Table of Contents

Index to Financial Statements

2005
UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

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

For the fiscal year ended December 31, 2005 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

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

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

Common Stock, par value $0.0001 per share
Title of each class

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

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

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

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

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer or a non-accelerated filer. See definition of "accelerated filer" or "large accelerated filer" in Rule 12b-2 of the Exchange Act.

Large accelerated filer ☐ Accelerated filer ☒ Non-accelerated filer ☐

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

At June 30, 2005, the aggregate market value of the common stock held by non-affiliates of the Registrant was $140,611,094 based on the closing sale price as reported on the NASDAQ National Market.

The number of shares of the Registrant's common stock outstanding as of March 6, 2006 was 26,765,364 shares.

Documents Incorporated by Reference

Mannatech incorporates information required by Part III (Items 10, 11, 12, 13, and 14) of this report by reference to its definitive proxy statement for the Registrant’s 2006 annual shareholders’ meeting to be filed pursuant to Regulation 14A on or before April 28, 2006.

TABLE OF CONTENTS

Since our initial public offering, Mannatech's common stock has traded on the NASDAQ National Market under the symbol "MTEX." Our corporate filings can be viewed on the SEC's website www.sec.gov or on our corporate website at www.mannatech.com. Our filings can also be obtained by contacting Mannatech's investor relations department at IR@mannatech.com or calling 972-471-6512.

Special Note Regarding Forward-Looking Statements

Certain disclosure and analysis in this report, including information incorporated by reference, includes forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, or the Securities Act, Section 21E of the Securities Exchange Act of 1934, as amended, or the Exchange Act, and the Private Securities Litigation Reform Act of 1995 that are subject to various risks and uncertainties. Opinions, forecasts, projections, guidance or other statements other than statements of historical fact are considered forward-looking statements and reflect only our current views about future events and our financial performance. Mannatech, Incorporated, also referred to herein as our, its, Mannatech, the Company, or we. These forward-looking statements are subject to certain events, risks, and uncertainties that may be outside of our control. Some of these forward-looking statements include statements regarding:

- management's plans and objectives for our future operations;
- our existing cash flows being adequate to fund future operational needs;
- future plans related to our budgets, future capital requirements, market share growth, and anticipated capital projects and obligations;
- the realization of our net deferred tax assets;
- our 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 of our policies, procedures, and internal processes minimizing exposure to market risk;
- the impact of accounting pronouncements on our financial condition, results of operations, or cash flows;
- the outcome of new or existing regulatory and litigation matters; and
- other assumptions described in this report underlying such forward-looking statements.

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

- overall expected growth in the nutritional supplements industry;
- our plans for expected future product development;
- changes in our product mix and/or manufacturing costs;
- the future impact of any changes to our global associate career and compensation plan or incentives;
- our ability to attract and retain independent associates and members;
- regulatory changes that may affect our operations and/or products;
- any impact of competition, competitive products, and pricing;
- the political, social, and economic climate in which we conduct our operations; and
- the risk factors described in this report, as well as other reports we have filed with the United States Securities and Exchange Commission.

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

Item 1. Business

General

We are a wellness solution provider, which began operations in November 1993. We currently operate in the United States, Canada, Australia, the United Kingdom, Japan, New Zealand, the Republic of Korea, Taiwan, and Denmark. We are in the process of completing the registration of certain of our products in Germany. We operate in the field of glyconutrients developing innovative, high-quality, proprietary nutritional supplements, topical and weight-management products that are sold through a global network-marketing system of independent associates and members. We operate as a single segment and primarily sell our products and starter and renewal packs through a network of approximately 490,000 independent associates and members, also called current independent associates and members. We define current or continuing independent associates and members as those individuals who have purchased our products within the last 12 months.

Scientists around the world hypothesize that specific phytochemicals and carbohydrates help support and maintain optimal health and wellness. Consistent with this belief our founders and scientists base our product philosophy on the beliefs that specific carbohydrates, antioxidants, and other nutrients are essential to maintaining optimal health and that typical modern diets do not provide adequate amounts of these nutrients to support optimal health and wellness. Our products are formulated using high-quality, predominantly naturally-occurring, plant-derived, carbohydrate-based ingredients that are based on certain scientific advances in the emerging fields of phytochemistry and glycobiology, which support the body's normal physiology rather than developing synthetic chemical-based nutritional supplements that are easily duplicated. Phytochemistry is the science of understanding the potential health benefits of naturally-occurring, plant-derived components known as phytochemicals. Glycobiology is the science of understanding how carbohydrates affect biological structures, functions, and processes.

The history of our proprietary ingredients is as follows:

- In 1994, we developed and began selling our first products containing Manapol®, an ingredient that supports cell-to-cell communication.
- In 1996, we further enhanced our first products by introducing Ambrotose ™ complex, a glyconutritional, which is a blend of specific plant saccharides that provides support for the immune system. As of March 2006, we had received patents for our Ambrotose ™ complex in 20 countries, including the United States.
- In 2001, we further broadened our proprietary ingredients by developing Ambroglycin®, a balanced food-mineral matrix that helps deliver certain nutrients to the body, which is used in our proprietary Catalyst and Glycentials® products.
- In 2004, we further broadened our products by introducing our proprietary blend of antioxidant nutrients, called MTech AO Blend™, which is used in our proprietary antioxidant product called Ambrotose AO®.

We sell our products through network-marketing, which we believe is a unique and very effective communication channel for both our business and our products. Network-marking allows our consumers to effectively educate or to be educated on distinguishing potential benefits of our proprietary products and communicate the unique properties and science about our products. Additionally, we believe network-marketing effectively accelerates the introduction process of new products into the global marketplace at a lower cost than other more conventional marketing methods such as expensive ad campaigns. Network-marketing also allows our business-building independent associates to supplement their income and develop financial freedom by building their own businesses centered around our business philosophies and products.

We believe 2005 was a successful year due to reporting record sales and earnings levels.. Some of our recent highlights and milestones include the following:

- Reporting our highest historical operational performance with an increase in our annual net sales of 32.2% to $389.4 million for the year ended December 31, 2005 as compared to $294.5 million for 2004;
- Reporting our highest historical annual net income of $28.6 million for the year ended December 31, 2005 as compared to $19.6 million for 2004;
- Reporting an annual increase of 121,000 new independent associates and members purchasing our products during a twelve month period as compared to the same period in 2004;
- Opening operations in Taiwan and selling our products in Denmark;
- Continuing the registration of our products in Germany with hopes of completing the registration in early 2006;
- Improving certain of our existing products;
- Receiving our United States patent on our premiere proprietary ingredient - Ambrotose ™ complex in August 2005, which brings the total number of patents to 20 in various countries around the world;
- Completing the implementation of Phase I of our internally developed software system, and completing our complex and highly integrated design phase, as well as beginning the configuration of Phase II, which includes using an off-the-shelf ERP system – Oracle/JD Edwards Enterprise One Software system to enhance and fully integrate all of our global business platforms, including a comprehensive financial and reporting system that fully integrates with a multi-tiered database, human resource, sales and distribution system;
- Continuing to pay quarterly cash dividends of $0.07 per share and increasing the dividend rate for 2006 to $0.08 per share;
- Hiring Mr. John Price, who has vast experience in the multi-level marketing industry, as our new President of International Operations;
- Hiring Dr. Robert Sinnott, who has over 19 years of experience in the nutrition industry, as our new Chief Science Officer;
- Our Board of Directors electing Mr. Larry Jobe to our Board of Directors to succeed Mr. Don A. Buchholz. Mr. Jobe is a Certified Public Accountant, who has many years of experience in the financial field, including government service, and prior and current service on the audit committee of several publicly held companies; and
- Continuing our philanthropic efforts through contributing up to $0.2 million to the Direct Selling Education Foundation through 2007.

Since our initial public offering in February 1999, Mannatech's common stock has traded on the NASDAQ National Market under the symbol "MTEX". Information for each of Mannatech's five most recent fiscal years, with respect to our net sales, results of operations, and identifiable assets is set forth in "Item 6. – Selected Financial Data" of this report.

Our principle executive offices are located at 600 S. Royal Lane, Suite 200, Coppell, Texas 75019 and our telephone number is (972) 471-7400. Our corporate filings can be viewed on the SEC's website www.sec.gov or our corporate website at www.mannatech.com or obtained by contacting our investor relations department at (972) 471-6512 or IR@mannatech.com.

Table of Contents

Index to Financial Statements

Industry Overview

Nutrition Industry

We operate in the nutritional supplement industry and distribute and sell our products through global network marketing channels. The nutritional supplements industry is highly fragmented and intensely competitive. It includes companies that manufacture and distribute products that are generally intended to enhance the body's performance and well being. Nutritional supplements include vitamins, minerals, dietary supplements, herbs, botanicals and compounds derived there from. Opportunities in the nutritional supplements industry were enhanced by the enactment of the Dietary Supplement Health and Education Act of 1994 ("DSHEA"). Under DSHEA, vendors of dietary supplements are now able to educate consumers regarding the effects of certain component ingredients.

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

According to the *Nutrition Business Journal*, (Chart 70 titled "U.S. Nutrition Industry 1997-2010 Historical Sales and Growth Forecasts"), historical sales for 2004 and growth forecasts for 2005 from the different sectors within the United States nutrition industry were as follows:

Nutrition Industry Sector	2004	Projected 2005
Functional foods	35%	35%
Nutritional supplements	30%	29%
Natural and organic foods	27%	28%
Natural personal care	8%	8%
Total nutrition industry	**100%**	**100%**

Of the total reported annual revenues from the United States nutrition industry, sited above the percentage of total annual revenues by sales outlet type for 2004 and projected 2005 were as follows:

Nutrition Industry Sales Outlet	2004	Projected 2005
Grocer, drug, mass merchandise or club	53%	53%
Specialty retail	33%	34%
Mail order	2%	2%
Multi-level marketing/direct selling	8%	8%
Practitioner	3%	2%
Internet	1%	1%
Total sales by sales outlet	**100%**	**100%**

Nutrition Business Journal also predicted that global annual revenues for the nutrition industry will grow at an annual rate between 5% and 7%. Within the industry, the nutritional supplements sector is expected to grow between 3% and 5%. The continued reported growth rate for the nutrition industry is largely attributed to the following:

- the boom of the Internet and increased access to information by consumers;
- the rising cost of traditional health care;
- the growing acceptance and study of the concept of natural-based alternatives;
- the general aging of the population; and
- the passage of regulatory acts in foreign markets similar to those in the United States, such as the Dietary Supplement Health and Education Act of 1994, known as "DSHEA".

Direct Selling Industry

In the last decade, there has been an influx of prominent investors and capital investment groups who have invested in direct-selling companies. This has provided direct selling companies with additional recognition and credibility in the growing global marketplace. In addition, many large corporations have diversified their marketing strategy by entering the direct marketing arena. Several consumer-products companies have launched their own direct-selling businesses with international operations often accounting for the majority of revenues. Consumers and investors are beginning to realize that direct selling provides opportunity and a competitive advantage in today's markets. Businesses are able to develop strong, intimate relationships with customers, by-pass expensive ad campaigns, and introduce products and services that would otherwise be difficult to promote. Direct sales is an industry with steady annual growth, healthy cash flow, high return on invested capital, and long-term prospects for global expansion. According to the World Federation of Direct Selling Associations, consultants account for approximately 49 million individuals globally.

Our net sales for 2005 grew 32.2%, which surpassed the *Nutrition Business Journal* predicted average expected annual growth rate of 5%. We believe the combination of our "high tech with high touch" direct selling marketing approach, coupled with our reported efficacy of our blend of distinct and unique proprietary ingredients, allows us to differentiate ourselves from our competition within the nutrition industry in order to continue to experience global growth in the future.

Operating Strengths

1. ***High-Quality, Innovative, Proprietary Products.*** Our product concept is based on the scientific belief that certain carbohydrates and other key micronutrients are essential for maintaining a healthy immune system. We believe the addition of effective nutritional supplements to a well-balanced diet, coupled with an effective exercise program will enhance and maintain optimal health and wellness.

   Scientists believe that glycomics, the study of sugars, plays an important function in the body, as well as a critical role in stabilizing and determining the function of proteins through a process called *glycosylation.* Glycosylation is a process where certain sugar molecules successfully attach themselves to other molecules, including newly-made proteins. Certain scientists believe that by manipulating glycosylation, or sugars themselves, researchers hope to curtail certain disease processes. Consistent with these views, our product development is based on the concept that the body needs at least eight specific sugars to support efficient and effective cell-to-cell communication to help maintain optimal health and wellness. Our products are formulated with predominately naturally-occurring, plant-derived, carbohydrate-based products that are designed to use nutrients working through normal physiology to help achieve and maintain optimal health and wellness, rather than developing synthetic, carbohydrate-based products, as other companies are doing.

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

2. ***Research and Development Efforts.*** We believe in quality research and development and use systematic processes for new product development and for continued testing and improving our existing products. Our new product development process begins with the identification of a new product concept by the Ideation Committee, which is composed of our Chief Executive Officer, Vice President of Research and Development, Vice President of Sales and Marketing and representatives of International Marketing, and Operations. Further, once new product concepts are thoroughly reviewed for technical and commercial feasibility, these projects are referred to the Product Development Steering Committee who votes on whether to proceed with staged development of the proposed project. Our Product Development Steering Committee is composed of our Chief Executive Officer, Chief Operating Officer, Chief Financial Officer, and Vice Presidents of Operations, Sales and Marketing, Research and Development, Quality Assurance, International Marketing and the Director of Regulatory Affairs. Our Science Committee of the Board of Directors, our Board of Directors and our executive team are also briefed on the deliberations and decisions of our Product Development Steering Committee and are invited to examine new product concepts to conclude whether such products are compatible with our overall business philosophy and whether such products can achieve an adequate return on investment from product development. As part of our extensive research efforts, our team of researchers and consultants help to identify the formulas, raw materials, suppliers, and manufacturers for each new product concept before launching such product.

   We continually seek to identify new clinical studies and further substantiate scientific research for additional validation and substantiation of our products. Our product research and quality assurance program is outlined on our corporate website, www.mannatech.com, as well as on our award-winning, educational Internet database website, called www.GlycoScience.org, which is a website that describes product ingredients and provides various education-based product information about ingredients found in dietary supplements.

   Our research and development team has more than 100 years of combined experience, and we believe that our research and development team and our strategic alliances with our suppliers, consultants, and manufacturers allow us to effectively identify, develop, and market high-quality, innovative, proprietary products that increase our competitive advantage in the marketplace. In 2005, we invested $5.0 million in our research and development efforts. Historically, we budget between 2% and 3% of our annual net sales for targeted research and development efforts. We project we will spend between $5 million and $6 million in on-going research and development efforts in 2006. Our research efforts include developing and maintaining quality standards, supporting development efforts for new ingredients and compounds, improving or enhancing existing products or ingredients, as well as identifying other quality-driven suppliers and manufacturers.

3. ***Quality Assurance Program.*** We believe in using high quality ingredients and require a high standard from our manufacturers. Our team of quality assurance professionals, research scientists, and doctors is comprised of professionals who have more than 50 years of combined experience, including experience in the pharmaceutical industry. Our quality assurance team ensures that our quality standards are met by inspecting and testing our manufactured products.

   Our quality assurance program is based on existing Food and Drug Administration food and pharmaceutical current Good Manufacturing Practices. Regulations and expanded its quality assurance program to meet Canadian, Natural Health Products Directorate, and the Australian Therapeutic Goods Administration, GMP requirements. Our team of experts helps ensure that our formulations are manufactured to these requirements by contracting with suppliers, and manufacturers who have met GMP requirements.

   We contracted with certain suppliers and manufacturers, who have met required FDA requirements, to manage all phases of production, packaging, and certain distribution of our products. To help ensure consumer satisfaction and quality of our products, our quality assurance team inspects samples of our products from manufacturers. In addition, we require our dietary supplements to be packaged with inner and outer seals to help minimize the risk of tampering and perform stability studies under controlled and accelerated temperature storage conditions to help ensure the accuracy of the expiration dates of our products.

   We employ a team of regulatory experts and consult with outside consultants to assist in our effort to achieve compliance related to regulatory matters including registering and selling our products.

4. ***High-Caliber, Industry-Leading Independent Associates.*** Our global team of independent associates are comprised of very dedicated, hard working, high-caliber individuals, many of whom have been associated with the network-marketing industry for decades and have been loyal to Mannatech since our beginning in 1993. To capitalize on their wealth of knowledge and experience, we sponsor a 10-member panel of independent associates, called "*the Associate Advisory Council*", who help identify and effectively relay the needs of our independent business-building associates to us. Each Associate Advisory Council member is elected by the entire body of active independent associate leaders and serves a three-year term. The Associate Advisory Council meets with our team of senior management at least four times a year to recommend changes, discuss issues, and provide new ideas or concepts, including a full spectrum of innovative ideas, for additional quality-driven nutritional supplements aimed at maintaining optimal health and wellness.

5. ***Support Philosophy for our Customers.*** We are fully committed to providing the highest level of support services to our customers and believe that we meet expectations and build customer loyalty through the following:

   - providing efficient order processing centers to support our operations;
   - offering highly-personalized and responsive customer service;
   - offering a reasonable product return policy;
   - providing a comprehensive corporate website, which allows instant access to Internet ordering, marketing and educational information, and certain unique and innovative marketing tools;
   - offering free personalized website development for our independent associates;
   - maintaining an extensive web-based downline management system called Success Tracker™ that provides access to web conferencing and a wealth of reporting for our independent associates at minimal costs;
   - offering updated training/orientation programs for our independent associates;
   - providing strategically based distribution fulfillment centers to ensure our products are shipped on time and at minimal cost;
   - sponsoring comprehensive training about our products and promotional materials, and offering a full spectrum of comprehensive educational materials; and
   - sponsoring several corporate events, which are designed to provide information, education, and motivation for our dedicated business-building associates, and help stimulate business development. These events provide an interactive venue for introducing new products and services, and allow interaction between our management teams, outside researchers, and our independent associates.

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

7. ***Experience and Depth of our Management Team.*** We continue to strengthen our highly-focused and well-experienced team of executives and have invested in executive-based training for our core management team to continue to improve the quality and integrity of our operations. In August 2005, we hired Mr. John Price as our President of International Operations and appointed Dr. Rob Sinnott as our Chief Science Officer. In January 2006, our Nominating and Governance Committee nominated Mr. Larry Jobe, and as a result, our Board of Directors elected Mr. Jobe as their ninth member to succeed Mr. Donald Buchholz, who resigned in January 2006. Our nine member Board of Directors is composed of five independent Directors. Our board members have experience in sales, network-marketing, finance, and research. Our core executive team of officers, as well as our managers, have substantial business experience and are able to apply their knowledge of business operations to our network-marketing operations and are committed to delivering high-quality products and superior service.

Business Strategy

Our goals for our future include the following:

- ***Continuing to Strengthen our Financial Results and Returning Value to our Shareholders and Independent Associates.*** We reported a 32.2% increase in our consolidated net sales and a 46.5% increase in our consolidated net income for the year ended December 31, 2005 as compared to 2004. We hope to continue the trend of increasing our net sales and net income and plan to continue to declare quarterly cash dividends in the future of $0.08 per share per quarter. We believe we can continue to concentrate on improving financial results by focusing on ways to increase our revenues in both our domestic and foreign operations, continuing to control all operating costs, and planning expansion into additional foreign markets. Consistent with our strategy, we are in the process of registering our products in Germany.
- ***Developing New Products and Enhancing Existing Products.*** We continue to focus on new areas for future product development. In 2006, we plan to introduce certain skin care products in Japan and plan to introduce reformulated and better tasting Mannabars. We strive to ensure that all of our products are made from high-quality, effective ingredients and contain one or more of our proprietary compounds, which we believe contribute to our goal of being a cutting-edge industry leader. We expect that any future products we develop will further complement and enhance our existing products.
- ***Attracting and Retaining New Independent Associates.*** We continually examine our global associate career and compensation plan and periodically introduce new incentives, such as our annual travel incentives to attract, motivate, and retain independent associates. We believe our global associate career and compensation plan encourages greater associate retention, motivation, and productivity. No single independent associate has ever accounted for more than 10% of our consolidated net sales.

We continue to have success in attracting and retaining independent associates and members. The increase in the number of independent associates and members purchasing our products are as follows:

December 31,	Number of independent associates and members	Percentage increase as compared to the prior year
2003	264,000	32.0%
2004	369,000	39.8%
2005	490,000	32.8%

- ***Expanding our Presence in Certain Markets.*** We currently operate in nine major markets including the United States, Canada, Australia, the United Kingdom, Japan, New Zealand, Republic of Korea, Taiwan, and Denmark. We are in the process of finalizing the registration of our products in Germany. We have experienced sales growth in both our domestic and foreign operations and believe there is potential for additional revenue growth through cultivation of existing markets and expansion into new markets. The following table sets forth net sales primarily shipped to customers in these locations for the years ended December 31, in millions, and the percentage of consolidated net sales:

	2003		2004		2005	
			(in millions)			
United States	$127.8	67.0%	$192.5	65.4%	$259.4	66.6%
Canada	16.7	8.7%	22.2	7.5%	28.0	7.2%
Australia	15.6	8.2%	30.6	10.4%	35.7	9.2%
United Kingdom	5.0	2.6%	10.5	3.6%	8.9	2.3%
Japan	18.6	9.7%	24.5	8.3%	35.4	9.1%
New Zealand	7.3	3.8%	12.9	4.4%	14.6	3.7%
Republic of Korea*	—	— %	1.3	0.4%	4.6	1.2%
Taiwan**	—	— %	—	— %	2.3	0.6%
Denmark***	—	— %	—	— %	0.5	0.1%
Totals	**$191.0**	**100%**	**$294.5**	**100%**	**$389.4**	**100%**

* Republic of Korea began operations in September 2004.

** Taiwan began operations in June 2005.

*** United Kingdom began selling our products in Denmark in August 2005.

Products and Product Development

Scientists have discovered that a healthy body consists of many sophisticated components working in harmony to achieve optimal health and wellness. To achieve this harmony, a body needs to achieve and maintain accurate cellular communication to function at an optimal level. In its most basic form, a body's internal communication occurs at the cellular level and is referred to in the scientific community as *cell-to-cell communication*. Scientists have also discovered that there are over 200 monosaccharides, also called sugar molecules, which form naturally within plants. Eight of these specific monosaccharides are considered vital components for cellular communication in the human body. Furthermore, scientists discovered that monosaccharides attach themselves to certain proteins, which then form a molecule called *glycoprotein*. Harper's Biochemistry, a leading and nationally-recognized biochemistry reference source, recognizes that these 8 sugar molecules are commonly found in human glycoproteins and are believed to be key in helping to provide effective cell-to-cell communication in the human body. The 8 sugar molecules include the following:

- fucose;
- galactose;
- glucose;
- mannose;
- N-acetylgalactosamine;
- N-acetylglucosamine;
- N-acetylneuraminic acid; and
- xylose.

Based on this scientific knowledge and the study of glycoproteins in 1996, our scientists developed our own proprietary compound, Ambrotose ™ complex, which has been patented in 20 different countries, to provide the body with certain of these important sugars.

Currently, we offer 25 different nutritional products, three topical products, and a weight-management system consisting of four different products. We also offer a full spectrum of sales aids for our independent associates including various enrollment and renewal packs, orientation and training programs, brochures, audio and videotapes, DVD's, web-based data management tools, and personalized website development.

Our product philosophy focuses on a full spectrum of products aimed at helping to achieve and maintain optimal health and wellness including the following:

General Overall Optimal Health, which offers a variety of nutritional supplements that aid in optimizing overall health and wellness and includes Plus, Classic Plus, Advanced Plus, Glycentials® Vitamin and Mineral Supplement, Life Enhancement Pack™, Ambrotose AO®, and beginning in March 2005, Advanced Ambrotose ™. In 2006, we plan on introducing 2 new Mannabars.

Wellness Management, which concentrates on specialized nutrients to help support and maintain specific areas of the body and includes Ambrotose ™ complex, CardioBalance®, Immunostart™, Ambrotose ™ Bulk, Mannacleanse™, PhytAloe®, PhytAloe® Bulk, GI-Pro™, GI-Zyme™, and Ambrotose ™ with Lecithin.

Lifestyle Solution, which is specifically designed to further support distinct physiological functions that may need additional nutritional support and includes Manna-C™, AmbroStart®, Mannatonin™, and Wellness Water Bottle.

Sports Performance Nutrition, which targets an active lifestyle and helps provide nutrition to support optimal physical performance and maintain muscle mass and includes Sport and Empact®.

GlycoLEAN® BODY System, which concentrates on certain aspects of nutrition and weight management and includes Accelerator 2™, Catalyst™ with Ambroglycin™, Fiber Full™, and GlycoSlim® Meal Replacement Drinks in Vanilla and Chocolate. In 2006, we plan to introduce Accelerator 3 as an improved version of Accelerator 2™. In addition, in 2006, we plan to replace FiberFull™ with a new reformulated product called FiberSlim.

Skin Care, which is designed to help improve and strengthen the skin's own natural texture, softness and elasticity including damaged areas, as well as help deliver vital antioxidants to the skin and includes 3 topical products: AmbroDerm®, Emprizone®, and Firm. In 2006, we plan to introduce, in Japan, additional skin care products.

Children's Growth Essentials, which target nutrition for children to help optimize overall health and wellness and includes Glyco-Bears® and MannaBears™.

Our product committee continues to focus on identifying and analyzing potential new products and compounds that help target overall health and wellness. When considering new products and compounds, our product committee encompasses the following criteria:

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

To help maintain a flexible operating strategy and the ability to increase production capacity, we contract with certain third-party contractors to produce all of our products, which effectively allows us to respond to fluctuations in demand with minimal investment and helps control our operating costs. We believe our suppliers and manufacturers are high-quality and are capable of meeting our current and projected inventory requirements over the next several years. However, as a safety measure, we have also identified and approved alternative suppliers and manufacturers to ensure that our demand will be met in a timely manner and to minimize any risk of business interruption.

Our main distribution facility is located in Coppell, Texas and consists of 75,000 square feet of leased space that houses an automated distribution system capable of processing up to 18,000 orders per day. Currently our distribution facility in the United States operates at 40% of capacity and is capable of supporting our planned sales volume growth into the foreseeable future. In 2005, we opened a distribution facility in the United Kingdom, which is located in Didcot, Oxfordshire and is capable of processing up to 1,500 orders per day and currently operates at 18% of capacity. To maximize our operating strategy and minimize costs, we continue to contract with third-party distribution facilities in Canada, Australia, Japan, the Republic of Korea, and Taiwan. By entering into these third-party distribution facility agreements, our smaller offices maintain flexible operating capacity, minimize shipping costs and are able to process an order within 24-hours after order placement and payment. For further information on these contract facilities, see “Item 2. Properties” of this report.

Competition

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

- Nu Skin Enterprises, Inc.;
- Usana Health Sciences, Inc.;
- Nature’s Sunshine Products, Inc.;
- Body Wise International, Inc.;
- Herbalife International, Inc;
- Market America, Inc.;
- Solgar Vitamin and Herb Company, Inc.; and
- Weider Nutrition.

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

- our products can be introduced into the global marketplace at a much lower up-front cost than through conventional methods;
- our key ingredients and differential components found in our proprietary products can be explained better through network-marketing;
- the network-marketing approach can quickly and easily adapt to changing market conditions;
- consumers appreciate the convenience of ordering from home, through a sales person, by telephone, or on the Internet; and
- network-marketing enables independent associates to earn financial rewards.

Even though we have been in business for thirteen years, we continue to compete with other direct selling and network-marketing companies for new independent associates and for retention of continuing independent associates. Some of our competitors have longer operating histories, are better known, or have greater financial resources. These companies include:

- Alticor Corporation;
- Arbonne International, Inc.;
- Body Wise International, Inc.;
- Envion International;
- Forever Living Products, Inc.;
- Herbalife International, Inc.;
- Mary Kay, Inc.;
- Nature's Sunshine Products, Inc.;
- New Vision International;
- Nu Skin Enterprises, Inc.;
- Reliv, International Inc.;
- Shaklee Worldwide; and
- Usana Health Sciences, Inc.

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

- our unique patented, proprietary blend of high-quality products;
- our 13-year track record in the business of selling nutritional products;
- not requiring our independent associates to carry inventory or accounts receivable;
- the benefits of our unique and financially rewarding global associate career and compensation plan;
- our innovative, highly technological marketing and educational tools; and
- the ease and convenience of our delivery system.

Intellectual Property

We aggressively pursue registrations for all trademarks associated with our key products and protection of our legal rights concerning our trademarks. As of December 31, 2005, we had approximately 34 trademark registrations in the United States and approximately four trademark applications pending with the United States Patent and Trademark Office. At December 31, 2005, we also had approximately 310 trademark registrations and 67 trademark applications pending in 21 foreign jurisdictions. Globally, the protection available in foreign jurisdictions may not be as extensive as the protection available to us in the United States. Where available, we rely on common law trademark rights to protect our unregistered trademarks, even though such rights do not provide us with the same level of protection as afforded by a United States federal registration of a trademark. Common law trademark rights are limited to the geographic area in which the trademark is actually used. A United States federal trademark registration enables us to stop the unauthorized use of a trademark by a third party anywhere in the United States provided the unauthorized third party user has not previously perfected its common law rights of the trademark in the specific geographic area prior to the date we register our trademark.

We have applied for patent protection in various countries to protect our formulations and use of compositions and methods that relate to our Ambrotose™ complex technology. We have been issued 20 patents in various jurisdictions. As of March 1, 2006, patents have been issued in the following jurisdictions that relate to our Ambrotose ™ complex technology: Argentina, Australia, France, Germany, Hong Kong, Ireland, Italy, Liechtenstein, Malaysia, Mexico, New Zealand, Philippines, Singapore, South Africa, Republic of Korea, Spain, Switzerland, Taiwan, United States, and the United Kingdom. These patents grant us certain exclusive rights to prevent others from making, using, or selling the patented subject matter for the term of the patent. The exclusionary rights of these patents are national in scope.

We have seven pending patent applications in the United States. Four of our United States pending patents concern Ambrotose ™ complex technology, and the others are in connection with ImmunoStart®, Ambrotose AO® and our website GlycoScience.org. At December 31, 2005, we also had submitted 13 patent applications in various foreign jurisdictions in connection with Ambrotose ™ complex technology. Until a patent is approved and issued, we cannot exclude others from making, using, selling, offering to sell, or importing a product that falls within the scope of the claims in the application. We also own our domain name mannatech.com.

Associate Distribution System

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

Our revenues are heavily dependent upon the retention and productivity of independent associates to help us achieve long-term growth. We believe the introduction of new innovative incentives, such as travel incentives, will continue to motivate our independent associates and help expand our global customer purchasing base. We remain actively committed to expanding the number of our independent associates through recruitment, support, motivation, and compensation. Total independent associates and members purchasing our products within the 12 months ended December 31, 2004 and 2005 were approximately 369,000 and 490,000, respectively.

Independent associates and members generally pay for our products via credit card, although orders can also be paid with cash, wire transfers, direct account withdrawal, money orders, and/or checks. To gain operating efficiencies, we offer a 10% discount to independent associates and a 5% discount to independent members who enroll in our automatic monthly order program. Our automatic monthly order program allows our independent associates to receive a standing order every four weeks and our members to receive a standing order once a month. Automatic monthly orders account for approximately 74% of our total orders placed during a month.

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

- offering educational meetings and corporate-sponsored events;
- sponsoring various informative and science-based conference calls, web casts, and seminars;
- providing automated services through the Internet and telephone that offer a full spectrum of information and business-building tools;
- maintaining an efficient decentralized ordering and distribution system;
- providing highly personalized and responsive order processing and customer service support that can be accessed by multiple communication channels including telephone, Internet, or e-mail;
- offering 24-hour, seven days a week access to information and ordering through the Internet;

- offering Success Tracker™, a customized business-building genealogy system, which contains graphs, maps, alerts, reports, alerts, and web video conferencing for our independent associates;
- providing a wide assortment of business-building and educational materials to help stimulate product sales and simplify enrollment; and
- developing and maintaining an award-winning, innovative, searchable, science-based information database on the Internet, called www.GlycoScience.org, which provides education and information about various nutritional ingredients.

Together with our trained independent associates, we provide training and education for our new independent associates about our products and network-marketing. We offer a unique global orientation/training program that integrates audio, video, and graphics so that associates can customize their own individual, unique marketing and training program. This training program helps provide systematic and uniform training related to our products and our related global regulatory requirements, global associate career and compensation plan and various methods of conducting business. We also offer a variety of brochures, monthly newsletters, two magazines, and other promotional materials to associates to assist in their sales efforts, training and continuing education. We continually refresh our training and promotional materials to provide our associates with the most current information and motivational tools.

Our global associate career and compensation plan consists of ten different associate leadership achievement levels. Independent associate leadership levels from lowest to highest include:

- active;
- qualified;
- regional;
- national;
- executive;
- presidential;
- bronze;
- silver;
- gold; and
- platinum.

The initial leadership level is based upon the initial pack purchased by the independent associate. Thereafter, leadership levels are determined by the growth and volume of direct and indirect commissionable net sales credited to the associates' global organization. Global commissionable net sales are calculated based on certain product and pack sales, which are assigned a product point volume. Promotional materials and training aids are not assigned any point volume. Independent associates earn points, which in turn earn commissions from their direct and indirect global product sales, as well as points for expanding their networks. This point structure is referred to as our global seamless downline structure, which allows independent associates to build their global organization by expanding their existing downlines into all international markets rather than having to establish new downlines to qualify for higher levels of commissions within each new country. Our global associate career and compensation plan is designed to comply with all applicable governmental regulations that govern the various aspects of payments to independent associates in each country.

Based upon knowledge of industry-related network-marketing compensation plans, we believe our global associate career and compensation plan remains strong in the industry and is currently among the most financially rewarding plans offered. Together, our commissions and incentives, as a percentage of net sales, range from 41% to 46% of our consolidated net sales, and we expect it to remain in the same percentage range in the future.

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

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

- generating product sales from an independent associates' global downline and earning certain achievement levels;
- enrolling new independent associates or members who place a product order;
- achieving certain leadership levels and enrolling other independent associates in a downline who place a monthly automatic order;
- obtaining certain leadership levels and developing certain leadership levels within their downline organization;
- building a team of six qualified independent associates in their global downline who order products regularly;
- achieving and maintaining certain leadership levels, plus an additional bonus is paid to every qualified independent associate within their downline who achieves that same leadership level; and
- various other incentive programs, including periodic travel incentives.

Management of Independent Associates. We take an active role in monitoring our independent associates' actions related to the sale of our products and the promotion of certain business opportunities by requiring our independent associates to abide by our policies and procedures. However, we have limited control over monitoring all of our independent associates. To aid in our monitoring efforts, we provide each independent associate with a copy of our policies and procedures upon signing up as an independent associate. We also use various media formats to distribute changes to our mandatory policies and procedures, including publishing the changes in our newsletter, posting the changes on our corporate website, and announcing policy and procedure changes on our conference calls, at educational meetings, corporate events, seminars, and on webcasts. However, we have limited control over monitoring all of our independent associates.

Our legal/compliance department, in cooperation with other departments and associates, periodically evaluates the conduct of our independent associates and the need for new and/or revised policies and procedures. Our legal/compliance program assists in maintaining high ethical standards among our independent associates, which helps our independent associates in their sales efforts. We also sponsor continuing education to ensure that our independent associates understand and abide by our policies and procedures.

To help manage our associates, our legal/compliance department periodically monitors our independent associates' websites for content. Associates may use EthicsPoint to report non-compliant websites to the compliance department, which then further investigates such websites. In an effort to decrease the number of independent websites owned by our independent associates and to preserve and protect our trademarks, we offer a standardized personal Internet website, Mannapages™, which helps our independent associates with their sales efforts and provides consistent, standardized information and education.

Our legal/compliance program also relies upon our independent associates to self-regulate by providing a standardized complaint process. When a complaint is filed against an independent associate, our legal/compliance department conducts an investigation of the allegations by obtaining a written response from the independent associate and witness statements, if applicable. Depending on the nature of the violation, we may suspend and/or terminate the non-compliant associates' agreement and/or may impose various sanctions, including written warnings, probation, withholding commissions, and termination of associate status.

Product Return Policy. We stand behind our products and believe we offer a reasonable and industry-standard product return policy to all of our customers. 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 generally allow our independent associates and members to exchange products as long as the products are unopened and restockable. We have three product return policies. Our return policies generally include a policy for our retail customers, our members, and our independent associates.

- ***Retail Customer Product Return Policy.*** Our retail customer product return policy allows a retail customer to return any used or unused portion of any of our products to the original independent associate who sold the product, and such associate will provide the retail customer with a full cash refund. The independent associate is required to forward proof of the retail customer's refund to us to receive a replacement product.
- ***Member Product Return Policy.*** Our member product return policy allows members to return an order within 30 days of the purchase date without termination or being charged a 10% restocking fee. After 30 days from the purchase date, the members may request a refund, but are charged a 10% restocking fee and may be terminated as an active member.
- ***Independent Associate Product Return Policy.*** Our independent associate product return policy allows our independent associates to return an order within one year of the purchase date upon terminating their associate account. We may allow the independent associate to receive a full refund less a 10% restocking fee. We will only issue a refund to the independent associate if the product is returned, unopened and restockable, and is in good, reusable condition. After a refund is granted, we will terminate the associate's account unless we caused the error or problem. Independent associates are allowed to exchange products without being charged a restocking fee and without termination of their account.

Information Technology Systems

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

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

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

We also maintain a service continuity disaster recovery plan to minimize the risk of loss due to any interruption in business. Our disaster recovery plan encompasses all critical aspects of our business and identifies contacts, resources, and an actual plan. Additionally, we perform daily backup procedures and proactively monitor various software, hardware, and network infrastructure systems. We also perform routine maintenance procedures and periodically upgrade our software and hardware to help ensure that our systems work efficiently and effectively and minimize the risk of business interruption. In 2006, we plan to further upgrade all global business critical systems to minimize the risk of loss due to any interruption in business.

We continue to enhance our information technology, websites, and e-commerce platforms to remain competitive and efficient. During 2005, we spent approximately $20.1 million on information technology, of which approximately $8.4 million was capitalized related to computer hardware, computer software and internally developed software projects. In 2006, we plan to spend between $11.0 million to $16.0 million on our internally developed software project, which includes certain information technology projects to enhance functionality. We also plan to upgrade our web page, implement an electronic repository database, and develop and implement a new transaction-processing database to enhance and expand existing processing methodologies and data retention and provide greater efficiency for all countries.

Government Regulations

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

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

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

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

The FDA regulates the formulation, manufacturing, packaging, storage, labeling, promotion, distribution and sale of foods, dietary supplements, over-the-counter drugs, and pharmaceuticals. In January 2000, the FDA issued a final rule called "Statements Made for Dietary Supplements Concerning the Effect of the Product on the Structure or Function of the Body"; in the regulation and its preamble, the FDA distinguished between permitted claims under the Federal Food, Drug and Cosmetic Act relating to the effect of dietary supplements on the structure or functions of the body, and impermissible direct or implied claims of the effect of dietary supplements on any disease. The FDA has also issued a proposed rule, as authorized under the Act, that would define current Good Manufacturing Practices in the manufacture and holding of dietary supplements. It is anticipated that a final rule will issue in 2006. Recent legislation required, effective January 1, 2006, specific disclosures in labeling where a food, including a dietary supplement, contains an ingredient derived from any of eight named allergens.

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

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

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

We utilize a substantiation program that involves the compilation and review of scientific literature pertinent to the ingredients contained in each of our products. We continuously update our substantiation program to expand evidence for each of our product claims and notify the FDA of certain types of performance claims made in connection with our products.

In certain markets, including the United States, specific claims made by us with respect to our products may change the regulatory status of a product. For example, a product sold as a dietary supplement but marketed as a treatment, prevention, or cure for a specific disease or condition would likely be considered by the FDA or other regulatory bodies as unapproved and thus an illegal drug. To maintain the product's status as a dietary supplement, the labeling and marketing must comply with the provisions in DSHEA and the FDA's extensive regulations. As a result, we have procedures in place to promote and enforce compliance by our employees related to the requirements of DSHEA, the Food, Drug and Cosmetic Act, and various other regulations. Because of the diverse scope of regulations applicable to our products, and the varied regulators enforcing these regulatory requirements, determining how to conform to all requirements is often open to interpretation and debate. As a result, we can make no assurances that regulators will not question any of our actions in the future, even though we have put continuing effort into complying with all applicable regulations.

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

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

International Regulations. We are also subject to extensive regulations in each country in which we operate. Currently we sell our products in Canada, Australia, the United Kingdom, Japan, New Zealand, the Republic of Korea, Taiwan, and Denmark. We are also in the process of registering our products in Germany. Some of the country-specific regulations include the following:

- the National Provincial Laws, Canadian Natural Health Product Regulations, and the Federal Competition Act in Canada;
- the Therapeutic Goods Administration and the Trade Practices Act in Australia;
- federal and state regulations in Australia;
- National regulations including the Local Trading Standards Offices in the United Kingdom;
- regulations from the Ministry of International Trade and Industry in Japan;
- regulations from the Commerce Commission and the Fair Trade Act of 1993 in New Zealand;
- the Fair Trade Commission, which oversees the Door to Door Sales Act and the Health and Functional Food Act, which is enforced by the Korea Food and Drug Administration in South Korea;
- the Fair Trade Law, which is enforced by the Taiwan Fair Trade Commission and the Administration of Food Hygiene, Health Food Products Administration Act enforced by the Taiwan Department of Health;
- Danish Health Board and the Danish Marketing Practice Act in Denmark; and
- the German Unfair Competition Act in Germany.

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

We are also subject to regulatory oversight of the attorneys general of several states. Each state has specific acts referred to as Little FTC Acts. Each state act is similar to the requirements of the federal laws. As a result, each state may perform its own inquiries about our organization and business practices, including allegations related to our independent associates. To combat such risk, we provide our published associate policies and procedures to each independent associate and provide various educational seminars and publications, as well as maintain a legal/compliance department that investigates allegations of improper conduct by our independent associates.

In Canada, our network-marketing system is regulated by both national and provincial laws. Under Canada's Federal Competition Act, we must make sure that any representations relating to compensation to our independent associates or made to prospective new independent associates constitute fair, reasonable, and timely disclosure and that such representations meet other legal requirements of the Federal Competition Act. Our global associate career and compensation plan has been reviewed by the appropriate Canadian authorities, and we have not received any objections to the provisions of our plan. Any future changes to the plan will require additional review by the appropriate Canadian authorities. All Canadian provinces and territories, other than Ontario, have legislation requiring that we register or become licensed as a direct seller within that province to maintain the standards of the direct selling industry and to protect consumers. Some provinces require that both we and our independent associates be licensed as direct sellers. As a result, we believe we hold the required provincial and territorial direct sellers' licenses to legally conduct business in Canada.

In Australia, our network-marketing system is subject to Australia's federal and state regulations. Our global associate career and compensation plan is designed to comply with Australian law and the requirements of Australia's Trade Practices Act. The Australian Trade Practices Administration and various other governmental entities regulate our business and trade practices, as well as those of our independent associates. Australia's Therapeutic Goods Act, together with the Trade Practices Act, regulates any claims or representations relating to our products and our global associate career and compensation plan. In 2006, the governments of Australia and New Zealand plan to implement the Joint Therapeutic Agency, which will regulate all medicines, including dietary supplements, using a risk-based approach, which is similar to the current Australian Therapeutic Goods regime. This harmonization of laws and regulatory bodies is anticipated to provide a more consistent approach to dietary supplement laws between the two countries.

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

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

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

In the Republic of Korea, the primary body of law applicable to our operations is the Door-to-Door Sales Act, which governs the behavior of multi-level marketing companies and distributors who are affiliated with such companies. The Door-to-Door Sales Act is enforced by the Fair Trade Commission. In the Republic of Korea, we believe our products are categorized as health and functional foods and are regulated by the newly enacted Health and Functional Food Act of 2004. The Korea Food and Drug Administration is currently finalizing the standard and criteria for health and functional foods including defining the requirements for functional foods and acceptable ingredients.

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

In Denmark, the notion of door-to-door selling is generally prohibited. As a result, under Danish law, the trader is not allowed to contact the consumer at his home, place of work, or other non-public place in order to conclude a contract on certain subjects. However, the general prohibition has an exemption when the consumer asks the trader for a contract in writing or upon prior consent, which must also be in writing. In addition, the Danish Marketing Practices Act and the rules contained in the Danish Consumer Contracts Act govern our network-marketing system. In addition, there is no specific ban on our products in Denmark; however, certain medical products, such as vitamins and slimming preparations must have approval by the Danish Health Board before they can be sold. Further, the rules for marketing and sales of dietary supplements are covered by the Danish Executive Order on Dietary Supplements, as well as by the Danish Act on Foodstuffs. Finally, Denmark subjects the marketing of a company’s food supplements to a notification procedure or a pre-market approval process before a product may be lawfully marketed or sold in Denmark.

In Germany, there is no specific legal regulation covering multi-level marketing company practices. However, under certain circumstances multi-level marketing systems may have to follow the German Unfair Competition Act. Our independent associates’ conduct will be subject to the German statute that governs the conduct of a commercial agent. In addition, direct selling operations are governed by the Industrial Code, which requires direct sellers to hold itinerant trader’s cards.

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

- social security taxes;
- value added taxes;
- goods and services taxes;
- sales taxes;
- consumption taxes;
- income taxes;
- customs duties;
- employee/independent contractor regulations;
- employment and severance pay requirements;
- import/export regulations; and
- antitrust laws.

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

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

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

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

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

Employees

We employed a total of 485 people around the world at December 31, 2005 as set forth below:

	United States*	Australia	United Kingdom	Japan	Republic of Korea	Taiwan	Total
2005	353	44	29	21	18	20	485
2004	290	43	19	23	13	—	388

* includes 9 executives.

These numbers do not include our independent associates, who are independent contractors and are not considered our employees. Our employees are not unionized, and we believe we maintain a good relationship with our employees.

Item 1A. Risk Factors

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

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

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

- on-going motivation of our independent associates;
- general economic conditions;
- significant changes in the amount of commissions paid;
- public perception and acceptance of the wellness industry;
- public perception and acceptance of network-marketing;

- public perception and acceptance of us and our products;
- the limited number of people interested in pursuing network-marketing as a business;
- our ability to provide proprietary quality-driven products that the market demands; and
- competition in recruiting and retaining active independent associates.

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

Although we use various means to address misconduct by our independent associates, including maintaining policies and procedures to govern the conduct of our independent associates and conducting training seminars, it is still difficult to detect and correct all instances of misconduct. Violations of our policies and procedures by our independent associates could lead to litigation, formal or informal complaints, enforcement actions, and inquiries by various federal, state, or foreign regulatory authorities against us and/or our independent associates. Because we have expanded into foreign countries, our policies and procedures for our independent associates differ due to the different legal requirements of each country in which we do business. Litigation, complaints, and enforcement actions involving us and our independent associates could consume considerable amounts of financial and other corporate resources, which could have a negative impact on our business, profitability and growth prospects. Periodically, regulatory agencies have inquired about certain complaints regarding our independent associates, and we have always cooperated with such inquiries and investigations.

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

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

- Ambrotose ™ complex, a glyconutritional dietary supplement ingredient consisting of a blend of plant polysaccharides and used in the majority of our products;
- Ambroglycin®, a balanced food-mineral matrix ingredient developed to use the latest food science technology to provide various dietary supplements to the body and used in Glycentials® and Catalyst™; and
- MTech AO Blend™, our proprietary, patent-pending antioxidant used in Ambrotose AO®.

We have filed patent applications for Ambrotose ™ complex in the United States and certain other countries, and as of March 1, 2006, we have received 20 patents for Ambrotose ™ complex issued in the United States and 19 various foreign countries. In addition, we have entered into confidentiality agreements with our independent associates, suppliers, manufacturers, directors, officers and consultants to help protect our proprietary rights. Nevertheless, we continue to face the risk that our patent protection for Ambrotose ™ complex will be denied or that the patent protection we are granted is more limited than originally requested. As a precaution, we consult with outside legal counsel and consultants to help ensure that we diligently protect our proprietary rights to minimize this risk. However, our business, profitability, and growth prospects could be adversely affected if we fail to receive adequate protection of our proprietary rights.

4. If our business or our products are the subject of adverse publicity, our business could suffer.

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

- the nutritional supplements industry;
- competitors;
- the safety and quality of our products and ingredients;

- regulatory investigations of our products or competitors' products;
- the actions of our independent associates and the management of our independent associates; and
- the direct selling and network-marketing industry.

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

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

In 2003, the FDA banned the use of ephedra. However, in 2002, we voluntarily discontinued the sale of our products containing ephedra, which included two of our products, GlycoLEAN® Body System Accelerator™ and MVP. In 2002, we voluntarily reformulated our GlycoLEAN® Body System Accelerator™ to include a non-ephedra ingredient and introduced GlycoLEAN® Body System Accelerator 2™ and discontinued selling MVP. None of our other products have ever contained ephedra. During 2002, aggregate sales for our discontinued products related to ephedra, were $1.2 million, which accounted for 0.9% of our consolidated net sales for the year ended December 31, 2002.

In recent years a discovery of Bovine Spongiform Encephalopathy ("BSE"), commonly referred to as "Mad Cow Disease" has caused concern among the general public. As a result, some countries have banned the importation or sale of products that contain bovine materials sourced from locations where BSE has been identified. We have certain products that use a beef-based gelatin capsule. All of our gelatin capsules are currently produced in the United States or in Australia, which are considered BSE-free countries, although a few cases have been identified in the United States. Nonetheless, we voluntarily began to switch certain of our production to utilize non-bovine gelatin capsules that are vegetable-based rather than beef-based in certain of our capsule products and are considering using vegetable-based capsules in all such products. However, future government action could require companies to use vegetable-based capsules, and if required, the costs of vegetable-based capsules could increase our costs as compared to the costs of bovine-based capsules. The higher costs could affect our financial condition, results of operations, and our cash flows.

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

Outside manufacturers make all of our products. During 2004 and 2005, our manufacturers and we collectively purchased approximately, 47% and 33%, respectively, of a supplier's supply of Manapol® and purchased 100% for both years of a supplier's Australia Plum Powder, which is used in our Ambrotose AO® product. We also purchased approximately 30% and 39%, respectively of a manufacturer's production of finished products for the years ended December 31, 2004 and 2005, respectively. Our profit margins and timely product delivery are dependent upon the ability of our outside suppliers and manufacturers to supply us with products in a timely and cost-efficient manner. Our ability to enter new markets and sustain satisfactory levels of sales in each market depends upon the ability of our outside suppliers and manufacturers to produce the ingredients and products and to comply with all applicable regulations. As a precaution, we have approved alternate suppliers and manufacturers for our products. However, the failure of our primary suppliers or manufacturers to supply ingredients or produce our products could adversely affect our business operations.

We believe we have dependable suppliers for all of our ingredients and that we have identified alternative sources for all of our ingredients except Arabinogalactan, which is a component of our proprietary compound. Although we maintain good relationships with our suppliers and could produce or replace certain of our ingredients if our suppliers are unable to perform, any delay in replacing or substituting such ingredients could affect our business.

7. The global nutrition industry is intensely competitive and the strengthening of any of our competitors could harm our business.

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

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

Vast arrays of governmental agencies regulate network-marketing activities. A government agency's determination that our business and/or our independent associates have significantly violated a law or regulation could adversely affect our business. The laws and regulations regulating network-marketing generally intend to prevent fraudulent or deceptive schemes. Our business faces constant regulatory scrutiny due to the interpretive and enforcement discretion given to regulators, periodic misconduct by our independent associates, adoption of new laws or regulations, and changes in the interpretation of new or existing laws or regulations. In the past, we have experienced inquiries regarding specific independent associates and have complied and cooperated with all regulatory agencies in connection with such inquiries.

9. If government regulations regarding network-marketing systems change or if interpreted or enforced in a manner adverse to our business, we may be subject to new enforcement actions and material limitations regarding our business operations.

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

- misconduct by our independent associates;
- ambiguity in statutes;
- regulations and related court decisions;
- the discretion afforded to regulatory authorities and courts interpreting and enforcing laws; and
- regulations affecting our business.

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

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

- the formulation, manufacturing, packaging, labeling, distribution, importation, sale, and storage of our products;
- the health and safety of food and dietary supplements;

- trade practice laws and network-marketing laws;
- our product claims and advertising by our independent associates;
- our network-marketing system;
- pricing restrictions regarding transactions with our foreign subsidiaries or other related parties and similar regulations that affect our level of foreign taxable income;
- the assessment of customs duties;
- further taxation of our independent associates, which may obligate us to collect additional taxes and maintain additional records; and
- export and import restrictions.

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

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

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

We currently operate in the international markets of Canada, Australia, the United Kingdom, Japan, New Zealand, the Republic of Korea, Taiwan, and Denmark. We are also registering our products in Germany. Nonetheless, our international operations could experience changes in legal and regulatory requirements, as well as difficulties in adapting to new foreign cultures and business customs. If we do not adequately address such issues, our international markets may not meet growth expectations. Our international operations and future expansion plans are subject to political, economic, and social uncertainties, including:

- inflation;
- the renegotiation or modification of various agreements;
- increases in custom duties and tariffs;
- changes and limits in export controls;
- government regulations and laws;
- trademark availability and registration issues;
- changes in exchange rates;
- changes in taxation;
- wars and other hostilities; and
- changes in the perception of network-marketing.

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

12. If our information technology system fails, our operations could suffer.

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

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

Although we maintain an extensive disaster recovery program, a long-term failure or impairment of any of our information technology systems could adversely affect our ability to conduct day-to-day business.

13. Currency exchange rate fluctuations could lower our revenue and net income.

In 2004 and 2005, we recognized 34.6% and 33.4%, respectively, of our net sales in markets outside of the United States. In preparing our consolidated financial statements, various financial information is required to be translated from foreign currencies to the United States dollar using either the spot rate or the weighted-average exchange rate. If the United States dollar strengthens relative to applicable local currencies, there is a risk our reported sales, operating expenses, and net income could significantly fluctuate. We are not able to predict the degree of exchange rate fluctuations, nor can we estimate the effect any future fluctuations may have upon our future operations. However, to help mitigate this risk, our management monitors applicable exchange rates. To date we have not entered into any hedging contracts or participated in any hedging or derivative activities.

14. Our stock price could fluctuate significantly.

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

- broad market fluctuations and general economic conditions;
- fluctuations in our financial results;
- future securities offerings;
- changes in the market's perception of our products or our business;
- governmental regulatory actions;
- the outcome of any lawsuits;
- financial and business announcements made by us or our competitors; and
- the general condition of the economy and industry.

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

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

As of December 31, 2005, our directors and executive officers, collectively with their families and affiliates, beneficially owned approximately 40.5% of our total outstanding common stock. As a result, if any of these shareholders choose to act together based on their current share ownership, they may be able to control a significant amount of shares of our stock, which could affect the outcome of a shareholder vote on the election of directors, the adoption of stock option plans, the adoption or amendment of provisions in our articles of incorporation and bylaws, or the approval of mergers and other significant corporate transactions.

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

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

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

Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

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

Location	Size		Original term	Expiration date
Coppell, Texas (corporate headquarters)	110,000	sq. feet	10 years	December 2017
Coppell, Texas (distribution center)(1)	75,000	sq. feet	10 years	December 2017
St. Leonards, Australia (Australian headquarters)	9,000	sq. feet	5 years	March 2008
Didcot, Oxfordshire (U.K. headquarters and distribution center)(2)	16,000	sq. feet	5 years	July 2009
Minato-ku, Tokyo, Japan (Japanese headquarters)	1,000	sq. meters	2 years	November 2006
Kangnam-gu, Seoul, Korea (South Korea headquarters)	1,400	sq. meters	3 years	June 2007
Taipei, Taiwan (Taiwan headquarters)	250	pings	3 years	October 2007

(1) Our United States distribution facility is capable of filling 18,000 orders per day and is currently operating at 40% of full capacity.
(2) Our United Kingdom distribution facility is capable of filling 1,500 orders per day and is currently operating at 18% of full capacity.

We contract with several third parties for distribution and fulfillment operations for our international operations. We believe our leased facilities are adequate for our projected operations. Our third party contract distribution operations and the current operating capacity as of December 31, 2005 include the following:

Location	Square feet	Orders per day capacity	Current Operating capacity
Calgary, Alberta	3,400	2,000	25%
Wetherill Park, NSW, Australia	10,000	3,000	27%
Ohta-Ku, Tokyo, Japan	3,200	1,500	49%
Ganseo-ku, Seoul, Republic of Korea	2,600	1,000	30%
Taoyuan City, Taiwan	2,500	200	20%

Item 3. Legal Proceedings

We have been sued in three securities class action lawsuits in the United States District Court for the District of New Mexico.

- First, on August 1, 2005, Mr. Jonathan Crowell filed a putative class action lawsuit against us and Mr. Samuel L. Caster, our Chief Executive Officer, in the United States District Court for the District of New Mexico, on behalf of himself and all others who purchased or otherwise acquired our common stock between August 10, 2004 and May 9, 2005, inclusive, and who were damaged thereby.
- Second, on August 30, 2005, Mr. Richard McMurry filed a class action lawsuit against us, Mr. Caster, Mr. Terry L. Persinger, our President and Chief Operating Officer, and Mr. Stephen D. Fenstermacher, our Chief Financial Officer.
- Third, on September 5, 2005, Mr. Michael Bruce Zeller filed a class action lawsuit against us, Mr. Caster, Mr. Persinger, and Mr. Fenstermacher.

The allegations in these class action lawsuits are substantially identical. The complaints allege we violated Section 10(b), Rule 10b-5 and Section 20(a) of the Securities Exchange Act of 1934, alleging that defendants artificially inflated the value of our common stock by knowingly allowing independent contractors to recklessly misrepresent the efficacy of our products during the purported class period.

On December 12, 2005, the Court granted a motion to consolidate the three putative class action lawsuits. These lawsuits have been consolidated into the civil action styled “In re Mannatech, Incorporated Securities Litigation.” Also, on January 4, 2006, the Court granted a motion in the consolidated putative class action lawsuit to appoint “The Mannatech Group,” consisting of Mr. Austin Chang, Ms. Naomi S. Miller, Mr. John C. Ogden, and the Plumbers and Pipefitters Local 51 Pension Fund, as lead plaintiffs. The January 4, 2006 court order also appointed the law firms Lerach Coughlin Stoia Geller Rudman & Robbins LLP as lead counsel, and Freedman Boyd Daniels Hollander & Goldberg, P.A. as liaison counsel, for the putative class. On March 3, 2006, the plaintiffs in the consolidated cases filed a Consolidated Class Action Complaint for Securities Fraud. We have sixty days in which to file a response.

We have also been sued in three shareholder derivative lawsuits.

- First, on October 18, 2005, a shareholder derivative lawsuit was filed by Norma Middleton, Derivatively and on Behalf of Nominal Defendant, Mannatech, Incorporated v. Samuel L. Caster, Terry L. Persinger, Donald A. Buchholz, J. Stanley Fredrick, Gerald E. Gilbert, Alan D. Kennedy, Marlin Ray Robbins, and Patricia A. Wier, in the United States District Court for the Northern District of Texas, Dallas Division.
- Second, on January 11, 2006, a shareholder derivative action was filed by Kelly Schrimpf, Derivatively and on Behalf of Nominal Defendant Mannatech, Incorporated v. Samuel L. Caster, Terry L. Persinger, Steven W. Lemme, and Stephen D. Fenstermacher in the 162nd District Court of Dallas County, Texas.

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

Each of these shareholder derivative lawsuits makes allegations similar to the allegations of the shareholder class action litigation described above. Our independent directors have appointed a Special Litigation Committee to review these matters and determine the proper corporate response. On February 22, 2006, we filed a Motion Requesting Stay of Derivative Proceedings Pending Inquiry into Plaintiffs Claims in the Schrimpf lawsuit. On March 2, 2006, we and the individual defendants subsequently filed Defendants Motion to Dismiss, Plea in Abatement, Motion to Stay and, Subject Thereto, Original Answer. These motions are pending, as are our motions to stay and consolidate the Middleton and Nystrom lawsuits.

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

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

On September 19, 2005, the Court dismissed the lawsuit filed in the Superior Court of California, County of Los Angeles by Ms. Chie Sasaki against us, Mr. Samuel Caster, and Ms. Victoria Arcadi, an independent associate. The lawsuit alleged intentional and negligent infliction of emotional distress, intentional and negligent misrepresentation, invasion of privacy, and unfair competition based on the publication of photographs of Ms. Sasaki's son by one of our independent associates. We paid $750,000 as part of a confidential settlement and release and agreed to cease all references to the Sasaki child.

On July 8, 2005, the Australian Therapeutic Goods Administration ("TGA") notified us regarding a new complaint made by an Australian independent associate related to certain therapeutic claims to promote our products. In response to this complaint, we conducted an investigation and disciplined our independent associate, developed plans for continuing education and compliance training for our independent associates and notified the TGA of our actions and received written compliance confirmation from the TGA that it considered our actions acceptable and as a result, we consider this matter closed.

In October 1997, we filed a Notice of Objection to the issuance of a registered trademark issued to IntraCell Nutrition, Inc., which had filed a trademark application for the name "Manna." On May 19, 2000, our Notice of Opposition was rejected. To date, no infringement action has been filed against us by IntraCell. If IntraCell brings any infringement action against us, a negative determination could adversely affect our business, results of operations, financial condition, and liquidity.

On February 25, 2005, as part of our worldwide enforcement efforts of our intellectual property rights, we filed a patent infringement lawsuit in the High Court, Chancery Division, Patents Court, London, seeking a permanent injunction and certain damages against BION, Inc. and its principal Mr. Veilis Boye, claim no. HC05C00436. We alleged infringement of certain claims of our European Patent (UK) No. 0 923 383. This case is still pending.

We also have several pending claims incurred in the normal course of business. In the opinion of management, such claims can be resolved without any material affect on our consolidated financial condition, results of operations, or our cash flows.

We maintain certain liability insurance in amounts we believe are adequate. However, certain costs of defending lawsuits, such as those below the insurance deductible amount, are not covered by or only partially covered by our insurance policies, and our insurance carriers could refuse to cover certain of these claims in whole or in part.

Item 4. Submission of Matters to a Vote of Security Holders

None.

PART II

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

Market for our Common Stock. On February 12, 1999, we completed our initial public offering and on February 16, 1999, our common stock began trading on the NASDAQ National Market under the symbol "MTEX." As of March 6, 2006, the total number of outstanding shares of our common stock was 26,765,364 and the closing price on such date was $12.98. Below are the high and low sales prices of Mannatech's common stock as reported on the NASDAQ National Market for each quarter of the fiscal years ended December 31, 2004 and 2005:

	Low	High
2004:		
First Quarter	$ 8.52	$15.08
Second Quarter	$ 9.26	$12.76
Third Quarter	$ 8.75	$14.92
Fourth Quarter	$13.75	$23.99
2005:		
First Quarter	$17.31	$26.10
Second Quarter	$11.64	$21.10
Third Quarter	$ 9.87	$19.50
Fourth Quarter	$ 8.17	$15.45

Holders. As of March 6, 2006, there were approximately 4,000 shareholders of record who held approximately 30% of our common stock directly and approximately 160 security brokers and dealers who held approximately 70% of our common stock on behalf of approximately 13,000 shareholders.

Dividends. We did not pay any dividends in 2003. In 2004 and 2005, we declared and paid the following dividends for our common stock:

Declared date	Date of record	Date paid	Dollar amount paid per common share
January 21, 2004	February 20, 2004	March 12, 2004	$0.10
August 24, 2004	September 13, 2004	October 4, 2004	$0.10
November 9, 2004	December 1, 2004	January 10, 2005	$0.07
March 9, 2005	April 1, 2005	April 15, 2005	$0.07
June 14,2005	July 1, 2005	July 18, 2005	$0.07
September 13, 2005	September 30, 2005	October 19, 2005	$0.07
November 11, 2005	December 12, 2005	January 9, 2006	$0.08

In 2006, our Board of Directors expects to continue to pay a dividend, while continuing to periodically reevaluate our dividend policy based on our ongoing consolidated results of operations, financial condition, cash requirements, and other relevant factors. Any payment of dividends is also subject to certain limitations under the Texas Business Corporation Act.

Table of Contents

Index to Financial Statements

Stock Options

The following table provides information as of December 31, 2005 about our common stock that may be issued upon the exercise of stock options under all of our existing stock option plans.

Plan Category	Number of securities to be issued upon exercise of outstanding options, warrants and rights (a)	Weighted-average exercise price of outstanding options, warrants and rights (b)	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)) (c)
Equity compensation plans approved by shareholders	1,236,536	$ 6.09	435,704
Equity compensation plans not approved by shareholders	—	$ —	—
Total	**1,236,536**	**$ 6.09**	**435,704**

Sales of Unregistered Securities.

None.

Uses of Proceeds from Registered Securities.

None.

Issuer Purchases of Equity Securities

On June 30, 2004, our Board of Directors authorized us to repurchase, in the open market, up to 1.3 million shares of our outstanding common stock to help manage any dilutive effects. As of December 31, 2005, there was 719,501 shares remaining authorized, if needed, to purchase our stock in the open market. The following table presents information with respect to those purchases of our common stock made during the three months ended December 31, 2005.

Period	Total number of shares purchased	Average price paid per share	Total number of shares purchased as part of publicly announced plans or programs	Maximum number of shares that may yet be purchased under the plans or programs
October 2005	207,023	$9.66	207,023	719,501
November 2005	—	$ —	—	719,501
December 2005	—	$ —	—	719,501

Item 6. Selected Financial Data

The Selected Financial Data set forth below for each of the five years ended December 31, have been derived from and should be read in conjunction with (A) Our Consolidated Financial Statements and related notes set forth in Item 15 of this report, beginning on page F-1, and (B) Our "Management's Discussion and Analysis of Financial Condition and Results of Operations," set forth in Item 7 of this report.

	Year Ended December 31,				
	2001[2]	2002	2003 [3]	2004[4]	2005[5]
	(in thousands, except per share amounts)				
Consolidated Statement of Operations Data:					
Net sales	$128,736	$140,948	$191,019	294,508	$389,383
Gross profit	$ 53,218	$ 57,172	$ 80,558	$117,430	$159,204
Income (loss) from operations	$ (3,924)	$ 2,978	$ 11,592	$ 26,537	$ 45,610
Net income (loss)	$ (3,660)	$ 1,888	$ 8,790	$ 19,552	$ 28,647
Earnings (Loss) Per Common Share:					
Basic	$ (0.15)	$ 0.08	$ 0.34	$ 0.74	$ 1.06
Diluted	$ (0.15)	$ 0.07	$ 0.34	$ 0.71	$ 1.03
Weighted-Average Common Shares Outstanding:					
Basic	24,730	25,135	25,494	26,436	26,990
Diluted	24,730	25,265	26,175	27,491	27,771
Other Financial Data:					
Capital expenditures [1]	$ 1,316	$ 1,008	$ 932	$ 7,241	$ 13,114
Dividends declared per common share	$ —	$ —	$ —	$ 0.27	$ 0.29
Consolidated Balance Sheet Data:					
Total assets	$ 33,143	$ 34,816	$ 60,023	$ 98,346	$122,795
Long-term obligations, excluding current portion	$ 950	$ 158	$ 497	$ 2,218	$ 4,964

(1) Capital expenditures include assets acquired through capital lease obligations of $25 in 2002 and $40 in 2003.

(2) We recorded severance charges of $3.4 million related to the resignation of certain executive officers including Mr. Cobb, Ms. Varner, and Mr. Charles Fioretti.

(3) We recorded severance charges of $2.0 million related to the resignation of Mr. Henry, our former Chief Executive Officer, and Mr. Wayment, our former Senior Vice President of Marketing, as well as other employees. In addition, we recorded non-cash accounting charges of $1.5 million related to modifying the terms of these former employees' stock options.

(4) We recorded a non-cash charge of $3.0 million related to the indirect benefit of Mr. Caster's, our Chief Executive Officer and Chairman, sale of 180,000 shares of his Company common stock to a former employee, Dr. Reg McDaniel, in a private sale for a price below the fair market value. Additionally, we recognized a tax benefit of $2.3 million associated with the release of our valuation allowance related to our deferred tax assets for our Japan operations.

(5) We capitalized $12.1 million costs related to our internally developed software projects, some of which we expect to be completed in the third quarter of 2006.

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

The following discussion is intended to assist in the understanding of our consolidated financial position and our results of operations for each of the three years ended December 31, 2003, 2004, and 2005. This discussion should be read in conjunction with "Item 15. – Consolidated Financial Statements and related Notes," beginning on page F-1 of this report and with other financial information included elsewhere in this report. Unless stated otherwise, all financial information presented below, throughout this report, and in the consolidated financial statements and related notes includes Mannatech and all of our subsidiaries on a consolidated basis.

Company Overview

Since November 1993, we have developed innovative, high-quality, proprietary nutritional supplements, topical products, and weight-management products that are sold through a global network-marketing system operating in the United States, Canada, Australia, the United Kingdom, Japan, New Zealand, the Republic of Korea, Taiwan, and Denmark. We have also filed for registration of our products in Germany. Denmark is serviced by our United Kingdom subsidiary, which also will service Germany. Our New Zealand operation is serviced by our Australian subsidiary. Our Australian and United Kingdom subsidiaries each operate as limited-risk service providers for the United States parent. The United States parent owns all of the sales and inventories, and accrues all commissions and cost of sales in New Zealand, Australia, United Kingdom and Denmark. The parent pays the limited-risk service providers a management fee for processing and shipping orders in Australia, New Zealand, the United Kingdom, and Denmark.

We operate as a single segment and primarily sell our products through a network of approximately 490,000 independent associates and members who have purchased our products and/or packs within the last 12 months, which we refer to as *current independent associates and members*. We operate as a seller of nutritional supplements through our network-marketing distribution channels operating in nine different countries. We review and analyze our net sales by geographical location and further analyze our net sales by packs and by products. Each of our subsidiaries sells the same type of products and possesses similar economic characteristics, such as selling prices and gross margins.

For the year ended December 31, 2005, our operations outside of the United States accounted for approximately 33.4% of our consolidated net sales, whereas in the same period in 2004, our operations outside of the United States accounted for approximately 34.6% of our consolidated net sales. Consolidated net sales by country in dollars and as a percentage of total consolidated net sales for the years ended December 31, 2003, 2004, and 2005 are as follows:

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

Country	For the Year Ended December 31, 2003		For the Year Ended December 31, 2004 (in millions)		For the Year Ended December 31, 2005	
United States	$ 127.8	67.0%	$ 192.5	65.4%	$ 259.4	66.6%
Canada	$ 16.7	8.7%	$ 22.2	7.5%	$ 28.0	7.2%
Australia	$ 15.6	8.2%	$ 30.6	10.4%	$ 35.7	9.2%
United Kingdom	$ 5.0	2.6%	$ 10.5	3.6%	$ 8.9	2.3%
Japan	$ 18.6	9.7%	$ 24.5	8.3%	$ 35.4	9.1%
New Zealand	$ 7.3	3.8%	$ 12.9	4.4%	$ 14.6	3.7%
Republic of Korea*	$ —	— %	$ 1.3	0.4%	$ 4.6	1.2%
Taiwan**	$ —	— %	$ —	— %	$ 2.3	0.6%
Denmark***	$ —	— %	$ —	— %	$ 0.5	0.1%
Totals	**$ 191.0**	**100%**	**$ 294.5**	**100%**	**$ 389.4**	**100%**

* Began operations in September 2004.
** Began operations in June 2005.
*** Began operations in August 2005.

For geographical purposes, consolidated net sales primarily shipped to customers in these locations for each quarter of 2005 were as follows (in millions):

	First Quarter 2005		Second Quarter 2005		Third Quarter 2005		Fourth Quarter 2005	
United States	$ 56	65.9%	$ 70	67.7%	$ 67	66.3%	$ 66	66.2%
Canada	7	7.9%	7	7.1%	7	7.0%	7	7.0%
Australia	8	9.5%	9	8.7%	9	9.3%	10	9.3%
United Kingdom	2	2.8%	3	2.3%	2	2.1%	3	2.0%
Japan	8	9.2%	9	8.8%	9	9.1%	9	9.4%
New Zealand	3	4.2%	4	4.0%	4	3.7%	3	3.2%
Republic of Korea*	1	0.5%	1	1.0%	1	1.5%	2	1.7%
Taiwan**	—	— %	0	0.4%	1	0.9%	1	0.9%
Denmark***	—	— %	—	— %	—	0.1%	0	0.3%
Total	**$ 85**	**100%**	**$ 103**	**100%**	**$ 100**	**100%**	**$ 101**	**100%**

* Began operations in September 2004.
** Began operations in June 2005.
*** Began operations in August 2005.

We derive our revenue from sales of our products, sales of our starter and renewal packs, and from shipping fees collected from our customers. In August 2005, we increased shipping fees charged to our customers due to an increase in shipping rates charged to us. We defer the recognition of our product and pack revenues until our customers receive their shipments. Substantially all of our product sales are made either to independent associates at published wholesale prices or to members at discounted published retail prices. We have no involvement in our products after delivery other than usual and customary product returns. Our sales mix can be influenced by any one of the following:

- changes in our sales prices;
- changes in consumer demand;
- changes in competitors' products;
- changes in economic conditions;
- changes in regulations;
- announcements of new scientific studies and breakthroughs;
- introduction of new products;
- discontinuation of existing products;
- negative publicity; and
- changes in our commission and incentive programs.

We periodically change our starter and renewal packs to meet current market demands. Each of our starter and renewal packs includes some combination of our products and promotional materials and entitles our independent associates and members to published discounts from our retail prices. We try to offer comparable packs in each country in which we conduct business; however, because each country has different regulatory guidelines, not all of our packs and products can be offered in all countries in which we operate.

For the year ended December 31, 2005, our consolidated net sales increased by $94.9 million to $389.4 million, or 32.2% as compared to 2004. This is the fourth consecutive year we have reported an annual increase in our consolidated net sales. We attribute the improvement in our net sales and operations to the following:

- increasing our current independent associate base by 32.8%, or 121,000 additional independent associates and members, to 490,000 as of December 31, 2005 from 369,000 as of December 31, 2004;
- increasing net sales by $2.8 million cumulatively, related to expansion into Taiwan in June 2005 and into Denmark in August 2005;

- registering our product Ambrotose AO® in certain international markets; and
- increasing net sales by $0.6 million related to increasing certain shipping fees charged to our customers beginning in August 2005.

We believe the increase of 121,000 independent associates and members is the continued result of enhancements to our diversified compensation plan and incentives implemented in 2002 and 2003, including the introduction of an annual travel incentive program, which is also a motivational vehicle for retaining independent associates. We designed our annual travel incentive program to allow our associates to qualify over a four to seven month period, in which associates earn certain point levels primarily from product purchases and pack sales. In addition, to qualify for the annual travel incentive, independent associates must maintain their associate positions and are prohibited from subsequently returning any qualifying packs or products, except exchanges for like-kind products and packs.

We believe our future success in increasing our net sales is dependent on the following factors:

- continuing our product development strategy, which includes continual enhancement of existing proprietary products and the introduction of new products;
- continuing our plans for international expansion; and
- continuing to attract and retain independent associates by introducing new incentives, refining existing commissions and incentives, and providing additional training aids, promotional materials and technology tools.

Cost of sales consist of costs for product purchases from third-party manufacturers, cost of promotional materials sold to our independent associates, in-bound freight, and provisions for slow moving or obsolete inventories. For the year ended December 31, 2005, our inventories turned 3.5 times during the year. For the year ended December 31, 2005, inventories increased by $6.7 million, to $19.8 million compared to $13.1 million for the same period in 2004. The increase in inventories primarily related to an increase of raw materials of $4.4 million and an increase of our supply of Advanced Ambrotose™ totaling $1.4 million. The remaining increase in our inventory relates to the anticipated increase in net sales.

Commissions and incentives are heavily dependent on the sales mix and types of incentives offered. Commissions and incentives is our largest expense on our Consolidated Statement of Operations. Commissions and incentives are paid to our independent associates in accordance with our global associate career and compensation plan and are calculated using commissionable net sales. Commissionable net sales consist of finished product and pack sales. Our commissions and incentives program calculates commissions and incentives based on the following criteria:

- an associate’s placement and position within our overall global career and compensation plan;
- the volume of an associate’s direct and indirect commissionable sales; and
- an associate’s achievement of certain sales levels.

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

Each year, we offer new travel incentives and contests that are designed to stimulate both our pack and product sales. In 2005, we had 1,500 associates qualify for the travel incentive at a total cost of approximately $4.0 million. In 2004, we had 1,200 associates qualify for our travel incentive for a total cost of $2.9 million as compared to 2003, when we had 750 associates qualify for our travel incentive at a total cost of $2.2 million. In 2006, we expect our annual travel incentive to cost between $3.8 million and $4.5 million.

We believe that our combined cost of sales and commissions and incentives should remain relatively constant at approximately 60% of our consolidated net sales.

Critical Accounting Policies and Estimates

In response to SEC Release No. 33-8040, “Cautionary Advice Regarding Disclosure About Critical Accounting Policies,” we review our policies related to the portrayal of our consolidated financial condition and consolidated results of operations that require the application of significant judgment by us. We also analyze the need for certain estimates, including the need for such items as inventory reserves, capitalization of software development costs, tax valuation allowances, revenue recognition and deferred revenues, accounting for stock based compensation, and contingencies and litigation. Our estimates are based on our historical experience, industry standards, and various other assumptions we believe are applicable and reasonable under the circumstances. We caution our readers that actual results could differ from our estimates under different assumptions or conditions and if circumstances change relating to the various assumptions or conditions used in our estimates, we could experience an adverse effect on our consolidated financial condition, our consolidated results of operations, and our cash flows. We have identified the following applicable critical accounting policies as of December 31, 2005.

Inventory Reserves

We review our inventory carrying value and compare it to the estimated fair market value. Any inventory value in excess of our estimated fair market value is written down. In addition, we review our inventory for obsolescence and any inventory identified as obsolete is reserved or written off. Our determination of obsolescence is based on assumptions about the demand for our products, product expiration dates, estimated future sales, and our future plans. In the future, if actual sales or our plans are less favorable than those originally projected by us, additional inventory reserves or write-downs may be required. At December 31, 2005, our inventories totaling $19.8 million included a reserve of approximately $0.4 million.

Software Capitalization

During 2004, we began the development and/or configuration of several large-scaled information technology projects that are intended to increase functionality of our operations and expand our reporting capabilities, herein referred to as internally-developed software projects. Internally-developed software projects included the establishment of a comprehensive Japanese e-commerce system, translation and application development of our Republic of Korea computer application software, and configuration of our internally-developed global re-architecture software project..

Once placed in service, we amortize our capitalized internally-developed software costs over its estimated useful life, which is usually five years. If accounting standards change, or if the capitalized software becomes obsolete, we may be required to write-off our unamortized capitalized software or accelerate the amortization period. As of December 31, 2005, we had approximately $11.7 million of unamortized capitalized software development costs included in property and equipment and construction in progress.

Tax Valuation Allowances

We evaluate the probability of realizing the future benefits of any of our deferred tax assets and record a valuation allowance when we believe it is more likely than not that a portion or all of our deferred tax assets may not be realized. If we are unable to realize the expected future benefits of our deferred tax assets, we are required to provide an additional valuation allowance. As of December 31, 2005, our net deferred tax assets were approximately $3.8 million, which includes a valuation allowance of approximately $0.7 million related to deferred tax assets for our operations in Taiwan and the Republic of Korea.

Revenue Recognition and Deferred Revenues

We defer all of our product and pack revenues until our customers receive their shipments. We also defer a portion of our revenues from the sale of certain starter and renewal packs because of a one-year magazine subscription offered in certain of our packs. In addition, we defer the portion of revenue from each pack in which the total price of the pack exceeds the total average wholesale value of all individual components included in such packs. We amortize the deferred revenues associated with our one-year magazine subscriptions and any pack sales that exceed the total average wholesale value of the individual components included in such packs over twelve months. Although we have no immediate plans to significantly change the contents of our packs or our shipping methods, any such change in the future could result in additional revenue deferrals or could cause us to recognize our deferred revenue over a longer period of time.

Accounting for Stock-Based Compensation

Currently, we follow APB 25 and its related interpretations to account for stock options granted to our employees and board members. Under the recognition and measurement principles of APB 25, we are not required to recognize any compensation expense unless the market price of the stock exceeds the exercise price on the date of grant or the terms of the grant are subsequently modified. In December 2004, the Financial Accounting Standards Board issued FAS 123R, which is effective for the first annual reporting period beginning after June 15, 2005. We prospectively adopted FAS 123R on January 1, 2006. Under FAS 123R, we are required to measure and recognize compensation expense related to any unvested stock options granted and for all new stock options granted to our employees and board members. As such, we are required to calculate compensation expense based on the number of options expected to vest, and recognize the compensation expense in our consolidated results of operations over the stock options' vesting period. As of December 31, 2005, we had 391,052 unvested stock options outstanding with a fair value of approximately $0.6 million. In addition, we have 435,704 stock options available to grant in the future. We believe the estimated impact on our consolidated financial position and results of operations for existing stock options outstanding at December 31, 2005 will be to record a compensation charge of approximately $0.3 million in 2006, $0.2 million in 2007, and $0.1 million in 2008.

Contingencies and Litigation

Each quarter, we evaluate the need to accrue for legal claims or assessments. The accrual evaluation is based upon our estimated amount of damages and the probability of losing any threatened legal claim. If circumstances change or if we experience an unanticipated adverse outcome of any legal action, we would be required to increase our estimated amount accrued related to any potential legal action.

Results of Operations

The following table summarizes our consolidated operating results as a percentage of net sales for each of the years indicated:

	Year Ended December 31,		
	2003	2004	2005
Net sales	**100.0%**	**100.0%**	**100.0%**
Cost of sales	16.1	15.2	14.9
Commissions and incentives	41.7	44.9	44.2
Gross profit	42.2	39.9	40.9
Operating expenses:			
Selling and administrative expenses	20.9	17.0	16.9
Other operating costs	14.1	12.9	12.2
One-time non-cash charge related to an affiliate stock sale	—	1.0	—
Severance expenses related to former executives	1.0	—	—
Income from operations	**6.2**	**9.0**	**11.8**
Interest income	0.2	0.3	0.5
Other income (expense), net	0.4	(0.2)	(0.6)
Income before income taxes	**6.8**	**9.1**	**11.7**
Provision for income taxes	(2.2)	(2.5)	(4.3)
Net income	**4.6%**	**6.6%**	**7.4%**

Historical Results for 2003, 2004, and 2005

Net Sales

	For the Three Months Ended December 31,		Dollar and percentage change	
	2004	2005	2005 over 2004	
	(in millions)			
Product sales	$ 61.2	$ 76.5	$ 15.3	25.0%
Pack sales	17.9	18.7	0.8	4.5%
Other, including freight	5.1	6.2	1.1	21.6%
Total net sales	**$ 84.2**	**$ 101.4**	**$ 17.2**	**20.4%**

	For the Twelve Months Ended December 31,			Dollar and percentage change			
	2003	2004	2005	2004 over 2003		2005 over 2004	
	(in millions)						
Product sales	$144.3	$209.3	$284.8	$ 65.0	45.0%	$75.5	36.1%
Pack sales	39.0	70.5	87.8	31.5	80.8%	17.3	24.5%
Other, including freight	7.7	14.7	16.8	7.0	90.9%	2.1	14.3%
Total net sales	**$191.0**	**$294.5**	**$389.4**	**$103.5**	**54.2%**	**$94.9**	**32.2%**

Our consolidated net sales have increased year-over-year. For the year ended December 31, 2005, opening operations in Taiwan and selling our products in Denmark increased our net sales by $2.8 million. The dollar increase in our consolidated net sales also consisted of increases in volume of both pack sales and product sales. Pack sales relate to new and continuing independent associates and members who purchase our products. However, there is not a direct correlation between the increase in the number of new independent associates and members purchasing packs and the amount of the increase in product sales because independent associates and members may consume different products at different consumption levels.

Pack Sales

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

The increase in pack sales is due to the increase in the number of independent associates and members and changes in the mix of new and continuing independent associates. The following tables summarize the number of new and continuing independent associates and members who purchased our products and packs within the last 12 months and pack sales for new and continuing independent associates:

	For the Year Ended December 31,					
Current Associates and Members	2003		2004		2005	
New	134,000	50.8%	178,000	48.2%	230,000	47.0%
Continuing	130,000	49.2%	191,000	51.8%	260,000	53.0%
Total	**264,000**	**100.0%**	**369,000**	**100.0%**	**490,000**	**100.0%**

	For the Three Months Ended December 31,					
	2004		2005		2005 to 2004	
	Number of associates and members	Pack sales	Number of associates and members	Pack sales	Percentage and dollar change of pack sales	
	(in millions, except % and associate information)					
New	50,000	$12.5	52,000	$12.6	$ 0.1	0.8%
Continuing	319,000	5.4	438,000	6.1	0.7	13.0%
Total	**369,000**	**$17.9**	**490,000**	**$18.7**	**$ 0.8**	**4.5%**

	For the Year Ended December 31,					
	2003		2004		2004 to 2003	
	Number of associates and members	Pack sales	Number of associates and members	Pack sales	Percentage and dollar change of pack sales	
	(in millions, except % and associate information)					
New	134,000	$28.1	178,000	$49.6	$ 21.5	76.5%
Continuing	130,000	10.9	191,000	20.9	10.0	91.7%
Total	**264,000**	**$39.0**	**369,000**	**$70.5**	**$ 31.5**	**80.8%**

	For the Year Ended December 31,					
	2004		2005		2005 to 2004	
	Number of associates and members	Pack sales	Number of associates and members	Pack sales	Percentage and dollar change of pack sales	
	(in millions, except % and associate information)					
New	178,000	$49.6	230,000	$61.3	$ 11.7	23.6%
Continuing	191,000	20.9	260,000	26.5	5.6	26.8%
Total	**369,000**	**$70.5**	**490,000**	**$87.8**	**$ 17.3**	**24.5%**

For the three months ended December 31, 2005, our quarterly pack sales increased by $0.8 million, or 4.5%, to $18.7 million from $17.9 million for the same period in 2004. This increase in pack sales in the fourth quarter of 2005 was composed of a $0.1 million increase from new independent associates and members purchasing packs. The remaining increase of a $0.7 million in pack sales related to an increase in business building associates purchasing renewal and upgrade packs.

For the year ended December 31, 2005, our total pack sales increased by $17.3 million, or 24.5%, to $87.8 million as compared to $70.5 million in 2004. The increase in pack sales, for the year ended December 31, 2005, was composed of a $11.7 million increase from new independent associates and members purchasing packs. The remaining increase of $5.6 million in pack sales related to an increase in business building associates purchasing renewal and upgrade packs.

For the year ended December 31, 2004, our total pack sales increased by $31.5 million, or 80.8%, to $70.5 million as compared to $39.0 million in 2003. The increase in pack sales, for the year ended December 31, 2004, was composed of a $21.5 million increase from new independent associates and members purchasing packs. The remaining increase of $10.0 million in pack sales related to an increase in business-building associates purchasing renewal and upgrade packs.

We believe the increase in the number of new and continuing independent associates and members over the past few years resulted from expansion into new countries, changes initiated in 2002 to our global associate career and compensation plan, including an annual travel incentive and various contests, introducing new products, and improving our existing products. We believe the established trend of increasing the number of associates and members relates to retaining more business-building independent associates related to implementing changes to our global associate career and compensation plan in late 2002.

Product Sales

Overall, our product sales continued to increase for both the three months and the year ended December 31, 2005 as compared to the same periods in 2004. The primary reason for the growth in our product sales is reporting an increase in the number of independent associates and members purchasing our products and the introduction of two new products in 2005 – Advanced Ambrotose™ and Advanced Plus. For 2006, we plan to introduce two new reformulated Mannabars, and introduce additional skin care products in the Asian market.

During the three months ended December 31, 2005, the introduction of Advanced Ambrotose ™ increased total product sales by $20.7 million and opening operations in Taiwan and selling our products in Denmark increased existing product sales by $0.6 million. However, these increases were partially offset by a decrease of $6.0 million in existing product sales in 2005 as compared to 2004. The decrease in our existing product sales for the fourth quarter of 2005 related to a decline in our original Ambrotose™ product due to the introduction of Advanced Ambrotose™.

During the year ended December 31, 2005, the introduction of Advanced Ambrotose™ increased total product sales by $50.9 million and opening operations in Taiwan and selling certain of our products in Denmark increased existing product sales by $1.1 million. The remaining increase of $23.5 million related to an increase in the sales volume of products sold.

During the year ended December 31, 2004, the introduction of MannaBears™ and our Wellness Water Bottle increased total product sales by $1.1 million and opening operations in the Republic of Korea increased existing product sales by $0.5 million. The remaining increase of $63.4 million related to an increase in the sales volume of products sold.

Other Sales

Other sales primarily consist of the following:

- freight revenue charged to our independent associates and members;
- sales of promotional materials;
- training fees;
- monthly fees collected for Success Tracker™, a customized electronic business-building and educational materials database for associates that helps stimulate product sales and provide business management;
- a reserve for estimated sales refunds and returns; and
- the change in deferred revenue that primarily pertains to the timing of recognition of revenue for pack and product shipments.

For the three months ended December 31, 2005, other sales increased by $1.1 million to $6.2 million from $5.1 million for the same period in 2004. The increase in other sales primarily related to an increase of $1.0 million in freight fees collected from customers, of which $0.3 million related to an increase in freight fees charged to our customers implemented in August 2005. In addition, other sales increased by $0.4 million including an increase in promotional materials and training fees. These increases were partially offset by a decrease of $0.3 million associated with the timing of recognizing revenue.

For the year ended December 31, 2005, other sales increased by $2.1 million to $16.8 million from $14.7 million for the same period in 2004. The increase in other sales primarily related to an increase of $4.3 million in freight fees collected from customers, including $0.6 million related to an increase in freight fees charged to our customers implemented in August 2005. The increase also includes an increase of $0.4 million in promotional materials and training aids. These increases were partially offset by deferring $2.6 million associated with the timing of recognizing revenue.

Cost of Sales

Our cost of sales consists of products purchased from third-party manufacturers, costs of promotional materials sold to our independent associates, in-bound freight, and provisions for slow-moving or obsolete inventories. Our cost of sales as a percentage of net sales is affected by the mix of products and packs sold because product sales have higher gross margins than pack sales. Our sales mix can be influenced by any of the following:

- changes in our sales prices;
- changes in consumer demand;
- changes in competitors' products;
- changes in economic conditions;
- changes in regulations;
- announcements of new scientific studies and breakthroughs;
- introduction of new products;
- discontinuation of existing products; and
- changes in our commissions and incentives programs.

For the three months ended December 31, 2005, cost of sales increased by $1.8 million, or 13.8%, to $14.8 million from $13.0 million for the same period in 2004. Cost of sales as a percentage of net sales decreased to 14.6% for the three months ended December 31, 2005 as compared to 15.4% for the comparable period in 2004. The dollar increase and the percentage decrease primarily related to certain realized supply-chain efficiencies.

For the year ended December 31, 2005, cost of sales increased by $13.2 million, or 29.4%, to $58.0 million from $44.8 million for the same period in 2004. For the year ended December 31, 2005, cost of sales as a percentage of net sales decreased to 14.9% as compared to 15.2% for the comparable period in 2004. The percentage decrease primarily related to certain realized supply-chain efficiencies.

For the year ended December 31, 2004, cost of sales increased by $13.9 million, or 45.0%, to $44.8 million from $30.9 million for the same period in 2003. Cost of sales as a percentage of net sales decreased to 15.2% for the year ended December 31, 2004 as compared to 16.1% for the comparable period in 2003. Cost of sales primarily increased as a result of the increase in volume of packs and products sold. However, the cost of sales as a percentage of net sales, for the year ended December 31, 2004, decreased related to certain realized supply-chain efficiencies.

We recorded a provision for inventory write-offs of $0.2 million, $0.5 million, and $0.3 million for the years ended December 31, 2003, 2004, and 2005, respectively. The provision primarily relates to discontinued promotional materials and normal spoiled or damaged products.

Commissions and Incentives

Commissions and incentives include both commissions related to commissionable net sales and various incentives, including our annual travel incentive for our independent associates.

For the three months ended December 31, 2005, commissions and incentives increased by $5.3 million, or 14.1%, to $42.8 million as compared to $37.5 million for the same period in 2004. As a percentage of net sales, commissions and incentives decreased for the three months ended December 31, 2005 to 42.2% as compared to 44.6% for the same period in 2004.

For the year ended December 31, 2005 commissions and incentives increased by $40.0 million, or 30.3%, to $172.2 million as compared to $132.2 million for the same period in 2004. As a percentage of net sales, commissions and incentives decreased for the year ended December 31, 2005 to 44.2% as compared to 44.9% for the same period in 2004. For the year ended December 31, 2004, commissions and incentives increased by $52.6 million, or 66.1%, to $132.2 million as compared to $79.6 million for the same period in 2003. As a percentage of net sales, commissions and incentives increased for the year ended December 31, 2004, to 44.9% as compared to 41.7% for the same period in 2003.

We believe that the dollar increases for the three months ended December 31, 2005 and for the comparison of the years ended 2005 and 2004 related to an increase in volume of pack and product sales and the percentage changes relate to the mix of product and pack sales.

Commissions

For the three months ended December 31, 2005, commissions increased by 13.4%, or $4.9 million, to $41.6 million as compared to $36.7 million for the same period in 2004. As a percentage of net sales, commissions for the three months ended December 31, 2005 decreased to 41.0% from 43.5% for the same period in 2004. We attribute the dollar increase to the volume of sales increase and attribute the percentage decrease in commissions to the change in mix of pack and product sales.

For the year ended December 31, 2005, commissions increased by 30.5%, or $38.9 million, to $166.4 million as compared to $127.5 million for the same period in 2004. As a percentage of net sales, commissions for the year ended December 31, 2005 decreased to 42.7% from 43.3% for the same period in 2004. We attribute the dollar increase to the volume of sales increase and attribute the percentage decrease in commissions to the change in mix of pack and product sales.

For the year ended December 31, 2004, commissions increased by $51.3 million, or 67.3%, to $127.5 million as compared to $76.2 million, for the same period in 2003. As a percentage of net sales, commissions for the year ended December 31, 2004 increased to 43.3% from 39.9% for the same period in 2003. We attribute this increase in commission expense to the increase in the volume of net sales, the change in mix of packs sold toward the higher dollar packs, and the number of new and continuing independent associates who qualify for commissions.

Incentives

For the three months ended December 31, 2005, the cost of incentives increased by $0.4 million, or 50.0%, to $1.2 million as compared to $0.8 million for the same period in 2004. For the three months ended December 31, 2005, as a percentage of net sales, incentives increased to 1.2% as compared to 1.1% for the same period in 2004. The increase was due to greater participation in the annual leadership planning meeting.

For the year ended December 31, 2005, the cost of incentives increased by $1.1 million, or 23.4%, to $5.8 million as compared to $4.7 million for the same period in 2004. For the year ended December 31, 2005, as a percentage of net sales, incentives decreased to 1.5% as compared to 1.6% for the same period in 2004. The dollar increase for the year ended December 31, 2005 related to approximately 300 additional independent associates qualifying for our 2005 annual travel incentive as compared to the number of independent associates qualifying for our 2004 travel incentive. Additionally, in 2005, we offered regional annual travel incentives as compared to 2004 in which we offered just one global annual travel incentive. The percentage decrease related to the increase in net sales. The total cost associated with our 2005 annual travel incentive was $4.0 million, whereas the total cost associated with our 2004 travel incentive was approximately $2.9 million.

For the year ended December 31, 2004, the cost of incentives increased by $1.3 million, or 38.2%, to $4.7 million as compared to $3.4 million for the same period in 2003. For the year ended December 31, 2004, as a percentage of net sales, incentives decreased to 1.6% as compared to 1.8% for the same period in 2003. The dollar increase for the year ended December 31, 2004 related to approximately 450 additional independent associates qualifying for our 2004 annual travel incentive as compared to the number of independent associates qualifying for our 2003 travel incentive. The percentage decrease related to the increase in net sales. The total cost associated with our 2004 annual travel incentive was $2.9 million, whereas the total cost associated with our 2003 travel incentive was approximately $2.2 million.

Gross Profit

For the three months ended December 31, 2005, our gross profit increased by $10.0 million, or 29.6%, to $43.8 million as compared to $33.8 million for the same period in 2004. As a percentage of net sales, our gross profit increased to 43.1% as compared to 40.0% for 2004. The increase in our gross profit is the result of the shift in mix between product and pack sales and cost efficiencies gained in our supply chain.

For the year ended December 31, 2005, our gross profit increased by $41.8 million, or 35.6%, to $159.2 million as compared to $117.4 million for the same period in 2004. As a percentage of net sales, our 2005 gross profit increased to 40.9% as compared to 39.9% for the same period in 2004. The increasing number of new and continuing independent associates and members purchasing our products favorably impacted our gross profit in 2005.

For the year ended December 31, 2004, our gross profit increased by $36.9 million, or 45.8% to $117.4 million as compared to $80.5 million for the same period in 2003. As a percentage of net sales, our 2004 gross profit decreased to 39.9% as compared to 42.2% for the same period in 2003. The dollar increase and the percentage decrease was the result of a shift in the sales mix toward additional pack sales, which unfavorably influenced our 2004 gross profit as a percentage of sales. This was partially offset by a favorable impact from the decline in our cost of sales, as a percentage of net sales, due to realizing supply-chain efficiencies.

Selling and Administrative Expenses

Selling and administrative expenses include a combination of both fixed and variable expenses and consist of compensation and benefits for employees, expenses related to contract labor, outbound shipping and freight, and marketing-related expenses, such as monthly magazine development costs and costs related to hosting our corporate-sponsored events.

For the three months ended December 31, 2005, selling and administrative expenses increased by $3.4 million, or 24.4%, to $17.3 million as compared to $13.9 million for the same period in 2004. Selling and administrative expenses, as a percentage of net sales for the three months ended December 31, 2005, increased to 17.0% as compared to 16.5 % for the same period in 2004. The increase in selling and administrative expenses for the three months ended December 31, 2005 as compared to the same period in 2004 was composed of the following:

compensation related costs increased by $1.7 million due to hiring additional employees to support international expansion and to support increases in our net sales;

contract labor increased by $0.6 million primarily due to non-capitalizable expenses related to the on-going development of our internally developed software system;

marketing and marketing related expenses increased by $0.6 million due to an increase in attendance at our corporate-sponsored events and an increase in the number of active independent associates; and

out-bound freight and third party distribution costs increased by $0.5 million related to the increase in our net sales.

For the year ended December 31, 2005, selling and administrative expenses increased $15.9 million, or 31.8%, to $65.9 million as compared to $50.0 million in the same period in 2004. Selling and administrative expenses, as a percentage of net sales for the year ended December 31, 2005, decreased to 16.9% as compared to 17.0 % for the same period in 2004. The dollar increase in selling and administrative expenses primarily consists of the following:

- compensation related costs increased by $7.7 million due to hiring additional employees to support international expansion and to support increases in our net sales;
- contract labor increased by $1.3 million primarily related to non-capitalizable expenses related to the on-going internally developed software system;
- out-bound freight and third party distribution costs increased by $4.5 million related to the increase in our net sales; and
- marketing and marketing related expenses increased by $2.4 million due to an increase in attendance at our corporate-sponsored events and an increase in the number of active independent associates.

For the year ended December 31, 2004, selling and administrative expenses increased $10.0 million, or 25.0%, to $50.0 million as compared to $40.0 million in 2003. Selling and administrative expenses, as a percentage of net sales for the year ended December 31, 2004, decreased to 17.0% as compared to 20.9 % for the year ended December 31, 2003. The decrease in selling and administrative expenses as a percentage of net sales was primarily due to an increase in our net sales. The dollar increase in selling and administrative expenses related to the following:

- compensation related costs increased by $4.0 million due to hiring additional employees related to the increase in net sales and expansion into the Republic of Korea, partially offset by capitalizing $0.9 million of wages, contractors and consulting fees related to internally developed software system;
- contract labor increased by $0.6 million related to an increase in non-capitalized temporary/contractor fees and training costs related to our internally developed software system;
- employee and executive bonuses increased by $0.6 million;
- marketing related expenses increased by $1.7 million due to an increase in attendance at our corporate events; and
- out-bound freight and third party distribution costs increased by $4.0 million due to the increase in our net sales.

Other Operating Costs

Other operating costs generally include utilities, depreciation, travel, consulting fees, professional fees, office expenses, printing-related expenses, off-site storage fees, and other miscellaneous operating expenses.

For the three months ended December 31, 2005, other operating costs decreased by $1.8 million, or 14.0%, to $11.1 million as compared to $12.9 million for the same period in 2004. For the three months ended December 31, 2005, other operating cost as a percentage of net sales decreased to 10.9% compared to 15.4% for the same period in 2004.

For the year ended December 31, 2005, other operating costs increased by $9.9 million, or 26.2%, to $47.7 million as compared to $37.8 million for the same period in 2004. For the year ended December 31, 2005, other operating costs as a percentage of net sales decreased to 12.2% compared to 12.9% for the same period in 2004.

For the year ended December 31, 2004, other operating cost increased by $10.8 million, or 40.0%, to $37.8 million as compared to $27.0 million for the same period in 2003. For the year ended December 31, 2004, other operating expenses as a percentage of net sales decreased to 12.9% compared to 14.1% for the same period in 2003.

Specific changes in other operating costs primarily consisted of changes in travel, accounting, legal and consulting fees, royalties, credit card processing fees, depreciation, and other miscellaneous operating expenses described as follows:

Travel

For the three months ended December 31, 2005, travel expenses decreased by $1.0 million, or 45.4%, to $1.2 million as compared to $2.2 million for the same period in 2004. For the year ended December 31, 2005, travel expenses increased by $0.3 million, or 46.0%, to $5.3 million as compared to $5.0 million for the same period in 2004. For the year ended December 31, 2004, travel expenses increased by $1.5 million, or 42.9%, to $5.0 million as compared to $3.5 million for the same period in 2003. The increase in travel expenses related to the continued international development and expansion, as well as an increase in travel to corporate-sponsored events.

Accounting, legal, and consulting fees

For the three months ended December 31, 2005, accounting, legal, and consulting fees decreased by $0.4 million, or 14.3% to $2.4 million as compared to $2.8 million for the same period in 2004. Accounting, and consulting fees decreased by $0.7 million, which related to the timing of incurring consulting and other fees associated with the testing of our internal controls related to the Sarbanes-Oxley Act of 2002 and non-capitalizable costs associated with our internally-developed software system. This decrease was offset by an increase in legal fees of $0.3 million related to incurring legal fees in connection with the defense of certain lawsuits, settlements, and registration costs in foreign countries.

For the year ended December 31, 2005, accounting, legal, and consulting fees increased by $3.4 million, or 44.2% to $11.1 million as compared to $7.7 million for the same period in 2004. Accounting and consulting fees increased by $1.6 million. The increase related to incurring additional consulting fees associated with the testing of our internal controls due to the Sarbanes-Oxley Act of 2002 and other non-capitalizable costs related to internally developed software. Legal fees increased by $1.8 million due to incurring legal fees associated with the defense of certain lawsuits, settlements, and registration costs in foreign countries.

For the year ended December 31, 2004, accounting, legal, and consulting fees increased by $3.8 million, or 97.4%, to $7.7 million as compared to $3.9 million for the same period in 2003 and was composed of the following:

- a $2.4 million increase in accounting and consulting fees related to implementation and testing of our internal controls readiness related to the Sarbanes-Oxley Act of 2002;
- a $1.0 million increase in consulting fees related to international expansion, marketing, and research and development projects; and
- a $0.4 million increase related to the registration of products in foreign countries and on-going legal matters.

Royalties

For the three months ended December 31, 2005, royalties decreased by $1.5 million related to having fully accrued the long-term post-employment benefit related to Dr. McAnalley's long-term royalty agreement in the third quarter of 2005. For the year ended December 31, 2005, royalties increased by $0.4 million, or 15.4%, to $3.0 million as compared to $2.6 million for the same period in 2004. For the year ended December 31, 2004, royalties increased by $1.8 million, or 225.0%, to $2.6 million as compared to $0.8 million for the same period in 2003. The increase in royalties between years related to the increase in net sales and the increase in the accrual for the long-term post-employment benefit associated with the long-term royalty agreement with Dr. McAnalley.

Credit card processing fees

For the three months ended December 31, 2005, credit card processing fees increased by $0.2 million, or 11.1% to $2.0 million as compared to $1.8 million for the same period in 2004. For the year ended December 31, 2005, credit card processing fees increased by $1.7 million, or 27.0%, to $8.0 million as compared to $6.3 million for the same period in 2004. For the year ended December 31, 2004, credit card processing fees increased by $2.1 million, or 50.0%, to $6.3 million as compared to $4.2 million for the same period in 2003. The increase in credit card processing fees is directly related to the increase in net sales.

Depreciation

For the three months ended December 31, 2005, depreciation expense decreased by $0.1 million, or 9.1%, to $1.0 million as compared to $1.1 million for the same period in 2004. For the year ended December 31, 2005, depreciation expense increased by $0.8 million, or 25.8%, to $3.9 million as compared to $3.1 million for the same period in 2004. The increase in depreciation expense related to an increase in capital assets, some of which were associated with our internally-developed software systems. For the year ended December 31, 2004, depreciation expense decreased by $0.1 million, or 3.1%, to $3.1 million as compared to $3.2 million for the same period in 2003. The decrease in depreciation was due to certain capital assets being fully depreciated.

Other miscellaneous operating expenses

Our remaining miscellaneous operating expenses are primarily variable in nature and correlate to the increase in net sales. Variable costs included in other miscellaneous operating expenses consist of telephone, insurance, postage, and offsite storage fees. For the three months ended December 31, 2005, other miscellaneous operating expenses increased by $1.0 million, or 27.0%, to $4.7 million as compared to $3.7 million for the same period in 2004. For the year ended December 31, 2005, other miscellaneous operating expenses increased by $3.3 million, or 25.2%, to $16.4 million as compared to $13.1 million for the same period in 2004. For the year ended December 31, 2004, other miscellaneous operating expenses increased by $1.7 million, or 14.9%, to $13.1 million as compared to $11.4 million for the same period in 2003.

Severance Expenses Related to Former Executives

As discussed previously, we made certain management changes in 2003, and as a result, recorded severance expenses related to former employees of $2.0 million in 2003. The $2.0 million was composed of accrued severance payments of $1.4 million in the second quarter of 2003 related to the resignation of Mr. Henry, our former Chief Executive Officer, and was payable through 2005. In addition, in the third quarter of 2003, we accrued $0.4 million related to severance payments for Mr. Wayment, our former Senior Vice President of Marketing, and for two other former employees. Finally, in the fourth quarter of 2003, we accrued severance payments of $0.2 million related to the termination of four other employees. The severance expenses for 2003 primarily related to accruing compensation related expenses, health insurance, outplacement fees, and title to two leased vehicles.

Non-Cash Charge Related to an Affiliate Stock Sale

In December 2004, Samuel Caster, our Chairman and Chief Executive Officer, entered into an agreement to sell 180,000 shares of his Mannatech common stock to a former employee at a price of $2.66 per share when the price of our common stock on the open market was $19.59 per common share. As a result of the private sale, we recorded a one-time non-cash charge of $3.0 million related to the indirect benefit of the private sale at below fair market value.

Interest Income

We maintain interest-bearing accounts for certain of our cash equivalents and restricted cash, and record interest related to our investments. For the year ended December 31, 2005, interest income increased by $1.1 million, or 157.1%, to $1.8 million as compared to $0.7 million in 2004. For the year ended December 31, 2004, interest income increased by $0.4 million, or 133.3%, to $0.7 million as compared to $0.3 million in 2003. The increase in interest income was primarily due to an increase in our average balance held in cash, cash equivalents, restricted cash, and investments. Our cash and investments increased as a result of improving overall operating profit and negotiating a higher average yield on investments.

Other Income (Expense), Net

Other income (expense), net consists primarily of recording foreign currency transaction gains and losses related to translating assets, liabilities, revenues, and expenses from our foreign operations to the United States dollar using current and weighted-average currency exchange rates. Net transaction gains and losses are the result of the United States dollar strengthening or weakening against foreign currencies. For the three months ended December 31, 2005, we recorded a net transaction gain from our foreign operations of $0.7 million and recorded a net transaction gain for the three months ended December 31, 2004 of $0.8 million. For the year ended December 31, 2005, we recorded a net transaction gain of $1.9 million from our foreign operations. For the year ended December 31, 2004, we recorded a net transaction gain of $0.3 million

Provision for Income Taxes

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

Country	For the Year Ended December 31, 2004	For the Three Months Ended December 31, 2005	For the Year Ended December 31, 2005
United States	35%	35%	35%
Australia	30%	30%	30%
United Kingdom	30%	30%	30%
Japan	42%	42%	42%
Republic of Korea	27%	25%	25%
Taiwan *(began operations in June 2005)*	—%	25%	25%

Income from our international operations is subject to taxation in the countries in which we operate. Although we may receive foreign 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 tax credits in the United States.

We use Statement of Financial Accounting Standards No. 109, "Accounting for Income Taxes" ("FAS 109") to account for our income taxes. FAS 109 requires a company to record a valuation allowance when it is "more likely than not" that all or a portion of net deferred tax assets will not be realized. 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 all the positive and negative evidence related to realizability to evaluate the need for a valuation allowance in each tax jurisdiction. At December 31, 2005, we recorded a valuation allowance of $0.7 million related to the realizability of our net deferred tax assets recorded in the Republic of Korea and Taiwan. At December 31, 2004, we recorded a valuation allowance of $0.2 million related to the realizability of our net deferred tax asset recorded in the Republic of Korea. We recorded the valuation allowances as we believe that the "more likely than not" criteria for recognition purposes, defined in FAS 109, cannot yet be met.

Provision for income taxes has increased year-over-year as a result of an increase in our profitability and the change in the mix of taxable income between countries. We expect our effective income tax rate to be between 35% and 38% depending on the profitability mix between our domestic and foreign operations. For the three months ended December 31, 2005, our effective tax rate increased to 37.6% from 18.2% for the same period in 2004. For the year ended December 31, 2005, our effective tax rate increased to 37.0% from 27.6% for the same period in 2004. Our 2005 effective income tax rate increased as compared to 2004 because in 2004 we reduced our valuation allowance related to our operations in Japan.

For the year ended December 31, 2004, our effective tax rate decreased to 27.6% from 30.9% for the same period in 2003, which primarily related to recording the elimination of our $2.3 million valuation allowance related to our operations in Japan.

Net Income

For the three months ended December 31, 2005, net income increased by $5.4 million, or 135.0%, to $9.4 million from $4.0 million in the same period in 2004. For the three months ended December 31, 2005, our diluted earnings per share increased by 126.7% to $0.34 per share from $0.15 per share for the same period in 2004. The increases in net income and earnings per share related to an increase in gross profit of $10.0 million, which was partially offset by the increase in other operating expenses, as discussed above.

For the year ended December 31, 2005, net income increased by $9.0 million, or 45.9%, to $28.6 million from $19.6 million in the same period in 2004. For the year ended December 31, 2005, our diluted earnings per share increased by 45.1% to $1.03 per share from $0.71 per share for the same period in 2004. The increases in net income and earnings per share related to an increase in gross profit of $41.8 million, which was partially offset by the increase in other operating expenses, as discussed above.

For the year ended December 31, 2004, net income increased by $10.8 million, or 122.7%, to $19.6 million from $8.8 million in the same period in 2003. For the year ended December 31, 2004, our diluted earnings per share increased by 108.8% to $0.71 per share from $0.34 per share for the same period in 2003. The increases in net income and earnings per share related to an increase in gross profit of $36.9 million, which was partially offset by the increase in other operating expenses, as discussed above.

On March 13, 2006, we declared a dividend of $0.08 per common share for shareholders holding our common stock on the close of March 31, 2006, and payable on April 17, 2006. We periodically re-evaluate our dividend policy based on our ongoing consolidated results of operations, financial condition, cash requirements, and other relevant factors. We expect to continue to pay a quarterly dividend of $0.08 per common share in 2006. Historically since January 2004, we declared and paid the following dividends:

Date dividends declared	Date dividends paid	Total amount of dividends	Dividend paid per common share
January 2004	March 2004	$2.6 million	$0.10
August 2004	October 2004	$2.6 million	$0.10
November 2004	January 2005	$1.9 million	$0.07
March 2005	April 2005	$1.9 million	$0.07
June 2005	July 2005	$1.9 million	$0.07
September 2005	October 2005	$1.9 million	$0.07
November 2005	January 2006	$2.1 million	$0.08

Seasonality and Selected Quarterly Statements of Operations

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

- the timing of the introduction of new products and incentives;
- our ability to attract and retain associates and members;
- the general overall economic outlook;
- government regulations;
- the outcome of certain lawsuits;
- the perception and acceptance of network-marketing; and
- the consumer perception of our products and overall operations.

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

The following table sets forth our unaudited consolidated quarterly Statement of Operations data for the periods indicated. In our opinion, this information has been prepared on the same basis as our audited consolidated financial statements set forth in this report and includes all adjustments that are considered necessary to present fairly this information in accordance with generally accepted accounting principles. The reader should read this information in conjunction with "Item 15. - Consolidated Financial Statements and related Notes" - beginning on page F-1 of this report.

	Mar. 31, 2004	June 30, 2004	Sept. 30, 2004(1)	Dec. 31, 2004(2)	Mar. 31, 2005(3)	June 30, 2005(4)	Sept. 30, 2005(5)	Dec. 31, 2005
	(in millions, except per share information)							
Net sales	$ 58.4	$ 74.3	$ 77.6	$ 84.2	$ 85.1	$102.6	$100.2	$101.5
Gross profit	$ 23.9	$ 28.9	$ 30.9	$ 33.7	$ 34.7	$ 39.5	$ 41.3	$ 43.7
Income before income taxes	$ 4.6	$ 8.4	$ 9.0	$ 5.0	$ 7.9	$ 9.5	$ 13.0	$ 15.0
Income taxes	$ (1.5)	$ (2.8)	$ (2.2)	$ (0.9)	$ (3.2)	$ (3.7)	$ (4.2)	$ (5.7)
Net income	$ 3.1	$ 5.6	$ 6.8	$ 4.1	$ 4.7	$ 5.8	$ 8.7	$ 9.4
Earnings per share: (6)								
Basic	$ 0.12	$ 0.21	$ 0.26	$ 0.15	$ 0.17	$ 0.22	$ 0.32	$ 0.35
Diluted	$ 0.11	$ 0.20	$ 0.25	$ 0.15	$ 0.17	$ 0.21	$ 0.32	$ 0.34

(1) We began operations in the Republic of Korea in September 2004 and also introduced two new products, MannaBears™ and Wellness Water Bottle. In addition, we released $2.3 million valuation allowance related to our deferred tax asset for our Japan operations.
(2) We recorded a one-time non-cash charge of $3.0 million related to the private sale of stock by Mr. Caster, our Chairman and Chief Executive Officer.
(3) We introduced our new product Advanced Ambrotose™ in March 2005.
(4) We began operations in Taiwan in June 2005. In addition a class action lawsuit was filed in the United States that we believe is without merit and we intend to vigorously defend.
(5) We began selling certain products in Denmark in August 2005 and hired a new President of International Operations and Chief Science Officer.
(6) Computed on the basis described in Note 1 in the Notes to our Consolidated Financial Statements contained herein this report.

Liquidity and Capital Resources

Our principal use of cash is to pay for operating expenses, including commissions and incentives, capital expenditures, inventory purchases, funding international expansion, and payment of a quarterly cash dividend. We generally fund our business objectives, working capital, and expansion of our operations through net cash flows from operations rather than incurring long-term debt. We plan to continue to fund our business objectives, working capital, and expansion of operations primarily through our net cash flows from operations. We currently have approximately $56.2 million in cash equivalents and $17.3 million in investments, which we can use along with our normal cash flows from operations to fund any unanticipated shortfalls in our future cash flows.

Cash and Cash Equivalents

Our cash and cash equivalents increased 27.1%, or $12.0 million, to $56.2 million at December 31, 2005 from $44.2 million at December 31, 2004. The increase in our cash and cash equivalents was directly attributable to the increase in our net sales and continuing the efforts to control our cost of sales and operating expenses. In addition to our cash and cash equivalents, we also maintained $17.3 in investments at December 31, 2005, compared to $17.1 million at December 31, 2004, which can be easily liquidated, if necessary, to help fund operations.

Working Capital

Our working capital increased by $10.5 million, or 38.0%, to $38.1 million at December 31, 2005 from $27.6 million at December 31, 2004.

Our increase in working capital in 2005 was composed of an increase in current assets of $18.1 million, partially offset by an increase in current liabilities of $7.6 million. The increase in working capital at December 31, 2005 primarily related to the following:

- increasing cash on hand, restricted cash, and short-term investments by $16.4 million related to an increase in income from operations;
- increasing inventories on hand by $6.7 million related to expected future sales growth;
- accruing an additional $5.9 million in operating expenses and commissions related to the increase in net sales;
- applying the income tax receivable of $4.2 million to 2005 income tax payments due;
- deferring an additional $1.5 million in revenues related to the timing of customers receiving their shipments;
- decreasing current deferred tax assets by $1.2 million related to the timing of recognizing differences between tax and book assets; and
- increasing accounts receivable by $0.2 million related to international operations and payments from MannaRelief.
- Our net cash flows consist of the following:

	For the Year Ended December 31,		
Provided by (used in):	**2003**	**2004**	**2005**
Operating activities	$20.2 million	$29.9 million	$43.0 million
Investing activities	($12.5 million)	($12.5 million)	($15.6 million)
Financing activities	$2.8 million	($2.0 million)	($13.8 million)

Operating Activities

For the year ended December 31, 2005, our net operating activities provided $43.0 million in cash compared to providing cash of $29.9 million for the year ended December 31, 2004 and $20.2 million for the year ended December 31, 2003. In 2005, net earnings adjusted for non-cash activities provided cash of $36.8 million. In 2004, net earnings adjusted for non-cash activities provided cash of $30.4 million and in 2003, net earnings adjusted for non-cash activities provided cash of $13.0 million.

Our working capital accounts include cash, investments, accounts receivable, inventories, prepaid expenses and other current assets, payables, deferred revenues, accrued commissions and incentives, and accrued expenses, all of which contributed to providing $6.4 million in net operating cash flow in 2005, as compared to using $0.4 million in net operating cash flow in 2004 and contributing positive net operating cash flow of $6.8 million in 2003.

Operating activities also included accruing severance payments of $2.0 million to former executives in 2003, partially offset by using cash to pay the prior year accrued severance payments of $0.4 million. This was partially offset by accruing an additional $0.2 million in 2005, paying $0.9 million in 2004, and paying $1.6 million in 2003. We expect that our net operating cash flows in 2006 will continue to be sufficient to fund our current operations, capital requirements, plans for international expansion and future quarterly cash dividends.

Investing Activities

Our net investing activities used cash of $15.6 million in 2005 and used cash of $12.5 million in both 2004 and 2003. In 2006, we used cash of $0.3 million to purchase investments and restricted cash of $2.3 million related to our 2005 travel incentive. In 2004, we used cash of $7.1 million to purchase additional investments and released $2.1 million of restricted cash to our operations, which was the result of the expiration of an unused line-of-credit. This use of cash was partially offset by restricting cash of $0.3 million as collateral related to our 2004 travel incentive. In 2003, we used cash of $9.9 million to purchase higher yielding investments and used cash of $2.1 million to fund collateral for our unused line-of-credit. In 2003, we were able to release restricted cash into operations of $0.3 million related to a master operating lease. In 2004 and 2003, we collected cash of $0.1 million and $0.2 million, respectively, related to collection of notes receivable due from affiliates.

We also used cash to purchase property, plant and equipment. Capital asset purchases consisted of computer software, computer hardware, leasehold improvements, and office furniture, which totaled $13.1million in 2005, $7.2 million in 2004, and $0.9 million in 2003.

Beginning in 2003, we planned a multi-year project to upgrade and fully integrate our back-office systems including our financial system and our operational system in all countries in which we operate. In 2004, we substantially completed the development of certain internally-developed software projects including our Republic of Korea computer application system, our Japanese e-commerce system, and the first phase of implementing our internally developed software system for a total cost of $4.2 million, of which $3.1 million related to the our internally developed software system. In 2005, we began configuring Phase II of our internally developed software system and anticipate completing it in the third quarter of 2006. An anticipated recap of the costs associated with our internally developed software system is as follows:

	Capitalized costs	Non-capitalized costs	Total estimated costs
2004	$ 3.1 million	$ 0.5 million	$ 3.6 million
2005	$ 8.4 million	$ 2.3 million	$ 10.7 million
Anticipated costs to be incurred in 2006	$14.5 million	$ 2.2 million	$ 16.7 million
Total costs of project	$26.0 million	$ 5.0 million	$ 31.0 million

Financing Activities

In 2005, our net financing activities used cash of $13.8 million, which consisted of an outflow of cash totaling $7.6 million for payments of quarterly cash dividends and $7.0 million to repurchase 0.6 million shares of our common stock in the open market. This use of cash was partially offset by receiving $0.8 million in cash proceeds from option holders exercising their stock options. In 2004, our net financing activities used cash of $2.0 million, which consisted of an outflow of cash totaling $5.3 million for payment of quarterly cash dividends, partially offset by receiving $3.3 million in cash proceeds from option holders exercising their stock options. In 2003, our net financing activities provided cash of $2.8 million related to receiving $2.9 million in cash proceeds from option holders exercising their stock options, which was partially offset by using cash to repay notes payable and capital leases of $0.1 million.

General Liquidity and Cash Flows

We continue to generate positive cash flows from operations. We also believe our existing liquidity and cash flows from operations will be adequate to fund normal business operations expected in the future, estimated payments of future cash dividends, plans for international expansion and new back-office systems for the next 12 to 24 months. We believe our existing liquidity and cash flows will be adequate for our future requirements as most of our operating expenses are variable in nature. However, if our existing capital resources or cash flows become insufficient to meet our current business plans, projections, and existing capital requirements, we would be required to raise additional funds, which may not be available on favorable terms, if at all.

As of December 31, 2005, our future commitments and obligations are as follows:

- funding various operating leases for building and equipment rental of $12.3 million through 2017;
- funding a 5-year supply agreement to exclusively purchase raw materials of $7.0 million through 2007;
- funding an estimated $4.0 million of the long-term post-employment royalty benefit related to the Supplemental Royalty Agreement related to future royalties payable to Dr. McAnalley;
- funding approximately $3.8 million for our 2006 annual travel incentives;
- funding a 5-year supply agreement to purchase raw materials of $3.2 million through 2010;
- funding $2.7 million for non-cancellable employment agreements with four executive officers through December 2007;
- funding a cash dividend of $2.1 million payable in April 2006;
- funding a 5-year supply agreement to purchase raw materials of $1.3 million through 2009;
- funding $0.9 million for a one-year purchase commitment with two manufacturing vendors to purchase promotional materials and a raw material in 2006;
- funding a cash donation of $0.6 million in 2006 to MannaRelief, a non-profit 501(c)(3) charity;
- funding $0.5 million related to a one-year consulting agreement with Dr. McAnalley; and
- funding $0.3 million for a clinical study with St. George’s Hospital through 2006.

In addition to our current obligations related to paying current liabilities related to our operations, the approximate future maturities of our existing commitments and obligations are as follows:

	For the Year Ended December 31, (in thousands)						
	2006	2007	2008	2009	2010	Thereafter	Total
Minimum rental commitment related to noncancelable operating leases	$ 2,855	$1,719	$1,199	$ 922	$ 750	$ 4,875	$12,320
Funding a 5-year supply agreement to exclusively purchase raw materials	3,520	3,520	—	—	—	—	7,040
Funding the royalty payment to Dr. McAnalley	972	444	422	401	381	1,342	3,962
Funding 2006 annual travel incentives	3,800	—	—	—	—	—	3,800
Funding a 5-year supply agreement to purchase raw materials	591	644	644	644	698	—	3,221
Funding non-cancelable employment agreements with certain executives	1,575	1,100	—	—	—	—	2,675
Funding a cash dividend	2,141	—	—	—	—	—	2,141
Funding a 5-year supply agreement to purchase raw materials	400	400	400	100	—	—	1,300
Funding a one year purchase agreement with two manufacturing vendors	935	—	—	—	—	—	935
Funding cash donations to MannaRelief	600	—	—	—	—	—	600
Funding a one year consulting agreement with Dr. McAnalley	533	—	—	—	—	—	533
Funding a clinical study with St. George's Hospital	250	—	—	—	—	—	250
Totals	**$18,172**	**$7,827**	**$2,665**	**$2,067**	**$1,829**	**$ 6,217**	**$38,777**

We have no present commitments or agreements with respect to acquisitions or purchases of any manufacturing facilities; however, management is continuing to explore the possibility of the benefits of purchasing a manufacturing facility to help control costs of our raw materials and help ensure quality control standards. We have always maintained purchase commitments with certain of our raw material suppliers to purchase minimum quantities and help ensure exclusivity of our raw materials and proprietorship of our products. Currently, we have four supply agreements that require minimum purchase commitments. We expect to exceed our minimum monthly-required purchase commitments. We also maintain other supply agreements and manufacturing agreements to protect our products, regulate product costs, and help ensure quality control standards. These agreements do not require us to purchase any set minimums.

In 2005, we substantially completed the first phase of our fully integrated internally developed software system and designed the second phase of our fully integrated global internally developed software system. We expect to incur costs in 2006 of approximately $16.7 million. In addition, in 2006, we plan to purchase other capital assets valued between $2.0 million and $4.0 million.

Off–Balance Sheet Arrangements

We do not utilize off-balance sheet financing arrangements; however, we finance the use of certain facilities, office and computer equipment, and automobiles under various non-cancellable operating lease agreements. As of December 31, 2005, the total future minimum lease payments under various operating leases totaled $12.3 million and are due in payments through 2017 as summarized in the table above.

Recent Financial Accounting Standards Board Statements

FAS 123R. In December 2004, FASB issued FAS 123R to replace FAS 123 and supersedes APB 25. FAS 123R requires a company to recognize compensation cost related to share-based payment transactions in our financial statements. The compensation costs should be measured based on the estimated fair value of the equity or liability instruments issued. The provisions of APB 25 and FAS 123 remain in effect until the provisions of FAS 123R are adopted. We adopted FAS 123R on January 1, 2006 and estimate recording expense related to adopting FAS 123R of approximately $0.3 million in 2006, $0.2 million in 2007, and $0.1 million in 2008.

FAS 151. In November 2004, FASB issued Statement of Financial Accounting Standards No. 151, "Inventory Costs, an amendment of ARB No. 43, Chapter 4", ("FAS 151"). FAS 151 amends the guidance for inventory pricing to clarify the accounting for abnormal amounts of idle facility expense, freight, handling costs, and wasted material (spoilage) and requires us to recognize these costs as current period charges. The provisions of FAS 151 are effective for inventory costs incurred during fiscal years beginning after June 15, 2005. We do not expect the adoption of FAS 151 to have a material impact on our consolidated financial position, results of operations, or cash flows.

FAS 153. In December 2004, FASB issued Statement of Financial Accounting Standards No. 153, "Exchanges of Nonmonetary Assets an amendment of APB Opinion No. 29", ("FAS 153"). FAS 153 amends the guidance in APB Opinion No. 29 to eliminate the exception for nonmonetary exchanges of similar productive assets and replaces it with a general exception for exchanges of nonmonetary assets that do not have commercial substance. The provisions of FAS 153 are effective during fiscal years beginning after June 15, 2005. We believe the adoption of FAS 153 will not have a significant effect on our consolidated financial statements.

FAS 154. In May 2005, FASB issued Statement of Financial Accounting Standards No. 154, "Accounting Changes and Error Corrections—a replacement of APB Opinion No. 20 and FASB Statement No. 3", ("FAS 154"). FAS 154 requires that all voluntary changes in accounting principles and changes required by a new accounting pronouncement that do not include specific transition provisions be applied retrospectively to prior periods' financial statements, unless it is impracticable to do so. FAS 154 is effective for accounting changes and corrections of errors made in fiscal years beginning after December 15, 2005. We do not believe that the adoption of FAS 154 will have a significant effect on our consolidated financial statements.

FAS 155. In February 2006, FASB issued Statement of Financial Accounting Standards No. 155, "Accounting for Certain Hybrid Financial Instruments an amendment of FAS 133 and FAS 140", ("FAS 155"). FAS 155 amends the guidance in FAS 133 and FAS 140 to further define the proper accounting treatment for certain financial instruments. The provisions of FAS 155 are effective for all financial instruments acquired or issued after the beginning of an entity's first fiscal year that begins after September 15, 2006. We do not expect adopting FAS 155 will have a material impact on our consolidated financial position, results of operations, or cash flows.

FIN 47. In March 2005, the FASB issued FASB Interpretation No 47, "Accounting for Contingent Asset Retirement Obligations, an interpretation of Statement 143, Asset Retirement Obligations", (FIN 47"). FAS 143, as amended by FIN 47, applies to all entities that have legal obligations to perform asset retirement activities, including those in which the timing and/or method of settlement are conditional on a future event that may or may not be within the control of the entity. The FASB concluded that an obligation to perform an asset retirement activity is unconditional even though uncertainty exists about the timing and/or method of settlement. Uncertainty about the timing and/or method of settlement should be factored into the measurement of the liability if sufficient information is available to reasonably estimate the fair value of the asset retirement obligation. Accordingly, we should recognize a liability for the fair value of an asset retirement obligation when incurred if the fair value of the liability can be reasonably estimated, even if conditional on a future event. FIN 47 is effective for fiscal years ending after December 15, 2005. We adopted FIN 47 in 2005, and it did not have a significant effect on our consolidated financial statements.

EITF 04-13. In September 2005, the FASB Emerging Issues Task Force ("EITF") released Issue 04-13, "Accounting for Purchases and Sales of Inventory with the Same Counterparty", ("EITF 04-13"). EITF 04-13 provides guidance on how to account for two or more inventory purchase and sales transactions with the same counterparty that are entered into in contemplation of one another and requires that those transactions be combined under certain circumstances for purposes of applying Opinion 29, Accounting for Nonmonetary Transactions. EITF 04-13 is effective for new arrangements entered into, and modifications or renewals of existing arrangements, beginning in the first interim or annual reporting period beginning after March 15, 2006. We do not believe that the adoption of EITF 04-13 will have a significant effect on our consolidated financial statements.

FSP FAS 115-1 AND FAS 124-1. In November 2005, the FASB issued FASB Staff Position (FSP) FAS 115-1 and FAS 124-1, "The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments", ("FSP FAS 115-1 and FAS 124-1"). This FSP provides guidance on determining if an investment is considered to be impaired, if the impairment is other-than-temporary and the measurement of an impairment loss. It also includes accounting considerations subsequent to the recognition of an other-than-temporary impairment and requires certain disclosures about unrealized losses that have not been recognized as other-than-temporary impairments. The guidance in this FSP amends FAS 115, "Accounting for Certain Investments in Debt and Equity Securities," and is effective for reporting periods beginning after December 15, 2005." We are currently accounting for investments in accordance with this guidance, and therefore, the adoption of this FSP did not have a material impact on our consolidated results of operations or our consolidated financial position.

Item 7A. Quantitative and Qualitative Disclosures about Market Risk

We do not engage in trading market risk sensitive instruments and do not purchase investments as hedges or for purposes “other than trading” that are likely to expose us to certain types of market risk, including interest rate, commodity price, or equity price risk. Although we have some 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 swaps.

We are also exposed to certain other market risks, including changes in currency exchange rates as measured against the United States dollar. The value of the United States dollar may affect our consolidated financial results. Changes in exchange rates could positively or negatively affect our consolidated financial results, as expressed in United States dollars. When the United States dollar strengthens against currencies in which our products are sold or weakens against currencies in which we may incur costs, and our consolidated net sales and/or related costs and expenses could be adversely affected.

We believe inflation has not had a material impact on our operations or profitability. We expanded into Canada in 1996, into Australia in 1998, into the United Kingdom in 1999, into Japan in 2000, into New Zealand in 2002, into the Republic of Korea in 2004, and into Taiwan and Denmark in 2005. In addition, we have filed for registration of our products in Germany. Our Canada operation is serviced through the United States. In addition, our New Zealand operation is serviced through our Australian operation and our United Kingdom operation services shipments to Denmark. We also plan on servicing sales in Germany through our United Kingdom operation. We currently translate our revenues and expenses in foreign markets using historical and weighted-average currency exchange rates.

We maintain certain policies, procedures, and internal processes we believe help monitor any significant market risks. Currently, we do not use any financial instruments to manage our exposure to such risks. We assess the sensitivity of our earnings and cash flows to variability in currency exchange rates by applying an appropriate range of potential rate fluctuations to our assets, obligations, and projected transactions denominated in foreign currencies. 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 our consolidated financial condition, results of operations, or cash flows. However, to combat such risk, we closely monitor currency fluctuations for exposure to such market risk. The foreign currencies in which we currently have exposure to foreign currency exchange rate risk include the currencies of Canada, Australia, the United Kingdom, Japan, New Zealand, the Republic of Korea, Taiwan, Denmark, and Germany. The current (spot) rate, weighted average currency exchange rates, as well as the low and high currency exchange rates as compared to the United States dollar, for each of these countries, as of and for the year ended December 31, 2005 are as follows:

Country/Currency	Low	High	Weighted Average	Spot Rate
Australia/Dollar	$0.72800	$0.79790	$0.76280	$0.73010
Canada/Dollar	$0.78780	$0.87110	$0.82622	$0.85800
Denmark/Krone	$0.15660	$0.18250	$0.16714	$0.15850
Germany/Euro	$1.16740	$1.35690	$1.24539	$1.18440
Japan/Yen	$0.00826	$0.00981	$0.00910	$0.00849
New Zealand/Dollar	$0.67270	$0.74490	$0.70487	$0.68130
Republic of Korea/Won	$0.00094	$0.00101	$0.00098	$0.00101
Taiwan/Dollar	$0.02967	$0.03254	$0.03117	$0.03044
United Kingdom/British Pound	$1.71300	$1.92860	$1.82069	$1.72080

Item 8. Financial Statements and Supplementary Data

Our Consolidated Financial Statements and Supplementary Data required by this Item 8 are set forth in Item 15, beginning on page F-1 of this report.

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

We retained Grant Thornton LLP as our independent registered public accounting firm effective May 9, 2005. Grant Thornton LLP replaced PricewaterhouseCoopers LLP, which we had retained to audit our consolidated financial statements for periods prior to May 9, 2005. On May 3, 2005 and May 13, 2005, we filed current reports on Form 8-K and on Form 8-K/A, respectively, to report this change. There were no disagreements with PricewaterhouseCoopers LLP on any accounting, financial statement disclosure, or auditing matters.

Item 9A. Controls and Procedures

Conclusion Regarding the Effectiveness of Disclosure Controls and Procedures

Our management, with the participation of our Chairman of the Board and 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 the Company's disclosure controls and procedures are effective to ensure that information required to be disclosed by us in the reports filed or submitted by us under the Securities Exchange Act of 1934, as amended (as defined in Exchange Act Rules 13a-15(e) and 15(d) – 15(e)), is recorded, processed, summarized, and reported within the time periods specified in the Securities and Exchange Commission's rules and forms and include controls and procedures designed to ensure that information required to be disclosed by the Company 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 year ended December 31, 2005, there were no changes in our internal control over financial reporting that materially affected, or are reasonably likely to materially affect, our internal control over our financial reporting other than in the first and second quarters of 2005 we substantially completed our implementation and conversion of our old financial systems in all of our operations to a new integrated financial system. The implementation included converting existing balances from one automated financial system, called Sage/Tetra CS/3 system, to another more sophisticated automated financial system, called Oracle/JD Edwards Enterprise One. This change was part of a two-phase global re-architecture project, known as our global internally-developed software system. This system fully integrated our financial systems in each country and expanded the functionality of our financial systems. Phase II is projected to be completed in 2006 and will further integrate our global operational systems with our new financial system.

Management's Report on Internal Control over Financial Reporting

The Company's management, including its Chief Executive Officer and Chief Financial Officer is responsible for establishing and maintaining adequate internal control over financial reporting, as defined in Rule 13a-15(f) under the Securities Exchange Act of 1934, as amended. As of December 31, 2005, under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, we evaluated the effectiveness of our internal control over financial reporting using criteria established in *Internal Control – Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO"). Based on our evaluation, we concluded that we maintained effective internal control over our financial reporting as of December 31, 2005, based on criteria established in the *Internal Control - Integrated Framework* issued by the COSO.

Our management's assessment of the effectiveness of our internal control over our financial reporting as of December 31, 2005 has been audited by Grant Thornton LLP, an independent registered public accounting firm, as stated in their report.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Board of Directors and
Shareholders of Mannatech, Incorporated and Subsidiaries

We have audited management's assessment, included in the accompanying Management's Report on Internal Control over Financial Reporting, that Mannatech, Incorporated (a Texas Corporation) maintained effective internal control over financial reporting as of December 31, 2005, based on criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Mannatech, Incorporated and Subsidiaries' management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express an opinion on management's assessment and an opinion on the effectiveness of the company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, evaluating management's assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinions.

A company's internal control over financial reporting is a process designed 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. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, management's assessment that Mannatech, Incorporated and Subsidiaries maintained effective internal control over financial reporting as of December 31, 2005, is fairly stated, in all material respects, based on criteria established in *Internal Control-Integrated Framework* issued by COSO. Also in our opinion, Mannatech, Incorporated and Subsidiaries maintained, in all material respects, effective internal control over financial reporting as of December 31, 2005, based on criteria established in *Internal Control-Integrated Framework* issued by COSO.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheet of Mannatech, Incorporated as of December 31, 2005 and the related consolidated statements of operations, changes in shareholders' equity and cash flows for the year ended December 31, 2005 and our report dated March 16, 2006 expressed an unqualified opinion on those financial statements.

/s/ ***GRANT THORNTON LLP***
GRANT THORNTON LLP
Dallas, Texas
March 16, 2006

Item 9B. Other Information

None.

PART III

The information required by Items 10, 11, 12, 13, and 14 of Part III is incorporated by reference to our definitive proxy statement to be filed with the United States Securities and Exchange Commission no later than April 28, 2006.

[Table of Contents](#)

[Index to Financial Statements](#)

PART IV

Item 15. Exhibits and Financial Statement Schedules

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

1. Consolidated Financial Statements

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

2. Financial Statement Schedules

Financial statement schedules have been omitted because the information required therein is included in Mannatech's Consolidated Financial Statements and related Notes set forth in Item 15 of this report.

Table of Contents

Index to Financial Statements

3. ***Exhibits required by Item 601 of Regulation S-K***

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	Fourth Amended and Restated Bylaws of Mannatech, dated August 8, 2001.	8-K	000-24657	99.1	August 22, 2001
4.1	Specimen Certificate representing Mannatech's common stock, par value $0.0001 per share.	S-1	333-63133	4.1	October 28, 1998
10.1	Amended and Restated 1997 Stock Option Plan, dated August 7, 2004.	10-K	000-24657	10.1	March 15, 2004
10.2	Amended and Restated 1998 Incentive Stock Option Plan, dated August 7, 2004.	10-K	000-24657	10.1	March 15, 2004
10.3	Amended and Restated 2000 Option Plan, dated August 7, 2004.	10-K	000-24657	10.1	March 15, 2004
10.4	Form of Indemnification Agreement between Mannatech and each member of its Board of Directors of Mannatech Korea Ltd., dated March 3, 2004.	10-Q	000-24657	10.2	August 9, 2004
10.5	Form of Indemnification Agreement between Mannatech, and its Board of Directors, dated September 10, 1998.	S-1	333-63133	10.8	September 10, 1998
10.6	Letter of Understanding Regarding Development of Proprietary information for Mannatech effective as of August 1, 1997, as amended between Dr. Bill H. McAnalley and Mannatech, Incorporated.	S-1	333-63133	10.12	September 10, 1998
10.7	Commercial Lease Agreement between MEPC Quorum Properties II Inc. and Mannatech, dated November 7, 1996, as amended by the First Amendment thereto dated May 29, 1997 and the Second Amendment thereto dated November 13, 1997.	S-1	333-63133	10.13	September 10, 1998
10.8	Third Amendment to the Commercial Lease Agreement between Mannatech and Texas Dugan Limited Partnership, dated September 22, 2005.	10-Q	000-24657	10.2	November 9, 2005
10.9	Commercial Lease Agreement dated May 29, 1997 between MEPC Quorum Properties II Inc. and Mannatech, as amended by the First Amendment thereto dated November 6, 1997.	S-1	333-63133	10.14	September 10, 1998
10.10	Second Amendment to the Commercial Lease Agreement between Mannatech and Texas Dugan Limited Partnership, dated September 22, 2005.	10-Q	000-24657	10.1	November 9, 2005
10.11	Assignment of Patent Rights, dated October 30, 1997 between Mannatech and Dr. Bill H. McAnalley, Mr. H. Reginald McDaniel, Mr. D. Eric Moore, Ms. Eileen P. Vennum, Dr. William C. Fioretti and Mannatech, Incorporated.	S-1	333-63133	10.15	September 10, 1998
10.12	Supply Agreement effective as of December 1, 2003 by and between Mannatech and Caraloe, Inc. (Portions of this exhibit were omitted pursuant to a confidential treatment request submitted pursuant to Rule 24b-2 of the Exchange Act.)	10-K/A	000-24657	10.1	December 17, 2004
10.13	Supply Agreement by and among Mannatech, Caraloe, Inc., and Natural Alternatives International, Inc., dated December 17, 2004.	8-K	000-24657	99.1	December 22, 2004
10.14	Trademark License Agreement entered into December 17, 2004 to be effective as of December 1, 2004 by and between Mannatech and Caraloe, Inc. (Portions of this exhibit were omitted pursuant to a confidential treatment request submitted pursuant to Rule 24b-2 of the Exchange Act.)	8-K	000-24657	99.2	December 22, 2004
10.15	Supply Agreement between Mannatech and its supplier, dated March 29, 2004. (Portions of this exhibit were omitted pursuant to a confidential treatment request submitted pursuant to Rule 24b-2 of the Exchange Act.)	10-Q/A	000-24657	99.1	March 29, 2005

Table of Contents

Index to Financial Statements

Exhibit Number	Exhibit Description	Incorporated by Reference Form	File No.	Exhibit (s)	Filing Date
10.16	Purchase Agreement between Mannatech and Marinova PTY Limited, dated August 11, 2004. (Portions of this exhibit were omitted pursuant to a confidential treatment request submitted pursuant to Rule 24b-2 of the Exchange Act.)	10-Q	000-24657	10.1	November 9, 2004
10.17	Purchase Agreement between Mannatech and Success at Home, dated September 27, 2005.	10-Q	000-24657	10.4	November 9, 2005
10.18*	Purchase Agreement between Mannatech and Larex, Inc., dated January 1, 2006. (Portions of this exhibit were omitted pursuant to a confidential treatment request submitted pursuant to Rule 24b-2 of the Exchange Act.)	*	*	*	*
10.19*	Purchase Agreement between Mannatech and Wellness Enterprises, LLC, dated February 1, 2006. (Portions of this exhibit were omitted pursuant to a confidential treatment request submitted pursuant to Rule 24b-2 of the Exchange Act.)	*	*	*	*
10.20	Purchase Agreement between Mannatech and Coradji PTY. Limited, dated March 29, 2004. (Portions of this exhibit were omitted pursuant to a confidential treatment request submitted pursuant to Rule 24b-2 of the Exchange Act.)	10-Q	000-24657	10.1	May 10, 2004
10.21	Employment Agreement between Mannatech and Dr. Bill McAnalley, dated August 7, 2003.	10-Q	000-24657	10.3	August 14, 2003
10.22	Royalty Agreement between Mannatech and Dr. Bill McAnalley, dated August 7, 2003.	10-Q	000-24657	10.4	August 14, 2003
10.23	Release Agreement between Mannatech and Dr. Bill McAnalley, dated August 9, 2005.	8-K	000-24657	99.1	August 10, 2005
10.24	Consulting Agreement between Mannatech and Dr. Bill McAnalley, dated August 9, 2005.	8-K	000-24657	99.2	August 10, 2005
10.25	Employment Agreement between Mannatech and Mr. Terry L. Persinger, dated November 1, 1999.	10-K	000-24657	10.7	March 30, 2000
10.26	First Amendment to the Employment Agreement between Mannatech and Mr. Terry L. Persinger, dated January 1, 2002.	10-K	000-24657	10.19	March 30, 2002
10.27	Second Amendment to the Employment Agreement between Mannatech and Mr. Terry L. Persinger, dated June 7, 2004.	10-Q	000-24657	10.1	August 9, 2004
10.28*	Third Amendment to the Employment Agreement between Mannatech and Mr. Terry L. Persinger, dated January 1, 2006.	*	*	*	*
10.29	Employment Agreement between Mannatech and Dr. Robert Sinnott, dated August 31, 2005.	10-Q	000-24657	10.3	November 9, 2005
10.30	Employment Agreement between Mannatech and Mr. John Price, dated November 22, 2005.	8-K	000-24657	99.1	November 22, 2005
10.31	Employment Agreement between Mannatech and Mr. Samuel L. Caster, dated October 31, 2002.	10-Q	000-24657	10.1	March 14, 2004
10.32*	Employment Agreement between Mannatech and Mr. Samuel L. Caster, dated January 23, 2006.	*	*	*	*
10.33*	Employment Agreement between Mannatech and Ms. Bettina Simon, dated November 11, 2005.	*	*	*	*
10.34	Separation Agreement between Mannatech and Mr. Robert M. Henry, dated April 15, 2003.	8-K	000-24657	99.1	April 17, 2003
10.35	Renewal and Extension Promissory Note, dated February 17, 1999 in the amount of $199,896.10 made by Mr. Samuel L. Caster.	10-K	000-24657	10.26	March 31, 1999
10.36	Non-Compete and Confidentiality Agreement between Mannatech and Dr. H. Reginald McDaniel, dated July 2 2002.	10-Q	000-24657	10.1	August 14, 2002
10.37	General Release Agreement between Mannatech and Dr. H. Reginald McDaniel, dated July 2, 2002.	10-Q	000-24657	10.2	August 14, 2002
10.38	First Amendment to the Non-Compete and Confidentiality Agreement between Mannatech and Dr. H. Reginald McDaniel, dated March 3, 2004.	10-Q	000-24657	10.3	August 9, 2004

Table of Contents

Index to Financial Statements

Exhibit Number	Exhibit Description	Incorporated by Reference Form	File No.	Exhibit (s)	Filing Date
10.39	Royalty Agreement between Mannatech and Jett, dated September 10, 2001.	10-Q	000-24657	10.4	November 14, 2001
10.40	Lock-up Agreement between Mannatech and J. Stanley Fredrick, dated November 6, 2003.	10-K	000-24657	10.36	March 15, 2004
10.41	Consulting Services Agreement between Mannatech and Fredrick Media LLC, dated November 16, 2005.	8-K	000-24657	99.1	November 21, 2005
14.0	Code of Ethics	10K	000-24657	14.0	March 31, 2005
16.1	Letter from PricewaterhouseCoopers LLP	8-K/A	000-24657	16.1	May 13, 2005
21*	List of Subsidiaries	*	*	*	*
23.1*	Consent of Grant Thornton LLP	*	*	*	*
23.2*	Consent of PricewaterhouseCoopers LLP	*	*	*	*
24*	Power of Attorney, which is included on the signature page of this annual report on Form 10-K.	*	*	*	*
31.1*	Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, of the Chief Executive Officer of Mannatech.	*	*	*	*
31.2*	Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, of the Chief Financial Officer of Mannatech.	*	*	*	*
32.1*	Certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, of the Chief Executive Officer of Mannatech.	*	*	*	*
32.2*	Certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, of the Chief Financial Officer of Mannatech.	*	*	*	*

* Filed herewith.

SIGNATURES

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

Dated: March 16, 2006

Mannatech, Incorporated

By: **/s/ Samuel L. Caster**
Samuel L. Caster
Chief Executive Officer and Chairman of the Board

POWER OF ATTORNEY

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

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed by the following persons on behalf of the registrant and in the capacities indicated on March 16, 2006.

Signature	Title
/s/ Samuel L. Caster Samuel L. Caster	Chief Executive Officer and Chairman of the Board (principal executive officer)
/s/ Terry L. Persinger Terry L. Persinger	President, Chief Operating Officer, and Director
/s/ Stephen D. Fenstermacher Stephen D. Fenstermacher	Senior Vice President and Chief Financial Officer (principal accounting officer)
/s/ J. Stanley Fredrick J. Stanley Fredrick	Lead Director
/s/ Patricia A. Wier Patricia A. Wier	Director
/s/ Alan D. Kennedy Alan D. Kennedy	Director
/s/ Gerald E. Gilbert Gerald E. Gilbert	Director
/s/ John Stewart Axford, BSc, MD, FRCP John Stewart Axford, BSc, MD, FRCP	Director
/s/ Marlin Ray Robbins Marlin Ray Robbins	Director
/s/ Larry A. Jobe Larry A. Jobe	Director

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Board of Directors and
Shareholders of Mannatech, Incorporated and Subsidiaries

We have audited the accompanying consolidated balance sheet of Mannatech, Incorporated (a Texas corporation) and subsidiaries as of December 31, 2005, and the related consolidated statements of operations, changes in shareholders' equity and cash flows for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Mannatech, Incorporated and subsidiaries as of December 31, 2005, and the results of their operations and their cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of Mannatech, Incorporated and subsidiaries' internal control over financial reporting as of December 31, 2005, based on criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated March 16, 2006, expressed an unqualified opinion with respect to management's assessment that Mannatech, Incorporated and subsidiaries' internal control over financial reporting as of December 31, 2005, was effective based on criteria established in *Internal Control-Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) and an unqualified opinion on the effectiveness of Mannatech, Incorporated and subsidiaries' internal control over financial reporting as of December 31, 2005, based on criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

/s/GRANT THORNTON LLP

Dallas, Texas
March 16, 2006

Report of Independent Registered Public Accounting Firm

To the Board of Directors and Shareholders of Mannatech, Incorporated:

In our opinion, the consolidated balance sheet as of December 31, 2004 and the related consolidated statements of operations, shareholders' equity and cash flows for the years ended December 31, 2004 and 2003 present fairly, in all material respects, the financial position of Mannatech, Incorporated and its subsidiaries at December 31, 2004, and the results of their operations and their cash flows for the years ended December 31, 2004 and 2003, in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

PricewaterhouseCoopers LLP
Dallas, Texas
March 30, 2005

Table of Contents

Index to Financial Statements

MANNATECH, INCORPORATED
CONSOLIDATED BALANCE SHEETS
(in thousands, except share and per share information)

	December 31, 2004	December 31, 2005
ASSETS		
Cash and cash equivalents	$44,198	$ 56,207
Short-term investments	—	1,974
Restricted cash	393	2,777
Income tax receivable	4,161	—
Accounts receivable	392	548
Inventories, net	13,157	19,811
Prepaid expenses and other current assets	3,188	3,471
Deferred tax assets	1,850	671
Note receivable due from an affiliate	144	153
Total current assets	**67,483**	**85,612**
Property and equipment, net	6,469	10,951
Construction in progress	3,544	8,157
Long-term restricted cash	1,571	1,476
Long-term investments	17,073	15,375
Other assets	1,203	1,121
Long-term deferred tax assets	1,003	103
Total assets	**$98,346**	**$122,795**
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current portion of capital lease	$ 8	$ 23
Accounts payable	2,227	5,476
Accrued expenses	20,389	16,800
Commissions and incentives payable	12,718	15,588
Taxes payable	1,930	5,773
Deferred revenue	2,256	3,712
Accrued severance related to former executives	375	141
Total current liabilities	**39,903**	**47,513**
Capital lease, excluding current portion	26	—
Long-term liabilities	530	537
Long-term royalties due to an affiliate	1,658	3,341
Long-term deferred tax liabilities	4	1,086
Total liabilities	**42,121**	**52,477**
Commitments and contingencies		
Shareholders' equity:		
Preferred stock, $0.01 par value, 1,000,000 shares authorized, no shares issued and outstanding	—	—
Common stock, $0.0001 par value, 99,000,000 shares authorized, 27,115,440 shares issued and 27,041,125 outstanding in 2004 and 27,404,513 shares issued and 26,738,364 outstanding in 2005	3	3
Additional paid-in capital	34,917	36,699
Retained earnings	21,672	42,505
Accumulated other comprehensive income (loss)	195	(1,098)
	56,787	78,109
Less treasury stock, at cost, 74,315 shares in 2004 and 666,149 shares in 2005	(562)	(7,791)
Total shareholders' equity	**56,225**	**70,318**
Total liabilities and shareholders' equity	**$98,346**	**$122,795**

See accompanying notes to consolidated financial statements.

Table of Contents

Index to Financial Statements

MANNATECH, INCORPORATED
CONSOLIDATED STATEMENTS OF OPERATIONS
(in thousands, except for per share information)

	For the Year Ended December 31,		
	2003	2004	2005
Net sales	**$191,019**	**$294,508**	**$389,383**
Cost of sales	30,884	44,847	58,028
Commissions and incentives	79,577	132,231	172,151
	110,461	177,078	230,179
Gross profit	**80,558**	**117,430**	**159,204**
Operating expenses:			
Selling and administrative expenses	39,993	50,006	65,923
Other operating costs	26,956	37,840	47,671
Severance expenses related to former executives	2,017	—	—
Non-cash charge related to an affiliate stock sale	—	3,047	—
Total operating expenses	68,966	90,893	113,594
Income from operations	**11,592**	**26,537**	**45,610**
Interest income	348	735	1,778
Interest expense	(44)	(17)	—
Other income (expense), net	842	(257)	(1,940)
Income before income taxes	**12,738**	**26,998**	**45,448**
Provision for income taxes	(3,948)	(7,446)	(16,801)
Net income	**$ 8,790**	**$ 19,552**	**$ 28,647**
Earnings per common share:			
Basic	$ 0.34	$ 0.74	$ 1.06
Diluted	$ 0.34	$ 0.71	$ 1.03
Weighted-average common shares outstanding:			
Basic	25,494	26,436	26,990
Diluted	26,175	27,491	27,771

See accompanying notes to consolidated financial statements.

MANNATECH, INCORPORATED
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2003, 2004, AND 2005
(in thousands, except per share information)

	Common Stock					Treasury stock		
	Issued shares	Par value	Additional paid in capital	Retained earnings	Accumulated other comprehensive income (loss)	Shares	Amounts	Total shareholders' equity
Balance at December 31, 2002	**25,162**	**$ 3**	**$ 18,168**	**$ 481**	**$ (502)**	**27**	**$ (100)**	**$ 18,050**
Proceeds from stock options exercised	976	—	2,917	—	—	—	—	2,917
Tax benefit from exercise of stock options	—	—	1,459	—	—	—	—	1,459
Tender of common stock to exercise stock options	89	—	139	—	—	17	(139)	—
Charge related to stock options and warrants	—	—	1,492	—	—	—	—	1,492
Components of comprehensive income:								
Foreign currency translation	—	—	—	—	82	—	—	82
Unrealized loss from investments classified as available-for-sale, net of tax of $2	—	—	—	—	(2)	—	—	(2)
Net income	—	—	—	8,790	—	—	—	8,790
Total comprehensive income	—	—	—	—	—	—	—	8,870
Balance at December 31, 2003	**26,227**	**3**	**24,175**	**9,271**	**(422)**	**44**	**(239)**	**32,788**
Proceeds from stock options exercised	781	—	3,308	—	—	—	—	3,308
Tax benefit from exercise of stock options	—	—	3,955	—	—	—	—	3,955
Tender of common stock to exercise stock options	107	—	323	—	—	30	(323)	—
Charge related to stock options and warrants	—	—	109	—	—	—	—	109
Non-cash charge related to stock sale from affiliate	—	—	3,047	—	—	—	—	3,047
Declared dividends of $0.27 per share	—	—	—	(7,151)	—	—	—	(7,151)
Components of comprehensive income:								
Foreign currency translation	—	—	—	—	646	—	—	646
Unrealized loss from investments classified as available for sale, net of tax of $18	—	—	—	—	(29)	—	—	(29)
Net income	—	—	—	19,552	—	—	—	19,552
Total comprehensive income	—	—	—	—	—	—	—	20,169
Balance at December 31, 2004	**27,115**	**3**	**34,917**	**21,672**	**195**	**74**	**(562)**	**56,225**
Proceeds from stock options exercised	244	—	799	—	—	—	—	799
Tax benefit from exercise of stock options	—	—	822	—	—	—	—	822
Tender of common stock to exercise stock options	45	—	231	—	—	12	(231)	—
Benefit related to stock options and warrants	—	—	(70)	—	—	—	—	(70)
Repurchase of common stock	—	—	—	—	—	580	(6,998)	(6,998)
Declared dividends of $0.29 per share	—	—	—	(7,814)	—	—	—	(7,814)
Components of comprehensive income:								
Foreign currency translation	—	—	—	—	(1,310)	—	—	(1,310)
Unrealized gain from investments classified as available for sale, net of tax of $15	—	—	—	—	17	—	—	17
Net income	—	—	—	28,647	—	—	—	28,647
Total comprehensive income	—	—	—	—	—	—	—	27,354
Balance at December 31, 2005	**27,404**	**$ 3**	**$ 36,699**	**$42,505**	**$ (1,098)**	**666**	**$(7,791)**	**$ 70,318**

See accompanying notes to consolidated financial statements.

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

	For the Year Ended December 31, 2003	2004	2005
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income	$ 8,790	$ 19,552	$ 28,647
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	3,177	3,101	3,905
Charge related to affiliate stock sale	—	3,047	—
Write-down of inventories	154	428	338
Loss on disposal of assets	19	74	75
Tax benefit related to exercising stock options	1,459	3,955	822
Accounting charge (benefit) related to stock options and warrants granted	1,492	109	(70)
Deferred income taxes	(2,057)	156	3,087
Accrued interest on note receivable	13	7	(9)
Changes in operating assets and liabilities:			
(Increase) decrease in accounts receivable	515	(257)	(161)
(Increase) decrease in income tax receivable	307	(4,161)	—
Increase in inventories	(2,433)	(5,677)	(7,163)
(Increase) decrease in prepaid expenses and other current assets	(1,320)	(1,098)	(300)
(Increase) decrease in other assets	(84)	(1,948)	9
Increase (decrease) in accounts payable	823	(467)	3,279
Increase in accrued expenses and taxes payable	4,957	8,844	6,139
Increase in commissions and incentives payable	1,992	6,025	3,144
Increase (decrease) in deferred revenue	2,062	(886)	1,456
Increase (decrease) in accrued severance to former executives	352	(937)	(234)
Net cash provided by operating activities	**20,218**	**29,867**	**42,964**
CASH FLOWS FROM INVESTING ACTIVITIES:			
Acquisition of property and equipment	(892)	(7,241)	(13,114)
(Increase) decrease in restricted cash	(1,795)	1,771	(2,258)
Repayments by shareholders/related parties	172	54	—
Purchases of investments	(9,994)	(7,079)	(276)
Net cash used in investing activities	**(12,509)**	**(12,495)**	**(15,648)**
CASH FLOWS FROM FINANCING ACTIVITIES:			
Proceeds from stock options exercised	2,917	3,308	799
Payment of cash dividends	—	(5,263)	(7,563)
Repayment of capital lease obligation	(6)	(14)	(11)
Repayment of notes payable	(129)	—	—
Repurchase of common stock	—	—	(6,998)
Net cash provided by (used) in financing activities	**2,782**	**(1,969)**	**(13,773)**
Effect of exchange rate changes on cash and cash equivalents	107	504	(1,534)
Net increase in cash and cash equivalents	**10,598**	**15,907**	**12,009**
Cash and cash equivalents at the beginning of year	17,693	28,291	44,198
Cash and cash equivalents at the end of year	**$ 28,291**	**$ 44,198**	**$ 56,207**
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:			
Income taxes paid	$ 1,890	$ 8,888	$ 4,913
Interest paid	$ 44	$ 17	$ —
SUMMARY OF NON-CASH INVESTING AND FINANCING ACTIVITIES:			
Assets acquired through capital lease	$ 40	$ —	$ —
Asset retirement obligations related to operating leases	$ 250	$ 333	$ —
Treasury shares tendered to exercise stock options	$ 139	$ 323	$ 231
Declaration of dividends	$ —	$ 1,888	$ 2,139

See accompanying notes to consolidated financial statements.

MANNATECH, INCORPORATED
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1: ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Mannatech, Incorporated (the "Company") was incorporated in the state of Texas on November 4, 1993 and is located in Coppell, Texas. The Company develops high-quality, proprietary nutritional supplements, topical products, and weight-management products and primarily sells its products through a network-marketing system operating in the United States, Canada, Australia, the United Kingdom, Japan, New Zealand, the Republic of Korea, also referred to as South Korea, Taiwan, and Denmark. The Company opened operations in Taiwan in June 2005 and began selling products in Denmark in August 2005. As of December 31, 2005, the Company was completing the registration of certain products in Germany so that it can begin selling its products in the German market.

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

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

* Branch office of Mannatech Taiwan Corporation is located and operates in Taipei, Taiwan.

Principles of Consolidation

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

Reclassification

For comparative purposes, prior periods' construction in progress was separated from property and equipment and commissions and incentives payable, and taxes payable were separated from accrued expenses on the 2004 Consolidated Balance Sheet and in the 2003 and 2004 Statement of Cash Flows, as well as accrued interest related to the note receivable was reclassified from an investing activity to an operating activity in the Consolidated Statement of Cash Flows to conform to the Company's 2005 consolidated financial statement presentation.

Use of Estimates

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

Cash and Cash Equivalents

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

For the years ended December 31, 2003, 2004 and 2005, the Company included in its cash and cash equivalents credit card receipts due from its credit card processor of $1.8 million, $2.5 million, and $3.0 million, respectively, as credit card receipts are received within 24 to 72 hours after receiving the approval code from the credit card processor.

Restricted Cash

The Company is required to restrict cash related to direct selling and credit card sales in the Republic of Korea, which as of December 31, 2004 and 2005 was $1.1 million and $1.3 million, respectively. In addition, as of December 31, 2004 and 2005, the Company is required to restrict cash related to its Canada operations totaling $0.4 million and $0.3 million, respectively. In addition, as of December 31, 2004 and 2005, the Company is required to restrict cash of $0.1 million in a term deposit in an Australian bank, which is required as collateral for the Company's Australian building lease and is expected to be renewed through March 2008, when the Australian building lease expires.

In 2005, the Company was required to restrict cash as collateral for a letter of credit related to its 2006 travel incentive totaling $2.5 million. The cash will be unrestricted once the trip is completed and paid in full by the Company, which is estimated to occur in the fourth quarter of 2006. In 2004, the Company was required to restrict cash as collateral for a letter of credit related to its 2004 travel incentive totaling $0.4 million.

Accounts Receivable

At December 31, 2004 and 2005, accounts receivable primarily consisted of payments due from manufacturers for purchases of raw material inventories and from customers. In addition, as of December 31, 2004 and 2005, accounts receivable also consisted of a receivable due from Mannarelief, a related party, of $0.1 million and $0.3 million, respectively.

Inventories

Inventories consist of raw materials, finished goods and sales aids that are stated at the lower of cost (using standard costs, which approximate average costs) or market. The Company provides an adequate allowance for any slow-moving or obsolete inventories.

Investments

The Company accounts for its investments in accordance with the provisions of Statement of Financial Accounting Standards No. 115, "Accounting for Certain Investments in Debt and Equity Securities" ("FAS 115"). Under FAS 115, debt securities that have readily determinable fair values are classified in three categories: held-to-maturity, trading, or available-for-sale. The Company's investments are all categorized as available-for-sale and are recorded at fair value, which is determined based on quoted market prices with unrealized gains and losses included in shareholders' equity, net of tax. The Company records any realized gains and losses on sales of its investments in other income (expense), net in its accompanying Consolidated Statements of Operations.

Property and Equipment

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

Property and equipment are reviewed for impairment whenever an event or change in circumstances indicates that the carrying amount of an asset or group of assets may not be recoverable. The impairment review includes a comparison of future projected cash flows generated by the asset or group of assets with its associated net carrying value. If the net carrying value of the asset or group of assets exceeds expected cash flows (undiscounted and without interest charges), an impairment loss is recognized to the extent the carrying amount of the asset exceeds its fair value.

Other Assets

For the years ended December 31, 2004 and 2005, other assets consisted of deposits for building leases in various locations totaling $1.2 million and $1.1 million, respectively.

Commissions and Incentives

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

Long-term Liabilities

At December 31, 2004 and 2005, the Company maintained building operating leases for its corporate office facilities located in the United Kingdom, Japan, the Republic of Korea, and Taiwan. As of December 31, 2004 and 2005, the Company had accrued restoration costs totaling $0.2 million.

At December 31, 2004 and 2005, the Company's long-term liabilities consisted of an estimated deferred benefit obligation related to its deferred benefit plan for its Japan operations of $0.2 million , respectively.

Income Taxes

The Company accounts for income taxes using the asset and liability approach for financial accounting and reporting in accordance with Statement of Financial Accounting Standards No. 109, "Accounting For Income Taxes,"("FAS 109"). The Company evaluates the probability of realizing the future benefits of its deferred tax assets and provides a valuation allowance for the portion of any deferred tax assets where the likelihood of realizing an income tax benefit in the future does not meet the more likely than not criteria for recognition.

Revenue Recognition

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

The Company defers certain of its revenue. Total deferred revenue consists of revenue received from sales of products and packs, which were shipped to customers but not received at period end, prepaid revenue received from customers planning to attend a future corporate-sponsored event, and revenue related to a one-year magazine subscription and from pack sales when the pack sale price exceeds the estimated wholesale value of all individual components within the pack. Deferred revenue related to products shipped is recognized upon receipt by the customer and deferred revenue for magazine subscriptions is recognized over one year. Components of deferred revenue were as follows:

	December 31, 2004	December 31, 2005
Revenue related to undelivered product/pack sales	$ 1.5 million	$ 2.6 million
Revenue related to one-year magazine subscription and pack sales exceeding the wholesale value of individual components sold	0.8 million	0.7 million
Revenue related to events held in the future	—	0.4 million
Total deferred revenue	$ 2.3 million	$ 3.7 million

Shipping and Handling Cost

The Company records freight and shipping fees collected from its customers as revenue. The Company records inbound freight as cost of sales. The Company records shipping and handling costs associated with shipping products to its customers as selling and administrative expenses. Total shipping and handling costs included in selling and administrative expenses were approximately $9.6 million, $13.6 million, and $18.2 million for the years ended December 31, 2003, 2004, and 2005, respectively.

Advertising Costs

The Company records advertising and promotional expenses in selling and administrative expenses when incurred. Advertising and promotional expenses were approximately $4.6 million, $6.3 million, and $8.7 million for the years ended December 31, 2003, 2004, and 2005, respectively. Literature and promotional items, called sales aids, are sold to independent associates to assist in their sales efforts and are generally included in inventories and charged to cost of sales when sold.

Accounting for Stock-Based Compensation

The Company has three stock-based compensation plans, all of which were approved by its shareholders and are described more fully in Note 11. The Company generally grants stock options to its employees and board members at the fair market value of its common stock on the date of grant. Shareholders who own five percent or more of the Company's outstanding stock are granted 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.

For stock-based compensation issued to nonemployees, the Company is required to follow Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation" ("FAS 123"). Under FAS 123, stock-based compensation to nonemployees is measured at the calculated fair value on the date of grant in the Consolidated Statements of Operations.

For stock-based compensation issued to employees and members of its Board of Directors, the Company elected to follow Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" ("APB 25") and its related interpretations. Under the recognition and measurement principles of APB 25, no compensation expense is recognized unless the market price of the stock option exceeds the exercise price on the date of grant. In December 2004, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 123R, "Share Based Payments" ("FAS 123R"), which is effective for the first annual reporting period beginning after June 15, 2005. Under FAS 123R, and beginning January 1, 2006, the Company is required to measure and recognize compensation expense related to any unvested stock options previously granted and thereafter recognize compensation expense related to granting any new stock options to its employees or board members using a calculated fair-value based method of accounting. As of December 31, 2005, the Company had 391,052 unvested stock options with an estimated calculated fair-value of approximately $0.6 million. The Company also has 435,704 stock options available to grant and if granted after December 31, 2005, the Company will have to recognize compensation expense equal to the estimated fair value of its stock options granted.

The fair value of each option granted was estimated on the date of grant using the calculated fair-value based option-pricing model with the following weighted-average assumptions during 2003, 2004, and 2005:

	2003	2004	2005
Dividend yield	0.0%	1.5%	1.5%
Expected volatility	87.0%	82.5%	84.3%
Risk-free rate of return	3.4%	3.4%	3.8%
Expected life (in years)	4 or 7	5	7

For disclosure purposes only, the Company estimated the fair value for all of its stock options granted to employees and board members on the date of grant using the fair-value based option-pricing model and estimated the amount of expense that it would have recognized for each stock option granted over its vesting period if it had adopted the fair value method upon issuance of FAS 123. The following table illustrates the effect on the Company's consolidated net income and earnings per share if the Company had applied the fair value recognition provisions of FAS 123 to all of its stock options:

	For the Year Ended December 31,		
	2003	2004	2005
	(in thousands, except per share information)		
Consolidated net income, as reported	$ 8,790	$ 19,552	$ 28,647
Add (Subtract): Stock-based employee compensation expense (income) included in reported net income, net of related tax effect (1)	918	67	(43)
Deduct: Total stock-based employee compensation expense determined under fair-value based method for all awards, net of related tax effect (2)	(1,067)	(514)	(493)
Pro forma net income	**$ 8,641**	**$ 19,105**	**$ 28,111**
Basic Earnings Per Share:			
As reported	$ 0.34	$ 0.74	$ 1.06
Pro forma	$ 0.34	$ 0.72	$ 1.04
Diluted Earnings Per Share:			
As reported	$ 0.34	$ 0.71	$ 1.03
Pro forma	$ 0.33	$ 0.70	$ 1.01

(1) For the years ended December 31, 2003, 2004, and 2005, the net tax effect was $574, $42, and $27, respectively.

(2) For the years ended December 31, 2003, 2004, and 2005, the net tax effect was $381, $245, and $302, respectively.

Research and Development Costs

The Company expenses research and development costs when incurred. Research and development costs related to new product development, enhancing existing products, clinical studies and trials, Food and Drug Administration compliance studies, general supplies, internal salaries, third party contractors, and consulting fees were approximately $4.0 million, $7.0 million, and $5.0 million for the years ended December 31, 2003, 2004, and 2005, respectively. Salaries and contract labor are included in selling and administrative expenses and all other research and development costs are included in other operating expenses.

Software Development Costs

The Company capitalizes qualifying internal payroll and external contracting and consulting costs related to the development of internal use software after the conceptual formulation stage has been completed. The Company amortizes such costs over the estimated useful life of the software, which is five years once the software has been placed in service. The Company capitalized software costs of approximately $0.1 million, $4.1 million, and $12.1 million, in 2003, 2004, and 2005, respectively in connection with its on-going customization of its internally-developed software systems. Amortization expense related to all of its capitalized software was approximately $0.7 million, $0.4 million, and $1.1 million for the years ended December 31, 2003, 2004, and 2005, respectively.

Comprehensive Income

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

Earnings Per Share

Basic Earnings Per Share ("EPS") calculations are based on the weighted-average number of the Company's common shares outstanding during the period, while diluted EPS calculations are calculated using the weighted-average number of common shares and dilutive common share equivalents outstanding during each period.

Concentrations of Credit Risk

Financial instruments, which potentially subject the Company to concentrations of credit risk, consist principally of cash, cash equivalents, investments, receivables, and restricted cash and cash equivalents. The Company utilizes financial institutions that the Company considers to be of high credit quality. The Company also has an outstanding note receivable from an affiliate, which the Company believes is fully collectible.

Fair Value of Financial Instruments

The fair value of the Company's financial instruments, including cash and cash equivalents, restricted cash, time deposits, investments, note receivable, accounts receivable, capital lease, deferred revenues, accounts payable, and accrued expenses, approximate their recorded values due to their relatively short maturities.

Foreign Currency Translation

The Company's Australian and United Kingdom subsidiaries are operating as limited service providers and the United States dollar is considered to be their functional currency. As a result, nonmonetary assets and liabilities are translated at their approximate historical rates, monetary assets and liabilities are translated at exchange rates in effect at the end of the year, and revenues and expenses are translated at weighted-average exchange rates for the year. Transaction (gains) and losses totaled approximately ($0.9 million), $0.3 million, and $1.9 million, for the years ended December 31, 2003, 2004, and 2005, respectively and is included in other income (expense) in the Company's Consolidated Statement of Operations.

The Company considers the Japanese Yen the functional currency of its Japanese subsidiary, the Korean Won the functional currency of its South Korean subsidiary, and the Taiwan Dollar the functional currency of its Taiwan subsidiary because it conducts substantially all of its business in these countries' currencies. These subsidiaries' assets and liabilities are translated into United States dollars at exchange rates existing at the balance sheet dates, revenues and expenses are translated at weighted-average exchange rates, and shareholders' equity and intercompany balances are translated at historical exchange rates. The foreign currency translation adjustment is recorded as a separate component of shareholders' equity and is included as accumulated other comprehensive income (loss).

Accumulated Other Comprehensive Income (Loss)

Included in Accumulated Other Comprehensive Income (Loss) are translation adjustments related to the Company's operations in Japan, the Republic of Korea, and Taiwan and unrealized gains and losses from investments that are classified as available-for-sale.

NOTE 2: RECENT ACCOUNTING PRONOUNCEMENTS

FAS 123R. In December 2004, FASB issued FAS 123R to replace FAS 123 and supersedes APB 25. FAS 123R requires a company to recognize compensation cost related to share-based payment transactions in its financial statements. The compensation costs should be measured based on the estimated fair value of the equity or liability instruments issued. The provisions of APB 25 and FAS 123 remain in effect until the provisions of FAS 123R are adopted. The Company adopted FAS 123R on January 1, 2006, and estimates recording expense related to adopting FAS 123R of approximately $0.3 million in 2006, $0.2 million in 2007, and $0.1 million in 2008.

FAS 151. In November 2004, FASB issued Statement of Financial Accounting Standards No. 151, "Inventory Costs and amendment of ARB No. 43, Chapter 4,"("FAS 151"). FAS 151 amends the guidance for inventory pricing to clarify the accounting for abnormal amounts of idle facility expense, freight, handling costs, and wasted material (spoilage) and requires companies to recognize these costs as current period charges. The provisions of FAS 151 are effective for inventory costs incurred during fiscal years beginning after June 15, 2005. The adoption of FAS 151 is not expected to have a material impact on the Company's consolidated financial position, results of operations, or its cash flows.

FAS 153. In December 2004, FASB issued Statement of Financial Accounting Standards No. 153, "Exchanges of Nonmonetary Assets an amendment of APB Opinion No. 29", ("FAS 153"). FAS 153 amends the guidance in APB Opinion No. 29 to eliminate the exception for nonmonetary exchanges of similar productive assets and replaces it with a general exception for exchanges of nonmonetary assets that do not have commercial substance. The provisions of FAS 153 are effective during fiscal years beginning after June 15, 2005. The Company believes the adoption of FAS 153 will not have a significant effect on its consolidated financial statements.

FAS 154. In May 2005, FASB issued Statement of Financial Accounting Standards No. 154, "Accounting Changes and Error Corrections—a replacement of APB Opinion No. 20 and FASB Statement No. 3", ("FAS 154"). FAS 154 requires that all voluntary changes in accounting principles and changes required by a new accounting pronouncement that do not include specific transition provisions be applied retrospectively to prior periods' financial statements, unless it is impracticable to do so. FAS 154 is effective for accounting changes and corrections of errors made in fiscal years beginning after December 15, 2005. The Company does not believe that the adoption of FAS 154 will have a significant effect on its consolidated financial statements.

FAS 155. In February 2006, FASB issued Statement of Financial Accounting Standards No. 155, "Accounting for Certain Hybrid Financial Instruments an amendment of FAS 133 and FAS 140", ("FAS 155"). FAS 155 amends the guidance in FAS 133 and FAS 140 to further define the proper accounting treatment for certain financial instruments. The provisions of FAS 155 are effective for all financial instruments acquired or issued after the beginning of an entity's first fiscal year that begins after September 15, 2006. The Company does not expect adopting FAS 155 will have a material impact on its consolidated financial position, results of operations, or its cash flows.

FIN 47. In March 2005, the FASB issued FASB Interpretation No 47, "Accounting for Contingent Asset Retirement Obligations, an interpretation of Statement 143, Asset Retirement Obligations", (FIN 47"). FAS 143, as amended by FIN 47, applies to all entities that have legal obligations to perform asset retirement activities, including those in which the timing and/or method of settlement are conditional on a future event that may or may not be within the control of the entity. The FASB concluded that an obligation to perform an asset retirement activity is unconditional even though uncertainty exists about the timing and/or method of settlement. Uncertainty about the timing and/or method of settlement should be factored into the measurement of the liability if sufficient information is available to reasonably estimate the fair value of the asset retirement obligation. Accordingly, an entity should recognize a liability for the fair value of an asset retirement obligation when incurred if the fair value of the liability can be reasonably estimated, even if conditional on a future event. FIN 47 is effective for fiscal years ending after December 15, 2005. The Company adopted FIN 47 in 2005 and it did not have a significant effect on its consolidated financial statements.

EITF 04-13. In September 2005, the FASB Emerging Issues Task Force ("EITF") released Issue 04-13, "Accounting for Purchases and Sales of Inventory with the Same Counterparty", ("EITF 04-13"). EITF 04-13 provides guidance on how to account for two or more inventory purchase and sales transactions with the same counterparty that are entered into in contemplation of one another and requires that those transactions be combined under certain circumstances for purposes of applying Opinion 29, Accounting for Nonmonetary Transactions. EITF 04-13 is effective for new arrangements entered into, and modifications or renewals of existing arrangements, beginning in the first interim or annual reporting period beginning after March 15, 2006. The Company does not believe that the adoption of EITF 04-13 will have a significant effect on its consolidated financial statements.

FSP FAS 115-1 AND FAS 124-1. In November 2005, the FASB issued FASB Staff Position (FSP) FAS 115-1 and FAS 124-1, "The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments", ("FSP FAS 115-1 and FAS 124-1"). This FSP provides guidance on determining if an investment is considered to be impaired, if the impairment is other-than-temporary and the measurement of an impairment loss. It also includes accounting considerations subsequent to the recognition of an other-than-temporary impairment and requires certain disclosures about unrealized losses that have not been recognized as other-than-temporary impairments. The guidance in this FSP amends FAS 115, "Accounting for Certain Investments in Debt and Equity Securities," and is effective for reporting periods beginning after December 15, 2005. The Company is currently accounting for investments in accordance with this guidance, and therefore, the adoption of this FSP did not have a material impact on the Company's consolidated results of operations or its consolidated financial position.

NOTE 3: INVESTMENTS

The Company classifies its investments as available-for-sale. At December 31, 2005 the Company's investments consisted of the following:

	Amortized cost	Gross unrealized loss	Fair value
		(in thousands)	
Federal Home Loan Bank bond	$ 2,000	$(26)	$ 1,974
State or federal agency backed obligations	15,375	—	15,375
Total investments	**$17,375**	**$(26)**	**$17,349**

The Company classifies its investments as available-for-sale. At December 31, 2004, the Company's investments consisted of the following:

	Amortized cost	Gross unrealized loss	Fair value
		(in thousands)	
Federal Home Loan Bank	$ 3,993	$(45)	$ 3,948
Corporate asset-based obligations	5,000	—	5,000
State regulated utility company obligation	8,125	—	8,125
Total investments, classified as long term	**$17,118**	**$(45)**	**$17,073**

The Company's fair value of investments by contractual maturity at December 31, 2005, in thousands, are as follows:

	2005
Due in one year or less	$ 1,974
Due between one and five years	—
Due after ten years	15,375
	$17,349

Table of Contents

Index to Financial Statements

NOTE 4: INVENTORIES

During 2004, the Company wrote off inventories of $0.4 million and at December 31, 2004 had a provision for slow-moving and obsolete inventory of $0.2 million. For the year ended December 31, 2005, the Company increased its inventory provision by $0.5 million and wrote-off inventories of $0.3 million. Inventories consisted of the following (in thousands):

	December 31, 2004	December 31, 2005
Raw materials	$ 1,424	$ 5,759
Finished goods, less inventory reserves for obsolescence of $217 in 2004 and $387 in 2005	11,733	14,052
	$13,157	$19,811

NOTE 5: PROPERTY AND EQUIPMENT

At December 31, 2004 and 2005, property and equipment consisted of the following (in thousands):

	Estimated useful life	2004	2005
Office furniture and equipment	5 to 7 years	$ 6,537	$ 7,229
Computer hardware and software	3 to 5 years	11,598	17,122
Automobiles	3 or 5 years	118	119
Leasehold improvements	2 to 10 years*	6,974	7,514
		25,227	31,984
Less accumulated depreciation		(18,758)	(21,033)
		6,469	10,951
Construction in progress		3,544	8,157
		$ 10,013	$ 19,108

* Leasehold improvements are amortized over the shorter of the useful life of the leased asset or the lease term.

At December 31, 2004, construction in progress consisted of internally developed software costs of $3.2 million and $0.3 million for in process leasehold improvements for the Company's corporate facility and its Taiwan office. At December 31, 2005, construction in progress consisted of internally developed software costs of $7.8 million and $0.2 million for construction in process leasehold improvements for its corporate facility.

NOTE 6: ACCRUED EXPENSES

At December 31, 2004 and 2005, accrued expenses consisted of the following (in thousands):

	2004	2005
Commissions and incentives payable	$ 1,325	$ 913
Accrued inventory purchases	6,528	3,442
Accrued royalties and compensation	4,991	4,807
Customer deposits and sales returns	2,417	2,212
Sales and other taxes payable	360	523
Accrued legal and accounting fees	963	1,328
Income taxes payable	419	232
Declared dividends	1,888	2,139
Other accrued operating expenses	1,498	1,204
	$20,389	$16,800

NOTE 7: INCOME TAXES

The components of the Company's income before income taxes are attributable to the following jurisdictions for the years ended December 31 (in thousands):

	2003	2004	2005
United States	$ 9,922	$23,667	$40,848
Foreign	2,816	3,331	4,600
	$12,738	$26,998	$45,448

The components of the Company's income tax provision for 2003, 2004, and 2005 are as follows (in thousands):

	2003	2004	2005
Current provision:			
Federal	$ 5,161	$ 6,407	$10,880
State	394	533	746
Foreign	123	363	2,014
	$ 5,678	$ 7,303	$13,640
Deferred provision:			
Federal	$(1,560)	$ 1,235	$ 1,892
State	(170)	125	175
Foreign	—	(1,217)	1,094
	(1,730)	143	3,161
Provision for income taxes	$ 3,948	$ 7,446	$16,801

A reconciliation of the Company's effective tax rate and the United States federal statutory tax rate is as follows:

	For the Year Ended December 31,		
	2003	2004	2005
Federal statutory income taxes	35.0%	35.0%	35.0%
State income taxes, net of federal benefit	1.8	2.0	1.3
Difference in foreign and United States income tax on foreign operations	(0.3)	1.0	1.5
Changes in valuation allowance	(5.3)	(7.8)	1.1
Other, net	(0.3)	(2.6)	(1.9)
	30.9%	27.6%	37.0%

The Company's deferred income taxes consisted of the following at December 31, (in thousands):

	2004	2005
Deferred tax assets:		
Deferred royalties due to an affiliate	$ 639	$1,342
Depreciation and amortization related to property and equipment	296	905
Net operating losses carry forward for its Japan, Republic of Korea, and Taiwan subsidiaries	198	662
Accrued expenses	1,024	631
Deferred revenue	405	399
Inventories	219	379
Current portion of severance expenses	145	53
Non-cash accounting charges related to stock options and warrants	77	49
Other, net	1	29
Total deferred tax assets	**3,004**	**4,449**
Less valuation allowance	(151)	(662)
Total deferred tax assets, net of valuation allowance	**$2,853**	**$3,787**
Deferred tax liabilities:		
Internally developed software	$ —	$3,303
Prepaid expenses	—	791
Other, net	4	5
Total deferred tax liabilities	**$ 4**	**$4,099**

At December 31, 2004 and 2005, the Company's valuation allowance was $0.2 million and $0.7 million, respectively. FAS 109 requires that a valuation allowance be established when it is more likely than not that all or a portion of net deferred tax assets will not be realized. A review of all positive and negative evidence of realizability must be considered in determining the need for a valuation allowance. Furthermore, the weight given to the potential effect of such evidence should be commensurate with the extent to which it can be objectively verified.

The $0.2 million valuation allowance at December 31, 2004, represented a full reserve against the Company's net deferred tax asset related to its Republic of Korea operations, which began in September 2004, as the Company believed the more likely than not criteria for recognition purposes could not yet be met. At December 31, 2005, the valuation allowance was composed of $0.5 million related to its Republic of Korea operation and $0.2 million related to its Taiwan operations, because the Company believes "*the more likely than not criteria*" cannot yet be met.

At December 31, total net deferred tax assets (liabilities) are classified in the accompanying consolidated financial statements as follows (in thousands):

	2004	2005
Current deferred tax assets	$1,850	$ 671
Noncurrent deferred tax assets	1,003	103
Noncurrent deferred tax liabilities	(4)	(1,086)
Net deferred tax assets (liabilities)	$2,849	$ (312)

For year ended December 31, 2005, the Company had $7.0 million of undistributed earnings related to its Australian and United Kingdom subsidiaries. These earnings were and are expected to continue to be permanently reinvested. The Company expects that any repatriation of these earnings would not result in a material tax liability.

NOTE 8: TRANSACTIONS WITH RELATED PARTIES AND AFFILIATES

Receivables due from affiliates

On February 17, 1999, the Company signed five separate notes receivable agreements with five shareholders who were also affiliates of the Company. The notes with installments were due annually through February 17, 2004. In 2001, the Company agreed to modify the terms of the note receivable with Mr. Charles Fioretti as part of his separation and release agreement. Mr. Fioretti is a former Chairman and Chief Executive Officer of the Company. Under the terms of the modified agreement dated June 4, 2001, Mr. Fioretti's remaining principal balance of $127,000 continued to accrue interest and was due on the earlier of February 17, 2011, or 13 days after the date in which Mr. Fioretti no longer owns at least 100,000 shares of the Company's common stock. During 2005, Mr. Fioretti owned less than 100,000 shares of Mannatech stock and as a result, the note became due to the Company and was classified as a current asset. The Company believes the note is collectible and is negotiating with Mr. Fioretti to pay the remaining principal and interest related to his note, which as of December 31, 2005 was approximately $153,000.

Agreement with a Director

In November 2003, the Company entered into a Lock-Up Agreement whereby the Company pays Mr. J. Stanley Fredrick, the Company's Lead Director on its Board of Directors and a major shareholder, $185,000 per year for his agreement not to sell his shares unless approved by the Board of Directors. In June 2004, the Company's Board of Directors authorized Mr. Fredrick to sell up to 350,000 shares of his stock and as a result, during 2004, Mr. Fredrick sold 350,000 shares of his common stock. As of December 31, 2005, Mr. Fredrick continues to hold 3,150,000 shares of the Company's common stock.

In November 2003, the Company also agreed to pay Mr. Fredrick $0.1 million annually to act as its Lead Director for its Board of Directors. During 2004 and 2005, the Company paid Mr. Fredrick $0.1 million annually related to this agreement.

In January 2006, the Company began paying Mr. Fredrick director meeting fees associated with attending its Board of Directors and Committee meetings.

Agreement with Fredrick Media, LLC

On November 16, 2005, the Company entered into a consulting services agreement with Fredrick Media, LLC, which is owned by Mr. Landen Fredrick, son of Mr. J. Stanley Fredrick. Pursuant to the Consulting Agreement, the Company agreed to pay approximately $0.2 million to Fredrick Media LLC for various consulting services, including consulting related to the development of the Company's website.

Clinical Studies with St. George's Hospital

On June 4, 2002, Dr. John Axford was elected to the Company's Board of Directors and currently serves as the Chairman of the Company's Science Committee. The Company paid Dr. Axford $8,000, $33,000, and $30,000 during 2003, 2004, and 2005, respectively, related to certain research and development consulting fees.

St. George's Hospital & Medical School is located in London, England where Dr. Axford is the principal investigator in certain clinical trials funded by the Company for St. George's Hospital. In October 2002, the Company signed a three-year agreement with St. George's Hospital & Medical School, the employer of Dr. Axford, to fund a grant for $148,000, to help fund a clinical trial. In June 2004, the Company signed a second three-year agreement with St. George's Hospital & Medical School to fund research costs related to another clinical study for a clinical trial involving one of the Company's products, totaling approximately $0.7 million. During 2003, 2004, and 2005, the Company paid St. George's Hospital & Medical School $0.1 million, $0.2 million, and $0.2 million related to these two clinical studies.

Transactions involving the Chairman and Chief Executive Officer

In December 2004, Mr. Samuel Caster, the Company's Chairman of the Board and Chief Executive Officer, entered into an agreement with a former employee, Dr. H. Reginald McDaniel. Under this agreement, Mr. Caster agreed to sell Dr. McDaniel 180,000 shares of his common stock at $2.66 per share. On the date of this agreement, the fair market value of the Company's common stock was $19.59 per share. As a result of this private sale transaction, the Company recorded a one-time non-cash charge of $3.0 million, which was calculated as the difference between the fair market value of the common stock and the sales price of the stock had it been sold in the open market.

Mr. Caster founded MannaRelief in 1999 and since then has served as its Chairman. Defined under the Internal Revenue Code, MannaRelief is a 501(c)(3) charitable organization that provides services for children. Donald Herndon, who serves as the Company's Vice President of Field Services, also serves on MannaRelief's Board. Mr. Herndon is the brother-in-law of Mr. Caster and is also the brother-in-law of Terry L. Persinger, who serves as the Company's President, Chief Operating Officer and as a member of the Company's Board of Directors. During 2003, 2004 and 2005, the Company made cash contributions to MannaRelief, sold certain of its products to MannaRelief at cost plus shipping and handling charges, and shipped the products purchased by MannaRelief to its chosen recipients. In addition, certain Company employees and consultants periodically volunteer to work on various fund raising projects and events for MannaRelief at no cost to MannaRelief. For the years ended December 31, 2003, 2004, and 2005, the Company sold products to MannaRelief at cost plus shipping and handling of approximately $0.5 million, $0.8 million, and $1.4 million, respectively. At December 31, 2004 and 2005, the Company had recorded a receivable due from MannaRelief for purchases of its products totaling $0.1 million and $0.3 million, respectively. The Company approved cash contributions of approximately $0.2 million, $0.3 million, and $0.4 million, for 2003, 2004, and 2005, respectively, of which $0.1 million remained unpaid at December 31, 2005. The Company also approved an annual donation of approximately $0.6 million to MannaRelief payable in 2006.

Certain Transactions with Ray Robbins

Mr. Ray Robbins is a member of the Company's Board of Directors and major shareholder. Mr. Ray Robbins also holds multiple positions in the Company's associate global downline network marketing system, four of which related to the cancellation of an agreement between the Company and Mr. Robbins in June 1999. The Company pays commissions and incentives to its associates for product sales and downline growth. The Company paid commissions to Ray Robbins totaling $1.8 million in 2003, $2.7 million in 2004, and $3.1 million in 2005. In addition, Kevin Robbins and his wife Dawn, who are also Company associates and the son and daughter-in-law of Mr. Ray Robbins, were paid associate commissions of approximately $0.3 million each year. All commissions paid to Ray Robbins and his immediate family members were paid in accordance with the Company's global associate career and compensation plan.

NOTE 9: EMPLOYMENT AGREEMENTS AND SEVERANCE CHARGES

In 2001, the Company recorded a severance charge of $3.4 million related to severance agreements with several former officers of the Company including, among others, Mr. Anthony Canale, Ms. Deanne Varner and Mr. Patrick Cobb. Under the terms of their agreements, the executives were bound by certain non-compete and confidentiality clauses and the Company agreed to pay Mr. Canale, Ms. Varner and Mr. Cobb an aggregate amount of $0.8 million in 2001, $0.6 million in 2002, $0.5 million in 2003, and $0.1 million in 2004. The payments consisted of various charges including compensation related to the cancellation of their employment agreements, health insurance, and automobile expenses. The Company also agreed to grant Mr. Canale a total of 213,333 warrants to purchase common stock, Ms. Varner a total of 163,333 stock options and Mr. Patrick Cobb a total of 60,000 stock options, all at exercise prices ranging from $1.75 to $4.00 per share. The stock options and warrants vested on the date they were granted and as of December 31, 2005, all but 500 stock options and none of the stock warrants had been exercised.

On April 15, 2003, Mr. Robert M. Henry resigned from the Company as its Chief Executive Officer and as a board member, and the Company entered into a Separation Agreement with Mr. Henry. Pursuant to the Separation Agreement, the Company agreed to pay Mr. Henry a total of $1.4 million through December 31, 2005. The severance payments primarily related to the Company's contractual obligations of Mr. Henry's terminated employment agreement, which would have expired in 2004, outplacement fees, attorney fees, relocation fees, health and life insurance, and title to his leased vehicle. In addition, in 2003, the Company extended the term of Mr. Henry's 266,667 vested stock options to ten years from the original date of grant and recorded a one-time non-cash compensation charge of $0.6 million. Mr. Henry exercised all of his stock options in 2003 and 2004.

In September 2003, the Company recorded a severance charge of $0.4 million related to the resignation of Mr. Brad Wayment, its former Senior Vice President of Marketing and also paid $0.2 million to certain former employees related to certain severance agreements, which primarily related to salary and benefits. Subsequently, in October 2003, the Company entered into an agreement with Mr. Wayment whereby the Company agreed to accelerate the vesting period for 16,666 of Mr. Wayment's stock options and to extend the term of Mr. Wayment's 100,000 stock options from November 1, 2003 until October 13, 2004. The modification of Mr. Wayment's original stock options resulted in the Company recording a one-time additional non-cash compensation charge of $0.3 million in the fourth quarter of 2003. Mr. Wayment exercised all of his stock options in 2004.

In November 2004, the Company extended its employment agreement with Mr. Terry L. Persinger, its Chief Operating Officer, President, and board member to December 31, 2006. The employment agreement specifies an annual salary and provides that either party can cancel the agreement. If the Company cancels the employment agreement without cause, the Company is required to pay his annual salary for the remaining duration of the agreement. Mr. Persinger is also furnished a leased vehicle, and is eligible to participate in all employee benefits available to other Company executives. In November 2005, the Company increased Mr. Persinger's annual salary beginning in January 2006, from $357,000 to $372,000.

In October 2002, the Company entered into a written employment agreement with Mr. Caster, which expired on December 31, 2005. As a result, in November 2005, the Company entered into a new two-year employment agreement with Mr. Caster. Pursuant to the terms of the new employment agreement, the Company agreed to increase Mr. Caster's annual salary from $600,000 to $660,000, furnished a leased vehicle, and is eligible to participate in all employee benefits available to other Company executives. The Company is obligated to pay Mr. Caster any unused but accrued vacation and the greater of one-year annual salary or the remainder of his agreement, except in the case of resignation, death, incapacitation, or termination with cause.

In August 2005, the Company entered into a two-year employment agreement with Mr. John Price, its President of International Operations. Pursuant to the terms of the employment agreement, the Company agreed to grant Mr. Price 25,000 common stock options, pay relocation expenses of approximately $30,000, furnish him a leased vehicle, pay him an annual salary of $240,000 and allow him to participate in all employee benefits available to other Company executives. If the Company terminates his employment without cause or the Company does not renew his employment agreement or does not give notice of non-renewal on or before the one-year anniversary of this agreement, the Company will be obligated to pay Mr. Price his base salary for twelve months following the last date of employment.

In November 2005, the Company entered into a two-year employment agreement with Ms. Bettina Simon, its Chief Legal Officer and Senior Vice President. Pursuant to the terms of her employment agreement, the Company agreed to pay Ms. Simon an annual salary of $300,000, furnish her a leased vehicle, and allow Ms. Simon to participate in all employee benefits available to other Company executives. The Company is obligated to pay Ms. Simon any unused but accrued vacation and the greater of one-year annual salary or the remainder of her agreement, except in the case of resignation, death, incapacitation, or termination with cause.

NOTE 10: EMPLOYEE BENEFIT PLANS

Employee Retirement Plan

Effective May 9, 1997, the Company adopted a Defined Contribution 401(k) and Profit Sharing Plan (the "401(k) Plan") for its United States employees. The 401(k) Plan covers all full-time employees who have completed three months of service and attained the age of twenty-one. United States employees can contribute up to 100 percent of their annual compensation, but are limited to the maximum annual dollar amount allowable under the Internal Revenue Code. In 2005, the Company increased its matching contribution for the 401(k) Plan from 25% to 50% on each one dollar of contribution, up to six percent of the participating employees' compensation, not to exceed 100 percent of the employees' first 15% annual compensation. In addition, the Company may make discretionary contributions to the 401(k) Plan. The Company's matching contributions for its United Sates employees vest ratably over a five-year period. Contributions made by the Company to its 401(k) Plan were approximately $0.1 million, $0.1 million, and $0.4 million in 2003, 2004, and 2005, respectively.

The Company also sponsors a non-U.S. defined benefit plan covering its employees in its Japan subsidiary ("the Benefit Plan"). Pension benefits under the Benefit Plan are based on years of service and annual salary. The Company utilizes actuarial methods required by Financial Accounting Standards Board No. 87, "Employers' Accounting for Pensions," ("FAS 87"). FAS No. 88, *"*Employers' Accounting for Settlements and Curtailments of Defined Benefit Pension Plans and for Termination Benefits*,"* and FAS 132R, *"*Employers' Disclosures about Pensions and Other Postretirement Benefits—an amendment of FAS Statements No. 87, 88, and 106," to account for the Benefit Plan. Inherent in the application of these actuarial methods are key assumptions, including, but not limited to, discount rates and expected long-term rates of return on plan assets. Changes in the related pension benefit costs may occur in the future due to changes in the underlying assumptions, changes in the number and composition of plan participants, and changes in the level of benefits provided. The Company uses a measurement date of December 31 to evaluate and record any post-retirement benefits related to the Benefit Plan.

Projected Benefit Obligation and Fair Value of Plan Assets

The Benefit Plan's projected benefit obligation and valuation of plan assets are as follows, (in thousands):

	For the Year Ended December 31,	
	2004	**2005**
Projected benefit obligation:		
Balance, beginning of year	$ 205	$ 332
Service cost	84	113
Interest cost	5	8
Liability (gains) and losses	38	(82)
Benefits paid to participants	—	(58)
Balance, end of year	$ 332	$ 313
Plan assets:		
Fair value, beginning of year	$ —	$ —
Company contributions	—	58
Benefits paid to participants	—	(58)
Fair value, end of year	$ —	$ —

Funding Status

The funded status of the Benefit Plan reconciled to the amount reported on the Consolidated Balance Sheet is as follows, (in thousands):

	December 31, 2004	December 31, 2005
Unfunded benefit obligation	$(332)	$(313)
Unrecognized net transition obligation	73	66
Unrecognized net loss (gain)	55	(13)
Prepaid benefit cost	$(204)	$(260)

The weighted-average assumptions to determine the benefit obligation and net cost are as follows:

	2004	2005
Discount rate	2.5%	2.5%
Rate of increase in compensation levels	3.0%	3.0%

Components of Expense

Pension expense for the Benefit Plan is comprised of the following (in thousands):

	For the Year Ended December 31, 2004	For the Year Ended December 31, 2005
Service cost	$ 84	$ 113
Interest cost	5	8
Amortization of transition or obligation	4	4
Amortization of unrecognized loss	—	1
Total pension expense	$ 93	$ 126

Estimated Contributions

As of December 31, 2005, benefits expected to be paid by the Benefit Plan for the next five years and thereafter are approximately as follows (in thousands):

2006	$ 2
2007	3
2008	4
2009	5
2010	5
Thereafter	163
Total expected benefits to be paid	$182

NOTE 11: STOCK OPTION PLANS

In May 1997, the Company's Board of Directors approved its 1997 Stock Option Plan (the "1997 Plan"), which provides incentive and nonqualified stock options to employees and nonemployees. The Company reserved 2,000,000 shares of its common stock for issuance pursuant to the 1997 Plan. No options granted under this plan will remain exercisable later than ten years after the date of grant.

In May 1998, the Company's Board of Directors approved its 1998 Stock Option Plan (the "1998 Plan"), which provides incentive and non-incentive stock options to employees. The Company reserved 1,000,000 shares of common stock for issuance pursuant to the stock options granted under this 1998 Plan. No options granted under this plan will remain exercisable later than ten years after the date of the grant.

In June 2000, the Company's Board of Directors approved its 2000 Stock Option Plan (the "2000 Plan"), which provides incentive and nonqualified stock options to employees and nonemployees. The Company reserved 2,000,000 shares of common stock for issuance pursuant to the stock options granted under this 2000 Plan. No options granted under this plan will remain exercisable later than ten years after the date of grant.

Stock options outstanding for the 1997, 1998, and 2000 Plans, (collectively, "the Stock Option Plans") are in thousands, except per share information, for the year ended December 31, as follows:

	2003		2004		2005	
	Shares (000s)	Weighted average exercise price	Shares (000s)	Weighted average exercise price	Shares (000s)	Weighted average exercise price
Outstanding at beginning of year	3,366	$ 3.64	2,313	$ 4.72	1,445	$ 5.06
Granted	297	$ 7.04	25	$ 18.69	87	$ 14.81
Exercised	(1,065)	$ 2.87	(888)	$ 4.09	(289)	$ 3.56
Canceled	(285)	$ 2.76	(5)	$ 2.63	(6)	$ 5.46
Outstanding at end of year	2,313	$ 4.53	1,445	$ 5.06	1,237	$ 6.09
Options exercisable at year end	1,978	$ 4.33	1,245	$ 4.52	1,049	$ 5.36
Weighted-average fair value of options granted during the year		$ 4.72		$ 12.36		$ 10.00

The following table summarizes information with respect to the Company's stock options outstanding and exercisable at December 31, 2005, in thousands, except per share information:

	Options outstanding			Options exercisable	
Exercise Price Range	Number of shares (000s)	Weighted average exercise price	Weighted average remaining contractual life (in years)	Number of shares (000s)	Weighted average exercise price
$1.35 – $2.00	64	$ 1.96	2.6	64	$ 1.96
$2.50 – $2.69	488	$ 2.65	4.9	488	$ 2.65
$3.49 – $4.00	49	$ 3.50	6.7	27	$ 3.50
$7.45 – $8.20	524	$ 8.00	3.9	435	$ 7.98
$12.44	50	$ 12.44	9.7	—	$ —
$17.05 – $18.69	52	$ 17.84	9.4	25	$ 17.61
$20.64	10	$ 20.64	9.1	10	$ 20.64
$1.35 – $20.64	1,237	$ 6.09	5.5	1,049	$ 5.36

During 2001, the Company issued 223,333 stock options and 213,333 warrants to former executives as part of their severance agreements. The stock options and warrants were exercisable immediately at prices ranging from $1.75 to $4.00 per share and have terms of seven to ten years. As of December 31, 2005, all but 500 of the stock options were exercised but none of the warrants had been exercised. The stock options and warrants require variable accounting treatment, which requires the Company to record a compensation charge equal to the difference between the fair market price and the exercise price of these options each quarter. During the years ended December 31, 2003, 2004, and 2005, the Company recorded compensation expense (income) related to these stock options and warrants of approximately $1.5 million, $0.1 million, and ($0.1 million), respectively.

The Company, as part of compensation to its Board of Directors, issues stock options to its new independent board members and grants additional stock options to its directors for re-election to its Board. In April 2005, the Company granted 2,000 common stock options to each of its independent directors – Dr. John Axford, Donald Buchholz, Gerald Gilbert, Alan Kennedy and Patricia Wier. The stock options fully vested on July 15, 2005 and are exercisable at an exercise price of $20.64 per share. In July 2005, the Company issued 8,026 common stock options to both Mr. Alan Kennedy and to Dr. John Axford, independent Directors, who were re-elected to a three-year term. The stock options vest over 3 years and are exercisable at an exercise price of $17.05 per share. In addition, in July 2005, the Company granted 2,141 common stock options to each of its independent directors – Dr. John Axford, Donald Buchholz, Gerald Gilbert, Alan Kennedy and Patricia Wier. The stock options vest immediately and are exercisable at an exercise price of $17.05 per share.

In August 2005, the Company granted 25,000 common stock options to each new executive officer – Dr. Rob Sinnott and Mr. John Price. These stock options vest over three years and are exercisable at a price of $12.44 per share. All of the stock options have a term of ten years and are cancelable 90 days after employment by the Company ceases or resignation from the Company's Board of Directors.

NOTE 12: COMMITMENTS AND CONTINGENCIES

Operating Leases

The Company leases certain office space, automobiles, computer hardware and warehouse equipment under various noncancelable operating leases. Some of these leases have options to renew. In September 2005, the Company renewed its United States corporate and distribution building leases. All of the Company's leases expire at various times through December 2016. The Company also leases equipment under various month-to-month cancellable operating leases. Total rent expense was approximately $2.1 million, $2.9 million, and $3.8 million for the years ended December 31, 2003, 2004, and 2005, respectively.

During 2002, the Company entered into a master operating lease to lease approximately $0.3 million of computer hardware under a noncancelable master operating lease. The master operating lease contained seven separate three-year operating leases that expired at various times through October 2005. In April 2003, the Company obtained an additional master operating lease with another financial institution to lease additional computer hardware in an amount of $0.4 million that is payable through October 2006. In 2004, the Company leased additional computer hardware of $0.8 million that is payable through April 2007.

Approximate future minimum rental commitments for non-cancelable operating leases are as follows (in thousands):

Year Ending December 31,	
2006	$ 2,855
2007	1,719
2008	1,199
2009	922
2010	750
Thereafter	4,875
	$12,320

Purchase Commitments

In March 2004, the Company entered into a five year Supply Agreement with Coradji PTY Limited to purchase a raw material used in the Company's Ambrotose AO® product. Under the terms of the Supply Agreement, the Company is required to purchase a total of $0.4 million annually through February 2009. In November 2005, this Supply Agreement was amended to reduce the first year minimum quantity purchase from $0.4 million to $0.2 million, as the supplier's harvest of this raw material was limited, which reduced the amount available to purchase. Pursuant to the Supply Agreement, the Company is required to purchase $1.3 million through 2009.

In August 2004, the Company entered into a five year Supply Agreement with Marionova PTY Limited to purchase raw materials used in its products. Under the terms of the Supply Agreement, the Company is required to purchase $3.5 million annually over the next three years. The Company is not required to purchase any minimum amount of raw materials for the last two years of this agreement. As of December 31, 2005, the Company is required to purchase an aggregate of $7.0 million through 2007.

In September 2005, the Company entered into a Supply Agreement with a vendor to purchase 100,000 copies of a magazine for $0.4 million in April 2006. The Company intends to sell this magazine as a promotional item beginning in March 2006.

In February 2006, the Company entered into an exclusive renewable Supply and License Agreement with Wellness Enterprises LLC, to purchase a raw material for ten months totaling $0.5 million for new products, which the Company plans to launch in Japan in 2006.

In February 2006, the Company entered into a five-year Supply Agreement with Larex, Inc. to exclusively purchase Arabinogalactan, an important component used in the formulation of its Ambrotose™ complex. In order to retain exclusive rights to purchase Arabinogalactan, the Company is required to purchase $0.6 million annually over the next five years, which will total $3.2 million through 2010.

Letter of Credit

The Company offers an annual travel incentive for its independent associates who qualify for the Company's annual travel incentive. Part of the 2006 travel incentive is planned as a cruise on a Royal Caribbean Cruise ship for its United States and Canada associates. Royal Caribbean requires its customers to obtain a letter of credit that is collateralized with cash. As a result, the Company obtained a letter of credit and restricted cash of $2.5 million related to its 2006 annual travel incentive.

Royalty and Consulting Agreements

In 2002, the Company entered into a royalty agreement with Jett, a high level associate and shareholder, whereby the Company agreed to pay Jett an accumulated total of $1.6 million related to certain royalties. The Company agreed to pay Jett a royalty of $5.00 for each specific training material and sales aid that is developed by him and sold by the Company. At December 31, 2003, 2004, and 2005, the Company paid Jett royalties associated with this agreement of $0.4 million, $0.3 million, and $0.2 million, respectively. Pursuant to this agreement with Jett, the Company has paid a total of $1.0 million.

The Company also utilizes royalty agreements with individuals and entities to provide compensation for items such as reprints of articles or speeches relating to the Company, sales of promotional videos featuring sports personalities, and promotional efforts used by the Company for product sales or attracting new associates. The Company paid royalties for such royalty agreements of approximately $0.4 million, $0.4 million, and $0.3 million in 2003, 2004, and 2005, respectively.

In November 2004, the Company entered into a three-year consulting agreement with a former employee. The consultant was temporarily moved to Japan and under the terms of the agreement, the Company is obligated to pay the consultant approximately $0.2 million per year for certain consulting services and payment of certain living expenses and business-related expenses.

Agreements with Dr. Bill McAnalley

On August 7, 2005, the two-year employment agreement with Dr. Bill McAnalley, who served as the Company's Chief Science Officer, expired. As a result, the Company entered into a Release Agreement and a one-year Consulting Agreement, in which the Company is required to pay Dr. McAnalley a total of $0.9 million. As of December 31, 2005, the Company paid Dr. McAnalley $0.4 million in connection with services provided under this Consulting Agreement.

In August 2003, the Company entered into a Royalty Agreement with Dr. McAnalley. The Company agreed to pay Dr. McAnalley the greater of his annual royalties or an annual executive bonus while employed by the Company. Under this agreement, Dr. McAnalley was paid an annual royalty of three tenths of one percent (0.003) of the calculated incremental net products sold per year. This Royalty Agreement ended in August 2005, when Dr. McAnalley's employment agreement expired. For the year ended December 31, 2004, the Company accrued $0.3 million and for the year ended December 31, 2005, the Company paid Dr. McAnalley $0.3 million related to this Royalty Agreement, when this agreement ended.

In August 2003, the Company also entered into a Long-Term Post-Employment Royalty Agreement with Dr. McAnalley, pursuant to which the Company is required to pay Dr. McAnalley or his heirs' royalties for ten years, beginning September 2005 through September 2015. Quarterly payments related to this Long-Term Post-Employment Royalty Agreement are based on certain applicable annual global product sales, by the Company, in excess of $105.4 million. At the time the Company entered into this Long-Term Post-Employment Royalty Agreement, it was considered a post-employment benefit and the Company was required to measure and accrue the present value of the estimated future royalty payments related to the post-employment royalty benefit, and recognize it over the life of Dr. McAnalley's employment agreement. As of December 31, 2004, the Company accrued a long-term liability related to this Royalty Agreement of $1.7 million and as of December 31, 2005, the Company accrued $3.9 million related to this Royalty Agreement, of which $0.5 million was currently due at December 31, 2005.

Non-Compete and Confidentiality Agreement

In July 2002, the Company entered into a Non-Compete and Confidentiality Agreement with Dr. H. Reginald McDaniel, a former medical director, who resigned from the Company in June 2002. Under the terms of the Non-Compete and Confidentiality Agreement, the Company agreed to pay Dr. McDaniel $25,000 a month, as consideration for his continued compliance with the non-compete clause of this agreement. In January 2005, the Company amended the Non-Compete and Confidentiality Agreement for one more year and agreed to extend the agreement to pay Dr. McDaniel $25,000 a month through January 2006.

NOTE 13: LITIGATION

The Company has been sued in three securities class action lawsuits in the United States District Court for the District of New Mexico.

- First, on August 1, 2005, Mr. Jonathan Crowell filed a putative class action lawsuit against the Company and Mr. Samuel L. Caster, its Chief Executive Officer, in the United States District Court for the District of New Mexico, on behalf of himself and all others who purchased or otherwise acquired the common stock of the Company between August 10, 2004 and May 9, 2005, inclusive, and who were damaged thereby.
- Second, on August 30, 2005, Mr. Richard McMurry filed a class action lawsuit against the Company, Mr. Caster, Mr. Terry L. Persinger, its President and Chief Operating Officer, and Mr. Stephen D. Fenstermacher, its Chief Financial Officer.
- Third, on September 5, 2005, Mr. Michael Bruce Zeller filed a class action lawsuit against the Company, Mr. Caster, Mr. Persinger, and Mr. Fenstermacher.

The allegations in these class action lawsuits are substantially identical. The complaints allege violations of Section 10(b), Rule 10b-5 and Section 20(a) of the Securities Exchange Act of 1934, alleging that defendants artificially inflated the value of the Company's common stock by knowingly allowing independent contractors to recklessly misrepresent the efficacy of the Company's products during the purported class period.

On December 12, 2005, the Court granted a motion to consolidate the three putative class action lawsuits. These lawsuits have been consolidated into the civil action styled "In re Mannatech, Incorporated Securities Litigation." Also, on January 4, 2006, the Court granted a motion in the consolidated putative class action lawsuit to appoint "The Mannatech Group," consisting of Mr. Austin Chang, Ms. Naomi S. Miller, Mr. John C. Ogden, and the Plumbers and Pipefitters Local 51 Pension Fund, as lead plaintiffs. The January 4, 2006 court order also appointed the law firms Lerach Coughlin Stoia Geller Rudman & Robbins LLP as lead counsel, and Freedman Boyd Daniels Hollander & Goldberg, P.A. as liaison counsel, for the putative class. On March 3, 2006, the plaintiffs in the consolidated cases filed a Consolidated Class Action Complaint for Securities Fraud. The Company has sixty days in which to file a response.

The Company has also been sued in three shareholder derivative lawsuits.

- First, on October 18, 2005, a shareholder derivative lawsuit was filed by Norma Middleton, Derivatively and on Behalf of Nominal Defendant, Mannatech, Incorporated v. Samuel L. Caster, Terry L. Persinger, Donald A. Buchholz, J. Stanley Fredrick, Gerald E. Gilbert, Alan D. Kennedy, Marlin Ray Robbins, and Patricia A. Wier, in the United States District Court for the Northern District of Texas, Dallas Division.
- Second, on January 11, 2006, a shareholder derivative action was filed by Kelly Schrimpf, Derivatively and on Behalf of Nominal Defendant Mannatech, Incorporated v. Samuel L. Caster, Terry L. Persinger, Steven W. Lemme, and Stephen D. Fenstermacher in the 162nd District Court of Dallas County, Texas.
- Third, on January 13, 2006, a shareholder derivative action was filed by Frances Nystrom, Derivatively and on Behalf of Nominal Defendant Mannatech, Incorporated v. Samuel L. Caster, Terry L. Persinger, Stephen D. Fenstermacher, John Stuart Axford, J. Stanley Fredrick, Gerald E. Gilbert, Alan D. Kennedy, Marlin Ray Robbins, Patricia A. Wier, and Donald A. Buchholz in the United States District Court for the Northern District of Texas.

Each of these shareholder derivative lawsuits makes allegations similar to the allegations of the shareholder class action litigation described above. The Company's independent directors have appointed a Special Litigation Committee to review these matters and determine the proper corporate response. On February 22, 2006, the Company filed a Motion Requesting Stay of Derivative Proceedings Pending Inquiry Into Plaintiff's Claims in the Schrimpf lawsuit. On March 2, 2006, the Company and the individual defendants subsequently filed Defendants' Motion to Dismiss, Plea in Abatement, Motion to Stay and, Subject Thereto, Original Answer. These motions are pending as are the Company's motions to stay and consolidate the Middleton and Nystrom lawsuits.

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

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

On September 19, 2005, the Court dismissed the lawsuit filed in the Superior Court of California, County of Los Angeles by Ms. Chie Sasaki against the Company, Mr. Samuel Caster, and Ms. Victoria Arcadi, an independent associate. The lawsuit alleged intentional and negligent infliction of emotional distress, intentional and negligent misrepresentation, invasion of privacy, and unfair competition based on the publication of photographs of Ms. Sasaki's son by one of the Company's independent associates. The Company paid $750,000 as part of a confidential settlement and release and agreed to cease all references to the Sasaki child.

On July 8, 2005, the Australian Therapeutic Goods Administration ("TGA") notified the Company regarding a new complaint made by an Australian independent associate related to certain therapeutic claims to promote the Company's products. In response to this complaint, the Company conducted an investigation and disciplined its independent associate, developed plans for continuing education and compliance training for its independent associates, and notified the TGA of its actions. The Company received written compliance confirmation from the TGA that it considered the Company's actions acceptable and as a result, considers this matter closed.

In October 1997, the Company filed a Notice of Objection to the issuance of a registered trademark issued to IntraCell Nutrition, Inc., which had filed a trademark application for the name "Manna." On May 19, 2000, the Company's Notice of Opposition was rejected. To date, no infringement action has been filed against the Company by IntraCell. If IntraCell brings any infringement action against the Company, a negative determination could adversely affect the Company's business, results of operations, financial condition, and liquidity.

On February 25, 2005, as part of the Company's worldwide enforcement efforts of its intellectual property rights, the Company filed a patent infringement lawsuit in the High Court, Chancery Division, Patents Court, London, seeking a permanent injunction and certain damages against BION, Inc. and its principal Mr. Veilis Boye, claim no. HC05C00436. The Company has alleged infringement of certain claims of the Company's European Patent (UK) No. 0 923 383. This case is still pending.

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

The Company maintains certain liability insurance in amounts management believes are adequate. However, certain costs of defending lawsuits against the Company, such as those below the insurance deductible amount, are not covered by or only partially covered by the Company's insurance policies, and the Company's insurance carriers could refuse to cover certain of these claims in whole or in part.

NOTE 14: CAPITAL STOCK

On June 30, 2004, the Company's Board of Directors authorized the Company to repurchase, in the open market, up to 1.3 million shares of its outstanding common stock to help manage any dilutive effects. As of December 31, 2005, the Company is authorized to purchase an additional 719,501 of its common shares in the open market. The Company has repurchased the following number of its common shares:

Date purchased	Number of common shares purchased in the open market	Approximate cost of common shares purchased in the open market
May 2005	190,850	$ 3.0 million
September 2005	182,626	$ 2.0 million
October 2005	207,023	$ 2.0 million
Total	580,499	$ 7.0 million

Preferred Stock

On April 8, 1998, the Company amended its Articles of Incorporation to reduce the number of authorized shares of common stock from 100.0 million to 99.0 million and the Company authorized 1.0 million shares of preferred stock with a par value of $0.01 per share. No shares of preferred stock have ever been issued or outstanding.

Treasury Stock

In September 2003 and 2004, Dr. McAnalley tendered 12,422 and 30,566 shares, respectively, of his common stock to the Company, at the current market price on the date of transfer, in order to exercise an additional 74,074 and 107,021 of his stock options, respectively. In November 2003, Ms. Eileen Vennum, an executive officer of the Company, tendered 3,626 shares of her common stock to the Company, at the current market price on the date of transfer, in order to exercise 15,000 of her stock options. In April 2005, Mr. Jeff Bourgoyne tendered 11,335 of his common stock to the Company, at the current market price on the date of transfer, in order to exercise an additional 56,130 of his stock options.

NOTE 15: EARNINGS PER SHARE

The following data shows the amounts used in computing the Company’s EPS and their effect on the Company’s weighted-average number of common shares and dilutive common share equivalents for the years ended December 31, 2003, 2004 and 2005. At December 31, 2003, approximately 0.8 million of the Company’s common stock options were excluded from its diluted EPS calculation using a weighted-average close price of $5.34 per share, as their effect was antidilutive. At December 31, 2004, none of the Company’s 1.4 million common stock options or its 213,333 stock warrants were excluded from its diluted EPS calculation. At December 31, 2005, approximately 0.1 million of the Company’s common stock options were excluded from its diluted EPS calculation using a weighted-average close price of $12.01 per share, as their effect was antidilutive. The amounts are rounded to the nearest thousands, except for per share amounts.

	2003			2004			2005		
	Income (Numerator)	Shares (Denominator)	Per Share Amount	Income (Numerator)	Shares (Denominator)	Per Share Amount	Income (Numerator)	Shares (Denominator)	Per Share Amount
Basic EPS:									
Net income available to common shareholders	$ 8,790	25,494	$ 0.34	$ 19,552	26,436	$ 0.74	$ 28,647	26,990	$ 1.06
Effect of dilutive securities –									
Stock options	—	635	—	—	955	(0.03)	—	673	(0.03)
Stock warrants	—	46	—	—	100	—	—	108	—
Diluted EPS:									
Net income available to common shareholders plus assumed conversions	$ 8,790	26,175	$ 0.34	$ 19,552	27,491	$ 0.71	$ 28,647	27,771	$ 1.03

NOTE 16: SEGMENT INFORMATION

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

The Company aggregates all of its operating units because it operates as a single reportable segment as a seller of nutritional supplements through its network-marketing distribution channels operating in nine different countries. In each country, the Company markets its products and pays commissions and incentives in similar market environments. The Company’s management reviews its financial information by country and focuses its internal reporting and analysis of revenues by packs and product sales. The Company sells its products through its independent associates and distributes its products through similar distribution channels in each country. Each of the Company’s operations sells similar packs and products and possesses similar economic characteristics such as selling prices and gross margins.

The Company has six active subsidiaries that operate in 6 physical locations and sells the Company’s products in 9 different countries around the world. The six physical locations include the United States, Australia, the United Kingdom, Japan, the Republic of Korea, and Taiwan. Each of the Company’s physical locations service different geographical areas. The United States parent processes orders for Canada, but products and packs sold in Canada are shipped through a third party distribution facility located in Canada. The Company’s Australian location processes orders for both Australia and New Zealand, but the orders are shipped for Australia and New Zealand through a third party distribution facility located in Australia. The Company’s United Kingdom location processes and ships orders for the United Kingdom, and on August 1, 2005, began processing and shipping orders for Denmark.

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

Table of Contents

Index to Financial Statements

For geographical purposes, consolidated net sales primarily shipped to customers in these locations along with pack and product information for the year ended December 31, is as follows:

	For the Year Ended December 31,					
	2003		2004		2005	
			(in millions)			
United States	$127.8	67.0%	$192.5	65.4%	$259.4	66.6%
Canada	16.7	8.7%	22.2	7.5%	28.0	7.2%
Australia	15.6	8.2%	30.6	10.4%	35.7	9.2%
United Kingdom	5.0	2.6%	10.5	3.6%	8.9	2.3%
Japan	18.6	9.7%	24.5	8.3%	35.4	9.1%
New Zealand	7.3	3.8%	12.9	4.4%	14.6	3.7%
Republic of Korea*	—	— %	1.3	0.4%	4.6	1.2%
Taiwan**	—	— %	—	— %	2.3	0.6%
Denmark***	—	— %	—	— %	0.5	0.1%
Totals	**$191.0**	**100%**	**$294.5**	**100%**	**$389.4**	**100%**

* Republic of Korea began operations in September 2004.
** Taiwan began operations in June 2005.
*** United Kingdom began selling products in Denmark in August 2005.

	For the Year Ended December 31,		
	2003	2004	2005
		(in millions)	
Consolidated product sales	$144.3	$209.3	$284.8
Consolidated pack sales	39.0	70.5	87.8
Consolidated other, including freight	7.7	14.7	16.8
Total	**$191.0**	**$294.5**	**$389.4**

Canada, New Zealand, and Denmark operations are serviced through the Company’s offices in the United States, Australia, and the United Kingdom, respectively. Long-lived assets by country includes property, plant and equipment and construction in progress is as follows (in millions):

	For the Year Ended December 31,		
Country	2003	2004	2005
Australia	$ 0.3	$ 0.3	$ 0.2
Japan	0.5	0.6	0.3
Republic of Korea	—	0.7	0.6
Taiwan			0.3
United Kingdom	0.1	0.4	0.5
United States	4.6	8.0	17.2
	$ 5.5	**$ 10.0**	**$ 19.1**

NOTE 17: SUBSEQUENT EVENT

On March 13, 2006, Mr. Jeff Bourgoyne, the Company’s Senior Vice President of Supply Chain and Associate Care, tendered his resignation to pursue other interests.

[Table of Contents](#)

[Index to Financial Statements](#)

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	Fourth Amended and Restated Bylaws of Mannatech, dated August 8, 2001.	8-K	000-24657	99.1	August 22, 2001
4.1	Specimen Certificate representing Mannatech's common stock, par value $0.0001 per share.	S-1	333-63133	4.1	October 28, 1998
10.1	Amended and Restated 1997 Stock Option Plan, dated August 7, 2004.	10-K	000-24657	10.1	March 15, 2004
10.2	Amended and Restated 1998 Incentive Stock Option Plan, dated August 7, 2004.	10-K	000-24657	10.1	March 15, 2004
10.3	Amended and Restated 2000 Option Plan, dated August 7, 2004.	10-K	000-24657	10.1	March 15, 2004
10.4	Form of Indemnification Agreement between Mannatech and each member of its Board of Directors of Mannatech Korea Ltd., dated March 3, 2004.	10-Q	000-24657	10.2	August 9, 2004
10.5	Form of Indemnification Agreement between Mannatech, and its Board of Directors, dated September 10, 1998.	S-1	333-63133	10.8	September 10, 1998
10.6	Letter of Understanding Regarding Development of Proprietary information for Mannatech effective as of August 1, 1997, as amended between Dr. Bill H. McAnalley and Mannatech, Incorporated.	S-1	333-63133	10.12	September 10, 1998
10.7	Commercial Lease Agreement between MEPC Quorum Properties II Inc. and Mannatech, dated November 7, 1996, as amended by the First Amendment thereto dated May 29, 1997 and the Second Amendment thereto dated November 13, 1997.	S-1	333-63133	10.13	September 10, 1998
10.8	Third Amendment to the Commercial Lease Agreement between Mannatech and Texas Dugan Limited Partnership, dated September 22, 2005.	10-Q	000-24657	10.2	November 9, 2005
10.9	Commercial Lease Agreement dated May 29, 1997 between MEPC Quorum Properties II Inc. and Mannatech, as amended by the First Amendment thereto dated November 6, 1997.	S-1	333-63133	10.14	September 10, 1998
10.10	Second Amendment to the Commercial Lease Agreement between Mannatech and Texas Dugan Limited Partnership, dated September 22, 2005.	10-Q	000-24657	10.1	November 9, 2005
10.11	Assignment of Patent Rights, dated October 30, 1997 between Mannatech and Dr. Bill H. McAnalley, Mr. H. Reginald McDaniel, Mr. D. Eric Moore, Ms. Eileen P. Vennum, Dr. William C. Fioretti and Mannatech, Incorporated.	S-1	333-63133	10.15	September 10, 1998
10.12	Supply Agreement effective as of December 1, 2003 by and between Mannatech and Caraloe, Inc. (Portions of this exhibit were omitted pursuant to a confidential treatment request submitted pursuant to Rule 24b-2 of the Exchange Act.)	10-K/A	000-24657	10.1	December 17, 2004
10.13	Supply Agreement by and among Mannatech, Caraloe, Inc., and Natural Alternatives International, Inc., dated December 17, 2004.	8-K	000-24657	99.1	December 22, 2004
10.14	Trademark License Agreement entered into December 17, 2004 to be effective as of December 1, 2004 by and between Mannatech and Caraloe, Inc. (Portions of this exhibit were omitted pursuant to a confidential treatment request submitted pursuant to Rule 24b-2 of the Exchange Act.)	8-K	000-24657	99.2	December 22, 2004
10.15	Supply Agreement between Mannatech and its supplier, dated March 29, 2004. (Portions of this exhibit were omitted pursuant to a confidential treatment request submitted pursuant to Rule 24b-2 of the Exchange Act.)	10-Q/A	000-24657	99.1	March 29, 2005

[Table of Contents](#)

[Index to Financial Statements](#)

Exhibit Number	Exhibit Description	Incorporated by Reference Form	File No.	Exhibit (s)	Filing Date
10.16	Purchase Agreement between Mannatech and Marinova PTY Limited, dated August 11, 2004. (Portions of this exhibit were omitted pursuant to a confidential treatment request submitted pursuant to Rule 24b-2 of the Exchange Act.)	10-Q	000-24657	10.1	November 9, 2004
10.17	Purchase Agreement between Mannatech and Success at Home, dated September 27, 2005.	10-Q	000-24657	10.4	November 9, 2005
10.18*	Purchase Agreement between Mannatech and Larex, Inc., dated January 1, 2006. (Portions of this exhibit were omitted pursuant to a confidential treatment request submitted pursuant to Rule 24b-2 of the Exchange Act.)	*	*	*	*
10.19*	Purchase Agreement between Mannatech and Wellness Enterprises, LLC, dated February 1, 2006. (Portions of this exhibit were omitted pursuant to a confidential treatment request submitted pursuant to Rule 24b-2 of the Exchange Act.)	*	*	*	*
10.20	Purchase Agreement between Mannatech and Coradji PTY. Limited, dated March 29, 2004. (Portions of this exhibit were omitted pursuant to a confidential treatment request submitted pursuant to Rule 24b-2 of the Exchange Act.)	10-Q	000-24657	10.1	May 10, 2004
10.21	Employment Agreement between Mannatech and Dr. Bill McAnalley, dated August 7, 2003.	10-Q	000-24657	10.3	August 14, 2003
10.22	Royalty Agreement between Mannatech and Dr. Bill McAnalley, dated August 7, 2003.	10-Q	000-24657	10.4	August 14, 2003
10.23	Release Agreement between Mannatech and Dr. Bill McAnalley, dated August 9, 2005.	8-K	000-24657	99.1	August 10, 2005
10.24	Consulting Agreement between Mannatech and Dr. Bill McAnalley, dated August 9, 2005.	8-K	000-24657	99.2	August 10, 2005
10.25	Employment Agreement between Mannatech and Mr. Terry L. Persinger, dated November 1, 1999.	10-K	000-24657	10.7	March 30, 2000
10.26	First Amendment to the Employment Agreement between Mannatech and Mr. Terry L. Persinger, dated January 1, 2002.	10-K	000-24657	10.19	March 30, 2002
10.27	Second Amendment to the Employment Agreement between Mannatech and Mr. Terry L. Persinger, dated June 7, 2004.	10-Q	000-24657	10.1	August 9, 2004
10.28*	Third Amendment to the Employment Agreement between Mannatech and Mr. Terry L. Persinger, dated January 1, 2006.	*	*	*	*
10.29	Employment Agreement between Mannatech and Dr. Robert Sinnott, dated August 31, 2005.	10-Q	000-24657	10.3	November 9, 2005
10.30	Employment Agreement between Mannatech and Mr. John Price, dated November 22, 2005.	8-K	000-24657	99.1	November 22, 2005
10.31	Employment Agreement between Mannatech and Mr. Samuel L. Caster, dated October 31, 2002.	10-Q	000-24657	10.1	March 14, 2004
10.32*	Employment Agreement between Mannatech and Mr. Samuel L. Caster, dated January 23, 2006.	*	*	*	*
10.33*	Employment Agreement between Mannatech and Ms. Bettina Simon, dated November 11, 2005.	*	*	*	*
10.34	Separation Agreement between Mannatech and Mr. Robert M. Henry, dated April 15, 2003.	8-K	000-24657	99.1	April 17, 2003
10.35	Renewal and Extension Promissory Note, dated February 17, 1999 in the amount of $199,896.10 made by Mr. Samuel L. Caster.	10-K	000-24657	10.26	March 31, 1999
10.36	Non-Compete and Confidentiality Agreement between Mannatech and Dr. H. Reginald McDaniel, dated July 2 2002.	10-Q	000-24657	10.1	August 14, 2002
10.37	General Release Agreement between Mannatech and Dr. H. Reginald McDaniel, dated July 2, 2002.	10-Q	000-24657	10.2	August 14, 2002
10.38	First Amendment to the Non-Compete and Confidentiality Agreement between Mannatech and Dr. H. Reginald McDaniel, dated March 3, 2004.	10-Q	000-24657	10.3	August 9, 2004

Table of Contents

Index to Financial Statements

Exhibit Number	Exhibit Description	Incorporated by Reference: Form	File No.	Exhibit (s)	Filing Date
10.39	Royalty Agreement between Mannatech and Jett, dated September 10, 2001.	10-Q	000-24657	10.4	November 14, 2001
10.40	Lock-up Agreement between Mannatech and J. Stanley Fredrick, dated November 6, 2003.	10-K	000-24657	10.36	March 15, 2004
10.41	Consulting Services Agreement between Mannatech and Fredrick Media LLC, dated November 16, 2005.	8-K	000-24657	99.1	November 21, 2005
14.0	Code of Ethics	10K	000-24657	14.0	March 31, 2005
16.1	Letter from PricewaterhouseCoopers LLP	8-K/A	000-24657	16.1	May 13, 2005
21*	List of Subsidiaries	*	*	*	*
23.1*	Consent of Grant Thornton LLP	*	*	*	*
23.2*	Consent of PricewaterhouseCoopers LLP	*	*	*	*
24*	Power of Attorney, which is included on the signature page of this annual report on Form 10-K.	*	*	*	*
31.1*	Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, of the Chief Executive Officer of Mannatech.	*	*	*	*
31.2*	Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, of the Chief Financial Officer of Mannatech.	*	*	*	*
32.1*	Certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, of the Chief Executive Officer of Mannatech.	*	*	*	*
32.2*	Certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, of the Chief Financial Officer of Mannatech.	*	*	*	*

* Filed herewith.

*** *Indicates omitted material that is the subject of a confidential treatment request filed separately with the Commission.*

SALES AGREEMENT

This Agreement made and entered into this 1st day of January, 2006 (the "Effective Date") by and between Mannatech™ Incorporated ("BUYER") with its principle place of business at 600 S. Royal Lane, Suite 200, Coppell, Texas 75019 and Larex, Inc. ("SELLER") with its principle place of business located at 4099 White Bear Parkway, Suite 102, White Bear Lake, MN 55110 *hereinafter collectively* referred to as the "Parties".

RECITALS

WHEREAS, BUYER develops and sells proprietary nutritional supplements and topical products through a network marketing system throughout the United States, Canada, Australia, New Zealand, Korea, Taiwan, Germany, Denmark, Belgium, the United Kingdom and Japan by distributors referred to as Independent Associates ("Associates");

WHEREAS, SELLER is engaged in the development, manufacture and sale of products and possesses particular technology and know-how which it is applying to develop products intended for human use;

WHEREAS, SELLER desires to sell the Products (as defined below) exclusively to BUYER (even as to SELLER) within the Territory (as defined below) and during the Term (as defined below), and BUYER desires to be the exclusive BUYER (even as to SELLER) of the Products within the Territory and during the Term; and

WHEREAS, SELLER has represented that it presently has the ability to manufacture and deliver all of the Product that BUYER needs in accordance with the Specifications provided by BUYER.

NOW THEREFORE, promises considered, and in consideration of the covenants, releases, and obligations of the Parties herein, the Parties agree as follows:

1. Definitions.

As used in this Agreement, the following terms shall have the meanings set forth below:

1.1 **"Product"** or **"Products"** means Manna 2000 and any other dietary supplement or food other similar product preparation or containing larch arabinogalactans in which the arabinogalactan is combined with two or more of the following ingredients:

Naturally-derived gums and resins, including gum tragacanth and gum ghatti;

Aloe Vera, including any extracts, derivatives or fractions thereof;

Any type of algal derived extracts, and

Any form of glucosamine.

The Product shall be intended as a dietary ingredient or food ingredient and/or dietary supplement or food (in capsule, powder, tablet or liquid form, as the case may be) intended for sale to the ultimate consumer in the Territory (as defined herein) in which Mannatech conducts business.

1.2 **"Price"** means those prices on Exhibit "A" – "Product Pricing and Minimum Orders".

1.3 "**Territory"** means global.

1.4 **"Secondary Term"** shall refer to a 365 day period commencing on, and on each anniversary of the Effective Date

1.5 **"Vendors"** shall refer to third party manufacturers who may from time to time be designated by BUYER to make purchases of the Product on BUYER'S behalf. SELLER agrees that all purchases by Vendors pursuant to this Sales Agreement shall be credited on a monthly basis against any requirements by BUYER as set forth in this Sales Agreement.

2. Term.

2.1 Primary Term. Unless terminated by either Party this Agreement shall be effective for a period of five (5) years (the "Initial Term") commencing on the Effective date of this Agreement. Within sixty (60) days of the termination date of the Initial Term, either party may provide notice to the other than it does not intend to extend the Agreement into the Secondary Term. If such sixty (60) day notice does not occur, this Agreement may automatically extend for successive twelve (12) month terms (the "Secondary Term"). In the event the Agreement extends to any Secondary Term or successive terms thereafter, either party may terminate the Agreement, upon sixty (60) days notice prior to the end of the then Secondary Term. Either Party may terminate this Agreement in the event that regulatory requirements, including but not limited to quality assurance, good manufacturing practices and legality for sale are not met regarding product and manufacturing, such determination at its sole discretion.

2.2 At least thirty (30) days prior to the end of the Term, BUYER and SELLER mutually agree in writing on the price of the Product to be sold by SELLER and purchased by BUYER hereunder during such additional one-year period. At least sixty (60) days prior to the end of the Term, SELLER and BUYER shall commence good faith negotiations to determine and agree upon such price for such additional one-year period. If BUYER and SELLER are unable to so agree on such price, the Agreement shall terminate effective at the end of the then-current Term. Nothing contained in this Paragraph shall be deemed to (i.) obligate BUYER and SELLER to agree upon such price, (ii.) obligate a party to negotiate with the other party regarding such price is such other part is then in breach of or in default under this Agreement or (iii.) limit the rights of BUYER and SELLER under Paragraph 13 hereof.

2.3 At the termination of this Agreement (or any renewal or extension thereof), BUYER shall have the right and ability to make products, particularly using its proprietary information and formulae.

3. Products.

3.1 Product Exclusivity. BUYER shall have an exclusive right to purchase Products as defined in paragraph 1.1 hereof.

3.2 Validation of Claims. SELLER shall provide to BUYER all required scientific data to substantiate product claims (if any). SELLER and BUYER shall further ensure all aspects as contemplated hereunder comport with regulatory guidelines in place by the Food and Drug Administration ("FDA") and/or other country-specific regulatory agency during the term of this Agreement.

3.3 Specifications.

3.3.1 The Products specification shall include, among other things, those product specifications as provided by BUYER to SELLER, from time to time (the "Specifications"). Such Specifications to be provided to BUYER by SELLER and may be amended by BUYER and SELLER by mutual written consent, from time-to-time, subject to variance within ranges of contents and other factors Exhibit "C" – "Current Specifications".

3.3.2 SELLER shall also provide formulation documentation for those countries outside of the United States in which BUYER conducts business and sells the Product. Such documentation shall include, but is not necessarily limited to raw material specifications, certificates of analysis, manufacturing processing (e.g. to determine whether specific raw materials are allowable), amounts of ingredients (e.g. to determine whether the ingredient in the formulation is within upper and lower limits allowable in the specified country.

3.4 Packaging. SELLER shall package the products in packaging that is approved by BUYER. Exhibit "D" - Current Packaging Specifications.

4. Quality Control.

4.1 SELLER shall bear all responsibility for product and quality control for all Products.

4.2 SELLER warrants and represents that it has established procedures for the manufacture and supply of the Products. SELLER agrees that all Products manufactured, packaged, labeled, supplied and delivered to BUYER (or its designee), will be manufactured in a professional, clean, safe and sanitary manner, in accordance with good manufacturing practices and the specifications established by BUYER and SELLER from time-to-time.

4.3 BUYER has the right to inspect and test all Product as contemplated herein, to the extent practicable, at all places and times, including the period of manufacture, and in any event prior to acceptance thereof. BUYER shall perform inspections and tests for quality assurance in a manner that will not unduly delay the production of the Product. BUYER may require repair, reformulation or replacement of nonconforming Product, those constituting, without limitation of the foregoing, unacceptable formulation(s), scientific validation, safety, efficacy, shelf life and nonconformity with FDA regulations. BUYER reserves the right to run adequate tests to determine whether the Product conforms to the specifications as contemplated hereby. Use of a portion of the Product shall not constitute acceptance thereof.

4.4 All books and records maintained by SELLER with respect to the Product shall be available at all reasonable times for inspection and verification by BUYER or any of its designated agents or representatives. BUYER reserves the right, at any time, to examine SELLER's books and records related to the Product at BUYER's expense, and SELLER shall cooperate with any person making such examination on behalf of BUYER.

5. Orders & Payment.

5.1 The purchase price(s) for the Products are set forth on Exhibit "A".

5.1.1 The purchase price(s) include wrapping and packing labor.

5.1.2 Purchase Price(s) do not include any foreign, federal, state or local sales, value added, use or other taxes, all of which shall be borne by BUYER.

5.2 Orders. BUYER shall provide purchase orders for all production a minimum of thirty (30) days in advance of the requested delivery date. The purchase orders shall designate the desired quantities, delivery dates and destinations. SELLER shall allow for up to three (3) shipping destinations per purchase order. Additional destinations may be accommodated for a shipping preparation fee to be negotiated between BUYER and SELLER.

5.3 Payment. SELLER shall submit invoices to BUYER for the balance due on the Products when quantities of the Products are available for shipment to BUYER. SELLER's invoices are due on receipt of goods (net 45) and must be paid in USD.

6. Delivery, Shipment. & Rejected Product

6.1 Delivery dates and quantities of the Products shall be as set forth on Purchase Order(s) – of sufficient quantity for SELLER's batch processing, as acknowledged and approved by SELLER. All quantities of the Products purchased by BUYER hereunder shall be shipped FOB SELLER's manufacturing plant located at White Bear Lake, MN (the "Point of Delivery"). SELLER's sole responsibility shall be to deliver the ordered Products to the commercial carrier at the Point of Delivery.

6.2 BUYER shall be responsible for all costs of transportation, shipping, freight, insurance, import and export fees, and taxes for the quantities of the Products beyond the Point of Delivery. Title to, and risk of loss associated with, the shipments shall pass to BUYER when SELLER delivers the shipments to the commercial carrier at the Point of Delivery.

6.3 Upon written notice to SELLER, BUYER may cancel any order, in whole or in part, that SELLER has previously accepted but not yet shipped to BUYER.

6.4 Rejected Product

6.4.1 In the event Product is rejected ("Rejected Product") because of information, formulations or materials supplied by BUYER and SELLER has manufactured, tested, stored and handled all materials and products in a manner consistent with current good manufacturing practices and good laboratory practices and has complied with all applicable laws and regulations, applicable written procedures and the requirements of this agreement, BUYER shall bear 100% of all costs directly related to an invoice for Rejected Product, including cost of Rejected Product's destruction, which shall be conducted by SELLER in accordance with all applicable laws and regulations.

6.4.2 In the event Rejected Product is due to the failure of SELLER to manufacture, test, store or handle all material and products in a manner consistent with good manufacturing practices and good laboratory practices and to comply with all applicable laws and regulations, applicable written procedures and the requirements of this Agreement, except for which any minor departures from specifications or nonconformities not impairing the safety or efficacy of products to which BUYER may reasonably waive objection, SELLER shall bear 100% of the manufacturing fees, costs of materials supplied by SELLER, and costs of destruction.

6.4.3 In the event the Product does not meet the Specifications and Warranties, and such failure is not due to either (i.) information, formulations or materials supplied by BUYER, or (ii) SELLER's failure to follow written procedures or to manufacture, test, store and handle all materials and products in a manner consistent with good manufacturing practices and good laboratory practices, or (iii) in the event that SELLER AND BUYER are both partially to blame, BUYER shall bear all material and destruction costs of Rejected Product and SELLER shall bear all manufacturing fees of Rejected Product. Destruction of Rejected Product shall be in conformance with all applicable laws and regulations, and SELLER shall indemnify BUYER for any liability, costs or expense, including attorney's fees and court costs relating to a failure to dispose of such Rejected product in accordance with applicable laws and regulations.

6.4.4 BUYER shall pay for any Product that is rendered obsolete as a result of formula, artwork or packaging changes requested by BUYER or as required by any regulatory authority governing those Products.

7. Exclusivity.

7.1 SELLER shall not directly or indirectly develop, manufacture or market an "equivalent or derivative product" of the Product for any other multi-level marketing company and/or direct selling company. For the purpose of this Agreement, "equivalent or derivative product" means any product formulated by SELLER which substantially replicates the Product. The foregoing notwithstanding, nothing in this Agreement is deemed to preclude SELLER from developing, manufacturing or marketing any other type of product.

7.2 The Parties agree that as an inducement for BUYER to enter this Agreement and pay the funds hereunder, it shall have worldwide marketing rights to the Products as BUYER expands into other countries, whether through the expansion within the normal course of marketing through its Associates or through a Personal Consumption Program, whatever the case may be.

7.3 The Parties agree that as an inducement for SELLER to enter this Agreement and offer Exclusivity of Product, BUYER shall submit Purchase Orders and take delivery of minimum amounts per month as outlined in Exhibit "A". If BUYER fails to purchase the minimum volume of Products required under this Section at any time during the term of the agreement, then the agreement becomes non-exclusive, allowing SELLER to provide Product to other customers at SELLERS sole discretion. The minimum volume commitment for additional terms of this Agreement will be agreed upon within 90 days after the end of the prior term. If both parties are unable to agree on the minimum volumes for the Secondary Term then the agreement becomes non-exclusive.

8. Trademarks and Tradenames.

8.1 The Parties recognize that the name and/or respective marks of the other are valuable and that all goodwill associated with use of such names and marks shall inure to the benefit of the other. BUYER shall have the right to terminate this Agreement immediately in the event that SELLER acts in a manner which would negatively impact the reputation of BUYER and/or of its name or marks ("BUYER Marks") and/or would infringe or dilute the value of BUYER's marks or which is not in compliance with applicable law in the United States or any other country in which BUYER conducts business as the case may be.

8.2 BUYER shall be the sole owner and shall have perpetual use and control of all Promotional Materials produced for BUYER bearing its trade name and/or BUYER Marks related to the Product. BUYER shall be free to dispose of and treat in any way all Promotional Materials under this Agreement, including but not limited to selling, advertising, distributing, and permitting their use in other mediums, whether for profit or otherwise. SELLER has no right or license to use any of the trademarks or tradenames owned by, licensed to or associated with the BUYER Marks during the term of this Agreement without prior approval and express permission from BUYER, such approval and permission is within the sole discretion of BUYER and may be withheld at any time.

8.3 The Parties agree that any idea, technology, know-how, process, patent, formula, product, composition, publication, tape, iteration, use, information, or other intellectual property ("Intellectual Property") which shall come to SELLER and/or be researched and developed related to the Product shall be the sole and exclusive property of BUYER, and any compensation therefore shall be embraced within the compensation stated in paragraph 4 herein. SELLER specially represents and warrants that any of the Intellectual Property that is researched and developed for BUYER is of independent and novel origin, and does not rely in any aspect on other technologies and ideas that SELLER has, in the past, conceived, researched and/or developed for Manufacturer or others. Further SELLER hereby represents and warrants as follows:

8.3.1 that none of the Intellectual Property of which SELLER conceives, researches or develops, and ultimately conveys to BUYER shall violate or infringe any patent, copyright, right of privacy, nor constitute the misuse of misappropriation of any trade secret or confidential information which is the subject of an agreement or legal requirement involving a third-party;

8.3.2 that SELLER shall take reasonable steps to identify and secure any approvals or permissions required in connection with the production, manufacture, use or exploitation of the Intellectual Property to the effect that the same have been or will have been obtained prior to any transfer of the Intellectual Property to BUYER (or if not reasonably obtainable, identified to BUYER in writing), and that to the extent the same are secured, such shall remain in full force and effect with respect to such Intellectual Property during the period of ownership by BUYER.

8.3.3 SELLER agrees to execute any document, accurately prepared by counsel of BUYER, which shall serve to preserve the rights to the Intellectual Property of BUYER, including patent applications and related documents, and transfers and evidences of ownership of such rights in BUYER. The obligation to acknowledge ownership of the Intellectual Property in BUYER and to participate in the execution of documents to obtain, evidence and secure rights pertaining to the same, shall survive this agreement, and shall bind SELLER and its successors, and if applicable, assigns. Accordingly, SELLER affirm that any rights which might vest in it with regard to any Intellectual Property which shall come to SELLER and/or be researched and developed during the term of this Agreement for BUYER, including without limitation the rights to manufacture, reproduce, use, publish, distribute, market, sell, license or otherwise exploit, shall be transferred, at various times, at the request of BUYER, to it, as its sole property, with no rights, except to the right of compensation, set forth herein, remaining within your ownership.

9. <u>Confidential Information.</u>

The Parties recognize and acknowledge that their respective tradenames(s), trademarks, copyrights, marketing plans, identity and related information regarding Associates, product formulations and other proprietary product information contemplated hereby and any information of either relating to the management/operations of the other or designated by the other as confidential and/or proprietary (as to each, "Confidential Information") is the sole property and trade secret of the party to whom it belongs. Each party agrees that the Confidential Information of the other shall not be used, sold, disclosed or assigned by such party for any purpose, except to the extent necessary to the performance of this Agreement. Upon termination of this Agreement, each party agrees to return to the other party all written materials, software, customer/member/representative lists and other information that contain Confidential Information of such other party and further agrees not to use such Confidential Information. In the event of breach or threatened breach of this Section by either Party, the non-breaching party will be entitled to an injunction restraining the other party from disclosing, in whole or in part, any Confidential Information to any person, firm, corporation, association or other entity to whom the non-breaching party's Confidential Information, in whole or in part, has been disclosed or threatened to be disclosed. Nothing contained herein will be construed as limiting the non-breaching party from, or prohibiting the non-breaching party from, pursuing any other remedies available to it for such breach, or threatened breach, including recovery of damages from the breaching party. This section shall survive the termination of this Agreement.

10. <u>Indemnification by BUYER and SELLER.</u>

10.1 SELLER hereby agrees to indemnify and save BUYER and hold BUYER harmless in respect of all causes of action, liabilities, costs, charges and expenses, loss and damage (including consequential loss) suffered or incurred by BUYER or any end consumer of the Product (including legal fees) arising from any willful or grossly negligent act or omission of SELLER or its employees, servants and agents and arising from contravention by SELLER of any of its employees, servants, and agents of any of the terms and conditions imposed on SELLER pursuant to this Agreement. This section will not be construed to limit or exclude any other claims or remedies that BUYER may assert under this Agreement or by law.

10.2 SELLER hereby agrees to indemnify and save BUYER and hold BUYER harmless in respect of all causes of action, liabilities, costs, charges and expenses, loss and damage (including consequential loss) suffered or incurred by BUYER (including legal fees) arising from the infringement of other marks and affects of using marks and contents without prior review as required herein.

10.3 BUYER will indemnify and hold SELLER harmless against any and all liability, damage, loss, cost or expense (including reasonable attorney's fees) resulting from third-party claims made or suits brought against SELLER which are related to BUYER's Associates' claims, distribution and promotion.

11. Representations and Warranties.

The following representations and warranties are made by SELLER and are true and correct and shall remain true and correct during the term of this Agreement and have been made to induce BUYER to enter into this Agreement.

11.1 Production. SELLER warrants that the Products conform to the specifications and to be free from contaminants. If BUYER is asked to provide a warranty as to shelf-life, such warranty shall only be made upon successful testing as to shelf life and shall in any event not exceed a twelve (12) month period.

11.2 Products. SELLER warrants that all Products manufactured, held for sale, sold and shipped pursuant to this Agreement shall be manufactured and shipped by SELLER in compliance with applicable FDA regulations and current Good Manufacturing Practices as that term is defined under the Federal Food, Drug and Cosmetic Act.

11.3 Organization. SELLER is a corporation duly organized, validly existing and in good standing under the laws of its state of incorporation as to the United States and as to the region in which it does business and has full power and authority to carry on its business as now being conducted.

11.4 Authorization and Agreement. The execution, delivery and performance of this Agreement by SELLER have been authorized by all necessary corporate action on its part. The consummation of the transactions contemplated by this Agreement will not result in the breach of, or constitute a default under, any indenture, mortgage, note, agreement or other financing agreement to which SELLER is a party or to which it or its properties or rights are subject and will not be in violation of the rights of any other party.

11.5 No Consent. No consent of any party and no consent, license, approval or authorization of, or exemption by, or registration or declaration with, any governmental authority, bureau or agency is required in connection with the execution, delivery, validity or enforceability of this Agreement with respect to SELLER and the consummation of the transactions contemplated hereby.

11.6 Insurance. Exhibit "B" – "Insurance" attached hereto provides a complete list and brief description (specifying the insurer, the policy number or covering note number with respect to binders, and describing each pending claim thereunder) of all policies or binders of product liability insurance held by or on behalf of each of SELLER or in which it is listed as a co-insured or loss payee respecting the Product or any constituent component of any such Product. Such policies and binder shall be and shall continue in full force and effect, unless BUYER shall be notified as to their cancellation at least thirty (30) days prior to the same. SELLER shall cause BUYER to be listed as loss payee or co-insured on each such policy set forth on Exhibit "B" upon the development of the Product, and to continue on such policy in such capacity during the term of this Agreement.

11.7 Validity and Enforceability. This Agreement is valid and enforceable against SELLER in accordance with its terms, except as enforcement may be limited by applicable bankruptcy, insolvency or other laws affecting the rights of creditors generally. The execution, delivery and performance of this Agreement by SELLER does not violate any law or rule or regulation or give rise to a cause of action in favor of any person which will result in any liability to any of the Parties.

11.8 No Breach. Neither the execution nor delivery of this Agreement nor the consummation of the transactions contemplated hereby will (i.) violate any provision of the Articles of Incorporation or By-Laws of SELLER (ii.) violate, conflict with or result in the breach or termination of, or otherwise give any other contracting party the right to terminate or constitute a default (by way of substitution, novation or otherwise) under the terms of any mortgage, lease, bond, indenture, agreement, franchise or other instrument or obligation to which SELLER is a party or by which it may be bound or by which any of the property or assets of SELLER may be bound or materially affected, (iii.) result in the creation of any lien, charge or encumbrance upon the assets or properties of SELLER as it relates to its business or the pending business of BUYER, (iv.) violate any judgment, order, injunction, decree or award of any court, arbitrator, administrative agency or governmental body against, or binding upon SELLER or upon the property, assets or business of SELLER or (v.) constitute a violation by SELLER of any law or regulation of any jurisdiction as such law or regulation relates to it or to the property or business of SELLER.

11.9 Compliance with Laws. The business and operations of SELLER and any of its other affiliates and subsidiaries, if any, have not been, and are not, conducted in violation of any applicable judgment, order, injunction, award, tariff or decree. SELLER has not received notice of, nor does SELLER have any knowledge of or any reasonable grounds to know after due inquiry that the business and its operations have not been and are not, conducted in violation of any Federal, state or local law, ordinance, regulations, or any other requirement of any governmental body, court or arbitrator applicable to SELLER or pursuant to which they conduct their business and operations. SELLER has all permits, licenses, orders, authorizations or approvals of any Federal, state, local or foreign governmental or regulatory body to carry on its business in the places and in the manner now and heretofore conducted, and all such licenses, authorizations and permits are in full force and effect. SELLER has neither received notice of nor have any knowledge of or any reasonable grounds to know after due inquiry that the business and operations of SELLER have not and are not, conducted in material violation of any such licenses, authorizations and permits, and no proceeding is pending or threatened to revoke or limit any such license, authorizations or permits.

11.10 Suppliers and Customers. The relationships of SELLER with its suppliers and customers are generally good. No material customer or supplier has cancelled or otherwise terminated, or threatened to cancel or otherwise terminate its relationship with SELLER or has actually notified that it will decrease its services or supplies to SELLER.

12. Disclaimer of Warranties

SELLER AND BUYER MAKE NO OTHER WARRANTIES, EXPRESS OR IMPLIED WITH RESPECT TO THE PRODUCT, LABELING OR PACKAGING. ALL OTHER WARRANTIES, EXPRESS OR IMPLIED, INCLUDING WITHOUT LIMITATION, THE IMPLIED WARRANTIES OF MERCHANTABILITY AND FITNESS FOR A PARTICULAR PURPOSE ARE HEREBY DISCLAIMED. THE BUYER AND SELLER AGREE THAT IN NO EVENT SHALL EITHER PARTY BE LIABLE TO THE OTHER FOR CONSEQUENTIAL DAMAGES.

13. Termination.

13.1 Termination by SELLER. SELLER will have just cause to terminate this Agreement immediately upon written notice to BUYER or to refuse to renew this Agreement, without judicial or administrative notice or resolution, upon the occurrence of any termination event specified below:

13.1.1 Breach. BUYER or any of its employees (i) breaches any obligation under the terms of this Agreement or (ii) breaches any other obligation under this Agreement and fails to cure the breach within 90 days after SELLER demands its cure in writing.

13.1.2 Normal Business. BUYER ceases to conduct business in the normal course, becomes insolvent, enters into suspension of payments, moratorium, reorganization or bankruptcy, makes a general assignment for the benefit of creditors, admits in writing its inability to pay debts as they mature, suffers or permits the appointment of a receiver for its business or assets, or avails itself of or becomes subject to any other judicial or administrative proceeding that relates to insolvency or protection of creditors' rights.

13.2 Termination by BUYER. BUYER will have just cause to terminate this Agreement immediately upon written notice to SELLER or to refuse to renew this Agreement, without judicial or administrative notice or resolution, upon the occurrence of any termination event specified below or elsewhere in this Agreement:

13.2.1 Breach. SELLER or any of its employees breaches any obligation under this Agreement and fails to cure the breach to BUYER's satisfaction within ninety (90) days after BUYER demands its cure in writing.

13.2.2 Normal Business. SELLER ceases to conduct business in the normal course, becomes insolvent, enters into suspension of payments, moratorium, reorganization or bankruptcy, makes a general assignment for the benefit of creditors, admits in writing its inability to pay debts as they mature, suffers or permits the appointment of a receiver for its business or assets, or avails itself of or becomes subject to any other judicial or administrative proceeding that relates to insolvency or protection of creditors' rights.

13.2.3 Increase in SELLER Price. The SELLER Price of the Products increases for more than five percent (5 %) within one Contract Year.

13.2.4 Failure to Meet Quality Control Standards. The Products fail to meet the Quality Control Standards provided by BUYER to SELLER in the form of product specifications, as set forth in Schedule A or as BUYER may provide to SELLER from time to time.

13.2.5 Fair Trade Practices. The SELLER shall at all times comply with international fair trade practices. BUYER shall have the right to terminate this Agreement upon seven (7) days prior written notice to SELLER or his or her legal representative in the event that SELLER, its officers, executives, partners, directors, principals, employees, attorneys or agents, does any of the following: engages in illegal, immoral, or criminal conduct resulting in a criminal indictment with a substantial likelihood of conviction; misrepresents or conceals anything in its background that could be detrimental to the value of BUYER's goodwill, name, reputation or stock; engages in conduct contrary to the best interests of BUYER; engages in conduct that offends the sensitivities of a significant portion of the population, including, without limitations, use of child labor, acts contrary to international standards for the treatment of employees or the environment, abrogates the rights of employees to congregate and the like; or engages in conduct that could bring BUYER into public disrepute.

14. Consequences of Termination.

14.1 Termination Obligations. Without waiving any rights or remedies a party may have hereunder, upon the expiration or termination of this Agreement, all rights granted to either party hereunder will immediately cease, and the Parties will (i) promptly comply with the termination obligations specified below and (ii) otherwise cooperate with the other party to terminate relations in an orderly manner.

14.2 Payments. BUYER shall pay SELLER all due and outstanding amounts. There shall be no liquidated, consequential or incidental damages or payments due of any kind.

15. Notice.

Any notice or other communications between the Parties hereto shall be sufficiently given if sent by Federal Express or by telecopy, if to BUYER addressed to it at 600 South Royal Lane, Suite 200 Coppell, Texas 75019 ATTN: General Counsel, or if to SELLER addressed to it at 4099 White Bear Parkway, Suite 102, White Bear Lake, MN 55110 or to other such addresses hereafter designated in writing by one party to the other. Such notice or other communications shall, if sent by telecopy, be deemed to be given upon receipt of the confirmation of its proper transmission and if outside the hours of 9:00 a.m. to 5:00 p.m. on any business day in the jurisdiction of the addressee, shall be deemed to be given at 9:00 a.m. on the next business day. Notices sent by Federal Express shall be deemed to be received (3) days after the date of forwarding the same. For the purposes of this Agreement, "business day" shall refer to a day in which trading banks are open for business.

16. Attorney's Fees.

In the event any party hereto shall institute an action, including arbitration pursuant to Section 20 of this Agreement, to enforce any rights hereunder, the prevailing party in such action shall be entitled, in addition to any other relief granted, to reasonable attorneys' fees and costs.

17. Severability.

Any portion of this Agreement which may be prohibited or unenforceable in any applicable jurisdiction shall, as to such jurisdiction, be ineffective to the extent of such prohibition or unenforceability, but shall not invalidate the remaining portions of such provisions or the other provisions hereof or affect any such provisions or portion thereof in any other jurisdiction.

18. Modification.

This Agreement and the Exhibits attached hereto may be revised from time to time and may be modified by mutual written agreement of the Parties.

19. Waivers.

Any failure by any of the Parties to comply with any of the obligations, agreements or conditions set forth in this Agreement may be waived by the other party, but any such waiver will not be deemed a waiver of any other obligations, agreement or conditions contained herein.

20. Arbitration.

Any controversy or claim arising out of or relating to this Agreement or the existence, validity, breach or termination thereof, whether during or after its term, will be finally settled by compulsory arbitration in accordance with the Commercial Arbitration Rules and Supplementary Procedures for Commercial Arbitration of the American Arbitration Association ("AAA"); provided, however, that in the event of any such controversy or claim, (i) neither party will initiate arbitration within the first thirty (30) days after the aggrieved party first notifies the other party of the controversy or claim and (ii) during such thirty (30) day period, the chief executive officers of both parties convene at least once in Dallas, Texas, to endeavor in good faith to amicably resolve the controversy or claim.

To initiate arbitration, either party will file the appropriate notice at the appropriate Regional Office of the AAA. The arbitration proceeding will take place during a period not exceeding three (3) days. The arbitration panel will consist of three (3) arbitrators, one arbitrator appointed by each party and a third neutral arbitrator appointed by the AAA. Any communication between a party and any arbitrator will be directed to the AAA for transmittal to the arbitrator.

The arbitral award will be the exclusive remedy of the parties for all claims, counterclaims, issues or accountings presented or plead to the arbitrators. The award will (i) be granted and paid in U.S. Dollars exclusive of any tax, deduction or offset and (ii) include interest from the date of breach or other violation of the Agreement until the award is fully paid, computed at the then-prevailing LIBOR rate. Judgment upon the arbitral award may be entered in any court that has jurisdiction thereof. Any additional costs, fees or expenses incurred in enforcing the arbitral award will be charged against the party that resists its enforcement.

21. Counterparts.

This Agreement may be executed in one or more counterparts, each of which will be deemed an original but all of which together will constitute one and the same document.

22. Compliance.

Each party will comply with all laws relating to the performance of this Agreement including federal and state laws, rules and regulations and represents and warrants that execution of this Agreement and performance of its obligations under this Agreement does not and will not breach any other agreement to which it is or will be a party, including but not limited to any agreements with its customers.

23. No Agency.

Neither party shall purport or shall be deemed an agent, employee, partner, or joint venture with the other party.

24. Governing Law.

The Parties hereto agree that this Agreement shall be enforced and governed by the laws of the State of Texas without regard to the conflicts of law principals. Each party consents to personal jurisdiction in Dallas County, Texas, for any action to enforce arbitration including any further rules provided for emergency or extraordinary relief, as to this Agreement.

25. Authority.

The Parties represent that they have full capacity and authority to grant all rights and assume all obligations they have granted and assumed under this Agreement.

26. **Assignment.**

This Agreement and the rights hereunder may not be assigned by any party (except by operation of law) without prior written consent of the other party, but, subject to the foregoing limitation, this Agreement shall be binding and inure to the benefit of the respective successors, assigns, and legal representatives of the Parties.

27. **Force Majeure.**

Neither party shall be liable for any failure, inability or delay to perform hereunder, if such failure, inability or delay is due to war, strike or other labor stoppage or slowdown, flood, fire, explosion or accident, transportation stoppage, materials shortage, government law, order or regulation or energy allocation or shortage; provided, however that BUYER shall under no circumstances be relieved of the obligation to pay amounts then due to SELLER. If delay or failure caused by such force majeure condition shall continue for more than ninety (90) days, either party shall have the right, at its sole discretion, to terminate this Agreement, by giving notice to the other of its election to terminate. For the purposes of this Agreement, the term "force majeure" shall mean any event beyond the control of the parties, including, without limitation, fire, flood, riots, strikes, epidemics, war (declared or undeclared and including the continuation, expansion or new outbreak of any war or conflict now in effect), terrorist acts, export controls, embargoes, changes in government and governmental actions or decrees.

28. **Captions.**

The headings of the sections in this Agreement are intended solely for convenience of reference and are not intended and shall not be deemed for any purpose whatsoever to modify or explain or place constriction upon any of the provisions of this Agreement.

29. **Incorporation of Recitals.** The recitals of this Agreement shall be construed and interpreted as comprising an essential portion of this Agreement.

30. **Non-competition.** During the term of this Agreement, neither SELLER, nor any of its sub-distributors, sales representatives, their agents, assigns, executives or anyone in privity therewith, shall serve as manufacturer, distributor, marketing or sales representative in connection with any product that is directly or indirectly competitive with the product or products that BUYER is distributing, promoting, or selling on behalf of BUYER without first obtaining BUYER's written consent.

31. **Publicity of Agreement**. This Agreement is confidential. Neither party shall engage in any type of publicity in any way connected with this Agreement without the other party's prior written approval, which approval shall not be unreasonably withheld. However, approval to disclose is hereby given by both Parties to the extent required for compliance with any governmental rule, regulation or other requirement. In the event of any disclosure, the publishing party shall furnish a copy of such disclosure to the other party.

32. **Entire Agreement.**

This Agreement constitutes the entire agreement between the Parties hereto pertaining to the subject matter hereof and supersedes all prior and contemporaneous agreements and understanding of the Parties, and there are no representations, warranties, or other agreements between the Parties in connection with the subject matter hereof except as specifically set forth herein. No supplement, modification, amendment, waiver or termination of this Agreement shall be binding unless executed in writing by the Parties hereto.

[Remainder of Page Intentionally Left Blank]

IN WITNESS WHEREOF, the parties have duly executed this Agreement on the date first written above.

Mannatech™ Incorporated (BUYER)

By: /s/ Terry Persinger
Terry Persinger
Its: Chief Operating Officer

Larex, Inc. (SELLER)

By: /s/ Robert (Bo) M. Nickoloff
Its: President and CEO

Exhibit "A" –
Product Pricing and Ordering

Price per KG (***)

Year 1-5 of the Term: 3,000 Kg. minimum order per month

Secondary Term: The minimum volume commitment will be agreed upon within 90 days after the end of the prior term. If both parties are unable to agree on the minimum volumes for the Secondary Term then the agreement becomes non-exclusive.

Exhibit "B" – Insurance

Exhibit "C" – Manna 2000 Specifications

Chemical Name: Arabinogalactan
Botanical Source: Larch Tree

Characteristics

***

Specifications

***

Exhibit "D" – Manna 2000 Packaging

Manna 2000 packaging specification

Date: 10/26/2005

Product Info

Name	Manna 2000

Packaging Info

Package Type	Multiwall bag
Package Size	21 x 5 x 44
Closure	Heat seal
Fill Weight	25 kg
Product Labels	One per bag, center of bag face
Lot Number Stencil	~ 1" font on bottom of bag, visible when on pallet
Number the Bags	Hand write ~ 1" number, lower right corner
Pallet Size	40 x 48 GMA
Pallet Configuration	3 bags per row, 5 rows high + 1 (16 bags total)
Protection	Cardboard tray, top and bottom.
Protection	ect 51 cardboard sleeves
Protection	Stretch wrap
Pallet Labels	One on each side of pallet, between layers of stretch wrap
Do Not Top Load Labels	YES

Exhibit 10.19

**** Indicates omitted material that is the subject of a confidential treatment request filed separately with the Commission.*

COMMERCIAL LICENSING & ROYALTY AGREEMENT

by and between

Mannatech, Incorporated (“Mannatech”), a Texas (USA) corporation

and

Wellness Enterprises, LLC (“Wellness”), a Delaware (USA) company

TABLE OF CONTENTS

COMMERCIAL LICENSING & ROYALTY AGREEMENT

This Commercial Supply Agreement ("Agreement") effective as of the Effective Date defined herein ("Effective Date") by and between Mannatech, Incorporated ("Mannatech"), a Texas (USA) corporation, with its primary place of business located at 600 S. Royal Lane, Suite 200, Coppell, Texas 75019, and Wellness Enterprises, LLC ("Wellness"), a Delaware (USA) company, with its primary place of business located at 418 SW 140th Terrace, Newberry, Florida 32669, hereinafter collectively referred to as the "Parties".

RECITALS

WHEREAS, Mannatech develops and sells proprietary nutritional supplements and topical products through a network marketing system throughout the United States, Canada, Australia, New Zealand, the United Kingdom, Denmark, S. Korea, Taiwan and Japan by distributors referred to as Independent Associates ("Associates");

WHEREAS, Mannatech desires to enter into this Agreement to obtain commercial manufacture of an exclusive line of skin care products by which Wellness will license its proprietary Tensa Water (the "Water Technology") for the development of a proprietary skin care line as set forth in Attachment 1 – "Product" to be manufactured and supplied by Fine Chemetics Ltd. ("FCL") using FCL's existing technology and may use Mannatech's existing glyconutrient formulations (defined herein as "Product") for Mannatech;

WHEREAS, Wellness has represented that it will license to Mannatech Haru Naito's personal story and the story surrounding the discovery of the Water Technology (collectively, the "Story") and further that Wellness possesses the right and title to license the Story to Mannatech;

WHEREAS, Wellness has represented that its Water Technology is specially processed and hyper -enhanced and is proprietary in nature and that it further has all right, title and license in such technology;.

WHEREAS, Wellness has represented that it presently has the ability to supply the Water Technology in the quantities needed and in accordance Mannatech's quality control specifications; attached hereto as Attachment "2";

WHEREAS, Wellness has represented that it presently has the ability to develop the Water Technology in the quantities needed and in accordance Mannatech's quality control specifications; attached hereto;

NOW, THEREFORE, in consideration of the foregoing premises and the mutual covenants and agreements hereinafter contained, and for good and valuable consideration the receipt and sufficiency of which is hereby acknowledged, the Parties agree as follows:

1. DEFINITIONS

For the purposes of the Agreement, the following words and phrases shall be defined as follows:

1.1 ***"Affiliate"*** means any corporation, company, joint venture, partnership or other entity, which, directly or indirectly, is controlled by, or is under common control with a Party to this Agreement. "Control" means the ownership of more than fifty percent (50%) of the issued share capital or business assets of another entity, the power to exercise more than fifty percent (50%) of the voting rights of another entity, the power to appoint more than fifty percent (50%) of the Board of Directors of another entity, or the right to control the affairs of another entity. Each Party acknowledges that the direct or indirect ownership of a lesser percentage of such shares shall not necessarily preclude the existence of control.

1.2 ***"Agreement"*** means this Commercial License and Royalty Agreement between Wellness and Mannatech and the Attachments attached hereto for the commercial development, licensing and supply of Product and its related Story.

1.3 ***"Batch"*** means a specific quantity of an ingredient that is intended to meet specifications for identity, purity, quality, strength, and composition and is produced during a specified time period according to a single manufacturing record during the same cycle of manufacture.

1.4 ***"Bill of Materials***" means a list of raw materials that are specific and identifiable for the manufacture of the Product.

1.5 ***"GMP"*** means all requirements imposed on a licensed manufacturer and distributor of cosmetics in Japan under the Pharmaceutical Affairs Law (Law No. 145 of 1960) and related regulations, including, without limitation, (i) Article 13 of the Pharmacy, Etc. Structure and Facilities Regulations (providing standards for the structure and facilities of places of manufacture of ordinary cosmetics), (ii) Chapter III of the Ministerial Ordinance Concerning Quality Control Standards for Pharmaceuticals, Quasi-Pharmaceuticals, Cosmetics and Medical Equipment, (iii) Article 3 of the Ministerial Ordinance Concerning Post-Manufacture / Sale Safety Control Standards for Pharmaceuticals, Quasi-Pharmaceuticals, Cosmetics and Medical Equipment, (iv) the "Negative / Positive List" of Cosmetics Standards under Ministry of Health Labor & Welfare Notification No. 331 of September 29, 2000, and (v) labeling standards concerning the ingredients and shelf life of cosmetics as contained in Ministry of Health Labor & Welfare Notification No. 332 of September 29, 2000 and Ministry of Health Labor & Welfare Notification No. 66 of September 26, 1980, as the same may be amended or re-enacted from time to time. Wellness' operational quality standards are defined in internal GMP documents.

1.6 ***"Change Control"*** means a process defined in a standard operating procedure ("SOP") agreed to and followed by Wellness in accordance with Mannatech's requirements to identify, review, track, approve and implement changes to a production process, raw materials, quality control, quality assurance, documentation, equipment, responsible personnel, packaging, specifications, software/hardware, and other systems used in the manufacture of Product, which may be provided to Mannatech by Wellness from time to time.

1.7 ***"Mannatech Materials"*** means any and all materials, including the specifications, know-how or other suggestions for improving the processing and Product packaging and shipping in which Mannatech provides know-how and/or has intellectual property rights, including, but not limited to patent rights, trade secret rights and copyrights, or which Mannatech is otherwise authorized to use.

1.8 ***"Mannatech Technology"*** means all technical and other information and know-how not known to WELLNESS prior to the commencement of this Agreement relating to Mannatech and its current and projected operation, including without limitation those Specifications relating to the Processes and the Product that may be supplied by Mannatech to Wellness from time to time.

1.9 ***"Mannatech Tests"*** means the tests to be carried out by Mannatech or by a third party as directed by Mannatech, on the Product during or following production of such Product.

1.10 ***"Delivery Point"*** means the location as designated by Mannatech in each purchase order for Water Technology.

1.11 ***"Effective Date"*** means the date on which this Agreement is executed and all the conditions precedent are met.

1.12 ***"Facility"*** means Wellness' enhanced water production facility located in Oneonta, NY.

1.13 ***"Initial Term"*** means the period commencing with the Effective Date and expiring at the end of two (2) full calendar years.

1.14 ***"Lot"*** or "***Lots***" means a Batch, or specifically identified portion of a Batch, intended to have uniform identity, purity, quality, strength and composition.

1.15 ***"Manufacturer"*** means FCL or a third-party firm that FCL shall contract with and oversee the manufacturing and packaging of the final Product or any other manufacturer selected by Mannatech in its sole discretion to manufacture and package the Product.

1.16 ***"Parties"*** means Wellness, Mannatech and their Affiliates and Companies.

1.17 ***"Price"*** means for any particular unit of Water Technology, the price as set forth herein.

1.18 "***Processes"*** means the methods for developing the Product, including any improvements thereto from time to time, the details of which are contained in Wellness' standard operating procedures.

1.19 ***"Product"*** means any proprietary cosmetics, body care products, skin care products, including but not limited to cleansers, lotions and creams, evidence and specifications, developed by Wellness using Water Technology, FCL proprietary technology, incorporated herein as Attachment 1 and agreed to in advance by Mannatech.

1.20 ***"Recall"*** means an instance where: (i) a request, directive or order of any government authority is received by Wellness or Mannatech that Product be recalled; (ii) a court of competent jurisdiction orders such a Recall; or (iii) Mannatech reasonably determines that Product should be recalled due to evident facts which would otherwise lead to actions referred to under (i) and/or (ii).

1.21 ***"Services"*** means any and all of the work to be performed by Wellness pursuant to this Agreement.

1.22 "***Specifications"*** means the technical criteria in process tests, and Product Tests and any additional or supplemental specifications and conditions from time to time agreed in writing between Wellness and Mannatech. All Specifications to be contained in the Product Specification attached.

1.23 ***"Territory"*** shall mean Japan, Taiwan, S. Korea and future markets as may be agreed to between the Parties by separate written agreement from time-to-time. The Parties agree that Mannatech will have right of first refusal to licensing Water Technology for use in skin care products for the network marketing and direct selling industry in those non-licensed countries in which Mannatech currently sells its products.

1.24 ***"Testing Laboratory"*** means any third party selected by Mannatech to carry out tests that are not otherwise performed by FCL or which are required by Mannatech.

Unless the content requires otherwise, words and phrases as defined above shall bear the same meaning in any other part of this Agreement. References to the singular number include the plural and vice versa, references to clauses are references to clauses of this Agreement.

2. SUPPLY OF MANNATECH MATERIALS ***The Parties understand and agree that Mannatech will not supply any of its technology to Wellness under the terms of this Agreement.***

3. WATER TECHNOLOGY

3.1 Technology.

3.1.1 Wellness represents that is currently owns all technology and intellectual property, and pieces of equipment dedicated to the supply of its Water Technology (for patents, copyrights, trademarks, proprietary formulations, vats, processing tanks, processing facilities, freezers, refrigerators, and storage containers) that may be required to perform its obligations under this Agreement.

3.1 2. Subject to 3.3 hereof, the Water Technology shall be supplied and licensed by Wellness for the exclusive use and benefit of Mannatech in the Product formulations represented in Appendix 1. Wellness shall not make or enter into an agreement to make these product formulations for itself or any third party in the licensed territory throughout the term of this Agreement or any extension thereof. Mannatech acknowledges that Wellness is the business of producing Water Technology for skin and body care products, which may perform similar functions to those of the unique Product being licensed to Mannatech without being the same formulation. Such products shall not be deemed to violate this section 3.1.2 merely because they contain the Water Technology unless they consist of the same formulations

3.1.3 Mannatech shall retain exclusive rights to the Water Technology for the purposes of production of the Product developed by Wellness throughout the Territory provided Mannatech places a minimum order of 800 gallons of Water Technology per month (“Minimum Order”) beginning in April 2006 through December 2006. In January 2007, all purchase obligations of the Water Technology will be suspended until such time that the Parties can account for balance on hand and project amounts (if any) required for the next year of the Term. If, at the end of year 1, Mannatech’s inventory of the Water Technology exceeds its projected requirements for the second year of the Initial Term, Wellness agrees it will adjust the Minimum Order and continue the exclusive License. The Parties agree to cooperate fully in the event an adjustment to the Minimum Order is requested by Mannatech. The Parties agree that so long as Mannatech places such Minimum Order in April through December 2006, it will retain an exclusive license to the Product throughout the Territory.

3.2 Product Specifications per Country. Wellness acknowledges that Mannatech is a multi-national nutritional supplement company that must comply with the cosmetics and skin care laws and regulations of each country (present and future) in which it conducts business, which regulations may change from time to time. Wellness shall comply with the GMP (if any) with respect to Water Technology manufactured for inclusion in the Product in the Territory and any variations to the specifications, marking, packaging, labeling, and the like as may be presented from time-to-time by Mannatech to meet or exceed the applicable cosmetic and skin care laws and regulations of each country where the Product is sold.

3.3 Mannatech Representative in Facility. Mannatech will have the right to have a representative in Wellness’ Facility provided that the Mannatech representatives shall not be in attendance on a fulltime basis. Mannatech shall have no more than one (1) person on site at any time unless mutually agreed to by the Parties. Mannatech shall give Wellness reasonable notice as to the scheduling of Mannatech personnel in the Facility. Wellness retains the right to limit access should risk be posed to existing operations, such access not to be unreasonably denied. The Parties shall work together to maintain confidentiality and the confidentiality of other and to keep strictly confidential any information received, learned or viewed while in the Facility or the others' premises. While in the Facility, Mannatech employee shall be primarily observing and providing advice, and shall have no direct control or decision-making authority over Wellness employees or their activities. Mannatech agrees that Wellness may request individual Mannatech employees to enter into confidentiality agreements according to their own confidentiality terms and conditions, individually and on behalf of Mannatech, subject to prior review by Mannatech's Legal Department. Mannatech shall be responsible for all costs associated with this Section 3 including but not limited to meals, transportation, accommodation and office support services as may be incurred while Mannatech personnel are located at the Facility.

3.4 Time Schedule. The time schedule for delivery of Water Technology to FCL shall be included in each purchase order from Mannatech.

3.5 Supply of Raw Materials for Product. All cleaning equipment, processing stations, vats, processing equipment, storage, freezers, storage facilities, docks and the like required to manufacture, store and deliver the Water Technology shall be under the control of Wellness or its Affiliates in sufficient quantities or availability to fulfill its Minimum Order obligations. Mannatech agrees to provide reasonable notice to Wellness in the event it anticipates demand for the Water Technology will significantly increase over the Minimum Order obligations.

3.6 Licenses and Permits.

3.6.1 Wellness shall be responsible for using commercially reasonable efforts to obtain all licenses and permits required by law in order for Wellness to meet its obligations under this Agreement. Wellness shall supply Mannatech with all governmental permits and licenses applications, including but not limited to environmental permits, necessary for its production and delivery, F.O.B. Delivery Point, of Water Technology in accordance with this Agreement. Upon written prior approval by Mannatech, Mannatech will reimburse Wellness for reasonable costs for governmental permits and licenses necessary for Wellness delivery of Water Technology in accordance with this Agreement. Wellness agrees to provide Mannatech, via overnight delivery, with copies of all governmental permits and licenses necessary for its production delivery of its Water Technology in accordance with this Agreement upon request by Mannatech.

3.6.2 **The Parties agree that this Agreement is contingent upon FCL providing Mannatech with certification from the Japanese Ministry of Health that the Product(s) developed, produced and manufactured for Mannatech are preservative-free skin care products (the *"Certification")* In the event FCL fails to produce the Certification within a reasonable amount of time after execution hereof, such time frame at Mannatech's sole discretion and to Mannatech's satisfaction, this Agreement shall be null and void.**

3.7 Health and Safety. Upon Mannatech's request, Wellness shall provide to Mannatech all required Material Safety Data Sheets (MSDS) or equivalents for Water Technology supplied to Mannatech (if applicable). The Parties agree to coordinate with one another to develop specifications acceptable to Mannatech's Quality Assurance Department, the approval of which shall not be unreasonably withheld. If required by Japanese law or the respective laws, rules and regulations of the Territory, Wellness will manufacture its Water Technology in accordance with Pharmaceutical Affairs Law (Law No. 145 of 1960), the GMP, and all other health and safety laws and regulations applicable to the Product or any material in question having regard to the location at which it is produced or to which is will be delivered, used or consumed.

4. TRANSPORTATION OF PRODUCT AND DEFECTS

4.1 Shipping Instructions. Wellness shall arrange the transportation of Water Technology by ocean cargo from its premises to FCL (Delivery Point) indicated in the purchase order by Mannatech together with insurance to cover the Water Technology in transit, at its invoiced value.

4.2 Risk of Loss. Risk in and title to Water Technology shall pass on delivery to the shipping agents F.O.B. Delivery Point, as set-forth in each purchase order. All ocean freight, insurance, handling and forwarding agent's fees, taxes, storage and all other charges applicable to the Water Technology, if any, shall be the responsibility of Wellness. The foregoing notwithstanding, Wellness warrants and represents that the Water Technology will comply with the Specifications and will retain its preservative-free characteristics through final delivery to FCL.

5. QUALITY ASSURANCE AND REGULATORY

5.1 Specifications. The Specifications may be modified or changed only by Change Control, which modification or change shall address any related price increases or decreases arising from such modification or change. The Specifications contained in Attachment 2 herein represent the current Specifications for the Product.

5.2 Regulatory Responsibilities. A Mannatech official will be the primary contact person for regulatory authorities, except during facility inspections where Wellness official will be the primary contact.

5.3 Regulatory Requirements. Wellness shall comply with the regulatory requirements applicable to the manufacture of its Water Technology. If Mannatech requests Wellness to comply with any other regulatory or statutory requirements of any foreign government body, Wellness shall use all reasonable commercial endeavors to do so, provided that:

5.3.1 Mannatech shall be responsible for informing Wellness in writing of the precise foreign requirements that Mannatech is requesting them to observe;

5.3.2 Such foreign requirements do not conflict with any applicable laws of the United States of America or any of the States;

5.3.3 Wellness shall use reasonable commercial efforts to ensure that any written information complies with the applicable requirements of any foreign jurisdiction; and

5.3.4 All reasonable costs and expenses incurred by Wellness in complying with such foreign requirement shall be negotiated between the Parties. Mannatech shall provide prior written consent of the expenditures prior to Wellness executing Mannatech's request.

5.4 Regulatory Agency Inspections and Interactions. Wellness agrees to inform Mannatech of any regulatory inspection and/or communications that might, in its best judgment, affect the manufacture of the Water Technology. In the event of an inspection by any government agency that affects the Water Technology, Mannatech shall be immediately informed of the issuance of the notice inspection or the presence of an inspector. Mannatech shall have the right to attend the inspection at the Facility. In the event there are written observations by any agency that involve any of the Product Substances or the Product, Mannatech shall have the opportunity to review and have input to the response. Wellness shall be responsible for responding to any notices of deficiencies and observations. If Mannatech elects to provide input to the response, that input shall be provided by Mannatech to Wellness as promptly as practicable.

5.5 Storage Requirements. Wellness shall cause all Mannatech Materials and its Water Technology to be stored in accordance with the Specifications, rules, laws and regulations, where they apply.

5.6 Nonconforming Materials. Wellness shall not knowingly use any materials that do not comply with the Specifications. Wellness shall promptly contact Mannatech in the event that Wellness anticipates making changes to the Water Technology or in the event they consider any such material to be nonconforming or unacceptable. If Wellness uses any nonconforming material without prior written approval by Mannatech, Wellness shall be responsible for all losses, costs and expenses suffered or incurred by Mannatech as a result of such use and any expenses incurred by Wellness in the correction thereof, provided that such nonconformance did not arise due to the scheduling of planned manufacturing that was postponed or cancelled by Mannatech.

5.7 Quality Tests and Checks. In accordance with paragraph 3.7 hereof, Wellness shall perform all in-process and tests required of its Water Technology or checks required by the Specifications, if applicable. For purposes of this Agreement, such tests shall be considered routine and shall, where internal testing is required, be performed by FCL at its facilities. All tests and test results shall be performed, documented and summarized by Wellness in accordance with the Specifications. Test results shall be reviewed by Wellness prior to release of test results to Mannatech.

5.8 Production Codes and Records. Wellness shall maintain detailed records on the Water Technology material usage, including, but not limited to, Raw Materials, batch records, quality control reports, test data, including technical, analytical, quantitative, and qualitative test results in connection with the supply of the Water Technology. Records shall be maintained according to requirements such that Wellness shall be capable of responding to inquiries by Mannatech within twenty-four (24) hours of notification.

5.9 Training. Where necessary, Wellness shall educate and train those employees and subcontractors of applicable requirements responsible for performing the Services provided under this Agreement.

5.10 Inspections and Audits. Subject to 3.3 hereof, Mannatech, or a designated representative shall have access to the Facility, for the purpose of conducting inspections, performing quality control audits or witnessing the storage or transportation of the Water Technology or materials related to or used in the qualification and development of Products. Mannatech shall have access to the results of any tests performed by Wellness or at its direction. Wellness shall use commercially reasonable efforts to ensure that Mannatech has similar access to the facilities, data and records of its suppliers or manufacturers. Such inspections do not relieve Wellness of any of its obligations under this Agreement or create new obligations on the part of Mannatech. Inspections and audits by Mannatech personnel hereunder shall be conducted upon reasonable notice, during normal business hours and in compliance with the confidentiality provisions set out in Section 12 hereof and Wellness' rules and regulations relating to facility security, health and safety and confidentiality. Mannatech shall be entitled to one (1) audit per year at no charge to Mannatech.

5.10.1 Additional audits shall be performed at Wellness' expense in the event of (a) recurring Water Technology failure, (b) notification of non-compliance by regulatory authorities, (c) review of any significant items identified in an annual audit for which confirmation of conformance is required.

5.11 Retention of Records and Samples. Wellness shall for the duration required by any governing regulatory agency, or as specified otherwise by Mannatech in writing, whichever is longer, retain, and upon request by Mannatech make available to Mannatech, (a) copies of the Batch Records, quality control records maintained in accordance with Section 5.13 and otherwise in relation to the Water Technology (b) copies of testing results of all the tests performed in relation to the Services or the Water Technology.

At the termination of this Agreement, Mannatech shall, upon the written request of Wellness, return all copies of all documents, writings, invoices, test reports, and other memos which are the property of Wellness and which have been shared with Mannatech. The foregoing notwithstanding, Mannatech will be permitted to retain batch records for a period of time in accordance with its own policies and procedures and upon expiration of such time period shall return the records to Wellness.

5.12 Government Inspections and Seizures. If the any federal, state or local governmental authority makes an inspection of that portion of Wellness' premises used to manufacture the Water Technology or Water Technology, Wellness shall immediately notify Mannatech thereof. The seized party shall promptly send retained samples of the seized Water Technology by such authority and duplicate reports relating to such inspections to Mannatech, provided such action does not violate any applicable federal, state or local governmental authority.

5.13 Legal/and Regulatory Filings and Requests. Wellness and Mannatech shall cooperate and be diligent in responding to all requests for information from, and on making all required filings with, regulatory authorities having jurisdiction to make such requests or require such filings. Wellness shall obtain and comply with all licenses, consents, permits and regulations which may from time to time be required by appropriate legal and regulatory authorities with respect to the performance of its obligations hereunder.

5.14 Quality Responsibilities. Wellness will ensure that the manufacture of its Water Technology is performed in accordance with all applicable requirements and internal Wellness procedures and practices. Wellness shall ensure that it maintains its facilities to comply with all laws, rules and regulations. Mannatech and Wellness will each designate contact persons relating to manufacture and quality control of the Water Technology.

5.15 Lot Documentation. Wellness shall keep such documentation as described in their internal procedures to adequately conform to applicable requirements. Each shipment of Water Technology as designated by Wellness to FCL or to the destination as instructed by FCL shall be accompanied by documentation (Certificate of Analysis). Wellness will designate internally its own Lot numbers for the Water Technology produced pursuant to the Agreement.

5.16 Lot and Batch Release. Wellness shall test the Water Technology against the Specifications described in the product specification. Wellness Quality Assurance shall be responsible for review of the Water Technology batch record and approval and release of the Water Technology. Upon Lot approval by Wellness, a Certificate of Analysis for each Lot shall be sent by Wellness to Mannatech.

5.17 Laboratory Services. Wellness shall test the Water Technology against the pre-determined release Specification. Wellness Quality Assurance shall be responsible for review of the batch record and approval and release of the Water Technology. Upon Lot approval by Wellness, a Certificate of Analysis for each Lot shall be sent by Wellness to Mannatech.

5.18 Use of Subcontractors. In the event that Wellness proposes use of subcontractors for particular laboratory services, Mannatech may require access to these subcontractors for audit purposes. A Wellness representative may accompany Mannatech on such audits. Any subcontractors shall be subject to the confidentiality and other provisions set forth herein.

5.19 Reprocessing. Reworking or reprocessing of Batches or Lots will only be acceptable only if approved by Mannatech QA.

5.20 Product Complaints, Adverse Events, and Product Recalls. Wellness shall have responsibility for handling of complaints and adverse events related to its Water Technology. Wellness shall provide technical support as needed in the investigation of these events inasmuch as they relate to the Water Technology manufactured at Wellness' sole expense. In the event of a Recall of Product, Mannatech shall be responsible for the coordination of all Recall activities and have sole decision regarding Recall of Product. For each Recall event, and where the Recall is caused by Wellness' gross negligence or willful misconduct or its material breach of this Agreement, prior to any reimbursement, Mannatech shall provide Wellness with supporting documentation of all reimbursable costs and expenses, respectively. Wellness' sole responsibility, as it relates to the costs of such Recall, shall be fully reimbursement to Mannatech for all costs incurred for each Recall event.

5.20.1 If the Recall is not caused by Wellness' gross negligence, willful misconduct or material breach under this Agreement, Mannatech shall pay all of the costs and expenses of whatever nature for such Recall, and Wellness shall have no responsibility to replace any of the recalled Product Lots at its own expense.

5.20.2 Mannatech shall provide Wellness with notice describing in reasonable detail any Recall. If Wellness does not believe its actions or inactions caused the Recall, then the Parties shall meet to determine in good faith which Party should be liable for the Recall. Any situation un-resolvable within thirty (30) days of the date of Recall will then be forwarded to senior management sponsors of each Party for resolution. If resolution is not resolvable within thirty (30) days of such date, then each Party agrees to the following: (a) each Party shall select an independent consultant or laboratory; (b) the consultant or laboratory selected by each Party shall mutually select a third independent consultant or laboratory (the "Deciding Laboratory") and (c) the Deciding Laboratory shall review all relevant data and determine which Party's action or inaction resulted in the need for a Recall. Mannatech shall provide Wellness with the right to audit documents relating to direct costs incurred in connection with a Recall subject to audit provisions in Section 5 of this Agreement.

6. PRICE, TERMS OF PAYMENT, ROYALTIES & LICENSE

6.1 Payment Terms. Mannatech will purchase from Wellness its Water Technology at $.0161per ml. Pricing shall include the cost of transportation via sea cargo ship from Wellness' production operation to the Manufacturer. Payment terms are 50% down payment at the time of issuance of the P.O. and the balance of 50% net 30 days delivery to Manufacturer. Invoicing and payment shall be made in U.S. Dollars (USD).

6.2 Taxes. The price set forth in Section 6.1 is exclusive of sales taxes or any other applicable taxes, levies, duties and fees imposed by or under the authority of any government or public authority, which shall be paid by Mannatech, either directly or as invoiced by Wellness. Mannatech, however, is not responsible for taxes based on the income of Wellness.

6.3 Invoicing of Product. The Water Technology shall be invoiced per purchase order.

6.4 Invoice Disputes. In the event that Mannatech in good faith believes there is a dispute concerning the applicability or accuracy of any invoice amount, Mannatech will notify Wellness immediately in writing of the nature of such dispute, and will provide detailed written support for such disputed invoice amount, within ten (10) business days from the receipt of the invoice. In such an event, the Parties shall resolve such disputed amounts within thirty (30) days from the receipt by Wellness of Mannatech's written notice of the disputed amount and Mannatech may withhold fifty percent (50%) of the payment of such disputed amount for such thirty (30) day period which withholding shall not be considered as a breach, or default or as grounds for termination under this Agreement.

6.5 Financial Recordkeeping. Wellness shall maintain financial records relating to the terms of this Agreement and agrees that such records may be audited by an independent public accountant selected by Mannatech and at Mannatech's expense, during normal business hours within a three-month period following the initial Price calculation and subsequent price adjustments. In addition, within the term of this Agreement, Mannatech's independent public accountant may inspect Wellness' time sheet records for the preceding year for the purpose of determining costs paid in addition to the price to Wellness by Mannatech. The independent public accountant shall keep confidential any information obtained during such inspection and shall report to Mannatech only the correctness of the information given by Wellness.

6.6 Initial Price and Annual Price Adjustments. The Initial Price for the first-year of Water Technology is $.0161 per ml. Every year thereafter, the Price shall be negotiated between the Parties, but in no event shall the price increase more that five percent (5%) per annum unless Wellness can demonstrate that real costs have increased beyond the five percent (5%) per annum level. The Initial Price shall remain valid for one year from the Effective Date. Two (2) months prior to the anniversary date of the Effective Date and every twelve (12) month period thereafter, the Price shall be negotiated. Annual price adjustments shall be effective on the anniversary date of the Effective Date. Wellness shall maintain financial records relating to any increases in the cost to manufacture Water Technology and agrees that such records may be audited by an independent public accountant selected by Mannatech during normal business hours within a three (3) month period following the initial Price calculation and subsequent Price adjustments.

6.7 Estimates/Forecasting. On an annual basis, Mannatech and Wellness shall meet and discuss Mannatech's forecasted contract requirements for the Water Technology. Mannatech shall provide Wellness with an estimate of the quantity of the Water Technology that Mannatech anticipates may be required from Wellness during the following year of the Term. The Parties acknowledge that this estimate is for planning purposes only and does not constitute a commitment to manufacture and supply by Wellness or a commitment by Mannatech to take delivery of such quantities.

6.8 Orders.

6.8.1 Initial Order. Upon satisfaction of the condition precedent in paragraph 3.6.2 hereof, Mannatech will place an initial order of 1,606 gallons of Water Technology for the initial run (the ***"Initial Order"***). After the Initial Order, Mannatech will be under no obligation to place subsequent minimum orders except to maintain exclusivity as indicated in 3.1.3. Beyond this initial order, minimum monthly quantities shall begin in April, 2006.

6.8.2 Purchase Orders. Purchase orders for Water Technology shall be the sole firm commitment by Mannatech to purchase a designated amount with the exception of minimum monthly amounts as indicated in paragraph 3.1.3. If, following acceptance of a firm order from Mannatech, Wellness indicates that it will not be able to supply Mannatech with all or any portion of Mannatech's firm orders for that have been accepted by Wellness for its Water Technology the Parties shall meet and in good faith attempt to reach a resolution to the respective parties' capacity shortfall. Wellness shall use commercially reasonable efforts to deliver the shortfall in future months; however, if Wellness is able to demonstrate technical or scientific reasons for the shortfall and Mannatech accepts those reasons, such shortfall shall be excused. However, subject to Force Majeure and excused shortfall above, Mannatech will not forward Wellness shortfall into subsequent periods if orders by Mannatech are approaching market capacity. Subject to the above understanding by Mannatech, if Wellness is unable to meet Mannatech's firm orders, the Parties agree to formulate a strategic plan to increase the capacity of the Wellness facility to the benefit of all Parties.

6.9 Royalties. Mannatech will pay Wellness a royalty of four percent (4%) on the total cost of skin care products listed on Attachment 1 sold ***("TCOGS")*** inclusive of packaging for each of the Products sold by Mannatech. Specifically excluded from the Royalty payable on TCOGS will be the cost of the Water Technology, shipping, handling, taxes, tariffs, duties, storage and any markup for distribution. For purposes of this Agreement, goods shall be deemed sold only if Mannatech has received payment for the Product from a Purchaser. Wellness shall not be entitled to receive Royalties for any Products donated by Mannatech, distributed gratuitously by Mannatech in an effort to promote sales or for those Products reserved for internal purposes or use.

6.9.1 Payment of Royalties. At the end of each quarter and by the last day of each month after the end of the prior quarter, Mannatech shall compute the total number of Products sold during the prior quarter and, on making that determination, shall remit promptly the Royalty payment and a copy of the compensation statement ("Statement") thirty (30) days after the computation date and on a quarterly basis, throughout the Term of this Agreement to Wellness. If Wellness, for any reason, objects to any Statement submitted by Mannatech, Wellness shall set forth the objection with specificity in writing and submit it to Mannatech within thirty (30) days from the date of the Statement. Any objection Wellness may have to any Statement shall be deemed waived unless it is transmitted in accordance with the terms of this paragraph.

6.10 License of Haru Naito's Story. Wellness warrants and represents that it has full title and right to license Haru Naito's Story. Subject to the terms and conditions specified in this Agreement, Wellness hereby grants to Mannatech a royalty free, non-exclusive and revocable right to use the Story in connection with the promotion of the Product. During the Term of this Agreement, Wellness agrees that it will not license the Story for use in promoting skin care products within the licensed Territory to any other network marketing, multi-level marketing, or direct sales marketing company engaged in the same or similar business as Mannatech. Mannatech shall have the right to use the Story, and Haru Naito's name, voice, likeness, and similar characteristics for the purposes of advertising and promoting the Product in the Territory. During the term of this Agreement, Mannatech shall be the sole owner and have use and control of all promotional materials and trade literature ***("Promotional Materials")*** produced for Mannatech in which the Story is featured and such Promotional Materials shall be reviewed for compliance with applicable laws, rules and regulations in accordance with Mannatech's policies and procedures. Mannatech shall be free to dispose of and treat in any way all Promotional Materials, including but not limited to selling, advertising, distributing, and permitting use in other mediums without prior approval of Wellness. Notwithstanding the above, Wellness shall have final editorial approval of any promotional materials that are produced regarding Haru Naito's story; whether it be written, printed, internet, video or audio. Wellness understands and agrees that Mannatech is involved in multi-level marketing and sells its products through its Associates acting as independent contractors. As such, Mannatech has no control in the operation of such independent contractors' businesses other than the Associates having a contractual obligation to abide by Mannatech's Associate Policies & Procedures. Mannatech will use its best efforts to ensure its Associates do not use the Promotional Materials in the promotion of their Mannatech business in a manner which would violate its Policies and Procedures; however, such unapproved use by Associates shall not be considered a breach of this agreement

7. INTELLECTUAL PROPERTY

7.1 Protection of Technology. Wellness acknowledges that Mannatech Technology and Mannatech Materials may be provided subject to the confidentiality provisions of Section 12, and Wellness agrees to keep such Mannatech Technology and Mannatech Materials secret and confidential, to respect Mannatech's proprietary rights therein and not at any time for any reason whatsoever to disclose or permit Mannatech Technology and Mannatech Materials to be disclosed to any third party, including Affiliates of Wellness, except as expressly provided herein.

7.2 Confidentiality. Wellness agrees that all its employees, consultants and contractors having access to confidential Mannatech Technology and Mannatech Materials, shall be subject to the same confidentiality obligations as the principals pursuant to the confidentiality provisions of Section 12 and shall enter into secrecy agreements in support of such obligations. Insofar as this is not reasonably practicable, Wellness shall take all reasonable steps to ensure that any such employees, consultants and contractors are made aware of such confidentiality obligations.

7.3 Rights to Mannatech Technology and Mannatech Materials. Wellness shall not by virtue of this Agreement at any time have or request to have any right, title, license or interest in or to the Mannatech Technology or Mannatech Materials, know-how, specifications, Associate information, downline information, software, business plans, marketing plans, advertising plans, copyrighted material, patents or patent application, trademark or trademark applications, or any other intangible rights or any other intellectual property rights of whatever nature relating to the Product or Product Specifications, suppliers, manufacturers, or otherwise which are vested in Mannatech or to which Mannatech is otherwise entitled. No rights are granted to Wellness except as expressly provided herein, and no rights in addition thereto shall be deemed to have arisen or been implied by way of estoppel or otherwise. Nothing herein shall be construed as preventing Mannatech from developing its own product formulations.

7.4 Title to Inventions. Title to all inventions (whether or not patentable) conceived or reduced to practice and arising out of the Services performed under this Agreement shall be as follows:

7.4.1 Mannatech will be the sole owner of intellectual property rights in any invention of which only Mannatech's and its Affiliates' employees and third-party contractors are inventors.

7.4.2 Wellness and FCL as they may determine or their rights otherwise appear, shall own the intellectual property rights of all inventions of which Wellness and/or FCL (and their Affiliates' employees and third party contractors) are inventors or of which both Wellness and/or FCL and their Affiliates' employees are inventors. Any assignments or other documents necessary to accomplish the foregoing are hereby made and each Party will execute such further documents as may be reasonably requested by the other with respect thereto.

7.4.3 Wellness further agrees to provide Mannatech reasonable notice of any inventions conceived, developed, discovered or reduced to practice by Wellness' employees, and/or third-party contractors, or its Affiliates and/or employees of its Affiliates, arising out of the services under this Agreement.

7.4.4 The cost for filing patent applications that are jointly owned shall be shared equally by the Parties and Mannatech shall be responsible for managing the patent applications directed to any joint inventions.

7.5 Notice of Infringement. Wellness shall promptly notify Mannatech of its knowledge of any potential infringement of Mannatech Technology and Mannatech Materials by a third party. Each Party agrees to render such reasonable assistance as the enforcing Party may request at the expense of the enforcing Party.

7.6 Notice of Infringement by One or Both Parties. Each Party shall promptly notify the other of its knowledge of any potential claim of infringement, whether threatened or not, of any intellectual property, including, without limitation, patents, trademarks and copyrights, owned or under the control of a third party.

Each Party has the right, but not the obligation, to take reasonable legal action necessary against such infringement of third party intellectual property related to the Product. Each Party agrees to render such reasonable assistance as the enforcing Party may request at the expense of the enforcing Party. Wellness shall be solely responsible for all costs of defense for any claim of infringement, including without limitations, attorney's fees, court costs, travel and related expenses, expert fees, and the like in connection with any claims with respect to Wellness proprietary ingredients.

7.7 Wellness Intellectual Property Representations. Wellness represents and warrants that as of the Effective Date of this Agreement it has no knowledge of any patent or any other third party intellectual property right that would be infringed by the Water Technology or Product in the exercise or practice of this Agreement. Wellness shall have a continuing duty to inform Mannatech if it receives any information regarding: (i) the publication or issuance of any patent; or (ii) litigation, pending or threatened, relating to Water Technology and/or Product.

7.8 Survival. The obligations, rights and acknowledgments of the Parties under Section 7 shall survive ten (10) years or the life of the relevant patents, whichever is longer, the termination for whatever reason of the Agreement.

7.9 Trademarks and Tradenames. The Parties recognize that the name and/or respective marks of the other are valuable and that all goodwill associated with use of such names and marks shall inure to the benefit of the other. Mannatech shall have the right to terminate this Agreement immediately in the event that Wellness acts in a manner that would negatively impact the reputation of Mannatech and/or of its name or marks ("Mannatech Marks") and/or would infringe or dilute the value of Mannatech's marks or which is not in compliance with applicable law in the United States or any other country in which Mannatech conducts business as the case may be. Likewise, Wellness shall have the right to terminate this Agreement immediately in the event that Mannatech acts in a manner that would negatively impact the reputation of Wellness and/or of its name or marks ("Wellness Marks") and/or would infringe or dilute the value of' Wellness' marks or which is not in compliance with applicable law in the United States or any other country in which Wellness conducts business as the case may be.

7.9.1 Mannatech shall be the sole owner and shall have perpetual use and control of all Promotional Materials produced for Mannatech bearing its trade name and/or Mannatech Marks related to the Product. Mannatech shall be free to dispose of and treat in any way all Promotional Materials under this Agreement, including but not limited to selling, advertising, distributing, and permitting their use in other mediums, whether for profit or otherwise. and Wellness has right or license to use any of the trademarks or tradenames owned by, licensed to or associated with the Mannatech Marks during the Term without prior written approval and express permission from Mannatech, such approval and permission is within the sole discretion of Mannatech and may be withheld at any time.

7.9.2 Quality Control. Wellness shall use the Mannatech Marks only in connection with Products provided in accordance with the standards of quality in: materials, design, performance, workmanship, use, advertising and promotion as set forth by Mannatech. Mannatech's tradename and trademarks are an extremely valuable asset and breach of this section shall cause irreparable damage to Mannatech and its goodwill; as such, Mannatech shall have the right to immediately terminate this Agreement if any Product fails to comply with Mannatech's standards of quality in: materials, design, performance, workmanship, use, advertising or promotion. Wellness shall comply with the same conditions with respect to the style, appearance and manner of use of the trademark as set forth by Mannatech. All such marketing materials that use the Mannatech Marks, at Mannatech option, will be subject to prepublication review and approval with respect to, but not limited to, context, style, appearance, composition, timing and media.

7.9.3 Protection of Trademarks. Wellness admits the validity of and agrees not to challenge the Mannatech Marks. Wellness also agrees that any and all rights that may be acquired by the use of the Mannatech Marks by Wellness shall inure to the sole benefit of Mannatech. Wellness agrees not to assist others to contest the registration of any Mannatech trademark or to take any action or assist any others to take any action which would impair the value of the Mannatech Marks or the business, assets, or goodwill associated therewith or appurtenant thereto. Mannatech admits the validity of and agrees not to challenge the Wellness Marks. Mannatech also agrees that any and all rights that may be acquired by the use of the Wellness Marks by Mannatech shall inure to the sole benefit of Mannatech. Mannatech agrees not to assist others to contest the registration of any Wellness trademark or to take any action or assist any others to take any action which would impair the value of the Wellness Marks or the business, assets, or goodwill associated therewith or appurtenant thereto.

7.9.4 Mannatech expressly reserves the sole and exclusive ownership of the trademark "Mannatech". Wellness agrees not to use any of Mannatech's trademarks or any combination thereof, with or without any other words, logos, or images, as part of its corporate name, or for the purpose of advertising its business, without the prior written consent of Mannatech. Further, Wellness shall not market or make available any other products to Mannatech Associates without first receiving prior written approval from a designated officer of Mannatech. On the termination of this Agreement, or on the request of Mannatech, Wellness shall immediately and completely discontinue all use of the Mannatech Marks. Mannatech agrees not to use any of Wellness' trademarks or any combination thereof, with or without any other words, logos, or images, as part of its corporate name, or for the purpose of advertising its business, without the prior written consent of Wellness. On the termination of this Agreement, Mannatech shall immediately and completely discontinue all use of the Wellness' Marks, Haru Naito's Story or the claims associated with the Water Technology.

8. FORCE MAJEURE

8.1 Force Majeure. ***"Force Majeure"*** shall mean any cause beyond the reasonable control of the Party affected which prevents or delays the development, manufacture, sale or shipment of the Water Technology by Wellness (as the case may be) or its Affiliates to Mannatech or its assigns , or the acceptance thereof by Mannatech, including but not limited to any act of God; fire; casualty; flood; war; strike, lockout or other labor dispute; failure of public utilities; injunction, act, exercise, assertion or requirement of a governmental authority (whether federal, state, local or foreign); accident; epidemic; destruction of production or transportation facilities; riot or insurrection; inability to procure materials, equipment or energy sufficient to meet manufacturing needs; failure of third parties to supply essential raw materials.

8.2 Term of Force Majeure. In the event that any Party is prevented or delayed from performing any of its obligations under this Agreement (except for the payment of money) due to Force Majeure, such Party shall give notice thereof to the other Party advising of the anticipated period for which it is estimated that such prevention or delay will continue. Upon receipt of such notice, the non-performing Party shall be excused from performance from the date of such notice for so long as such cause of the prevention or delay shall continue due to such Force Majeure. All such periods of prevention or delay shall extend the Term of this Agreement for a total period equal to the sum of all periods of prevention or delay caused by such events. The non-performing Party shall keep the other Party informed on a timely basis of developments during any such period of prevention or delay. If any delay due to Force Majeure exceeds two (2) months, the other Party may terminate this Agreement according to the terms. In no event shall a Force Majeure be considered a breach, material or otherwise, to this Agreement.

9. REPRESENTATIONS AND WARRANTIES

9.1 Mannatech Representations and Warranties. The following representations and warranties are made by Mannatech and are true and correct and shall remain true and correct during the term of this Agreement:

9.1.1 Mannatech is a corporation, duly organized, validly existing and in good standing under the laws of the jurisdiction of its organization, and has full power and authority to carry on its business where and as now conducted, and has the legal right and authority to execute and deliver this Agreement and to perform its obligations hereunder.

9.1.2 Mannatech has not previously granted, and during the term of this Agreement will not make any commitment of, or grant any rights that are inconsistent in any material way with terms of this Agreement.

9.2 Wellness Representations and Warranties. The following representations and warranties are made by Wellness and are true and correct and shall remain true and correct during the term of this Agreement and have been made to induce Mannatech to enter into this Agreement.

9.2.1 Production. Subject to 3.7 hereof; Wellness warrants that the Water Technology conforms to the Specifications, quality control and to be free from contaminants, as may be modified by Mannatech from time to time, at Mannatech's exclusive and sole discretion.

9.2.2 Organization. Wellness is a corporation duly organized, validly existing and in good standing under the laws of the State of Delaware or as to the region in which it does business and has full power and authority to carry on business as now being conducted.

9.2.3 Wellness Authorization and Agreement. The execution, delivery and performance of this Agreement by Wellness has been authorized by all necessary corporate action on its part. The consummation of the transactions contemplated by this Agreement will not result in the breach of, or constitute a default under, any indenture, mortgage, note, agreement or other financing agreement to which either is a party or to which it or its properties or rights are subject and will not be in violation of the rights of any other party.

9.2.4 No Consent. No consent of any party and no consent, license, approval or authorization of, or exemption by, or registration or declaration with, any governmental authority, bureau or agency is required in connection with the execution, delivery, validity or enforceability of this Agreement with respect to Wellness and the consummation of the transactions contemplated hereby.

9.2.5 Insurance. It is expressly understood and agreed by and between the parties hereto that this Agreement does not take effect until Wellness delivers to Mannatech satisfactory and acceptable evidence of insurance coverages as specified below. Such policies shall name Mannatech, and its subsidiaries as additional insureds on a primary basis, and shall include a severability of interest provision. The certificate of insurance pertaining to general liability coverage shall specifically state that Mannatech, its subsidiaries and its affiliates are named as an additional insured on a primary basis and that to the extent permissible by law the insurer has insured Wellness for all risks and liabilities assumed by Wellness pursuant to paragraph 10. Such evidence of insurance shall specify the date when such insurance expires. Wellness further agrees that all insurance coverages will not be canceled without giving Mannatech thirty (30) days advance written notice. In the event such notice of cancellation is given, within said 30 day period prior to cancellation, new insurance acceptable to Mannatech must be obtained and delivered to Mannatech or Wellness shall have committed a material breach of this Agreement. Any breach of infraction by Wellness of the aforesaid requirements shall result in the immediate termination, or at the option of Mannatech, suspension of all authorized purchases of Product without penalty or additional expense to Mannatech. Wellness shall provide insurance coverages applicable to the work with the following minimum limits for the duration of this contract and, except for the Workers' Compensation coverage, with Mannatech and its subsidiaries and their affiliates named as additional insureds on a primary basis.

9.2.5.1 Commercial General Liability. $1,000,000 USD Combined Single Limit for Bodily Injury and Property Damage including product liability.

9.2.5.2 Auto Liability. $1,000,000 USD Combined Single Limit for Bodily Injury and Property Damage. Policy shall include owned and blanket non-owned vehicles and hired coverage.

9.2.5.3 Worker's Compensation. Statutory Limits and Employer's Liability insurance with limits of not less than $500,000 USD per accident or disease.

9.2.5.4 Commercial Umbrella Liability. Limit of not less than $2,000,000 USD per occurrence and excess of GL, AL and EL.

9.2.5.5 Insurance to Wellness: Mannatech shall provide insurance coverages applicable to its obligations under this contract with Wellness and its subsidiaries and their affiliates named as additional insured's on a primary basis as above provided at 9.2.5.1 – 9.2.5.4

9.2.6 Validity and Enforceability. This Agreement is valid and enforceable against Wellness in accordance with its terms, except as enforcement may be limited by applicable bankruptcy, insolvency or other laws affecting the rights of creditors generally. The execution, delivery and performance of this Agreement by Wellness does not violate any law or rule or regulation or give rise to a cause of action in favor of any person which will result in any liability to any of the Parties.

9.2.7 No Breach. Neither the execution or delivery of this Agreement, nor the consummation of the transactions contemplated hereby will: (i) violate any provision of the Articles of Incorporation or By-Laws of Wellness; (ii) violate, conflict with or result in the breach or termination of, or otherwise give any other contracting party the right to terminate or constitute a default (by way of substitution, novation or otherwise) under the terms of any mortgage, lease, bond, indenture, agreement, franchise or other instrument or obligation to which Wellness is a party or by which it may be bound or by which any of the property or assets of Wellness may be bound or materially affected; (iii) result in the creation of any lien, charge or encumbrance upon the assets or properties of Wellness as it relates to its business or the pending business of Mannatech; (iv) violate any judgment, order, injunction, decree or award of any court, arbitrator, administrative agency or governmental body against, or binding upon Wellness or upon the property, assets or business of Wellness; or (v) constitute a violation by Wellness of any law or regulation of any jurisdiction as such law or regulation relates to it or to the property or business of Wellness.

9.2.8 Compliance with Laws. The business and operations of Wellness and any of its affiliates and subsidiaries, if any, have not been, and are not, conducted in violation of any applicable judgment, order, injunction, award, tariff or decree. Wellness has not received notice of, nor does it have any knowledge of or any reasonable grounds to know after due inquiry that the business and its operations have not been and are not conducted in violation of any Federal, state or local law, ordinance, regulations, or any other requirement of any governmental body, court or arbitrator applicable to Wellness or pursuant to which it conducts business and operations. Wellness has all permits, licenses, orders, authorizations or approvals of any Federal, state, local or foreign governmental or regulatory body to carry on business in the places and in the manner now and heretofore conducted, and all such licenses, authorizations and permits are in full force and effect. Wellness has neither received notice of nor has any knowledge of or any reasonable grounds to know after due inquiry that the business and operations of Wellness have not and are not conducted in material violation of any such licenses, authorizations and permits, and no proceeding is pending or threatened to revoke or limit any such license, authorizations or permits.

9.3 Notice of Material Events. Wellness hereby agrees to notify Mannatech promptly of any actual or anticipated events that are reasonably likely to have a material adverse effect on the Product or on Wellness' ability to provide Water Technology to produce Product in accordance with the provisions set forth herein, including any labor difficulties, strikes, shortages in materials, plant closings and other interruptions in activity. Wellness shall promptly notify Mannatech of notice by government agencies, and if such notice relates specifically to a Product, provide copies of such notice along with a copy of Wellness' response to such notice for Mannatech's review prior to sending it to any government agency.

9.4 Survival. The warranties of the Parties under this Section 9 shall survive the termination for whatever reason of this Agreement.

10. DISCLAIMER; LIMITATION OF LIABILITY

NOTWITHSTANDING ANYTHING CONTAINED HEREIN TO THE CONTRARY, NO WARRANTIES ARE GIVEN IN RESPECT OF THE SUCCESSFUL SALE OF ANY PRODUCT, OR THE SUITABILITY OF ANY PRODUCT PRODUCED UNDER THIS AGREEMENT FOR ANY PARTICULAR PURPOSE OR USE UNDER ANY CONDITIONS. ANY IMPLICATION OF SUCH WARRANTY IS HEREBY EXCLUDED.

EXCEPT AS OTHERWISE PROVIDED HEREIN IN NO EVENT SHALL EITHER PARTY BE LIABLE FOR THE INDIRECT, SPECIAL, INCIDENTAL, CONSEQUENTIAL OR PUNITIVE DAMAGES OF THE OTHER PARTY, HOWEVER CAUSED AND ON ANY THEORY OF LIABILITY, ARISING OUT OF THE PERFORMANCE OF, OR THE FAILURE TO PERFORM, ANY OBLIGATION(S) SET FORTH HEREIN.

EXCEPT AS OTHERWISE EXPRESSLY SET FORTH IN THIS AGREEMENT, IN NO EVENT SHALL EITHER PARTY BE LIABLE TO THE OTHER PARTY FOR ANY LOSS OF PROFITS, LOSS OF USE, INTERRUPTION OF BUSINESS, OR ANY INCIDENTAL, SPECIAL, EXEMPLARY, PUNITIVE OR CONSEQUENTIAL DAMAGES, EVEN IF ADVISED OF THE POSSIBILITY OF SUCH DAMAGES.

NOTWITHSTANDING ANY OTHER PROVISION OF THIS AGREEMENT, THE LIABILITY FOR ANY LOSS OR DAMAGE SUFFERED BY WELLNESS AS A DIRECT RESULT OF ANY MATERIAL

BREACH OF THIS AGREEMENT (INCLUDING MISREPRESENTATION AND NEGLIGENCE) IN RESPECT OF THE MANUFACTURE AND DELIVERY OF PRODUCT BY MANNATECH SHALL BE LIMITED TO THE PAYMENT OF ACTUAL DAMAGES BASED ON A PURCHASE ORDER, PROVIDED THAT, HOWEVER, ANY REMEDY FOR BREACH OF CONFIDENTIAL INFORMATION SHALL BE GOVERNED BY SECTION 10.

11. INDEMNIFICATION

11.1 Wellness' Indemnification of Mannatech. Wellness shall, defend, indemnify and hold Mannatech harmless from and against any and all claims, actions, losses, damages, expenses (including court costs and attorney's fees) arising out of any act or omission by Wellness in favor of Mannatech and its Affiliates and their directors, officers, employees and agents harmless from and against any and all liabilities in relation to the use, processing, storage or sale of the Water Technology or Product that may be incurred by Mannatech arising out of:

11.1.1 Any claim, action or proceeding brought by any governmental or regulatory authority arising out of or resulting from Wellness' failure to perform its obligations in accordance with the requirements of this Agreement; or

11.1.2 Breach by Wellness of any of its obligations, representations or warranties under this Agreement; or

11.2 Indemnification Procedure. Mannatech agrees to inform Wellness promptly of any claim, action, loss, damage, expense or liability suffered by it for any breach of this Agreement on the part of Wellness asserted by Mannatech or a third party. If the manufacture, sale or use of the Water Technology pursuant to this Agreement or any alleged or potential infringement of Water Technology or other breach of this Agreement results in any claim, suit or proceeding by any third party against Mannatech (or its Affiliates) for which Mannatech asserts a claim to indemnification hereunder, Mannatech shall promptly notify Wellness in writing setting forth the facts of such claim in reasonable detail. Wellness (the "Indemnitor") shall have the right and obligation to defend of any such claim, suit or proceeding, at its own expense, shall engage counsel reasonably satisfactory to Mannatech to assume the investigation and defense of the claim; provided, however: (i) the Indemnitor shall not enter into any settlement that makes any admission or concession in relation to the Product or the Confidential Information of the indemnified Party, without the prior written consent of the Mannatech ("Indemnitee"); and (ii) if the Indemnitor fails to timely assume such defense, the Indemnitee shall have the right to assume and control the defense. The Indemnitor shall keep the Indemnitee reasonably informed of all material developments in connection with any such claim, suit or proceeding. The Indemnitee agrees to render such reasonable assistance as the Indemnitor may request, at the full cost and expense of the Indemnitor. The Indemnitee may participate in any such proceeding by counsel of its own choice at its own expense. The Indemnitor shall not settle any claim, action or proceeding for which indemnification is or may be sought without the Indemnitee's prior written approval, which shall not be unreasonably withheld or delayed.

This indemnification shall not apply: (i) if Indemnitee fails to give the Indemnitor prompt notice of claim as required above and such failure materially prejudices the Indemnitor; or (ii) unless the Indemnitor is given the opportunity to approve any settlement, which approval shall not be unreasonably withheld. Furthermore, the Indemnitor shall only be responsible for the legal fees and litigation expenses of the attorneys it designates to assume control of the litigation. In no event shall the Indemnitor assume responsibility for legal fees and litigation expenses of attorneys hired by Mannatech to defend any claim covered hereunder, unless the Indemnitor fails to perform its obligations hereunder.

11.3 Survival. The obligations and rights of the Parties under this Section 11 shall survive the termination for whatever reason of the Agreement for a period of ten (10) years.

12. CONFIDENTIALITY OBLIGATIONS

12.1 Parties Confidential Information. The Parties recognize and acknowledge that Mannatech and Wellness have invested and continue to invest in protecting that their respective Intellectual Property and the validity and enforceability thereof, which are valuable assets belonging to each respective party and as such are the sole property of Mannatech (hereinafter referred to as "Mannatech Confidential Information") and Wellness (hereinafter referred to as "Wellness Confidential Information") respectively. Prior to and during the performance of this Agreement, Wellness may have or had access to certain Mannatech Confidential Information and Mannatech may have or had access to certain Wellness Confidential Information. Mannatech shall not at any time, during or after the performance of this Agreement, in any manner, either directly or indirectly, use, divulge, disclose, or communicate to any person, firm or corporation, any confidential information of any kind, nature, or description concerning any matters affecting or relating to the business of the . Wellness Confidential Information, whether in written, electronic or other form includes but is not limited to: pending trade name(s) and trademarks, processes, patent applications, invention disclosures, research and development, formulations, proprietary ingredients, trade secrets, marketing plans, and any other related proprietary product or business information. Wellness shall not at any time, during or after the performance of this Agreement, in any manner, either directly or indirectly, use, divulge, disclose, or communicate to any person, firm or corporation, any confidential information of any kind, nature, or description concerning any matters affecting or relating to the business of the Mannatech. Mannatech Confidential Information, whether in written, electronic or other form includes but is not limited to: trade name(s), trademarks, copyrights, patents, patent applications, invention disclosures, research and development, marketing plans, identity of and related information regarding its Associates, product formulations and other proprietary product information and any information relating to the management/operations of Mannatech; Mannatech genealogies (being the information held by Mannatech in connection with any current or former Associate) related to its Associates including without limitation its relationship with each of its Associates, the Associate's name, upline and downline, charts, data reports, proprietary product information which may from time-to-time be made known to Mannatech, the names or practices of Mannatech's customers or Associates; Mannatech's marketing methods and related data; the names of Mannatech's vendors or suppliers; costs of materials; costs of its products generally, the prices Mannatech obtains or has obtained or at which it sells or has sold its products or services; manufacturing and sales costs; lists or other written records used in Mannatech's business; compensation paid to its Associates, details of training methods, new products or new uses for old products, merchandising or sales techniques, contracts and licenses, business systems, computer programs, or any other confidential information of, about, or concerning the business of Mannatech; its manner of operation or other confidential data of any kind, nature or description and the like.

12.2 Exclusions from Confidential Information. Notwithstanding the above, Confidential Information shall not include any information that:

12.2.1 is or has become readily publicly available or in the public domain without restriction through no fault of the Recipient or its employees or agents; or

12.2.2 is received at any time from a third party lawfully empowered to disclose such information without restriction and without breach of a non-disclosure obligation to Discloser; or

12.2.3 is shown through proper documentation to have been developed independently by Recipient without use of the Confidential Information and without use of reverse engineering of same; or

12.2.4 was already known to Recipient without restriction at the time of such disclosure; or

12.2.5 is readily discernible from publicly-available products or literature; or

12.2.6 is approved for disclosure by prior written permission of Discloser.

The Parties further acknowledge and agree that all Confidential Information developed by Wellness for Mannatech in connection with this Agreement shall be deemed Confidential Information of Mannatech and exceptions contained in Sections 12.2.1 and 12.2.2 above shall not be applicable thereto.

12.3 Term of Confidentiality. The Parties agree that for the term of the Agreement, and for ten (10) years following termination of this Agreement, each Party shall maintain in confidence all Confidential Information disclosed and identified as being Confidential by the other Party pursuant to this Agreement and shall not, except as contemplated by this Agreement, use such Confidential Information' for its benefit or the benefit of others, without the consent of the disclosing Party. Documents made available to the non-disclosing shall remain the property of the disclosing Party and shall be returned upon written request, except that one copy of all such information may be retained for legal archival purpose by the non-disclosing Party.

12.4 Necessary Disclosures. Each Party hereto may use or disclose Confidential Information disclosed to it by the other Party only to the extent such use or disclosure is reasonably necessary and permitted in the exercise of such rights granted hereunder (i) in filing or prosecuting patent applications, or prosecuting or defending litigation, (ii) complying with applicable governmental regulations or court order, (iii) submitting information to IRS, SEC or other governmental authorities, (iv) conducting clinical trials, (v) making a permitted sublicense or otherwise exercising license rights expressly granted by the other Party to it pursuant to the terms of this Agreement; or (vi) obtaining raw materials or equipment necessary to perform this Agreement; provided, however, that if a Party is required to make any such disclosure of another Party's Confidential Information as set forth herein, such Party will give reasonable advance notice to the other Party of such disclosure and will use its reasonable best efforts to secure confidential treatment of such information in consultation with the other Party prior to its disclosure (whether through protective orders or otherwise) and disclose only the minimum necessary to comply with such requirements.

12.5 Limited Disclosure. Notwithstanding anything herein to the contrary, either Party shall be permitted to disclose Confidential Information to the extent reasonably necessary (i) to such Party's attorneys, accountants and other professional advisors under an obligation of confidentiality to such Party, (ii) existing and prospective banks and other financial institutions, investors and other entities for the purpose of raising capital or borrowing money, establishing a collaborative arrangement for research and development marketing or other purpose or maintaining compliance with agreements, arrangements and undertakings relating thereto, if such person or entity agrees to maintain the confidentiality of such Confidential Information pursuant to a written agreement having terms substantially equivalent to the confidentiality obligations provided herein and (iii) to any person or entity who proposes to purchase or otherwise succeed (by merger, operation of law or otherwise) to all of such Party's right, title and interest in, to and under this Agreement, if such person or entity agrees to maintain the confidentiality of such Confidential Information pursuant to a written agreement having terms substantially equivalent or the confidentiality obligations provided herein.

12.6 Press Releases. All press releases or other communications with the media, and all other public disclosures related to this Agreement, are subject to approval in advance by the Parties and such approval shall not be unreasonably withheld or delayed. Press releases required by the Securities and Exchange Commission shall, to the extent possible, be delivered to Wellness for review.

12.7 Remedies. The Parties acknowledge that monetary damages may not be an adequate remedy for breach of the confidentiality obligations of this Agreement and that any breach of such obligations may cause irreparable injury to the non-breaching Party. If a Party is in breach, or threatens to commit a breach, of its confidentiality obligations under this Section 12, the non-breaching Party will have the right and remedy, which right and remedy will be in addition to and not in lieu of any other rights and remedies available to the non-breaching Party at law or in equity, to have such confidentiality obligations specifically enforced by any court having equity jurisdiction without the need to post a bond or any other security, or to prove any amount of actual damage, or that money damages would not provide an adequate remedy.

13. TERM AND TERMINATION

13.1 Term. Except as set forth to the contrary below, the term of this Agreement shall be for the Initial Term.

This Agreement shall renew automatically in consecutive one (1) year terms thereafter, unless:

13.1.1 Mannatech provides at least six (6) months prior notification of its intention to terminate, or

13.1.2 Wellness provides at least six (6) months prior notification of its intention to terminate.

13.2 Termination with Cause. Either Party may terminate the Agreement forthwith by notice in writing to the other upon the occurrence of any of the following events:

13.2.1 Material Breach. If the other Party commits a material breach of any provision of this Agreement and if such breach is not cured within ninety (90) calendar days after receipt of written notice thereof by the breaching Party.

13.2.2 Inaccurate Warranty. If, when made, any representation or warranty is inaccurate in any material respect, the other Party has the option to terminate.

13.2.3 Termination Upon Insolvency or Sale of the Assets. To the extent permitted by Federal and State Bankruptcy laws, the other party may terminate this agreement, if:

(a) the other Party ceases for any reason to carry on business or convenes a meeting of its creditors or has a receiver or manager appointed in respect of all or any part of its assets or is the subject of an application for an administrative order or of any proposal for a voluntary arrangement or enters into liquidation (whether compulsorily or voluntarily) or undergoes any analogous act or proceedings, which is not remedied within sixty (60) days' written notice; or

(b) a court having jurisdiction in the premises enters a decree or order for relief in respect of the other Party in any involuntary case under any applicable bankruptcy, insolvency or other similar law now or hereafter in effect, or appointing a receiver, liquidation, assignee, custodian, trustee or sequestrator (or similar official) of the other Party or for any substantial part of its property, or ordering the winding-up or liquidation of its affairs, which decree or order for relief remains unstayed and in effect for more than sixty (60) days; or

(c) the other Party commences a voluntary case under any applicable bankruptcy insolvency or other similar law now or hereafter in effect, or consents to the entry of any order for relief in an involuntary case under any such law, or consents to the appointment of or taking possession by a receiver, liquidator, assignee, trustee, custodian or sequestrator (or similar official) of the other Party or for any substantial part of its property, or makes any general assignment for the benefit of creditors, or fails generally to pay its debts as they become due; or

(d) any order, judgment or decree is entered in any proceeding against the other Party decreeing the dissolution of the other Party and such order, judgment or decree remains unstayed and in effect for more than sixty (60) days; or

(e) any other event causing the dissolution and/or liquidation of the other Party shall occur.

13.3 Termination Date. The Termination Date shall be the date on which notice of termination is received by the affected Party.

13.4 Termination by Mannatech. Mannatech will have just cause to terminate this Agreement immediately upon written notice to Wellness or to refuse to renew this Agreement, without judicial or administrative notice or resolution, upon the occurrence of any termination event specified below or elsewhere in this Agreement:

13.4.1 Breach. Wellness or any of its employees breach any obligation under this Agreement and fails to cure the breach to Mannatech's satisfaction within thirty (30) days after Mannatech demands its cure in writing.

13.4.2 Failure to Meet Quality Control Standards. Subject to 3.1.3; the Water Technology fails to meet the Quality Control Standards provided by Mannatech in the form of Product Specifications, as set forth in Attachment 2 or as Mannatech may provide to Wellness from time to time, Mannatech shall be entitled to immediately terminate this Agreement.

13.4.3 Illegality. If, continued use of the Water Technology would result in harm to its consumers, give rise to a regulatory investigation or is otherwise determined to be illegal or unsafe for use anywhere in the Territory.

13.4.4 Fair Trade Practices. Wellness shall at all times comply with international fair trade practices. Mannatech shall have the right to terminate this Agreement upon seven (7) days prior written notice to Wellness or its representatives in the event that Wellness, its officers, executives, partners, directors, principals, employees, attorneys or agents, does any of the following: engages in illegal, immoral, or criminal conduct resulting in a criminal indictment with a substantial likelihood of conviction; misrepresents or conceals anything in its background that could be detrimental to the value of Mannatech's goodwill, name, reputation or stock; engages in any conduct contrary to the best interests of Mannatech; engages in conduct that offends the sensitivities of a significant portion of the population, including, without limitations, use of child labor, acts contrary to international standards for the treatment of employees or the environment, abrogates the rights of employees to congregate and the like; or engages in conduct that could bring Mannatech into public disrepute.

13.4.5 Termination Due to Regulatory Requirements. Mannatech may terminate this Agreement in the event that government regulatory requirements, or Mannatech's Specifications, including but not limited to quality assurance, good manufacturing practices and legality for sale, are not met regarding Product and manufacturing, such determination at Mannatech's sole discretion.

13.4.6 Termination for Failure to Meet Mannatech's Production Requirements. Mannatech may terminate this Agreement if Wellness is unable to meet Mannatech's minimum production requirements of the Water Technology or if Wellness is unable to meet Mannatech's reasonable future requirements.

13.5 Obligations of Mannatech upon Termination for Withdrawal from Commercial Product Sale. In the event this Agreement is terminated by Mannatech, Mannatech shall be solely responsible for payment of outstanding invoices for Water Technology delivered and accepted by Mannatech. In the event of termination, Mannatech will have no further obligation with respect to this Agreement and Wellness will immediately return to Mannatech all Mannatech Technology and Mannatech Materials.

13.6 Obligations of Wellness upon Termination for Breach

13.6.1 Obligations of Wellness upon Termination for Breach. In the event this Agreement is terminated by Mannatech for breach by Wellness, Wellness shall return to Mannatech all Mannatech Materials and Mannatech Technology and all work-in-process commenced by Wellness. Mannatech shall have no further obligation of any kind to Wellness except as follows: Mannatech shall pay the Price for Water Technology delivered and accepted by Mannatech.

13.7 Termination of the Agreement with or without Cause. Termination shall not release either Party hereto from any liability which, at the time of such termination, has already accrued to the other Party or which is attributable to a period prior to such termination, nor preclude either Party from pursuing any rights, indemnities and remedies it may have herein or at law or in equity with respect to any breach of the agreement. All provisions that are expressed to survive the agreement shall remain in full force and effect.

13.8 Infeasibility/Replacement. If Mannatech reasonably and in good faith determines that Water Technology and/or the Product is technically or commercially not feasible, Mannatech shall have the option to specify a replacement product reasonably acceptable to the Parties within thirty (30) days after providing written notice of such determination.

13.9 Termination by Wellness. Wellness will have just cause to terminate this Agreement immediately upon written notice to Mannatech or to refuse to renew this Agreement, without judicial or administrative notice or resolution, upon the occurrence of any termination event specified below or elsewhere in this Agreement:

13.9.1 Breach. Mannatech or any of its employees breach any obligation under this Agreement and fails to cure the breach to Wellness' satisfaction within thirty (30) days after Wellness demands its cure in writing.

13.9.2 Fair Trade Practices. Mannatech shall at all times comply with international fair trade practices. Wellness shall have the right to terminate this Agreement upon seven (7) days prior written notice to Mannatech or its representatives in the event that Mannatech, its officers, executives, partners, directors, principals, employees, attorneys or agents, does any of the following: engages in illegal, immoral, or criminal conduct resulting in a criminal indictment with a substantial likelihood of conviction; misrepresents or conceals anything in its background that could be detrimental to the value of Wellness' goodwill, name, reputation or stock; engages in any conduct contrary to the best interests of Wellness;

engages in conduct that offends the sensitivities of a significant portion of the population, including, without limitations, use of child labor, acts contrary to international standards for the treatment of employees or the environment, abrogates the rights of employees to congregate and the like; or engages in conduct that could bring Wellness into public disrepute.

14. MISCELLANEOUS

14.1 Assignment. Wellness shall not assign or transfer this Agreement without the express, written consent of Mannatech, which consent shall not be unreasonably withheld. In the event of an unapproved assignment, Mannatech may, at its option, terminate this Agreement or treat such attempted assignment as having no force or effect. Assignments to Affiliates are expressly permitted without the other Party's consent, so long as such Affiliate expressly agrees in writing, with copy to Mannatech, to be bound by the terms and conditions of this Agreement. Wellness shall remain liable to Mannatech for all actions of the third party. Mannatech may assign its rights and responsibilities under this Agreement to a subsidiary or other corporation owned by Mannatech, without prior notice to Wellness. In such an event, all of the terms and provisions of this Agreement shall be binding upon, inure to the benefit of, and be enforceable by the respective heirs, representatives, successors (including, without limitation, any successor as a result of a merger or similar reorganization) and assigns of Mannatech. Mannatech will notify Wellness as soon as practicable after the assignment.

14.2 Information Sharing. The Parties will share information necessary or helpful in accomplishing the purpose of the Agreement, including process information, yield, and output data, forecasts, general market conditions and technology. Each Party will limit the dissemination of information stemming from the others to those persons within the Party's organization who need to know such information in order to accomplish the purpose of the Agreement. Any Confidential Information provided will be subject to the confidentiality obligations set forth in Section 12.

14.3 Information in Support of this Agreement. The Parties will share information necessary or helpful in accomplishing the purpose of the Agreement, including information relating to changes in the Parties' business entity structure, business control, suits, judgments and notices. Any Confidential Information provided will be subject to the confidentiality obligations set forth in Section 12.

14.4 Governing Law. The laws of the State of Texas shall govern the construction, validity and performance of the Agreement. Any law suits brought by Mannatech herein shall be brought in the state or federal courts located in Dallas, Texas in the State of Texas and any law suits brought by Wellness shall be brought in the state or federal courts located in the Northern District of the State of Texas, the Parties hereto waive any claim or defense that such forum is not convenient or proper. The Parties agree that such court shall have personal jurisdiction over it and consents to service of process by any means authorized by Texas law.

14.5 Notices. All notices, requests, demands or other communications to or upon the respective parties hereto shall be deemed to have been given or made when deposited in the mail, registered mail or certified, return receipt requested, postage prepaid, or overnight courier or by facsimile transmission, the receipt of which is confirmed by telephone, addressed to the respective Party to the following address (or to such other person or address as is specified elsewhere in this Agreement for specific purposes):

In the case of Mannatech, addressed to:

Mannatech Incorporated
Attn: Bettina Simon, Senior Vice-President and General Counsel
600 South Royal Lane, Suite 200 Coppell, Texas 75019
Tel: 972-471-4700
Fax: 972-471-7387

In the case of Wellness, addressed to:

Wellness Enterprises, LLC
Attn: David Fowler, CEO
399 County Highway 58,
Oneonta, NY 13820
Tel: 352-376-6142
Fax: 352-375-7065

or to such other destination as either Party hereto may hereafter notify to the other in accordance with the provisions of this clause.

14.6 Waiver. A waiver by either Party of any of the terms and conditions of this Agreement in any instance shall not be deemed or construed to be a waiver of such term or condition for the future.

14.7 Severability. If and to the extent that any court of competent jurisdiction holds any provision or part of this Agreement to be invalid or unenforceable, such holding shall in no way affect the validity of the remainder of this Agreement. Each such term, condition, covenant or provision of this Agreement shall be valid and enforceable to the fullest extent permitted by applicable law. The Parties shall cooperate in amending this Agreement in such an event in order to overcome any difficulties thereby occasioned. Notwithstanding the foregoing, if such term, condition, covenant or provision or such application is fundamental to the expectations or rights of either Party herein, and no amendment to give equivalent effect is possible, then such Party may forthwith terminate this Agreement.

14.8 No Implied Licenses. Only the licenses or rights granted pursuant to the express terms of this Agreement shall be of any legal force or effect. No other license rights shall be created by implication, estoppel or otherwise.

14.9 Independent Contractors. The relationship of the Parties hereto is that of independent contractors. The Parties hereto are not deemed to be agents, partners or joint ventures of the other for any purpose as a result of this Agreement or the transactions contemplated hereby.

14.10 Compliance With Laws. In exercising their rights under this Agreement, the Parties shall fully comply in all material respects with the requirements of any and all applicable laws, regulations, rules and orders of any governmental body having jurisdiction over the exercise of rights under this Agreement, including, without limitation, those applicable to the discovery, development, manufacture, distribution, import and export and sale of products pursuant to this Agreement.

14.11 Entire Agreement. This Agreement contains the entire understanding of the Parties, superseding in all respects any and all prior oral or written agreements or understandings pertaining to the subject matter hereof. This Agreement can be amended, modified or supplemented only by an agreement in writing, which is signed by the Parties. Unless otherwise agreed in writing, the terms and provisions of this Agreement shall be controlling to the exclusion of all terms and conditions of any purchase order, except as to quantity, delivery schedule, and shipping point.

14.12 Counterparts. This Agreement may be executed in multiple counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument.

14.13 Schedules and Attachments. The schedules and attachments attached to or to be attached to this Agreement shall form an integral part of the same.

14.14 Independent Judgment. The Parties acknowledge that: (a) they have read this Agreement; (b) they understand the terms and conditions of this Agreement; (c) they have had the opportunity to seek legal counsel and advice; (d) they are of equal bargaining power; and (e) they have relied on their own judgment in entering into this Agreement, as such, none of the sections, paragraphs or clauses contained herein may be construed to the disadvantage of a party because that party was responsible for its preparation.

14.15 Ambiguities. The Parties hereto mutually acknowledge that each of them has reviewed this Agreement in its entirety and that the normal rule of construction to the effect that any ambiguities are to be resolved against the drafting party shall not be employed in the interpretation or application of this Agreement.

14.16 Approval. This Agreement is subject to approval by the Board of Directors of Mannatech, Inc., and the Board of Directors of Wellness Enterprises, LLC.

14.17 Condition Precedent. This Agreement is subject to the execution of an Agreement between Mannatech and FCL for the manufacture of skin care products and further subject to completion of agreed upon “specifications” listed on Attachment 2 and incorporated herein.

IN WITNESS WHEREOF, the Parties have caused this Agreement to be executed by their duly authorized officers.

Mannatech Incorporated

By: /s/ Sam Caster Date: February 1, 2006
Sam Caster
Its: Chairman and Chief Executive Officer

Wellness Enterprises, LLC

By: /s/ David E. Fowler Date: February 1, 2006
David E. Fowler
Its: President and Chief Executive Officer

Attachment 1

“Wellness Product Development”

Optimal Face Cleansing Cream

Optimal Skin Lotion

Optimal Skin Serum

Optimal Eye Cream

Optimal Aftershave Milk

Attachment 2

"Specifications"

***

Exhibit 10.28

THIRD AMENDMENT TO
EMPLOYMENT AGREEMENT

This Third Amendment to the Employment Agreement of Terry L. Persinger ("Third Amendment") is entered into by and between Terry L. Persinger ("Employee") and Mannatech, Incorporated ("Employer"), this 1st day of January, 2006, and amends that certain Employment Agreement entered into by and between the Employee and the Employer, effective November 1, 1999, First Amendment effective January 1, 2002, and Second Amendment effective June 7, 2004.

This Third Amendment shall modify the terms of the Employment Agreement as follows:

ARTICLE I.

Paragraph 2, first sentence shall be replaced with the following:

"Employee is engaged to serve as President and Chief Operating Officer at an annual salary of $371,280 (Three Hundred and Seven One Thousand, Two Hundred and Eighty Dollars) per annum, effective as of January 1, 2006.

In all other things except the foregoing Amendment, the Agreement shall remain in full force and effect.

Effective this 1st day of January, 2006.

Mannatech, Incorporated

/s/ Terry L. Persinger
Terry L. Persinger,
President and Chief Operating Officer

By: */s/ Samuel L. Caster, Chairman*
Samuel L. Caster, Chairman

Exhibit 10.32

EMPLOYMENT AGREEMENT

This Employment Agreement (this "Agreement") is entered into by and between Mannatech Incorporated (the "Company") and Samuel L. Caster (the "Employee"), and is effective as of **January 23, 2006** ("Effective Date"). The Company desires to employ the Employee, and the Employee desires to be employed by the Company. Therefore, in consideration of the mutual promises and agreements contained herein, the Company and the Employee (collectively, the "Parties") hereby agree as follows:

SECTION 1. EMPLOYMENT

1.1 Employment. The Company hereby employs the Employee, and the Employee hereby accepts employment by the Company, for the period and upon the terms and conditions contained in this Agreement.

1.2 Office and Duties. The Employee shall serve as Chairman and Chief Executive Officer (collectively, the "CEO") of the Company, with the authority, duties and responsibilities described herein and those customarily incident to such office. The Employee shall report directly to the Company's Board of Directors (the "Board") and shall perform such services, duties and responsibilities commensurate with his position as may from time to time be assigned to him by the Board.

1.3 Performance. During his employment under this Agreement, the Employee shall devote on a full-time basis all of his time, energy, skill and best efforts to the performance of his duties hereunder in a manner that will faithfully and diligently further the business and interests of the Company. The Employee may, however, engage in civic, charitable, and professional or trade activities so long as those activities do not interfere with the performance of his duties hereunder. The Employee shall comply with the employee policies and written manuals of the Company that are applicable generally to executive employees of the Company, as they exist and/or are modified from time to time. In the event of conflict or inconsistency between this Agreement and the employee policies and written manuals of the Company, the terms of this Agreement shall govern. The Employee shall not work either on a part-time or independent contractor basis for any other business or enterprise during the Term of Employment. The foregoing notwithstanding, the Parties understand and agree that the Employee will devote a portion of his time promoting MannaRelief, a 501(c)(3) non-profit organization.

1.4 Place of Work. The Employee shall perform services under this Agreement at the Company's principal office in the City of Coppell, Dallas County, Texas, and at such other place or places as the Employee's duties and responsibilities may require.

1.5 Directors' and Officers' Liability Insurance. The Company shall maintain director and officer liability insurance covering acts or omissions by the Employee in the performance of his duties to the Company under this Agreement as CEO and as a director of the Company. The Company shall maintain such insurance in effect during the Term of Employment (including any extensions of the Term of Employment). Such insurance coverage shall be in reasonable amounts and shall contain such other reasonable terms and conditions as shall be established by the Company.

1.6 Indemnity. As of the Effective Date, the Company shall defend, indemnify and hold harmless the Employee against all claims, actions, lawsuits, judgments, penalties, fines, settlements and reasonable expenses that are filed, pursued, or otherwise sought by third parties, as applicable, in any proceeding resulting from the performance of the Employee's duties to the Company as CEO under this Agreement, as follows:

a. Right to Indemnification. In the event that the Employee was or is made a party or was or is threatened to be made a party to or was or is involved or called as a witness in any action, suit, proceeding or alternative dispute resolution mechanism, or any hearing, inquiry or investigation that the Employee in good faith believes may lead to the institution of any such action, suit, proceeding or alternative dispute resolution mechanism, whether civil, criminal, administrative or investigative, and any appeal therefrom (hereinafter, collectively a "Proceeding"), by reason of the fact that he was, is or had agreed to become a director, officer, employee, agent or fiduciary of the Company, the Employee shall be indemnified and held harmless by the Company to the fullest extent permitted under applicable law, as the same now exists or may hereafter be amended (but, in the case of any such amendment, only to the extent that such amendment permits the Company to provide broader indemnification rights than the Company was permitted to provide prior to such amendment) against all expenses (including reasonable attorneys' fees and all other costs, expenses, liabilities, obligations and disbursements in connection with investigating, prosecuting, defending, preparing to prosecute and defend, or being a witness or other participant in any Proceeding), liabilities and losses (including, but not limited to, judgments, fines and amounts paid or to be paid in settlement) incurred or suffered by the Employee in connection with any Proceeding (collectively, "Expenses"), provided however, that, except as provided in Section 1.6(e) hereof, the Company shall indemnify the Employee in connection with a Proceeding (or part thereof) initiated by the Employee only if such Proceeding (or part thereof) was authorized by the Board.

b. Expenses. Expenses incurred by the Employee in defending or otherwise being involved in a Proceeding shall be paid by the Company in advance of the final disposition of such Proceeding, including any appeal therefrom, upon receipt of an undertaking (the "Undertaking") by the Employee to repay such amount if it shall ultimately be determined that he is not entitled to be indemnified hereunder; provided, however, that in connection with a Proceeding (or part thereof) initiated by the Employee, except as provided in Section 1.6(e) hereof, the Company shall pay such Expenses in advance of the final disposition only if such Proceeding (or part thereof) was authorized by the Board. The Parties agree and the Undertaking shall provide that if the Employee has commenced Proceedings in a court of competent jurisdiction to secure a determination that he should be indemnified hereunder, he shall not be obligated to repay the Company, as the case may be, during the pendency of such Proceeding.

c. Mandatory Payment of Expenses. Notwithstanding any other provision of this Agreement, to the extent that the Employee has been successful on the merits or otherwise, including, without limitation, the dismissal of an action without prejudice, in the defense of any Proceeding or in the defense of any claim, issue or matter therein, the Employee shall be indemnified hereunder against all Expenses incurred by or on behalf of the Employee in connection therewith.

d. Notice. The Employee shall, as a condition precedent to the Employee's right to be indemnified hereunder, give the Company notice in writing as soon as practicable of any Proceeding for which indemnification will or could be sought under this Agreement.

e. Protection of Rights. If a claim under this Agreement or under any other agreement providing indemnification to the Employee by the Company ("Other Agreement") is not promptly paid in full by the Company after a written Claim has been received by the Company, or if Expenses pursuant to this Agreement or any Other Agreement have not been promptly advanced after a written request for such advancement accompanied by the Undertaking has been received by the Company, the claimant may at any time thereafter bring suit against the Company to recover the unpaid amount of the claim or the advancement of Expenses. If successful, in whole or in part, in such suit, the Employee shall also be entitled to be paid the reasonable expense thereof. It shall be a defense to any such action (other than an action brought to enforce a claim for Expenses incurred in defending any Proceeding in advance of its final disposition where the required Undertaking has been tendered to the Company) that the Employee has not met the standards of conduct that make it permissible under applicable law for the Company to indemnify the Employee for the amount claimed, but the burden of proving such defense shall be on the Company.

f. No Presumption. For purposes of this Agreement, the termination of any Proceeding by judgment, order, settlement (whether with or without court approval) or conviction, or upon a plea of nolo contendere or its equivalent, shall not create a presumption that the Employee did not meet any particular standard of conduct or have any particular belief or that a court has determined that indemnification or contribution is not permitted by applicable law.

g. Non-Exclusivity of Rights. The rights conferred on the Employee by this Agreement shall not be exclusive of any other right that the Employee may have or hereafter acquire under any statute, provision of the Company's certificate of incorporation or by-laws, other agreement, vote of stockholders or directors or otherwise.

h. Selection of Counsel. In the event that the Company shall be obligated hereunder to pay the Expenses of any Proceeding, the Company shall be entitled to assume the defense of such Proceeding with counsel approved by the Employee, which approval shall not be unreasonably withheld, upon the delivery to the Employee of written notice of its election so to do. After delivery of such notice, approval of such counsel by the Employee and the retention of such counsel by the Company, the Company will not be liable to the Employee under this Agreement for any fees of counsel subsequently incurred by the Employee with respect to the same Proceeding; provided, however, that (i) the Employee shall have the right to employ his own counsel in any such Proceeding at the Employee's expense and (ii) if (A) the employment of counsel by the Employee has been previously authorized by the Company, (B) the Employee shall have reasonably concluded that there is a conflict of interest between the Company and the Employee in the conduct of any such defense, or (C) the Company shall not continue to retain such counsel to defend such Proceeding, then the fees and expenses of the Employee's counsel shall be at the expense of the Company. The Company shall have the right to conduct such defense as it sees fit in its sole discretion, including the right to settle any claim against the Employee without the consent of the Employee.

i. Subrogation. In the event of any payment under this Section 1.6 to the Employee, the Company shall be subrogated to the extent of such payment to all of the rights of recovery of the Employee, who shall execute all papers required and shall do everything that may be necessary to secure such rights, including execution of such documents as are necessary to enable the Employee to bring suit to enforce such rights.

j. Exceptions. Any other provision herein to the contrary notwithstanding, the Company shall not be obligated pursuant to the terms of this Agreement to indemnify the Employee for Expenses resulting from acts, omissions or transactions for which the Employee is prohibited from receiving indemnification under applicable law.

k. No Duplication of Payments. The Company shall not be liable under this Agreement to make any payment of Expenses to the extent the Employee has otherwise actually received payment under any insurance policy, statute, provision of the Company's certificate of incorporation or by-laws, other agreement, vote of stockholders or directors or otherwise of the amounts otherwise indemnifiable.

l. Partial Indemnification. If the Employee is entitled under any part of this Agreement to indemnification for some or a portion of Expenses incurred in connection with any Proceeding, but not, however, for all of the total amount thereof, the Company shall nevertheless indemnify the Employee for the portion of such Expenses to which the Employee is entitled.

1.7 Exclusive Employment. Without limiting Section 1.3 hereof, during the Term of Employment, the Employee will not, without the prior written consent of the Board:

a. serve as a spokesperson, representative, employee, consultant, agent, officer, or member of any board of directors (or any similar governing body) for any for-profit business other than the Company;

b. serve as a spokesperson, representative, employee, owner, consultant, agent, officer, or member of any board of directors (or any similar governing body) for any business that is a supplier to the Company or that competes with the Company, in each case whether directly or indirectly;

c. own any equity or economic interest in any company that competes directly or indirectly with the Company, except that this does not preclude ownership of less than 5% of the outstanding equity securities of any public reporting company. In no event shall Employee be permitted to own any equity in a Competing Business (as herein defined); or

d. subject to 1.3 hereof, promote or endorse at Company business functions any other organization(s) with which he may be associated or affiliated.

SECTION 2.
EMPLOYMENT TERM

2.1 Term. The term of the Employee's employment under this Agreement commences on the Effective Date and shall continue for a period of two (2) years (the "Term of Employment"), subject to prior termination only as provided in this Agreement. The Term of Employment shall automatically renew for a period of two (2) years on the third anniversary of the Effective Date, and after that the Term of Employment shall continue to automatically renew for periods of two (2) years without the need for any action by either Party, unless: (a) the Company provides the Employee with a written notice of non-renewal at least ninety (90) days prior to the end of the then-current Term of Employment, including any automatic renewal period ("Notice of Non-Renewal"); or (b) the Employee's employment is otherwise terminated in accordance with Section 8 of this Agreement. After receiving a Notice of Non-Renewal, the Employee's employment may be terminated earlier in accordance with the terms of Section 8 hereof.

2.2 Effect of Notice of Non-Renewal. Subject to termination under Section 8 hereof, if a Notice of Non-Renewal is given in accordance with Section 2.1 above, then (a) the term of employment under this Agreement will continue until the expiration of the notice period specified in the Notice of Non-Renewal, and (b) the Company may instruct the Employee not to come into the Company's offices or to attend any of the Company's business functions from the date of such notice through the last date of employment. The Employee's following such instruction will not constitute Cause for termination or otherwise impair the Employee's rights hereunder. The Parties stipulate and agree that this Agreement constitutes a novation of and otherwise supersedes the Employment Agreement executed by the Parties on October 31, 2002, which is terminated and is of no further force or effect.

SECTION 3.
EMPLOYMENT COMPENSATION

3.1 Base Salary. The base salary of the Employee for all of his services, duties and responsibilities to the Company and all of his agreements and covenants with or to the Company under this Agreement shall be at the annual rate of $660,000, which the Company shall pay to the Employee in equal installments in accordance with its normal payroll policies (the "Base Salary").

a. Employee's performance and salary shall be reviewed by the Board and the Compensation Committee annually in accordance with the Company's annual performance review process.

b. Employee's Base Salary for any partial year will be prorated based upon the number of days elapsed in such year. Employee's pay may be raised by the Company from time to time as the Company deems appropriate in its sole discretion, by way of an addendum or other documentation, without otherwise effecting this Agreement. Notwithstanding any pay increase, the employment of Employee shall be construed as continuing under this Agreement.

3.2 Annual Bonus. During his employment under this Agreement, the Employee is also eligible to participate in the Company's annual executive bonus program at the CEO level (the "Executive Bonus Program"). The opportunity to earn a bonus and the amount of any bonus compensation under the Executive Bonus Program will be determined in accordance with criteria established by the Board or the Compensation Committee, which will comply with the requirements of Section 409A of the Internal Revenue Code, unless the payment of the bonus is exempt as not constituting a deferral of income. The Employee acknowledges that any bonus compensation under the Bonus Program will be discretionary, with the sole discretion resting with the Board or the Compensation Committee.

3.3 Payment and Reimbursement of Work-Related Expenses. During his employment under this Agreement, the Company shall pay or reimburse the Employee, in accordance with the applicable policies and procedures of the Company, for all reasonable travel and other reasonable expenses incurred by the Employee in performing his obligations under this Agreement, provided that the Employee properly accounts for such expenses in accordance with the regular policies of the Company.

3.4 **Benefits.** During his employment under this Agreement, the Employee shall be entitled to participate in or receive benefits under any employee-benefit plan or arrangement made available by the Company to its executive employees generally (including any medical, dental, short-term and long-term disability, life insurance and 401(k) programs), subject to eligibility conditions or requirements and to the terms, conditions and overall administration of each of such plans and arrangements. Nothing in this Agreement will preclude the Company from amending or terminating any of the benefit plans or programs applicable to Employee as long as such amendment or termination is applicable to all similarly-situated employees, without otherwise affecting this Agreement. Notwithstanding any change in benefits, the employment of Employee shall be construed as continuing under this Agreement.

3.5 **Executive Vehicle Program.** During his employment under this Agreement, the Employee will also be eligible to participate in the Company's executive vehicle program, subject to all of its terms, regarding a vehicle with a lease cost to the Company of no greater than $1,200 per month, with auto liability insurance coverage (comprehensive, collision and liability) for the leased vehicle paid by the Company and all routine and necessary repairs to the leased vehicle paid for by the Company or reimbursed to the Employee, subject to approval by the Chief Financial Officer of the Company.

3.6 **Tax Withholding**. The Company may deduct from any compensation or other amount payable to the Employee under this Agreement social security (FICA) taxes and all federal, state, municipal, or other such taxes or governmental charges as may now be in effect or that may hereafter be enacted or required.

SECTION 4. CONFIDENTIAL INFORMATION

4.1 **Definition of "Confidential Information."**

a. "Confidential Information" means material, data, ideas, inventions, formulae, patterns, compilations, programs, devices, methods, techniques, processes, know how, plans (marketing, business, strategic, technical or otherwise), arrangements, pricing and/or other information of or relating to the Company (as well as its customers and/or vendors) that is confidential, proprietary, and/or a trade secret (a) by its nature, (b) based on how it is treated or designated by the Company, (c) such that its appropriation, use or disclosure would have a material adverse effect on the business or planned business of any of the Company, or (d) as a matter of law. All Confidential Information is the property of the Company, the appropriation, use and/or disclosure of which is governed and restricted by this Agreement.

b. Inclusions. "Confidential Information" also includes (without limitation) the following information (including, without limitation, compilations or collections of information) relating or belonging to the Company (as well as its customers and/or vendors) and created, prepared, accessed, used or reviewed by the Employee during or after the Term: (i) **Company genealogy information**, such as the information held by the Company related to its independent sales consultants or associates ("Associates"), including (without limitation) its relationship with each of its Associates, the sponsoring of each Associate, the Associate's upline and downline charts, data reports and other materials, and historical purchasing information for each Associate; (ii) **proprietary product and manufacturing information**, such as new products or new uses for old products, materials and ingredients, combinations of materials and ingredients, and manufacturing processes; (iii) **scientific and technical information**, such as research and development, clinical studies, tests and test results, formulas and formulations, and scientific studies and analysis; (iv) **financial and cost information**, such as costs of materials, operating and production costs, costs of goods sold, costs of products, costs of supplies and manufacturing materials, non-public financial statements and reports, manufacturing and sales costs, profit and loss information, and margin information, and financial performance information; (v) **customer related information**, such as the names, buying habits, or practices of any of the Company's customers, prospects and/or Associates, customer related contracts, engagement and scope of work letters, proposals and presentations, the identity of specific contacts within the customer's organization, customer related contacts, lists, identities, and prospects, customer practices, plans, histories, requirements, and needs, customer related price information and formulae, and information obtained from customers concerning their products, businesses, or equipment specifications; (vi) **vendor and supplier related information**, such as the identities, practices, history or services of any vendors or suppliers, and vendor or supplier contacts; (vii) **sales, marketing, and price information**, such as marketing methods and related data, the prices the Company obtains or has obtained or at which it sells or has sold its products or services, merchandising or sales techniques, marketing and sales programs and related data, sales and marketing strategies and plans, sales and marketing procedures and processes, pricing methods, practices, and techniques, and pricing schedules and lists; (viii) **database, software, and other computer related information**, such as computer programs, data, compilations of information and records, business systems and computer programs, software and computer files, presentation software, and computer-stored or backed-up information, including (without limitation) e-mails, databases, word processed documents, spreadsheets, notes, schedules, task lists, images, and video; (ix) **employee and other Associate related information**, such as Associate and client requirements, compensation paid to Associates and employees, other employee and Associate terms, lists or directories identifying employees, representatives and contractors, and information regarding the competencies (knowledge, skill, experience), compensation and needs of employees, representatives, and contractors, and training methods; (x) **business and operation related information**, such as specialized training (as referenced in Section 4.2. hereof), lists or other written records used in the Company's business, operating methods, procedures, techniques, practices and processes, information about acquisition(s), corporate or business opportunities, information about partners and potential investors, strategies, projections and related documents, contracts and licenses, and business records, files, equipment, notebooks, documents, memoranda, reports, notes, sample books, correspondence, lists, and other written and graphic business records; (xi) **new information**, such as additional Confidential Information that is or may be developed, obtained and otherwise made known to the Employee from time-to-time during the Employment Period; and (xii) **third party information**, such as information from the Company's customers, suppliers, partners, joint venturers, and other business partners.

c. Exclusions. Confidential Information does not include material, data, and/or information that (i) the Company has voluntarily placed in the public domain; (ii) has been lawfully and independently developed and publicly disclosed by third parties; (iii) constitutes the knowledge and skills gained by Employee during the Employment Period; or (iv) otherwise enters the public domain through lawful means; provided, however, that the unauthorized appropriation, use, or disclosure of Confidential Information by Employee, directly or indirectly, shall not affect the protection and relief afforded by this Agreement regarding such information.

4.2 Provision of Confidential Information. Irrespective of the term of employment, and in consideration of the Employee's promises in Section 4.3 of this Agreement, the Company promises to immediately provide the Employee with access to Confidential Information, including (but not limited to) the new Confidential Information that the Company is separately and concurrently providing to the Employee. The Parties stipulate and agree that Employee has never before seen or had access to the new Confidential Information referenced herein.

4.3 Protection of Confidential Information. Both during and after the Employment Period, the Employee shall not in any manner, directly or indirectly: (i) appropriate, download, print, copy, remove, use, disclose, divulge, or communicate Confidential Information to any Person, including (without limitation) originals or copies of any Confidential Information, in any media or format, except for the Company's benefit within the course and scope of the Employee's employment or with the prior written consent of the Board; or (ii) take or encourage any action that would circumvent, interfere with or otherwise diminish the value or benefit of Confidential Information to the Company. The Employee agrees to use his best efforts and utmost diligence to protect and safeguard the Confidential Information as prescribed in this Section 4. Notwithstanding any other provision of this Agreement, the Employee acknowledges his additional obligations to protect the secret and confidential information of the Company in his role as CEO, in addition to any other obligations related to the terms of this Agreement.

4.4 Return and Review of Information.

a. Company Property. All Confidential Information and other information and property affecting or relating to the business of the Company within the Employee's possession, custody or control, regardless of form or format, shall remain at all times the property of the Company.

b. Upon Request. At any time that the Company may request, during or after the Employment Period, the Employee shall deliver to the Company all Confidential Information and other information and property affecting or relating to the business of the Company within Employee's possession, custody or control, regardless of form or format. Both during and after the Employment Period, the Company shall have the right of reasonable access to review, inspect, copy, and/or confiscate any Confidential Information within the Employee's possession, custody or control.

c. Upon Termination. The Employee shall return to the Company all Confidential Information and other information and property affecting or relating to the business of the Company within the Employee's possession, custody or control, regardless of form or format, without the necessity of a request, forthwith upon resignation or termination of Employee's employment, regardless of whether the resignation or termination is voluntary, involuntary, for Cause or not for Cause.

4.5 Response to Third Party Requests. Upon receipt of any formal or informal request, by legal process or otherwise, seeking the Employee's direct or indirect disclosure or production of any Confidential Information to any Person, the Employee shall promptly and timely notify the Company and provide a description and, if applicable, hand deliver a copy of such request to the Company. The Employee irrevocably nominates and appoints the Company, as the Employee's true and lawful attorney-in-fact to act in the Employee's name, place and stead to perform any act that the Employee might perform to defend and protect against any disclosure of Confidential Information.

SECTION 5.
NON-COMPETITION AND NON-SOLICITATION

5.1 Non-Competition and Non-Solicitation.

a. Non-Competition during Employment. During the Employment Period, the Employee shall not engage in any other business or employment that may detract from his full performance of his duties hereunder or that competes in any manner with the Company, and the Employee shall not directly or indirectly render any services of a business, commercial or professional nature, to any other Person without the Company's prior written consent. Further, during employment, the Employee shall not directly or indirectly contact, solicit, entice, sponsor or accept any of the Associates into, or in any way promote to any such Associates opportunities in marketing programs of any direct sales company or organization other than the Company.

b. Non-Competition Post-Employment. During the Restricted Period, the Employee shall not directly or indirectly, on his own behalf or on the behalf of any other Person, engage in a Competing Business within the Geographic Area, including, without limitation, owning, taking a financial interest in, managing, operating, controlling, being employed by, being associated or affiliated with, being a spokesperson for, providing services as a consultant or independent contractor to, or participating in the ownership, management, operation or control of, any Competing Business.

c. Customer Non-Solicitation. During the Restricted Period, the Employee shall not in any manner, directly or indirectly, on his own behalf or on the behalf of any other Person, induce, solicit or attempt to induce or solicit any Customer (i) to do business with a Competing Business; or (ii) to reduce, cease, restrict, terminate or otherwise adversely alter business or business relationships with the Company for the benefit of a Competing Business, regardless of whether the Employee initiates contact for that purpose.

d. Employee Non-Solicitation and No-Hire. During the Restricted Period, the Employee shall not directly or indirectly, on his own behalf or on behalf of any other Person, (i) solicit, recruit, persuade, influence, or induce, or attempt to solicit, recruit, persuade, influence, or induce any Person employed or otherwise retained by the Company (including, without limitation, any independent contractor or consultant), to cease or leave their employment or contractual or consulting relationship with the Company, regardless of whether the Employee initiates contact for such purposes, or (ii) hire, employ or otherwise attempt to establish, for any Person, any employment, agency, consulting, independent contractor or other business relationship with any Person who is or was employed or otherwise retained by the Company (including any independent contractor or consultant), for the benefit of a Competing Business.

5.2 Definitions. The following definitions are for the purposes of this Agreement, including (without limitation) this Section 5.

a. "Competing Business" means any business operation that engages in the business of providing glyconutrients that are the same or substantially similar to those that the Company manufactured, produced, provided, sold, and/or marketed during the Employee's tenure with the Company, including the direct sale, network and/or multi-level marketing of dietary supplements, glyconutrients, and/or skin care.

b. "Customer" means (i) any Associate or other Person with whom or with which the Company has had any contract any time during this Agreement or any time during the one-year period immediately preceding the Effective Date, and/or (ii) any customer, vendor, supplier, licensor or other Person in a business relationship with the Company, for which the Employee or employees working under the Employee's supervision had any direct or indirect responsibility during the Employment Period.

c. "Geographic Area" means (i) those cities and states in the United States of America and foreign countries in which the Company does business during the Employment Period; and/or (ii) the geographic area of Employee's responsibilities during the Employment Period.

d. "Restricted Period" means the Employment Period and the one year period commencing on the Termination Date, regardless of whether the Employee's resignation or termination from the Company is voluntary or involuntary, for Cause or not for Cause. This time period shall be extended by one day for each day that Employee is determined to be in violation of Sections 4 and/or 5 of this Agreement, as determined by a court of competent jurisdiction.

5.3 Survival. This Section 5 shall survive the cessation or termination of the Employee's employment under this Agreement, subject to the time and scope limitations set forth in this Section 5.

5.4 Substitution/Revision. If, at the time of enforcement of the restrictive covenants in this Section 5, a court holds that the restrictions stated in this Section 5 are unreasonable under circumstances then existing, then the maximum duration, scope or Geographical Area reasonable under such circumstances shall automatically be substituted for the stated duration, scope or Geographic Area and the court shall be allowed and is hereby requested to revise the restrictions contained herein to cover the maximum duration, scope and Geographic Area permitted by law. The covenants contained in Sections 5.1(a), (b), (c), and (d) hereof are independent of and severable from one another.

SECTION 6.
NON-DISPARAGEMENT

6.1 Non-Disparagement. The Employee agrees that, both during and after the Employment Period, the Employee will not make any statements which would constitute libel, slander or disparagement of the Company or any of its directors, officers, shareholders, or affiliates, provided, however, that the terms of this Section 6.1 shall not apply to communications between the Employee and, as applicable, the Employee's attorneys or other Persons with whom or with which communications would be subject to a claim of privilege existing under common law, statute or rule of procedure.

SECTION 7.
REMEDIES

7.1 Remedies. In the event of a breach of this Agreement by any Party, the aggrieved Party shall be entitled to all appropriate equitable and legal relief, including, but not limited to: (a) an injunction to enforce this Agreement or prevent conduct in violation of this Agreement; (b) damages incurred as a result of the breach; and (c) attorneys' fees and costs incurred by the Company in enforcing the terms of this Agreement.

7.2 VENUE. THE PARTIES STIPULATE AND AGREE THAT THE EXCLUSIVE VENUE OF ANY PROCEEDING, INCLUDING ANY COURT PROCEEDING, UNDER THIS AGREEMENT SHALL BE DALLAS COUNTY, TEXAS (THE "AGREED VENUE").

SECTION 8.
TERMINATION OF EMPLOYMENT

8.1 Events of Termination. The Employee's employment under this Agreement shall be terminated upon the earliest of the following occurrences:

a. within thirty (30) days of the Company giving Employee written notice of termination for Cause, provided, however, that the Company may terminate Employee's employment effective immediately, within its sole discretion;

b. within thirty (30) days of the Company giving Employee written notice of termination without Cause;

c. within thirty (30) days of Employee giving the Company written notice of resignation for Good Reason;

d. within thirty (30) days of Employee giving the Company written notice of resignation without Good Reason, provided, however, that upon the Company's knowledge of such notice, the Company may terminate Employee's employment effective immediately, within its sole discretion;

e. immediately upon Employee's death;

f. within thirty (30) days of the Company giving Employee written notice of termination due to Employee's Disability, provided, however, that the Company may terminate Employee's employment effective immediately, within its sole discretion; or

g. the Company giving Employee a written Notice of Non-Renewal in accordance with the requirements and time periods stated in Section 2 hereof.

Termination pursuant to Sections 8.1(a), (b) (f) and (g) shall not take effect without approval by a majority vote of the Board.

8.2 Definitions of Disability or Cause.

a. "Disability" means the Employee's becoming incapacitated by accident, sickness, or other circumstances that, in the reasonable judgment of the Board, renders or is expected to render the Employee mentally or physically incapable of performing the essential duties and services required hereunder, where (i) such incapacity has been determined to exist by the disability insurance carrier for the Company, or (ii) the Company has determined, based on competent professional advice, that such incapacity has continued or will continue for such period of time of at least 90 consecutive calendar days, or 180 non-consecutive calendar days within a calendar year.

b. "Cause" means any of the following:

i. the Company's determination that the Employee has materially neglected, failed, or refused to render the services or perform any other of his duties or obligations in or under this Agreement (including, without limitation, because of any alcohol or drug abuse);

ii. the Employee's material violation of any provision of or obligation under this Agreement;

iii. the Employee's conviction for, or entry of a plea of no contest with respect to, any felony or other crime that adversely affects or (in the Board's reasonable judgment) may adversely affect the Company or the utility of the Employee's services to the Company; or

iv. any other act or omission of the Employee involving fraud, theft, dishonesty, disloyalty, or illegality with respect to, or that harms or embarrasses or (in the Board's reasonable judgment) may harm or embarrass, the Company or any of its subsidiaries, affiliates, customers, dealers or suppliers.

Notwithstanding any other provision of this Agreement, if the Company gives notice of termination for Cause under clauses i., ii., or iv. above in this Section 8.2(b), then the Employee at his sole option shall have sixty (60) days from the date of such notice to effect a cure or resolution of the reasons giving rise to the termination (the "Employee Remedy Period"), before the termination becomes effective. If the reasons giving rise to such termination are cured or resolved by the Employee within the Employee Remedy Period, then the termination will be deemed to be without Cause for the purposes of this Agreement, unless it is withdrawn by the Company by the end of the Employee Remedy Period.

8.3 Effects of Termination.

a. Without Severance Pay. If the Employee's employment under this Agreement is terminated (1) by the Company for Cause, (2) by reason of the Employee's death, (3) by the Employee's resignation without Good Reason, or (4) based on the Company's Notice of Non-Renewal under Section 2 hereof, then all further rights of the Employee to employment and compensation and benefits from the Company under this Agreement will cease, except that the Company shall pay the Employee (or his estate, as the case may be) the following:

i. any amount of base salary earned by, but not yet paid to, the Employee through the Termination Date;

ii. any annual or other bonus, or portion thereof, that the Compensation Committee may deem to be earned by, but not yet paid to, the Employee through the Termination Date;

iii. all reimbursable expenses due but yet not paid to the Employee as of the Termination Date, in accordance with this Agreement and Company policy on expense reimbursement;

iv. all benefits (or an amount equivalent thereto) that have been earned by or vested in, and are payable to, the Employee under, and subject to the terms of, the employee-benefit plans or arrangements of the Company in which the Employee participated through the Termination Date, in accordance with Section 3 hereof; and

v. an amount equal to all accrued and unused vacation, calculated in accordance with the Company's vacation policies, practices, and procedures, through the Termination Date, in accordance with Section 3 hereof.

Except as otherwise provided below, any amount due under clauses i and ii above in this Section 8.3(a) shall be paid in the same manner and on the same date as would have occurred if the Employee's employment under this Agreement had not ceased. Any amount due under clause iv. above in this Section 8.3(a) shall be paid in accordance with the terms of the employee-benefit plans or arrangements under which such amounts are due to the Employee. The amounts due under clauses iii and v of this Section 8.3(a) shall be paid in accordance with the terms of the Company's policies, practices, and procedures regarding reimbursable expenses and vacation, respectively. Also upon cessation or termination of employment hereunder (unless the Employee continues otherwise to be employed by the Company), the Employee shall resign or shall be deemed to have resigned from any position as an officer or director, or both, of any subsidiary or affiliate of the Company.

b. With Severance Pay. If the Employee's employment under this Agreement is terminated (1) by the Company without Cause, (2) by the Employee's resignation for Good Reason, or (3) on account of the Employee's Disability, then all further rights of the Employee to employment and compensation and benefits from the Company under this Agreement will cease, except that the Company shall pay the Employee the following:

i. all payments and compensation stated in Section 8.3(a) herein; and

ii. the greater of: (a) the Employee's salary for a period of twelve (12) months, or (b) the Employee's salary for the remainder of the then current Term of this Agreement as provided in Section 2 hereof, as severance pay.

Any amount due under clause ii(b) above in this Section 8.3(b) shall include the upcoming two year automatic renewal period, unless (1) the termination falls on or before the deadline for Notice of Non-Renewal under Section 2, and (2) such Notice of Non-Renewal has been issued by the Company. Any severance amounts paid will be based upon Employee's then current salary as of the Termination Date and will be paid in equal installments and in accordance with the normal payroll policies of the Company, less applicable taxes, provided, however, that severance payments under clause ii above in this Section 8.3(b) shall commence six (6) months after the Termination Date. All other terms of termination as stated in Section 8.3(a) shall apply upon a termination by the Company without Cause.

8.4 Post-employment Cooperation. Upon and for a period of six (6) months after the Termination Date, the Employee will cooperate fully with the Company in connection with (a) any matter related to the Company's business and activities, by being available at mutually agreeable times, in person or by telephone, and without any unreasonable interference with his other activities, to provide such information as may from time to time be requested by the Company regarding various matters in which he was involved during his employment with the Company, and (b) any and all pending or future litigation or administrative claims, investigations, or proceedings involving the Company, including (without limitation) his meeting with the Company's counsel and advisors at reasonable times upon their request, and providing testimony (in court or at depositions) that is truthful and complete in accordance with information known to him. For all activities required of Employee under this Section 8.4, Employee shall be compensated at his then hourly rate, except to the extent prohibited by law.

SECTION 9.
REPRESENTATION BY EMPLOYEE

9.1 No Conflict. The Employee hereby represents and warrants to the Company that his execution of this Agreement and his performance of his duties and obligations hereunder will not conflict with, cause a default under, or give any party a right to damages under any other agreement or obligation to which the Employee is a party or is bound.

SECTION 10.
OWNERSHIP OF INFORMATION, INVENTIONS AND ORIGINAL WORK

10.1 **Definition of Work Product.** As used in this Agreement, the term "Work Product" means all patents and patent applications, all inventions, innovations, improvements, developments, methods, designs, analyses, drawings, reports, creative works, discoveries, software, computer programs, modifications, enhancements, know-how, product, formula or formulations, concepts and ideas, and all similar or related information (in each case whether or not patentable), all copyrights and copyrightable works, all trade secrets, confidential information, and all other intellectual property and intellectual property rights that (in any case above) are conceived, reduced to practice, created, developed or made by the Employee, either alone or with others, in the course of employment with the Company (including, without limitation, any such employment before the Effective Date).

10.2 **Ownership and Assignment of Work Product.** The Employee hereby agrees that all Work Product will be the exclusive property of the Company, and in consideration of this Agreement, without further compensation, hereby assigns, and (as necessary) agrees to assign, to the Company all right, title, and interest to all Work Product that: (a) relates to: (i) all or any aspect of the Company Parties' actual or anticipated business, research, and development or existing or future products or services, or (ii) an actual or demonstrably anticipated research or development project of the Company; (b) is conceived, created, reduced to practice, developed, or made entirely or in any part: (i) during his employment or on Company time, or (ii) using any equipment, supplies, facilities, assets, materials, information (including, without limitation, Confidential Information) or resources of any of the Company Parties (including, without limitation, any intellectual property rights); or (c) results from any work performed by the Employee for the Company. Any creative works, discoveries, designs, software, computer programs, inventions, improvements, modifications, enhancements, know-how, product, formula or formulation, concept or idea that the Employee has within one year following the cessation or termination of employment with the Company shall be deemed to be Work Product owned by the Company under this Section 10.2, unless proved by the Employee to have been outside each of the criteria specified above in this Section 10.2.

10.3 **Disclosure and Cooperation.** The Employee shall promptly disclose Work Product to the Board and perform all actions reasonably requested by the Company (whether during or after the Employment Period) to establish and confirm the ownership and proprietary interest of any of the Company Parties in any Work Product (including, without limitation, the execution of assignments, consents, powers of attorney, applications and other instruments). The Employee agrees to assist the Company in obtaining any patent for, copyright on or other intellectual-property protection for the Work Product, and to execute and deliver or otherwise provide such documentation and provide such other assistance as is necessary to or reasonably requested by the Company or its agents or counsel to obtain such patent, copyright, or other protection. The Employee shall maintain adequate written records of the Work Product, in such format as may be specified by the Company, and make such records available to, as the sole property of, the Company at all times. The Employee shall not file any patent or copyright applications related to any Work Product except with the written consent of the Board.

SECTION 11
GENERAL

11.1 **Governing Law.** This Agreement shall be governed by, and enforced and construed under, the laws of the State of Texas, except to the extent preempted by federal law.

11.2 **Binding Effect; Assignment.** All of the terms and provisions of this Agreement shall be binding upon, inure to the benefit of, and be enforceable by the respective heirs, representatives, successors (including, without limitation, any successor as a result of a merger or similar reorganization) and assigns of the Parties, except that the Employee's rights, benefits, duties and responsibilities hereunder are of a personal nature and shall not be assignable in whole or in part by the Employee.

11.3 **Notices.** All notices required or permitted to be given under this Agreement shall be in writing and shall be deemed to have been given and received (a) when personally delivered or delivered by same-day courier, (b) on the third business day after mailing by registered or certified mail, postage prepaid, return receipt requested, or (c) upon delivery when sent by prepaid overnight delivery service, in any case addressed as follows:

If to the Employee:	Samuel L. Caster 2034 Beltline Road Cedar Hill, Texas 75104
If to the Company:	General Counsel Mannatech Incorporated 600 S. Royal Lane, Suite 200 Coppell, TX 75019

A Party's address may be changed from time to time by written notice to the other Party in accordance with this Section 10.3.

11.4 **Prior Agreements Superseded**. This Agreement supersedes all prior agreements between the Parties of any and every nature whatsoever, including (without limitation) agreements for additional compensation or benefits. All such prior agreements are null and void.

11.5 **Duration.** Notwithstanding the cessation or termination of Employee's employment under this Agreement, this Agreement shall continue to bind the Parties for so long as any obligations remain under the terms of this Agreement.

11.6 **Amendment; Waiver.** No amendment to or modification of this Agreement, or waiver of any term, provision, or condition of this Agreement, will be binding upon a Party unless the amendment, modification, or waiver is in writing and signed by the Party to be bound. Any waiver by a Party of a breach or violation of any provision of this Agreement by the other Party shall not be deemed a waiver of any other provision or of any subsequent breach or violation.

11.7 **Enforcement and Severability**. The Parties intend all provisions of this Agreement to be enforced to the fullest extent permitted by law. Accordingly, should a court of competent jurisdiction determine that the scope of any provision of this Agreement is too broad to be enforced as written, the Parties intend for the court to reform the provision to such narrower scope as it determines to be reasonable and enforceable. If, however, any provision of this Agreement is held to be illegal, invalid, or unenforceable, the provision shall be severed, this Agreement shall be construed and enforced as if such illegal, invalid, or unenforceable provision were never a part of it, and the remaining provisions shall remain in full force and effect.

11.8 **Subsidiaries Included.** Wherever the "Company" is referred to in this Agreement, it shall include all subsidiaries of the Company as they may exist from time to time, even where the term "subsidiaries" is not explicitly stated in connection with such reference.

11.9 **Certain Defined Terms; Headings**. As used in this Agreement:

a. "business day" means any Monday through Friday, other than any such weekday on which the executive offices of the Company are closed.

b. "Employment Period" means the term of Employee's employment under this Agreement, from the Effective Date through the last date of Employee's work for the Company under this Agreement, regardless of whether the termination is voluntary, involuntary, for Cause, or not for Cause.

c. "herein," "hereof," "hereunder," and similar terms are references to this Agreement as a whole and not to any particular provision of this Agreement.

d. "Person" means an individual, an independent contractor, Independent Associate, a sole proprietor, a partnership, a limited liability company, a corporation, an association, a joint stock company, a trust, a joint venture, an unincorporated organization, a governmental entity, court, department, agency or political subdivision, or other individual, business, or governmental entity, as applicable.

e. "Termination Date" means the last day of the Employment Period.

In addition, the use herein of "annual" or "monthly" (or similar terms) to indicate a measurement period shall not itself be deemed to grant rights to Employee for employment or compensation for such period. The Section and other descriptive headings in this Agreement are only for convenience of reference and are not to be used to construe or interpret this Agreement or any of its provisions.

11.10 **Employee Acknowledgment**. The Employee affirms and attests, by signing this Agreement, that the Employee has read this Agreement before signing it and that the Employee fully understands its purposes, terms, and provisions, which the Employee hereby expressly acknowledges to be reasonable in all respects. The Employee further acknowledges receipt of one copy of this Agreement.

11.11 **Section 409A Compliance**. It is the intention of the Company and the Employee that this Agreement not result in unfavorable tax consequences to the Employee under Section 409A of the Code. The Company and the Employee acknowledge that only limited guidance has been issued by the Internal Revenue Service with respect to the application of Code Section 409A to certain arrangements, such as this Agreement. It is expected by the Company and the Employee that the Internal Revenue Service will provide further guidance regarding the interpretation and application of Section 409A of the Code in connection with finalizing its recently proposed regulations. The Company and the Employee acknowledge further that the full effect of Section 409A of the Code on potential payments pursuant to this Agreement cannot be determined at the time that the Company and the Employee are entering into this Agreement. The Company and the Employee agree to work together in good faith in an effort to comply with Section 409A of the Code including, if necessary, amending the Agreement based on further guidance issued by the Internal Revenue Service from time to time, provided that neither party shall be required to assume an economic burden beyond what is already required by this Agreement.

IN WITNESS WHEREOF, the Parties, intending to be legally bound, have duly entered into this Agreement as of the Effective Date.

Date: January 23, 2006

EMPLOYEE:

/s/ *Samuel L. Caster*
Samuel L. Caster

MANNATECH, INCORPORATED

Date: January 23, 2006

/s/ *J. Stanley Fredrick*
J. Stanley Fredrick
Its: Lead Director

Exhibit 10.33

EMPLOYMENT AGREEMENT

This Employment Agreement (this "Agreement") is entered into by and between Mannatech Incorporated (the "Company") and Bettina Simon, Esq. (the "Employee"), and is effective as of **November 11, 2005** ("Effective Date"). The Company desires to employ the Employee, and the Employee desires to be employed by the Company. Therefore, in consideration of the mutual promises and agreements contained herein, the Company and the Employee (collectively, the "Parties") hereby agree as follows:

SECTION 1.
EMPLOYMENT

1.1 Employment. The Company hereby employs the Employee, and the Employee hereby accepts employment by the Company, for the period and upon the terms and conditions contained in this Agreement.

1.2 Office and Duties. The Employee shall serve as Senior Vice President & Chief Legal Officer (collectively, the "CLO") of the Company, with the authority, duties and responsibilities described herein and those customarily incident to such office. The Employee shall report directly to the Company's Chief Executive Officer and the Board of Directors (the "Board") and shall perform such services, duties and responsibilities commensurate with her position as may from time to time be assigned to her by the Board or by the Chief Executive Officer (the "CEO") of the Company.

1.3 Performance. During her employment under this Agreement, the Employee shall devote on a full-time basis all of her time, energy, skill and best efforts to the performance of her duties hereunder in a manner that will faithfully and diligently further the business and interests of the Company. The Employee may, however, engage in civic, charitable, and professional or trade activities so long as those activities do not interfere with the performance of her duties hereunder. The Employee shall comply with the employee policies and written manuals of the Company that are applicable generally to executive employees of the Company, as they exist and/or are modified from time to time. In the event of conflict or inconsistency between this Agreement and the employee policies and written manuals of the Company, the terms of this Agreement shall govern. The Employee shall not work either on a part-time or independent contractor basis for any other business or enterprise during the Term of Employment.

1.4 Place of Work. The Employee shall perform services under this Agreement at the Company's principal office in the City of Coppell, Dallas County, Texas, and at such other place or places as the Employee's duties and responsibilities may require.

1.5 Directors' and Officers' Liability Insurance. The Company shall maintain director and officer liability insurance covering acts or omissions by the Employee in the performance of her duties to the Company under this Agreement as CLO and, if she serves as such, as a director of the Company. The Company shall maintain such insurance in effect during the Term of Employment (including any extensions of the Term of Employment). Such insurance coverage shall be in reasonable amounts and shall contain such other reasonable terms and conditions as shall be established by the Company.

1.6 Indemnity. As of the Effective Date, the Company shall defend, indemnify and hold harmless the Employee against all claims, actions, lawsuits, judgments, penalties, fines, settlements and reasonable expenses that are filed, pursued, or otherwise sought by third parties, as applicable, in any proceeding resulting from the performance of the Employee's duties to the Company as CLO under this Agreement, as follows:

a. Right to Indemnification. In the event that the Employee was or is made a party or was or is threatened to be made a party to or was or is involved or called as a witness in any action, suit, proceeding or alternative dispute resolution mechanism, or any hearing, inquiry or investigation that the Employee in good faith believes may lead to the institution of any such action, suit, proceeding or alternative dispute resolution mechanism, whether civil, criminal, administrative or investigative, and any appeal therefrom (hereinafter, collectively a "Proceeding"), by reason of the fact that she was, is or had agreed to become a director, officer, employee, agent or fiduciary of the Company, the Employee shall be indemnified and held harmless by the Company to the fullest extent permitted under applicable law, as the same now exists or may hereafter be amended (but, in the case of any such amendment, only to the extent that such amendment permits the Company to provide broader indemnification rights than the Company was permitted to provide prior to such amendment) against all expenses (including reasonable attorneys' fees and all other costs, expenses, liabilities, obligations and disbursements in connection with investigating, prosecuting, defending, preparing to prosecute and defend, or being a witness or other participant in any Proceeding), liabilities and losses (including, but not limited to, judgments, fines and amounts paid for or to be paid in settlement) incurred or suffered by the Employee in connection with any Proceeding (collectively, "Expenses"), provided however, that, except as provided in Section 1.6(e) hereof, the Company shall indemnify the Employee in connection with a Proceeding (or part thereof) initiated by the Employee only if such Proceeding (or part thereof) was authorized by the Board.

b. Expenses. Expenses incurred by the Employee in defending or otherwise being involved in a Proceeding shall be paid by the Company in advance of the final disposition of such Proceeding, including any appeal therefrom, upon receipt of an undertaking (the "Undertaking") by the Employee to repay such amount if it shall ultimately be determined that she is not entitled to be indemnified hereunder; provided however, that in connection with a Proceeding (or part thereof) initiated by the Employee, except as provided in Section 1.6(e) hereof, the Company shall pay such Expenses in advance of the final disposition only if such Proceeding (or part thereof) was authorized by the Board. The Parties agree and the Undertaking shall provide that if the Employee has commenced Proceedings in a court of competent jurisdiction to secure a determination that she should be indemnified hereunder, she shall not be obligated to repay the Company, as the case may be, during the pendency of such Proceeding.

c. Mandatory Payment of Expenses. Notwithstanding any other provision of this Agreement, to the extent that the Employee has been successful on the merits or otherwise, including, without limitation, the dismissal of an action without prejudice, in the defense of any Proceeding or in the defense of any claim, issue or matter therein, the Employee shall be indemnified hereunder against all Expenses incurred by or on behalf of the Employee in connection therewith.

d. Notice. The Employee shall, as a condition precedent to the Employee's right to be indemnified hereunder, give the Company notice in writing as soon as practicable of any Proceeding for which indemnification will or could be sought under this Agreement.

e. Protection of Rights. If a claim under this Agreement or under any other agreement providing indemnification to the Employee by the Company ("Other Agreement") is not promptly paid in full by the Company after a written Claim has been received by the Company, or if Expenses pursuant to this Agreement or any Other Agreement have not been promptly advanced after a written request for such advancement accompanied by the Undertaking has been received by the Company, the claimant may at any time thereafter bring suit against the Company to recover the unpaid amount of the claim or the advancement of Expenses. If successful, in whole or in part, in such suit, the Employee shall also be entitled to be paid the reasonable expense thereof. It shall be a defense to any such action (other than an action brought to enforce a claim for Expenses incurred in defending any Proceeding in advance of its final disposition where the required Undertaking has been tendered to the Company) that the Employee has not met the standards of conduct which make it permissible under applicable law for the Company to indemnify the Employee for the amount claimed, but the burden of proving such defense shall be on the Company.

f. No Presumption. For purposes of this Agreement, the termination of any Proceeding, by judgment, order, settlement (whether with or without court approval) or conviction, or upon a plea of nolo contendere or its equivalent, shall not create a presumption that the Employee did not meet any particular standard of conduct or have any particular belief or that a court has determined that indemnification or contribution is not permitted by applicable law.

g. Non-Exclusivity of Rights. The rights conferred on the Employee by this Agreement shall not be exclusive of any other right which the Employee may have or hereafter acquire under any statute, provision of the Company's certificate of incorporation or by-laws, other agreement, vote of stockholders or directors or otherwise.

h. Selection of Counsel. In the event that the Company shall be obligated hereunder to pay the Expenses of any Proceeding, the Company shall be entitled to assume the defense of such Proceeding with counsel approved by the Employee, which approval shall not be unreasonably withheld, upon the delivery to the Employee of written notice of its election so to do. After delivery of such notice, approval of such counsel by the Employee and the retention of such counsel by the Company, the Company will not be liable to the Employee under this Agreement for any fees of counsel subsequently incurred by the Employee with respect to the same Proceeding; provided; however, that, (i) the Employee shall have the right to employ her own counsel in any such Proceeding at the Employee's expense and (ii) if (A) the employment of counsel by the Employee has been previously authorized by the Company, (B) the Employee shall have reasonably concluded that there is a conflict, of interest between the Company and the Employee in the conduct of any such defense, or (C) the Company shall not continue to retain such counsel to defend such Proceeding, then the fees and expenses of the Employee's counsel shall be at the expense of the Company. The Company shall have the right to conduct such defense as it sees fit in its sole discretion, including the right to settle any claim against the Employee without the consent of the Employee.

i. Subrogation. In the event of any payment under this Section 1.6 to the Employee, the Company shall be subrogated to the extent of such payment to all of the rights of recovery of the Employee, who shall execute all papers required and shall do everything that may be necessary to secure such rights, including execution of such documents as are necessary to enable the Employee to bring suit to enforce such rights.

j. Exceptions. Any other provision herein to the contrary notwithstanding, the Company shall not be obligated pursuant to the terms of this Agreement to indemnify the Employee for Expenses resulting from acts, omissions or transactions for which the Employee is prohibited from receiving indemnification under applicable law.

k. No Duplication of Payments. The Company shall not be liable under this Agreement to make any payment of Expenses to the extent the Employee has otherwise actually received payment under any insurance policy, statute, provision of the Company's certificate of incorporation or by-laws, other agreement, vote of stockholders or directors or otherwise of the amounts otherwise indemnifiable.

l. Partial Indemnification. If the Employee is entitled under any part of this Agreement to indemnification for some or a portion of Expenses incurred in connection with any Proceeding, but not, however, for all of the total amount thereof, the Company shall nevertheless indemnify the Employee for the portion of such Expenses to which the Employee is entitled.

1.7 Exclusive Employment. Without limiting Section 1.3 hereof, during the Term of Employment, the Employee will not, without the prior written consent of the Board:

a. serve as a spokesperson, representative, employee, consultant, agent, officer, or member of any board of directors (or any similar governing body) for any for-profit business other than the Company;

b. serve as a spokesperson, representative, employee, owner, consultant, agent, officer, or member of any board of directors (or any similar governing body) for any business which is a supplier to the Company or which competes with the Company, in each case whether directly or indirectly;

c. own any equity or economic interest in any company that competes directly or indirectly with the Company, except that this does not preclude ownership of less than 5% of the outstanding equity securities of any public reporting company; or

d. promote or endorse at Company business functions any other organization(s) with which she may be associated or affiliated.

SECTION 2.
EMPLOYMENT TERM

2.1 Term. The term of the Employee's employment under this Agreement commences on the Effective Date and shall continue for a period of two (2) years (the "Term of Employment"), subject to prior termination only as provided in this Agreement. The Term of Employment shall automatically renew for a period of two (2) years at the end of the second year, and after that the Term of Employment shall continue to automatically renew for periods of two (2) years, without the need for any action by either Party, unless: (a) the Company provides the Employee with a written notice of non-renewal at least ninety (90) days prior to the end of the then-current Term of Employment, including any automatic renewal period ("Notice of Non-Renewal"); or (b) the Employee's employment is otherwise terminated in accordance with Section 8 of this Agreement. After receiving a Notice of Non-Renewal, the Employee's employment may be terminated earlier in accordance with the terms of Section 8 hereof.

2.2 Effect of Notice of Non-Renewal. Subject to termination under Section 8 hereof, if a Notice of Non-Renewal is given in accordance with Section 2.1 above, then (a) the term of employment under this Agreement will continue until the expiration of the notice period specified in the Notice of Non-Renewal, and (b) the Company may instruct the Employee not to come into the Company's offices or to attend any of the Company's business functions from the date of such notice through the last date of employment. The Employee's following such instruction will not constitute Cause for termination or otherwise impair the Employee's rights hereunder. The Parties stipulate and agree that this Agreement constitutes a novation of and otherwise supersedes the Employment Agreement executed by the Parties on September 14, 2001, which is terminated and is of no further force or effect.

SECTION 3.
EMPLOYMENT COMPENSATION

3.1 Base Salary. The base salary of the Employee for all of her services, duties and responsibilities to the Company and all of her agreements and covenants with or to the Company under this Agreement shall be at the annual rate of $300,000, which the Company shall pay to the Employee in equal installments in accordance with its normal payroll policies (the "Base Salary").

a. Employee's performance and salary shall be reviewed by the Chief Executive Officer and the Compensation Committee annually in accordance with the Company's annual performance review process.

b. Employee's Base Salary for any partial year will be prorated based upon the number of days elapsed in such year. Employee's pay may be raised by the Company from time to time as the Company deems appropriate in its sole discretion, by way of an addendum or other documentation, without otherwise effecting this Agreement. Notwithstanding any pay increase, the employment of Employee shall be construed as continuing under this Agreement.

3.2 Annual Bonus. During her employment under this Agreement, the Employee is also eligible to participate in the Company's annual executive bonus program at the top tier Senior Vice President level (the "Executive Bonus Program"). The opportunity to earn a bonus and the amount of any bonus compensation under the Executive Bonus Program will be determined in accordance with criteria established by the Board or the Compensation Committee, which will comply with the requirements of Section 409A of the Internal Revenue Code, unless the payment of the bonus is exempt as not constituting a deferral of income. The Employee acknowledges that any bonus compensation under the Bonus Program will be discretionary, with the sole discretion resting with the Board or the Compensation Committee.

3.3 Payment and Reimbursement of Work-Related Expenses. During her employment under this Agreement, the Company shall pay or reimburse the Employee, in accordance with the applicable policies and procedures of the Company, for all reasonable travel and other reasonable expenses incurred by the Employee in performing her obligations under this Agreement, provided that the Employee properly accounts for such expenses in accordance with the regular policies of the Company.

3.4 Benefits. During her employment under this Agreement, the Employee shall be entitled to participate in or receive benefits under any employee-benefit plan or arrangement made available by the Company to its executive employees generally (including any medical, dental, short-term and long-term disability, life insurance and 401(k) programs), subject to eligibility conditions or requirements and to the terms, conditions and overall administration of each of such plans and arrangements. Nothing in this Agreement will preclude the Company from amending or terminating any of the benefit plans or programs applicable to Employee as long as such amendment or termination is applicable to all similarly situated employees, without otherwise effecting this Agreement. Notwithstanding any change in benefits, the employment of Employee shall be construed as continuing under this Agreement.

3.5 Executive Vehicle Program. During her employment under this Agreement, Employee will be eligible to participate in the Company's executive vehicle program, subject to all of its terms, regarding a vehicle with a lease cost to the Company of $1,000 per month, with auto liability insurance coverage (comprehensive, collision and liability) for the leased vehicle paid by the Company and all routine and necessary repairs to the leased vehicle paid for by the Company or reimbursed to the Employee, subject to approval by the Chief Financial Officer of the Company.

3.6 Vacation. During her employment under this Agreement, the Employee shall be entitled to 20 days of paid vacation annually, in accordance with the regular policies of the Company.

3.7 Tax Withholding. The Company may deduct from any compensation or other amount payable to the Employee under this Agreement social security (FICA) taxes and all federal, state, municipal, or other such taxes or governmental charges as may now be in effect or that may hereafter be enacted or required.

SECTION 4.
CONFIDENTIAL INFORMATION

4.1 Definition of "Confidential Information."

a. "Confidential Information" means material, data, ideas, inventions, formulae, patterns, compilations, programs, devices, methods, techniques, processes, know how, plans (marketing, business, strategic, technical or otherwise), arrangements, pricing and/or other information of or relating to the Company (as well as its customers and/or vendors) that is confidential, proprietary, and/or a trade secret (a) by its nature, (b) based on how it is treated or designated by the Company, (c) such that its appropriation, use or disclosure would have a material adverse effect on the business or planned business of any of the Company, or (d) as a matter of law. All Confidential Information is the property of the Company, the appropriation, use and/or disclosure of which is governed and restricted by this Agreement.

b. Exclusions. Confidential Information does not include material, data, and/or information that (i) the Company has voluntarily placed in the public domain; (ii) has been lawfully and independently developed and publicly disclosed by third parties; (iii) constitutes the knowledge and skills gained by Employee during the Employment Period; or (iv) otherwise enters the public domain through lawful means; provided, however, that the unauthorized appropriation, use, or disclosure of Confidential Information by Employee, directly or indirectly, shall not affect the protection and relief afforded by this Agreement regarding such information.

4.2 Provision of Confidential Information. Irrespective of the term of employment, and in consideration of the Employee's promises in Section 4.3 of this Agreement, the Company promises to immediately provide the Employee with access to Confidential Information, including (but not limited to) the new Confidential Information that the Company is separately and concurrently providing to the Employee. The Parties stipulate and agree that Employee has never before seen or had access to the new Confidential Information referenced herein.

4.3 Protection of Confidential Information. Both during and after the Employment Period, the Employee shall not in any manner, directly or indirectly: (i) appropriate, download, print, copy, remove, use, disclose, divulge, or communicate Confidential Information to any Person, including (without limitation) originals or copies of any Confidential Information, in any media or format, except for the Company's benefit within the course and scope of the Employee's employment or with the prior written consent of the CEO; or (ii) take or encourage any action which would circumvent, interfere with or otherwise diminish the value or benefit of Confidential Information to the Company. The Employee agrees to use her best efforts and utmost diligence to protect and safeguard the Confidential Information as prescribed in this Section 4. Notwithstanding any other provision of this Agreement, the Employee acknowledges her additional obligations to protect the secret, confidential, and/or privileged information of the Company in her role as an attorney and General Counsel, in addition to any other obligations related to the terms of this Agreement.

4.4 Return and Review of Information.

a. Company Property. All Confidential Information and other information and property affecting or relating to the business of the Company within the Employee's possession, custody or control, regardless of form or format, shall remain at all times the property of the Company.

b. Upon Request. At any time that the Company may request, during or after the Employment Period, the Employee shall deliver to the Company all Confidential Information and other information and property affecting or relating to the business of the Company within Employee's possession, custody or control, regardless of form or format. Both during and after the Employment Period, the Company shall have the right of reasonable access to review, inspect, copy, and/or confiscate any Confidential Information within the Employee's possession, custody or control.

c. Upon Termination. The Employee shall return to the Company all Confidential Information and other information and property affecting or relating to the business of the Company within the Employee's possession, custody or control, regardless of form or format, without the necessity of a request, forthwith upon resignation or termination of Employee's employment, regardless of whether the resignation or termination is voluntary, involuntary, for Cause or not for Cause.

d. Exception for Attorney Work Product. Notwithstanding any other provision of this Section 4 or other provisions of this Agreement, Employee shall not have any obligation to return her attorney work product or attorney notes to the Company, except for the return of copies of same in response to a request pursuant to legal process.

4.5 Response to Third Party Requests. Upon receipt of any formal or informal request, by legal process or otherwise, seeking the Employee's direct or indirect disclosure or production of any Confidential Information to any Person, the Employee shall promptly and timely notify the Company and provide a description and, if applicable, hand deliver a copy of such request to the Company. The Employee irrevocably nominates and appoints the Company, as the Employee's true and lawful attorney-in-fact to act in the Employee's name, place and stead to perform any act that the Employee might perform to defend and protect against any disclosure of Confidential Information.

SECTION 5.
NON-COMPETITION AND NON-SOLICITATION

5.1 Non-Competition and Non-Solicitation.

a. Non-Competition During Employment. During the Employment Period, the Employee shall not engage in any other business or employment which may detract from her full performance of her duties hereunder or which competes in any manner with the Company, and the Employee shall not directly or indirectly render any services of a business, commercial or professional nature, to any other Person without the Company's prior written consent. Further, during employment, the Employee shall not directly or indirectly contact, solicit, entice, sponsor or accept any of the Associates into, or in any way promote to any such Associates opportunities in marketing programs of any direct sales company or organization other than the Company.

b. Non-Competition Post-Employment. During the Restricted Period, the Employee shall not directly or indirectly, on her own behalf or on the behalf of any other Person, engage in a Competing Business within the Geographic Area, including, without limitation, owning, taking a financial interest in, managing, operating, controlling, being employed by, being associated or affiliated with, being a spokesperson for, providing services as a consultant or independent contractor to, or participating in the ownership, management, operation or control of, any Competing Business; provided, however, that this Section 5.1(b) does not preclude ownership of less than 5% of the outstanding equity securities of any public reporting company.

c. Customer Non-Solicitation. During the Restricted Period, the Employee shall not in any manner, directly or indirectly, on her own behalf or on the behalf of any other Person, induce, solicit or attempt to induce or solicit any Customer, (i) to do business with a Competing Business, or (ii) to reduce, cease, restrict, terminate or otherwise adversely alter business or business relationships with the Company for the benefit of a Competing Business, regardless of whether the Employee initiates contact for that purpose.

d. Employee Non-Solicitation and No-Hire. During the Restricted Period, the Employee shall not directly or indirectly, on her own behalf or on behalf of any other Person, (i) solicit, recruit, persuade, influence, or induce, or attempt to solicit, recruit, persuade, influence, or induce any Person employed or otherwise retained by the Company (including, without limitation, any independent contractor or consultant), to cease or leave their employment or contractual or consulting relationship with the Company, regardless of whether the Employee initiates contact for such purposes, or (ii) hire, employ or otherwise attempt to establish, for any Person, any employment, agency, consulting, independent contractor or other business relationship with any Person who is or was employed or otherwise retained by the Company (including any independent contractor or consultant), for the benefit of a Competing Business.

5.2 Definitions. The following definitions are for the purposes of this Agreement, including (without limitation) this Section 5.

a. "Competing Business" means any business operation which engages in the business of providing glyco-nutrients that are the same or substantially similar to those that the Company manufactured, produced, provided, sold, and/or marketed during the Employee's tenure with the Company, including the direct sale, network and/or multi-level marketing of dietary supplements.

b. "Customer" means (i) any Associate or other Person with whom or with which the Company has had any contract any time during this Agreement or any time during the one year period immediately preceding the Effective Date, and/or (ii) any customer, vendor, supplier, licensor or other Person in a business relationship with the Company, for which the Employee or employees working under the Employee's supervision had any direct or indirect responsibility during the Employment Period.

c. "Geographic Area" means Dallas County, Texas.

d. "Restricted Period" means the Employment Period and the one year period commencing on the Termination Date, regardless of whether the Employee's resignation or termination from the Company is voluntary or involuntary, for Cause or not for Cause. This time period shall be extended by one day for each day that Employee is determined to be in violation of Sections 4 and/or 5 of this Agreement, as determined by a court of competent jurisdiction.

5.3 Survival. This Section 5 shall survive the cessation or termination of the Employee's employment under this Agreement, subject to the time and scope limitations set forth in this Section 5.

5.4 Substitution/Revision. If, at the time of enforcement of the restrictive covenants in this Section 5, a court holds that the restrictions stated in this Section 5 are unreasonable under circumstances then existing, then the maximum duration, scope or geographical area reasonable under such circumstances shall automatically be substituted for the stated duration, scope or geographic area and the court shall be allowed and is hereby requested to revise the restrictions contained herein to cover the maximum duration, scope and geographic area permitted by law. The covenants contained in Sections 5.1(a), (b), (c), and (d) hereof are independent of and severable from one another.

SECTION 6.
NON-DISPARAGEMENT

6.1 Non-Disparagement. The Employee agrees that, both during and after the Employment Period, the Employee will not make any statements which would constitute libel, slander or disparagement of the Company or any of its directors, officers, shareholders, or affiliates, provided however, that the terms of this Section 6.1 shall not apply to communications between the Employee and, as applicable, the Employee's attorneys or other Persons with whom or which communications would be subject to a claim of privilege existing under common law, statute or rule of procedure.

SECTION 7.
REMEDIES

7.1 Remedies. In the event of a breach of this Agreement by any Party, the aggrieved Party shall be entitled to all appropriate equitable and legal relief, including, but not limited to: (a) an injunction to enforce this Agreement or prevent conduct in violation of this Agreement; (b) damages incurred as a result of the breach; and (c) attorneys' fees and costs incurred by the in enforcing the terms of this Agreement.

7.2 VENUE. THE PARTIES STIPULATE AND AGREE THAT THE EXCLUSIVE VENUE OF ANY PROCEEDING, INCLUDING ANY COURT PROCEEDING, UNDER THIS AGREEMENT, SHALL BE DALLAS COUNTY, TEXAS (THE "AGREED VENUE").

SECTION 8.
TERMINATION OF EMPLOYMENT

8.1 Events of Termination. The Employee's employment under this Agreement shall be terminated upon the earliest of the following occurrences:

a. within thirty (30) days of the Company giving Employee written notice of termination for Cause, provided, however, that the Company may terminate Employee's employment effective immediately, within its sole discretion;

b. within thirty (30) days of the Company giving Employee written notice of termination without Cause;

c. within thirty (30) days of Employee giving the Company written notice of resignation for Good Reason;

d. within thirty (30) days of Employee giving the Company written notice of resignation without Good Reason, provided, however, that upon the Company's knowledge of such notice, the Company may terminate Employee's employment effective immediately, within its sole discretion;

e. immediately upon Employee's death;

f. within thirty (30) days of the Company giving Employee written notice of termination due to Employee's Disability, provided, however, that the Company may terminate Employee's employment effective immediately, within its sole discretion; or

g. the Company giving Employee a written Notice of Non-Renewal in accordance with the requirements and time periods stated in Section 2 hereof.

Termination pursuant to Sections 8.1(a), (b) (f) and (g) shall not take effect without approval by a majority vote of the Board.

8.2 Definitions of Disability, Cause, and Good Reason.

a. "Disability" means the Employee's becoming incapacitated by accident, sickness, or other circumstances that, in the reasonable judgment of the Board, renders or is expected to render the Employee mentally or physically incapable of performing the essential duties and services required hereunder, where (i) such incapacity has been determined to exist by the disability insurance carrier for the Company, or (ii) the Company has determined, based on competent professional advice, that such incapacity has continued or will continue for such period of time of at least 90 consecutive calendar days, or 180 non-consecutive calendar days within a calendar year.

b. "Cause" means any of the following:

i. the Company's determination that the Employee has materially neglected, failed, or refused to render the services or perform any other of her duties or obligations in or under this Agreement (including, without limitation, because of any alcohol or drug abuse);

ii. the Employee's material violation of any provision of or obligation under this Agreement;

iii. the Employee's conviction for, or entry of a plea of no contest with respect to, any felony, or other crime that adversely affects or (in the Board's reasonable judgment) may adversely affect the Company or the utility of the Employee's services to the Company; or

iv. any other act or omission of the Employee involving fraud, theft, dishonesty, disloyalty, or illegality with respect to, or that harms or embarrasses or (in the Board's reasonable judgment) may harm or embarrass, the Company or any of its subsidiaries, affiliates, customers, dealers or suppliers.

Notwithstanding any other provision of this Agreement, if the Company gives notice of termination for Cause under clauses i., ii., or iv. above in this Section 8.2(b), then the Employee at her sole option shall have sixty (60) days from the date of such notice to effect a cure or resolution of the reasons giving rise to the termination (the "Employee Remedy Period"), before the termination becomes effective. If the reasons giving rise to such termination are cured or resolved by the Employee within the Employee Remedy Period, then the termination will be deemed to be without Cause for the purposes of this Agreement, unless it is withdrawn by the Company by the end of the Employee Remedy Period.

c. "Good Reason" means any of the following:

i. the Company's denial of compensation due and owing to Employee under this Agreement, where such denial is by any means, including but not limited to a material act or omission of fraud, theft, or dishonesty in the Company's accounting practices or otherwise;

ii. the requirement by the Company that Employee be based anywhere other than Dallas County, Texas, except for intermittent travel which is reasonably necessary for Company business;

iii. the Company's demotion of the Employee in title or pay, or the Company's removal of a material portion of the Employee's significant duties or responsibilities pursuant to this Agreement, without the Employee's consent; or

iv. the Company's breach of this Agreement.

Notwithstanding any other provision of this Agreement, if the Employee gives notice of resignation for Good Reason under clauses i., ii., iii., or iv.. above in this Section 8.2(c), then the Company at its sole option shall have sixty (60) days from the date of such notice to effect a cure or resolution of the reasons giving rise to the resignation (the "Company Remedy Period"), before the resignation becomes effective. If the reasons giving rise to such resignation are cured or resolved by the Company within the Company Remedy Period, then the resignation will be deemed to be without Good Reason for the purposes of this Agreement, unless it is withdrawn by the Employee by the end of the Company Remedy Period.

8.3 Effects of Termination.

a. Without Severance Pay. If the Employee's employment under this Agreement is terminated (1) by the Company for Cause, (2) by reason of the Employee's death, (3) by the Employee's resignation without Good Reason, or (4) based on the Company's Notice of Non-Renewal under Section 2 hereof, then all further rights of the Employee to employment and compensation and benefits from the Company under this Agreement will cease, except that the Company shall pay the Employee (or her estate, as the case may be) the following:

i. any amount of base salary earned by, but not yet paid to, the Employee through the Termination Date;

ii. any annual or other bonus, or portion thereof, that the Compensation Committee may deem to be earned by, but not yet paid to, the Employee through the Termination Date;

iii. all reimbursable expenses due but yet not paid, to the Employee as of the Termination Date, in accordance with this Agreement and Company policy on expense reimbursement;

iv. all benefits (or an amount equivalent thereto) that have been earned by or vested in, and are payable to, the Employee under, and subject to the terms of, the employee-benefit plans or arrangements of the Company in which the Employee participated through the Termination Date, in accordance with Section 3 hereof; and

v. an amount equal to all accrued and unused vacation, calculated in accordance with the Company's vacation policies, practices, and procedures, through the Termination Date, in accordance with Section 3 hereof.

Except as otherwise provided below, any amount due under clauses i., and ii. above in this Section 8.3(a) shall be paid in the same manner and on the same date as would have occurred if the Employee's employment under this Agreement had not ceased. Any amount due under clause iv. above in this Section 8.3(a) shall be paid in accordance with the terms of the employee-benefit plans or arrangements under which such amounts are due to the Employee. The amounts due under clause iii. and clause v. of this Section 8.3(a) shall be paid in accordance with the terms of the Company's policies, practices, and procedures regarding reimbursable expenses and vacation, respectively. Also upon cessation or termination of employment hereunder (unless the Employee continues otherwise to be employed by the Company), the Employee shall resign or shall be deemed to have resigned from any position as an officer or director, or both, of any subsidiary or affiliate of the Company.

b. With Severance Pay. If the Employee's employment under this Agreement is terminated (1) by the Company without Cause, (2) by the Employee's resignation for Good Reason, or (3) on account of the Employee's Disability, then all further rights of the Employee to employment and compensation and benefits from the Company under this Agreement will cease, except that the Company shall pay the Employee the following:

i. all payments and compensation stated in Section 8.3(a) herein;

ii. the greater of: (a) the Employee's salary for a period of twelve (12) months, or (b) the Employee's salary for the remainder of the then current term of this Agreement as provided in Section 2 hereof, as severance pay; and

iii. if the Employee elects continuation coverage (with respect to the Employee coverage and/or any eligible dependent coverage) under the Consolidated Omnibus Budget Reconciliation Act of 1986 ("COBRA Continuation Coverage") with respect to the Company's group health insurance plan, the Employee shall be responsible for payment of the monthly cost of COBRA Continuation Coverage, provided however, that commencing six (6) months after the Termination Date, to the extent allowed by applicable law, the Company shall reimburse the Employee for the monthly cost of all COBRA Continuation Coverage (including the costs for the first six (6) months of COBRA Continuation Coverage), as required to be paid by similarly situated COBRA continuees, as of the first payroll period for each month for which COBRA Continuation Coverage is provided in accordance with the Company's normal payroll policies, until the earlier of (a) the expiration of such coverage under applicable law, or (b) the replacement of such coverage by Employee through a new business or employer.

Any amount due under clause ii(b) above in this Section 8.3(b) shall include the upcoming two year automatic renewal period, unless (1) the termination falls on or before the deadline for Notice of Non-Renewal under Section 2, and (2) such Notice of Non-Renewal has been issued by the Company. Any severance amounts paid will be based upon Employee's then current salary as of the Termination Date and will be paid in equal installments and in accordance with the normal payroll policies of the Company, less applicable taxes, provided however, that severance payments under clause ii above in this Section 8.3(b) shall commence six (6) months after the Termination Date. All other terms of termination as stated in Section 8.3(a) shall apply upon a termination by the Company without Cause.

8.4 Post-employment Cooperation. Upon and for a period of six (6) months after the Termination Date, the Employee will cooperate fully with the Company in connection with (a) any matter related to the Company's business and activities, by being available at mutually agreeable times, in person or by telephone, and without any unreasonable interference with her other activities, to provide such information as may from time to time be requested by the Company regarding various matters in which she was involved during her employment with the Company, and (b) any and all pending or future litigation or administrative claims, investigations, or proceedings involving the Company, including (without limitation) her meeting with the Company's counsel and advisors at reasonable times upon their request, and providing testimony (in court or at depositions) that is truthful, and complete in accordance with information known to him. For all activities required of Employee under this Section 8.4, Employee shall be compensated at her then hourly rate, except to the extent prohibited by law.

SECTION 9.
REPRESENTATION BY EMPLOYEE

9.1 No Conflict. The Employee hereby represents and warrants to the Company that her execution of this Agreement and her performance of her duties and obligations hereunder will not conflict with, cause a default under, or give any party a right to damages under any other agreement or obligation to which the Employee is a party or is bound.

SECTION 10.
GENERAL

10.1 Governing Law. This Agreement shall be governed by, and enforced and construed under, the laws of the State of Texas, except to the extent preempted by federal law.

10.2 Binding Effect; Assignment. All of the terms and provisions of this Agreement shall be binding upon, inure to the benefit of, and be enforceable by the respective heirs, representatives, successors (including, without limitation, any successor as a result of a merger or similar reorganization) and assigns of the Parties, except that the Employee's rights, benefits, duties and responsibilities hereunder are of a personal nature and shall not be assignable in whole or in part by the Employee.

10.3 Notices. All notices required or permitted to be given under this Agreement shall be in writing and shall be deemed to have been given and received (a) when personally delivered or delivered by same-day courier, (b) on the third business day after mailing by registered or certified mail, postage prepaid, return receipt requested, or (c) upon delivery when sent by prepaid overnight delivery service, in any case addressed as follows:

If to the Employee: Bettina Simon
8718 Autumn Oaks Drive
Dallas, Texas 75243

If to the Company: Lead Director
Board of Directors
Mannatech Incorporated
600 S. Royal Lane, Suite 200
Coppell, TX 75019

A Party's address may be changed from time to time by written notice to the other Party in accordance with this Section 10.3.

10.4 Prior Agreements Superseded. This Agreement supersedes all prior agreements between the Parties of any and every nature whatsoever, including (without limitation) agreements for additional compensation or benefits. All such prior agreements are null and void.

10.5 Duration. Notwithstanding the cessation or termination of Employee's employment under this Agreement, this Agreement shall continue to bind the Parties for so long as any obligations remain under the terms of this Agreement.

10.6 Amendment; Waiver. No amendment to or modification of this Agreement, or waiver of any term, provision, or condition of this Agreement, will be binding upon a Party unless the amendment, modification, or waiver is in writing and signed by the Party to be bound. Any waiver by a Party of a breach or violation of any provision of this Agreement by the other Party shall not be deemed a waiver of any other provision or of any subsequent breach or violation.

10.7 Enforcement and Severability. The Parties intend all provisions of this Agreement to be enforced to the fullest extent permitted by law. Accordingly, should a court of competent jurisdiction determine that the scope of any provision of this Agreement is too broad to be enforced as written, the Parties intend for the court to reform the provision to such narrower scope as it determines to be reasonable and enforceable. If, however, any provision of this Agreement is held to be illegal, invalid, or unenforceable, the provision shall be severed, this Agreement shall be construed and enforced as if such illegal, invalid, or unenforceable provision were never a part of it, and the remaining provisions shall remain in full force and effect.

10.8 Subsidiaries Included. Wherever the "Company" is referred to in this Agreement, it shall include all subsidiaries of the Company as they may exist from time to time, even where the term "subsidiaries" is not explicitly stated in connection with such reference.

10.9 Certain Defined Terms; Headings. As used in this Agreement:

a. "business day" means any Monday through Friday other than any such weekday on which the executive offices of the Company are closed.

b. "Employment Period" means the term of Employee's employment under this Agreement, from the Effective Date through the last date of Employee's work for the Company under this Agreement, regardless of whether the termination is voluntary, involuntary, for Cause, or not for Cause.

c. "herein," "hereof," "hereunder," and similar terms are references to this Agreement as a whole and not to any particular provision of this Agreement.

d. "Person" means an individual, an independent contractor, a sole proprietor, a partnership, a limited liability company, a corporation, an association, a joint stock company, a trust, a joint venture, an unincorporated organization, a governmental entity, court, department, agency or political subdivision, or other individual, business, or governmental entity, as applicable.

e. "Termination Date" means the last day of the Employment Period.

In addition, the use herein of "annual" or "monthly" (or similar terms) to indicate a measurement period shall not itself be deemed to grant rights to Employee for employment or compensation for such period. The Section and other descriptive headings in this Agreement are only for convenience of reference and are not to be used to construe or interpret this Agreement or any of its provisions.

10.10 Employee Acknowledgment. The Employee affirms and attests, by signing this Agreement, that the Employee has read this Agreement before signing it and that the Employee fully understands its purposes, terms, and provisions, which the Employee hereby expressly acknowledges to be reasonable in all respects. The Employee further acknowledges receipt of one copy of this Agreement.

10.11 Section 409A Compliance. It is the intention of the Company and the Employee that this Agreement not result in unfavorable tax consequences to the Employee under Section 409A of the Code. The Company and the Employee acknowledge that only limited guidance has been issued by the Internal Revenue Service with respect to the application of Code Section 409A to certain arrangements, such as this Agreement. It is expected by the Company and the Employee that the Internal Revenue Service will provide further guidance regarding the interpretation and application of Section 409A of the Code in connection with finalizing its recently proposed regulations. The Company and the Employee acknowledge further that the full effect of Section 409A of the Code on potential payments pursuant to this Agreement cannot be determined at the time that the Company and the Employee are entering into this Agreement. The Company and the Employee agree to work together in good faith in an effort to comply with Section 409A of the Code including, if necessary, amending the Agreement based on further guidance issued by the Internal Revenue Service from time to time, provided that neither party shall be required to assume an economic burden beyond what is already required by this Agreement.

IN WITNESS WHEREOF, the Parties, intending to be legally bound, have duly entered into this Agreement as of the Effective Date.

EMPLOYEE:

/s/ Bettina Simon
Bettina Simon, Esq.

Date: November 11, 2005

MANNATECH INCORPORATED

/s/ Samuel L. Caster
Sam Caster
Chairman of the Board

Date: November 11, 2005

Exhibit 21

List of Subsidiaries

The Company has twelve wholly-owned subsidiaries located throughout the world. The wholly-owned subsidiaries are as follows:

1. Mannatech Australia Pty Limited
2. Mannatech Japan, Inc.
3. Mannatech Korea, Ltd.
4. Mannatech Limited New Zealand
5. Mannatech Limited, UK
6. Mannatech Taiwan Corporation
7. Mannatech Taiwan Corporation Taiwan Branch
8. Mannatech Foreign Sales Corporation
9. Mannatech Payment Services Incorporated
10. Mannatech Products Company, Inc.
11. Internet Health Group, Inc.
12. Mannatech (International) Limited

Exhibit 23.1

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We have issued our reports dated March 16, 2006, accompanying the consolidated financial statements and management's assessment of the effectiveness of internal control over financial reporting included in the Annual Report of Mannatech, Incorporated and subsidiaries on Form 10-K for the year ended December 31, 2005. We hereby consent to the incorporation by reference of said reports in the Registration Statements of Mannatech, Incorporated and subsidiaries on Forms S-8 (File No. 333-72767, effective February 22, 1999, File No. 333-77227, effective April 28, 1999, File No. 333-94519, effective January 12, 2000, File No. 333-47752, effective October 11, 2000, and File No. 333-113975, effective March 26, 2004).

Grant Thornton LLP
Dallas, Texas
March 16, 2006

Exhibit 23.2

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We hereby consent to the incorporation by reference in the Registration Statements on Form S-8 (Nos. 333-72767 and 333-94519) of Mannatech, Incorporated of our report dated March 30, 2005 relating to the consolidated financial statements, which appears in this Form 10-K.

PricewaterhouseCoopers LLP
Dallas, Texas
March 16, 2006

Exhibit 31.1

Certification of
Chief Executive Officer
of Mannatech, Incorporated

This certification is provided pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, and accompanies the annual report on Form 10-K for the year ended December 31, 2005 of Mannatech, Incorporated.

I, Samuel L. Caster, the Chief Executive Officer of the registrant, certify that:

1. I have reviewed this annual report on Form 10-K 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 officers 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.
5. The registrant's other certifying officers 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.

Dated: March 16, 2006

/s/ *Samuel L. Caster*
Samuel L. Caster
Chief Executive Officer

Exhibit 31.2

Certification of
Chief Financial Officer
of Mannatech, Incorporated

This certification is provided pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, and accompanies the annual report on Form 10-K for the year ended December 31, 2005 of Mannatech, Incorporated.

I, Stephen D. Fenstermacher, the Chief Financial Officer of the registrant, certify that:

1. I have reviewed this annual report on Form 10-K 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 officers 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.
5. The registrant's other certifying officers 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.

Dated: March 16, 2006

/s/ *Stephen D. Fenstermacher*
Stephen D. Fenstermacher
Chief Financial Officer

Exhibit 32.1

Certification of
Chief Executive Officer
of Mannatech, Incorporated

This certification is provided pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 and accompanies the annual report on Form 10-K (the "***Form 10-K***") for the year ended December 31, 2005 of Mannatech, Incorporated (the ***"Issuer"***).

I, Samuel L. Caster, the Chief Executive Officer of the Issuer, certify that to the best of my knowledge:

(i) the Form 10-K fully complies with the requirements of section 13(a) or section 15(d) of the Securities Exchange Act of 1934 (15 U.S.C. 78m(a) or 78o(d)); and

(ii) the information contained in the Form 10-K fairly presents, in all material respects, the financial condition and results of operations of the Issuer.

Dated: March 16, 2006

/s/ Samuel L. Caster
Samuel L. Caster
Chief Executive Officer

Subscribed and sworn to before me
This 16th day of March, 2006

/s/ Christina Dutton
Name: Christina Dutton
Title: Notary Public, State of Texas

My commission expires: March 19, 2010

(A signed original of this written statement required by Section 906 has been provided to Mannatech, Incorporated and will be furnished to the Securities and Exchange Commission or its staff upon request.)

Certification of
Chief Financial Officer
of Mannatech, Incorporated

This certification is provided pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 and accompanies the annual report on Form 10-K (the "***Form 10-K***") for the year ended December 31, 2005 of Mannatech, Incorporated (the ***"Issuer"***).

I, Stephen D. Fenstermacher, the Chief Financial Officer of the Issuer, certify that to the best of my knowledge:

(i) the Form 10-K fully complies with the requirements of section 13(a) or section 15(d) of the Securities Exchange Act of 1934 (15 U.S.C. 78m(a) or 78o(d)); and

(ii) the information contained in the Form 10-K fairly presents, in all material respects, the financial condition and results of operations of the Issuer.

Dated: March 16, 2006

/s/ Stephen D. Fenstermacher
Stephen D. Fenstermacher
Chief Financial Officer

Subscribed and sworn to before me
This 16th day of March , 2006

/s/ Christina Dutton
Name: Christina Dutton
Title: Notary Public, State of Texas

My commission expires: March 19, 2010

(A signed original of this written statement required by Section 906 has been provided to Mannatech, Incorporated and will be furnished to the Securities and Exchange Commission or its staff upon request.)