MANNATECH INC
Form 10-Q
August 09, 2012

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

FORM 10-Q
(Mark One)

[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended: June 30, 2012

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)	75-2508900 (I.R.S. Employer Identification No.)
600 S. Royal Lane, Suite 200, Coppell, Texas (Address of Principal Executive Offices)	75019 (Zip Code)

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

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes [X] No [ ]

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

Large accelerated filer [ ]	Accelerated filer [ ]	Non-accelerated filer [ ]	Smaller reporting company [X]

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

As of August 6, 2012, the number of shares outstanding of the registrant’s sole class of common stock, par value $0.0001 per share, was 2,647,735.

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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, 2011, and the "Risk Factors" section in Part II, Item 1A of this Form 10-Q, and elsewhere in this Form 10-Q and the documents incorporated by reference herein. If one or more of these risks or uncertainties materialize, or if our underlying assumptions prove to be incorrect, actual results and developments could materially differ from those expressed in or implied by such forward-looking statements. For example, any of the following factors could cause actual results to vary materially from our projections:

§ overall growth or lack of growth in the nutritional supplements industry;

§ plans for expected future product development;

- changes in manufacturing costs;
- shifts in the mix of packs and products;
- the future impact of any changes to global associate career and compensation plans or incentives;
- the ability to attract and retain independent associates and members;
- new regulatory changes that may affect operations or products;
- the competitive nature of our business with respect to products and pricing;
- publicity related to our products or network-marketing; and
- the political, social, and economic climate.

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

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

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

PART I – FINANCIAL INFORMATION
Item 1. Financial Statements

MANNATECH, INCORPORATED AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS – (UNAUDITED)
(in thousands, except share and per share amounts)

ASSETS	June 30, 2012 (unaudited)	December 31, 2011
Cash and cash equivalents	$ 12,103	$ 18,057
Restricted cash	1,512	1,263
Accounts receivable, net of allowance of $23 and $22 in 2012 and 2011, respectively	187	304
Income tax receivable	892	888
Inventories, net	18,185	17,786
Prepaid expenses and other current assets	2,179	2,497
Deferred tax assets	978	936
Total current assets	36,036	41,731
Property and equipment, net	6,374	9,566
Construction in progress	3	—
Long-term restricted cash	3,459	3,386
Other assets	3,124	2,815
Long-term deferred tax assets	846	772
Total assets	$ 49,842	$ 58,270
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current portion of capital leases	$ 714	$ 852
Accounts payable	6,733	4,825
Accrued expenses	6,861	10,514
Commissions and incentives payable	5,813	8,567
Taxes payable	3,261	3,364
Current deferred tax liability	209	185
Deferred revenue	1,813	1,569
Total current liabilities	25,404	29,876
Capital leases, excluding current portion	1,112	1,358
Long-term deferred tax liabilities	1	1
Other long-term liabilities	5,767	5,382
Total liabilities	32,284	36,617
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, 2,768,972 shares issued and 2,647,735 shares outstanding as of June 30, 2012	—	—

and 2,769,756 shares issued and 2,648,518 shares outstanding as of December 31, 2011		
Additional paid-in capital	42,529	42,408
Accumulated deficit	(9,387)	(5,532)
Accumulated other comprehensive loss	(788)	(427)
Less treasury stock, at cost, 121,237 shares in 2012 and 2011	(14,796)	(14,796)
Total shareholders’ equity	17,558	21,653
Total liabilities and shareholders’ equity	$ 49,842	$ 58,270

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 June 30,		Six months ended June 30,	
	2012	2011	2012	2011
Net sales	$ 43,611	$ 51,362	$ 88,113	$ 102,262
Cost of sales	6,888	7,543	13,283	14,757
Commissions and incentives	18,637	22,896	37,622	44,603
	25,525	30,439	50,905	59,360
Gross profit	18,086	20,923	37,208	42,902
Operating expenses:				
Selling and administrative	11,793	14,811	23,277	30,829
Depreciation and amortization	921	2,687	3,379	5,488
Other operating costs	6,778	7,746	14,014	15,812
Total operating expenses	19,492	25,244	40,670	52,129
Loss from operations	(1,406)	(4,321)	(3,462)	(9,227)
Interest income (expense)	21	21	(32)	1
Other income (expense), net	(805)	196	87	463
Loss before income taxes	(2,190)	(4,104)	(3,407)	(8,763)
Provision for income taxes	(265)	(1,146)	(448)	(1,265)
Net loss	$ (2,455)	$ (5,250)	$ (3,855)	$ (10,028)
Net loss per share:				
Basic	$ (0.93)	$ (1.98)	$ (1.46)	$ (3.79)
Diluted	$ (0.93)	$ (1.98)	$ (1.46)	$ (3.79)
Weighted-average common shares outstanding:				
Basic	2,648	2,649	2,648	2,649
Diluted	2,648	2,649	2,648	2,649

CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS – (UNAUDITED)
(in thousands)

	Three months ended June 30,		Six months ended June 30,	
	2012	2011	2012	2011

Net loss	$ (2,455)	$ (5,250)	$ (3,855)	$ (10,028)
Foreign currency translations	445	20	(361)	41
Comprehensive loss	$ (2,010)	$ (5,230)	$ (4,216)	$ (9,987)

See accompanying notes to unaudited consolidated financial statements.

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

	Common stock Par value	Additional paid in capital	Accumulated deficit	Accumulated other comprehensive loss	Treasury stock	Total shareholders' equity
Balance at December 31, 2011	$ —	$ 42,408	$ (5,532)	$ (427)	$ (14,796)	$ 21,653
Net loss	—	—	(3,855)	—	—	(3,855)
Charge related to stock-based compensation	—	124	—	—	—	124
Repurchase of fractional shares from reverse stock split	—	(3)	—	—	—	(3)
Foreign currency translations	—	—	—	(361)	—	(361)
Balance at June 30, 2012	$ —	$ 42,529	$ (9,387)	$ (788)	$ (14,796)	$ 17,558

See accompanying notes to unaudited consolidated financial statements.

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

	Six months ended June 30, 2012	Six months ended June 30, 2011
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	$ (3,855)	$ (10,028)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	3,379	5,488
Provision for inventory losses	680	1,744
Provision for doubtful accounts	20	42
Loss on disposal of assets	54	68
Accounting charge related to stock-based compensation expense	124	202
Deferred income taxes	(116)	(401)
Changes in operating assets and liabilities:		
Accounts receivable	92	244
Income tax receivable	(4)	24
Inventories	(1,071)	3,647
Prepaid expenses and other current assets	532	(645)
Other assets	(327)	180
Accounts payable	1,921	(504)
Accrued expenses and other liabilities	(3,228)	(116)
Taxes payable	(111)	(1,738)
Commissions and incentives payable	(2,732)	(1,266)
Deferred revenue	248	(11)
Net cash used in operating activities	(4,394)	(3,070)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Acquisition of property and equipment	(235)	(476)
Proceeds from sales of assets	28	2
Change in restricted cash	(322)	65
Net cash used in investing activities	(529)	(409)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Repurchase of fractional shares from reverse stock split	(3)	—
Repayment of capital lease obligations	(628)	(642)
Net cash used in financing activities	(631)	(642)
Effect of currency exchange rate changes on cash and cash equivalents	(400)	(142)
Net decrease in cash and cash equivalents	(5,954)	(4,263)
Cash and cash equivalents at the beginning of the period	18,057	21,584
	$ 12,103	$ 17,321

Cash and cash equivalents at the end of the period				
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:				
Income taxes paid, net	$	(566)	$	(292)
Interest paid on capital leases	$	80	$	96

See accompanying notes to unaudited consolidated financial statements.

MANNATECH, INCORPORATED AND SUBSIDIARIES
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 Coppell, Texas, was incorporated in the state of Texas on November 4, 1993 and is listed on the NASDAQ Global Select Market ("Nasdaq") under the symbol "MTEX". The Company develops, markets, and sells high-quality, proprietary nutritional supplements, topical and skin care products, and weight-management products that are primarily sold to independent associates and members located in the United States, Canada, Australia, the United Kingdom, Japan, New Zealand, the Republic of Korea, Taiwan, Denmark, Germany, South Africa, the Republic of Namibia (via South Africa), Singapore, Austria, the Netherlands, Norway, Sweden, Mexico, the Czech Republic, Estonia, Finland and the Republic of Ireland.

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

The accompanying unaudited consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information and with instructions for Form 10-Q and Rule 10-01 of Regulation S-X. Accordingly, the Company's consolidated financial statements and footnotes contained herein do not include all of the information and footnotes required by accounting principles generally accepted in the United States of America ("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, 2011 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, 2011 and filed with the United States Securities and Exchange Commission (the "SEC") on March 29, 2012 (the "2011 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 2011 Annual Report.

Principles of Consolidation

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

Use of Estimates

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

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

Cash and Cash Equivalents

The Company considers all highly liquid investments with original maturities of three months or less to be cash equivalents. The Company includes in its cash and cash equivalents credit card receivables due from its credit card processor, as the cash proceeds from credit card receivables are received within 24 to 72 hours of submission to the credit card processor. As of June 30, 2012 and December 31, 2011, credit card receivables were $1.4 million and $1.7 million,

MANNATECH, INCORPORATED AND SUBSIDIARIES
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

respectively, and cash and cash equivalents held in bank accounts in foreign countries totaled $9.4 million and $10.5 million, respectively. The Company invests cash in liquid instruments, such as money market funds and interest bearing deposits. The Company also holds cash in high quality financial institutions and does not believe it has an excessive exposure to credit concentration risk.

Restricted Cash

The Company is required to restrict cash for: (i) direct selling insurance premiums and credit card sales in the Republic of Korea; (ii) reserve on credit card sales in the United States and Canada; and (iii) the Australia building lease collateral. As of June 30, 2012 and December 31, 2011, our total restricted cash was $5.0 million and $4.6 million, respectively.

Accounts Receivable

Accounts receivable are carried at their estimated collectible amounts. Receivables are created upon shipment of an order if the credit card payment is rejected or does not match the order total. As of June 30, 2012 and December 31, 2011, receivables consisted primarily of amounts due from members and associates. The Company periodically evaluates its receivables for collectability based on historical experience, recent account activities, and the length of time receivables are past due and writes-off receivables when they become uncollectible. At June 30, 2012 and December 31, 2011, the Company held an allowance for doubtful accounts of less than $0.1 million.

Inventories

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

Other Assets

As of June 30, 2012 and December 31, 2011, other assets were $3.1 million and $2.8 million, respectively, and primarily consisted of deposits for building leases in various locations and certain intangible assets. Also included in the June 30, 2012 and December 31, 2011 balances was $0.9 million, 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.

Commissions and Incentives

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

Other Long-Term Liabilities

In August 2003, the Company entered into a Long-Term Post-Employment Royalty Agreement with Dr. Bill McAnalley, the Company's former Chief Science Officer, pursuant to which the Company is required to pay Dr. McAnalley, or his heirs, royalties for ten years beginning September 2005 and continuing through August 2015. Quarterly payments related to this Long-Term Post-Employment Royalty Agreement are based on certain applicable annual global product sales by the Company in excess of $105.4 million. At the time the Company entered into this royalty agreement, it was considered a post-employment benefit and the Company was required to measure and accrue the present value of the estimated future royalty payments related to this benefit, and recognize it over the life of Dr. McAnalley's employment agreement, which was two years. As of June 30, 2012 and December 31, 2011, the Company's liability related to this royalty agreement was $1.0 million and $1.2 million, respectively, of which $0.3 million was currently due and included in accrued expenses.

MANNATECH, INCORPORATED AND SUBSIDIARIES
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

Certain operating leases for the Company's regional office facilities contain a restoration clause that requires the Company to restore the premises to its original condition. As of June 30, 2012 and December 31, 2011, accrued restoration costs related to these leases amounted to $0.4 million. At each of June 30, 2012 and December 31, 2011, the Company also recorded a long-term liability for an estimated deferred benefit obligation related to a deferred benefit plan for its Japan operations of $1.3 million.

Comprehensive Income (loss) and Accumulated Other Comprehensive Income (loss)

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

Revenue Recognition

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

The Company recognizes revenue from shipped packs and products upon receipt by the customer. Corporate-sponsored event revenue is recognized when the event is held. The Company defers certain components of its revenue. At June 30, 2012 and December 31, 2011, the Company's deferred revenue was $1.8 million and $1.6 million, respectively, and consisted primarily of revenue received from: (i) sales of packs and products shipped but not received by the customers by the end of the respective period; and (ii) prepaid registration fees from customers planning to attend a future corporate-sponsored event.

We estimate a sales return reserve for expected sales refunds based on our historical experience over a rolling six-month period. If actual results differ from our estimated sales return reserve due to various factors, the amount of revenue recorded for each period could be materially affected. Historically, our sales returns have not materially changed through the years, as the majority of our customers who return their merchandise do so within the first 90 days after the original sale. Sales returns have historically averaged 1.5% or less of our gross sales. For the six months ended June 30, 2012 our sales return reserve consisted of the following (in thousands):

	June 30, 2012
Sales reserve as of January 1, 2012	$ 528
Provision related to sales made in current period	900
	(315)

Adjustment related to sales made in prior periods		
Actual returns or credits related to current period		(695)
Actual returns or credits related to prior periods		(224)
Sales reserve as of June 30, 2012	$	194

Shipping and Handling Costs

The Company records freight and shipping fees collected from its customers as revenue. The Company records inbound freight as a component of inventory and cost of sales and records shipping and handling costs associated with shipping products to customers as selling and administrative expenses. Total shipping and handling costs included in selling and administrative expenses were approximately $2.4 million and $2.7 million for the three months ended June 30, 2012 and 2011, respectively, and $4.8 million and $5.6 million for the six months ended June 30, 2012 and 2011, respectively.

MANNATECH, INCORPORATED AND SUBSIDIARIES
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

Reclassifications

Certain reclassifications have been made to the financial statements for prior periods to conform to the current period presentation.

Reverse Stock Split

On January 13, 2012, the Company effected a 1-for-10 reverse stock split of the Company's common stock (the "reverse stock split"). All share numbers in this quarterly report have been adjusted to reflect the reverse stock split unless otherwise indicated.

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 at June 30, 2012 and December 31, 2011, consisted of the following (in thousands):

	June 30, 2012	December 31, 2011
Raw materials	$ 5,959	$ 6,850
Finished goods	13,578	13,247
Inventory reserves for obsolescence	(1,352)	(2,311)
Total	$ 18,185	$ 17,786

NOTE 3: INCOME TAXES

For the three and six months ended June 30, 2012, the Company's effective tax rate was (12.1)% and (13.1)%, respectively. For the three and six months ended June 30, 2011, the Company's effective income tax rate was (27.9)% and (14.4)%, respectively. For the three and six months ended June 30, 2012 and 2011, the Company's effective tax rate was determined based on the estimated annual effective tax rate.

The effective tax rates for the three and six months ended June 30, 2012 and 2011 were lower than what would have been expected if the federal statutory rate were applied to income before taxes. Items reducing the effective income tax rate included the change in the valuation allowances associated with certain deferred tax assets, and the change in reserves related to uncertain income tax positions.

Our 2005-2009 tax years remain subject to examination by the Internal Revenue Service ("IRS") for United States federal tax purposes. On May 26, 2011 the IRS issued a Revenue Agent's report ("RAR") detailing proposed adjustments for the tax years under examination. The net tax deficiency associated with the RAR is $8.5 million plus penalties of $1.5 million. On July 8, 2011, we filed a protest letter challenging the proposed adjustments contained in the RAR and are pursuing resolution of these items with the Appeals Division of the IRS. On July 26, 2012, the Company participated in a hearing with the Appeals Division of the IRS, and the Company believes the net tax deficiency should approximate amounts previously recorded as uncertain income tax positions. There are other ongoing audits in various international jurisdictions that are not expected to have a material effect on our financial statements.

NOTE 4: LOSS PER SHARE

The Company calculates basic Earnings Per Share ("EPS") by dividing net income (loss) 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 2008 Stock Incentive Plan. The Company reported net losses for the three months ended June 30, 2012 and 2011 and approximately 0.1 million and 0.2 million shares, respectively, 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 dilution effect of outstanding stock options during the three months ended June 30, 2012 and 2011, the Company used the quarter's average common stock close price of $4.96 and $13.10 per share, respectively. For the six months ended June 30, 2012, approximately 0.1 million shares of the Company's common stock subject to options were excluded from diluted EPS calculations using an average closing price of $4.57 per share, because their effect was antidilutive. For the six months ended June 30, 2011, approximately 0.1 million shares of the Company's common stock subject to options were excluded from diluted EPS calculations using an average close price of $15.70 per share, because their effect was antidilutive.

MANNATECH, INCORPORATED AND SUBSIDIARIES
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

NOTE 5: STOCK-BASED COMPENSATION

The Company currently has one active stock-based compensation plan, which was approved by shareholders. The Company grants stock options to employees, consultants, and board members at the fair market value of its common stock, on the date of grant, with a term no greater than ten years. The majority of stock options vest over two or three years. Shareholders who own 10% or more of the Company's outstanding stock are granted incentive stock options at an exercise price that may not be less than 110% of the fair market value of the Company's common stock on the date of grant and have a term no greater than five years.

In February 2008, the Company's Board of Directors approved the Mannatech, Incorporated 2008 Stock Incentive Plan, as amended (the "2008 Plan"), which reserves up to 200,000 shares, as adjusted for the reverse stock split, for issuance of stock options and restricted stock to our employees, board members, and consultants, plus any shares reserved under the Company's then-existing, unexpired stock plans for which options had not yet been issued, and any shares underlying outstanding options under the then-existing stock option plans that terminate without having been exercised in full. The 2008 Plan was approved by the Company's shareholders at the 2008 Annual Shareholders' Meeting and was amended at the 2012 Annual Shareholders' Meeting held May 30, 2012 to increase the number of shares of common stock subject to the plan by 100,000. As of June 30, 2012, the 2008 Plan had 135,041 stock options available for grant before the plan expires on February 20, 2018.

The Company records stock-based compensation expense related to granting stock options in selling and administrative expenses. During the three months ended June 30, 2012 and 2011, the Company granted 15,000 and 34,815 stock options, respectively. During the six months ended June 30, 2012 and 2011, the Company granted 20,000 and 34,815 stock options, respectively. The fair value of stock options granted during the three months ended June 30, 2012 was $3.21. The fair value of stock options granted during the three months ended June 30, 2011 ranged from $6.45 to $9.42. The fair value of stock options granted during the six months ended June 30, 2012 ranged from $2.64 to $3.21 per share. The fair value of stock options granted during the six months ended June 30, 2011 ranged from $6.45 to $9.42 per share. The Company recognized compensation expense as follows for the three and six months ended June 30 (in thousands):

	Three months		Six months	
	2012	2011	2012	2011
Total gross compensation expense	$ 75	$ 105	$ 124	$ 202
Total tax benefit associated with compensation expense	19	34	30	51
Total net compensation expense	$ 56	$ 71	$ 94	$ 151

During the second quarter of 2012 15,000 stock options were granted to three non-employee directors in connection with their re-election to the Company's Board of Directors at the 2012 Annual Shareholders' Meeting held on May 30, 2012. One-third of these stock options were immediately vested on the date of grant, another one-third vest on the first anniversary of the date of grant, and the remaining one-third vest on the second anniversary of the date of grant.

MANNATECH, INCORPORATED AND SUBSIDIARIES
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

As of June 30, 2012, the Company expects to record compensation expense in the future as follows (in thousands):

	Six months ending December 31, 2012	Year ending December 31, 2013	2014
Total gross unrecognized compensation expense	$ 80	$ 86	$ 17
Tax benefit associated with unrecognized compensation expense	14	17	3
Total net unrecognized compensation expense	$ 66	$ 69	$ 14

NOTE 6: SHAREHOLDERS' EQUITY

Equity Line

On September 16, 2010, the Company entered into an Investment Agreement (as amended, the "Investment Agreement") with Dutchess Opportunity Fund, II, LP, a Delaware limited partnership (the "Investor"), whereby the Company may sell up to $10 million of the Company's common stock to the Investor over a period of 36 months from the first trading day following the effectiveness of a registration statement registering the resale of shares pursuant to the Investment Agreement (the "Equity Line").

The Company may draw on the Equity Line from time to time, as and when it determines appropriate in accordance with the terms and conditions of the Investment Agreement. The Company is not permitted to draw on the Equity Line unless there is an effective registration statement to cover the resale of the shares. The Company filed a registration statement with the SEC, and on October 28, 2010, the SEC declared effective the Company's Registration Statement on Form S-3 (File No. 333-169774), which registers up to 5,000,000 shares of common stock that may be resold by the Investor pursuant to the Investment Agreement. The number of shares registered on Form S-3 are subject to adjustment for the reverse stock split pursuant to Rule 416 of the Securities Act.

Investors should read the Investment Agreement together with the other information concerning the Company that the Company publicly files in reports and statements with the SEC.

As of August 6, 2012, no shares of common stock have been issued pursuant to the Investment Agreement.

Treasury Stock

The Company is authorized to repurchase the lesser of (i) 130,000 shares and (ii) $1.3 million in shares pursuant to a stock repurchase plan adopted by the Company's Board of Directors on June 30, 2004 (as amended, the "June 2004 Plan"). On August 28, 2006, a second program permitting the Company to purchase, in the open market, up to $20 million of its outstanding shares was approved by our Board of Directors (the "August 2006 Plan"). The Company has not repurchased any shares of its common stock in 2012.

As of August 6, 2012, the maximum number of shares available for repurchase under the June 2004 Plan was 19,084, and the total number of shares purchased in the open market under the June 2004 Plan was 112,672. No shares have ever been purchased under the August 2006 Plan. The Company does not have any stock repurchase plans or programs other than the June 2004 Plan and the August 2006 Plan.

MANNATECH, INCORPORATED AND SUBSIDIARIES
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

NOTE 7: LITIGATION

Bradley E. Bagge vs. Mannatech Incorporated, Craig Hermanson et al., Case 12-80828 DSD/AJB, United States District Court, District of Minnesota

On April 3, 2012, Bradley E. Bagge, an individual, filed suit pro se against Mannatech, Incorporated and certain other individuals in the United States District Court, District of Minnesota, alleging that another associate and an investor group fraudulently usurped his interests in his position as an associate, depriving him of potential commissions and bonuses. Mr. Bagge asserted claims under the Racketeer Influenced and Corrupt Organizations Act, as well as various allegations of identity theft, claiming $2,350,000 in actual damages, $3,000,000 in exemplary damages, and $7,050,000 in statutory treble damages. Mr. Bagge further asserted the Company was complicit in the conduct of the other defendants.

On June 6, 2012, Mr. Bagge filed a Motion to Dismiss the suit. On June 12, 2012, the Court entered an order dismissing the suit without prejudice to refiling same.

The Company considers the matter closed.

Administrative Proceedings

Our 2005-2009 tax years remain subject to examination by the IRS for United States federal tax purposes. On May 26, 2011 the IRS issued a RAR detailing proposed adjustments for the tax years under examination. The net tax deficiency associated with the RAR is $8.5 million plus penalties of $1.5 million. On July 8, 2011, we filed a protest letter challenging the proposed adjustments contained in the RAR and are pursuing resolution of these items with the Appeals Division of the IRS. On July 26, 2012, the Company participated in a hearing with the Appeals Division of the IRS, and the Company believes the net tax deficiency should approximate amounts previously recorded as uncertain income tax positions. There are other ongoing audits in various international jurisdictions that are not expected to have a material effect on our financial statements.

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 its 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 are 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 or as they become determinable.

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 the above legal matters where an outcome was deemed to be probable, and the loss amount could be reasonably estimated. While it is not possible to predict what liability or damages the Company might incur in connection with any of the above-described lawsuits, based on the advice of counsel and management review of the existing facts and circumstances related to these lawsuits, and related legal fees, the Company has accrued $0.2 million as of June 30, 2012 for these matters, which is included in accrued expenses in its Consolidated Balance Sheet.

MANNATECH, INCORPORATED AND SUBSIDIARIES
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

NOTE 8: RECENT ACCOUNTING PRONOUNCEMENTS

There have been no recently issued accounting pronouncements that impacted the second quarter of 2012, or which are expected to have a material impact on the Company's future periods that were not already adopted and disclosed in prior periods.

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 ASC 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 June 30, 2012. The table below presents the recorded amount of financial assets measured at fair value (in thousands) on a recurring basis as of June 30, 2012.

	Level 1	Level 2	Level 3	Total
Assets				
Money Market Funds – Fidelity, US	$ 840	$ —	$ —	$ 840
Interest bearing deposits – various banks, Korea	2,391	—	—	2,391
Total assets	$3,231	$ —	$ —	$3,231
Amounts included in:				
Cash and cash equivalents	$ 840	$ —	$ —	$ 840
Long-term restricted cash	2,391		—	— 2,391

Total	$3,231	$ —	$ —	$3,231

NOTE 10: SEGMENT INFORMATION

The Company conducts its business as a single operating segment, consolidating all of its business units into a single reportable entity, as a seller of proprietary nutritional supplements, topical and skin care products, and weight-management products through its network marketing distribution channels operating in twenty-two countries. Each of the Company’s business units sells similar packs and products 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 packs and product sales. The Company sells its products through its associates and distributes its products through similar distribution channels in each country. No single associate has ever accounted for more than 10% of the Company’s consolidated net sales

MANNATECH, INCORPORATED AND SUBSIDIARIES
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

The Company operates facilities in ten countries and sells product in twenty-two countries around the world. These facilities are located in the United States, Canada, Switzerland, Australia, the United Kingdom, Japan, the Republic of Korea (South Korea), Taiwan, South Africa, and Mexico. Each facility services different geographic areas. The Switzerland office was created to manage certain day-to-day business needs of non-North American markets.

By country of operation, consolidated net sales shipped to customers in these locations, along with pack and product information for the three and six months ended June 30, are as follows (in millions, except percentages):

	Three months				Six months			
Country	2012		2011		2012		2011	
United States	$18.6	42.7%	$21.3	41.4%	$37.2	42.2%	$ 43.7	42.7%
Japan	6.8	15.6%	7.7	15.0%	13.6	15.4%	15.2	14.9%
Republic of Korea	5.3	12.2%	6.2	12.1%	10.8	12.3%	11.4	11.1%
Canada	4.0	9.2%	4.3	8.3%	7.7	8.7%	8.2	8.0%
Australia	3.4	7.8%	4.5	8.8%	7.4	8.4%	9.0	8.8%
South Africa(1)	1.9	4.4%	2.2	4.3%	3.9	4.4%	4.3	4.2%
New Zealand	0.5	1.1%	0.7	1.3%	1.0	1.2%	1.2	1.2%
Singapore	0.5	1.1%	0.8	1.6%	1.1	1.3%	1.4	1.4%
Taiwan	0.5	1.1%	1.0	1.9%	1.2	1.4%	2.3	2.2%
Germany	0.4	0.9%	0.5	1.0%	0.9	1.0%	1.0	1.0%
Norway	0.4	0.9%	0.4	0.8%	0.8	0.9%	0.9	0.9%
United Kingdom(2)	0.3	0.7%	0.5(3)	0.9%	0.7	0.8%	0.8(3)	0.8%
The Netherlands	0.3	0.7%	0.3	0.6%	0.6	0.7%	0.6	0.6%
Czech Republic(4)	0.3	0.7%	—	—	0.3	0.3%	—	—
Mexico	0.2	0.5%	0.6	1.2%	0.4	0.5%	1.3	1.3%
Austria	0.1	0.2%	0.2	0.4%	0.2	0.2%	0.5	0.4%
Sweden	0.1	0.2%	0.1	0.2%	0.1	0.1%	0.3	0.3%
Denmark	—	—	0.1	0.2%	0.1	0.1%	0.2	0.2%
Finland(5)	—	—	—	—	0.1	0.1%	—	—
Totals	$43.6	100%	$51.4	100%	$88.1	100%	$102.3	100%

(1) Includes sales for the Republic of Namibia, which began operations in August 2011.

(2) Includes sales for Estonia and the Republic of Ireland, which began operations in June 2011. Their combined consolidated sales for the three and six months ended June 30, 2012 were less than $0.1 million and are included in net sales for the United Kingdom.

(3) Includes sales for the Czech Republic, which began operations in June 2011.

(4) The Company began operations in the Czech Republic in June 2011; net sales for June 2011 are included in net sales for the United Kingdom.

(5) The Company began operations in Finland in June 2011.

	Three months		Six months	
	2012	2011	2012	2011
Consolidated product sales	$ 38.9	$ 43.4	$ 78.8	$ 86.6
Consolidated pack sales	3.0	5.9	6.1	11.4
Consolidated other, including freight	1.7	2.1	3.2	4.3
Consolidated total net sales	$ 43.6	$ 51.4	$ 88.1	$ 102.3

MANNATECH, INCORPORATED AND SUBSIDIARIES
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

Long-lived assets, which include property, equipment and construction in progress for the Company and its subsidiaries, reside in the following countries (in millions):

Country	June 30, 2012	December 31, 2011
Australia	$ 0.2	$ 0.3
Canada	—	0.1
Japan	0.2	0.2
Mexico	0.5	0.5
Republic of Korea	0.5	0.6
South Africa	0.1	0.1
Switzerland	0.2	0.2
United States	4.7	7.6
Total	$ 6.4	$ 9.6

Inventory balances by country, which consist of raw materials, work in progress, finished goods, and promotional materials, as offset by obsolete inventories, were as follows (in millions):

Country	June 30, 2012	December 31, 2011
Australia	$ 1.9	$ 1.5
Canada	0.8	1.3
Japan	1.4	1.2
Mexico	0.3	0.3
Republic of Korea	1.6	0.8
South Africa	0.7	0.7
Switzerland	—	0.2
Taiwan	0.3	0.3
United Kingdom	0.9	0.9
United States	10.3	10.6
Total	$ 18.2	$ 17.8

NOTE 11: SUBSEQUENT EVENTS

In July 2012, the Company entered into a Services Agreement with Integrated Distribution and Logistics Direct, LLC (doing business as SPExpress) whereby Mannatech began outsourcing its United States warehousing and distribution functions to SPExpress. In connection with this agreement, SPExpress provides the space, labor, materials, facilities, equipment, and personnel necessary to fulfill Mannatech's warehousing and distribution needs in facilities on both the east and west coasts of the United States, as well as in Texas. Additionally, in connection with such outsourcing arrangement, the Company sold certain assets related to the distribution and warehousing functions previously performed by Mannatech to SPExpress and is subleasing the majority of the space in the distribution center it leases in

Coppell, Texas to SPExpress for the purpose of providing the warehousing and distribution services under the Services Agreement.

On July 26, 2012, the Company participated in a hearing with the Appeals Division of the IRS concerning the examination of the 2005 -2009 tax years. The Company believes the net tax deficiency should approximate amounts previously recorded as uncertain income tax positions.

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 six months ended June 30, 2012 as compared to the same period in 2011, and should be read in conjunction with Item I "Financial Statements" in Part I of this quarterly report on Form 10-Q. 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.

COMPANY OVERVIEW

Since November 1993, we have continued to develop innovative, high-quality, proprietary nutritional supplements, topical and skin care products, and weight-management products that are sold through a global network marketing system. We operate in the United States, Canada, Australia, the United Kingdom, Japan, New Zealand, the Republic of Korea, Taiwan, Denmark, Germany, South Africa, the Republic of Namibia (via South Africa), Singapore, Austria, the Netherlands, Norway, Sweden, Mexico, the Czech Republic, Estonia, Finland, and the Republic of Ireland. Our Switzerland office was created to manage certain day-to-day business needs of non-North American markets.

We conduct our business as a single operating segment and primarily sell our products through a network of approximately 378,000 associates who have purchased our products and/or packs within the last 12 months, plus members eligible to purchase products who we refer to as current associates and members. New recruits and pack sales are leading indicators for the long-term success of our business. New recruits include new associates and members purchasing our packs and products for the first time. We operate as a seller of nutritional supplements, topical and skin care products, and weight-management products through our network marketing distribution channels operating in twenty-two countries. We review and analyze net sales by geographical location and by packs and products on a consolidated basis. Each of our subsidiaries sells similar products and exhibits similar economic characteristics, such as selling prices and gross margins.

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

Current Economic Conditions and Recent Developments

During the second quarter of 2012, we continued building the foundation for future revenue growth. The recruitment of new associates and members in the second quarter of 2012 increased 9% compared to the first quarter of 2012 and increased 4% compared to second quarter of 2011. The increase in recruitment is due to an increase in the number of first-time members. We believe the increase was due to the offering of NutriVerus for sale in the United States and the introduction of the 4Free Discount Program in the United States and Canada. In tandem, we believe these programs offer a business building opportunity to the associates previously not available to them. We plan to introduce NutriVerus to our other markets as each market's regulators approve the product for sale.

We experienced a decline in revenue in the second quarter of 2012 as compared to the first quarter of 2012 and the second quarter of 2011. Although recruitment of associates and members increased, the sale of products and packs decreased as compared to the first quarter of 2012 and second quarter of 2011. Although a portion of the revenue reduction was offset by lower operating costs as compared to the second quarter of 2011, we generated a net loss for the second quarter of 2012.

In July 2012, the Company expanded its use of third-party logistic providers into our United States operations. Our largest warehouse, located in Coppell, Texas, was sublet to a third-party logistics company for operation. We believe this will decrease shipping times to our associates and members in the United States by taking advantage of distribution capabilities of the third-party logistics company on the west coast and east coast. Additionally, by subletting our warehouse space to the third-party logistics company, we are monetizing our excess warehouse space, which reduces our costs of operations. We remain dedicated to our 2012 goal of restoring profitability; therefore, we are continuing to reduce our operating expenses on a global basis. We expect these targeted expense reductions to have a positive impact on profitability and cash flow.

RESULTS OF OPERATIONS

The table below summarizes our consolidated operating results in dollars and as a percentage of net sales for the three months ended June 30, 2012 and 2011 (in thousands, except percentages):

	2012		2011		Change from 2012 to 2011	
	Total dollars	% of net sales	Total dollars	% of net sales	Dollar	Percentage
Net sales	$ 43,611	100.0%	$ 51,362	100%	$ (7,751)	(15.1)%
Cost of sales	6,888	15.8%	7,543	14.7%	(655)	(8.7)%
Commissions and incentives	18,637	42.7%	22,896	44.6%	(4,259)	(18.6)%
	25,525	58.5%	30,439	59.3%	(4,914)	(16.3)%
Gross profit	18,086	41.5%	20,923	40.7%	(2,837)	(13.6)%
Operating expenses:						
Selling and administrative expenses	11,793	27.0%	14,811	28.8%	(3,018)	(20.4)%
Depreciation and amortization	921	2.1%	2,687	5.2%	(1,766)	(65.7)%
Other operating costs	6,778	15.5%	7,746	15.1%	(968)	(12.5)%
Total operating expenses	19,492	44.7%	25,244	49.1%	(5,752)	(22.8)%
Loss from operations	(1,406)	(3.2)%	(4,321)	(8.4)%	2,915	67.5%
Interest income (expense)	21	0.0%	21	0.0%	0	0.0%
Other income (expense), net	(805)	(1.8)%	196	0.4%	(1,001)	(510.7)%
Loss before income taxes	(2,190)	(5.0)%	(4,104)	(8.0)%	1,914	46.6%
(Provision) benefit for income taxes	(265)	(0.6)%	(1,146)	(2.2)%	881	76.9%
Net loss	$ (2,455)	(5.6)%	$ (5,250)	(10.2)%	$ 2,795	53.2%

The table below summarizes our consolidated operating results in dollars and as a percentage of net sales for the six months ended June 30, 2012 and 2011 (in thousands, except percentages):

	2012	2011	Change from 2012 to 2011

	Total dollars	% of net sales	Total dollars	% of net sales	Dollar	Percentage
Net sales	$ 88,113	100.0%	$ 102,262	100%	$ (14,149)	(13.8)%
Cost of sales	13,283	15.1%	14,757	14.4%	(1,474)	(10.0)%
Commissions and incentives	37,622	42.7%	44,603	43.6%	(6,981)	(15.7)%
	50,905	57.8%	59,360	58.0%	(8,455)	(14.2)%
Gross profit	37,208	42.2%	42,902	42.0%	(5,694)	(13.3)%
Operating expenses:						
Selling and administrative expenses	23,277	26.4%	30,829	30.1%	(7,552)	(24.5)%
Depreciation and amortization	3,379	3.8%	5,488	5.4%	(2,109)	(38.4)%
Other operating costs	14,014	15.9%	15,812	15.5%	(1,798)	(11.4)%
Total operating expenses	40,670	46.2%	52,129	51.0%	(11,459)	(22.0)%
Loss from operations	(3,462)	(3.9)%	(9,227)	(9.0)%	5,765	62.5%
Interest income (expense)	(32)	0.0%	1	0.0%	(33)	(3300.0)%
Other income (expense), net	87	0.1%	463	0.5%	(376)	(81.2)%
Loss before income taxes	(3,407)	(3.9)%	(8,763)	(8.6)%	5,356	61.1%
(Provision) benefit for income taxes	(448)	(0.5)%	(1,265)	(1.2)%	817	64.6%
Net loss	$ (3,855)	(4.4)%	$ (10,028)	(9.8)%	$ 6,173	61.6%

Consolidated net sales by customer location for the three months ended June 30, 2012 and 2011 were as follows (in millions, except percentages):

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

	2012		2011	
United States	$ 18.6	42.7%	$21.3	41.4%
Japan	6.8	15.6%	7.7	15.0%
Republic of Korea	5.3	12.2%	6.2	12.1%
Canada	4.0	9.2%	4.3	8.3%
Australia	3.4	7.8%	4.5	8.8%
South Africa(1)	1.9	4.4%	2.2	4.3%
New Zealand	0.5	1.1%	0.7	1.3%
Singapore	0.5	1.1%	0.8	1.6%
Taiwan	0.5	1.1%	1.0	1.9%
Germany	0.4	0.9%	0.5	1.0%
Norway	0.4	0.9%	0.4	0.8%
United Kingdom(2)	0.3	0.7%	0.5(3)	0.9%
The Netherlands	0.3	0.7%	0.3	0.6%
Czech Republic(4)	0.3	0.7%	—	—
Mexico	0.2	0.5%	0.6	1.2%
Austria	0.1	0.2%	0.2	0.4%
Sweden	0.1	0.2%	0.1	0.2%
Denmark	—	—	0.1	0.2%
Finland(5)	—	—	—	—
Total	$ 43.6	100%	$51.4	100%

(1) Includes sales for the Republic of Namibia, which began operations in August 2011.

(2) Includes sales for Estonia and the Republic of Ireland, which began operations in June 2011. Their combined consolidated sales for the three months ended June 30, 2012 were less than $0.1 million and are included in net sales for the United Kingdom.

(3) Includes sales for the Czech Republic, which began operations in June 2011.

(4) The Company began operations in the Czech Republic in June 2011; net sales for June 2011 are included in net sales for the United Kingdom.

(5) The Company began operations in Finland in June 2011.

Consolidated net sales by customer location for the six months ended June 30, 2012 and 2011 were as follows (in millions, except percentages):

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

	2012		2011	
United States	$37.2	42.2%	$ 43.7	42.7%
Japan	13.6	15.4%	15.2	14.9%
Republic of Korea	10.8	12.3%	11.4	11.1%
Canada	7.7	8.7%	8.2	8.0%
Australia	7.4	8.4%	9.0	8.8%
South Africa(1)	3.9	4.4%	4.3	4.2%
Taiwan	1.2	1.4%	2.3	2.2%
Singapore	1.1	1.3%	1.4	1.4%
New Zealand	1.0	1.2%	1.2	1.2%
Germany	0.9	1.0%	1.0	1.0%
Norway	0.8	0.9%	0.9	0.9%
United Kingdom(2)	0.7	0.8%	0.8(3)	0.8%
The Netherlands	0.6	0.7%	0.6	0.6%
Mexico	0.4	0.5%	1.3	1.3%
Czech Republic(4)	0.3	0.3%	—	—
Austria	0.2	0.2%	0.5	0.4%
Sweden	0.1	0.1%	0.3	0.3%
Denmark	0.1	0.1%	0.2	0.2%
Finland(5)	0.1	0.1%	—	—
Total	$88.1	100%	$102.3	100%

(1) Includes sales for the Republic of Namibia, which began operations in August 2011.
(2) Includes sales for Estonia and the Republic of Ireland, which began operations in June 2011. Their combined consolidated sales for the six months ended June 30, 2012 were less than $0.1 million and are included in net sales for the United Kingdom.
(3) Includes sales for the Czech Republic, which began operations in June 2011.
(4) The Company began operations in the Czech Republic in June 2011; net sales for June 2011 are included in net sales for the United Kingdom.
(5) The Company began operations in Finland in June 2011.

Net Sales

For the three and six months ended June 30, 2012, our operations outside of the United States accounted for approximately 57.3% and 57.8%, respectively, of our consolidated net sales, whereas in the same period in 2011, our operations outside of the United States accounted for approximately 58.6% and 57.3%, respectively, of our consolidated net sales.

Consolidated net sales for the three months ended June 30, 2012 decreased by $7.8 million, or 15.1%, to $43.6 million as compared to the same period in 2011. United States sales decreased by $2.7 million, or 12.7%, to $18.6 million, while international sales decreased by $5.1 million, or 16.9%, to $25.0 million for the three months ended June 30, 2012 as compared to the same period in 2011.

Consolidated net sales for the six months ended June 30, 2012 decreased by $14.2 million, or 13.8%, to $88.1 million as compared to the same period in 2011. United States sales decreased by $6.5 million, or 14.9%, to $37.2 million, while international sales decreased by $7.7 million, or 13.1%, to $50.9 million for the six months ended June 30, 2012 as compared to the same period in 2011.

Fluctuation in foreign currency exchange rates for the three and six months ended June 30, 2012, had an overall unfavorable impact of approximately $1.0 million and $0.9 million, respectively, on our net sales. The net sales impact is calculated as the difference between (1) the current period's net sales in USD and (2) the current period's net sales in local currencies converted to USD by applying average exchange rates for the same periods ended June 30, 2011.

Net sales by country in transactional currency for the three and six months ended June 30, 2012 and 2011 were as follows (in millions, except percentages):

		Three Months		Change	
Country	Transactional Currency	2012	2011	Transactional currency	Percentage
Australia	AUD	3.3	4.2	(0.9)	(21.4)%
Austria, Germany, the Netherlands, the Czech Republic, Estonia, Finland, the Republic of Ireland(1)	EUR	0.8	0.7	0.1	14.3 %
Denmark	DKK	0.3	0.5	(0.2)	(40.0)%
Japan	JPY	375.8	625.8	(250.0)	(39.9)%
Mexico	MXN	2.2	7.3	(5.1)	(69.9)%
New Zealand	NZD	0.6	0.8	(0.2)	(25.0)%
Norway	NOK	2.0	2.3	(0.3)	(13.0)%
Republic of Korea	KRW	5,784.6	6,707.9	(923.3)	(13.8)%
Singapore	SGD	0.6	1.0	(0.4)	(40.0)%
South Africa	ZAR	14.5	15.0	(0.5)	(3.3)%
Sweden	SEK	0.4	0.6	(0.2)	(33.3)%
Taiwan	TWD	14.7	30.1	(15.4)	(51.2)%
United Kingdom	GBP	0.3	0.3	—	—

(1) We began operations in the Czech Republic, Estonia, Finland and the Republic of Ireland in June 2011.

		Six Months		Change	
Country	Transactional Currency	2012	2011	Transactional currency	Percentage
Australia(1)	AUD	7.0	9.2	(2.2)	(23.9)%
Austria, Germany, the Netherlands, the Czech Republic, Estonia, Finland, the	EUR	1.5	1.4	0.1	7.1%

Republic of Ireland(2)					
Denmark	DKK	0.7	1.1	(0.4)	(36.4)%
Japan	JPY	916.6	1,246.0	(329.4)	(26.4)%
Mexico	MXN	4.7	15.2	(10.5)	(69.1)%
New Zealand	NZD	1.3	1.6	(0.3)	(18.8)%
Norway	NOK	4.2	4.9	(0.7)	(14.3)%
Republic of Korea	KRW	12,020.2	12,525.8	(505.6)	(4.0%)
Singapore(1)	SGD	1.4	1.1	0.3	27.3 %
South Africa	ZAR	30.1	29.6	0.5	1.7 %
Sweden	SEK	1.0	1.5	(0.5)	(33.3)%
Taiwan	TWD	33.1	66.5	(33.4)	(50.2)%
United Kingdom	GBP	0.5	0.6	(0.1)	(16.7)%

(1) In March 2011, we started transacting sales in Singapore dollars (SGD). Prior to March 2011, sales in Singapore were transacted in Australian dollars.

(2) We began operations in the Czech Republic, Estonia, Finland and the Republic of Ireland in June 2011.

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

- changes in our sales prices;
- changes in consumer demand;
- changes in the number of associates and members;
- changes in competitors' products;
- changes in economic conditions;