maintain other supply agreements and manufacturing agreements to protect our products, regulate product costs, and help ensure quality control standards. These agreements do not require us to purchase any set minimums. We have no present commitments or agreements with respect to acquisitions or purchases of any manufacturing facilities; however, management from time to time explores the possibility of the benefits of purchasing a raw material manufacturing facility to help control costs of our raw materials and help ensure quality control standards.

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OFF-BALANCE SHEET ARRANGEMENTS

We do not have any special-purpose entity arrangements, nor do we have any off-balance sheet arrangements.

MARKET RISKS

Please see “Quantitative and Qualitative Disclosure about Market Risk” under Item 7A of this Form 10-K for additional information about our Market Risks.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

Our consolidated financial statements are prepared in accordance with accounting principles generally accepted in the United States of America (“GAAP”). The application of GAAP requires us to make estimates and assumptions that affect the reported values of assets and liabilities at the date of our financial statements, the reported amounts of revenues and expenses during the reporting period, and the related disclosures of contingent assets and liabilities. We use estimates throughout our financial statements, which are influenced by management’s judgment and uncertainties. Our estimates are based on historical trends, industry standards, and various other assumptions that we believe are applicable and reasonable under the circumstances at the time the consolidated financial statements are prepared. Our Audit Committee reviews our critical accounting policies and estimates. We continually evaluate and 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 our management. We also analyze the need for certain estimates, including the need for such items as allowance for doubtful accounts, inventory reserves, long-lived fixed assets and capitalization of internal-use software development costs, reserve for uncertain income tax positions and tax valuation allowances, revenue recognition, sales returns, and deferred revenues, accounting for stock-based compensation, and contingencies and litigation. Historically, actual results have not materially deviated from our estimates. However, we caution readers that actual results could differ from our estimates and assumptions applied in the preparation of our consolidated financial statements. If circumstances change relating to the various assumptions or conditions used in our estimates, we could experience an adverse effect on our financial position, results of operations, and cash flows. We have identified the following applicable critical accounting policies and estimates as of December 31, 2013:

Inventory Reserves

Inventory consists of raw materials, finished goods, and promotional materials that are stated at the lower of cost (using standard costs that approximate average costs) or market. We record the amounts charged by the vendors as the costs of inventory. Typically, the net realizable value of our inventory is higher than the aggregate cost. Determination of net realizable value can be complex and, therefore, requires a high degree of judgment. In order for management to make the appropriate determination of net realizable value, the following items are considered: inventory turnover statistics, current selling prices, seasonality factors, consumer demand, regulatory changes, competitive pricing, and performance of similar products. If we determine the carrying value of inventory is in excess of estimated net realizable value, we write down the value of inventory to the estimated net realizable value.

We also review inventory for obsolescence in a similar manner 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 general future plans. We monitor actual sales compared to original projections, and if actual sales are less favorable than those originally projected by us, we record an additional inventory reserve or write-down. Historically, our estimates have been close to our actual reported amounts. However, if our estimates regarding inventory obsolescence are inaccurate or consumer demand for our products changes in an unforeseen manner, we may be exposed to additional material losses or gains in excess of our established estimated inventory reserves. At December 31, 2013 and 2012, our inventory reserves were \$2.0 million and \$1.6 million, respectively.



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## Long Lived Fixed Assets and Capitalization of Software Development Costs

In addition to capitalizing long-lived fixed asset costs, we also capitalize costs associated with internally developed software projects (collectively “fixed assets”) and amortize such costs over the estimated useful lives of such fixed assets. Fixed assets are carried at cost less accumulated depreciation computed using the straight-line method over the assets’ estimated useful lives. Leasehold improvements are amortized over the shorter of the remaining lease terms or the estimated useful lives of the improvements. Expenditures for maintenance and repairs are charged to operations as incurred. If a fixed asset is sold or otherwise retired or disposed of, the cost of the fixed asset and the related accumulated depreciation or amortization is written off and any resulting gain or loss is recorded in other operating costs in our consolidated statement of operations.

We review our fixed assets for impairment whenever an event or change in circumstances indicates the carrying amount of an asset or group of assets may not be recoverable, such as plans to dispose of an asset before the end of its previously estimated useful life. Our impairment review includes a comparison of future projected cash flows generated by the asset, or group of assets, with its associated net carrying value. If the net carrying value of the asset or group of assets exceeds expected cash flows (undiscounted and without interest charges), an impairment loss is recognized to the extent the carrying amount exceeds the fair value. The fair value is determined by calculating the discounted expected future cash flows using an estimated risk-free rate of interest. Any identified impairment losses are recorded in the period in which the impairment occurs. The carrying value of the fixed asset is adjusted to the new carrying value and any subsequent increases in fair value of the fixed asset are not recorded. In addition, if we determine the estimated remaining useful life of the asset should be reduced from our original estimate, the periodic depreciation expense is adjusted prospectively, based on the new remaining useful life of the fixed asset.

The impairment calculation requires us to apply judgment and estimates concerning future cash flows, strategic plans, useful lives, and discount rates. If actual results are not consistent with our estimates and assumptions, we may be exposed to an additional impairment charge, which could be material to our results of operations. In addition, if accounting standards change, or if fixed assets become obsolete, we may be required to write off any unamortized costs of fixed assets; or if estimated useful lives change, we would be required to accelerate depreciation or amortization periods and recognize additional depreciation expense in our consolidated statement of operations.

Historically, our estimates and assumptions related to the carrying value and the estimated useful lives of our fixed assets have not materially deviated from actual results. As of December 31, 2013, the estimated useful lives and net carrying values of fixed assets are as follows:

	Estimated useful life	Net carrying value at December 31, 2013
Office furniture and equipment	5 to 7 years	\$ 0.7 million
Computer hardware and software	3 to 5 years	0.8 million
Automobiles	3 to 5 years	0.1 million
Leasehold improvements	2 to 10 years <sup>(1)</sup>	1.6 million
Total net carrying value at December 31, 2013		\$ 3.2 million

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<sup>(1)</sup> We amortize leasehold improvements over the shorter of the useful estimated life of the leased asset or the lease term.

The net carrying costs of fixed assets and construction in progress are exposed to impairment losses if our assumptions and estimates of their carrying values change, there is a change in estimated future cash flow, or there is a

change in the estimated useful life of the fixed asset. Based on management's analysis, no impairment existed during the years ended December 31, 2013 and 2012.

#### Uncertain Income Tax Positions and Tax Valuation Allowances

As of December 31, 2013, we recorded \$0.7 million in other long-term liabilities and \$0.1 million in taxes payable on our consolidated balance sheet related to uncertain income tax positions. As required by FASB ASC Topic 740, Income Taxes, we use judgments and make estimates and assumptions related to evaluating the probability of uncertain income tax positions. We base our estimates and assumptions on the potential liability related to an assessment of whether the income tax position will "more likely than not" be sustained in an income tax audit. We are also subject to periodic audits from multiple domestic and foreign tax authorities related to income tax and other forms of taxation. These audits examine our tax positions, timing of income and deductions, and allocation procedures across multiple jurisdictions. As part of our evaluation of these tax issues, we establish reserves in our consolidated financial statements based on our estimate of current probable tax exposures. Depending on the nature of the tax issue, we could be subject to audit over several years. Therefore, our estimated reserve balances and liability related to uncertain income tax positions may exist for multiple years before the applicable statute of limitations expires or before an issue is resolved by the taxing authority. Additionally, we may be requested to extend the statute of limitations for tax years under audit. The majority of our current tax liability related to uncertain tax positions is associated with an ongoing IRS audit. It is reasonably possible the tax jurisdiction may request that the statute of limitations be extended, which may cause the classification between current and long-term to change. We believe our tax liabilities related to uncertain tax positions are based upon reasonable judgment and estimates; however, if actual results materially differ, our effective income tax rate and cash flows could be affected in the period of discovery or resolution.

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The examination of our 2005-2009 tax years by the IRS for U.S. federal tax purposes was settled during the second quarter of 2013. In connection with the audit, the IRS and the Company agreed to a net tax deficiency of \$0.8 million and the payment of interest accrued through June 30, 2013 of \$0.2 million, without any penalties. In connection with the settlement of the audit, the Company reclassified amounts owed to the IRS and previously recorded as uncertain tax positions as taxes payable, resulting in a \$1.0 million tax benefit during the year of 2013. There are other ongoing income tax audits in various international jurisdictions that we believe are not material to our financial statements.

We also review the estimates and assumptions used in evaluating 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 the 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. We use our past history and experience, overall profitability, future management plans, and current economic information to evaluate the amount of valuation allowance to record. As of December 31, 2013, we maintained a valuation allowance for deferred tax assets arising from our operations of \$5.3 million because they did not meet the “more likely than not” criteria as defined by the recognition and measurement provisions of FASB ASC Topic 740, Income Taxes. In addition, as of December 31, 2013, we had deferred tax assets, after valuation allowance, totaling \$5.3 million, which may not be realized if our assumptions and estimates change, which would affect our effective income tax rate and cash flows in the period of discovery or resolution.

## Revenue Recognition and Deferred Commissions

We derive revenue from sales of individual products, sales of starter and renewal packs, and shipping fees. Substantially all product and pack sales are made to independent associates at published wholesale prices and to members at discounted published retail prices. We record revenue net of any sales taxes and record a reserve for expected sales returns based on historical experience.

We recognize revenue from shipped packs and products upon receipt by the customer. Corporate-sponsored event revenue is recognized when the event is held. We defer certain components of our revenue. At each of December 31, 2013 and December 31, 2012, our deferred revenue was \$6.4 million and \$1.5 million, respectively. During the third quarter of 2013, we started a loyalty program through which customers earn loyalty points from qualified automatic orders, which can be applied to future purchases. We defer the dollar equivalent in revenue of these points until the points are applied or forfeited. The deferred revenue associated with the loyalty program at December 31, 2013 was \$5.5 million. Deferred revenue consisted primarily of: (i) the sales of packs and products shipped but not received by the customers by the end of the respective period; (ii) the revenue from the loyalty program; and (iii) prepaid registration fees from customers planning to attend a future corporate-sponsored event. In total current assets, we defer commissions on (i) the sales of packs and products shipped but not received by the customers by the end of the respective period and (ii) the loyalty program. Deferred commissions were \$2.7 million and \$0.6 million at December 31, 2013 and December 31, 2012, respectively.

## Loyalty program

Loyalty deferred revenue as of January 1, 2013	\$—
Loyalty points forfeited	1,136
Loyalty points used	723
Loyalty points vested	(5,072)
Loyalty points unvested	(2,243)
Loyalty deferred revenue as of December 31, 2013	\$(5,456)

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## Product Return Policy

We stand behind our packs and products and believe we offer a reasonable, industry-standard product return policy to all of our customers. We do not resell returned products. Refunds are not processed until proper approval is obtained. All refunds must be processed and returned in the same form of payment that was originally used in the sale. We have specific product return guidelines for each country in which we operate. However, we allow our associates and members to exchange products as long as the products are unopened and in good condition. Our return policies for our retail customers and our associates and members are as follows:

**Retail Customer Product Return Policy.** This policy allows a retail customer to return any of our products to the original associate who sold the product and receive a full cash refund from the associate for the first 180 days following the product's purchase in the United States and Canada, and for the first 90 days following the product's purchase in our remaining countries. The associate may then return or exchange the product based on the associate product return policy.

**Associate and Member Product Return Policy.** This policy allows the associate or member to return an order within one year of the purchase date upon terminating his/her account. If an associate or member returns a product unopened and in good condition, he/she may receive a full refund minus a 10% restocking fee. We may also allow the associate or member to receive a full satisfaction guarantee refund, excluding promotional materials, if they have tried the product and are not satisfied for any reason. This satisfaction guarantee refund applies in the United States and Canada, only for the first 180 days following the product's purchase, and applies in our remaining countries for the first 90 days following the product's purchase; however, any commissions earned by an associate will be deducted from the refund. If we discover abuse of the refund policy, we have the right to terminate the associate's or member's account.

We estimate a sales return reserve for expected sales refunds based on historical experience over a rolling six-month period. If actual results differ from our estimated sales return reserve due to various factors, the amount of revenue recorded each period could be materially affected. Historically, sales returns have not materially changed through the years, as the majority of our customers who return their merchandise do so within the first 90 days after the original sale. Sales returns have averaged 1.5% or less of our gross sales. For the year ended December 31, 2013 our sales return reserve was composed of the following (in thousands):

	December 31, 2013
Sales reserve as of January 1, 2013	\$ 156
Provision related to sales made in current period	1,367
Adjustment related to sales made in prior periods	4
Actual returns or credits related to current period	(1,130 )
Actual returns or credits related to prior periods	(159 )
Sales reserve as of December 31, 2013	\$ 238

## Accounting for Stock-Based Compensation

We grant stock options to our employees, board members, and consultants. At the date of grant, we determine the fair value of a stock option award and recognize compensation expense over the requisite service period, or the vesting period of such stock option award, which is two to four years. The fair value of the stock option award is calculated using the Black-Scholes option-pricing model (the "calculated fair value"). The Black-Scholes option-pricing model requires us to apply judgment and use highly subjective assumptions, including expected stock option life, expected volatility, expected average risk-free interest rates, and expected forfeiture rates. For the year ended December 31, 2013, our assumptions and estimates used for the calculated fair value of stock options granted in 2013 were as

follows:

	February 2013	March 2013	June 2013	August 2013
Estimated fair value per share of options granted:	\$ 3.57	\$ 3.53	\$ 6.07	\$ 11.71
Assumptions:				
Annualized dividend yield	0.00 %	0.00 %	0.00 %	0.00 %
Risk-free rate of return	0.75 %	0.66 %	0.89 %	1.36 %
Common stock price volatility	82.3 %	82.0 %	80.3 %	81.2 %
Expected average life of stock options (in years)	4.5	4.5	4.5	4.5

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Historically, our estimates and underlying assumptions have not materially deviated from our actual reported results and rates. However, we base assumptions we use on our best estimates, which involves inherent uncertainties based on market conditions that are outside of our control. If actual results are not consistent with the assumptions we use, the stock-based compensation expense reported in our consolidated financial statements may not be representative of the actual economic cost of stock-based compensation. For example, if actual employee forfeitures significantly differ from our estimated forfeitures, we may be required to adjust our consolidated financial statements in future periods. As of December 31, 2013, using our current assumptions and estimates, we anticipate recognizing \$0.1 million in gross compensation expense through 2014 related to unvested stock options outstanding.

If we grant additional stock options in the future, we would be required to recognize additional compensation expense over the vesting period of such stock options in our consolidated statement of operations. As of December 31, 2013, we had 73,431 shares available for grant in the future.

### Contingencies and Litigation

Each quarter, we evaluate the need to establish a reserve for any legal claims or assessments. We base our evaluation on our best estimates of the potential liability in such matters. The legal reserve includes an estimated amount for any damages and the probability of losing any threatened legal claims or assessments. The legal reserve is developed in consultation with our general and outside counsel and is based upon a combination of litigation and settlement strategies. Although we believe that our legal reserves and accruals are based on reasonable judgments and estimates, actual results could differ, which may expose us to material gains or losses in future periods. If actual results differ, if circumstances change, or if we experience an unanticipated adverse outcome of any legal action, including any claim or assessment, we would be required to recognize the estimated amount that could reduce net income, earnings per share, and cash flows.

### RECENT ACCOUNTING PRONOUNCEMENTS

See Note 2 to our Consolidated Financial Statements, Recent Accounting Pronouncements, which is incorporated herein by reference.

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## Item 7A. Quantitative and Qualitative Disclosures About Market Risk

We do not engage in trading market risk sensitive instruments and do not purchase investments as hedges or for purposes “other than trading” that are likely to expose us to certain types of market risk, including interest rate, commodity price, or equity price risk. Although we have investments, we believe there has been no material change in our exposure to interest rate risk. We have not issued any debt instruments, entered into any forward or futures contracts, purchased any options, or entered into any swap agreements.

We are exposed, however, to other market risks, including changes in currency exchange rates as measured against the United States dollar. Because the change in value of the United States dollar measured against foreign currency may affect our consolidated financial results, changes in foreign currency exchange rates could positively or negatively affect our results as expressed in the United States dollars. For example, when the United States dollar strengthens against foreign currencies in which our products are sold or weakens against foreign currencies in which we may incur costs, our consolidated net sales or related costs and expenses could be adversely affected. We translate our revenues and expenses in foreign markets using an average rate. We believe inflation has not had a material impact on our consolidated operations or profitability.

We maintain policies, procedures, and internal processes in an effort to help monitor any significant market risks and we do not use any financial instruments to manage our exposure to such risks. We assess the anticipated foreign currency working capital requirements of our foreign operations and maintain a portion of our cash and cash equivalents denominated in foreign currencies sufficient to satisfy most of these anticipated requirements.

We caution that we cannot predict with any certainty our future exposure to such currency exchange rate fluctuations or the impact, if any, such fluctuations may have on our future business, product pricing, operating expenses, and on our consolidated financial position, results of operations, or cash flows. However, to combat such market risk, we closely monitor our exposure to currency fluctuations. The regions and countries in which we currently have exposure to foreign currency exchange rate risk include (i) North America (Canada and Mexico); (ii) EMEA (Austria, the Czech Republic, Denmark, Estonia, Finland, Germany, the Republic of Ireland, the Netherlands, Norway, South Africa, Sweden, Switzerland, the United Kingdom and Ukraine); (iii) Asia/Pacific (Australia, Japan, New Zealand, the Republic of Korea, Singapore, Taiwan and Hong Kong). The current (spot) rate, average currency exchange rates, and the low and high of such currency exchange rates as compared to the United States dollar, for each of these countries as of and for the year ended December 31, 2013 were as follows:

Country (foreign currency name)	Year ended December 31, 2013			As of December 31, 2013
	Low	High	Average	Spot
Australia (Dollar)	0.88530	1.05690	0.96826	0.88740
Austria, Germany, the Netherlands, Estonia, Finland, and the Republic of Ireland (Euro)	1.27990	1.38050	1.32826	1.37680
Canada (Dollar)	0.93430	1.01680	0.97143	0.93510
Czech Republic (Koruna)	0.04930	0.05377	0.05122	0.05024
Denmark (Kroner)	0.17170	0.18510	0.17810	0.18460
Hong Kong Dollar	0.12880	0.12900	0.12893	0.12900
Japan (Yen)	0.00950	0.01161	0.01026	0.00950
Mexico (Peso)	0.07478	0.08352	0.07846	0.07654
New Zealand (Dollar)	0.77140	0.86220	0.82042	0.81670
Norway (Krone)	0.16010	0.18340	0.17038	0.16340
Republic of Korea (Won)	0.00086	0.00098	0.00092	0.00095

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Singapore (Dollar)	0.77960	0.81930	0.79962	0.78850
South Africa (Rand)	0.09512	0.11810	0.10414	0.09535
Sweden (Krona)	0.14680	0.15900	0.15358	0.15440
Switzerland (Franc)	1.02770	1.12800	1.07951	1.12330
Taiwan (Dollar)	0.03310	0.03477	0.03375	0.03334
Ukraine (Hryvnia)	0.12130	0.12670	0.12419	0.12210
United Kingdom (British Pound)	1.48940	1.64940	1.56483	1.64910

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Item 8. Financial Statements and Supplementary Data

Our Consolidated Financial Statements and Supplementary Data required by this Item 8 are set forth in Item 15 of this report.

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

None.

Item 9A. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

Our management, with the participation of our Chief Executive Officer (principal executive officer) and our Chief Financial Officer (principal financial officer), have concluded, based on their evaluation as of the end of the period covered by this report, that our disclosure controls and procedures (as defined in Rule 13a-15(e) or Rule 15d – 15(e) under the Exchange Act) are effective to ensure that information required to be disclosed by us in reports filed or submitted under the Exchange Act is recorded, processed, summarized, and reported within the time periods specified in the SEC’s rules and forms and include controls and procedures designed to ensure that information required to be disclosed by us in such reports is accumulated and communicated to our management, including our principal executive and financial officers, as appropriate, to allow timely decisions regarding required disclosure.

Changes in Internal Control over Financial Reporting

During the quarter ended December 31, 2013, there were no changes in our internal control over our financial reporting that we believe materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

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REPORT OF MANAGEMENT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

Our management is responsible for establishing and maintaining adequate internal control over financial reporting (as defined in Rule 13a – 13(f) or Rule 15d-15(f) under the Exchange Act) for the Company. Internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of our financial reporting for external purposes in accordance with accounting principles generally accepted in the United States of America. Internal control over financial reporting includes: maintaining records that in reasonable detail accurately and fairly reflect our transactions; providing reasonable assurance that transactions are recorded as necessary for preparation of our consolidated financial statements; providing reasonable assurance that receipts and expenditures of company assets are made in accordance with management authorization; and providing reasonable assurance that unauthorized acquisition, use or disposition of company assets that could have a material effect on our consolidated financial statements would be prevented or detected on a timely basis. Because of its inherent limitations, internal control over financial reporting is not intended to provide absolute assurance that a misstatement of our consolidated financial statements would be prevented or detected.

Management conducted an evaluation of the effectiveness of our internal control over financial reporting based on the framework in Internal Control — Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (1992). Based on this evaluation, management concluded that the Company’s internal control over financial reporting was effective as of December 31, 2013.

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Item 9B. Other Information

None.

PART III

Documents Incorporated by Reference

The information required by Items 10, 11, 12, 13 and 14 of Part III of Form 10-K is incorporated by reference to the definitive proxy statement for our annual meeting to be filed with the SEC within 120 days after December 31, 2013.

PART IV

Item 15. Exhibits and Financial Statement Schedule

(a) Documents filed as a part of the report:

1. Consolidated Financial Statements

The following financial statements and the Reports of Independent Registered Public Accounting Firms are filed as a part of this report on the pages indicated:

Index to Consolidated Financial Statements	F-1
Report of Independent Registered Public Accounting Firm	F-2
Consolidated Balance Sheets as of December 31, 2013 and 2012	F-3
Consolidated Statements of Operations for the years ended December 31, 2013 and 2012	F-4
Consolidated Statements of Comprehensive Income (Loss) for the years ended December 31, 2013 and 2012	F-4
Consolidated Statements of Shareholders' Equity for the years ended December 31, 2013 and 2012	F-5
Consolidated Statements of Cash Flows for the years ended December 31, 2013 and 2012	F-6
Notes to Consolidated Financial Statements	F-7

2. Financial Statement Schedule

The financial statement schedule required by this item is included as an Exhibit to this Annual Report on Form 10-K.

Report of Independent Registered Public Accounting Firm on Financial Statement Schedule.

3. Exhibit List

See Index to Exhibits following our Consolidated Financial Statements contained in this Annual Report on Form 10-K.

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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

Dated: March 18, 2014 By: /s/ Robert A. Sinnott  
Robert A. Sinnott  
Chief Executive Officer

Dated: March 18, 2014 By: /s/ S. Mark Nicholls  
S. Mark Nicholls  
Chief Financial Officer

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## POWER OF ATTORNEY

The undersigned directors and officers of Mannatech, Incorporated hereby constitute and appoint Larry A. Jobe and S. Mark Nicholls, and each of them, with the power to act without the other and with full power of substitution and resubstitution, our true and lawful attorneys-in fact and agents with full power to execute in our name and behalf in the capacities indicated below any and all amendments to this report and to file the same, with all exhibits and other documents relating thereto and hereby ratify and confirm all that such attorneys-in-fact, or either of them, or their substitutes, may lawfully do or cause to be done by virtue hereof.

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed by the following persons on behalf of the registrant and in the capacities indicated:

<u>Signature</u>	<u>Title</u>	<u>Date</u>
/s/ Robert A. Sinnott Robert A. Sinnott	Chief Executive Officer and Chief Science Officer (principal executive officer)	March 18, 2014
/s/ S. Mark Nicholls S. Mark Nicholls	Chief Financial Officer (principal financial and accounting officer)	March 18, 2014
/s/ J. Stanley Fredrick J. Stanley Fredrick	Chairman of the Board	March 18, 2014
/s/ Alan D. Kennedy Alan D. Kennedy	Director	March 18, 2014
/s/ Gerald E. Gilbert Gerald E. Gilbert	Director	March 18, 2014
/s/ Marlin Ray Robbins Marlin Ray Robbins	Director	March 18, 2014
/s/ Larry A. Jobe Larry A. Jobe	Director	March 18, 2014
/s/ Robert A. Toth Robert A. Toth	Director	March 18, 2014



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INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

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Report of Independent Registered Public Accounting Firm	F-2
Consolidated Balance Sheets as of December 31, 2013 and 2012	F-3
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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Board of Directors and Shareholders  
Mannatech, Incorporated  
Coppell, Texas

We have audited the accompanying consolidated balance sheets of Mannatech, Incorporated and Subsidiaries as of December 31, 2013 and 2012 and the related consolidated statements of operations, comprehensive income (loss), shareholders' equity, and cash flows for each of the two years in the period ended December 31, 2013. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of their internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Mannatech, Incorporated and Subsidiaries at December 31, 2013 and 2012 and the results of their operations and their cash flows for each of the two years in the period ended December 31, 2013 in conformity with accounting principles generally accepted in the United States of America.

/s/ BDO USA, LLP  
Dallas, Texas  
March 18, 2014

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## MANNATECH, INCORPORATED AND SUBSIDIARIES

## CONSOLIDATED BALANCE SHEETS

(in thousands, except share and per share information)

	December 31, 2013	December 31, 2012
<b>ASSETS</b>		
Cash and cash equivalents	\$ 20,395	\$ 14,377
Restricted cash	1,519	1,515
Accounts receivable, net of allowance of \$142 and \$20 in 2013 and 2012, respectively	423	324
Income tax receivable	4	884
Inventories, net	13,988	15,154
Prepaid expenses and other current assets	3,061	2,487
Deferred commissions	2,706	562
Deferred tax assets, net	1,578	561
Total current assets	43,674	35,864
Property and equipment, net	3,239	4,833
Long-term restricted cash	4,254	3,736
Other assets	3,591	3,187
Long-term deferred tax assets, net	1,303	502
Total assets	\$ 56,061	\$ 48,122
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
Current portion of capital leases	\$ 704	\$ 780
Accounts payable	4,996	4,154
Accrued expenses	5,796	6,348
Commissions and incentives payable	10,210	7,935
Taxes payable	1,858	3,901
Current deferred tax liability	114	179
Deferred revenue	6,380	1,486
Total current liabilities	30,058	24,783
Capital leases, excluding current portion	450	938
Other long-term liabilities	2,101	2,180
Total liabilities	32,609	27,901
Commitments and contingencies		
Shareholders' equity:		
Preferred stock, \$0.01 par value, 1,000,000 shares authorized, no shares issued or outstanding	—	—
Common stock, \$0.0001 par value, 99,000,000 shares authorized, 2,773,972 shares issued and 2,653,913 shares outstanding as of December 31, 2013 and 2,768,972 shares issued and 2,647,735 shares outstanding as of December 31, 2012	—	—
Additional paid-in capital	42,592	42,614
Accumulated deficit	(3,746 )	(6,920 )
Accumulated other comprehensive loss	(743 )	(677 )
Less treasury stock, at cost, 120,059 and 121,237 shares in 2013 and 2012, respectively	(14,651 )	(14,796 )
Total shareholders' equity	23,452	20,221
Total liabilities and shareholders' equity	\$ 56,061	\$ 48,122

See accompanying notes to consolidated financial statements.

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## MANNATECH, INCORPORATED AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF OPERATIONS

(in thousands, except per share information)

	For the years ended December 31,	
	2013	2012
Net sales	\$177,423	\$173,447
Cost of sales	36,097	34,641
Gross profit	141,326	138,806
Operating expenses:		
Commissions and incentives	75,633	73,823
Selling and administrative expenses	33,758	37,176
Depreciation and amortization	2,120	4,755
Other operating costs	25,059	24,032
Total operating expenses	136,570	139,786
Income from operations	4,756	(980 )
Interest income	22	50
Other income (expense), net	(1,969 )	630
Income (loss) before income taxes	2,809	(300 )
Income tax benefit (provision)	365	(1,088 )
Net income (loss)	\$3,174	\$(1,388 )
<u>Income / (Loss) per common share:</u>		
Basic	\$1.20	\$(0.52 )
Diluted	\$1.18	\$(0.52 )
<u>Weighted-average common shares outstanding:</u>		
Basic	2,650	2,648
Diluted	2,683	2,648

## CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

(in thousands)

	For the years ended December 31,	
	2013	2012
Net income (loss)	\$3,174	\$(1,388)
Foreign currency translations loss	(6 )	(565 )
Pension obligations, net of tax provision of \$39 and \$231 in 2013 and 2012, respectively	(60 )	315
Comprehensive income (loss)	\$3,108	\$(1,638)

See accompanying notes to consolidated financial statements.

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Table of ContentsMANNATECH, INCORPORATED AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

(in thousands)

	Common stock Par value	Additional paid in capital	Retained earnings (Accumulated deficit)	Accumulated other comprehensive loss	Treasury stock	Total shareholders' equity
Balance at December 31, 2011	\$ —	\$ 42,408	\$ (5,532)	) \$ (427)	) \$(14,796)	\$ 21,653
Charge related to stock-based compensation	—	209	—	—	—	209
Repurchase of fractional shares from reverse stock split	—	(3)	) —	—	—	(3)
Foreign currency translation	—	—	—	(565)	) —	(565)
Pension obligations, net of tax of \$231	—	—	—	315	—	315
Net loss	—	—	(1,388)	) —	—	(1,388)
Balance at December 31, 2012	\$ —	\$ 42,614	\$ (6,920)	) \$ (677)	) \$(14,796)	\$ 20,221
Charge related to stock-based compensation	—	173	—	—	—	173
Stock option exercises	—	(146)	) —	—	145	(1)
Tax shortfall from expiration of stock options	—	(84)	) —	—	—	(84)
Tax benefit from exercise of stock options	—	35	—	—	—	35
Foreign currency translation	—	—	—	(6)	) —	(6)
Pension obligations, net of tax of \$39	—	—	—	(60)	) —	(60)
Net income	—	—	3,174	—	—	3,174
Balance at December 31, 2013	\$ —	\$ 42,592	\$ (3,746)	) \$ (743)	) \$(14,651)	\$ 23,452

See accompanying notes to consolidated financial statements.

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MANNATECH, INCORPORATED AND SUBSIDIARIES  
 CONSOLIDATED STATEMENTS OF CASH FLOWS  
 (in thousands)

	For the years ended December 31,	
	2013	2012
<b><u>CASH FLOWS FROM OPERATING ACTIVITIES:</u></b>		
Net income (loss)	\$3,174	\$(1,388 )
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Depreciation and amortization	2,120	4,755
Provision for inventory losses	1,229	1,766
Provision for doubtful accounts	178	8
Loss on disposal of assets	52	102
Stock-based compensation expense	173	209
Deferred income taxes	(1,995 )	583
Tax shortfall from expiration of stock options	(84 )	—
Changes in operating assets and liabilities:		
Accounts receivable	(291 )	(40 )
Income tax receivable	880	4
Inventories	10	1,065
Prepaid expenses and other current assets	433	610
Other assets	(496 )	(144 )
Deferred commissions	(2,126 )	92
Accounts payable	883	(646 )
Accrued expenses and other liabilities	(373 )	(7,314 )
Taxes payable	(2,054 )	508
Commissions and incentives payable	2,441	(1,278 )
Deferred revenue	4,860	(84 )
Change in restricted cash	(452 )	(336 )
Net cash provided by (used in) operating activities	8,562	(1,528 )
<b><u>CASH FLOWS FROM INVESTING ACTIVITIES:</u></b>		
Acquisition of property and equipment	(602 )	(379 )
Proceeds from sales of assets	1	111
Net cash used in investing activities	(601 )	(268 )
<b><u>CASH FLOWS FROM FINANCING ACTIVITIES:</u></b>		
Proceeds from stock options exercised	22	—
Repurchase of fractional shares from reverse stock split	—	(3 )
Repayment of capital lease obligations	(1,576 )	(1,074 )
Net cash used in financing activities	(1,554 )	(1,077 )
Effect of currency exchange rate changes on cash and cash equivalents	(389 )	(807 )
Net increase (decrease) in cash and cash equivalents	6,018	(3,680 )
Cash and cash equivalents at the beginning of the year	14,377	18,057
Cash and cash equivalents at the end of the year	\$20,395	\$14,377
<b><u>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:</u></b>		
Income taxes paid, net	\$2,234	\$876
Interest paid on capital leases	\$137	\$171
<b><u>Summary of non-cash investing and financing activities:</u></b>		
Assets acquired through capital lease	\$1,044	\$57

Note receivable, net relating to sale of property and equipment	\$195	\$237
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See accompanying notes to consolidated financial statements.

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MANNATECH, INCORPORATED AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1: ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Mannatech, Incorporated (together with its subsidiaries, the “Company”), located in Coppell, Texas, was incorporated in the state of Texas on November 4, 1993 and is listed on the NASDAQ Global Select Market under the symbol “MTEX”. The Company develops, markets, and sells high-quality, proprietary nutritional supplements, topical and skin care products, and weight-management products. We currently sell our products into three regions: (i) North America (the United States, Canada and Mexico); (ii) EMEA (Austria, the Czech Republic, Denmark, Estonia, Finland, Germany, the Republic of Ireland, Namibia, the Netherlands, Norway, South Africa, Sweden, the United Kingdom and Ukraine); (iii) Asia/Pacific (Australia, Japan, New Zealand, the Republic of Korea, Singapore, Taiwan and Hong Kong).

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

Principles of Consolidation

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

Reclassifications

Certain amounts in the prior years’ consolidated financial statements have been reclassified to conform to the current year presentation.

Use of Estimates

The preparation of the Company’s consolidated financial statements in accordance with generally accepted accounting principles requires the use of estimates that affect the reported value of assets, liabilities, revenues and expenses. These estimates are based on historical experience and various other factors. The Company continually evaluates the information used to make these estimates as the business and economic environment changes. Historically, actual results have not varied materially from the Company’s estimates and the Company does not currently anticipate a significant change in its assumptions related to these estimates. However, actual results may differ from these estimates under different assumptions or conditions.

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

Foreign Currency Translation

The United States dollar is the functional currency for the majority of the Company’s foreign subsidiaries. As a result, nonmonetary assets and liabilities are translated at their approximate historical rates, monetary assets and liabilities are translated at exchange rates in effect at the end of the year, and revenues and expenses are translated at weighted-average exchange rates for the year. Transaction gains (losses) totaled approximately (\$0.9) million and \$0.7 million, for the years ended December 31, 2013 and 2012, respectively, and are included in other income (expense),

net in the Company's Consolidated Statements of Operations.

The local currency is the functional currency of our subsidiaries in Japan, Republic of Korea, Taiwan, Norway, Sweden, Mexico, and Ukraine. These subsidiaries' assets and liabilities are translated into the United States dollars at exchange rates existing at the balance sheet dates, revenues and expenses are translated at weighted-average exchange rates, and shareholders' equity and intercompany balances are translated at historical exchange rates. The foreign currency translation adjustment is recorded as a separate component of shareholders' equity and is included in accumulated other comprehensive income (loss).

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## Cash and Cash Equivalents

The Company considers all highly liquid investments with original maturities of three months or less to be cash equivalents. The Company includes in its cash and cash equivalents credit card receivables due from its credit card processor, as the cash proceeds from credit card receivables are received within 24 to 72 hours. As of December 31, 2013 and 2012, credit card receivables were \$0.6 million and \$1.7 million, respectively, and cash and cash equivalents held in bank accounts in foreign countries totaled \$14.7 million and \$10.8 million, respectively. The Company invests cash in liquid instruments, such as money market funds and interest bearing deposits. The Company also holds cash in high quality financial institutions and does not believe it has an excessive exposure to credit concentration risk.

## Restricted Cash

The Company is required to restrict cash for: (i) direct selling insurance premiums and credit card sales in the Republic of Korea; (ii) reserve on credit card sales in the United States and Canada; and (iii) Australia building lease collateral. As of December 31, 2013 and 2012, our total restricted cash was \$5.8 million and \$5.3 million, respectively.

## Accounts Receivable

Accounts receivable are carried at their estimated collectible amounts. Receivables are created upon shipment of an order if the credit card payment is rejected or does not match the order total. As of December 31, 2013 and 2012, receivables consisted primarily of amounts due from members and associates. The Company periodically evaluates its receivables for collectability based on historical experience, recent account activities, and the length of time receivables are past due and writes-off receivables when they become uncollectible. At December 31, 2013 and 2012, the Company held an allowance for doubtful accounts of \$0.14 million and \$0.02 million, respectively. Included in accounts receivable at December 31, 2013 is a \$0.1 million receivable, net, from an independent associate.

## Inventories

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

## Property and Equipment

Property and equipment are stated at cost, less accumulated depreciation and amortization computed using the straight-line method over the estimated useful life of each asset. Leasehold improvements are amortized over the shorter of the lease term or the estimated useful life of the improvements. Expenditures for maintenance and repairs are charged to expense as incurred. The cost of property and equipment sold or otherwise retired and the related accumulated depreciation are removed from the accounts and any resulting gain or loss is included in other operating costs in the accompanying Consolidated Statements of Operations. The estimated useful lives of fixed assets are as follows:

	Estimated useful life
Office furniture and equipment	5 to 7 years
Computer hardware and software	3 to 5 years
Automobiles	3 to 5 years
Leasehold improvements <sup>(1)</sup>	2 to 10 years

<sup>(1)</sup> The Company amortizes leasehold improvements over the shorter of the useful estimated life of the leased asset or the lease term.

Property and equipment are reviewed for impairment whenever an event or change in circumstances indicates that the carrying amount of an asset or group of assets may not be recoverable. The impairment review includes a comparison of future projected cash flows generated by the asset or group of assets with its associated net carrying value. If the net carrying value of the asset or group of assets exceeds expected cash flows (undiscounted and without interest charges), an impairment loss is recognized to the extent the carrying amount of the asset exceeds its fair value. We determined that no impairment indicators existed during the years ended December 31, 2013 and 2012.

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## Other Assets

As of December 31, 2013 and 2012, other assets were \$3.6 million and \$3.2 million, respectively, primarily consisting of deposits for building leases in various locations of \$1.4 million and \$1.8 million, respectively. Also included in the December 31, 2013 and 2012 balances were \$1.8 million and \$1.0 million, respectively, representing a deposit with Mutual Aid Cooperative and Consumer in the Republic of Korea, an organization established by the Republic of Korea's Fair Trade Commission's approval to compensate and protect consumers who participate in network marketing activities from damages. Other assets at December 31, 2013 and 2012 also include \$0.2 million of indefinite lived intangible assets relating to the Manapol® powder trademark.

## Other Long-Term Liabilities

Other long-term liabilities were \$2.1 million and \$2.2 million for the years ending December 31, 2013 and 2012, respectively. Included in other long-term liabilities are financing obligations of \$0.2 million and \$0.5 million, respectively, for the years ending December 31, 2013 and 2012. As of December 31, 2013 and 2012, we recorded \$0.7 million and \$0.1 million in other long-term liabilities related to uncertain income tax positions (see Note 8, Income Taxes). Certain operating leases for the Company's regional office facilities contain a restoration clause that requires the Company to restore the premises to its original condition. As of December 31, 2013 and 2012, accrued restoration costs related to these leases amounted to \$0.2 million and \$0.5 million, respectively. At December 31, 2013 and 2012, the Company also recorded a long-term liability for an estimated defined benefit obligation related to a non-U.S. defined benefit plan for its Japan operations of \$0.6 million and \$0.7 million, respectively (See Note 10, Employee Benefit Plans).

## Revenue Recognition and Deferred Commissions

The Company's revenue is derived from sales of individual products, sales of its starter and renewal packs, and shipping fees. Substantially all of the Company's product and pack sales are made to associates at published wholesale prices and to members at discounted published retail prices. The Company records revenue net of any sales taxes and records a reserve for expected sales returns based on its historical experience.

The Company recognizes revenue from shipped packs and products upon receipt by the customer. Corporate-sponsored event revenue is recognized when the event is held. The Company defers certain components of its revenue. At December 31, 2013 and December 31, 2012, the Company's deferred revenue was \$6.4 million and \$1.5 million, respectively. During the third quarter of 2013, the Company started a loyalty program through which customers earn loyalty points from qualified automatic orders, which can be applied to future purchases. The Company defers the dollar equivalent in revenue of these points until the points are applied or forfeited. The deferred revenue associated with the loyalty program at December 31, 2013 was \$5.5 million. Deferred revenue consisted primarily of: (i) sales of packs and products shipped but not received by the customers by the end of the respective period; (ii) revenue from the loyalty program; and (iii) prepaid registration fees from customers planning to attend a future corporate-sponsored event. In total current assets, the Company defers commissions on (i) the sales of packs and products shipped but not received by the customers by the end of the respective period and (ii) the loyalty program. Deferred commissions were \$2.7 million and \$0.6 million at December 31, 2013 and December 31, 2012, respectively.

## Loyalty program

Loyalty deferred revenue as of January 1, 2013	\$—
Loyalty points forfeited	1,136
Loyalty points used	723
Loyalty points vested	(5,072)
Loyalty points unvested	(2,243)

Loyalty deferred revenue as of December 31, 2013 \$(5,456)

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We estimate a sales return reserve for expected sales refunds based on our historical experience over a rolling six-month period. If actual results differ from our estimated sales return reserve due to various factors, the amount of revenue recorded for each period could be materially affected. Historically, our sales returns have not materially changed through the years, as the majority of our customers who return their merchandise do so within the first 90 days after the original sale. Sales returns have historically averaged 1.5% or less of our gross sales. For the year ended December 31, 2013 our sales return reserve consisted of the following (in thousands):

	December
	31, 2013
Sales reserve as of January 1, 2013	\$ 156
Provision related to sales made in current period	1,367
Adjustment related to sales made in prior periods	4
Actual returns or credits related to current period	(1,130 )
Actual returns or credits related to prior periods	(159 )
Sales reserve as of December 31, 2013	\$ 238

## Shipping and Handling Costs

The Company records freight and shipping fees collected from its customers as revenue. The Company records inbound freight as a component of inventory and cost of sales. Total revenue from freight and shipping fees were approximately \$7.7 million and \$6.2 million for the years ended December 31, 2013 and 2012, respectively. Total freight costs for shipping products to our customers included in cost of sales were approximately \$6.8 million and \$7.2 million for the years ended December 31, 2013 and 2012, respectively.

## Commission and Incentive Expenses

Independent associates earn commissions and incentives based on their direct and indirect commissionable net sales over 13 business periods. Each business period equals 28 days. The Company accrues commissions and incentives when earned by independent associates and pays commissions on product sales three weeks following the business period end and pays commissions on its pack sales five weeks following the business period end.

## Advertising Expenses

The Company expenses advertising and promotions in selling and administrative expenses when incurred. Advertising and promotional expenses were approximately \$4.3 million and \$4.2 million, for the years ended December 31, 2013 and 2012, respectively. Educational and promotional items, called sales aids, are sold to independent associates to assist in their sales efforts and are included in inventories and charged to cost of sales when sold.

## Research and Development Expenses

The Company expenses research and development expenses as incurred. Research and development expenses related to new product development, enhancement of existing products, clinical studies and trials, Food and Drug Administration compliance studies, general supplies, internal salaries, third-party contractors, and consulting fees were approximately \$1.6 million and \$1.9 million for the years ended December 31, 2013 and 2012, respectively. Salaries and contract labor are included in selling and administrative expenses and all other research and development costs are included in other operating costs.

## Stock-Based Compensation

The Company currently has one active stock-based compensation plan, which was approved by its shareholders at its 2008 Annual Shareholder's meeting held on June 18, 2008. The Company grants stock options to its employees, consultants, and board members with an exercise price equal to the closing price of its common stock on the date of grant with a term no greater than 10 years. The majority of stock options vest over two or three years. Incentive stock options granted to shareholders who own 10% or more of the Company's outstanding stock are granted at an exercise price that may not be less than 110% of the closing price of the Company's common stock on the date of grant and have a term no greater than five years. At the date of grant, the Company determines the fair value of the stock option award and recognizes compensation expense over the requisite service period, or the vesting period of the award. The fair value of the stock option award is calculated using the Black-Scholes option-pricing model. The Company records stock-based compensation expense in selling and administrative expenses.

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### Software Development Costs

The Company capitalizes qualifying internal payroll and external contracting and consulting costs related to the development of internal use software that are incurred during the application development stage, which includes design of the software configuration and interfaces, coding, installation, and testing. Costs incurred during the preliminary project along with post-implementation stages of internal use software are expensed as incurred. The Company amortizes such costs over the estimated useful life of the software, which is three to five years once the software is placed in service.

### Other Operating Costs

Other operating costs include travel, accounting/legal/consulting fees, credit card processing fees, banking fees, off-site storage fees, utilities, and other miscellaneous operating expenses.

### Income Taxes

The Company determines the provision for income taxes using the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized as income in the period that includes the enactment date. The Company evaluates the probability of realizing the future benefits of its deferred tax assets and provides a valuation allowance for the portion of any deferred tax assets where the likelihood of realizing an income tax benefit in the future does not meet the more likely than not criterion for recognition. The Company recognizes the effect of income tax positions only if those positions are more likely than not of being sustained. Recognized income tax positions are measured at the largest amount that is greater than 50% likely of being recognized. Changes in recognition or measurement are reflected in the period in which the change in judgment occurs. The Company recognizes both interest and penalties related to uncertain tax positions as part of the income tax provision.

### Comprehensive Income (Loss) and Accumulated Other Comprehensive Income (Loss)

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

### Concentration Risk

A significant portion of the Company's revenue is derived from core Ambrotos® complex products, which include the Ambrotose® products and Advanced Ambrotose® products. For the years ended December 31, 2013 and 2012, revenue from the core Ambrotose® products accounted for 40.0% and 45.2% of the Company's consolidated net sales, respectively.

Financial instruments, which potentially subject the Company to concentrations of credit risk, consist principally of cash and cash equivalents, investments, receivables, and restricted cash. The Company utilizes financial institutions that the Company considers to be of high credit quality and periodically evaluates the credit rating of such institutions and the allocation of their investments to minimize exposure to credit concentration risk.

Fair Value of Financial Instruments

The fair value of the Company's financial instruments, including cash and cash equivalents, restricted cash, time deposits, money market investments, receivables, payables, and accrued expenses, approximate their carrying values due to their relatively short maturities. See Note 3 to our Consolidated Financial Statements, Fair Value, for more information.

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## NOTE 2: RECENT ACCOUNTING PRONOUNCEMENTS

In February 2013, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) No. 2013-02, Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income. Under this standard, entities will be required to disclose additional information with respect to changes in accumulated other comprehensive income (“AOCI”) balances by component and significant items reclassified out of AOCI. Expanded disclosures for presentation of changes in AOCI involve disaggregating the total change of each component of other comprehensive income (for example, unrealized gains or losses on available for sale marketable securities) as well as presenting separately for each such component the portion of the change in AOCI related to (1) amounts reclassified into income and (2) current-period other comprehensive income. Additionally, for amounts reclassified into income, disclosure in one location would be required, based upon each specific AOCI component, of the amounts impacting individual income statement line items. Disclosure of the income statement line item impacts will be required only for components of AOCI reclassified into income in their entirety. This ASU is effective beginning January 1, 2013. Because this standard only impacts presentation and disclosure requirements, its adoption did not have a material impact on the Company’s consolidated results of operations or financial condition.

Other recently issued accounting pronouncements did not or are not believed by management to have a material impact on the Company’s present or future financial statements.

## NOTE 3: FAIR VALUE

The Company utilizes fair value measurements to record fair value adjustments to certain financial assets and to determine fair value disclosures.

Fair Value Measurements (Topic 820) of the FASB establishes a fair value hierarchy that requires the use of observable market data, when available, and prioritizes the inputs to valuation techniques used to measure fair value in the following categories:

- Level 1—Quoted unadjusted prices for identical instruments in active markets.
- Level 2—Quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active and model-derived valuations in which all observable inputs and significant value drivers are observable in active markets.
- Level 3—Model derived valuations in which one or more significant inputs or significant value drivers are unobservable, including assumptions developed by the Company.

The primary objective of the Company’s investment activities is to preserve principal while maximizing yields without significantly increasing risk. The investment instruments held by the Company are money market funds and interest bearing deposits for which quoted market prices are readily available. The Company considers these highly liquid investments to be cash equivalents. These investments are classified within Level 1 of the fair value hierarchy because they are valued based on quoted market prices in active markets. The tables below present the recorded amount of financial assets measured at fair value (in thousands) on a recurring basis as of December 31, 2013 and 2012. The Company did not have any material financial liabilities that were required to be measured at fair value on a recurring basis at December 31, 2013 and 2012.

	Level 1	Level 2	Level 3	Total
2013				
Assets				
Money Market Funds – Fidelity, US	\$ 192	\$ —	\$ —	\$ 192

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Interest bearing deposits – various banks	6,803	—	—	6,803
Total assets	\$6,995	\$ —	\$ —	\$6,995
Amounts included in:				
Cash and cash equivalents	\$3,044	\$ —	\$ —	\$3,044
Restricted Cash	329	—	—	329
Long-term restricted cash	3,622	—	—	3,622
Total	\$6,995	\$ —	\$ —	\$6,995

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2012	Level 1	Level 2	Level 3	Total
Assets				
Money Market Funds – Fidelity, US	\$1,141	\$	—\$	—\$1,141
Interest bearing deposits – various banks	5,687		—	— 5,687
Total assets	\$6,828	\$	—	