

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended: September 30, 2020

OR

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

For the transition period from _____ to _____.

Commission File No. 000-24657

MANNATECH, INCORPORATED

(Exact Name of Registrant as Specified in its Charter)

Texas

(State or other Jurisdiction of Incorporation or Organization)

1410 Lakeside Parkway, Suite 200, Flower Mound, Texas

(Address of Principal Executive Offices)

75-2508900

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

75028

(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	Trading Symbol(s)	Name of each exchange on which registered
Common Stock, par value \$0.0001 per share	MTEX	The Nasdaq Stock Market LLC

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

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

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

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company Emerging Growth Company

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

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

As of October 31, 2020, the number of shares outstanding of the registrant's sole class of common stock, par value \$0.0001 per share, was 2,087,791.

MANNATECH, INCORPORATED
TABLE OF CONTENTS

<u>Special Note Regarding Forward-Looking Statements</u>	1
Part I – FINANCIAL INFORMATION	
<u>Item 1. Financial Statements</u>	2
<u>Consolidated Balance Sheets as of September 30, 2020 (unaudited) and December 31, 2019</u>	2
<u>Consolidated Statements of Operations for the Three and Nine Months Ended September 30, 2020 and 2019 (unaudited)</u>	3
<u>Consolidated Statements of Comprehensive Income for the Three and Nine Months Ended September 30, 2020 and 2019 (unaudited)</u>	3
<u>Consolidated Statement of Shareholders' Equity for the Three and Nine Months Ended September 30, 2020 (unaudited)</u>	4
<u>Consolidated Statements of Cash Flows for the Nine Months Ended September 30, 2020 and 2019 (unaudited)</u>	6
<u>Notes to Unaudited Consolidated Financial Statements</u>	8
<u>Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	23
<u>Company Overview</u>	23
<u>Results of Operations</u>	24
<u>Liquidity and Capital Resources</u>	33
<u>Critical Accounting Policies and Estimates</u>	37
<u>Recent Accounting Pronouncements</u>	41
<u>Item 3. Quantitative and Qualitative Disclosures About Market Risk</u>	42
<u>Item 4. Controls and Procedures</u>	43
Part II – OTHER INFORMATION	
<u>Item 1. Legal Proceedings</u>	44
<u>Item 1A. Risk Factors</u>	44
<u>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds</u>	45
<u>Item 3. Defaults Upon Senior Securities</u>	45
<u>Item 4. Mine Safety Disclosures</u>	45
<u>Item 5. Other Information</u>	45
<u>Item 6. Exhibits</u>	45
<u>Signatures</u>	47

Special Note Regarding Forward-Looking Statements

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

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

Although we believe that the expectations included in these forward-looking statements are reasonable, these forward-looking statements are subject to certain events, risks, assumptions, and uncertainties, including those discussed below, the “Risk Factors” section in Part I, Item 1A of our Form 10-K for the year ended December 31, 2019, and elsewhere in this Form 10-Q and the documents incorporated by reference herein. If one or more of these risks or uncertainties materialize, or if our underlying assumptions prove to be incorrect, actual results and developments could materially differ from those expressed in or implied by such forward-looking statements. For example, any of the following factors could cause actual results to vary materially from our projections:

- the impact of the outbreak of the novel coronavirus (“COVID-19”) pandemic;
- overall growth or lack of growth in the nutritional supplements industry;
- plans for expected future product development;
- changes in manufacturing costs;
- shifts in the mix of packs and products;
- the future impact of any changes to global associate career and compensation plans or incentives or the regulations governing such plans and incentives;
- the ability to attract and retain independent associates and preferred customers;
- new regulatory changes that may affect operations, products or compensation plans or incentives;
- the competitive nature of our business with respect to products and pricing;
- publicity related to our products or network-marketing; and
- the political, social, and economic climate of the countries in which we operate.

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

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

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

PART I – FINANCIAL INFORMATION

Item 1. Financial Statements
MANNATECH, INCORPORATED AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(in thousands, except share and per share amounts)

ASSETS	September 30, 2020 (unaudited)	December 31, 2019
Cash and cash equivalents	\$ 21,234	\$ 24,762
Restricted cash	943	943
Accounts receivable, net of allowance of \$787 and \$708 in 2020 and 2019, respectively	144	955
Income tax receivable	825	220
Inventories, net	13,512	10,152
Prepaid expenses and other current assets	2,516	2,239
Deferred commissions	1,729	1,758
Total current assets	40,903	41,029
Property and equipment, net	4,007	5,261
Construction in progress	1,411	865
Long-term restricted cash	4,049	5,295
Other assets	11,712	9,592
Long-term deferred tax assets, net	963	881
Total assets	\$ 63,045	\$ 62,923
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current portion of finance leases	\$ 77	\$ 87
Accounts payable	4,763	3,526
Accrued expenses	7,823	8,209
Commissions and incentives payable	9,807	9,728
Taxes payable	1,080	2,187
Current notes payable	689	739
Deferred revenue	5,034	4,416
Total current liabilities	29,273	28,892
Finance leases, excluding current portion	152	176
Deferred tax liabilities	3	3
Long-term notes payable	—	363
Other long-term liabilities	7,373	6,214
Total liabilities	36,801	35,648
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, 2,742,857 shares issued and 2,089,002 shares outstanding as of September 30, 2020 and 2,742,857 shares issued and 2,381,131 shares outstanding as of December 31, 2019	—	—
Additional paid-in capital	33,765	34,143
Retained earnings (accumulated deficit)	3,908	(690)
Accumulated other comprehensive income	3,350	3,757
Treasury stock, at average cost, 653,855 shares as of September 30, 2020 and 361,726 shares as of December 31, 2019	(14,779)	(9,935)
Total shareholders' equity	26,244	27,275
Total liabilities and shareholders' equity	\$ 63,045	\$ 62,923

See accompanying notes to unaudited consolidated financial statements.

MANNATECH, INCORPORATED AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS – (UNAUDITED)
(in thousands, except per share information)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
Net sales	\$ 37,966	\$ 39,656	\$ 112,218	\$ 118,340
Cost of sales	9,328	7,711	25,044	23,253
Gross profit	28,638	31,945	87,174	95,087
Operating expenses:				
Commissions and incentives	15,089	16,696	45,308	48,190
Selling and administrative expenses	6,639	8,951	20,659	24,908
Depreciation and amortization expense	468	519	1,525	1,564
Other operating costs	5,062	5,214	15,180	16,721
Total operating expenses	27,258	31,380	82,672	91,383
Income from operations	1,380	565	4,502	3,704
Interest income (expense), net	10	(12)	73	(83)
Other income (expense), net	248	(430)	206	554
Income before income taxes	1,638	123	4,781	4,175
Income tax (provision) benefit	(22)	(1,613)	753	(2,991)
Net income (loss)	\$ 1,616	\$ (1,490)	\$ 5,534	\$ 1,184
Earnings per common share:				
Basic	\$ 0.77	\$ (0.62)	\$ 2.42	\$ 0.50
Diluted	\$ 0.76	\$ (0.62)	\$ 2.38	\$ 0.47
Weighted-average common shares outstanding:				
Basic	2,098	2,391	2,286	2,393
Diluted	2,135	2,391	2,312	2,450

MANNATECH, INCORPORATED AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME – (UNAUDITED)
(in thousands)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
Net income (loss)	\$ 1,616	\$ (1,490)	\$ 5,534	\$ 1,184
Foreign currency translations	679	(763)	(407)	(1,393)
Comprehensive income (loss)	\$ 2,295	\$ (2,253)	\$ 5,127	\$ (209)

See accompanying notes to unaudited consolidated financial statements.

MANNATECH, INCORPORATED AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
– (UNAUDITED)
(in thousands)

	Common stock Par value	Additional paid-in capital	Retained earnings (accumulated deficit)	Accumulated other comprehensive income	Treasury stock	Total shareholders' equity
Balance at January 1, 2020	\$ —	\$ 34,143	\$ (690)	\$ 3,757	\$ (9,935)	\$ 27,275
Net income	—	—	2,787	—	—	2,787
Payment of cash dividends	—	—	(300)	—	—	(300)
Charge related to stock-based compensation	—	83	—	—	—	83
Issuance of unrestricted shares	—	(163)	—	—	373	210
Repurchase of common stock	—	—	—	—	(86)	(86)
Foreign currency translations	—	—	—	(1,634)	—	(1,634)
Balance at March 31, 2020	<u>\$ —</u>	<u>\$ 34,063</u>	<u>\$ 1,797</u>	<u>\$ 2,123</u>	<u>\$ (9,648)</u>	<u>\$ 28,335</u>
Net income	—	—	1,130	—	—	1,130
Payment of cash dividends	—	—	(299)	—	—	(299)
Charge related to stock-based compensation	—	34	—	—	—	34
Stock option exercises	—	(333)	—	—	333	—
Repurchase of common stock	—	—	—	—	(5,109)	(5,109)
Foreign currency translations	—	—	—	548	—	548
Balance at June 30, 2020	<u>\$ —</u>	<u>\$ 33,764</u>	<u>\$ 2,628</u>	<u>\$ 2,671</u>	<u>\$ (14,424)</u>	<u>\$ 24,639</u>
Net income	—	—	1,655	—	—	1,616
Payment of cash dividends	—	—	(336)	—	—	(336)
Charge related to stock-based compensation	—	1	—	—	—	1
Repurchase of common stock	—	—	—	—	(355)	(355)
Foreign currency translations	—	—	—	679	—	679
Balance at September 30, 2020	<u>\$ —</u>	<u>\$ 33,765</u>	<u>\$ 3,908</u>	<u>\$ 3,350</u>	<u>\$ (14,779)</u>	<u>\$ 26,244</u>

	Common stock Par value	Additional paid-in capital	Accumulated deficit	Accumulated other comprehensive income	Treasury stock	Total shareholders' equity
Balance at January 1, 2019	\$ —	\$ 33,939	\$ (2,782)	\$ 4,337	\$ (10,170)	\$ 25,324
Net income	—	—	688	—	—	688
Payment of cash dividends	—	—	(303)	—	—	(303)
Charge related to stock-based compensation	—	107	—	—	—	107
Issuance of unrestricted shares	—	(141)	—	—	421	280
Repurchase of common stock	—	—	—	—	(9)	(9)
Foreign currency translations	—	—	—	(441)	—	(441)
Balance at March 31, 2019	<u>\$ —</u>	<u>\$ 33,905</u>	<u>\$ (2,397)</u>	<u>\$ 3,896</u>	<u>\$ (9,758)</u>	<u>\$ 25,646</u>
Net income	—	—	1,987	—	—	1,987
Payment of cash dividends	—	—	(300)	—	—	(300)
Charge related to stock-based compensation	—	160	—	—	—	160
Stock option exercises	—	(39)	—	—	38	(1)
Repurchase of common stock	—	—	—	—	(58)	(58)
Foreign currency translations	—	—	—	(189)	—	(189)
Balance at June 30, 2019	<u>\$ —</u>	<u>\$ 34,026</u>	<u>\$ (710)</u>	<u>\$ 3,707</u>	<u>\$ (9,778)</u>	<u>\$ 27,245</u>
Net loss	—	—	(1,490)	—	—	(1,490)
Payment of cash dividends	—	—	(299)	—	—	(299)
Charge related to stock-based compensation	—	106	—	—	—	106
Issuance of unrestricted shares	—	(71)	—	—	71	—
Repurchase of common stock	—	—	—	—	(154)	(154)
Foreign currency translations	—	—	—	(763)	—	(763)
Balance at September 30, 2019	<u>\$ —</u>	<u>\$ 34,061</u>	<u>\$ (2,499)</u>	<u>\$ 2,944</u>	<u>\$ (9,861)</u>	<u>\$ 24,645</u>

See accompanying notes to unaudited consolidated financial statements.

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

	Nine Months Ended September 30,	
	2020	2019
<u>CASH FLOWS FROM OPERATING ACTIVITIES:</u>		
Net income	\$ 5,534	\$ 1,184
<i>Adjustments to reconcile net income to net cash provided by (used in) operating activities:</i>		
Depreciation and amortization	1,525	1,564
Non-cash operating lease expense	1,746	1,219
Provision for inventory losses	418	857
Provision for doubtful accounts	116	(32)
Loss on disposal of assets	(1)	62
Charge related to stock-based compensation	328	653
Deferred income taxes	(82)	999
<i>Changes in operating assets and liabilities:</i>		
Accounts receivable	695	(38)
Income tax receivable	(605)	172
Inventories	(3,778)	(199)
Prepaid expenses and other current assets	(359)	1,976
Deferred commissions	29	93
Other assets	(1,097)	850
Accounts payable	1,237	(2,049)
Accrued expenses and other liabilities	(2,015)	(177)
Taxes payable	(1,107)	444
Commissions and incentives payable	79	(1,854)
Deferred revenue	618	428
Net cash provided by operating activities	3,281	6,152
<u>CASH FLOWS FROM INVESTING ACTIVITIES:</u>		
Acquisition of property and equipment	(759)	(998)
Proceeds from sale of assets	(8)	—
Net cash used in investing activities	(767)	(998)
<u>CASH FLOWS FROM FINANCING ACTIVITIES:</u>		
Repurchase of common stock	(5,550)	(221)
Payment of cash dividends	(936)	(902)
Proceeds from Paycheck Protection Program note payable	2,244	—
Repayment of Paycheck Protection Program note payable	(2,244)	—
Repayment of other notes payable and finance lease obligations	(373)	(968)
Net cash used in financing activities	(6,859)	(2,091)
Effect of currency exchange rate changes on cash and cash equivalents	(429)	(1,346)
Net (decrease) increase in cash, cash equivalents, and restricted cash	(4,774)	1,717
Cash, cash equivalents, and restricted cash at the beginning of the period	31,000	30,584
Cash, cash equivalents, and restricted cash at the end of the period	\$ 26,226	\$ 32,301

See accompanying notes to unaudited consolidated financial statements.

	Nine Months Ended September 30,	
	2020	2019
<u>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:</u>		
Income taxes paid	\$ 969	\$ 1,089
Interest paid on finance leases and other financing arrangements	\$ 56	93
Assets acquired through other financing arrangements	—	25
Operating lease right-of-use assets recorded upon adoption of ASC 842	—	4,730
Finance lease right-of-use assets recorded upon adoption of ASC 842	—	76
Operating lease right-of-use assets acquired in exchange for new operating lease liabilities	2,769	2,916
Finance lease right-of-use assets acquired in exchange for new finance lease liabilities	47	236

See accompanying notes to unaudited consolidated financial statements.

NOTE 1: ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Mannatech, Incorporated (together with its subsidiaries, the “Company”), located in Flower Mound, 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 and anti-aging products, and weight-management products. We currently sell our products into three regions: (i) the Americas (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, Spain, Sweden and the United Kingdom); and (iii) Asia/Pacific (Australia, Japan, New Zealand, the Republic of Korea, Singapore, Taiwan, Hong Kong, and China).

Active business building associates (“independent associates” or “associates” or “distributors”) and preferred customers purchase the Company’s products at published wholesale prices. The Company cannot distinguish products sold for personal use from other sales, when sold to associates, because it is not involved with the products after delivery, other than usual and customary product warranties and returns. Only associates are eligible to earn commissions and incentives. The Company operates a non-direct selling business in mainland China. Our subsidiary in China, Meitai Daily Necessity & Health Products Co., Ltd. (“Meitai”), is operating as a traditional retailer under a cross-border e-commerce model in China. Meitai cannot legally conduct a direct selling business in China unless it acquires a direct selling license in China.

The accompanying unaudited consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (“GAAP”) for interim financial information and with instructions for Form 10-Q and Article 8-03 of Regulation S-X. Accordingly, the Company’s consolidated financial statements and footnotes contained herein do not include all of the information and footnotes required by GAAP to be considered “complete financial statements”. However, in the opinion of the Company’s management, the accompanying unaudited consolidated financial statements and footnotes contain all adjustments, including normal recurring adjustments, considered necessary for a fair presentation of the Company’s consolidated financial information as of, and for, the periods presented. The Company cautions that its consolidated results of operations for an interim period are not necessarily indicative of its consolidated results of operations to be expected for its fiscal year. The December 31, 2019 consolidated balance sheet was included in the audited consolidated financial statements in the Company’s annual report on Form 10-K for the year ended December 31, 2019 and filed with the United States Securities and Exchange Commission (the “SEC”) on March 26, 2020 (the “2019 Annual Report”), which includes all disclosures required by GAAP. Therefore, these unaudited consolidated financial statements should be read in conjunction with the consolidated financial statements of the Company included in the 2019 Annual Report.

On January 30, 2020, the World Health Organization (“WHO”) announced a global health emergency because of a new strain of coronavirus (“COVID-19”) and the risks to the international community as the virus spread globally beyond its point of origin. In March 2020, the WHO declared the outbreak of COVID-19 as a pandemic, which has spread throughout our international regions and the United States. We have closed some offices and have begun to work remotely for an uncertain period of time.

The Company depends on an independent sales force of distributors to market and sell its products to consumers. Developments such as social distancing and shelter-in-place directives have impacted and may continue to impact their ability to engage with potential and existing customers. The adverse economic effects of COVID-19 may also materially decrease demand for the Company’s products based on changes in consumer behavior or the restrictions in place by governments trying to curb the outbreak. For example, the Company has rescheduled corporate sponsored events, and in some cases, our associates have canceled sales meetings.

For some products, the Company experienced shortages of raw materials, packaging supplies and ingredients. We have experienced challenges in getting these materials and ingredients to our contract manufacturers and finished products to our distribution centers resulting from reductions in global transportation capacity.

While the conditions described above are expected to be temporary, prolonged workforce disruptions, continued disruption in our supply chain and potential decreases in consumer demands may negatively impact sales in fiscal year 2020 and the Company’s overall liquidity. The full impact of COVID-19 continues to evolve and we are actively monitoring the global situation with a focus on our financial condition, liquidity, operations, suppliers, industry, and workforce.

MANNATECH, INCORPORATED AND SUBSIDIARIES
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

Principles of Consolidation

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

Use of Estimates

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

Cash, Cash Equivalents, and Restricted Cash

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 September 30, 2020 and December 31, 2019, credit card receivables were \$2.5 million and \$0.7 million, respectively. As of September 30, 2020 and December 31, 2019, cash and cash equivalents held in bank accounts in foreign countries totaled \$15.9 million and \$18.2 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.

A significant portion of our cash and cash equivalent balances were concentrated within the Republic of Korea, with total net assets within this foreign location totaling \$17.8 million and \$19.2 million at September 30, 2020 and December 31, 2019, respectively. In addition, for the three and nine months ended September 30, 2020 and 2019, a concentrated portion of our operating cash flows were earned from operations within the Republic of Korea. An adverse change in economic conditions within the Republic of Korea could negatively affect the Company's results of operations.

The Company is required to restrict cash for: (i) direct selling insurance premiums and credit card sales in the Republic of Korea; (ii) reserve on credit card sales in the United States and Canada; and (iii) the Australia building lease collateral. As of September 30, 2020 and December 31, 2019, our total restricted cash was \$5.0 million and \$6.2 million, respectively.

The following table provides a reconciliation of cash, cash equivalents, and restricted cash reported within the Company's consolidated balance sheets to the total amount presented in the consolidated statement of cash flows (*in thousands*):

	September 30, 2020	December 31, 2019
Cash and cash equivalents at beginning of period	\$ 24,762	\$ 21,845
Current restricted cash at beginning of period	943	1,514
Long-term restricted cash at beginning of period	5,295	7,225
Cash, cash equivalents, and restricted cash at beginning of period	<u>\$ 31,000</u>	<u>\$ 30,584</u>
Cash and cash equivalents at end of period	\$ 21,234	\$ 24,762
Current restricted cash at end of period	943	943
Long-term restricted cash at end of period	4,049	5,295
Cash, cash equivalents, and restricted cash at end of period	<u>\$ 26,226</u>	<u>\$ 31,000</u>

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 September 30, 2020 and December 31, 2019, receivables consisted primarily of amounts due from preferred customers and associates. As of September 30, 2020 and December 31, 2019, the Company's accounts receivable balance (net of allowance) was \$0.1 million and \$1.0 million, respectively. 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. As of September 30, 2020 and December 31, 2019, the Company held an allowance for doubtful accounts of \$0.8 million and \$0.7 million, respectively.

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 net realizable value. The Company periodically reviews inventories for obsolescence and any inventories identified as obsolete are reserved or written off.

Other Assets

As of September 30, 2020 and December 31, 2019, other assets were \$11.7 million and \$9.6 million, respectively. These amounts primarily consisted of right-of-use assets related to operating leases for office space and equipment, net of lease incentives, of \$7.0 million and \$5.6 million as of September 30, 2020 and December 31, 2019, respectively. See Note 8, *Leases* for more information on these assets. Also included in Other Assets were deposits for building leases in various locations of \$2.1 million and \$2.2 million as of September 30, 2020 and December 31, 2019, respectively. Additionally, included in the September 30, 2020 and December 31, 2019 balances were \$2.4 million and \$1.6 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 to protect consumers who participate in network marketing activities. Finally, each of the September 30, 2020 and December 31, 2019 balances included \$0.2 million of indefinite lived intangible assets relating to the Manapol® powder trademark.

Accrued Expenses

As of September 30, 2020 and December 31, 2019, accrued expenses were \$7.8 million and \$8.2 million, respectively. These amounts primarily consisted of \$2.1 million and \$2.3 million representing employee benefits, which included accrued wages, bonus and severance as of September 30, 2020 and December 31, 2019, respectively. Also included in the September 30, 2020 and December 31, 2019 balances were non-inventory accrued liabilities of \$2.0 million and \$2.2 million, respectively. Additionally, included in the September 30, 2020 and December 31, 2019 balances were \$1.9 million and \$1.6 million for the current portion of operating lease liabilities, respectively, and \$1.0 million and \$0.9 million for accrued auditing and accounting fees, respectively. At September 30, 2020 and December 31, 2019 other accrued expenses were \$0.8 million and \$1.2 million, respectively.

Notes Payable

Notes payable were \$0.7 million and \$1.1 million as of September 30, 2020 and December 31, 2019, respectively, as a result of funding from a capital financing agreement related to our investment in leasehold improvements, computer hardware and software and other financing arrangements. At each of September 30, 2020 and December 31, 2019, the current portion was \$0.7 million.

On April 10, 2020, the Company received loan proceeds of \$2.2 million (the "Loan") under the Paycheck Protection Program ("PPP"). The PPP was established under the Coronavirus Aid, Relief, and Economic Security Act (the "CARES Act"), enacted on March 27, 2020, and is administered by the U.S. Small Business Administration (the "SBA"). The Loan to the Company was made through JPMorgan Chase Bank, N. A., the Company's existing banker (the "Lender"). At the time the Company applied for and received the Loan, the Company planned to use the Loan proceeds for covered payroll costs, rent and utilities in accordance with the relevant terms and conditions of the CARES Act. After the Company received the proceeds of the Loan, the SBA provided subsequent guidance interpreting the PPP. Based on such subsequent guidance, the Company made the determination to repay the Loan in full, which it did on April 30, 2020.

Other Long-Term Liabilities

Other long-term liabilities were \$7.4 million and \$6.2 million as of September 30, 2020 and December 31, 2019, respectively. As of September 30, 2020 and December 31, 2019, the balance is primarily composed of long-term operating lease obligations of \$6.4 million and \$5.3 million, respectively. See Note 8, *Leases* for more information. Additionally, as of September 30, 2020 and December 31, 2019, the Company recorded \$0.2 million in other long-term liabilities related to uncertain income tax positions (see Note 7, *Income Taxes*, of the Company's 2019 Annual Report). 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. At each of September 30, 2020 and December 31, 2019, accrued restoration costs related to these leases amounted to \$0.3 million. At each of September 30, 2020 and December 31, 2019, the Company also recorded a long-term liability for estimated defined benefit obligation related to a non-U.S. defined benefit plan for its Japan operations of \$0.3 million (see Note 9, *Employee Benefit Plans*, of the Company's 2019 Annual Report).

Revenue Recognition

The Company's revenue is derived from sales of individual products and associate fees or, in certain geographic markets, starter packs. Substantially all of the Company's product sales are made at published wholesale prices to associates and preferred customers. 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 products when control of the product transfers to the customer, thus the performance obligation is satisfied. Corporate-sponsored event revenue is recognized when the event is held.

Revenues from associate fees relate to providing associates with the right to earn commissions, benefits and incentives for an annual period. Revenue from software tools included in the first contractual year is recognized over three months and revenue from associate fees is recognized over 12 months (see *Contracts with Multiple Performance Obligations* for recognition guidelines). Almost all orders are paid via credit card. See Note 10, *Segment Information*, for disaggregation of revenues by geographic segment and type.

The Company collected associate fees within the United States, Canada, South Africa, Japan, Australia, New Zealand, Singapore, Hong Kong, Taiwan, Austria, the Czech Republic, Denmark, Estonia, Finland, Germany, the Republic of Ireland, the Netherlands, Norway, Spain, Sweden and the United Kingdom.

Contracts with Multiple Performance Obligations

Orders placed by associates or preferred customers constitute our contracts. Product sales placed in the form of an automatic order contain two performance obligations: (a) the sale of the product and (b) the loyalty program. For these contracts, the Company accounts for each of these obligations separately as they are each distinct. The transaction price is allocated between the product sale and the loyalty program on a relative standalone selling price basis. Sales placed through a one-time order contain only the first performance obligation noted above - the sale of the product.

The Company provides associates with access to a complimentary three-month package for the Success Tracker™ and Mannatech+ online business tools with the first payment of an associate fee. The first payment of an associate fee contains three performance obligations: (a) the associate fee, whereby the Company provides an associate with the right to earn commissions, bonuses and incentives for a year; (b) three months of complimentary access to utilize the Success Tracker™ online tool; and (c) three months of complimentary access to utilize the Mannatech+ online business tool. The transaction price is allocated between the three performance obligations on a relative standalone selling price basis. Associates do not have complimentary access to online business tools after the first contractual period.

With regards to both of the aforementioned contracts, the Company determines the standalone selling prices based on our overall pricing objectives, taking into consideration market conditions and other factors, including the value of the contracts.

Deferred Commissions

The Company defers commissions on (i) the sales of products shipped but not received by customers by the end of the respective period and (ii) the loyalty program. Deferred commissions are incremental costs and are amortized to expense consistent with how the related revenue is recognized. Deferred commissions were \$1.8 million for the year ended December 31, 2019. Of this balance, \$1.0 million was amortized to commissions expense for the nine months ended September 30, 2020. At September 30, 2020, deferred commissions were \$1.7 million.

Deferred Revenue

The Company defers certain components of its revenue. Deferred revenue consisted of: (i) sales of products shipped but not received by customers by the end of the respective period; (ii) revenue from the loyalty program; (iii) prepaid registration fees from customers planning to attend a future corporate-sponsored event; and (iv) prepaid annual associate fees. At December 31, 2019, the Company's deferred revenue was \$4.4 million. Of this balance, \$2.6 million was recognized as revenue for the nine months ended September 30, 2020. At September 30, 2020, the Company's deferred revenue was \$5.0 million.

The Company's customer loyalty program conveys a material right to the customer as it provides the promise to redeem loyalty points for the purchase of products, which is based on earning points through placing consecutive qualified automatic orders. The Company factors in breakage rates, which is the percentage of the loyalty points that are expected to be forfeited or expire, for purposes of revenue recognition. Breakage rates are estimated based on historical data and can be reasonably and objectively determined. The deferred revenue associated with the loyalty program at September 30, 2020 and December 31, 2019 was \$3.2 million and \$3.1 million, respectively.

Loyalty program	<i>(in thousands)</i>
Loyalty deferred revenue as of January 1, 2019	\$ 4,231
Loyalty points forfeited or expired	(4,348)
Loyalty points used	(9,127)
Loyalty points vested	11,320
Loyalty points unvested	1,051
Loyalty deferred revenue as of December 31, 2019	<u>\$ 3,127</u>
Loyalty deferred revenue as of January 1, 2020	\$ 3,127
Loyalty points forfeited or expired	(2,601)
Loyalty points used	(6,879)
Loyalty points vested	8,404
Loyalty points unvested	1,145
Loyalty deferred revenue as of September 30, 2020	<u>\$ 3,196</u>

Sales Refund and Allowances

The Company utilizes the expected value method, as set forth by Accounting Standard Codification ("ASC") Topic 606 Revenue from Contracts with Customers ("ASC 606"), to estimate the sales returns and allowance liability by taking the weighted average of the sales return rates over a rolling six-month period. The Company allocates the total amount recorded within the sales return and allowance liability as a reduction of the overall transaction price for the Company's product sales. The Company deems the sales refund and allowance liability to be a variable consideration.

MANNATECH, INCORPORATED AND SUBSIDIARIES
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

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 historically averaged 1.5% or less of our gross sales. For the nine months ended September 30, 2020 our sales return reserve consisted of the following (in thousands):

Sales reserve as of January 1, 2019	\$	76
Provision related to sales made in current period		1,037
Adjustment related to sales made in prior periods		31
Actual returns or credits related to current period		(973)
Actual returns or credits related to prior periods		(103)
Sales reserve as of December 31, 2019	<u>\$</u>	<u>68</u>
Sales reserve as of January 1, 2020	\$	68
Provision related to sales made in current period		722
Adjustment related to sales made in prior periods		5
Actual returns or credits related to current period		(647)
Actual returns or credits related to prior periods		(68)
Sales reserve as of September 30, 2020	<u>\$</u>	<u>80</u>

Shipping and Handling Costs

The Company records inbound freight as a component of inventory and cost of sales. The Company records freight and shipping fees collected from its customers as fulfillment costs. In accordance with ASC 606-10-25-18a, freight and shipping fees are not deemed to be separate performance obligations as these activities occur before the customer receives the product.

Commissions and Incentives

Associates earn commissions and incentives based on their direct and indirect commissionable net sales over each month of the fiscal year. The Company accrues commissions and incentives when earned by associates and pays commissions on product and pack sales on a monthly basis.

Comprehensive Income and Accumulated Other Comprehensive Income

Comprehensive income is defined as the change in equity of a business enterprise during a period from transactions and other events and circumstances from 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 consists of the Company's net income, foreign currency translation adjustments from its Japan, Republic of Korea, Taiwan, Denmark, Norway, Sweden, Colombia, Mexico and China operations, remeasurement of intercompany balances classified as equity in its Korea, Mexico, Colombia, and Cyprus operations, and changes in the pension obligation for its Japanese employees.

Recently Adopted Accounting Pronouncements

The Company adopted Accounting Standards Update ("ASU") 2016-02, Leases (Topic 842) ("ASU 2016-02") as of January 1, 2019 and applied it on a modified retrospective basis approach and elected to not adjust periods prior to January 1, 2019. The Company elected the package of practical expedients permitted under the transition guidance within the new standard, which, among other things, allowed the carry forward of the historical lease classification. This new standard requires companies to recognize right-of-use assets and lease liabilities on its balance sheet and disclose key information about leasing arrangements. ASU 2016-02 offers specific accounting guidance for a lessee, a lessor and sale and leaseback transactions. Lessees and lessors are required to disclose qualitative and quantitative information about leasing arrangements to enable a user of the financial statements to assess the amount, timing and uncertainty of cash flows arising from leases. The adoption increased assets, net of incentive, by \$4.7 million and liabilities by \$6.1 million on our consolidated balance sheets and did not have a significant impact on our consolidated statement of operations and statements of cash flows. These leases primarily relate to office buildings and office equipment. See Note 8, *Leases* for more information.

MANNATECH, INCORPORATED AND SUBSIDIARIES
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

In February 2018, the Financial Accounting Standards Board ("FASB") issued ASU 2018-02, *Income Statement - Reporting Comprehensive Income, Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income (Topic 220)* ("ASU 2018-02"), which amended its standard on comprehensive income to provide an option for an entity to reclassify the stranded tax effects of the Tax Cuts and Jobs Act (the "TCJA") that was passed in December of 2017 from accumulated other comprehensive income directly to retained earnings. The stranded tax effects result from the remeasurement of deferred tax assets and liabilities which were originally recorded in comprehensive income but whose remeasurement is reflected in the income statement. This is a one-time amendment applicable only to the changes resulting from the TCJA. The Company adopted this standard on January 1, 2019. The overall financial impact of adopting this standard did not have a material effect on our consolidated financial statements.

Accounting Pronouncements Issued But Not Yet Effective

In June 2016, the FASB issued ASU 2016-13, *Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments* ("ASU 2016-13"). This standard adds to U.S. GAAP an impairment model (known as the current expected credit loss ("CECL") model) that is based on expected losses rather than incurred losses. Under the new guidance, an entity recognizes as an allowance its estimate of expected credit losses, which is intended to result in the more timely recognition of losses. Under the CECL model, entities will estimate credit losses over the entire contractual term of the instrument (considering estimated prepayments, but not expected extensions or modifications) from the date of initial recognition of the financial instrument. Measurement of expected credit losses are to be based on relevant forecasts that affect collectability. The scope of financial assets within the CECL methodology is broad and includes trade receivables from certain revenue transactions and certain off-balance sheet credit exposures. Different components of the guidance require modified retrospective or prospective adoption. In November 2019, the FASB issued ASU 2019-10, *Financial Instruments—Credit Losses (Topic 326), Derivatives and Hedging (Topic 815), and Leases (Topic 842)* ("ASU 2019-10") which defers the effective date for smaller reporting companies by three years to December 15, 2022 for fiscal years, and interim periods within those fiscal years, beginning after that date. Accordingly, this standard will be effective for the Company as of January 1, 2023. While our review is ongoing, we believe ASU 2016-13 will only have applicability to our receivables from revenue transactions. Under ASC 606, revenue is recognized when, among other criteria, it is probable that the entity will collect the consideration to which it is entitled for goods or services transferred to a customer. At the point that trade receivables are recorded, they become subject to the CECL model and estimates of expected credit losses on trade receivables over their contractual life will be required to be recorded at inception based on historical information, current conditions, and reasonable and supportable forecasts. The Company is continuing to evaluate whether the new guidance will have an impact on our consolidated financial statements or existing internal controls.

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 2: INVENTORIES

Inventories consist of raw materials, finished goods, and promotional materials. The Company provides an allowance for any slow-moving or obsolete inventories. Inventories as of September 30, 2020 and December 31, 2019, consisted of the following (*in thousands*):

	September 30, 2020	December 31, 2019
Raw materials	\$ 2,716	\$ 2,685
Finished goods	11,320	8,341
Inventory reserves for obsolescence	(524)	(874)
Total	\$ 13,512	\$ 10,152

NOTE 3: INCOME TAXES

For the three and nine months ended September 30, 2020, the Company's effective tax rate was 1.3% and (15.8)%, respectively. For the three and nine months ended September 30, 2019, the Company's effective tax rate was 1,311.4% and 71.6%, respectively. For the three and nine months ended September 30, 2020 and 2019, the Company's effective tax rate was determined based on the estimated annual effective income tax rate.

MANNATECH, INCORPORATED AND SUBSIDIARIES
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

The effective tax rate for the three months ended September 30, 2020 was different from the federal statutory rate due primarily to the mix of earnings across jurisdictions and adjustments to valuation allowances in certain jurisdictions. The effective tax rate for the nine months ended September 30, 2020 was different from the federal statutory rate due primarily to the \$1.2 million benefit recorded in connection with the carryback of U.S. net operating losses as allowed by the CARES Act, enacted on March 27, 2020.

The effective tax rates for the three and nine months ended September 30, 2019 were different from the federal statutory rate due primarily to the mix of earnings across jurisdictions, valuation allowance recorded on losses in certain jurisdictions and the one-time impact of the shift in the procurement supply chain from Switzerland to the United States effective July 1, 2019, which required a valuation allowance on Switzerland's deferred tax asset.

Income tax related provisions of stimulus packages in foreign jurisdictions did not have a material impact to our recorded income tax benefit for the three and nine months ended September 30, 2020. We are evaluating the impact, if any, that stimulus packages in foreign jurisdictions may have on the Company's future operations, financial position, and liquidity in fiscal year 2020.

NOTE 4: EARNINGS PER SHARE

The Company calculates basic Earnings per Share ("EPS") by dividing net income by the weighted-average number of common shares outstanding for the period. Diluted EPS also reflects the potential dilution that could occur if common stock were issued for awards outstanding under the Mannatech, Incorporated 2017 Stock Incentive Plan (described below).

In determining the potential dilutive effect of outstanding stock options for each of the three and nine months ended September 30, 2020, the Company used the quarterly and nine month ended average common stock close price of \$17.00 and \$14.76 per share, respectively.

For the three and nine months ended September 30, 2020, there were 2.10 million and 2.29 million weighted-average common shares outstanding used for the basic EPS calculation, respectively. For each of the three and nine months ended September 30, 2020, approximately 0.03 million shares subject to options were included in the calculation resulting in 2.13 million and 2.31 million dilutive shares used to calculate diluted EPS, respectively. For the three and nine months ended September 30, 2020, approximately 0.1 million and 0.8 million shares of the Company's common stock subject to options were excluded from the diluted EPS calculation as the effect would have been antidilutive.

In determining the potential dilutive effect of outstanding stock options for each of the three and nine months ended September 30, 2019, the Company used the quarterly and nine month ended average common stock close price of \$16.16 and \$17.50 per share, respectively.

For the three months ended September 30, 2019, approximately 0.3 million shares of the Company's common stock subject to options were excluded from the diluted EPS calculation, as the effect would have been antidilutive. The Company reported a net loss for three months ended September 30, 2019.

For the nine months ended September 30, 2019, there were 2.39 million weighted-average common shares outstanding used for the basic EPS calculation. For the nine months ended September 30, 2019, approximately 0.06 million shares subject to options were included in the calculation resulting in 2.45 million dilutive shares used to calculate diluted EPS. For the nine months ended September 30, 2019, approximately 0.7 million of the Company's common stock subject to options were excluded from the diluted EPS calculation as the effect would have been antidilutive.

MANNATECH, INCORPORATED AND SUBSIDIARIES
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

NOTE 5: STOCK-BASED COMPENSATION

The Company currently has one active stock-based compensation plan, the Mannatech, Incorporated 2017 Stock Incentive Plan, which was adopted by the Company's Board of Directors (the "Board") on April 17, 2017 and was approved by its shareholders on June 8, 2017, and subsequently amended by the Board at its February 2019 special meeting, which amendment was approved by the Company's shareholders on June 11, 2019 (as amended, the "2017 Plan"). The 2017 Plan supersedes the Mannatech, Incorporated 2008 Stock Incentive Plan (as amended, the "2008 Plan"), which was set to expire on February 20, 2018. The Board has reserved a maximum of 370,000 shares of our common stock that may be issued under the 2017 Plan (subject to adjustments for stock splits, stock dividends or other changes in corporate capitalization). As of September 30, 2020, the Company had a total of 174,393 shares available for grant under the 2017 Plan, which expires on April 16, 2027.

The 2017 Plan provides for grants of incentive stock options, nonqualified stock options, stock appreciation rights, restricted stock, restricted stock units, performance stock and performance stock units to our employees, board members, and consultants. However, only employees of the Company and its corporate subsidiaries are eligible to receive incentive stock options. The exercise price per share for all stock options will be no less than the market value of a share of common stock on the date of grant. Any incentive stock option granted to an employee owning more than 10% of our common stock will have an exercise price of no less than 110% of our common stock's market value on the grant date.

The majority of stock options vest over two or three years, and generally are granted with a term of ten years, or five years in the case of an incentive option granted to an employee who owns more than 10% of our common stock.

The Company records stock-based compensation expense related to granting stock options in selling and administrative expenses. During the nine months ended September 30, 2020 and 2019, the Company granted 5,000 and 15,000 stock options, respectively. The fair value of stock options granted during the nine months ended September 30, 2020 and 2019 was approximately \$4.00 and \$6.88 per share, respectively. The Company recognized compensation expense as follows for the three and nine months ended September 30 (*in thousands*):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
Total gross compensation expense	\$ 7	\$ 106	\$ 118	\$ 374
Total tax benefit associated with compensation expense	1	4	8	20
Total net compensation expense	<u>\$ 6</u>	<u>\$ 102</u>	<u>\$ 110</u>	<u>\$ 354</u>

As of September 30, 2020, the Company expects to record compensation expense in the future as follows (*in thousands*):

	Three months ending December 31, 2020	Year ending December 31,		
		2021	2022	2023
Total gross unrecognized compensation expense	\$ 6	\$ 15	\$ 3	\$ —
Tax benefit associated with unrecognized compensation expense	1	3	1	—
Total net unrecognized compensation expense	<u>\$ 5</u>	<u>\$ 12</u>	<u>\$ 2</u>	<u>\$ —</u>

NOTE 6: SHAREHOLDERS' EQUITY

Treasury Stock

On May 29, 2020, the Company commenced a modified Dutch auction cash tender offer to purchase up to \$5.0 million of its outstanding common stock, par value \$0.0001 per share, at a per share price not greater than \$17.00 nor less than \$15.00, to each seller in cash, less any applicable withholding taxes and without interest (the "tender offer"). The tender offer expired on June 25, 2020. As a result of the tender offer, the Company accepted for purchase a total of 294,117 shares of its common stock, which were properly tendered and not properly withdrawn at the price of \$17.00 per share, for an aggregate purchase price of \$5.0 million, which was funded from cash on hand. Due to the tender offer being oversubscribed, the Company purchased only a prorated portion of those shares properly tendered by each tendering shareholder (other than "odd lot" holders whose shares were purchased on a priority basis) at or below the final per share purchase price. The final proration factor for the tender offer was approximately 86%. These common shares represented approximately 12.31% of the Company's total outstanding shares as of April 30, 2020.

During the three months ended September 30, 2020, the Company repurchased 12,238 additional shares of its common stock outstanding at an average price of \$17.06. During the three months ended September 30, 2019, the Company repurchased 9,560 additional shares of its common stock outstanding at an average price of \$16.07.

During the nine months ended September 30, 2020, the Company repurchased 323,660 shares of its common stock, which includes the 294,117 shares repurchased pursuant to the tender offer, at an average price of \$16.92. During the nine months ended September 30, 2019, the Company repurchased 14,097 shares of its common stock, at an average price of \$16.38.

As of September 30, 2020, the Company had 2,089,002 shares of common stock outstanding.

Accumulated Other Comprehensive Income

Accumulated other comprehensive income, reflected in the Consolidated Statement of Shareholders' Equity, represents net income plus the results of certain shareholders' equity changes not reflected in the Consolidated Statements of Operations, such as foreign currency translation and certain pension and post-retirement benefit obligations. The after-tax components of accumulated other comprehensive income, are as follows (*in thousands*):

	Foreign Currency Translation	Pension Postretirement Benefit Obligation	Accumulated Other Comprehensive Income, Net
Balance as of December 31, 2019	\$ 3,435	\$ 322	\$ 3,757
Current-period change ⁽¹⁾	(407)	—	(407)
Balance as of September 30, 2020	\$ 3,028	\$ 322	\$ 3,350

⁽¹⁾No material amounts reclassified from accumulated other comprehensive income.

Dividends

On February 14, 2020, the Board declared a dividend of \$0.125 per share that was paid on March 27, 2020 to shareholders of record on March 13, 2020, for an aggregate amount of \$0.3 million.

On May 27, 2020, the Board declared a dividend of \$0.125 per share that was paid on June 24, 2020 to shareholders of record on June 12, 2020, for an aggregate amount of \$0.3 million.

On August 28, 2020, the Board declared a dividend of \$0.16 per share that was paid on September 29, 2020 to shareholders of record on September 15, 2020, for an aggregate amount of \$0.3 million.

NOTE 7: LITIGATION

Administrative Proceeding

Mannatech Korea, Ltd. v. Busan Custom Office, Busan District Court, Korea

On or before April 12, 2015, Mannatech Korea, Ltd. filed a suit against the Busan Custom Office ("BCO") to challenge BCO's method of calculation regarding its assessment notice issued on July 11, 2013. The assessment notice included

MANNATECH, INCORPORATED AND SUBSIDIARIES
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

an audit of the Company's imported goods covering fiscal years 2008 through 2012 and required the Company to pay \$1.0 million for this assessment, all of which was paid in January 2014. Both parties submitted a response to the Court's inquiry on January 15, 2016. The final hearing for the case was held on May 26, 2016 where each party presented their respective arguments. The Court set the decision hearing on October 27, 2016, and the Court decided the case in the Company's favor. However, on November 18, 2016, BCO filed an appeal to the Busan High Court. The first hearing occurred on March 31, 2017, and the second hearing occurred on April 21, 2017. The final hearing was held on June 2, 2017. The Court issued its decision on June 30, 2017 in favor of the BCO. The Company appealed this decision on August 24, 2017. On November 6, 2020, the Company received notice from counsel that the panel of justices assigned to this case conducted discussions on October 30, 2020. This is an indication, although not conclusive, that the Supreme Court may issue a decision by the end of the year or in the first quarter of 2021. This matter remains open.

Litigation - Product Liability

Meeja Kim, et al., v. Mannatech Korea and Eunbee Cho, Seoul Southern District Court 2020-Gadan-216374

On March 4, 2020, a complaint was filed against Mannatech Korea. Mannatech Korea was served on March 10, 2020. The plaintiffs are the surviving spouse and three children (the "Plaintiffs") of Kong Seokhwan, a cancer patient who died in October 2017. The Plaintiffs allege that co-defendant and former independent associate, Eunbee Cho, instructed the deceased to take the Company's products as treatment for cancer. Eunbee Cho was found guilty of fraud and began serving a sentence of one year and six months in November 2019. The Plaintiffs are seeking damages in the amount of 110 million KRW (USD \$90,000.00) plus interest of 12% per year. Mannatech Korea has engaged local counsel to defend this matter. An evidentiary hearing was held on October 21, 2020. The next hearing is scheduled for December 9, 2020. It is not possible at this time to predict whether the Company will incur any liability, or to estimate the ranges of damages, if any, which may be incurred in connection with this matter. However, Mannatech Korea believes it has a valid defense and will vigorously defend this claim. This matter remains open.

Ruiguo Ma v. MTEX Hong Kong Limited and Beili Guan, Case No. 2019-Jin-0116-Civil-2339, Binhai New District Court, Tianjin, China

On or before September 2, 2019, MTEX Hong Kong received service of process of the above-captioned matter. Ruiguo Ma, (the "Plaintiff") is alleging that his child suffered tooth decay after consuming the Company's MannaBears product and underwent several surgeries. The Plaintiff is seeking damages of approximately \$50,000 USD. The Company has engaged local counsel to defend this case. The Company has provided notice to its insurance carrier. At this time the potential damages do not meet the deductible; therefore, the case has not been tendered to the carrier. The first hearing occurred on September 11, 2019, and the second hearing occurred on October 30, 2019, where each party presented their respective arguments. On August 25, 2020, the court denied all of the Plaintiff's motions and granted judgment in favor of the MTEX Hong Kong. The Plaintiff appealed the decision on September 21, 2020. MTEX Hong Kong has engaged the same counsel to defend against the appeal. This matter remains open.

Litigation in General

The Company has incurred several claims in the normal course of business. The Company believes such claims can be resolved without any material adverse effect on our consolidated financial position, results of operations, or cash flows.

The Company maintains certain liability insurance; however, certain costs of defending lawsuits are not covered by or only partially covered by its insurance policies, including claims that are below insurance deductibles. Additionally, insurance carriers could refuse to cover certain claims, in whole or in part. The Company accrues costs to defend itself from litigation as they are incurred.

The outcome of litigation is uncertain, and despite management's views of the merits of any litigation, or the reasonableness of the Company's estimates and reserves, the Company's financial statements could nonetheless be materially affected by an adverse judgment. The Company believes it has adequately reserved for the contingencies arising from current legal matters where an outcome was deemed to be probable, and the loss amount could be reasonably estimated.

MANNATECH, INCORPORATED AND SUBSIDIARIES
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

NOTE 8: LEASES

The Company has entered into contractual lease arrangements to rent office space and equipment from third-party lessors. On January 1, 2019, the Company adopted ASC Topic 842, *Leases*, ("Topic 842") and related disclosures. See note 5 to the consolidated financial statements in our Annual Report on Form 10-K for the year ended December 31, 2019.

As of September 30, 2020, the Company had net operating lease right-of-use (ROU) assets of \$7.0 million and net finance lease right-of-use assets of \$0.3 million. At September 30, 2020, our operating lease liabilities were \$8.3 million and our finance lease liabilities were \$0.2 million.

The weighted-average remaining lease term and discount rate related to the Company's operating lease liabilities as of September 30, 2020 were 5.56 years and 4.2%, respectively. The weighted-average remaining lease term and discount rate related to the Company's finance lease liabilities as of September 30, 2020 were 2.92 years and 5.6%, respectively. The Company's lease discount rates are generally based on estimates of its incremental borrowing rate, as discount rates implicit in the Company's leases cannot be readily determined.

As of September 30, 2020 and 2019 our leased assets and liabilities consisted of the following (in thousands):

Leases	Classification	September 30, 2020	September 30, 2019
Right-of-use assets			
Operating leases	Other assets	\$ 6,960	\$ 6,410
Finance leases	Property and equipment, net	309	383
Total right-of-use assets		<u>\$ 7,269</u>	<u>\$ 6,793</u>
Current portion of lease liabilities			
Operating leases	Accrued expenses	\$ 1,927	\$ 1,929
Finance leases	Current portion of finance leases	77	99
Long-term portion of lease liabilities			
Operating leases	Other long-term liabilities	6,379	5,759
Finance leases	Finance leases, excluding current portion	152	201
Total lease liabilities		<u>\$ 8,535</u>	<u>\$ 7,988</u>

As of September 30, 2020 the Company's minimum future lease payments on operating and financing leases were as follows (in thousands):

	September 30, 2020	
	Operating Leases	Financing Leases
Maturity of lease liabilities		
Remaining 2020	\$ 625	\$ 24
2021	2,201	91
2022	1,737	73
2023	1,174	45
2024	1,259	21
2025	872	1
Thereafter	1,528	—
Total minimum lease payments	<u>\$ 9,396</u>	<u>\$ 255</u>
Imputed interest	(1,090)	(26)
Present value of minimum lease payments	<u>\$ 8,306</u>	<u>\$ 229</u>

MANNATECH, INCORPORATED AND SUBSIDIARIES
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

NOTE 9: FAIR VALUE

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

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

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

The primary objective of the Company's investment activities is to preserve principal while maximizing yields without significantly increasing risk. The investment instruments held by the Company are money market funds and interest-bearing deposits for which quoted market prices are readily available. The Company considers these highly liquid investments to be cash equivalents. These investments are classified within Level 1 of the fair value hierarchy because they are valued based on quoted market prices in active markets. The Company does not have any material financial liabilities that were required to be measured at fair value on a recurring basis at September 30, 2020.

The table below presents the recorded amount of financial assets measured at fair value (*in thousands*) on a recurring basis as of September 30, 2020 and December 31, 2019.

September 30, 2020	Level 1	Level 2	Level 3	Total
Assets				
Money Market Funds – JPMorgan Chase, US	\$ 2,345	\$ —	\$ —	\$ 2,345
Interest bearing deposits – various banks	7,019	—	—	7,019
Total assets	<u>\$ 9,364</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 9,364</u>
Amounts included in:				
Cash and cash equivalents	\$ 4,850	\$ —	\$ —	\$ 4,850
Restricted cash	679	—	—	679
Long-term restricted cash	3,835	—	—	3,835
Total	<u>\$ 9,364</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 9,364</u>
December 31, 2019	Level 1	Level 2	Level 3	Total
Assets				
Money Market Funds – Fidelity, US	\$ 5,000	\$ —	\$ —	\$ 5,000
Interest bearing deposits – various banks	8,962	—	—	8,962
Total assets	<u>\$ 13,962</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 13,962</u>
Amounts included in:				
Cash and cash equivalents	\$ 8,636	\$ —	\$ —	\$ 8,636
Restricted cash	679	—	—	679
Long-term restricted cash	4,647	—	—	4,647
Total	<u>\$ 13,962</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 13,962</u>

MANNATECH, INCORPORATED AND SUBSIDIARIES
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

NOTE 10: SEGMENT INFORMATION

The Company's sole reporting segment is one where we sell proprietary nutritional supplements, skin care and anti-aging products, and weight-management and fitness products through network marketing distribution channels operating in twenty-four countries. Each of the business units receives associate fees or sells similar packs (in the case of Mexico and South Korea, where packs have not been replaced with associate fees, see Note 1, *Organization and Summary of Significant Accounting Policies*) and possesses similar economic characteristics, such as selling prices and gross margins. In each country, the Company markets its products and pays commissions and incentives in similar market environments. The Company's management reviews its financial information by country and focuses its internal reporting and analysis of revenues by pack sales and associate fees and product sales. The Company sells its products through its independent associates who occupy positions in our network and distribute products through similar distribution channels in each country. No single independent associate has ever accounted for more than 10% of the Company's consolidated net sales. The Company also operates a non-direct selling business in mainland China. Our subsidiary in China, Meitai, is operating as a traditional retailer under a cross-border e-commerce model. Meitai cannot legally conduct a direct selling business in China unless it acquires a direct selling license in China.

The Company operates facilities in eleven countries and sells product in twenty-five countries around the world. These facilities are located in the United States, Canada, Australia, the Netherlands, Japan, the Republic of Korea (South Korea), Taiwan, South Africa, Mexico, Hong Kong and China. Each facility services different geographic areas. We currently sell our products in three regions: (i) the Americas (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, Spain, Sweden and the United Kingdom); and (iii) Asia/Pacific (Australia, Japan, New Zealand, the Republic of Korea, Singapore, Taiwan, Hong Kong and China).

Consolidated net sales shipped to customers in these regions, along with pack or associate fee and product information for the three and nine months ended September 30, were as follows (*in millions, except percentages*):

Region	Three Months Ended September 30,				Nine Months Ended September 30,			
	2020		2019		2020		2019	
Americas	\$ 11.4	30.0 %	\$ 11.8	29.7 %	\$ 34.1	30.4 %	\$ 36.1	30.5 %
Asia/Pacific	23.0	60.5 %	24.3	61.2 %	67.9	60.5 %	71.9	60.8 %
EMEA	3.6	9.5 %	3.6	9.1 %	10.2	9.1 %	10.3	8.7 %
Totals	\$ 38.0	100.0 %	\$ 39.7	100.0 %	\$ 112.2	100.0 %	\$ 118.3	100.0 %

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
Consolidated product sales	\$ 35.7	\$ 38.7	\$ 108.7	\$ 115.8
Consolidated pack sales and associate fees	2.0	0.7	2.8	1.8
Consolidated other	0.3	0.3	0.7	0.7
Consolidated total net sales	\$ 38.0	\$ 39.7	\$ 112.2	\$ 118.3

MANNATECH, INCORPORATED AND SUBSIDIARIES
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

Long-lived assets, which include property and equipment and construction in process for the Company and its subsidiaries, as of September 30, 2020 and December 31, 2019, reside in the following regions, as follows (*in millions*):

<u>Region</u>	<u>September 30, 2020</u>	<u>December 31, 2019</u>
Americas	\$ 4.5	\$ 5.1
Asia/Pacific	0.9	1.0
EMEA	—	—
Total	<u>\$ 5.4</u>	<u>\$ 6.1</u>

Inventory balances, which consist of raw materials, finished goods, and promotional materials, as offset by the allowance for slow moving or obsolete inventories, reside in the following regions (*in millions*):

<u>Region</u>	<u>September 30, 2020</u>	<u>December 31, 2019</u>
Americas	\$ 6.1	\$ 5.4
Asia/Pacific	5.9	3.8
EMEA	1.5	1.0
Total	<u>\$ 13.5</u>	<u>\$ 10.2</u>

Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations

The following discussion is intended to assist in the understanding of our consolidated financial position and results of operations for the three and nine months ended September 30, 2020 as compared to the same periods in 2019, and should be read in conjunction with Item 1 “Financial Statements” in Part I of this quarterly report on Form 10-Q, Item 1A “Risk Factors” in Part II of this quarterly report on Form 10-Q and Item 1A “Risk Factors” in Part I of our annual report on Form 10-K for the year ended December 31, 2019. 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. To supplement our financial results presented in accordance with GAAP, we disclose certain adjusted financial measures which we refer to as Constant dollar (“Constant dollar”) measures, which are non-GAAP financial measures. Refer to the *Non-GAAP Financial Measures* section herein for a description of how such Constant dollar measures are determined.

COMPANY OVERVIEW

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

We conduct our business as a single operating segment and primarily sell our products through a network of approximately 180,000 active associates and preferred customer positions held by individuals that purchased our products and/or packs or paid associate fees during the last 12 months, who we refer to as *current associates and preferred customers*. New pack sales and the receipt of new associate fees in connection with new positions in our network are leading indicators for the long-term success of our business. New associate or preferred customer positions are created in our network when our associate fees are paid or packs and products are purchased for the first time under a new account. We operate as a seller of nutritional supplements, topical and skin care and anti-aging products, and weight-management products through our network marketing distribution channels operating in 24 countries and direct e-commerce retail in China. 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 associates and preferred customers that occupy sales or purchasing positions in our network; entry into new markets and growth of existing markets; niche market development; new product introduction; and investment in our infrastructure. Our subsidiary in China, Meitai, is currently operating as a traditional retailer under a cross-border e-commerce model. Meitai cannot legally conduct a direct selling business in China unless it acquires a direct selling license in China.

The Company maintains a corporate website at www.mannatech.com.

Current Economic Conditions and Recent Developments

Overall net sales decreased \$1.7 million, or 4.3%, to \$38.0 million, during the three months ended September 30, 2020, as compared to the same period in 2019. Net sales for the nine months ended September 30, 2020 decreased by \$6.1 million, or 5.2%, to \$112.2 million, as compared to the same period in 2019.

Foreign currency translation and the worldwide spread of COVID-19 affected the net sales comparisons for the three and nine months ended September 30, 2020 and September 30, 2019. For the three and nine months ended September 30, 2020, our net sales declined 3.8% and 2.7%, respectively, on a Constant dollar basis (see Non-GAAP Measures, below); unfavorable foreign exchange during the three and nine months ended September 30, 2020 caused a \$0.2 million and \$2.9 million decrease, respectively, in GAAP net sales, as compared to the same period in 2019. Excluding the effects due to the translation of foreign currencies into U.S. dollars, net sales would have decreased \$1.5 million and \$3.2 million, respectively, for the three and nine months ended September 30, 2020 compared to the same periods in 2019. These adjusted net sales expressed in Constant dollars are a non-GAAP financial measure discussed in further detail below.

We have experienced challenges in getting raw materials, packaging supplies and ingredients to our contract manufacturers and finished products to our distribution centers as a result of reductions in global transportation capacity. We have taken steps to protect the health, safety and well-being of our customers, associates, employees, and communities by closing some offices and equipping various staff members to work remotely for an uncertain period of time. The full impact of COVID-19 continues to evolve and we are actively monitoring the global situation with a focus on our financial condition, liquidity, operations, suppliers, industry, and workforce.

RESULTS OF OPERATIONS

Three Months Ended September 30, 2020 Compared to Three Months Ended September 30, 2019

The table below summarizes our consolidated operating results in dollars and as a percentage of net sales for the three months ended September 30, 2020 and 2019 (*in thousands, except percentages*):

	2020		2019		Change from 2019 to 2020	
	Total dollars	% of net sales	Total dollars	% of net sales	Dollar	Percentage
Net sales	\$ 37,966	100.0 %	\$ 39,656	100.0 %	\$ (1,690)	(4.3)%
Cost of sales	9,328	24.6 %	7,711	19.4 %	1,617	21.0 %
Gross profit	28,638	75.4 %	31,945	80.6 %	(3,307)	(10.4)%
Operating expenses:						
Commissions and incentives	15,089	39.7 %	16,696	42.1 %	(1,607)	(9.6) %
Selling and administrative expenses	6,639	17.5 %	8,951	22.6 %	(2,312)	(25.8) %
Depreciation and amortization expense	468	1.2 %	519	1.3 %	(51)	(9.8) %
Other operating costs	5,062	13.3 %	5,214	13.1 %	(152)	(2.9) %
Total operating expenses	27,258	71.8 %	31,380	79.1 %	(4,122)	(13.1) %
Income from operations	1,380	3.6 %	565	1.4 %	815	144.2 %
Interest income	10	— %	(12)	— %	22	183.3 %
Other income, net	248	0.7 %	(430)	(1.1) %	678	(157.7) %
Income before income taxes	1,638	4.3 %	123	0.3 %	1,515	1,231.7 %
Provision for income taxes	(22)	(0.1) %	(1,613)	(4.1) %	1,591	(98.6) %
Net income (loss)	\$ 1,616	4.3 %	\$ (1,490)	(3.8) %	\$ 3,106	(208.5) %

Nine Months Ended September 30, 2020 Compared to Nine Months Ended September 30, 2019

The table below summarizes our consolidated operating results in dollars and as a percentage of net sales for the nine months ended September 30, 2020 and 2019 (in thousands, except percentages):

	2020		2019		Change from 2019 to 2020	
	Total dollars	% of net sales	Total dollars	% of net sales	Dollar	Percentage
Net sales	\$ 112,218	100.0 %	\$ 118,340	100.0 %	\$ (6,122)	(5.2) %
Cost of sales	25,044	22.3 %	23,253	19.6 %	1,791	7.7 %
Gross profit	87,174	77.7 %	95,087	80.4 %	(7,913)	(8.3) %
Operating expenses:						
Commissions and incentives	45,308	40.4 %	48,190	40.7 %	(2,882)	(6.0) %
Selling and administrative expenses	20,659	18.4 %	24,908	21.0 %	(4,249)	(17.1) %
Depreciation and amortization expense	1,525	1.4 %	1,564	1.3 %	(39)	(2.5) %
Other operating costs	15,180	13.5 %	16,721	14.1 %	(1,541)	(9.2) %
Total operating expenses	82,672	73.7 %	91,383	77.2 %	(8,711)	(9.5) %
Income from operations	4,502	4.0 %	3,704	3.1 %	798	21.5 %
Interest income (expense)	73	0.1 %	(83)	(0.1) %	156	188.0 %
Other income (expense), net	206	0.2 %	554	0.5 %	(348)	(62.8) %
Income before income taxes	4,781	4.3 %	4,175	3.5 %	606	14.5 %
Benefit (provision) for income taxes	753	0.7 %	(2,991)	(2.5) %	3,744	(125.2) %
Net income	\$ 5,534	4.9 %	\$ 1,184	1.0 %	\$ 4,350	367.4 %

Non-GAAP Financial Measures

To supplement our financial results presented in accordance with 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, Gross Profit, and Income 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.

Three-month period ended (in millions, except percentages)

	September 30, 2020		September 30, 2019		Constant \$ Change	
	GAAP Measure: Total \$	Non-GAAP Measure: Constant \$	GAAP Measure: Total \$		Dollar	Percent
Net sales	\$ 38.0	\$ 38.2	\$ 39.7	\$	(1.5)	(3.8)%
Product	35.7	36.0	38.7		(2.7)	(7.0)%
Pack sales and associate fees	2.0	1.9	0.7		1.2	171.4 %
Other	0.3	0.3	0.3		—	— %
Gross profit	28.6	28.8	31.9		(3.1)	(9.7)%
Income from operations	1.4	1.4	0.6		0.8	133.3 %

Nine-month period ended (in millions, except percentages)

	September 30, 2020		September 30, 2019	Constant \$ Change	
	GAAP Measure: Total \$	Non-GAAP Measure: Constant \$	GAAP Measure: Total \$	Dollar	Percent
Net Sales	\$ 112.2	\$ 115.1	\$ 118.3	\$ (3.2)	(2.7)%
Product	108.7	111.5	115.8	(4.3)	(3.7)%
Pack	2.8	2.9	1.8	1.1	61.1 %
Other	0.7	0.7	0.7	—	— %
Gross Profit	87.2	89.3	95.1	(5.8)	(6.1)%
Income from Operations	4.5	5.0	3.7	1.3	35.1 %

Net Sales

Consolidated net sales for the three months ended September 30, 2020 decreased by \$1.7 million, or 4.3%, to \$38.0 million as compared to \$39.7 million for the same period in 2019. Consolidated net sales for the nine months ended September 30, 2020 decreased by \$6.1 million, or 5.2%, to \$112.2 million as compared to \$118.3 million for the same period in 2019.

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

Consolidated net sales by region for the three months ended September 30, 2020 and 2019 were as follows (in millions, except percentages):

Region	Three Months Ended September 30, 2020		Three Months Ended September 30, 2019	
	Dollar	Percent	Dollar	Percent
Americas	\$ 11.4	30.0 %	\$ 11.8	29.7 %
Asia/Pacific	23.0	60.5 %	24.3	61.2 %
EMEA	3.6	9.5 %	3.6	9.1 %
Total	\$ 38.0	100.0 %	\$ 39.7	100.0 %

Consolidated net sales by region for the nine months ended September 30, 2020 and 2019 were as follows (in millions, except percentages):

Region	Nine Months Ended September 30, 2020		Nine Months Ended September 30, 2019	
	Dollar	Percent	Dollar	Percent
Americas	\$ 34.1	30.4 %	\$ 36.1	30.5 %
Asia/Pacific	67.9	60.5 %	71.9	60.8 %
EMEA	10.2	9.1 %	10.3	8.7 %
Total	\$ 112.2	100.0 %	\$ 118.3	100.0 %

For the three months ended September 30, 2020, net sales in the Americas decreased by \$0.4 million, or 3.4%, to \$11.4 million, as compared to \$11.8 million for the same period in 2019. This decrease was primarily due to a 7.5% decline in the number of active independent associates and preferred customers partially offset by a 4.4% increase in revenue per active independent associate and preferred customer.

For the nine months ended September 30, 2020, net sales in the Americas decreased by \$2.0 million, or 5.5%, to \$34.1 million, as compared to \$36.1 million for the same period in 2019. This decrease was primarily due to a 21.2% decline in the number of active independent associates and preferred customers, which was partially offset by a 2.1% increase in revenue per active independent associate and preferred customer.

For the three months ended September 30, 2020, our operations outside of the Americas accounted for approximately 69.9% of our consolidated net sales, whereas in the same period in 2019, our operations outside of the Americas accounted for approximately 70.3% of our consolidated net sales.

For the nine months ended September 30, 2020, our operations outside of the Americas accounted for approximately 69.6% of our consolidated net sales, whereas in the same period in 2019, our operations outside of the Americas accounted for approximately 69.5% of our consolidated net sales.

For the three months ended September 30, 2020, Asia/Pacific net sales decreased by \$1.3 million, or 5.3%, to \$23.0 million, as compared to \$24.3 million for the same period in 2019. This decrease was primarily due to a 7.8% decrease in revenue per active independent associate and preferred customer, which was partially offset by a 2.7% increase in the number of active independent associates and preferred customers. Foreign currency exchange had the effect of increasing revenue by \$0.2 million for the three months ended September 30, 2020, as compared to the same period in 2019. The currency impact is primarily due to the strengthening of the Korean Won, Japanese Yen, Australian Dollar, Chinese Yuan (Renminbi), New Zealand Dollar, Taiwanese Dollar and Hong Kong Dollar, which was partially offset by the weakening of the Singapore Dollar.

For the nine months ended September 30, 2020, Asia/Pacific net sales decreased by \$4.0 million, or 5.6%, to \$67.9 million, as compared to \$71.9 million for the same period in 2019. This decrease was primarily due to an 8.0% decrease in the revenue per active independent associate and preferred customer and a 3.3% decrease in the number of active independent associates and preferred customers. Foreign currency exchange had the effect of decreasing revenue by \$1.5 million for the nine months ended September 30, 2020, as compared to the same period in 2019. The currency impact is primarily due to the weakening of the Korean Won, Australian Dollar, Chinese Yuan (Renminbi), New Zealand Dollar, and Singapore Dollar, which was partially offset by the strengthening of the Japanese Yen, Hong Kong Dollar and Taiwanese Dollar.

For the three months ended September 30, 2020 and 2019, EMEA net sales remained constant at \$3.6 million. There was a 14.7% decrease in revenue per active independent associate and preferred customer, which was partially offset by a 17.2% increase in the number of active independent associates and preferred customers. Foreign currency exchange had the effect of decreasing revenue by \$0.4 million for the three-month period ending September 30, 2020 as compared to the same period in 2019. The currency impact is primarily due to the weakening of the South Africa Rand, which was partially offset by the strengthening of the British Pound and the Euro.

For the nine months ended September 30, 2020 and 2019, EMEA net sales decreased by \$0.1 million, or 1.0%, to \$10.2 million, as compared to \$10.3 million for the same period in 2019. This decrease was primarily due to a 15.5% decrease in the revenue per active independent associate and preferred customer, which was partially offset by a 3.9% increase in the number of active independent associates and preferred customers. Foreign currency exchange had the effect of decreasing revenue by \$1.2 million for the nine months ended September 30, 2020 as compared to the same period in 2019. The currency impact is primarily due to the weakening of the South Africa Rand and the British Pound.

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

- the impact of the COVID-19 pandemic;
- changes in our sales prices;
- changes in shipping fees;
- changes in consumer demand;
- changes in the number of independent associates and preferred customers;
- changes in competitors' products;
- changes in economic conditions;
- changes in regulations;
- announcements of new scientific studies and breakthroughs;
- introduction of new products;
- discontinuation of existing products;
- adverse publicity;
- changes in our commissions and incentives programs;
- direct competition; and
- fluctuations in foreign currency exchange rates.

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

	Three Months Ended September 30,		Change	
	2020	2019	Dollar	Percentage
	Consolidated product sales	\$ 35.7	\$ 38.7	\$ (3.0)
Consolidated pack sales and associate fees	2.0	0.7	1.3	185.7 %
Consolidated other	0.3	0.3	—	— %
Total consolidated net sales	\$ 38.0	\$ 39.7	\$ (1.7)	(4.3) %

	Nine Months Ended September 30,		Change	
	2020	2019	Dollar	Percentage
	Consolidated product sales	\$ 108.7	\$ 115.8	\$ (7.1)
Consolidated pack sales and associate fees	2.8	1.8	1.0	55.6 %
Consolidated other	0.7	0.7	—	— %
Total consolidated net sales	\$ 112.2	\$ 118.3	\$ (6.1)	(5.2) %

Product Sales

Our product sales are made to our independent associates and preferred customers at published wholesale prices.

Product sales for the three months ended September 30, 2020 decreased by \$3.0 million, or 7.8%, as compared to the same period in 2019. The decrease in product sales was primarily due to a decrease in the average order value, which was partially offset by an increase in the number of orders. The average order value for the three months ended September 30, 2020 was \$171, as compared to \$190 for the same period in 2019. The number of orders processed during the three months ended September 30, 2020 increased by 4.1%, to 220,313, as compared to 211,626 for the same period in 2019.

Product sales for the nine months ended September 30, 2020 decreased by \$7.1 million, or 6.1%, as compared to the same period in 2019. The decrease in product sales was primarily due to a decrease in the number of orders and the average order value. The average order value for the nine months ended September 30, 2020 was \$181, as compared to \$188 for the same period in 2019. The number of orders processed during the nine months ended September 30, 2020 decreased by 2.0%, to 629,650 as compared to 642,277 during the same period in 2019.

Pack Sales and Associate Fees

The Company collects associate fees in lieu of selling packs in certain markets. Associate fees are paid annually by new and continuing associates to the Company, which entitle them to earn commissions, benefits and incentives for that year. The Company collected associate fees in lieu of pack sales within the United States, Canada, South Africa, Japan, Australia, New Zealand, Singapore, Hong Kong, Taiwan, Austria, the Czech Republic, Denmark, Estonia, Finland, Germany, the Republic of Ireland, the Netherlands, Norway, Spain, Sweden and the United Kingdom.

In the Republic of Korea and Mexico, packs may still be purchased by our associates who wish to build a Mannatech business. These packs contain products that are discounted from both the published retail and associate prices. There are several pack options available to our associates. In certain of these markets, pack sales are completed during the final stages of the registration process and can provide new associates with valuable training and promotional materials, as well as products for resale to retail customers, demonstration purposes, and personal consumption. Business-building associates in these markets can also purchase an upgrade pack, which provides the associate with additional promotional materials. We also do not collect associate fees or sell packs in our non-direct selling business in mainland China.

The dollar amount of pack sales and associate fees associated with new and continuing independent associate positions held by individuals in our network was as follows for the three and nine months ended September 30, *(in millions, except percentages)*:

	Three Months Ended September 30,		Change	
	2020	2019	Dollar	Percentage
New	\$ 0.2	\$ 0.1	\$ 0.1	100.0 %
Continuing	1.8	0.6	1.2	200.0 %
Total	\$ 2.0	\$ 0.7	\$ 1.3	185.7 %

	Nine Months Ended September 30,		Change	
	2020	2019	Dollar	Percentage
New	\$ 0.4	\$ 0.4	\$ —	— %
Continuing	2.4	1.4	1.0	71.4 %
Total	\$ 2.8	\$ 1.8	\$ 1.0	55.6 %

Total pack sales and associate fees for the three months ended September 30, 2020 increased by \$1.3 million, or 185.7%, to \$2.0 million, as compared to \$0.7 million for the same period in 2019. Average pack and associate fee value for the three months ended September 30, 2020 was \$69, as compared to \$25 for the same period in 2019. The total number of packs and associate fees sold increased by 2,382, or 9.2%, to 28,145 for the three months ended September 30, 2020, as compared to the same period in 2019.

Total pack sales and associate fees for the nine months ended September 30, 2020 increased by \$1.0 million, or 55.6%, to \$2.8 million, as compared to \$1.8 million for the same period in 2019. Average pack and associate fee value for the nine months ended September 30, 2020 was \$40, as compared to \$24 for the same period in 2019. The total number of packs and associate fees sold decreased by 4,508, or 6.0%, to 70,203 for the nine months ended September 30, 2020, as compared to the same period in 2019.

Pack sales and associate fees correlate to new associate positions held by individuals in our network when a starter pack or associate fee is purchased and to continuing associate positions held by individuals in our network when an upgrade pack or renewal associate fee is purchased. However, there is no direct correlation between product sales and the number of new and continuing associate positions and preferred customer positions held by individuals in our network because associates and preferred customers utilize products at different volumes.

During 2019 and continuing into 2020, we took the following actions to recruit and retain associates and preferred customers:

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

The approximate number of new and continuing active independent associates and preferred customers who purchased our packs or products or paid associate fees during the twelve months ended September 30, 2020 and 2019 were as follows:

	2020		2019	
New	81,000	45.0 %	83,000	47.2 %
Continuing	99,000	55.0 %	93,000	52.8 %
Total	180,000	100.0 %	176,000	100.0 %

Recruitment of new independent associates and preferred customers increased 13.7% in the third quarter of 2020, as compared to the third quarter of 2019. The number of new independent associates and preferred customer positions held by individuals in our network for the third quarter of 2020 was approximately 25,388, as compared to 22,321 for the same period in 2019.

Other Sales

Other sales consisted of: (i) sales of promotional materials; (ii) monthly fees collected for the Success Tracker™ and Mannatech+ customized electronic business-building and educational materials, databases and applications; (iii) training and event registration fees; and (iv) 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 each of the three months ended September 30, 2020 and 2019, other sales were \$0.3 million.

For each of the nine months ended September 30, 2020 and 2019, other sales were \$0.7 million.

Gross Profit

For the three months ended September 30, 2020, gross profit decreased by \$3.3 million, or 10.4%, to \$28.6 million, as compared to \$31.9 million for the same period in 2019. For the three months ended September 30, 2020, gross profit as a percentage of net sales decreased to 75.4%, as compared to 80.6% for the same period in 2019 due to increased product promotions.

For the nine months ended September 30, 2020, gross profit decreased by \$7.9 million, or 8.3%, to \$87.2 million, as compared to \$95.1 million for the same period in 2019. For the nine months ended September 30, 2020, gross profit as a percentage of net sales decreased to 77.7%, as compared to 80.4% for the same period in 2019 due to increased product promotions.

Commissions and Incentives

Commission expenses for the three months ended September 30, 2020 decreased by 9.2%, or \$1.4 million, to \$14.5 million, as compared to \$15.9 million for the same period in 2019. For the three months ended September 30, 2020, commissions as a percentage of net sales decreased to 38.1% from 40.2% for the same period in 2019.

Commission expenses for the nine months ended September 30, 2020 decreased by 5.4%, or \$2.5 million, to \$43.4 million, as compared to \$45.9 million for the same period in 2019. For the nine months ended September 30, 2020, commissions as a percentage of net sales decreased to 38.7% from 38.8% for the same period in 2019. Reversals of expired commission payment vouchers in the nine months ended September 30, 2020 and 2019 provided a reduction to our commission expenses of \$0.6 million and \$1.4 million, respectively.

Incentive costs for the three months ended September 30, 2020 decreased by 19.2%, or \$0.2 million, to \$0.6 million, as compared to \$0.8 million for the same period in 2019. For the three months ended September 30, 2020, incentives as a percentage of net sales decreased to 1.6% from 1.9% for the same period in 2019.

Incentive costs for the nine months ended September 30, 2020 decreased by 16.9%, or \$0.4 million, to \$1.9 million, as compared to \$2.3 million for the same period in 2019. For the nine months ended September 30, 2020, incentives as a percentage of net sales decreased to 1.7% from 1.9% for the same period in 2019.

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 the costs related to hosting our corporate-sponsored events.

For the three months ended September 30, 2020, selling and administrative expenses decreased by \$2.3 million, or 25.8%, to \$6.6 million, as compared to \$9.0 million for the same period in 2019. The decrease in selling and administrative expenses consisted of a \$1.8 million decrease in payroll costs, a \$0.4 million decrease in marketing costs and a \$0.1 million decrease in stock-based compensation. Selling and administrative expenses, as a percentage of net sales, for the three months ended September 30, 2020 decreased to 17.5% from 22.6% for the same period in 2019.

For the nine months ended September 30, 2020, selling and administrative expenses decreased by \$4.2 million, or 17.1%, to \$20.7 million, as compared to \$24.9 million for the same period in 2019. The decrease in selling and administrative expenses consisted of a \$3.3 million decrease in payroll costs, a \$0.6 million decrease in marketing costs and a \$0.3 million decrease in stock-based compensations. Selling and administrative expenses, as a percentage of net sales, for the nine months ended September 30, 2020 decreased to 18.4% from 21.0% for the same period in 2019.

Other Operating Costs

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

For the three months ended September 30, 2020, other operating costs decreased by \$0.1 million, or 2.9%, to \$5.1 million, as compared to \$5.2 million for the same period in 2019. For the three months ended September 30, 2020, other operating costs as a percentage of net sales increased to 13.3% from 13.1% for the same period in 2019. The decrease in operating costs was primarily due to a \$0.4 million decrease in travel and entertainment, which was offset by a \$0.3 million increase in consulting fees.

For the nine months ended September 30, 2020, other operating costs decreased by \$1.5 million, or 9.2%, to \$15.2 million, as compared to \$16.7 million for the same period in 2019. For the nine months ended September 30, 2020, other operating costs as a percentage of net sales decreased to 13.5% from 14.1% for the same period in 2019. The decrease in operating costs was primarily due to a \$0.9 million decrease in travel and entertainment and a \$0.6 million decrease in office expenses.

Depreciation and Amortization Expense

Depreciation and amortization expense was \$0.5 million for each of the three months ended September 30, 2020 and 2019.

Depreciation and amortization expense was \$1.5 million and \$1.6 million for the nine months ended September 30, 2020 and 2019, respectively.

Other Income (Expense), Net

Due to foreign exchange gains and losses, other income was \$0.2 million for the three months ended September 30, 2020. For the three months ended September 30, 2019, other expense was \$0.4 million.

Due to foreign exchange gains and losses, other expense was \$0.2 million for the nine months ended September 30, 2020. For the nine months ended September 30, 2019, other income was \$0.6 million, which included a \$1,100,000 VAT refund offset by foreign exchange gains and losses.

Income Tax Benefit (Provision)

Provision (benefit) 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 three and nine months ended September 30:

Country	2020	2019
Australia	30.0 %	30.0 %
Canada	26.5 %	26.5 %
China ⁽¹⁾	5.0 %	25.0 %
Colombia ⁽²⁾	33.0 %	33.0 %
Cyprus	12.5 %	12.5 %
Denmark	22.0 %	22.0 %
Gibraltar	10.0 %	10.0 %
Hong Kong	16.5 %	16.5 %
Japan	34.6 %	30.2 %
Mexico	30.0 %	30.0 %
Norway	23.0 %	23.0 %
Republic of Korea	22.0 %	22.0 %
Russia ⁽³⁾	20.0 %	20.0 %
Singapore	17.0 %	17.0 %
South Africa	28.0 %	28.0 %
Sweden	22.0 %	22.0 %
Switzerland ⁽⁴⁾	9.2 %	9.2 %
Taiwan	20.0 %	20.0 %
Ukraine ⁽⁵⁾	18.0 %	18.0 %
United Kingdom	19.0 %	19.0 %
United States ⁽⁶⁾	23.8 %	23.8 %

⁽¹⁾For 2020, the Company qualifies for a reduced 5% tax rate in China as a Small Low Profit Enterprise.

⁽²⁾On November 1, 2019, the Company suspended operations in Colombia, but maintains the legal entity, Mannatech Colombia SAS.

⁽³⁾On August 1, 2016, the Company established a legal entity in Russia called Mannatech RUS Ltd., but currently does not operate in Russia.

⁽⁴⁾On July 1, 2019, the Company suspended operations in Switzerland, but maintains the legal entity, Mannatech Swiss International GmbH.

⁽⁵⁾On March 21, 2014, the Company suspended operations in the Ukraine, but maintains the legal entity, Mannatech Ukraine LLC.

⁽⁶⁾Includes blended state effective rate of 2.8% in addition to U.S federal statutory rate of 21%.

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 fully utilize our foreign income tax credits in the United States.

We use the recognition and measurement provisions of the FASB 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.

The provision for income taxes is directly related to our profitability and changes in the taxable income among countries of operation. For the three and nine months ended September 30, 2020, the Company’s effective tax rate was 1.3% and (15.8)%, respectively. For the three and nine months ended September 30, 2019, the Company’s effective tax rate was 1,311.4% and 71.6%, respectively. For the three and nine months ended September 30, 2020 and 2019, the Company’s effective tax rate was determined based on the estimated annual effective income tax rate.

The effective tax rate for the three months ended September 30, 2020 was different from the federal statutory rate due primarily to the mix of earnings across jurisdictions and the associated valuation allowance recorded on losses in certain jurisdictions.

The effective tax rate for the nine months ended September 30, 2020 was different from the federal statutory rate due primarily to the \$1.2 million benefit recorded in connection with the carryback of U.S. net operating losses, as allowed by the provisions of the CARES Act, enacted March 27, 2020.

The effective tax rates for the three and nine months ended September 30, 2019 were different from the federal statutory rate due primarily to the mix of earnings across jurisdictions, valuation allowance recorded on losses in certain jurisdictions and the one-time impact of the shift in the procurement supply chain from Switzerland to the United States effective July 1, 2019, which required a valuation allowance on Switzerland's deferred tax asset.

Income tax related provisions of stimulus packages in foreign jurisdictions did not have a material impact to our recorded income tax benefit for the three and nine months ended September 30, 2020. We are evaluating the impact, if any, that stimulus packages in foreign jurisdictions may have on the Company's future operations, financial position, and liquidity in fiscal year 2020.

LIQUIDITY AND CAPITAL RESOURCES

Cash and Cash Equivalents

As of September 30, 2020, our cash and cash equivalents decreased by 14.2%, or \$3.5 million, to \$21.2 million from \$24.8 million as of December 31, 2019. The Company is required to restrict cash for: (i) direct selling insurance premiums and credit card sales in the Republic of Korea; (ii) reserve on credit card sales in the United States and Canada; and (iii) the Australia building lease collateral. The current portion of restricted cash balances were \$0.9 million at each of September 30, 2020 and December 31, 2019. The long-term portion of restricted cash balances were \$4.0 million and \$5.3 million at September 30, 2020 and 2019, respectively. Finally, fluctuations in currency rates produced a decrease of \$0.4 million and an increase of \$1.3 million in cash and cash equivalents for the nine months ended September 30, 2020 and 2019, respectively.

Our principal use of cash is to pay for operating expenses, including commissions and incentives, capital assets, inventory purchases, and periodic cash dividends. Business objectives, operations, and expansion of operations are funded 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 September 30, 2020 and December 31, 2019, our working capital was \$11.6 million and \$12.1 million, respectively.

Net Cash Flows

Our net consolidated cash flows consisted of the following, for the nine months ended September 30 (*in millions*):

Provided by/(Used in):	2020		2019	
Operating activities	\$	3.3	\$	6.2
Investing activities	\$	(0.8)	\$	(1.0)
Financing activities	\$	(6.9)	\$	(2.1)

Operating Activities

Our primary source of cash is our profitable operations, which provided \$3.3 million cash flow for the nine months ended September 30, 2020, compared to cash provided by operating activities of \$6.2 million for the same period in 2019.

Investing Activities

For the nine months ended September 30, 2020 and 2019, we invested cash of \$0.8 million and \$1.0 million, respectively. During the nine months ended September 30, 2020, we invested approximately \$0.6 million in back-office software projects, \$0.1 million in office equipment and \$0.1 million in leasehold improvements in various international offices and training centers. During the nine months ended September 30, 2019, we invested approximately \$0.5 million in back-office software projects and approximately \$0.2 million in leasehold improvements.

Financing Activities

For the nine months ended September 30, 2020 and 2019, our financing activities used cash of \$6.9 million and \$2.1 million, respectively. For the nine months ended September 30, 2020, we used \$5.6 million in the repurchase of our company stock, \$0.9 million in payments of dividends to shareholders, and \$0.4 million in the repayment of finance lease obligations. For the nine months ended September 30, 2019, we used \$1.0 million in the repayment of finance lease obligations and \$0.9 million in payments of dividends to shareholders.

General Liquidity and Cash Flows

Short Term Liquidity

We believe our existing liquidity and cash flows from operations are adequate to fund our normal expected future business operations 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.

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 3, *Income Taxes*, and Note 7, *Litigation*, to our consolidated financial statements.

On January 30, 2020, the World Health Organization (“WHO”) announced a global health emergency because of COVID-19 and the risks to the international community as the virus spreads globally beyond its point of origin. In March 2020, the WHO declared the outbreak of COVID-19 as a pandemic, which has spread throughout our international regions and continues to spread throughout the United States. We have taken steps to protect the health, safety and well-being of our customers, associates, employees, and communities by closing some offices and equipping various staff members to work remotely for an uncertain period of time.

On April 10, 2020, the Company received loan proceeds of \$2,243,687 (the “Loan”) under the Paycheck Protection Program (“PPP”). The PPP was established under the recent CARES Act and was administered by the SBA. The Loan to the Company was made through JPMorgan Chase Bank, N. A., the Company’s existing banker (the “Lender”). At the time the Company applied for and received the Loan, the Company planned to use the Loan proceeds for covered payroll costs, rent and utilities in accordance with the relevant terms and conditions of the CARES Act. After the Company received the proceeds of the Loan, the SBA provided subsequent guidance interpreting the PPP. Based on such subsequent guidance, the Company made the determination to repay the Loan in full, which it did on April 30, 2020.

The Company depends on an independent salesforce of distributors to market and sell its products to consumers. Developments such as social distancing and shelter-in-place directives could impact their ability to engage with potential and existing customers. The adverse economic effects of COVID-19 may also materially decrease demand for the Company’s products based on changes in consumer behavior or the restrictions in place by governments trying to curb the outbreak. For example, the Company has rescheduled corporate sponsored events, and in some cases, our associates have canceled sales meetings.

For some products, the Company has experienced shortages of raw materials and ingredients. We experienced challenges in getting materials and ingredients to our contract manufacturers and finished products to our distribution centers as a result of reductions in global transportation capacity. Despite the impact on the global supply chain, the Company has overcome obstacles in shipping to our customers.

While the conditions described above are expected to be temporary, prolonged workforce disruptions, continued disruption in our supply chain and potential decreases in consumer demands may negatively impact sales in fiscal year 2020 and the Company's overall liquidity.

Long Term Liquidity

We believe our cash flows from operations should be adequate to fund our normal expected future business operations. As our primary source of liquidity is from our cash flows from operations, this will be dependent on our ability to maintain or improve revenue as compared to 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 September 30, 2020, for the years ending December 31 (*in thousands*):

Commitments and obligations	Remaining 2020	2021	2022	2023	2024	2025	Thereafter	Total
Finance lease obligations	\$ 24	\$ 91	\$ 73	\$ 45	\$ 21	\$ 1	\$ —	\$ 255
Purchase obligations ⁽¹⁾⁽²⁾⁽³⁾	489	4,742	67	—	—	—	—	5,298
Operating lease obligations ⁽⁶⁾⁽⁷⁾	654	2,425	1,929	1,316	1,323	1,528	966	10,141
Note payable and other financing arrangements	290	468	—	—	—	—	—	758
Employment agreements	110	330	—	—	—	—	—	440
Royalty agreement	15	7	—	—	—	—	—	22
Tax liability ⁽⁴⁾	—	—	—	—	—	—	200	200
Other obligations ⁽⁵⁾	222	33	184	24	123	—	514	1,100
Total commitments and obligations	\$ 1,804	\$ 8,096	\$ 2,253	\$ 1,385	\$ 1,467	\$ 1,529	\$ 1,680	\$ 18,214

⁽¹⁾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: fixed or minimum quantities to be purchased; fixed, minimum or variable price provisions; and the approximate timing of the transaction.

⁽²⁾Excludes approximately \$15.0 million of finished product purchase orders that may be canceled or with delivery dates that have changed as of September 30, 2020.

⁽³⁾Renewal term of one supply agreement with minimum purchase commitments was modified from a 2 year auto-renew to 1 year and extended until November 2021.

⁽⁴⁾Represents the tax liability associated with uncertain tax positions, see Note 3, *Income Taxes*, to our Consolidated Financial Statements.

⁽⁵⁾Other obligations are composed of pension obligations related to the Company's international operations (approximately \$0.8 million) and lease restoration obligations (approximately \$0.3 million).

⁽⁶⁾Calculated using the estimated or stated interest rate for each lease.

⁽⁷⁾Represents the minimum future payments, including imputed interest, for operating leases within the scope of Topic 842. Of the total present value of lease liabilities, \$1.9 million was recorded in "Accrued expenses" and \$6.4 million was recorded in "Other long-term liabilities".

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 other 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 possible benefits of purchasing a raw material manufacturing facility to help control costs of our raw materials and help ensure quality control standards.

OFF-BALANCE SHEET ARRANGEMENTS

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

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

Our consolidated financial statements are prepared in accordance with 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 September 30, 2020.

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.

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 September 30, 2020, the estimated useful lives and net carrying values of fixed assets were as follows:

	<u>Estimated useful life</u>	<u>Net carrying value at September 30, 2020</u>
Office furniture and equipment	5 to 7 years	\$0.8 million
Computer hardware and software	3 to 5 years	1.4 million
Automobiles	3 to 5 years	0.1 million
Leasehold improvements ⁽¹⁾	2 to 10 years	1.7 million
Total		<u>\$4.0 million</u>

⁽¹⁾ 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 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 indicators existed for the nine months ended September 30, 2020 and the year ended December 31, 2019.

Uncertain Income Tax Positions and Tax Valuation Allowances

As of September 30, 2020, we recorded \$0.2 million in other long-term liabilities on our consolidated balance sheet related to uncertain income tax positions. As required by Topic 740, 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. 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. 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. There are ongoing income tax audits in various international jurisdictions that we believe are not material to our financial statements.

Revenue Recognition and Deferred Commissions

Our revenue is derived from sales of individual products, sales of starter and renewal packs, associate fees and shipping fees. Substantially all of our product and pack sales are to associates and preferred customers at published wholesale 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.

Revenues from associate fees relate to providing associates with the rights to earn commissions, benefits and incentives for an annual period. Associate fees are recognized evenly over the course of the annual period of the associate's contract. We collected associate fees within the United States, Canada, South Africa, Japan, Australia, New Zealand, Singapore, Hong Kong, Taiwan, Austria, the Czech Republic, Denmark, Estonia, Finland, Germany, the Republic of Ireland, the Netherlands, Norway, Spain, and the United Kingdom during the three and nine months ended September 30, 2020.

The arrangement regarding associate fees has three service elements: (1) providing new associates with the eligibility to earn commissions, benefits and incentives for twelve months, (2) three months of complimentary access to utilize the Success Tracker™ online tool, and (3) three months of complimentary access to utilize the Mannatech+ customized electronic business-building tool. Each of these service elements is provided over time to the customer. For the three and nine months ended September 30, 2020, the associate fees were allocated to these three service elements on a relative standalone selling price basis in accordance with ASC 606.

We defer certain components of revenue. At September 30, 2020 and December 31, 2019, deferred revenue was \$5.0 million and \$4.4 million, respectively. When participating in our loyalty program, customers earn loyalty points from qualified automatic orders that can be applied to future purchases. We defer the dollar equivalent in revenue of these points until the points are applied, forfeited or expired, which includes an estimate of the percentage of the unvested loyalty points that are expected to be forfeited or expired. The deferred revenue associated with the loyalty program at September 30, 2020 and December 31, 2019 was \$3.2 million and \$3.1 million, respectively. 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, we defer commissions on (i) the sales of packs and products ordered but not received by the customers by the end of the respective period and (ii) the loyalty program. Deferred commissions were \$1.7 million and \$1.8 million at September 30, 2020 and December 31, 2019, respectively.

	<i>(in thousands)</i>
Loyalty program	
Loyalty deferred revenue as of January 1, 2019	\$ 4,231
Loyalty points forfeited or expired	(4,348)
Loyalty points used	(9,127)
Loyalty points vested	11,320
Loyalty points unvested	1,051
Loyalty deferred revenue as of December 31, 2019	<u>\$ 3,127</u>
Loyalty deferred revenue as of January 1, 2020	\$ 3,127
Loyalty points forfeited or expired	(2,601)
Loyalty points used	(6,879)
Loyalty points vested	8,404
Loyalty points unvested	1,145
Loyalty deferred revenue as of September 30, 2020	<u>\$ 3,196</u>

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 associates and preferred customers 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 preferred customers 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 if located in the United States and Canada, and for the first 90 days following the product's purchase in other countries where we sell our products. The associate may then return or exchange the product based on the associate product return policy.
- **Associate and Preferred Customer Product Return Policy.** This policy allows the associate or preferred customer to return an order within one year of the purchase date upon terminating his/her account. If an associate or preferred customer 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 preferred customer 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 other countries where we sell our products 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 may terminate the associate's or preferred customer's account.

Historically, sales returns estimates have not materially deviated from actual sales returns, as the majority of our customers who return merchandise do so within the first 90 days after the original sale. Based upon our return policies and historical experience, we estimate a sales return reserve for expected sales refunds over a rolling six-month period. If actual results differ from our estimated sales returns reserves due to various factors, the amount of revenue recorded each period could be materially affected. Historically, our sales returns have not materially changed through the years and have averaged 1.5% or less of our gross sales.

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 or three years. The fair value of the stock option award is calculated using the Black-Scholes option-pricing model. 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.

	<u>June 2020 Grant</u>	
Estimated fair value per share of options granted:	\$	5.76
Assumptions:		
Annualized dividend yield		3.0 %
Risk-free rate of return		0.3 %
Common stock price volatility		52.5 %
Expected average life of stock options (in years)		4.5

The assumptions we use are based on our best estimates and involve inherent uncertainties related to 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 make an adjustment to our consolidated financial statements in future periods.

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 September 30, 2020, we had 174,393 shares available for grant in the future. During the three months ended September 30, 2020, the Company granted no stock options.

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. We consult with our general and outside counsel to determine the legal reserve, which is based upon a combination of litigation and settlement strategies. Although we believe that our legal reserve 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, which could reduce net income, earnings per share, and cash flows.

RECENT ACCOUNTING PRONOUNCEMENTS

In June 2016, the FASB issued ASU 2016-13, *Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments* ("ASU 2016-13"). This standard adds to GAAP an impairment model (known as the current expected credit loss ("CECL") model) that is based on expected losses rather than incurred losses. Under the new guidance, an entity recognizes as an allowance its estimate of expected credit losses, which is intended to result in the more timely recognition of losses. Under the CECL model, entities will estimate credit losses over the entire contractual term of the instrument (considering estimated prepayments, but not expected extensions or modifications) from the date of initial recognition of the financial instrument. Measurement of expected credit losses are to be based on relevant forecasts that affect collectability. The scope of financial assets within the CECL methodology is broad and includes trade receivables from certain revenue transactions and certain off-balance sheet credit exposures. Different components of the guidance require modified retrospective or prospective adoption. In November 2019, the FASB issued ASU 2019-10, *Financial Instruments—Credit Losses (Topic 326), Derivatives and Hedging (Topic 815), and Leases (Topic 842)* ("ASU 2019-10") which defers the effective date for smaller reporting companies by three years to December 15, 2022 for fiscal years, and interim periods within those fiscal years, beginning after that date. This standard will be effective for the Company on January 1, 2023. While our review is ongoing, we believe ASU 2016-13 will only have applicability to our receivables from revenue transactions. Under ASC 606, revenue is recognized when, among other criteria, it is probable that the entity will collect the consideration to which it is entitled for goods or services transferred to a customer. At the point that trade receivables are recorded, they become subject to the CECL model and estimates of expected credit losses on trade receivables over their contractual life will be required to be recorded at inception based on historical information, current conditions, and reasonable and supportable forecasts. The Company continues to evaluate whether the new guidance will have an impact on our consolidated financial statements or existing internal controls.

See Note 1 to our Consolidated Financial Statements for further information on recent accounting pronouncements.

Item 3. 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 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) the Americas (Canada, Colombia and Mexico); (ii) EMEA (Austria, the Czech Republic, Denmark, Estonia, Finland, Germany, the Republic of Ireland, the Netherlands, Norway, South Africa, Spain, Sweden, Switzerland and the United Kingdom); and (iii) Asia/Pacific (Australia, Japan, New Zealand, the Republic of Korea, Singapore, Taiwan, Hong Kong, and China). 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 nine months ended September 30, 2020 were as follows:

Country (foreign currency name)	Nine months ended September 30, 2020			As of September 30, 2020
	Low	High	Average	Spot
Australia (Australian Dollar)	0.57275	0.73850	0.67703	0.71112
Canada (Canadian Dollar)	0.68826	0.77088	0.73942	0.74736
China (Renminbi)	0.13968	0.14790	0.14299	0.14670
Colombia (Peso)	0.00024	0.00031	0.00027	0.00026
Czech Republic (Koruna)	0.03893	0.04567	0.04269	0.04309
Denmark (Kroner)	0.14347	0.16064	0.15079	0.15725
Hong Kong (Hong Kong Dollar)	0.12829	0.12904	0.12891	0.12903
Japan (Yen)	0.00895	0.00976	0.00930	0.00947
Mexico (Peso)	0.03999	0.05396	0.04628	0.04468
New Zealand (New Zealand Dollar)	0.56727	0.67751	0.63873	0.65813
Norway (Krone)	0.08547	0.11469	0.10524	0.10582
Republic of Korea (Won)	0.00079	0.00087	0.00083	0.00086
Singapore (Singapore Dollar)	0.68556	0.74362	0.71957	0.73004
South Africa (Rand)	0.05252	0.07163	0.06019	0.05884
Sweden (Krona)	0.09641	0.11608	0.10660	0.11107
Switzerland (Franc)	1.01544	1.10703	1.05289	1.08478
Taiwan (New Taiwan Dollar)	0.03285	0.03454	0.03359	0.03446
United Kingdom (British Pound)	1.15537	1.34114	1.27143	1.28593
Various countries ⁽¹⁾ (Euro)	1.06994	1.19568	1.12439	1.17068

⁽¹⁾Austria, Germany, the Netherlands, Estonia, Finland, the Republic of Ireland, and Spain

Item 4. 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 September 30, 2020, 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. We have not experienced any material changes to our internal controls over financial reporting despite the fact that most of our employees are working remotely due to the COVID-19 pandemic. We are continually monitoring and assessing the COVID-19 situation on our internal controls to minimize the impact on their design and operating effectiveness.

PART II - OTHER INFORMATION

Item 1. Legal Proceedings

See Note 7, *Litigation* of our Notes to Unaudited Consolidated Financial Statements, which is incorporated herein by reference.

Item 1A. Risk Factors

In addition to the other information set forth in this report, you should carefully consider the factors discussed in Part I, “Item 1A. Risk Factors” in our Annual Report on Form 10-K for the year ended December 31, 2019, which could materially affect our business or our consolidated financial position, results of operations, and cash flows. The risks described in our Annual Report on Form 10-K are not the only risks we face. Additional risks and uncertainties not currently known to us or that we currently deem to be insignificant also may become materially adverse or may affect our business in the future or our consolidated financial position, results of operations, or cash flows.

The spread of COVID-19 underscores certain risks we face, and the rapid development and fluidity of this situation precludes any prediction as to the ultimate adverse impact to us of COVID-19.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds**Issuer Purchases of Equity Securities**

During the three months ended September 30, 2020, we repurchased the following shares of our common stock:

Period	Total number of shares purchased	Average price paid per share	Total number of shares purchased as part of publicly announced programs ^(a)	Dollar value of shares that may yet be purchased ^(b) (in thousands)
July 1, 2020 - July 31, 2020	—	\$ —	—	\$ 13,331
August 1, 2020 - August 31, 2020	3,962	\$ 16.63	3,962	\$ 13,265
September 1, 2020 - September 30, 2020	8,276	\$ 17.27	8,276	\$ 13,122
Total	12,238		12,238	

^(a)We have an ongoing authorization, originally approved by our Board on August 28, 2006, and subsequently reactivated by our Board in August of 2016 and December of 2017, to repurchase up to \$0.5 million (of the original \$20.0 million authorization), respectively, in shares of our common stock in the open market. In August of 2018 and November of 2018, our Board reactivated an additional \$0.5 million (of the original \$20.0 million authorization), respectively, in shares of our common stock to be repurchased in the open market. In December 2019, our Board approved a share repurchase program to acquire up to \$1.0 million (of the original \$20.0 million authorization) of our common stock through March 1, 2020. In August 2020, our Board approved a share repurchase program to acquire up to \$1.0 million (of the original \$20.0 million authorization) of our common stock through August 16, 2021. Any repurchases pursuant to an authorized share repurchase program would be made from time to time in the open market, through block trades or in privately negotiated transactions. The timing, volume and nature of any share repurchases would be at the discretion of management and dependent on market conditions, applicable securities laws and other factors, and could be suspended or discontinued at any time. All or part of any such repurchases could be implemented under a Rule 10b5-1 trading plan.

^(b)Remaining value of the original \$20.0 million approved by our Board on August 28, 2006.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

Not Applicable.

Item 5. Other Information

Not Applicable.

Item 6 Exhibits

See Index to Exhibits immediately following this page.

INDEX TO EXHIBITS

Exhibit Number	Exhibit Description	Incorporated by Reference			
		Form	File No.	Exhibit (s)	Filing Date
3.1	Amended and Restated Articles of Incorporation of Mannatech, dated May 19, 1998.	S-1	333-63133	3.1	October 28, 1998
3.2	Certificate of Amendment to the Amended and Restated Articles of Incorporation of Mannatech, dated January 13, 2012.	8-K	000-24657	3.1	January 17, 2012
3.3	Fifth Amended and Restated Bylaws of Mannatech, dated August 25, 2014.	8-K	000-24657	3.1	August 27, 2014
4.1	Specimen Certificate representing Mannatech's common stock, par value \$0.0001 per share.	S-1	333-63133	4.1	October 28, 1998
31.1*	Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, of the Chief Executive Officer of Mannatech.	*	*	*	*
31.2*	Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, of the Chief Financial Officer of Mannatech.	*	*	*	*
32.1*	Certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, of the Chief Executive Officer of Mannatech.	*	*	*	*
32.2*	Certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, of the Chief Financial Officer of Mannatech.	*	*	*	*
101.INS*	XBRL Instance Document	*	*	*	*
101.SCH*	XBRL Taxonomy Extension Schema Document	*	*	*	*
101.CAL*	XBRL Taxonomy Extension Calculation Linkbase Document	*	*	*	*
101.LAB*	XBRL Taxonomy Extension Label Linkbase Document	*	*	*	*
101.PRE*	XBRL Taxonomy Extension Presentation Linkbase Document	*	*	*	*
101.DEF*	XBRL Taxonomy Extension Definition Linkbase Document	*	*	*	*

* Filed herewith.

SIGNATURES

Pursuant to the requirements 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: November 10, 2020

By: /s/ **Alfredo Bala**
Alfredo Bala
Chief Executive Officer
(principal executive officer)

Dated: November 10, 2020

By: /s/ **David A. Johnson**
David A. Johnson
Chief Financial Officer
(principal financial officer)

**CERTIFICATION
PURSUANT TO 17 CFR 240.13a-14
PROMULGATED UNDER
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Alfredo Bala, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Mannatech, Incorporated;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 10, 2020

/s/ Alfredo Bala

Alfredo Bala
Chief Executive Officer
(principal executive officer)

**CERTIFICATION
PURSUANT TO 17 CFR 240.13a-14
PROMULGATED UNDER
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, David A. Johnson, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Mannatech, Incorporated;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 10, 2020

/s/ David A. Johnson

David A. Johnson
Chief Financial Officer
(principal financial officer)

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report of Mannatech, Incorporated (the "Company") on Form 10-Q for the period ending September 30, 2020 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Alfredo Bala, Chief Executive Officer of the Company, hereby certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

1. The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: November 10, 2020

/s/ Alfredo Bala

Alfredo Bala
Chief Executive Officer
(principal executive officer)

A SIGNED ORIGINAL OF THIS WRITTEN STATEMENT REQUIRED BY SECTION 906 HAS BEEN PROVIDED TO MANNATECH, INCORPORATED AND FURNISHED TO THE SECURITIES AND EXCHANGE COMMISSION OR ITS STAFF UPON REQUEST.

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report of Mannatech, Incorporated (the "Company") on Form 10-Q for the period ending September 30, 2020 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, David A. Johnson, Chief Financial Officer of the Company, hereby certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

1. The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: November 10, 2020

/s/ David A. Johnson

David A. Johnson
Chief Financial Officer
(principal financial officer)

A SIGNED ORIGINAL OF THIS WRITTEN STATEMENT REQUIRED BY SECTION 906 HAS BEEN PROVIDED TO MANNATECH, INCORPORATED AND FURNISHED TO THE SECURITIES AND EXCHANGE COMMISSION OR ITS STAFF UPON REQUEST.
