

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 1999

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
75019
(Address of Principal Executive Offices, including Zip Code)

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

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

As of August 4, 1999, the number of shares outstanding of the registrant's
sole class of common stock, par value \$0.0001 per share, was 24,412,753.

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PART I FINANCIAL INFORMATION

Item 1. Financial Statements

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

	December 31, 1998	June 30, 1999 (Unaudited)
	-----	-----
ASSETS		
Cash and cash equivalents.....	\$ 763	\$14,001
Short-term investments.....	--	1,337
Accounts receivable, less allowance for doubtful accounts of \$58,000 in both 1998 and 1999.....	63	62
Receivable from related parties.....	125	125
Current portion of notes receivable-shareholders.....	307	158
Inventories.....	6,875	7,932
Prepaid expenses and other current assets.....	447	910
Deferred tax assets.....	398	398
	-----	-----
Total current assets.....	8,978	24,923
Property and equipment, net.....	14,103	13,247
Notes receivable-shareholders, excluding current portion....	701	522
Other assets.....	948	853
Deferred offering costs.....	2,144	--
	-----	-----
Total assets.....	\$26,874	\$39,545
	=====	=====
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current portion of capital leases and notes payable.....	\$ 854	\$ 800
Accounts payable.....	5,480	941
Accrued expenses.....	15,063	14,762
	-----	-----
Total current liabilities.....	21,397	16,503
Capital leases and notes payable, excluding current portion..	1,056	699
Deferred tax liabilities.....	1,438	1,438
	-----	-----
Total liabilities.....	23,891	18,640
	-----	-----
Commitments and contingencies.....		

Redeemable warrants.....	300	--
	-----	-----
Shareholders' equity:		
Preferred stock, \$.01 par value, 1,000,000 shares authorized, no shares issued and outstanding.....	--	--
Common stock, \$.0001 par value, 99,000,000 shares authorized, 22,101,738 and 24,356,753 shares issued and outstanding in 1998 and 1999, respectively.....	2	3
Additional paid-in capital.....	2,632	16,461
Notes receivable from shareholders.....	(636)	--
Retained earnings.....	685	4,441
	-----	-----
Total shareholders' equity.....	2,683	20,905
	-----	-----
Total liabilities, redeemable warrants and shareholders' equity.....	\$26,874	\$39,545
	=====	=====

See accompanying notes to consolidated financial statements.

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MANNATECH, INCORPORATED
CONSOLIDATED STATEMENTS OF INCOME (UNAUDITED)
FOR THE THREE MONTHS ENDED JUNE 30, 1998 AND 1999
AND THE SIX MONTHS ENDED JUNE 30, 1998 AND 1999
(in thousands, except per share information)

	Three months ended June 30		Six months ended June 30	
	1998	1999	1998	1999
Net Sales.....	\$ 42,637	\$ 45,035	\$ 83,725	\$ 87,651
Cost of Sales.....	7,484	7,167	13,544	14,060
Commissions.....	16,988	18,665	33,872	35,981
	24,472	25,832	47,416	50,041
Gross profit.....	18,165	19,203	36,309	37,610
Operating Expenses:				
Selling and administrative expenses.....	7,257	8,888	14,941	17,360
Other operating costs.....	5,342	6,774	10,038	12,108
Total operating expenses.....	12,599	15,642	24,979	29,468
Income from operations.....	5,566	3,761	11,330	8,342
Other (income) expense, net.....	41	158	(21)	137
Income before income taxes.....	5,525	3,403	11,351	8,005
Income tax expense.....	2,161	1,221	4,370	2,922
Net income.....	\$ 3,364	\$ 2,182	\$ 6,981	\$ 5,083
	=====	=====	=====	=====
Earnings per common share:				
Basic.....	\$ 0.15	\$ 0.09	\$ 0.31	\$ 0.22
Diluted.....	\$ 0.14	\$ 0.08	\$ 0.29	\$ 0.20
	=====	=====	=====	=====
Weighted-average per common and common equivalent shares outstanding				
Basic.....	22,101,738	24,160,050	22,101,738	23,639,894
Diluted.....	23,705,342	25,569,357	23,698,000	25,142,454
	=====	=====	=====	=====
Dividends declared per common share.....	\$ 0.18	\$ 0.0	\$ 0.30	\$ 0.06
	=====	=====	=====	=====

See accompanying notes to consolidated financial statements.

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MANNATECH, INCORPORATED
CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY (UNAUDITED)
FOR THE SIX MONTHS ENDED JUNE 30, 1999
(in thousands)

	Common Stock		Additional	Notes	Retained	Total
	Shares	Par Value	Paid-in	receivable from	earnings	shareholders'
	-----	-----	-----	shareholders	(deficit)	equity
	-----	-----	-----	-----	-----	-----
Balance at December 31, 1998.....	22,102	\$2	\$ 2,632	\$ (636)	\$ 685	\$ 2,683
Dividends declared (\$.06 per share).....	--	--	--	--	(1,327)	(1,327)
Repayment of notes receivable - shareholders.....	--	--	--	636	--	636
Net proceeds from Offering.....	1,500	0	9,241	--	--	9,241
Exercise of warrants.....	475	0	941	--	--	941
Tax benefit from exercise of warrants and stock options.....	--	--	3,270	--	--	3,270
Proceeds from stock option exercises.....	280	1	377	--	--	378
Net income.....	--	--	--	--	5,083	5,083
	-----	-----	-----	-----	-----	-----
Balance at June 30, 1999.....	24,357	\$3	\$16,461	\$ --	\$ 4,441	\$20,905
	=====	==	=====	=====	=====	=====

See accompanying notes to consolidated financial statements.

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MANNATECH, INCORPORATED
CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)
FOR THE SIX MONTHS ENDED JUNE 30, 1998 AND 1999
(in thousands)

	Six Months Ended June 30,	
	-----	-----
	1998	1999
	-----	-----
Cash flows from operating activities:		
Net income.....	\$ 6,981	\$ 5,083
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization.....	959	1,449
Loss on disposal of assets.....	67	--
Deferred income tax expense.....	702	--
Tax benefit from exercise of warrants and stock options.....	--	3,270
Changes in operating assets and liabilities:		
Accounts and notes receivable.....	463	(10)
Inventories.....	(386)	(1,057)
Prepaid expenses and other current assets.....	(45)	(463)
Other assets.....	20	95
Accounts payable.....	(1,328)	(4,539)
Accrued expenses.....	2,256	(301)
	-----	-----
Net cash provided by operating activities.....	9,689	3,527
	-----	-----
Cash flows from investing activities:		
Acquisition of property and equipment and construction in progress.....	(2,359)	(592)
Restricted cash.....	199	--
Short-term investments.....	--	(1,337)
(Advance) Repayment of shareholders/related party receivables.....	(44)	974
	-----	-----
Net cash used in investing activities.....	(2,204)	(955)
	-----	-----
Cash flows from financing activities:		
Payment of dividends.....	(6,622)	(1,327)

Repayment of capital lease obligations.....	(73)	(312)
Proceeds from the initial public offering.....	--	12,000
Proceeds from warrants.....	--	641
Proceeds from stock option exercises.....	--	378
Payment of notes payable.....	--	(100)
Deferred offering costs.....	(782)	(615)
	-----	-----
Net cash provided by (used in) financing activities.....	(7,477)	10,666
	-----	-----
Net increase in cash and cash equivalents.....	8	13,238
Cash and cash equivalents:		
Beginning of period.....	61	763
	-----	-----
End of period.....	\$ 69	\$14,001
	=====	=====
Supplemental disclosure of cash flow information:		
Income taxes paid.....	\$ 3,657	\$ 3,464
	=====	=====
Interest paid.....	\$ 3	\$ 78
	=====	=====
A summary of non-cash investing and financing activities follows:		
Assets acquired through capital lease obligations.....	\$ 1,367	\$ -
	=====	=====
Accrued dividends.....	\$ 1,327	\$ -
	=====	=====

See accompanying notes to consolidated financial statements.

MANNATECH, INCORPORATED
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

NOTE 1 ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Mannatech, Incorporated (the "Company") was incorporated in the State of Texas on November 4, 1993, as Emprise International, Inc. Effective October 25, 1995, the Company changed its name to Mannatech, Incorporated. The Company, located in Coppell, Texas, develops and sells proprietary nutritional supplements and topical products through a network marketing system. The Company currently sells its products in the United States, Canada and Australia. Independent associates ("Associates") purchase products, at wholesale, for the primary purpose of selling to retail consumers or for personal consumption. In addition, Associates earn commissions under the Company's compensation plan.

On April 22, 1998, the Company formed a wholly owned subsidiary, Mannatech Australia Pty Limited, for the purpose of conducting business in Australia. The Australian subsidiary, located in St. Leonards, began operations on October 1, 1998.

In April 1999, the Company formed a wholly owned subsidiary, Mannatech Ltd., for the purpose of conducting business in the United Kingdom as a limited service provider. The United Kingdom subsidiary will be located in Basingstoke, Hampshire. The entity is currently dormant, pending start up operations in the United Kingdom on November 15, 1999.

On May 1, 1999, the Company formed a wholly owned subsidiary, Mannatech Foreign Sales Corporation, under the laws of Barbados to act as a "foreign sales corporation" as defined in the United States Internal Revenue Code.

On May 7, 1999, the Company formed a wholly owned subsidiary, Internet Health Group, Inc., a Texas corporation, for marketing its proprietary products, specially-developed nutritional supplements and sports nutrition products over the Internet. The subsidiary will be located in Dallas, Texas and is currently dormant, pending start up operations in late 1999.

The accompanying unaudited consolidated financial statements have been prepared in accordance with generally accepted accounting principles for interim

financial information and with the instructions to Form 10-Q and Rule 10-01 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, the accompanying unaudited consolidated financial statements contain all adjustments, consisting of normal recurring adjustments, considered necessary for a fair statement of the Company's financial information as of June 30, 1998 and 1999. In preparing consolidated financial statements in conformity with generally accepted accounting principles, management is required to make certain estimates and assumptions that may affect the reported amounts of assets, liabilities, revenues and expenses during the reporting periods. Actual results may differ from such estimates. The consolidated results of operations of any interim period are not necessarily indicative of the consolidated results of operations to be expected for the fiscal year. For further information, refer to the consolidated financial statements and accompanying footnotes included in the Company's annual report on Form 10-K for the year ended December 31, 1998.

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.

Earnings per Share

The Company calculates earnings per share in accordance with Statement of Financial Accounting Standards No. 128, "Earnings per Share" ("FAS 128"). FAS 128 requires dual presentation of basic and diluted earnings per share on the face of the consolidated statement of income for all entities with complex capital structures and requires a

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reconciliation of the numerator and denominator of the basic earnings per share computation to the numerator and denominator of the diluted earnings per share computation. Basic earnings per share calculations are based on the weighted-average number of common shares outstanding during the period, while diluted earnings per share calculations are based on the weighted-average common shares and dilutive common share equivalents outstanding during each period.

The following data show the unaudited amounts used in computing earnings per share and the effect on the weighted-average number of shares of dilutive common stock for the six months ended June 30, 1998 and 1999.

	1998			1999		
	Income (Numerator)	Shares (Denominator)	Per Share Amount	Income (Numerator)	Shares (Denominator)	Per Share Amount
Basic EPS:						
Net income available to to common shareholders	\$6,981,306	22,101,738	\$0.31	\$5,082,945	23,639,894	\$0.22
Effect of dilutive securities:						
Stock options	--	1,332,737		--	1,432,300	
Stock warrants	--	270,867		--	70,260	
Diluted EPS:						
Net income available to common shareholders plus assumed conversions	\$6,981,306	23,705,342	\$0.29	\$5,082,945	25,142,454	\$0.20

NOTE 2 INVENTORIES

On the following dates, inventories consisted of the following:

December 31,	June 30,
1998	1999

Raw materials.....	\$3,054,317	\$4,350,062
Work-in-progress.....	--	--
Finished goods.....	3,820,727	3,582,078
	-----	-----
	\$6,875,044	\$7,932,140
	=====	=====

NOTE 3 SHAREHOLDERS' EQUITY

In February 1999, the Company received approximately \$9.2 million in net proceeds from the sale of common stock in the Company's initial public offering (the "IPO"). In the IPO, the Company sold 1,500,000 shares of its common stock and existing shareholders sold 1,556,016 shares of their common stock at \$8.00 per share. The Company intends to use approximately \$6.3 million of the proceeds of the IPO for international expansion, primarily for product registration, initial inventory requirements and similar items. The remaining \$2.9 million was used to fund working capital and for general corporate purposes.

In February 1999, the Company received \$641,271 from the exercise of 475,015 outstanding warrants at \$1.35 per share. In May 1999, the Company received \$378,000 from the exercise of 280,000 stock options at \$1.35 per share.

On May 13, 1999, the Company filed a Registration Statement on Form S-1 registering 1,519,542 shares of the Company's common stock offered by certain shareholders. On April 28, 1999, the Company filed a Registration Statement on Form S-8 registering 642,000 shares of common stock.

NOTE 4 TRANSACTIONS WITH RELATED PARTIES

On June 2, 1999, the Company agreed to pay Ray Robbins, an associate and a shareholder of the Company, \$750,000 to cancel his remaining incentive compensation agreement. The Company paid \$500,000 upon the execution

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of the agreement and will pay the remaining \$250,000 in monthly installments of \$10,000 with the final payment due in July 2001. The \$750,000 was classified as other operating expenses in the consolidated statement of income.

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

The following discussion and analysis is intended to assist you in understanding our financial condition and results of operations for the three- and six-month periods ended June 30, 1999 as compared to the same periods in 1998. The consolidated financial statements and related notes beginning on page 1 should be referred to in conjunction with this discussion. Unless we state otherwise, all financial information presented below and in the consolidated financial statements and related notes includes Mannatech and all of our subsidiaries on a consolidated basis.

Overview

Mannatech develops and sells proprietary nutritional supplements and topical products through a network marketing system. We sell our products in the United States, Canada and Australia, through a network of approximately 246,000 active associates as of June 30, 1999, compared to approximately 231,000 active associates as of June 30, 1998. We plan to start up operations in the United Kingdom on November 15, 1999. We plan to expand into Japan in 2000, while continuing to assess the potential of other foreign markets. We have formed another wholly-owned subsidiary, Internet Health Group, Inc., a Texas corporation, which will begin operations in late 1999 and which will market our proprietary products, specially-developed supplements and sports nutrition products over the Internet.

Since beginning operations in November 1993, we have achieved year-to-year growth in net sales. Our growth is mainly attributable to increases in new product sales, growth in the number of associates and expansion into new geographic markets in the United States, Canada and, beginning in October 1998, Australia. In 1998, the growth rate of net sales generated in the United States was lower than prior periods, while the growth rate of net sales generated in Canada and Australia was higher than prior periods. The earnings per share for the second quarter of 1999 was below the comparable period in 1998 due to an increase in wages, the introduction of a new bonus program for our associates, the buyout of the remaining incentive compensation contract, expenses incurred related to the secondary offering and our international expansion.

We receive revenues primarily from sales of our products and sales of associate starter and renewal packs, which include some combination of products, promotional materials and free admission to our national events. Some of the packs offer our associates a choice of different combinations of products and promotional materials to be included in the purchased pack. To become an associate, a person may enroll as a preferred customer and later execute an associate application, sponsor new associates or purchase an associate starter pack. Each pack also allows the associate to purchase products at wholesale prices. We will offer a comparable associate starter pack in each country in which we do business. All pack prices are stated in United States currency.

In May 1998, we introduced a new starter and renewal pack for associates in the United States and Canada, priced at \$29.00. Historically, the starter packs for associates in the United States and Canada could be purchased at \$49.00, \$229.00, \$339.00, \$568.00 and \$1,000.00 levels. Beginning in June 1998, starter packs for associates in the United States and Canada could be purchased at \$29.00, \$49.00, \$289.00, \$664.00 and \$1,000.00 levels. The average wholesale value of the starter packs for associates in the United States and Canada are approximately \$16.12, \$44.62, \$322.81, \$817.32 and \$1,138.83, respectively. Beginning in April 1999, the average wholesale value of the starter packs in the United States and Canada were approximately \$15.05, \$43.25, \$319.50, \$814.95 and \$1,153.95. In Australia, only one associate starter pack is available, is priced at approximately \$31.00, and has an approximate wholesale value of \$19.06.

We also require associates to renew their status each year by either (1) renewing as a preferred customer and continuing to sponsor new associates; (2) purchasing a renewal pack; or (3) earning enough personal points volume from product sales to automatically renew their associate status for one year. Prior to June 1998, associates in the United States and Canada could renew their associate status for \$49.00, \$229.00 or \$568.00. Since the introduction of the \$29.00 preferred customer pack in May 1998, associates in the United States and Canada have been able to renew their associate status for \$29.00, \$200.00 or \$350.00. Associates who do not renew their associate status may continue

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to purchase our products at the wholesale price and resell the products; however, they would not earn commissions under our compensation plan.

Associates are also eligible to purchase upgrade packs. Historically, associates in the United States and Canada could purchase upgrade packs at approximately \$229.00, \$339.00, \$568.00 and \$1,000.00 levels. Beginning in June 1998, upgrade packs for associates in the United States and Canada could be purchased at \$289.00, \$375.00, \$664.00 and \$1,000.00 levels. Historically, Australian associates could purchase upgrade packs at \$262.00, \$358.00 and \$620.00 levels. Beginning in April 1999, Australian associates can purchase upgrade packs at \$289.00, \$375.00 and \$664.00 levels. Upgrade packs are accounted for as renewal packs, as they renew an associate's membership for one year from the time of upgrade.

We generally recognize revenues when products or promotional materials are shipped. Our revenues are based primarily on the wholesale prices of the products sold. We defer revenue received from the sale of promotional packs to the extent that it is greater than the wholesale value of the individual items

included in such packs. Revenues from promotional packs are allocated between products and admission to events based on the proportionate fair value of these items. Allocated event revenues are also deferred. All deferred revenue is amortized over a 12-month period. Total deferred revenue was approximately \$695,000, \$662,000 and \$778,000 at June 30, 1998, December 31, 1998 and June 30, 1999, respectively.

Associates are compensated by commissions, which are directly related to their placement and position within our compensation plan, volume of direct sales and number of new enrolled associates. In October 1998, we revised portions of our compensation plan to perfect the global seamless downline compensation concept and ensure compliance with common international standards of paying commissions. The commission pool, as a whole, remains unchanged under our existing and revised compensation plan and commissions should not exceed 42% of commissionable net sales.

Our United States federal statutory tax rate is 35%. We pay taxes in Australia at a statutory tax rate of 36%. We pay taxes in various state jurisdictions at an approximate average statutory tax rate of 3%. As our international expansion continues, a portion of our income will be subject to taxation in the countries in which we operate. We may receive foreign tax credits that would reduce the amount of United States taxes we owe, based upon the amount of foreign taxes paid. We may not be able to use all of such foreign tax credits in the United States. The use of the foreign tax credits is based upon the proportionate amount of net sales in each country. Because many of the countries that we may expand to during 1999 and beyond have maximum statutory tax rates higher than the United States tax rate, we could end up paying a higher overall effective tax rate on our consolidated operations.

Results of Operations

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

	Three Months Ended June 30		Six Months Ended June 30	
	1998	1999	1998	1999
Net sales.....	100.0%	100.0%	100.0%	100.0%
Cost of sales.....	17.6	15.9	16.2	16.0
Commissions.....	39.8	41.5	40.5	41.1
Gross profit.....	42.6	42.6	43.3	42.9
Operating expenses:				
Selling and administrative expenses.....	17.0	19.7	17.8	19.8
Other operating costs.....	12.5	14.9	12.0	13.8
Income from operations.....	13.1	8.0	13.5	9.3
Other (income) expense, net.....	0.1	0.4	(0.0)	0.2
Income before income taxes.....	13.0	7.6	13.5	9.1
Income tax expense.....	5.0	2.7	5.2	3.3
Net income.....	8.0%	4.9%	8.3%	5.8%
Number of starter packs sold.....	29,176	33,279	59,437	65,809
Number of renewal packs sold.....	8,636	13,189	22,528	27,793
Total number of packs sold.....	37,812	46,468	81,965	93,602
Total associates cancelling associate status.....	1,597	1,336	2,973	2,784

Three months ended June 30, 1999 compared with the three months ended June 30, 1998

Net Sales. Net sales increased 5.6% to \$45.0 million for the three months ended June 30, 1999 from \$42.6 million for the comparable period in 1998. This increase was primarily composed of the following:

- . A \$4.6 million increase from the sale of several new products introduced after June 30, 1998, and from existing products which were not available for sale in Canada and Australia prior to April 1, 1999.
- . A decrease of (\$3.3 million) in existing product sales, which primarily resulted from decreases in the volume of existing products sold as associates are buying new products and products which historically were not available in Canada and Australia.
- . An increase of \$1.1 million due to a change in the mix of associate packs sold. Of this \$1.1 million increase, approximately \$200,000 resulted from a change in the mix of associate packs sold to new associates and \$900,000 resulted from an increase in the number of associate renewal packs sold. We changed the contents of some of our associate packs during this period and are continuing to explore new strategies to increase associate pack sales and renewal pack sales.

Cost of Sales. Cost of sales decreased (4.0%) to \$7.2 million for the three months ended June 30, 1999 from \$7.5 million for the comparable period in 1998. As a percentage of net sales, cost of sales decreased to 15.9% for the three months ended June 30, 1999 from 17.6% for the comparable period in 1998. The dollar amount of the decrease in cost of sales was due to a net decrease of (\$94,000) related to the decreased volume and the product mix of finished goods sold, a net decrease of (\$109,000) in the normal costs of spoilage and shrinkage of inventory and a net decrease of (\$124,000) in freight costs due to switching vendors.

Commissions. Commissions consist of payments to associates for sales activity and downline growth. Commissions increased 10.0% to \$18.7 million for the three months ended June 30, 1999 from \$17.0 million for the comparable period in 1998. As a percentage of net sales, commissions increased to 41.5% for the three months ended

June 30, 1999 from 39.8% for the comparable period in 1998. The increase as a percentage of net sales was the direct result of an increase in commissionable sales as a percentage of total revenue. This increase was due to an increase in revenue from associate packs sold and the start up of our operations in Australia in October 1998.

Gross Profit. Gross profit increased 5.5% to \$19.2 million for the three months ended June 30, 1999 from \$18.2 million for the comparable period in 1998. As a percentage of net sales, gross profit remained at 42.6% for the three months ended June 30, 1999.

Selling and Administrative Expenses. Selling and administrative expenses consist of human resource expenses, including wages, bonuses and marketing expenses, and are a mixture of both fixed and variable expenses. Selling and administrative expenses increased 21.9% to \$8.9 million for the three months ended June 30, 1999 from \$7.3 million for the comparable period in 1998. As a percentage of net sales, selling and administrative expenses increased to 19.7% for the three months ended June 30, 1999 from 17.0% for the comparable period in 1998. The dollar amount increase was due primarily to a \$1.1 million increase in wages and contract labor expenses resulting from pay raises for corporate officers and the hiring of personnel for the Australian operations. The remaining increase was due to incurring \$500,000 in expenses related to a new bonus program for associates and an increase in freight out expense related to the start up of Australian operations in October 1998.

Other Operating Costs. Other operating costs include utilities, depreciation, travel, office supplies and printing expenses. Other operating costs increased 28.3% to \$6.8 million for the three months ended June 30, 1999 from \$5.3 million for the comparable period in 1998. As a percentage of net sales, other operating costs increased to 14.9% for the three months ended June 30, 1999 from 12.5% for the comparable period in 1998. The dollar amount increase was primarily due to a \$750,000 charge for the agreement to cancel the remaining incentive compensation contract as described in the notes to the consolidated financial statements, \$400,000 for consulting services related to our international expansion, \$200,000 for settlement of a lawsuit and \$100,000 for additional research and developments costs related to the opening of our new laboratory facility.

Other (Income) Expense, Net. Other (income) expense, net, primarily consists of interest income, interest expense and royalties from vendors. Other (income) expense, net, increased to \$158,000 for the three months ended June 30, 1999 from \$41,000 for the comparable period in 1998. As a percentage of net sales, other (income) expense, net, increased to 0.4% for the three months ended June 30, 1999 from 0.1% for the comparable period in 1998. For the three months ended June 30, 1999, other (income) expense, net, consisted of (\$80,000) of interest income and \$29,000 of interest expense compared to (\$6,000) of interest income and \$3,000 of interest expense for the three months ended June 30, 1998. The primary reason for the increase was the recording of income tax penalties of \$70,000, a decrease in royalties and an increase in miscellaneous expenses, offset by an increase in interest income.

Income Tax Expense. Income tax expense decreased (45.5%) to \$1.2 million for the three months ended June 30, 1999 from \$2.2 million for the comparable period in 1998. Our effective tax rate decreased to 35.9% for the three months ended June 30, 1999 from 39.1% for the comparable period in 1998. Our effective tax rate decreased because of an increase in our international sales, which are not subject to state income taxes averaging 3%.

Net Income. Net income decreased (35.3%) to \$2.2 million for the three months ended June 30, 1999 from \$3.4 million for the comparable period in 1998. As a percentage of net sales, net income decreased to 4.9% for the three months ended June 30, 1999 from 8.0% for the comparable period in 1998. This decrease occurred because the amounts we spent on our international expansion and the cancellation of the remaining incentive compensation contract were only partially offset by the increase in net sales and the decrease in income tax expense, in addition to the other factors described above.

Six months ended June 30, 1999 compared with the six months ended June 30, 1998

Net Sales. Net sales increased 4.8% to \$87.7 million for the six months ended June 30, 1999 from \$83.7 million for the comparable period in 1998. This increase was primarily composed of the following:

- . A \$7.8 million increase from the sale of several new products introduced after June 30, 1998, and from existing products which were not available for sale in Canada and Australia prior to January 1, 1999.

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- . A decrease of (\$4.3 million) in existing product sales, which primarily resulted from decreases in the volume of existing products sold as associates are buying new products and products which historically were not available in Canada and Australia.
- . An increase of \$500,000 from associate pack sales. Of this \$500,000 increase, approximately (\$300,000) resulted from a change in the mix of associate packs sold to new associates and \$800,000 resulted from an increase in associate renewal packs sold. We changed the contents of some of our associate packs during this period and are continuing to explore new strategies to increase associate pack sales and renewal pack sales.

Cost of Sales. Cost of sales increased 4.4% to \$14.1 million for the six months ended June 30, 1999 from \$13.5 million for the comparable period in 1998. As a percentage of net sales, cost of sales decreased to 16.0% for the six months ended June 30, 1999 from 16.2% for the comparable period in 1998. The dollar amount of the increase in cost of sales was due to a net decrease of (\$45,000) related to the decreased volume and the product mix of finished goods sold, a net increase of \$120,000 in freight costs. For the first six months of 1998, we recorded \$160,000 for recovery of inventory which was written off in December 1997 after we discovered that the manufacturer had improperly converted some of our inventory held by the manufacturer for another customer.

Commissions. Commissions consist of payments to associates for sales activity and downline growth. Commissions increased 6.2% to \$36.0 million for the six months ended June 30, 1999 from \$33.9 million for the comparable period in 1998. As a percentage of net sales, commissions increased to 41.1% for the six months ended June 30, 1999 from 40.5% for the comparable period in 1998. The slight increase as a percentage of net sales was the direct result of an increase in revenue from associate packs sold and the start up of our operations in Australia in October 1998.

Gross Profit. Gross profit increased 3.6% to \$37.6 million for the six months ended June 30, 1999 from \$36.3 million for the comparable period in 1998. As a percentage of net sales, gross profit decreased to 42.9% for the six months ended June 30, 1999 from 43.3% for the comparable period in 1998. These changes resulted from the factors described above.

Selling and Administrative Expenses. Selling and administrative expenses consist of human resource expenses, including wages, bonuses and marketing expenses, and are a mixture of both fixed and variable expenses. Selling and administrative expenses increased 16.8% to \$17.4 million for the six months ended June 30, 1999 from \$14.9 million for the comparable period in 1998. As a percentage of net sales, selling and administrative expenses increased to 19.8% for the six months ended June 30, 1999 from 17.8% for the comparable period in 1998. The dollar amount increase was due primarily to a \$2.3 million increase in wages and contract labor expenses resulting from pay raises for corporate officers and the hiring of personnel for the Australian operations, expenses of \$300,000 related to the Bali incentive program for associates and \$700,000 in freight out for the Australian operations which began in October 1998. This \$3.2 million increase was partially offset by a (\$900,000) decrease in expenses related to a reduction in freight out expense for United States and our national associate events.

Other Operating Costs. Other operating costs include utilities, depreciation, travel, office supplies and printing expenses. Other operating costs increased 19.0% to \$11.9 million for the six months ended June 30, 1999 from \$10.0 million for the comparable period in 1998. As a percentage of net sales, other operating costs increased to 13.6% for the six months ended June 30, 1999 from 12.0% for the comparable period in 1998. The dollar amount increase was primarily due to a \$750,000 charge for the agreement to cancel the remaining incentive compensation contract as described in the notes to the consolidated financial statements, \$900,000 for consulting services related to our international expansion, \$200,000 for settlement of a lawsuit and \$200,000 for additional research and development costs related to the opening of our new laboratory facility.

Other (Income) Expense, Net. Other (income) expense, net, primarily consists of interest income, interest expense and royalties from vendors. Other (income) expense, net, increased to \$137,000 for the six months ended June 30, 1999 from (\$21,000) for the comparable period in 1998. As a percentage of net sales, other (income) expense, net, increased to 0.2% for the six months ended June 30, 1999 from (0.0%) for the comparable period in 1998. For the six months ended June 30, 1999, other (income) expense, net, consisted primarily of (\$173,000) of interest income and \$78,000 of interest expense compared to (\$50,000) of interest income and \$3,000 of interest expense for the six months ended June 30, 1998. The increase in other (income) expense related primarily to an increase in income tax penalties of

\$70,000, a decrease in royalty income of approximately \$50,000 and an increase in miscellaneous expenses, offset by an increase in interest income.

Income Tax Expense. Income tax expense decreased (34.1%) to \$2.9 million for the six months ended June 30, 1999 from \$4.4 million for the comparable period in 1998. Our effective tax rate decreased to 36.5% for the six months ended June 30, 1999 from 38.5% for the comparable period in 1998. Our effective tax rate decreased as our international sales, which are not subject to state income taxes averaging 3%, increased.

Net Income. Net income decreased (27.1%) to \$5.1 million for the six months ended June 30, 1999 from \$7.0 million for the comparable period in 1998. As a percentage of net sales, net income decreased to 5.8% for the six months ended June 30, 1999 from 8.3% for the comparable period in 1998. This decrease occurred because the amounts we spent on our international expansion and cancellation of the remaining incentive compensation contract were only partially offset by the increase in net sales and the decrease in income tax expense, in addition to the other factors described above.

Liquidity and Capital Resources

In February 1999, we received approximately \$9.2 million in net proceeds from the sale of our common stock in our initial public offering. In the initial public offering, we sold 1,500,000 shares of our common stock and existing shareholders sold 1,556,016 shares of their common stock at \$8.00 per share. We intend to use approximately \$6.3 million of the proceeds of the initial public offering for international expansion, primarily for product registration, initial inventory requirements and similar items. The remaining \$2.9 million was used to fund working capital and for general corporate purposes. In February 1999, we received \$641,271 from the exercise of 475,015 outstanding warrants at \$1.35 per share. In May 1999, we received \$378,000 from the exercise of 280,000 stock options at \$1.35 per share.

Our primary capital requirement is to fund working capital to support our growth. In the past, we financed our operations mostly through cash flows from operating activities and capital leases. As a result of our expenditures on the facilities, equipment and personnel necessary to support our growth and international expansion, we had a working capital deficiency of \$12.4 million as of December 31, 1998 compared to working capital of \$8.5 million at June 30, 1999. We invested approximately \$3.7 million and \$600,000 during the first six months of 1998 and 1999, respectively, in our furniture, equipment and leased properties. These projects were funded primarily through operating cash flow and capital leases for the six months ended June 30, 1998 and primarily from operating cash flow in the comparable period in 1999.

We paid approximately \$6.6 million and \$1.3 million in dividends to our shareholders for the six months ended June 30, 1998 and 1999, respectively. For the six months ended June 30, 1999, current liabilities decreased due to the reduction in accounts payable and accrued expenses and an income tax benefit related to the exercise of the warrants and stock options. These decreases are primarily related to the receipt of proceeds from the initial public offering and increases in sales volume. We believe our current facilities are sufficient to support our near-term growth.

In March and August 1998, we entered into two capital leases with principal amounts of \$631,000 and \$841,000, respectively. These capital leases bear interest at 9.3%, are collateralized by the leased assets and are payable in thirty-six monthly installments. In July 1998, we entered into a thirty-six month, unsecured note payable with a finance company to finance our three-year product liability insurance premium. The initial principal amount of this note was \$435,670, the interest rate is 8.0% and monthly installments are due through December 2000.

Net cash provided by operating activities was \$9.7 million and \$3.5 million for the six months ended June 30, 1998 and 1999, respectively. Throughout these periods, we increased net sales, which were partially offset by increases in inventories, expenses from international expansion and a decrease in income tax

payable of approximately \$3.0 million from the compensation expense related to the exercise of the warrants and options. In 1999, we expect to spend up to \$4.5 million for start-up costs and \$2.6 million for initial inventory for our planned expansion into the United Kingdom on November 15, 1999 and Japan in 2000.

Net cash (used in) investing activities was (\$2.2 million) and (\$1.0 million) for the six months ended June 30, 1998 and 1999, respectively. In 1998, these activities consisted primarily of the relocation of our Texas distribution

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center, the build-out of our research and development facility and the development and implementation of our proprietary software program. The new facilities and software program should be sufficient for our immediate needs. However, in the near future, we intend to spend up to an estimated \$3.8 million for additional modifications to the software program for international expansion, Internet access and additional purchases of equipment and build-out of leased facilities for our planned international expansion into the United Kingdom in the fourth quarter of 1999 and Japan in 2000. In February 1999, certain shareholders repaid notes receivable due to us of approximately \$974,000.

Net cash provided by (used in) financing activities totaled (\$7.5 million) and \$10.7 million for the six months ended June 30, 1998 and 1999, respectively. We paid dividends on a monthly basis to our shareholders in the amount of \$0.02-\$0.06 per share each month until the completion of the initial public offering on February 12, 1999. Our board of directors intends, from time-to-time, to reevaluate this policy after considering relevant factors, including the level of our net income and alternative uses of retained earnings. In February 1999, the gross initial public offering proceeds of approximately \$12.0 million were received.

Our existing capital resources, including cash provided by operating activities, bank borrowings, together with the proceeds from the initial public offering and suspension of dividend payments to shareholders, should be adequate to fund our operations for at least the next 12 months. We have no present commitments or agreements with respect to any acquisitions or purchases of manufacturing facilities or new technologies. Changes could occur that would consume available capital resources faster than anticipated. Our capital requirements depend on numerous factors, including:

- . the timing and pace of our entry into international markets;
- . growth in the number of associates; and
- . our research and development efforts.

If our existing capital resources, together with the net proceeds of the initial public offering, are insufficient to meet our capital requirements, we will be required to raise additional funds. We cannot assure you that additional funding, if necessary, will be available on favorable terms, if at all.

Year 2000

We recognize the need to ensure that our operations and relationships with vendors, associates and other third parties will not be adversely impacted by software processing errors arising from calculations using the Year 2000 and beyond. Many existing computer programs and databases use only two digits to identify a year in the date field (i.e., 01 would represent 1901, not 2001). If not corrected, many computer systems could fail or create erroneous results before, during and after the Year 2000. We believe all of our internal information systems currently in use will be Year 2000 ready, largely due to our short operating history. The majority of our critical business applications have been developed internally, in the past two years, with Year 2000 ready tools. We have formalized, structured activities in progress to test for and ensure compliance of all hardware and software used. With respect to non-information technology systems issues, we are in the process of identifying, assessing and remediating, if necessary, our building and utility systems for

any Year 2000 issues relating to the functionality of our facilities. We are evaluating the Year 2000 readiness of vendors and third parties whose system failures could have an impact on our operations. The potential materiality of any such impact is not known at this time and we cannot determine the extent to which such failures would impact us.

Management expects the total cost associated with Year 2000 identification, remediation and testing to be between \$100,000 and \$250,000. We believe that we have allocated adequate resources for this purpose and expect our Year 2000 date compliance program to be completed before December 1999. Based on current estimates, costs of addressing these issues, which are expensed as they occur, are not expected to have a material impact on our results of operations, financial condition or cash flows. This expectation is subject to uncertainties that could cause actual results to differ materially. Should any of the applications fail to perform properly on January 1, 2000, we will resort to temporary manual processing, which is not expected to have a material adverse impact on our short-term operations.

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All remaining remediation and testing of non-information technology systems is expected to be performed and completed by December 1999. Failure to achieve Year 2000 readiness by any of our vendors, while expected to cause some disruption to operations in the short-term, is not expected to have a material impact on our operations.

Forward-Looking Statements

Some of the statements in this report, under "Management's Discussion and Analysis of Financial Condition and Results of Operations," "Quantitative and Qualitative Disclosures About Market Risk," "Consolidated Financial Statements and the Notes to Consolidated Financial Statements" and "Part II-Other Information," are "forward-looking statements," within the meaning of Section 21E of the Securities Exchange Act of 1934, that are subject to certain events, risk and uncertainties that may be outside our control. These forward-looking statements include statements of:

- . management's plans, objectives, expectations, intentions and beliefs for our future operations and future economic performance;
- . our capital budget and future capital requirements;
- . meeting our future capital needs;
- . realization of our deferred tax assets;
- . the level of future expenditures; and
- . the outcome of regulatory and litigation matters, and the assumptions described in this report underlying such forward-looking statements.

Actual results and developments could differ materially from those expressed in or implied by such statements due to a number of factors, including, without limitation:

- . those described in the context of such forward-looking statements;
- . future product development and manufacturing costs;
- . timely development and acceptance of new products;
- . our entry into new countries and markets;
- . the impact of competitive products and pricing;
- . the political and economic climate in which we conduct operations; and
- . the risk factors described from time to time in our other documents and reports filed with the Securities and Exchange Commission.

In some cases, you can identify forward-looking statements by terminology such as "may," "will," "should," "could," "expects," "plans," "intends," "anticipates," "believes," "estimates," "predicts," "potential," "continue" or the negative of such terms and other comparable terminology.

Although we believe that the expectations reflected in the forward-looking statements are reasonable, we cannot guarantee future results, levels of activity, performance or achievements. Moreover, neither we nor anyone else

assumes responsibility for the accuracy and completeness of such statements. We are under no duty to update any of the forward-looking statements after the date of this report.

Recent Financial Accounting Standards Board Statements

In June 1998, the Financial Accounting Standards Board issued Financial Accounting Standard No. 133 ("FAS 133"), "Accounting for Derivatives, Investments and Hedging Activities." This statement establishes accounting and reporting standards for derivative financial instruments, including certain derivative financial instruments imbedded in other contracts and for hedging activities. FAS 133 is effective for fiscal years beginning after June 15, 1999. During 1999, the Financial Accounting Standards Board defined the effective date of FAS 133 to fiscal years beginning after June 15, 2000. As we do not have any derivative financial instruments, this pronouncement does not have an impact on us.

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Item 3. Quantitative and Qualitative Disclosures About Market Risk

We do not engage in trading market risk sensitive instruments and do not purchase as investments, as hedges, or for purposes "other than trading," instruments that are likely to expose us to certain types of market risk, including interest rate, commodity price or equity price risk. We have not issued any debt instruments, entered into any forward or futures contracts, purchased any options or entered into any swaps.

However, we are 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 affects our financial results. Changes in currency exchange rates may positively or negatively affect our sales (as expressed in United States dollars), gross margins, operating expenses and retained earnings. When the United States dollar sustains a strengthening position against currencies in which we sell our products or a weakening currency exchange rate against currencies in which we incur costs, our net sales or costs may be adversely affected. We have established policies, procedures and internal processes governing the management of market risk and the use of any financial instruments to manage our exposure to such risks. The sensitivity of earnings and cash flows to changes in the currency exchange rate is assessed by applying an appropriate range of potential currency rate fluctuations of our assets, obligations and projected transactions denominated in foreign currency. Based upon our overall currency exchange rate exposure at June 30, 1999, we do not believe that our exposure to currency exchange rate fluctuations will have a material impact on our consolidated financial position or consolidated results of operations. All statements other than historical information incorporated in this Item 3 are forward-looking statements. The actual impact of future market changes could differ materially due to, among other things, factors discussed in this report.

PART II - OTHER INFORMATION

Item 1. Legal Proceedings

Except as set forth below, there have not been any material changes in, or additions to, the legal proceedings previously reported in our 1998 Annual Report on Form 10-K as filed with the Commission on March 31, 1999:

- . Dr. Joe Glickman, Jr. Phyto Trust d/b/a Alotek and Mannatech have agreed to settle Dr. Glickman's lawsuit. We believe that the settlement of this lawsuit will not have a material effect on our business, results of operations or financial condition.
- . The American Arbitration Association has set arbitration for the Mr. Johnnie Hill d/b/a Taylor Enterprises case for November 1999.

Item 2. Changes in Securities and Use of Proceeds

- (a) Not applicable.
- (b) Not applicable.
- (c) None.
- (d) Uses of Proceeds from Registered Securities. On January 5, 1999, our Registration Statement on Form S-1 (File No. 333-63133) became effective. The subscription period terminated on February 11, 1999 and, on February 12, 1999, the closing took place. The total number of shares of our common stock subscribed for and sold in the initial public offering was 3,056,016, of which 1,500,000 shares were sold by us and 1,556,016 shares were sold by the selling shareholders. The aggregate price of the shares sold by us was \$12,000,000 and the net proceeds to us were \$9,240,958. Net proceeds included the aggregate proceeds less payments for:
 - . the placement agent engaged by us to manage the receipt of subscription funds of a fee of \$389,226, net of a reimbursement of \$90,774 in expenses by the placement agent;
 - . actual expenses of the initial public offering of \$406,385; and

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- . \$1,963,431 of deferred offering costs.

The aggregate price of the shares sold for the account of the selling shareholders was \$12,448,128. After payment of \$497,925 to the placement agent, net proceeds to the selling shareholders were \$11,950,203. None of such payments were direct or indirect payments to directors, officers, affiliates or 10% beneficial owners of Mannatech. No underwriter was involved in the initial public offering.

The net proceeds of the initial public offering were intended to be used by us to begin our international expansion and fund current working capital needs. We have used \$800,463 of the net proceeds from the initial public offering to pay for our expansion into the United Kingdom and Japan and \$5,125,614 of such net proceeds for our current working capital needs. The \$5,125,614 includes \$1,963,431 for the deferred offering costs incurred by us in consummating the initial public offering. None of such payments were direct or indirect payments to directors, officers, affiliates or 10% beneficial owners of Mannatech.

Item 3. Defaults Upon Senior Securities

Not applicable.

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

None.

Item 5. Other Information

None.

Item 6. Exhibits and Reports on Form 8-K

- (a) Exhibits required by Item 601 of Regulation S-K
 - 3.1 Amended and Restated Articles of Incorporation of the Company, incorporated herein by reference to Exhibit 3.1 to the Company's Form S-1 (File No. 333-63133) filed with the Commission on September 10, 1998.

- 3.2 Second Amended and Restated Bylaws of the Company, incorporated herein by reference to Exhibit 4.3 to the Company's Form S-8 (File No. 333-77227) filed with the Commission on April 28, 1999.
- 4.1 Specimen Certificate representing the common stock, par value \$0.0001 per share, of the Company, incorporated herein by reference to Exhibit 4.1 to the Company's Amendment No. 1 to Form S-1 (File No. 333-63133) filed with the Commission on October 28, 1998.
- 4.2* Settlement Agreement dated July 2, 1999, entered into by and between Robert B. Hydeman, Ray Robbins and Robbins Enterprises, Inc., and the Company.
- 10.1 1997 Stock Option Plan dated May 20, 1997, incorporated herein by reference to Exhibit 10.1 to the Company's Form S-1 (File No. 333-63133) filed with the Commission on September 10, 1998.
- 10.2 1998 Incentive Stock Option Plan dated April 8, 1998, incorporated herein by reference to Exhibit 10.2 to the Company's Form S-1 (File No. 333-63133) filed with the Commission on September 10, 1998.

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- 10.3 Form of Indemnification Agreement with a schedule of director signatures, incorporated herein by reference to Exhibit 10.8 to the Company's Form S-1 (File No. 333-63133) filed with the Commission on September 10, 1998.
- 10.4 Letter of Understanding Regarding Development of Proprietary Information for the Company effective as of August 1, 1997, as amended, by and between Bill H. McAnalley, Ph.D. and the Company, incorporated herein by reference to Exhibit 10.12 to the Company's Form S-1 (File No. 333-63133) filed with the Commission on September 10, 1998.
- 10.5 Commercial Lease Agreement dated November 7, 1996 between MEPC Quorum Properties II Inc. and the Company, as amended by the First Amendment thereto dated May 29, 1997 and the Second Amendment thereto dated November 13, 1997, incorporated herein by reference to Exhibit 10.13 to the Company's Form S-1 (File No. 333-63133) filed with the Commission on September 10, 1998.
- 10.6 Commercial Lease Agreement dated May 29, 1997 between MEPC Quorum Properties II Inc. and the Company, as amended by the First Amendment thereto dated November 6, 1997, incorporated herein by reference to Exhibit 10.14 to the Company's Form S-1 (File No. 333-63133) filed with the Commission on September 10, 1998.
- 10.7 Assignment of Patent Rights dated October 30, 1997 by and among Bill H. McAnalley, Ph.D., H. Reginald McDaniel, D. Eric Moore, Eileen P. Vennum and William C. Fioretti and the Company, incorporated herein by reference to Exhibit 10.15 to the Company's Form S-1 (File No. 333-63133) filed with the Commission on September 10, 1998.
- 10.8 Supply Agreement effective as of August 14, 1997 by and between the Company and Caraloe, Inc., incorporated herein by reference to Exhibit 10.17 to the Company's Form S-1 (File No. 333-63133) filed with the Commission on September 10, 1998.
- 10.9 Trademark License Agreement effective as of August 14, 1997 by and between the Company and Caraloe, Inc., incorporated herein by reference to Exhibit 10.19 to the Company's Form S-1 (File No. 333-63133) filed with the Commission on September 10, 1998.
- 10.10 Letter of Agreement from the Company to Michael L. Finney of LAREX, Incorporated dated December 23, 1997, incorporated herein

by reference to Exhibit 10.20 to the Company's Form S-1 (File No. 333-63133) filed with the Commission on September 10, 1998.

- 10.11 Product Development and Distribution Agreement effective as of September 15, 1997 between New Era Nutrition Inc. and the Company, incorporated herein by reference to Exhibit 10.21 to the Company's Form S-1 (File No. 333-63133) filed with the Commission on September 10, 1998.
- 10.12 Summary of Management Bonus Plan, incorporated herein by reference to Exhibit 10.23 to the Company's Form S-1 (File No. 333-63133) filed with the Commission on September 10, 1998.
- 10.13 Individual Guaranty of Samuel L. Caster dated January 5, 1998, incorporated herein by reference to Exhibit 10.27 to the Company's Form S-1 (File No. 333-63133) filed with the Commission on September 10, 1998.
- 10.14 Individual Guaranty of Charles E. Fioretti dated January 5, 1998, incorporated herein by reference to Exhibit 10.28 to the Company's Form S-1 (File No. 333-63133) filed with the Commission on September 10, 1998.

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- 10.15 Lease dated September 1, 1998 between Mannatech Australia Pty Limited and Legal & General Properties No. 1 Pty Limited, incorporated herein by reference to Exhibit 10.29 to the Company's Form S-1 (File No. 333-63133) filed with the Commission on September 10, 1998.
- 10.16 Form of Employment Agreement entered into between the Company and each of Charles E. Fioretti, Patrick D. Cobb, Anthony E. Canale, Bill H. McAnalley and Deanne Varner, incorporated herein by reference to Exhibit 10.30 to the Company's Amendment No. 1 to Form S-1 (File No. 333-63133) filed with the Commission on October 28, 1998.
- 10.17 Renewal and Extension Promissory Note dated February 17, 1999 in the amount of \$33,316.02 made by Patrick D. Cobb, incorporated herein by reference to Exhibit 10.25 to the Company's 1998 Form 10-K (File No. 000-24657) filed with the Commission on March 31, 1999.
- 10.18 Renewal and Extension Promissory Note dated February 17, 1999 in the amount of \$199,896.10 made by Samuel L. Caster, incorporated herein by reference to Exhibit 10.26 to the Company's 1998 Form 10-K (File No. 000-24657) filed with the Commission on March 31, 1999.
- 10.19 Renewal and Extension Promissory Note dated February 17, 1999 in the amount of \$199,896.09 made by Charles E. Fioretti, incorporated herein by reference to Exhibit 10.27 to the Company's 1998 Form 10-K (File No. 000-24657) filed with the Commission on March 31, 1999.
- 10.20* Lease dated April 7, 1999 between the Company and Regus (UK) Ltd.
- 27* Financial Data Schedule.

* Filed herewith.

(b) Reports on Form 8-K.

None.

SIGNATURES

Pursuant to the requirements of Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

MANNATECH, INCORPORATED

August 5, 1999	/S/ CHARLES E. FIORETTI ----- Charles E. Fioretti Chairman of the Board and Chief Executive Officer
August 5, 1999	/S/ PATRICK D. COBB ----- Patrick D. Cobb Vice President, Chief Financial Officer and Director (principal financial officer)
August 5, 1999	/S/ STEPHEN D. FENSTERMACHER ----- Stephen D. Fenstermacher Vice President of Accounting and Controller (principal accounting officer)

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INDEX TO EXHIBITS

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- 10.11 Product Development and Distribution Agreement effective as of September 15, 1997 between New Era Nutrition Inc. and the Company, incorporated herein by reference to Exhibit 10.21 to the Company's Form S-1 (File No. 333-63133) filed with the Commission on September 10, 1998.
- 10.12 Summary of Management Bonus Plan, incorporated herein by reference to Exhibit 10.23 to the Company's Form S-1 (File No. 333-63133) filed with the Commission on September 10, 1998.
- 10.13 Individual Guaranty of Samuel L. Caster dated January 5, 1998, incorporated herein by reference to Exhibit 10.27 to the Company's Form S-1 (File No. 333-63133) filed with the Commission on September 10, 1998.
- 10.14 Individual Guaranty of Charles E. Fioretti dated January 5, 1998, incorporated herein by reference to Exhibit 10.28 to the Company's Form S-1 (File No. 333-63133) filed with the Commission on September 10, 1998.
- 10.15 Lease dated September 1, 1998 between Mannatech Australia Pty Limited and Legal & General Properties No. 1 Pty Limited, incorporated herein by reference to Exhibit 10.29 to the Company's Form S-1 (File No. 333-63133) filed with the Commission on September 10, 1998.

- 10.16 Form of Employment Agreement entered into between the Company and each of Charles E. Fioretti, Patrick D. Cobb, Anthony E. Canale, Bill H. McAnalley and Deanne Varner, incorporated herein by reference to Exhibit 10.30 to the Company's Amendment No. 1 to Form S-1 (File No. 333-63133) filed with the Commission on October 28, 1998.
- 10.17 Renewal and Extension Promissory Note dated February 17, 1999 in the amount of \$33,316.02 made by Patrick D. Cobb, incorporated herein by reference to Exhibit 10.25 to the Company's 1998 Form 10-K (File No. 000-24657) filed with the Commission on March 31, 1999.
- 10.18 Renewal and Extension Promissory Note dated February 17, 1999 in the amount of \$199,896.10 made by Samuel L. Caster, incorporated herein by reference to Exhibit 10.26 to the Company's 1998 Form 10-K (File No. 000-24657) filed with the Commission on March 31, 1999.
- 10.19 Renewal and Extension Promissory Note dated February 17, 1999 in the amount of \$199,896.09 made by Charles E. Fioretti, incorporated herein by reference to Exhibit 10.27 to the Company's 1998 Form 10-K (File No. 000-24657) filed with the Commission on March 31, 1999.
- 10.20* Lease dated April 7, 1999 between the Company and Regus (UK) Ltd.
- 27* Financial Data Schedule.

* Filed herewith.

SETTLEMENT AGREEMENT

THIS SETTLEMENT AGREEMENT (the "Agreement") is entered into by and between Robert B. Hydeman ("Hydeman"); Ray Robbins ("Robbins") and Robbins Enterprises, Inc. ("REI") (collectively, the "Robbins Respondents"); and Mannatech Incorporated ("Mannatech"), (collectively, the "Parties"):

WHEREAS, early in Mannatech's existence (Mannatech was formerly known as Emprise International, Inc.), Robbins and Hydeman had a certain working relationship involving the development of Mannatech's business;

WHEREAS, early in Mannatech's formation, Mannatech had separately entered into compensation agreements with Robbins to devote his efforts in the marketing and development of Mannatech's sales and distribution network ("the Compensation Agreements");

WHEREAS, disputes have arisen between Hydeman, on the one hand, and the Robbins Respondents, on the other hand, concerning various issues including the following: the type, nature, and scope of the working relationship between Robbins and Hydeman and their relationship to Mannatech; the allocation of commission income from and ownership interests in three specific associate positions, namely, Top Gun, Control #727, Rowboat & Battleship, Control #741, and Bob & Ratio, Control #947 (the "Three Positions"); Robbins' Compensation Agreements with Mannatech; and other related issues;

WHEREAS, Hydeman filed suit against the Robbins Respondents and Mannatech in Cause No. 98-5161E in the County Court of Law No. 5 of Dallas

SETTLEMENT AGREEMENT - Page 1

County, Texas (the "State Court Lawsuit"), which was subsequently compelled by that court to be arbitrated by the American Arbitration Association as Cause No. 71-181-00497-98 (the "Arbitration Proceeding") pursuant to the arbitration provision of the Mannatech Associate Application;

WHEREAS, in addition to the claims stated in Hydeman's Petition and in his Statement of Claims submitted in the State Court Lawsuit and the Arbitration Proceeding, the Robbins Respondents and Mannatech asserted counterclaims against Hydeman;

WHEREAS, the Robbins Respondents and Mannatech deny all claims made against them by Hydeman, and Hydeman denies all claims made against him by the Robbins Respondents and Mannatech;

WHEREAS, there are bona fide disputes among the parties with respect to the claims made by or against such parties;

WHEREAS, each of the parties to this Agreement has made their own respective determination that it is in their best interest to settle all disputes and controversies among and between them as set forth in this Agreement.

NOW THEREFORE, in consideration of the mutual covenants contained herein, and other good and valuable consideration, the receipt and sufficiency of which is admitted, the signatories to this Agreement agree as follows:

1. This Agreement shall be effective (the "Effective Date") as signed and executed by the parties on July 2, 1999.

SETTLEMENT AGREEMENT - Page 2

2. On the Effective Date, the Robbins Respondents shall pay to Hydeman the total sum of Six Hundred Seventy-Five Thousand Dollars (\$675,000.00) (the "Settlement Payment"), plus an additional sum in the amount of \$13,106.00. The Settlement Payment shall be made payable jointly to Hydeman and his attorneys, Beckham & Thomas.

3. Hydeman will continue to receive a 1/3 allocation of the commission income generated by the Three Positions until the Settlement Payment described in paragraph 2 is delivered to Hydeman's counsel, after which time such payments and any rights to such payments of this commission income will terminate, and Hydeman shall no longer receive or have any rights to receive any payments of income from Mannatech relating to the Three Positions, regardless of when such income arguably accrued or arose, whether in arrears or otherwise. As of the date of the Settlement Payment, the Rule 11 Agreement dated on or about June 19, 1998, and the letter of settlement in principle dated on or about June 17, 1999, shall no longer be in effect and are otherwise superseded by this Agreement.

4. Subject to the agreement of Robbins and Hydeman to all requirements of them set forth herein as to the assignment of Mannatech stock, Robbins Respondents and Mannatech will deliver at closing the letter signed by Ray Robbins and Mannatech to the transfer agent for assignment of Mannatech stock in the amount of 40,000 shares from Robbins to Hydeman, which Hydeman acknowledges as a sufficient assignment of the stock. The transfer agent shall process the reissuance of such stock in its ordinary course of business.

SETTLEMENT AGREEMENT - Page 3

5. In consideration of the payment of \$675,000 and the assignment of 40,000 shares of Mannatech common stock by Robbins to Hydeman, Hydeman agrees to relinquish to Robbins any and all perceived or true rights in the three below-listed Mannatech positions, including the business books and records for each of the positions, the associate base or "downline," and all of the information base previously used or associated with each of the positions, and the right to receive any benefits or cash flow from Mannatech for each of the positions, the positions being Top Gun, Control No. 727; Rowboat & Battleship, Control No. 741; and Bob & Ratio, Control No. 947, to the effect that Robbins Respondents will be the sole person(s) currently entitled to income from such positions. Nothing herein shall be construed to affect the Robert B. Hydeman personal position Control No. 747, or its associate base or "downline."

6. Mannatech shall undertake all commercially reasonable steps to register the 40,000 Mannatech shares assigned to Hydeman under its currently pending S-1 Registration Statement (which is subject to the approval of the Securities and Exchange Commission and which may be delayed or otherwise adversely affected by future events) upon the following further agreements of the parties hereto:

a) Hydeman hereby agrees that any Mannatech shares he receives pursuant to the settlement with Robbins are subject to the agreement ("Lock Up Agreement") between Robbins and Mannatech, which prohibits any transfer of any such shares prior to August 11, 1999, and remain subject

SETTLEMENT AGREEMENT - PAGE 4

thereto in Hydeman's hands, and are not registered under the Securities Act of 1933. Hydeman has been furnished a copy of the Lock Up Agreement and agrees hereby to be bound by all terms of the Lock Up as to the 40,000 shares. Any shares received by Hydeman from Robbins shall bear appropriate restrictive legends as to both unregistered stock and the Lock Up Agreement.

b) Robbins and Hydeman hereby agree to take all reasonable steps necessary or requested by Mannatech, its securities counsel or its certified public accountants, in connection with and to facilitate the assignment, reissuance and/or registration of such 40,000 shares.

c) Mannatech agrees to take all commercially reasonable steps to see that such shares are included for registration in an S-1 Registration Statement being filed on behalf of certain Mannatech shareholders. In order to register the 40,000 shares that Robbins is assigning to Hydeman and in consideration of a strictly limited release of the Lock Up Agreement to which such shares are subject to effect the proposed assignment to Hydeman only, Hydeman agrees to be bound by an agreement, which is subject to the approval to Mannatech's outside securities counsel and independent certified public accountants, to be entered into among certain of the shareholders ("Agreeing Shareholders") whose shares are intended to be registered (or in the case of Hydeman, may be registered) in the pending S-1 Registration Statement, to the effect that a designated representative of such Agreeing

SETTLEMENT AGREEMENT - Page 5

Shareholders shall trade the shares of all of the Agreeing Shareholders in a manner so as to maintain the market price and stability of Mannatech stock in the marketplace, with the proceeds of such sales being divided ratably among such Agreeing Shareholders. Under such an agreement, such Agreeing Shareholders are expected to use the same broker, with each Agreeing Shareholder bearing the costs of disposition and brokerage associated with the disposition and sale of his shares and any applicable taxes. Should Mannatech's securities counsel or certified public accountants not approve such agreement, it will not be required;

d) Hydeman and Robbins agree that approval of Mannatech's board of directors, securities counsel, and independent certified public accountants of the registration and offering documents and

e) the approval of Mannatech's Board of Directors of the settlement documents and all terms and conditions thereof is required for this settlement and the proposed registration to be final and binding.

7. Should Hydeman desire to pledge any of the shares acquired from Robbins as collateral for a loan from a commercial lending institution during the Lock Up period, Mannatech will consider waiving the restriction on encumbrances if the following information is provided at the time a waiver is requested: Lender, Amount, Term, Number of Shares to be pledged, Events of Default, provisions on opportunity to cure default. After being provided that information, Mannatech, in its sole discretion, shall determine whether it will waive the prohibition on

SETTLEMENT AGREEMENT - Page 6

encumbrance of such shares at all, and, Hydeman should expect that if Mannatech consents to some waiver, it may require certain conditions, including but not limited to, notice of default and a limited option to takeout in the event of default. Mannatech, as a public company, cannot waive restrictions such as those in the Lock Up Agreement without the ability to assess any risk or harm to the company from such waiver and without specific approval of such waiver by Mannatech's Board of Directors.

8. Within five (5) business days of Hydeman's receipt of stock certificates for 40,000 shares of Mannatech stock, the Parties will execute, file, and cause to be entered in the Arbitration Proceeding the Agreed Motion to

Dismiss and Agreed Order of Dismissal With Prejudice in the forms attached as Exhibits "A" and "B," and will execute, file and cause to be entered in the State Court Lawsuit the Agreed Motion to Dismiss and Agreed Order of Dismissal With Prejudice in the forms attached as Exhibits "C" and "D". Hydeman shall notify his counsel on the date of such receipt of stock, and his counsel will notify all parties in writing that day of such receipt.

9. Effective as of the Effective Date, Hydeman (for himself and his respective heirs, estates, executors, administrators, predecessors, successors, assigns, shareholders, directors, officers, employees, agents, representatives, spouses, attorneys, subsidiaries, related corporations, partners, related partnerships, and other related entities) (collectively the "Hydeman Releasing Parties") do hereby unconditionally, fully and completely release, acquit and forever discharge, the

SETTLEMENT AGREEMENT - Page 7

Robbins Respondents and Mannatech and each of their respective predecessors, successors, assigns, shareholders, directors, officers, employees, agents, representatives, attorneys, subsidiaries, related corporations, partners, related partnerships, and other related entities (collectively the "Defendant Released Parties") from any and all claims, demands, actions, causes of action, suits, debts, compensation, bonus, commissions, accounts, notes, covenants, contracts, agreements, promises, liabilities, damages, losses, costs and expenses whatsoever (collectively "Claims"), known or unknown, accrued or unaccrued, in law or in equity relating to any matter whatsoever that has occurred or has failed to occur as of the Effective Date, including but not limited to any Claims in any way related to: a) the Robbins and Hydeman working relationships; b) any breach of contract (oral or written), actions, inaction, representations, omissions, commissions, conspiracy, actual fraud, constructive fraud, misrepresentation, breach of fiduciary duty, or breach of confidential relationship by the Defendant Released Parties prior to the Effective Date; c) the State Court Lawsuit, the claims, counterclaims, defenses and allegations made or that could have been made in the State Court Lawsuit, and the facts and circumstances involved, in the State Court Lawsuit; d) any claims, counterclaims, defenses and allegations made or that could have been made regarding an alleged partnership between Robbins and Hydeman; e) any claims, counterclaims, defenses and allegations made or that could have been made regarding the Compensation Agreements; and f) any claim that this Agreement was induced by any fraudulent or negligent act or omission or results in or from any

SETTLEMENT AGREEMENT - Page 8

actual or constructive fraud, negligent misrepresentation, conspiracy, breach of fiduciary duty, breach of confidential relationship, or a breach of any other duty under law or in equity; excluding an action for breach of contract based on breach of this Agreement; notwithstanding the foregoing or anything else in this

Agreement, none of the Hydeman Releasing Parties release any rights created by

this Agreement nor do they release any claims against Mannatech for accrued but

unpaid funds due and owing from Mannatech to the following Associate Positions owned by the Hydeman Releasing Parties: Robert B. Hydeman, Control No. 747. THIS PARAGRAPH 9 IS INTENDED TO BE A GENERAL RELEASE OF ALL CLAIMS, EXCEPT THOSE SPECIFICALLY EXCLUDED HEREIN, SO, TO THE EXTENT THAT THE HYDEMAN RELEASING PARTIES STILL POSSESS ANY VIABLE CLAIMS OR CAUSES OF ACTION AGAINST THE DEFENDANT RELEASED PARTIES, THE HYDEMAN RELEASING PARTIES HEREBY ASSIGN TO THE ROBBINS RESPONDENTS AND MANNATECH ALL CLAIMS THEY HAVE OF ANY KIND AGAINST THE DEFENDANT RELEASED PARTIES, EXCEPT THOSE SPECIFICALLY EXCLUDED HEREIN.

10. Effective as of the Effective Date, the Robbins Respondents and Mannatech (for themselves and their respective predecessors, successors, assigns, shareholders, directors, officers, employees, agents, representatives, spouses, attorneys, subsidiaries, related corporations, partners, related

partnerships, and other related entities) (collectively the "Defendant Releasing Parties") do hereby unconditionally, fully and completely release, acquit and forever discharge Robert

SETTLEMENT AGREEMENT - Page 9

B. Hydeman and each of his respective heirs, estates, executors, administrators, predecessors, successors, assigns, shareholders, directors, officers, employees, agents, representatives, attorneys, subsidiaries, related corporations, partners, related partnerships, and other related entities (collectively the "Hydeman Released Parties"), from any and all claims, demands, actions, causes of action, suits, debts, compensation, bonus, commissions, accounts, notes, covenants, contracts, agreements, promises, liabilities, damages, losses, costs and expenses whatsoever (collectively "Claims"), known or unknown, accrued or unaccrued, in law or in equity relating to any matter whatsoever that has occurred or has failed to occur as of the Effective Date, including but not limited to any Claims in any way related to a) the Robbins and Hydeman working relationships; b) any breach of contract (oral or written), actions, inaction, representations, omissions, commissions, conspiracy, actual fraud, constructive fraud, misrepresentation, breach of fiduciary duty, or breach of confidential relationship by the Defendant Released Parties prior to the Effective Date; c) the State Court Lawsuit, the claims, counterclaims, defenses and allegations made or that could have been made in the State Court Lawsuit, and the facts and circumstances involved, in the State Court Lawsuit; d) any claims, counterclaims, defenses and allegations made or that could have been made regarding an alleged partnership between Robbins and Hydeman; e) any claims, counterclaims, defenses and allegations made or that could have been made regarding the Compensation Agreements; and f) any claim that this Agreement was induced by any fraudulent or negligent act or omission or results in or from any

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actual or constructive fraud, negligent misrepresentation, conspiracy, breach of fiduciary duty, breach of confidential relationship, or a breach of any other duty under law or in equity; excluding an action for breach of contract based on breach of this Agreement; notwithstanding the foregoing or anything else in this

Agreement, none of the Defendant Releasing Parties release any rights created by

this Agreement and Mannatech does not release Hydeman's obligations as a

Mannatech Associate pursuant to his Associate Agreement with regard to the following Associate Positions owned by the Hydeman Releasing Parties: Robert B. Hydeman, Control No. 747. THIS PARAGRAPH 10 IS INTENDED TO BE A GENERAL RELEASE OF ALL CLAIMS, EXCEPT THOSE SPECIFICALLY EXCLUDED HEREIN, SO, TO THE EXTENT THAT THE DEFENDANT RELEASING PARTIES STILL POSSESS ANY VIABLE CLAIMS OR CAUSES OF ACTION AGAINST HYDEMAN, THE DEFENDANT RELEASING PARTIES HEREBY ASSIGN TO HYDEMAN ALL CLAIMS THEY HAVE OF ANY KIND AGAINST THE HYDEMAN RELEASED PARTIES, EXCEPT THOSE SPECIFICALLY EXCLUDED HEREIN,

11. Notwithstanding any other provision of this Agreement, all parties remain subject to the Agreed Protective Order and Stipulation For Confidential Information entered by the Panel on March 24, 1999 and the Addendum To Agreed Protective Order and Stipulation For Confidential Information, and will continue in effect after the Effective Date. Effective as of the Effective Date, the parties state that they will refrain from making public statements

SETTLEMENT AGREEMENT - Page 11

about the terms of this settlement and that any statements made by any party regarding this settlement shall be consistent with the terms of this Agreement. Notwithstanding anything to the contrary in this paragraph, nothing herein will prevent a party from: i) producing a copy of the Agreement in response to a

valid discovery request; ii) from providing a copy of the Agreement to any accountant or attorney if required for the filing of any tax returns or other filings required by law or by court order; iii) disclosing the terms of the Agreement to any officer of a corporate party, to the extent such disclosure is related to the performance of that officer's duties for the corporation; iv) in any action to enforce the Agreement, or (v) Mannatech making all reports and disclosures required or advisable pursuant to Texas and federal securities laws, provided, however, that: i) in the event a party receives a subpoena or demand

for the production of the Agreement or the disclosure of any of its terms, the party will immediately notify the other party and its attorney in writing of the request; and ii) the party shall not produce the Agreement or disclose its terms until the other parties have been given a reasonable opportunity to seek an appropriate confidentiality or other order from the court.

12. The parties each covenant not to sue one another with respect to any claims released or assigned by this Agreement.

13. Each of the parties to this Agreement hereby represents and warrants to each of the other parties as follows:

a) the person executing this Agreement on behalf of such party has full power and authority to enter into this Agreement and to perform all

SETTLEMENT AGREEMENT - Page 12

of that party's obligations as herein set forth or contemplated, and, in the case of a corporate or partnership party, the undersigned corporate officer or partnership representative has been duly authorized by all necessary corporate or partnership actions to deliver this Agreement on behalf of such corporation or partnership;

b) the execution of this Agreement, and the performance of the obligations set forth herein, do not and will not constitute a default (or with the giving of notice or passage of time will not constitute a default) under any document or agreement by which such party is bound;

c) prior to the execution of this Agreement by each such party, such party has fully informed themselves as to the terms, contents, provisions and effects of this Agreement, and all facts and conditions sufficient and necessary to the decision to execute this Agreement;

d) prior to the execution of this Agreement by each such party, such party has had the benefit of the advice of an attorney or attorneys chosen and employed by that party concerning this Agreement;

e) no promise or representation of any kind has been made to that party or his representative by any other party or his representative except as expressly set forth in this Agreement;

f) such party is not relying on any oral understandings, oral

representations, or oral agreements of any kind or on any other matter not

SETTLEMENT AGREEMENT-Page 13

expressly stated in this Agreement and any such reliance would be unintended by the other parties and otherwise unreasonable and unjustifiable;

g) this Agreement shall remain in all respects effective and not subject to termination, modification or rescission by any difference in facts or circumstances hereafter occurring, becoming known or becoming known differently; and

h) this Agreement constitutes a valid, binding, and enforceable obligation of that party, its terms are lawful and fair, and it constitutes an equitable settlement of their differences; and

i) each party to bear his or its own tax consequences of this settlement.

14. Each party further declares and represents that this Agreement contains and constitutes the entire agreement between the parties with respect to the subject matter hereof and terminates, supersedes, and replaces any and all prior arrangements, understandings, representations, promises, inducements, or other communications, whether written or oral between the parties, except as expressly stated herein. This Agreement can only be amended in writing signed by all of the parties hereto.

15. Each party declares and represents that such person is the sole owner and holder of the claims they are releasing by this Agreement and no such claims have been assigned or otherwise transferred, in whole or in part, to any other person or entity. Hydeman agrees to and does hereby indemnify and hold harmless the

SETTLEMENT AGREEMENT - Page 14

Robbins Respondents and Mannatech from any losses, costs, damages, and demands, including attorney's fees, resulting from any claim made by or through Hydeman with respect to any claim released or assigned by Hydeman by this Agreement.

The Robbins Respondents agree to and do hereby indemnify and hold harmless Hydeman from any losses, costs, damages, and demands, including attorneys' fees, resulting from any claim made by or through the Robbins Respondents with respect to any claim released or assigned by the Robbins Respondents by this Agreement.

16. No delay or omission by the party to exercise any right in connection herewith shall impair such right or be construed to be a waiver thereof, and no waiver of any right or the breach of any provision hereof shall

be construed to be a waiver of any other right or provision or any subsequent breach of such provision.

17. Each party acknowledges and agrees that this Agreement is being executed, and the consideration hereunder being given by each party, in full compromise and settlement of disputed claims between the parties and to avoid further trouble, litigation, and expense and that the fact of this Agreement shall not be taken in any way as an admission of fact or liability by any party.

18. The parties agree that each will pay their own respective court costs and attorneys' fees in connection with the State Court Lawsuit and the Arbitration Proceeding.

19. THIS SETTLEMENT AGREEMENT, ANY DISPUTES WHICH MAY ARISE IN CONNECTION WITH THE INTERPRETATION OR

ENFORCEMENT OF THE SETTLEMENT AGREEMENT, AND THE RIGHTS AND OBLIGATIONS OF THE PARTIES GENERALLY SHALL BE GOVERNED BY THE LAWS OF THE STATE OF TEXAS AND WITHOUT REGARD OR REFERENCE TO CHOICE OR CONFLICT OF LAW RULES.

20. If one or more disputes arise with regard to the interpretation and/or performance of this Agreement or any of its provisions, the parties agree to attempt to resolve same by phone conference: if the parties cannot resolve their differences by phone conference, then each agrees to schedule one day of mediation within thirty (30) days to resolve the disputes and to share the costs of the mediation equally. If a party refuses to mediate as set out above, then that party may not recover attorneys' fees or costs in any arbitration brought to construe or enforce this Agreement. Otherwise, if mediation is unsuccessful, then the prevailing party or parties in later arbitration that participated in the mediation shall be entitled to recover reasonable attorneys' fees and expenses, including the cost of the unsuccessful mediation. Notwithstanding the foregoing, this paragraph 20 shall not apply to any suits or claims for injunctive relief.

21. In all instances in which a party to this Agreement is required under this Agreement to do any act at a particular time or within a particular period of time, time is of the essence in the performance of such act.

22. Each party represents that such party has substantial experience in negotiating contracts, that this Agreement is the product of negotiations among the

SETTLEMENT AGREEMENT - Page 16

parties, and that, therefore, no party to this Agreement shall be charged with having promulgated this Agreement.

23. All notices under this Agreement shall be in writing and delivered by certified mail, return receipt requested, at the addresses listed below:

Hydeman:

Robert B. Hydeman
13743 Creekside Place
Dallas, Texas 75240

the Robbins Respondents:

Ray Robbins
2201 Ingleside
Grand Prairie, Texas 75050

Mannatech:

c/o Deanne Varner
600 S. Royal Lane, Suite 200
Coppell, Texas 75019

24. This Agreement may be executed in multiple counterparts, each of which shall be deemed an original for all purposes, and all of which together shall constitute one instrument.

25. The parties agree that this settlement agreement is not subject to revocation.

26. The parties agree that any controversy or claim arising out of or relating to this Agreement or the breach of this Agreement, except claims for injunctive relief, shall be resolved exclusively by arbitration administered by the American Arbitration Association. The arbitration will be conducted in Dallas,

SETTLEMENT AGREEMENT - Page 17

Texas by three (3) arbitrators selected in accordance with the Commercial Arbitration Rules of the American Arbitration Association. The Commercial Arbitration Rules of the American Arbitration Association rules shall also govern the arbitration proceeding, and the judgment on the award rendered by the arbitrators may be entered in any court having jurisdiction thereof.

SETTLEMENT AGREEMENT - Page 18

/s/ ROBERT B. HYDEMAN	7/2/99
-----	-----
ROBERT B. HYDEMAN	DATE

/s/ RAY ROBBINS	7/2/99
-----	-----
RAY ROBBINS	DATE

/s/ RAY ROBBINS	7/2/99
-----	-----
ROBBINS ENTERPRISES, INC.	DATE
BY: RAY ROBBINS	

/s/ DEANNE VARNER	7/2/99
-----	-----
MANNATECH INCORPORATED	DATE
BY: DEANNE VARNER,	
VICE PRESIDENT AND	
GENERAL COUNSEL	

SETTLEMENT AGREEMENT - Page 19

APPROVED AS TO FORM:

/s/ BLAKE C. BECKHAM	7/2/99
-----	-----
BLAKE BECKHAM	DATE
JOSE PORTELA	
ATTORNEYS FOR ROBERT B. HYDEMAN	

/s/ VAN VANBEBBER	7/2/99
-----	-----
MARK K. SALES	DATE
MARION TURNER "VAN" VANBEBBER	
ATTORNEYS FOR RAY ROBBINS AND	
ROBBINS ENTERPRISES, INC.	

/s/ JOHN LILLY	7/2/99
-----	-----

JOHN LILLY
ATTORNEY FOR MANNATECH INCORPORATED

DATE

EXHIBIT 10.20

REGUS AGREEMENT

REGUS

[LOGO OF REGUS APPEARS HERE]		LICCENCE AGREEMENT	
-----		D D M M Y Y	
Agreement Nr.:		Agreement Date:	
-----		-----	
1a OPERATOR - REGISTERED ADDRESS		1b OPERATOR - LOCATION	
REGUS (UK) LTD - TRAFALGAR DIVISION 1 Northumberland Avenue Trafalgar Square London WC2N 5BW		REGUS (UK) LTD - BASINGSTOKE DIVISION Pinewood, Chineham Business Park, Basingstoke Hampshire, RG24 8YJ Bank details: National Westminster Bank West Byfleet Branch, PO Box 320 5 Station Approach, Surrey, KT14 6YJ - UK Sort code: 60-23-40, Acct: 65706498	
-----		-----	
2a USER - REGISTERED ADDRESS		2b USER - INVOICING ADDRESS (if different)	
COMPANY NAME MANNATECH INC		COMPANY NAME:	
CONTACT/TITLE MICHELLE VOHS.		CONTACT/TITLE:	
ADDRESS: 6005 ROYAL LN.		ADDRESS:	
SUITE 200, COPPELL		-----	
TEXAS		-----	
POST CODE: 75019		POST CODE:	
TELEPHONE: 001 972 471 7400		TELEPHONE:	
-----		-----	
3 FOR COMPANY USE ONLY		COMMENTS:	
User's Suite Room No.(s) 102 104 103 106 107		AN INCREMENT OF THE CURRENT	
or such other room within the accommodation as allocated by		RATE OF INFLATION + 5% WILL	
the Operator in substitution from time to time.		BE ADDED TO THE STANDARD FACILITY	
Deposit Receipt 13260 XXXXXXXXXXXXX		FEE.	
In respect of the agreed accommodation on behalf of		(INFLATION RATE AS OF 01/05/00)	
Regus UK Ltd.		-----	
Standard Facility		-----	
Fee 6630 per calender month		-----	
VAT (pound) 1160-25 D D M M Y Y		-----	
Term Commencement Date 0 1 0 6 0 0		-----	
XXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXX		-----	
Termination Date 3 1 0 5 0 1		-----	
-----		-----	
This Licence Agreement (hereafter LA) is made between the User whose name appears in 2 above (hereafter "User") and the Operator whose registered name and address appear in 1a (hereafter "Operator"). The Accommodation is Pinewood, Chinewood Business Park, Basingstoke, Hampshire RG24 8YJ hereafter "Accommodation").			
The User hereby confirms that The User has read and understood the terms and conditions overleaf and agrees to be bound thereby and The Operator agrees to provide the services and facilities as mentioned overleaf.			
For and on behalf of The Operator		For and on behalf of The User	
Name (printed): JASON MCCOY		Name (printed): PATRICK COBB	
Title: AREA SALES MANAGER		Title: CFO	
Signature:		Signature:	
Date:		Date:	
/s/ JASON MCCOY 27/04/99.		/s/ PATRICK COBB 29/4/99	
-----		-----	
/s/ ILLEGIBLE		-----	

Terms and Conditions

1. Facilities and Services provided under this Agreement.

a) In consideration of the payment by the Client of the standard facility fee specified in box 3 overleaf each month, the Operator provides the Client with access to and use of fully furnished office accommodations (the "Accommodations") as specified overleaf in box 3 and public areas such as reception, kitchen, sanitary facilities and photocopying areas during the normal operating hours of 08.30 hours and 18.00 hours from Mondays to Fridays and with express permission from the Operator outside these hours. The standard facility fee includes all rates (except where specifically agreed between Client and Operator). In addition, the standard facility fee includes:

- . four hours free use of the conference room for every complete calendar month of this Agreement, subject to availability.
- . three days office usage of any Regus centre world-wide, subject to availability, free of charge for every complete calendar month of this agreement.
- . all service charges relating to normal use of heating, lighting, cleaning, and servicing of public areas such as reception, kitchen, and sanitary facilities.
- . personalized telephone answering and receptionist to greet visitors.

b) The following services and facilities are made available for an additional service charge, either directly or through third parties: secretarial services; photocopying; messaging; courier Services; facsimile; travel arrangements; office supplies; translations; meeting rooms; food and beverage services; mail handling; and video conferencing (subject to availability).

2. Duration and Termination of the Agreement.

a) This Agreement is concluded for the duration specified in section 3 overleaf. Unless terminated in writing by either party giving three months notice (two months if the original duration is three months or less), it will be automatically extended by further periods of three months until three months notice of termination is received to the end of an extension period.

b) Extraordinary termination of the Agreement and of the right of access to the business centre.

i. The Operator may terminate the Agreement or refuse an extension of the Agreement for just cause, including breach of any part of this Agreement. Equally, if the Client, being a company, enters into liquidation whether compulsory or voluntary (save for the purpose of reconstruction or amalgamation) or, being an individual, has a receiving order made against him or becomes bankrupt, the Operator will have the right to terminate all of the Clients rights under the Agreement or such other rights as the

Operator delegates with or without notice to the Client and in addition to and not in lieu of other remedies available. Upon such action by the Operator, the Client will remain liable for all obligations which have previously accrued and will have to pay an indemnity equal to three months standard facility fee or the total facility fee of the unexpired term whichever is greater.

ii. In case of termination of the contract between the Operator and the building owner, the Operator is entitled to terminate the agreement with the Client by giving the Client no less than three months

notice to the end of a calendar month.

- c) Extension of stay beyond the normal period of the Agreement.

Should the Client require the use of the Accommodation once his Agreement period has terminated and has not been renewed under the general provisions of this Agreement, it is at the Operator's discretion to permit such an extension, and it is subject to a surcharge on the standard facility fee.

3. Payment of the Standard Facility Fee and Service Charges.

- a) Standard Facility Fee.

The standard facility fee plus applicable VAT as listed in section 3 overleaf is payable in advance on the first working day of each month.

- b) Service charges.

All service charges for additional services and facilities used plus applicable VAT are invoiced in arrears and are payable within seven days of receipt of invoice. The Operator reserves the right to change the cost of any or all of the service charges at any time during the term of the Agreement by giving 30 days notice to the Client.

- c) Deposit.

Prior to being given access to the Accommodation, the Client will pay a deposit specified overleaf as security against all obligations entered into by the Client in this Agreement, including any damage to the Client's Accommodations and furnishings and fittings therein. This deposit will be returned to the Client within 60 days of the Client vacating the premises, subject to the deduction of any outstanding standard facility fee or service charges or other fees outstanding and the case of returning the Accommodation to the condition it was found in at the commencement of the term, reasonable wear and tear excepted. The Operator reserves the right to increase the deposit should the Client's outstanding facility fee and service charges exceed the deposit amount held or if the Client is repeatedly in arrears with payment of invoices.

- d) Penalties upon late payment.

The Operator reserves the right to terminate the Agreement and ask the Client to vacate the Accommodation immediately if the standard facility fee is not paid or the service charges for the additional services are not paid by the end of the day they are due. Any unpaid charges left

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outstanding after their due date will be subject to increase at the rate of 4% above the prevailing base rate.

- e) Payment of disputed invoiced items.

Should part of an invoice issued by the operator be in dispute, the Client will be obliged to pay by the deadlines mentioned above the part of the invoice which is not in dispute while the disputed amount is being settled between the operator and the Client without prejudice to paragraph 3(d) above.

4. The Client's Rights and Responsibilities.

a) The Client will be entitled to carry on his business in the Accommodation specified in box 3 overleaf. The Operator reserves the right to reduce the Client to move to another Accommodation of similar size and equipment within the business centre should this become necessary for business reasons.

- b) During the term of this Agreement and subject to timely payment of

the standard facility fee, the Client is entitled to use the address of the business centre as his business address. Upon termination of the Agreement for whatever reason, it is the Client's responsibility to notify all parties of the change of address. Subsequent mail sent to the address will be returned to sender.

c) The Client may only conduct business from the Accommodation in the name of the Client specified overleaf or such other business name as may be agreed in writing with the Operator.

d) Upon being given access to the Accommodation, an inventory list will be drawn up in which the Client confirms receipt of keys or entry cards, the condition of the Accommodation and furniture and fittings at the start of the Agreement.

e) The keys and entry cards remain the property of the Operator and shall not be duplicated or transferred to third parties without the express written permission of the Operator. The loss of keys must be reported to the Operator immediately. The cost of lost keys or cards as well as the cost of changing locks will be born by the Client. Should the Client use the premises outside normal working hours, he is responsible for locking all doors used.

f) The Client may not alter the Accommodation allocated to him in any way or install any furniture, equipment or telecommunication connections without the prior written consent of the Operator. The granting of this consent is entirely at the discretion of the Operator.

g) The Client will conduct his business in a way which does not interfere with the Operator or any other Client of the business centre and will comply with all laws, permits, licensing laws, taxes and any other requirements regulating the conduct of his business.

h) The Client may not bring animals into the centre or play loud music or use amplification equipment.

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i) The Client may not mount signs or any type of advertising boards visible from outside his immediate Accommodation. If a house directory is available in the business centre, the Client will be included in this. Any costs incurred in doing so will be paid for by the Client.

j) The Client may not use the Accommodation for any activities or actions which could be damaging to the Operator or the building owner or which could lead to an increase in the insurance premiums to be paid by the Operator.

k) The Client may not itself or by any connected company or person offer or procure the offer of any employment or hire of the employees of the Operator. This applies to the entire duration of the Agreement and six months following its termination. If the Client contravenes this provision, the Operator will be entitled to compensation in the sum of the total annual remuneration of the employees in question.

l) The Client will remain solely responsible for the safety of its property and personnel and is responsible for arranging contents and third party liability insurance for his equipment and belongings and for his actions and the actions of his employees. The Client shall defend, indemnify and hold the Operator harmless from any and all claims, liability or loss arising out of or incident to (i) any injury to or death of persons occurring on or about the Accommodation and (ii) the provision of, or use by the Client of any facilities (including occupancy of the Accommodation) or services hereunder.

m) The Client shall take such steps as are necessary to comply with its health and safety obligations and shall comply with such reasonable requirements as the Operator in this regard or in the management of the business centre generally as are necessary from time to time.

n) The Client will use the premises for general office purposes only and for no other purposes (i.e. retail or a service open to the general public), and will not use the premises to provide to others services provided by Regus to Regus Clients and will not in any way whatsoever use or combine the Regus name, in whole or in part, for the purpose of trading activities.

o) The Client shall vacate the Accommodation on the day of expiration of this Agreement leaving the Accommodation in the same condition as it was found save fair wear and tear. The Operator does not accept responsibility for any belongings of the Client left in the Accommodation and has a right to dispose of such property.

p) Joint and several liability. Should the Client be more than one person, all parties to the Agreement are liable jointly and severally for all obligations arising from the Agreement.

5. The Operator's Rights and Responsibilities.

a) The Operator is responsible for:

- . general maintenance of the business centre and the Client's Accommodation;
- . cleaning of the entire business centre;

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- . adequate lighting during normal opening hours; and
- . maintenance, checks and renewals of equipment in the business centre.

b) The Operator has the right to enter the Client's Accommodation upon giving reasonable notice, to inspect them, undertake repairs and maintenance work and to show the Accommodation to prospective clients.

c) The Operator will not be liable for any loss sustained as a result of the Operator failing to provide any of the services as set in this Agreement as a result of any mechanical breakdown, strike, delay or failure of any staff, manager or caretaker to perform their duties unless acting with gross negligence and intent.

d) If the Client cannot be given access to the Accommodation or services temporarily, the Operator's liability will be limited to forfeiting the standard facility fee chargeable for that period.

e) If the Operator is unable to deliver possession of any part of the Accommodation to be provided at the commencement of the term, the Operator will not be liable for any resulting damage nor will he have any liability except that the Client will not have to pay the standard facility fee for the period concerned and may withdraw from the Agreement.

6. Other Provisions.

a) This Agreement represents a contractual agreement between the Client and the Operator for the provision of services by the Operator to the Client. The Operator and the Client acknowledge by their execution hereof that no tenancy or lease rights are created in favor of the Client.

b) This Agreement is not assignable by the Client without the express written permission of the Operator.

c) This Agreement may be transferred to another Regus Centre world-wide with 60 days notice.

d) All notices by the Client or the Operator to the other must be in

writing and delivered to an officer or authorized representative of the party concerned or sent by registered mail to the respective address shown overleaf.

e) The invalidity or unenforceability of any provision herein will not effect or impair the validity of any other provision. No waiver of any default of the Client will be implied from any failure by the Operator to take action with respect to such default.

f) This Agreement supercedes any prior agreement and embodies all the contractual stipulations between the Client and the Operator relative to its subject matter.

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g) Venue and jurisdiction. This Agreement is interpreted and enforced in accordance with the laws of the country in which the Regus Centre in question is registered, as specified in box 1 overleaf.

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<ARTICLE> 5

<LEGEND>

THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM THE
CONSOLIDATED BALANCE SHEET AT JUNE 30, 1999 AND THE CONSOLIDATED STATEMENT OF
INCOME FOR THE SIX MONTHS ENDED JUNE 30, 1999 AND IS QUALIFIED IN ITS ENTIRETY
BY REFERENCE TO SUCH CONSOLIDATED FINANCIAL STATEMENTS.

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