MANNATECH

2003

ANNUAL

REPORT

2003 Annual Report

Mannatech has operated for 10 years as a unique network-marketing company generating strength and momentum from its dedication and commitment to enhancing lives and emerging as a cutting-edge innovator in the wellness industry.

Enhancing the lives of our…

Dear Shareholders,

Mannatech is celebrating its tenth anniversary. The modern anniversary gift list suggests that a diamond is the appropriate symbol of a ten-year milestone. Mannatech believes a diamond is especially fitting for Mannatech's first decade with its legendary characteristics of quality, durability, and value. Diamonds increase in value based on their cut, color, carat, and clarity. Mannatech believes it can increase its value with proprietary products, its unique network-marketing model, planned international expansion, and outstanding operational and financial performance. Mannatech believes that in its short ten-year history, it has transformed itself from its infancy to a brilliantly formed diamond shining in the wellness industry.

The wellness industry has evolved from the global outcry for a better quality of life by millions of people. As the number of people looking for answers continues to exponentially grow, so has the competition. Mannatech believes it has established itself as a premier provider of quality, scientifically-based, wellness products, and is in an enviable position to capture growing market share in the wellness industry. Throughout its brief history, Mannatech has gained strength and momentum through the implementation of its strong business model, which includes developing proprietary, wellness-based products; concentrating on growing its operations and its associate base; implementing important and empowering managerial changes; strengthening its board of directors; and continuing to focus on expansion of its market share within the wellness industry.

Mannatech believes its strong operational performance in 2003 underscores the strength and dedication to its vision of providing *"Better Solutions for Global Health."* Furthermore, Mannatech believes the increase in its global revenues and its consolidated net income has resulted in the improvement of its operations as compared to prior years. Mannatech's 2003 operational performance was accomplished, in part, through its launch in the United States of a new antioxidant product, Ambrotose AO™, the establishment of a successful annual travel incentive for its associates, and the implementation of Mannatech's revamped global associate career and compensation plan.

Mannatech's success in 2004 and beyond depends on its commitment to its business model; its ability to be a cutting-edge innovator in the wellness industry; increasing its market share in existing markets; expanding into additional foreign countries; and returning value to its associates and shareholders.

In this past year, Mannatech's domestic sales grew an impressive 19.0%, while Mannatech's foreign operations improved by 138.4%. Mannatech plans to open operations in South Korea in the second half of 2004 and in Taiwan in the first quarter of 2005, and to continue its emphasis on international growth.

***Samuel L. Caster**, Chairman of the Board and Chief Executive Officer*

" Mannatech's strategy is to enhance our competitiveness and value through scientific and systems innovations that support our associates' ability to provide *Better Solutions for Global Health*."

In 2004, Mannatech also plans to concentrate its product research and development efforts into formulating and introducing new nutritional food bars, launching its new antioxidant-rich product into its foreign operations, and continuing its ongoing validation of its laboratory testing procedures. Mannatech is pleased to announce that the launch of Ambrotose AO™ in the United States in 2003 was Mannatech's second largest product launch in its ten-year history. Mannatech believes that this product has helped place it at the cutting edge of the antioxidant arena. In the future, Mannatech will continue its search for innovative and proprietary technology that will help formulate products to achieve its vision of *"Better Solutions for Global Health."*

In 2003, Mannatech began plans to re-architecture its global information technology systems. In 2004, Mannatech plans to allocate significant resources to develop its new global, back-office, technologically advanced operational systems with a new multi-faceted financial and reporting package. This technology driven system will take over two years to develop and implement, but will allow Mannatech the ability to expedite international growth and further develop its operational processes and analysis, as well as broaden the scope and functionality of its financial reporting system. This planned technological advancement is expected to be completed in phases from early 2005 to late 2006 with a cost of between $6 million and $8 million.

In summary, new product development, new business system capabilities, and newly introduced associate incentive and compensation programs will be the driving force behind Mannatech's growth in the future. Mannatech hopes these factors will also continue to spur growth of its associates and members. Associates and members purchasing packs and products over the last 12 months have increased by 32% to approximately 264,000 and continues to trend upward. Mannatech believes this upward trend is a significant indicator for Mannatech's future success because its associates are the life-blood of the company.

As founder, chairman and chief executive officer of Mannatech, I am overwhelmed with a sense of gratitude for our past, and a belief and faith in our future, which is guided by my passion to enhance the lives of our shareholders, associates, members, and customers.

Sincerely,

Sam Caster

Samuel L. Caster
Chairman and Chief Executive Officer

…associates and shareholders

A cutting-edge leader and innovator…

With the precision of a perfectly cut diamond, Mannatech develops naturally–based, proprietary products that help support good cell-to-cell communication and are believed to play a key function in the pursuit of optimal health. Mannatech was founded in 1993 and began operations in 1994, with the introduction of three products that focused on optimal health. Since then, Mannatech expanded and transformed its offerings into 32 quality-driven, proprietary products. With over ten years of innovation, experience and dedication, Mannatech believes it continues to develop quality-driven proprietary ingredients, including the following:

- ***Ambrotose® Complex***, Mannatech's proprietary glyconutritional complex used in the majority of its products;

- ***Ambroglycin™***, Mannatech's mineral/glyconutrient bonded matrix used in Glycentials™ and Catalyst; and

- ***MTech AO Blend ™***, Mannatech's proprietary, patent-pending, synergistic, antioxidant blend used in Ambrotose AO™, which is formulated to support overall health and assist in the fight of harmful free radicals caused by oxidative stress.

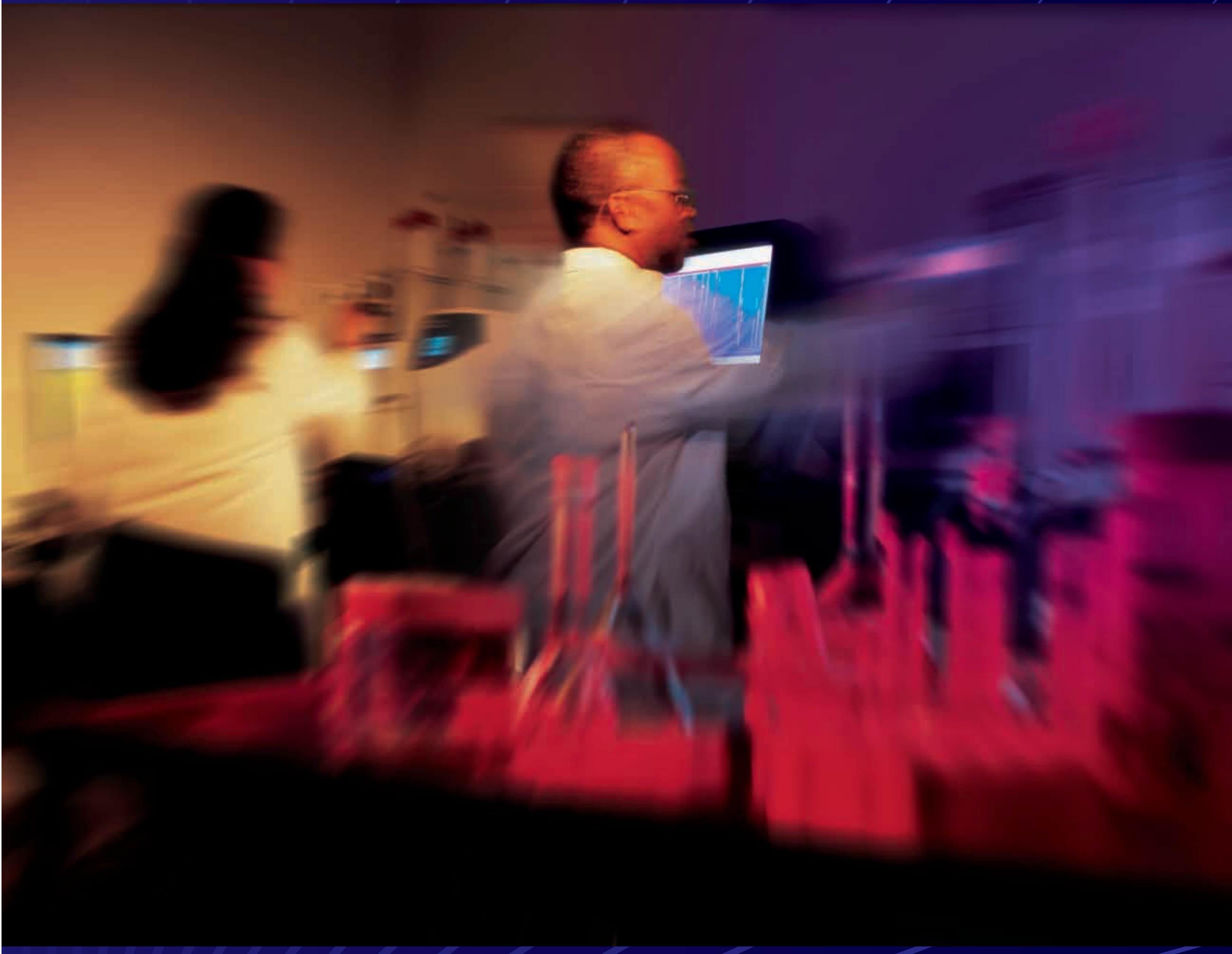
With its strategic alliances and business model in place, Mannatech remains strongly committed to contributing research-driven accomplishments in the world of optimal health and wellness. Mannatech believes its innovative products are on the cutting-edge of the wellness industry and vows to continue its strong commitment to provide technologically and scientifically advanced products. In 2004, Mannatech plans to focus on validating its compliance with newly introduced Good Manufacturing Practice regulations in Canada and the Therapeutics Goods Advertising Code in Australia, while preparing for additional regulations to be introduced in the United States. In 2004, Mannatech also plans to reformulate its nutritional food bars to include a more complete array of essential nutrients. In addition, Mannatech plans to launch its antioxidant product, Ambrotose AO™, which was recently launched in the United States, into its existing foreign operations, as well as introduce some of its most popular products in South Korea and Taiwan and in 2005, Mannatech plans to continue with researching new products and strategies. Mannatech believes that throughout its ten-year history it has evolved from an unnoticed diamond in the rough in the wellness industry into a well polished, industry-setting leader.

(l-r): ***Eileen Vennum***, *Senior Vice President of Research and Development Administration*

Bill H. McAnalley, Ph.D., *Senior Vice President of Research and Product Development and Chief Science Officer*

Jeffrey P. Bourgoyne, *Senior Vice President Supply Chain and Associate Care*

"Mannatech's products are on the cutting edge, from their discovery and formulation to their procurement and delivery."



…in the wellness industry

A multi-carat, heavy-hitter in the ...

Just as a diamond's value is increased by its carat weight, one of Mannatech's strategies is to increase its value by increasing its market share through international expansion. Mannatech's vision statement, ***"Better Solutions for Global Health,"*** embodies its commitment to finding the best technologies for achieving optimal health and its strategy to successfully build a global distribution model. Mannatech prides itself on extensive research in identifying the best markets that would likely embrace natural technologies for optimal health delivered in a network-marketing environment. Through this strategy, Mannatech has successfully gained market share in five countries outside the United States including the following:

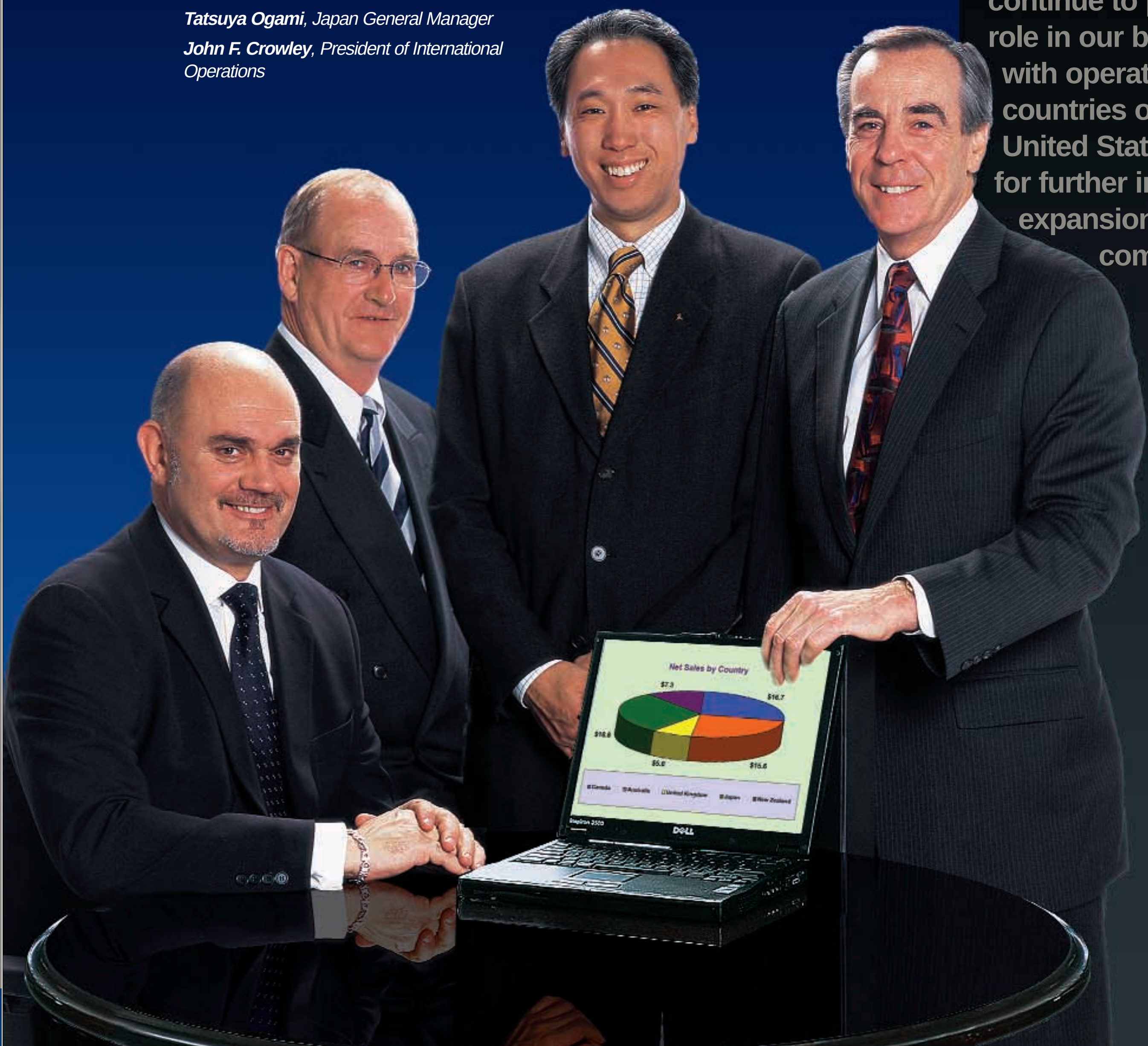
- Canada in 1996,
- Australia in 1998,
- United Kingdom in 1999,
- Japan in 2000; and
- New Zealand in 2002.

Mannatech's existing foreign operations experienced healthy growth in 2003 by increasing its net sales from foreign operations by 138.4%. Mannatech expects its foreign operations to continue to grow in 2004 and eagerly anticipates its launches into South Korea in the second half of 2004 and Taiwan in the first quarter of 2005. Mannatech's business model includes plans to launch new operations into a new market every 12 to 15 months. This strategy will provide the basis for Mannatech's planned market share growth, while continuing to develop the concept of "hub" expansion into surrounding markets. Mannatech also intends to increase its market share by continuing global expansion of its customer base and continuing to introduce fresh and innovative, science-based, proprietary products.

Finally, Mannatech believes the growth of available customers in the wellness industry, coupled with its strategy for continued international expansion will support its vision. Mannatech believes its associates around the globe will join together to introduce Mannatech's products and opportunities to the world, resulting in increased value for its associates and its shareholders.

(l-r): ***Eric Vill***, *United Kingdom General Manager*
George Howden, *Australia General Manager*
Tatsuya Ogami, *Japan General Manager*
John F. Crowley, *President of International Operations*

"International operations continue to play an integral role in our business model, with operations in five countries outside the United States and plans for further international expansion in the coming years."



…global wellness industry

A unique multi-colored…

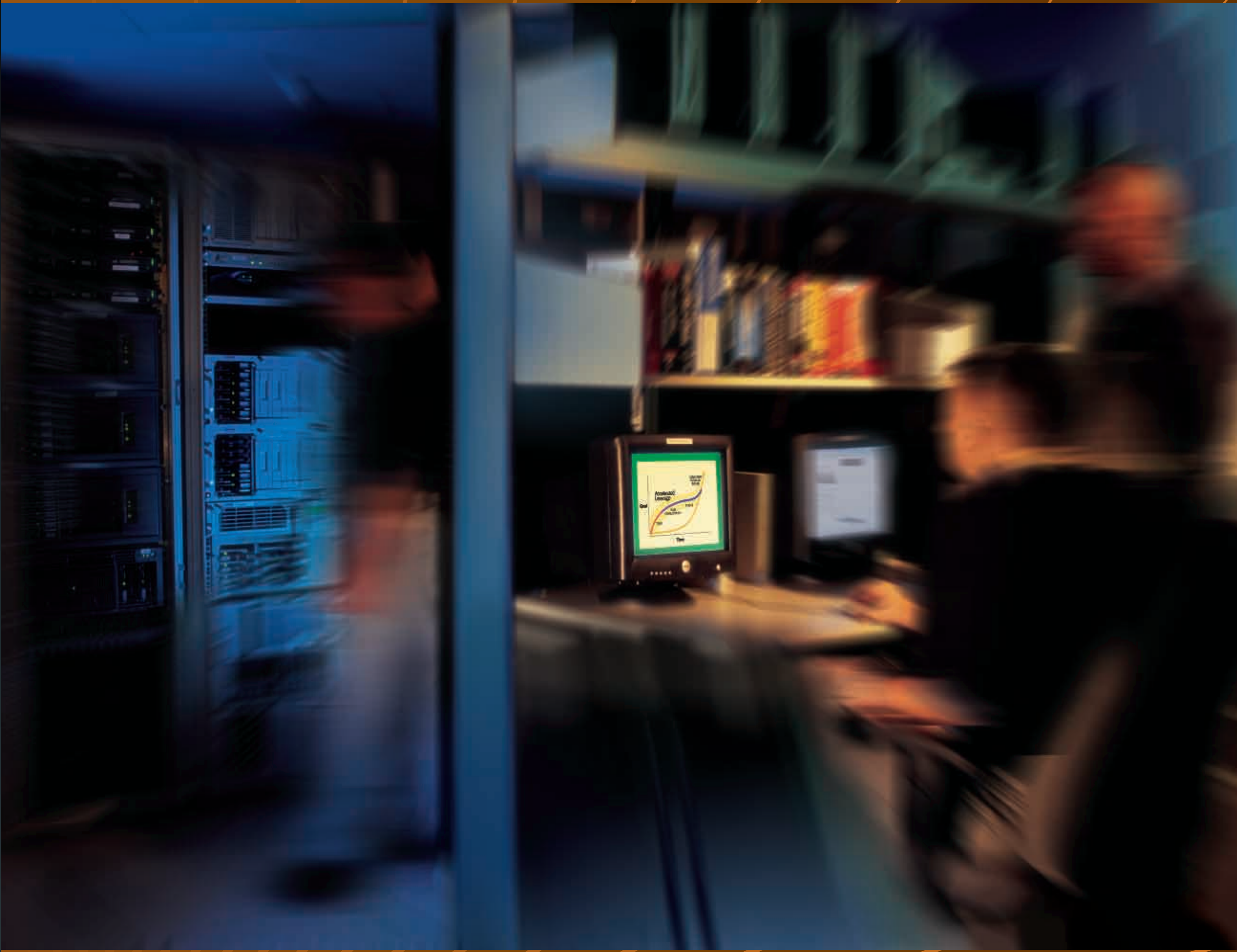
While the brilliance of a diamond is defined by its color, the brilliance of Mannatech is defined by the technologically superior support it provides to its network-marketing associates. Mannatech uses a well-defined network-marketing approach to educate consumers about its unique and proprietary products, as well as the science behind its products. Mannatech prides itself on developing technological innovations that effectively enable its associates to market its products and build their businesses. Mannatech's network-marketing concept strategically allows its independent associates and members, located around the world, to access a well-rounded array of marketing and educational materials using several different platforms. Some of Mannatech's recent technological innovations and tools include the following:

- ***GlycoScience.org***, an award winning, science-based internet site that provides rational and fundamental education, including ingredient definitions and a full array of science-based articles;
- ***Success Tracker™***, an integrated internet business tool that allows associates to optimize their business by offering real time information;
- ***Global associate career and compensation plan***, which focuses on paying commissions and incentives to qualified associates as a reward for their business-building activities; and
- ***E-commerce platform***, a multi-faceted web-based set of tools and techniques supported by a host of electronic platforms for ordering, customer support, and information gathering.

Mannatech believes the innovations in its tools, web sites, associate business-building systems, and its seamless global associate career and compensation plan has helped establish its reputation in the network-marketing industry as a progressive and responsive company that focuses on the needs of its associates. With the planned re-architecture of its back-office systems, Mannatech believes it will continue to improve its ability to service its associates and customers in more innovative and practical ways.

(l-r): ***Cynthia L. Tysinger****, Senior Vice President and Chief Information Officer*
Steven W. Lemme*, Senior Vice President of Sales and Marketing*

"Mannatech technologies provide cutting-edge services and solutions to help our customers and independent associates realize their dreams."



…network-marketing strategy

The future is shining…

Mannatech believes its strong operational performance in 2003 reflects the clarity of a company that is becoming a dynamic industry leader. It is fitting that on its tenth anniversary, Mannatech shipped its ten-millionth order, reported record-breaking sales for the company of $191 million and reported earnings per share of $0.34 per share. In 2003, Mannatech also experienced an increase of 64,000 associates and members globally purchasing Mannatech's products over the last 12 months as compared to 2002. The convergence of these figures helped Mannatech achieve a 35.6% increase in its consolidated net sales and a 365.5% increase in its consolidated net income as compared to the prior year. In addition, Mannatech is also pleased that its operations have reported year-over-year growth in revenues and are increasing the number of associates and members purchasing Mannatech's products as compared to the prior year. Mannatech believes this evidence helps substantiate that Mannatech is successfully responding to the needs of the marketplace.

Mannatech believes that similar to the clarity of a diamond that makes it sparkle, several events helped Mannatech shine in its industry during in 2003, including the following:

- management changes to refresh Mannatech's passion and direction, including having Samuel Caster, its Chairman and co-founder, take over the strategic role of Chief Executive Officer;
- strengthening Mannatech's board of directors by electing Gerald Gilbert and appointing Patricia Wier as additional independent directors;
- successfully tapping into the antioxidant market with the introduction of its new product, Ambrotose AO™; and
- returning value to its associates and shareholders.

Mannatech believes its goal of returning value to its associates and shareholders is being achieved through its steady report of solid growth throughout 2003 in both its domestic and foreign markets and by declaring a $0.10 per common share cash dividend for its shareholders of record on February 20, 2004. Mannatech intends to remain at the forefront of the wellness industry through planned expansion into new foreign markets; growing its existing market share in both its domestic and foreign operations; introducing new technological advances and innovations for its products, marketing materials, and operations; and continuing its efforts to heavily scrutinize its operations.

(l-r): ***Terry L. Persinger**, President and Chief Operating Officer*
***Bettina S. Simon**, Senior Vice President, General Counsel and Corporate Secretary*
***Stephen D. Fenstermacher**, Senior Vice President and Chief Financial Officer*

"The Mannatech business model focuses on the full spectrum of corporate responsibility, including finance, operations, regulatory and legal compliance, with the aim of building value for our independent associates and valued shareholders."

…brilliantly clear

10 YEARS ON THE CUTTING EDGE

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Selected Financial Data

The Selected Financial Data set forth below for each of the five years ended December 31, 2003 have been derived from and should be read in conjunction with (A) Mannatech's Consolidated Financial Statements and related notes and (B) "Management's Discussion and Analysis of Financial Condition and Results of Operations," set forth in this report.

	Year ended December 31,				
	1999	2000 (3)	2001 (4)	2002	2003 (5)
	(in thousands, except per share amounts)				
Consolidated Statement of Income Data:					
Net sales	$179,730	$150,006	$128,736	$140,948	$191,019
Gross profit	$ 77,033	$ 61,175	$ 53,218	$ 57,172	$ 80,558
Income (loss) from operations	$ 16,081	($ 8,439)	($ 3,924)	$ 2,978	$ 11,592
Income (loss) before cumulative effect of accounting change	$ 10,788	($ 7,139)	($ 3,660)	$ 1,888	$ 8,790
Cumulative effect of accounting change (1)	—	(210)	—	—	—
Net income (loss)	**$ 10,788**	**($ 7,349)**	**($ 3,660)**	**$ 1,888**	**$ 8,790**
Earnings (Loss) Per Common Share:					
Basic	$ 0.45	($ 0.30)	($ 0.15)	$ 0.08	$ 0.34
Diluted	$ 0.43	($ 0.30)	($ 0.15)	$ 0.07	$ 0.34
Weighted-Average Common Shares Outstanding:					
Basic	24,133	24,946	24,730	25,135	25,494
Diluted	25,224	24,946	24,730	25,265	26,175
Other Financial Data:					
Capital expenditures (2)	$ 3,243	$ 4,109	$ 1,316	$ 1,008	$ 932
Dividends declared per common share	$ 0.06	$ —	$ —	$ —	$ —
Consolidated Balance Sheet Data:					
Total assets	$ 44,779	$ 38,902	$ 33,143	$ 34,816	$ 60,023
Long-term obligations, excluding current portion	$ 325	$ 527	$ 950	$ 158	$ 497

(1) Cumulative effect of accounting change is the result of Mannatech adopting Staff Accounting Bulletin No. 101 "Revenue Recognition in Financial Statements" retroactively to January 1, 2000.

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

(3) Mannatech recorded severance charges of $1.2 million related to the resignation of certain employees including its Chief Information Officer and Chief Operating Officer of its international operations.

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

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

Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion is intended to assist in the understanding of Mannatech's consolidated financial position and its results of operations for each of the three years ended December 31, 2001, 2002, and 2003. This discussion should be read in conjunction with the Consolidated Financial Statements and related Notes of this report and with other financial information included elsewhere in this report. Unless stated otherwise, all financial information presented below, throughout this report, and in the consolidated financial statements and related notes includes Mannatech and all of its subsidiaries on a consolidated basis.

Company Overview

For over a decade, Mannatech has developed innovative, high-quality, proprietary nutritional supplements, topical products, and weight-management products that are sold through a global network-marketing system throughout the United States, Canada, Australia, the United Kingdom, Japan, and New Zealand. New Zealand began operations on June 10, 2002 and is serviced by Mannatech's Australian subsidiary. Mannatech plans to open operations in South Korea in the second half of 2004 and in Taiwan in the first quarter of 2005.

Mannatech operates as a single segment and primarily sells its products through a network of approximately 264,000 associates and members who have purchased Mannatech's packs and products within the last 12 months. Mannatech aggregates its operating segments because it believes it operates as a single reportable segment selling its nutritional supplements in similar distribution channels in each of its operations. Mannatech's management reviews its financial information in each country by pack sales and by product sales. Each of Mannatech's operations sells primarily the same products and possesses similar economic characteristics, such as similar gross margins. For the year ended December 31, 2003, Mannatech's foreign operations accounted for approximately one-third of its consolidated net sales, whereas in the same period in 2002, its foreign operations accounted for approximately one-fourth of its consolidated net sales. Consolidated net sales by country in dollars and as a percentage of consolidated net sales for the years ended December 31, 2003, 2002, and 2001 are as follows:

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

(in millions)	*United States*	*Canada*	*Australia*	*United Kingdom*	*Japan*	*New Zealand*	*Total*
2003	**$127.8**	**$16.7**	**$15.6**	**$5.0**	**$18.6**	**$7.3**	**$191.0**
2002	$105.0	$16.4	$ 6.6	$1.6	$ 9.0	$2.3	$140.9
2001	$ 99.3	$18.1	$ 4.4	$1.2	$ 5.7	$ —	$128.7

	United States	*Canada*	*Australia*	*United Kingdom*	*Japan*	*New Zealand*	*Total*
2003	**67.0%**	**8.7%**	**8.2%**	**2.6%**	**9.7%**	**3.8%**	**100.00%**
2002	74.5%	11.6%	4.7%	1.1%	6.4%	1.7%	100.00%
2001	77.1%	14.1%	3.4%	1.0%	4.4%	—%	100.00%

Mannatech derives its revenues from sales of its products, sales of its starter and renewal packs, and from shipping fees and defers the recognition of its revenues until its customers receive their shipment. Substantially all of its product sales are sold to independent associates at published wholesale prices, sold to members at discounted published retail prices, or sold to customers at published retail prices. Mannatech believes the vast majority of its product sales are for personal consumption; however, Mannatech cannot distinguish its personal consumption sales from its other sales because it has no involvement in its products after delivery other than usual and customary product returns.

Mannatech periodically changes its starter and renewal packs to meet current market demands. Each of Mannatech's starter and renewal packs includes some combination of its products and promotional materials and entitles associates and members to published discounts related to Mannatech's retail prices. Mannatech tries to offer comparable packs in each country in which it does business; however, because each country has different regulatory guidelines, not all of Mannatech's packs can be offered in all countries.

Mannatech attributes the improvement in its sales and operations to the following:

- completing the launch of its revamped global associate career and compensation plan in September 2002;
- launching various new incentives including annual travel incentives;
- implementing a 4% price increase for certain wholesale and retail sales prices in September 2002;
- appointing Samuel Caster, one of its founders and Chairman, as Chief Executive Officer; and
- introducing three new products – Ambrotose AO™, GI-Pro™ and GI-Zyme™ into various markets.

Mannatech believes that its revamped global associate career and compensation plan and its annual travel incentive program contributed to an increase in the number of independent associates, as reflected by the 33.6% increase in its pack sales for the year ended December 31, 2003. Mannatech believes its annual travel incentive program helps increase the number of independent associates purchasing its products and is also a motivational vehicle for attracting and retaining independent associates. Mannatech's annual travel incentive usually has a qualification period of between four- to seven-months, during which independent associates qualify for the annual travel incentive by earning points primarily on the sales of high dollar packs and product purchases. Under its annual travel incentive program, Mannatech requires its associates to maintain their associate position and prohibits the subsequent return of any qualifying packs or products, except in exchange for like-kind products and packs.

Mannatech believes its future success on increasing its net sales is dependent on the following factors:

- continuing its product development strategy, which includes continuing to enhance its existing proprietary products and introducing new products, such as the recent launch of its new antioxidant product, Ambrotose AO™, in the United States in September 2003 and its new digestive products, called GI-Zyme™ and GI-Pro™, which were launched in the United Kingdom in September 2003, and in the United States and Canada in December 2003;
- continuing its planned international expansion; and
- continuing to attract and retain associates who routinely purchase its products by introducing new incentives and refining existing commissions and incentives.

In 2004, Mannatech will primarily focus on registering its Ambrotose AO™ product in its existing foreign markets and begin registering its most popular products in South Korea and Taiwan. Mannatech also plans to improve its nutritional food bars to include a more complete array of essential nutrients, and to continue its ongoing research of new products and product strategies for 2005.

Cost of sales consists of products purchased from third-party manufacturers, costs of promotional materials sold to Mannatech's independent associates, freight, and provisions for slow moving or obsolete inventories. Mannatech's inventory turnover ratio improved from 3.5 in 2002 to 4.6 in 2003. Mannatech's sales mix of products and packs affects its cost of sales and gross profit differently because its products sold have a higher gross margin than its gross margins on its packs sold. Mannatech's sales mix can be influenced by the following:

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

Commissions and incentives are dependent on the sales mix and typically range between 40% to 45% of net sales. Commissions and incentives are paid to Mannatech's independent associates in accordance with its global associate career and compensation plan based on commissionable net sales, which consist of finished products and pack sales. Mannatech's commission and incentive program calculates commissions and incentives based on the following criteria:

- an associate's placement and position within Mannatech's overall global plan;
- the volume of an associate's direct and indirect commissionable sales; and
- an associate's achievement of certain sales levels.

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

Periodically, Mannatech offers new travel incentives and contests, which are designed to stimulate both its pack and product sales. In the first quarter of 2003, Mannatech launched a travel incentive for its independent associates called "Sun and Salsa in 2003." Approximately 750 of Mannatech's independent associates qualified for a trip for two to Cancun, Mexico. This incentive cost Mannatech approximately $2.2 million. Mannatech ran a similar travel incentive contest in 2002, and in 2004 announced its 2004 travel incentive contest, which is a 5-day cruise for two in the Caribbean. The 2004 travel incentive allows independent associates who achieve certain sales levels from February 28, 2004 through June 8, 2004 to qualify for this trip incentive. Mannatech anticipates that approximately 750 to 850 of its independent associates will qualify for this trip incentive at an estimated cost to Mannatech of between $2.2 million and $2.7 million.

Operating costs consist of selling and administrative expenses, other operating expenses, severance charges related to the resignation of former employees, and non-cash accounting charges related to stock options and warrants held by former executives. The severance charges relate to Mannatech's contractual employment obligations, which were all associated with the resignation of various former executives and employees in 2001and in 2003. In 2001, severance charges arose from the resignation of Mr. Patrick Cobb, Mannatech's former Chief Financial Officer of International Operations, Mr. Anthony Canale, its former Chief Operating Officer of International Operations. These moves were initiated in order to revamp Mannatech's international operations. In addition, in 2001, certain members of Mannatech's core management team resigned, including Ms. Deanne Varner, its General Counsel and Mr. Charles Fioretti, its former Chief Executive Officer and Chairman. In 2003, Mannatech incurred additional severance charges related to the resignation of Mr. Robert Henry, its former Chief Executive Officer, who replaced Mr. Fioretti in 2001, and Mr. Brad Wayment, its former Senior Vice President of Marketing, along with four other employees.

Critical Accounting Policies and Estimates

In response to SEC Release No. 33-8040, "Cautionary Advice Regarding Disclosure About Critical Accounting Policies," Mannatech has identified certain policies that are important to the portrayal of its consolidated financial condition and consolidated results of operations. These policies require the application of significant judgment by Mannatech's management. Mannatech periodically analyzes the need for certain estimates, including the need for such items as inventory reserves, impairment of long-lived assets, tax valuation allowances, provisions for doubtful accounts, revenue recognition, sales returns, accounting for stock options, contingencies and litigation. Mannatech bases any estimates needed on its historical experience, industry standards, and various other assumptions that may be reasonable under the circumstances. Mannatech cautions its readers that actual results could differ from its estimates under different assumptions or conditions. If circumstances change relating to the various assumptions or conditions used in such estimates Mannatech could experience an adverse effect on its consolidated financial condition, changes in financial condition, and results of operations. Mannatech's critical accounting policies at December 31, 2003 include the following:

Inventory Reserves. Mannatech's inventory carrying value is reviewed and compared to the fair market value of its inventory and any inventory value in excess of fair market value is written down. In addition, Mannatech reviews its inventory for obsolescence and any inventory identified as obsolete is reserved or written off. Mannatech's determination of obsolescence is based on assumptions about the demand for its products, product expiration dates, estimated future sales, and management's future plans. If actual sales or management plans are less favorable than those originally projected by management, additional inventory reserves or write-downs may be required. Mannatech's inventory value at December 31, 2003 was $7.9 million and includes an inventory reserve of $0.2 million.

Asset Impairment. Mannatech reviews the book value of its property and equipment for impairment whenever an event or change in circumstances indicates that the net book value of an asset or group of assets may be unrecoverable. Mannatech's impairment review includes a comparison of future projected cash flows generated by the asset or group of assets with its associated carrying value. Mannatech believes its expected future cash flows approximate or exceed its net book value. However, if circumstances change and the net book value of the asset or group of assets exceeds expected cash flows (undiscounted and without interest charges), Mannatech would have to recognize an impairment loss to the extent the net book value of an asset exceeds its fair value. At December 31, 2003, the net book value of Mannatech's property and equipment was $5.5 million.

Tax Valuation Allowances. Mannatech evaluates the probability of realizing the future benefits of any of its deferred tax assets and records a valuation allowance when it believes a portion or all of its deferred tax assets may not be realized. If Mannatech is unable to realize the expected future benefits of its deferred tax assets, it would be required to provide an additional valuation allowance. As of December 31, 2003, Mannatech recorded total deferred tax assets of $5.3 million and recorded a valuation allowance of $2.3 million.

Deferred Revenues. Mannatech defers all of its revenue until its customers receive their shipments. Mannatech also defers a portion of its revenue from the sale of its starter and renewal packs because of a one-year magazine subscription offered in some of its packs. In addition, Mannatech defers the portion of revenue from each pack that exceeds the total average wholesale value of all individual components included in such packs. Mannatech amortizes its deferred revenues associated with its magazine subscriptions and the excess amount over the total average wholesale value of the individual components in the packs over twelve months. Although Mannatech has no immediate plans to significantly change the contents of its packs or its shipping methods, any such changes in the future could result in additional revenue deferrals or could cause Mannatech to recognize its deferred revenue over a longer period of time.

Software Capitalization. Mannatech capitalizes salaries and consulting fees related to the development of certain qualifying internally-developed software applications including: *GlycoScience.org*, a scientific and educational web database and *Success Tracker*™, a web-based training and marketing tool for its independent associates. Mannatech amortizes such qualifying costs over its estimated useful life of the software application, which is either three or five years. If accounting standards change or if the capitalized software becomes obsolete, Mannatech may be required to write-off its capitalized software or accelerate its amortization period. As of December 31, 2003, Mannatech's capitalized software had a remaining net book value of $0.3 million. Mannatech anticipates capitalizing a portion of its salaries and consulting fees associated with developing and implementing its new global back office systems in 2004 and 2005.

Accounting for Stock-Based Compensation. Currently, Mannatech follows Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" ("APB 25") and its related interpretations for stock options granted to employees and members of its board of directors. Under the recognition and measurement principles of APB 25, Mannatech is not required to recognize any compensation expense unless the market price of the stock exceeds the exercise price on the date of grant or the terms of the grant are subsequently modified. The Financial Accounting Standards Board has recently indicated that it expects to issue a proposal to change the recognition and measurement principles for equity-based compensation granted to employees and board members. The proposed rules could be implemented as early as the end of the 2004 calendar year. Under the proposed rules, Mannatech would be required to recognize compensation expense related to stock options granted to employees and board members after December 15, 2004. The compensation expense would be calculated based on the expected number of options expected to vest and would be recognized over the stock options' vesting period. If this proposal is passed, Mannatech would be required to recognize compensation expense related to stock options granted to its employees or board members, which could have a material effect on its consolidated financial condition and results of operations.

Results of Operations

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

	Year ended December 31,		
	2001	*2002*	*2003*
Net sales	**100.0%**	**100.0%**	**100.0%**
Cost of sales	18.3	17.3	16.1
Commissions and incentives	40.4	42.1	41.7
Gross profit	**41.3**	**40.6**	**42.2**
Operating expenses:			
Selling and administrative expenses	23.9	23.3	20.9
Other operating costs	17.8	15.2	14.1
Severance expenses related to former executives	2.7	—	1.0
Income (loss) from operations	**(3.1)**	**2.1**	**6.2**
Interest income	0.2	0.2	0.2
Other income (expense), net	—	0.1	0.4
Income (loss) before income taxes	**(2.9)**	**2.4**	**6.8**
Income tax (expense) benefit	0.1	(1.1)	(2.2)
Net income (loss)	**(2.8)%**	**1.3%**	**4.6%**

Historical Results for the Years 2001, 2002, and 2003

Net Sales

	For the twelve months ended December 31,			Percentage change	
	2001	2002	2003	2002 over 2001	2003 over 2002
		(in millions)			
Pack sales	$ 19.5	$ 29.2	$ 39.0	49.7%	33.6%
Product sales	102.4	105.5	144.3	3.0	36.8
Other, including freight	6.8	6.2	7.7	(8.8)	24.2
Total net sales	**$128.7**	**$140.9**	**$191.0**	**9.5%**	**35.6%**

Mannatech net sales have increased year-over-year in all countries. The dollar increase consisted of increases in both pack sales and product sales. Pack sales directly relate to new and existing associates and members who purchase Mannatech's products. Therefore, as Mannatech's pack sales increase, product sales usually increase; however, there is not a direct correlation between the increase in the number of new associates and members and the amount of the increase in product sales because associates and members consume different products and may have different consumption levels.

For the fourth quarter of 2003, Mannatech's quarterly pack sales increased to $10.1 million from $7.4 million for the fourth quarter of 2002. This increase primarily resulted from an increase of 34,000 new independent associates and members during the fourth quarter of 2003, which increased the total new associates and members within the 12 months ended December 31, 2003 to 134,000. In the fourth quarter of 2002, Mannatech increased the number of new independent associates and members by 25,000, which increased the total new associates and members within the 12 months ended December 31, 2002 to 91,000. The number of new and continuing independent associates and members who purchased Mannatech's products by year, within the last 12 months is as follows:

	For the year ended December 31,					
Associates and Members	2001		2002		2003	
New	66,000	34.4%	91,000	45.6%	134,000	50.8%
Continuing	126,000	65.6%	109,000	54.4%	130,000	49.2%
Total	**192,000**	**100.0%**	**200,000**	**100.0%**	**264,000**	**100.0%**

Pack Sales. Overall, pack sales increased $9.7 million in 2002, as compared to 2001 and increased $9.8 million in 2003, as compared to 2002. These increases were primarily related to changes in the mix of new and existing associates and members. In 2002, new associates and members contributed to an increase in pack sales of $8.0 million, as compared to 2001. In 2003, new associates and members contributed to an increase in pack sales of $10.6 million, as compared to 2002. Mannatech believes the increase in the number of new associates and members over the past few years resulted from changes to its revamped global associate and career plan, introducing new incentives, contests and products, and recent management changes.

In 2002, associate retention levels decreased by 17,000, but increased overall pack sales by $1.7 million as compared to 2001. Mannatech believes the 2002 decrease in the number of retained associates was partially due to associates' initial perception of the 2001 management changes and the uncertainties surrounding the announcement, by Mannatech, of its plans to revamp its global associate career and compensation plan compounded by a general downward turn in the overall economy.

In 2003, Mannatech reversed the 2002 decrease in associate retention levels by increasing the number of retained associates and members by 21,000. However, in 2003, changes in renewal policies contributed to a decrease in overall pack sales by ($0.8 million) as compared to 2002. Mannatech believes the increase in the number of retained associates and members is the result of implementing its global associate career and compensation plan and associates fully understanding the benefits of the changes to the plan, as well as associates accepting Mannatech's recent management changes and overall direction of the company, including plans for international expansion. The dollar decrease of ($0.8 million) in 2003 was the result of changes in the overall requirements for retaining associate status, as defined in Mannatech's revamped global associate career and compensation plan. Under the revamped plan, lower-level associates automatically renew their associate status without having to actually purchase an annual renewal pack. However, Mannatech's global associate career and compensation plan continues to require its higher-level associates, known as business builders, to purchase an annual renewal pack, which includes updated policies and procedures and various new or updated business-building materials. Mannatech believes the overall changes related to renewing associates helped entice personal consumption associates to continue to purchase Mannatech products, which resulted in an increase in the number of associates and members purchasing products in 2003.

Product Sales. Mannatech's product sales have increased year-over-year in all countries. The increase between the years resulted from new product launches, an increase in sales volume sold, and a 4% price increase implemented in September 2002 for certain of its finished goods. This price increase increased net product sales by approximately $1.4 million in 2002, as compared to 2001 and further contributed to an additional increase in product sales of $5.2 million in 2003.

In September 2003, Mannatech launched three new products, including its United States launch of a new antioxidant product called Ambrotose AO™. New products increased product sales in 2003 by approximately $5.8 million as compared to 2002, of which $4.5 million related to new product sales in the fourth quarter of 2003. Mannatech did not launch any new products in 2002. In 2004, Mannatech plans to improve its Mannabars and plans to continue to develop additional new products and strategies in 2005. Development of a quality, innovative product is time consuming and may take over a year to develop and bring to market.

Changes in existing product sales relate to increases in sales volume as compared to prior years. In 2002, the increase in existing products sales was $1.7 million as compared to 2001. The increase in existing products sales was $27.8 million in 2003, as compared to 2002. The increase in existing product sales related to the increase in pack sales, which was spurred by an increase in the number of new and existing associates and members purchasing Mannatech products.

Other Sales. Other sales primarily consist of freight revenue charged to associates and members and is a direct result of the increase in pack and product sales.

Cost of Sales

Cost of sales primarily increased as a result of the increase in volume of packs and products sold. However, cost of sales as a percentage of net sales generally remained consistent between years. Cost of sales in 2002 compared to 2001, included a 0.2% favorable impact on Mannatech's gross margin due to the sales price increase implemented in September 2002. This favorable impact was completely offset in 2002 by a higher mix of pack sales to product sales. In 2003, the September 2002 sales price increase continued to generate a favorable impact on Mannatech's gross margin. In addition, the shift in product and pack mix sold toward a larger volume increase in product sales in 2003 favorably impacted Mannatech's gross margin.

Inventory write-offs and reserves do not have a significant impact on Mannatech's cost of sales. However, in 2001, Mannatech's foreign operations recorded inventory write-offs of $1.2 million, which was primarily related to a decrease in sales from prior years, which contributed to the write-off of inventories that were approaching their expiration dates. In 2002 and 2003, Mannatech recorded a provision for inventory write-offs of $0.1 and $0.2 million, respectively. The provision primarily relates to discontinued promotional materials and normal spoiled or damaged products.

Commissions and Incentives

Commissions and incentives correlate to the mix between pack and product sales and generally range between 40% and 45% of consolidated net sales. In both 2002 and 2003, the volume of sales increased and the mix in sales changed. The mix in sales consists of both product and pack sales. The majority of dollar commission and incentive payments are attributable to product sales.

In 2002, Mannatech's volume of net sales shifted toward pack sales as compared to 2001. In 2003, Mannatech's volume of net product sales increased more than the increase in pack sales as compared to 2002. This shift in 2003 is reflected in the change in commissions as a percentage of net sales. The increase and mix of sales were impacted by various factors as previously discussed above, including revamping Mannatech's global career and compensation plan and introducing various incentives, including an annual travel incentive.

Gross Profit

Gross profit decreased in 2002 compared to 2001, primarily as a result of revamping the global associate career and compensation plan and implementing various incentives and contests including an annual travel incentive. Mannatech anticipates that the implementation of such changes to its commissions and incentives will help increase its net sales and the number of new and existing associates purchasing packs and products in future periods. The changes in commission and incentives implemented in 2002 and further stabilization of Mannatech's operations helped increase the number of associates and members purchasing products, which favorably impacted Mannatech's gross profit in 2003.

Selling and Administrative Expenses

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

In 2002, selling and administrative expenses increased by $2.0 million as compared to 2001. Selling and administrative expenses further increased by $7.2 million in 2003, as compared to 2002. The dollar changes in selling and administrative expenses primarily consist of compensation related costs, marketing expenses, out-bound freight and third-party distribution costs. Selling and administrative expenses as a percentage of net sales decreased from 23.9% in 2001 to 23.3% in 2002, and then further decreased to 20.9% in 2003. The decrease in selling and administrative expenses as a percentage of net sales in 2002 and 2003 was primarily due to Mannatech's ability to control and curtail fixed costs.

Overall compensation related costs increased in 2002 by $2.1 million as compared to 2001 and further increased by $3.5 million in 2003, as compared to 2002. In 2002, the $2.1 million increase was composed of an increase of $0.8 million in executive bonuses and a $1.3 million increase in wages and benefits. The 2002 increase in bonuses was a result of improving Mannatech's operating results for the year. In 2002, Mannatech terminated its contracts with third party providers who provided Mannatech's foreign operations' with order processing and customer services functions and hired employees for its foreign operations order processing and customer service departments, which resulted in an increase in wages and benefits for 2002. The 2002 wage and benefit increase also included cost of living raises and hiring additional employees in its domestic operations. In 2003, the $3.5 million increase in compensation related costs was composed of an increase in employee and executive bonuses of $1.6 million and an increase of $2.1 million in wages and benefits. The 2003 wage and benefit increase consisted of hiring additional personnel and cost of living raises. This increase was partially offset by a decrease in temporary and contract labor of ($0.2 million) due to hiring some of Mannatech's ongoing contractors as employees in its domestic operations to support the increase in net sales and planned expansion.

Marketing related expenses decreased in 2002 by ($0.3 million) as compared to 2001, but increased by $1.3 million in 2003 as compared to 2002. In 2002, Mannatech revamped its strategy regarding its corporate-sponsored events and reduced the number of corporate-sponsored events, which helped reduce its overall marketing expense. In 2003, marketing related expenses increased as a result of net sales increasing and because Mannatech increased the costs per corporate-sponsored event to enhance the quality of each event and implemented certain enhancements to its corporate-sponsored magazines. The enhancements included visual changes to the look of its magazines and additional quality-driven articles about the science of its products, industry trends, and new or enhanced marketing techniques.

Out-bound freight and third party distribution costs increased in 2002 by $0.2 million as compared to 2001 and further increased in 2003 by $2.4 million as compared to 2002 primarily due to the increase in net sales. Out-bound freight and third party distribution costs are directly related to the change in volume and mix in net sales. In 2002, out-bound freight increased $0.4 million, which related to the increase in sales volume, partially offset by the sales mix shifting toward pack sales and reducing third-party distribution costs in Japan by ($0.2 million). The shift in sales mix in 2002 toward pack sales partially offset the increase in outbound freight due to the increase in net sales. In 2003, out-bound freight increased $1.7 million and third-party distribution costs increased $0.7 million. The increases in 2003 relate to an additional increase in volume of net sales and a shift in sales mix toward product sales.

Other Operating Expenses

Other operating expenses include utilities, depreciation, travel, consulting fees, professional fees, office expenses, printing-related expenses, off-site storage fees, and other miscellaneous operating expenses. In 2002, other operating expenses decreased by ($1.5 million) as compared to 2001, but increased by $5.5 million in 2003, as compared to 2002. The dollar change in other operating expenses primarily consisted of changes in travel, consulting fees, third party contractors related to its international operations, depreciation, and various operating costs. Other operating expenses as a percentage of net sales decreased from 17.8% in 2001, to 15.2% in 2002 and further decreased to 14.1% in 2003. The decrease in other operating expenses as a percentage of net sales in 2002 and 2003 was primarily due to Mannatech's ability to control and curtail fixed costs.

For the years ended December 31, 2001, 2002, and 2003, other operating expenses also included non-cash accounting charges. In 2001, the non-cash accounting charge related to the variable accounting treatment of certain stock options issued to Ms. Varner and Mr. Cobb and warrants issued to Mr. Canale, three former executives who resigned in 2001. The stock options and warrants were issued in 2001 to replace stock options held by former executives that would have expired with such executive's resignation. The quarterly non-cash variable accounting charge was recorded as the change between the fair market price of the stock options and warrants multiplied by the number of stock options and warrants available to the former executives. In 2002, Mannatech recorded a non-cash variable accounting benefit related to stock options and warrants issued in 2001 to former employees of approximately $54,000. In 2003, Mannatech recorded non-cash accounting charges related to stock options and warrants of $1.5 million of which $0.6 million related to non-cash variable accounting charges for stock options and warrants granted to former executives in 2001. The significant increase in the charge for 2003 was the result of the increase in Mannatech's stock price in 2003, which increased from a closing price $1.62 per share at December 31, 2002 to a closing price of $10.89 per share at December 31, 2003. In the second quarter of 2003, Mannatech recorded a $0.6 million charge related to extending the terms of stock options for Mr. Henry who resigned in 2003. In the fourth quarter of 2003, Mannatech recorded a one-time non-cash charge of $0.3 million related to extending Mr. Wayment's stock options. In July and August of 2003, all of the stock options issued to Mr. Cobb and all but 500 of the stock options issued to Ms. Varner were exercised. Therefore, Mannatech should not have any significant non-cash accounting charges related to these stock options or warrants in the future.

In 2002, travel expenses increased by $0.8 million as compared to 2001 and further increased in 2003 by $1.0 million as compared to 2002. The increase in travel expenses relates to an increase in travel related to its corporate-sponsored events.

In 2002, overall consultant-related costs decreased by ($1.0 million) as compared to 2001, but increased by $0.6 million in 2003, as compared to 2002. The decrease in 2002 was composed of (1) a decrease of ($1.3 million) related to the canceling of the consulting agreement with Mr. Caster and various international consulting agreements, as well as canceling the consulting agreement and entering into a royalty agreement with Jett, a shareholder and high level associate, partially offset by (2) a $0.3 million increase related to entering into a non-compete agreement with Dr. McDaniel, a former employee, and the settlement of various lawsuits. In 2003, the increase of $0.6 million in overall consulting-related costs consisted of (1) a $0.2 million increase in Mannatech's board of director fees and bonuses; (2) a $0.1 million increase in the fourth quarter for consulting fees related to Mannatech's planned technology infrastructure changes; and (3) a $0.3 million increase related to consulting fees for its planned international expansion and further cultivation of its existing markets.

In 2002, third party contractors' expenses decreased by ($2.2 million) as compared to 2001 and remained consistent in 2003, as compared to 2002. In 2002, Mannatech terminated its third party contracts for providing Mannatech's international operations with order processing and customer services and developed a full service in-house order processing and customer service team of professionals for each of its international operations.

In 2002, Mannatech recorded an increase of $0.1 million in depreciation expense as compared to 2001 and in 2003, recorded a net decrease of ($0.8 million) in depreciation expense as compared to 2002. The 2002 increase related to Mannatech's acquisition of $1.0 million in capital assets during the year. In 2003, depreciation increased by $0.2 million related to $0.8 million in capital asset acquisitions, which was offset by a ($1.0 million) decrease in depreciation expense related to various capital assets, including computer hardware and software that were purchased or developed in prior years and fully depreciated during 2003.

The remaining increase of $0.8 million in 2002 and $3.2 million in 2003, related to an increase in variable operating expenses including research and development costs, telephone, insurance, postage, offsite storage expenses, and credit card fees. These variable operating expenses directly correlate to the increase in volume of net sales.

Severance Expenses

As discussed previously, Mannatech made several management changes in 2001 and 2003 and as a result, recorded severance expenses related to former employees of $3.4 million in 2001 and $2.0 million in 2003. In the second quarter of 2001, Mannatech accrued severance payments totaling $3.4 million for certain former executive officers. As previously discussed the severance payments are due at various times through 2004. In the second quarter of 2003, Mannatech accrued severance payments of $1.4 million related to the resignation of Mr. Henry, Mannatech's former Chief Executive Officer the payments are due through 2005. In addition, in the third quarter of 2003, Mannatech accrued $0.4 million related to severance payments for Mr. Wayment, its Senior Vice President of Marketing and for two former employees. Finally, in the fourth quarter of 2003, Mannatech accrued severance payments of $0.2 million related to four other employees. The severance expenses for 2001 and 2003 primarily relate to accruing compensation related expenses, health insurance, outplacement fees, and title to 2 leased vehicles.

Interest Income

Mannatech maintains interest bearing accounts for its cash equivalents, restricted cash, and investments. Interest income increased year-over-year as cash, cash equivalents, restricted cash and investments increased. Cash and investments increased as a result of improving overall operations and profits and increases in the average yield on investments.

Other Income (Expense), Net

Other income (expense), net consists primarily of foreign currency translation adjustments related to translating assets, liabilities, revenues, and expenses from its foreign operations to the United States dollar using current and weighted-average currency exchange rates. Mannatech records translation adjustments to other income (expense), net. In 2003, the currency translation adjustment increased by $0.7 million primarily as a result of the United States dollar weakening against the Japanese Yen and the British Pound.

Income Taxes

Income taxes include both domestic and foreign taxes. In 2002, Mannatech's United States federal statutory tax rate was 34%, which increased to 35% for 2003. In 2002 and 2003, Mannatech's statutory rate in Australia was 30%, in the United Kingdom its statutory rate was 19%, and in Japan its statutory tax rate was 42%. A portion of Mannatech's income from its international operations is subject to taxation in the countries in which it operates. Although Mannatech may receive foreign tax credits that would reduce the amount of United States taxes owed, Mannatech may not be able to fully utilize its foreign tax credits in the United States. Mannatech may have also incurred net operating losses in some of its operations, which may not be fully realizable. As a result, Mannatech recorded a valuation allowance for its Japan net operating loss carryforwards, as it believes that the likelihood of realizing an income tax benefit in the future does not meet the more likely than not criteria for recognition.

Income taxes increased year-over-year as a result of an increase in Mannatech's profitability and the change of sales mix between countries. Mannatech's effective tax rate increased from 2.8% in 2001 to 43.5% in 2002 and decreased to 30.9% in 2003. Mannatech's effective tax rate changes as a result of the shift in income mix between its domestic and its foreign operations and the changes in its valuation allowance reserve. In 2002, Mannatech's effective tax rate increased as a result of the income mix between Mannatech's domestic and foreign operations and the increased valuation for additional net operating losses from its Japan subsidiary. In 2003, Mannatech's effective tax rate decreased due to the income mix between Mannatech's domestic and foreign operations and partial utilization of the valuation allowances for its Japan subsidiary.

Net Income

Net income increased from a loss in 2001 of ($3.7 million) to net income of $1.9 million in 2002. Net income further increased to $8.8 million in 2003, as compared to 2002. The net loss in 2001 was primarily the result of recording severance expenses of $3.4 million in 2001. In 2002, net income increased due to the increase in net sales and curtailing operating expenses. In 2003, net income increased as a result of increasing net sales and curtailing operating expenses, partially offset by recording severance expenses for its former executives and employees and non-cash accounting charges related to its stock options and warrants for its former executives of $3.5 million.

Seasonality and Selected Quarterly Statements of Operations

Mannatech believes the impact of seasonality on its results of operations is minimal. Mannatech has experienced and predicts it will continue to experience variations on its quarterly results of operations in response to, among other things:

- the timing of the introduction of new products;
- its ability to attract and retain associates and members;
- the general overall economic outlook;
- the perception and acceptance of network-marketing; and
- the consumer perception of Mannatech's products and its overall operations.

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

The following table sets forth Mannatech's unaudited consolidated quarterly statement of operations data for the periods indicated. In Mannatech's opinion, this information has been prepared on the same basis as its audited consolidated financial statements set forth in this report and includes all adjustments that are considered necessary to present fairly this information in accordance with generally accepted accounting principles. The reader should read this information in conjunction with the Consolidated Financial Statements and related Notes of this report.

	Mar. 31, 2002	*June 30, 2002*(1)	*Sept. 30, 2002*	*Dec. 31, 2002*(2)	*Mar. 31, 2003*	*June 30, 2003*(3)	*Sept. 30, 2003*(4)	*Dec. 31, 2003*(5)
	(in millions, except per share information)							
Net sales	**$32.9**	**$35.4**	**$34.5**	**$38.1**	**$40.5**	**$46.5**	**$49.7**	**$54.3**
Gross profit	$13.2	$14.0	$14.0	$16.0	$17.4	$19.5	$20.6	$23.1
Income before income taxes	$ 1.2	$ 0.3	$ 0.4	$ 1.5	$ 2.1	$ 1.6	$ 4.2	$ 4.8
Income tax expense	($ 0.6)	($ 0.0)	($ 0.2)	($ 0.7)	($ 0.7)	($ 0.4)	($ 1.3)	($ 1.5)
Net income	**$ 0.6**	**$ 0.3**	**$ 0.2**	**$ 0.8**	**$ 1.4**	**$ 1.2**	**$ 2.9**	**$ 3.3**
Earnings per share: (6)								
Basic	$0.02	$0.01	$0.01	$0.04	$0.06	$0.05	$0.11	$0.12
Diluted	$0.02	$0.01	$0.01	$0.03	$0.06	$0.05	$0.11	$0.12

(1) The New Zealand operation began in June 2002.

(2) The revamped global associate career and compensation plan was launched and a 4% price increase in certain wholesale and retail prices was implemented in late September 2002.

(3) Mannatech recorded $1.4 million in severance expenses and $0.6 million in a non-cash accounting charge related to the resignation of Mr. Henry and $0.6 million related to non-cash variable accounting charges for stock options and warrants for executives who resigned in 2001.

(4) Mannatech recorded $0.4 million related to severance expenses for Mr. Wayment and two other employees.

(5) Mannatech recorded $0.2 million related to severance expenses for the resignation of four other employees and $0.3 million in a non-cash accounting charge related to modifying the terms of stock options held by Mr. Wayment.

(6) Computed on the basis described in Note 1 in the Notes to the Consolidated Financial Statements.

Liquidity and Capital Resources

Mannatech's principal use of cash is to pay for operating expenses, including commissions and incentives, capital expenditures, inventory purchases, and funding international expansion. Mannatech generally funds its business objectives, working capital, and operations through reliance on its cash flows from operations rather than incurring long-term debt. Mannatech plans to continue to primarily fund its business objectives, working capital, and operations primarily through its cash flows from operations and operating leases. Operating leases help Mannatech fund the leasing of buildings, automobiles and computer hardware. In 2004, Mannatech entered into a $1.0 million master operating lease line-of-credit, which has not been utilized as of March 1, 2004. In addition, Mannatech also has a $2.0 million unused line-of-credit that will expire in March 2004, which bears interest at the bank's prime interest rate minus 1%. Mannatech expects to renew the line-of-credit with similar terms. Mannatech believes it can use these lines-of-credit along with its normal cash flows from operations to fund any unanticipated short falls in its cash flows.

Cash and Cash Equivalents

Mannatech's cash and cash equivalents increased 59.9%, or $10.6 million, to $28.3 million at December 31, 2003 from $17.7 million at December 31, 2002. In 2003, Mannatech purchased four long-term investments in various bond funds, which totaled $10.0 million. In addition, Mannatech was required to restrict $2.1 million of cash for collateral for its unused line-of-credit but expects this restriction to be removed in 2004. The increase in Mannatech's cash and cash equivalents and its investments was directly attributable to curtailing operating expenses and increasing its operating profits.

Working Capital

Mannatech's working capital increased by 70.5% to $16.2 million at December 31, 2003 from $9.5 million at December 31, 2002. Mannatech's increase in working capital in 2003 was composed of an increase in current assets of $16.9 million, partially offset by an increase in current liabilities of $10.2 million. 75% of the increase in working capital was attributable to an increase in cash and cash equivalents, including restricting cash of $2.1 million as collateral for its unused line-of-credit. The remaining increase in current assets primarily related to increasing inventories by $2.4 million and increasing prepaid expenses to support projected net sales levels and future operations. The increase in current assets was partially offset by an increase in current liabilities. Current liabilities increased as a result of accruing $1.0 million in severance expenses related to the resignation of former executives and employees and increasing liabilities for payments related to an increase in commissions, inventories, and operational expenses. The increase in inventories, commissions, and operational expenses related to an increase in operating profits and an expected increase in future net sales levels.

Mannatech's cash flows consist of the following:

Provided by (used in):	For the year ended December 31, 2001	2002	2003
Operating activities	$7.4 million	$9.7 million	$20.2 million
Investing activities	($1.2 million)	($1.3 million)	($12.5 million)
Financing activities	($2.0 million)	($0.7 million)	$ 2.8 million

Operating Activities

In 2003, Mannatech's operating activities provided $20.2 million in cash compared to cash of $9.7 million in 2002 and cash of $7.4 million in 2001. In 2003, net earnings adjusted for noncash activities provided cash of $13.0 million. In 2002, net earnings adjusted for noncash activities provided cash of $6.3 million and in 2001, net earnings adjusted for noncash activities provided no cash.

Management of Mannatech's working capital accounts, which includes receivables, inventories, prepaid expenses, payables, deferred revenues, accrued commission and expenses for operations, contributed $ 6.8 million in positive cash flow in 2003, compared to $5.1 million in 2002, and $5.2 million in 2001.

Operating activities also include accruing severance payments to former executives of $2.0 million in 2003 and $3.4 million in 2001, partially offset by using cash to pay the accrued severance payments of $1.6 million in 2003, $1.7 million in 2002, and $1.2 million in 2001. Mannatech expects that its operating cash flows in 2004 will be sufficient to fund its current operations, its plans for international expansion, and to pay cash dividends declared in 2004 of approximately $2.6 million.

Investing Activities

In 2003, Mannatech's investing activities used $12.5 million in cash compared to using $1.3 million in 2002 and $1.2 million in 2001. In 2003, Mannatech used $9.9 million of its cash to purchase higher yielding investments and used $2.1 million of its cash to fund its collateral for its unused line-of-credit. Mannatech expects that its restriction of cash totaling $2.1 million will be removed in 2004. In 2003, $0.3 million of Mannatech's long-term restricted cash related to its master operating lease was released for operating use. In 2003, Mannatech collected $0.2 million in cash from notes receivable due from shareholders, which included collecting $134,000 from Mr. William Fioretti, a shareholder who was delinquent in his payments to Mannatech.

Mannatech also uses cash to purchase property, plant and equipment. Capital asset purchases consisted of purchases of office furniture, computer software, and computer hardware and totaled $0.9 million in 2003, $1.0 million in 2002, and $1.3 million in 2001. Annual capital asset purchases decreased by 9.3% in 2003 and decreased 25.3% in 2002. In 2002, Mannatech changed the way it funded additions of certain computer hardware to better deal with the rapid technological advancements in the marketplace. As a result, Mannatech negotiated with certain financial institutions to lease certain computer hardware through master operating leases rather than using its cash to purchase capitalized computer hardware. Master operating leases allow Mannatech to lease certain computer hardware at a reduced cost and at the end of the lease, Mannatech has the option to either purchase any of the computer hardware for the estimated fair value or return the computer hardware back to the financial institution at no additional cost. Mannatech believes that by utilizing operating leases to fund its computer hardware needs it is able to minimize its cash outlays while continuing to optimize its technological needs. Mannatech is planning a two-year project of upgrading and fully integrating its back-office systems and intends to spend a total of $6.0 million to $8.0 million. Some of these costs will relate to programming and implementation of software and will be capitalized in 2004 and 2005. In addition, in 2004 and 2005, Mannatech may purchase up to $2.0 million in various capitalized assets for its existing operations and its planned international expansion.

Financing Activities

In 2003, Mannatech's financing activities provided $2.8 million in cash as compared to using ($0.7 million) in 2002 and ($2.0 million) in 2001. In 2003, Mannatech received cash proceeds from stock option activity of $2.9 million, which was partially offset by cash repayments of notes payable and capital leases of ($0.1 million). In 2002, Mannatech used cash of ($0.7 million) to repay capital leases and notes payable.

In 2001, Mannatech received cash proceeds from the sale of treasury stock and stock option activity of $0.9 million, which was offset by cash repayments of notes payable and capital leases of ($0.8 million) and funding the prior year's bank overdrafts of ($1.5 million). In addition, as required by the Lock-Up and Separation Agreements with Mr. Charles Fioretti, Mannatech was required to purchase 589,971 shares of Mr. Fioretti's common stock at a cost of ($0.6 million).

General Liquidity and Cash Flows

Mannatech has generated positive cash flows from its operations and believes that its existing liquidity and cash flows from operations, including cash and investments totaling $38.2 million, its access to a $2.0 million unused line-of-credit, and access to its $1.0 million master operating lease line-of-credit should be adequate to fund normal business operations expected in the future, its estimated payment of $2.6 million related to a $0.10 per common share cash dividend declared on January 21, 2004, and its plans for international expansion and new back-office systems for the next 12 to 24 months. Mannatech believes its existing liquidity and cash flows will be adequate for its future as most of its operating expenses are variable in nature. However, if Mannatech's existing capital resources or cash flows become insufficient to meet its current business plans, projections, and existing capital requirements, Mannatech would be required to raise additional funds, which may not be available on favorable terms, if at all.

Mannatech is required to fund its future commitments and obligations, which as of December 31, 2003 are as follows:

- funding the remaining payments related to the severance agreements with former executives. Under the terms of various separation agreements, Mannatech is required to pay the aggregate amount of $1.3 million, of which $1.0 million will be paid over the next 12 months;
- funding the declared cash dividend of $0.10 per common share, totaling approximately $2.6 million, which is payable on March 12, 2004;
- funding up to $2.7 million of estimated costs related to its 2004 annual travel incentive award;
- funding an estimated $4.5 million of royalty payments for future royalties associated with projected sales to various individuals;
- funding the remaining non-compete payments of $150,000 to Dr. Reg. McDaniel, a former employee, payable in monthly installments of $25,000 through June 2004; and
- funding various operating leases for building and equipment rental of $4.2 million through 2007.

In addition to Mannatech's current obligations related to its accounts payable and accrued expenses for its current operations, the approximate future maturities of Mannatech's existing commitments and obligations are as follows:

	For the year ended December 31,					
	2004	*2005*	*2006*	*2007*	*2008*	*Total*
			(in thousands)			
Severance payments to former executives and employees	$ 953	$ 359	$ —	$ —	$ —	$ 1,312
Funding cash dividends declared in 2004	2,600	—	—	—	—	2,600
Funding costs for its 2004 annual travel incentive award	2,700	—	—	—	—	2,700
Royalty obligations for expected sales in the future	900	900	900	900	900	4,500
Non-compete payments to Dr. McDaniel, a former employee	150	—	—	—	—	150
Minimum rental commitment related to noncancelable operating leases	1,902	1,089	894	308	—	4,193
Totals	**$9,205**	**$2,348**	**$1,794**	**$1,208**	**$900**	**$15,455**

Mannatech has no present commitments or agreements with respect to acquisitions or purchases of any manufacturing facilities. Since 1994, Mannatech has maintained a purchase commitment with its supplier of Manapol®. In 2003, the purchase commitment was modified to include purchases by its manufacturers, as well as from Mannatech. The purchase commitment requires a collective minimum purchase by Mannatech and its manufacturers of $0.3 million per month through November 2004. Presently Mannatech's manufacturers' monthly purchases of Manapol® have met or exceeded the monthly-required commitment of $0.3 million. Mannatech's projected finished goods purchases are projected to meet the required minimum monthly purchase commitment in 2004.

Mannatech intends to continue to open additional operations in new foreign markets. In 2004, Mannatech plans to expand into South Korea and in 2005, Mannatech plans to expand into Taiwan, which is estimated to cost between $4.0 million and $6.0 million in the aggregate, of which approximately $1.0 million will relate to capital asset purchases that will be depreciated over the life of the assets or lease term.

Mannatech is planning to develop and implement fully-integrated back-office systems and expects to incur costs in 2004 and 2005 of between $6.0 million and $8.0 million. In addition, in 2004 and 2005, Mannatech plans to purchase various other capital assets of approximately $1.0 million, per year.

In March 2003, Mannatech established a one-year $2.0 million line-of-credit with JPMorganChase Bank, which to date has not been utilized. This line-of-credit was established to safeguard against any unanticipated operating deficiencies and strengthen Mannatech's credit rating. Mannatech intends to renew the line-of-credit in March 2004 with similar terms. Mannatech does not anticipate any significant changes in its operations, but believes any future unanticipated significant changes in its operations could force it to consume its available capital resources faster than anticipated. Mannatech also believes that its existing cash and capital requirements depend on its ability to continue to protect its proprietary rights and its ability to distribute high-quality, proprietary products that attract and retain associates and members.

Off–Balance Sheet Arrangements

Mannatech does not utilize off-balance sheet financing arrangements other than in the normal course of business. Mannatech finances the use of certain facilities, office and computer equipment, and automobiles under various operating lease agreements. As of December 31, 2003, the total future minimum lease payments under various operating leases totaled $4.2 million and are due in payments through 2007 as summarized in the table above.

Recent Financial Accounting Standards Board Statements

SFAS 143. In June 2001, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards No. 143 ("SFAS 143") "Accounting for Asset Retirement Obligations." SFAS 143 is effective for fiscal years beginning after June 15, 2002. SFAS 143 requires that the fair value of a liability for an asset retirement obligation be recognized in the period in which it is incurred if a reasonable estimate of fair value can be determined. In addition, SFAS 143 requires the related asset retirement costs to be capitalized as part of the carrying amount of the long-lived asset and to be amortized over the life of the lease. On January 1, 2003, Mannatech adopted SFAS 143, which resulted in an increase in its leasehold improvements and long-term liabilities of $250,000 for the estimated restoration costs of its Japanese leased facilities. Mannatech considered the cumulative effect of this adjustment and the impact on its consolidated net income to be insignificant.

FIN 46. In January 2003, FASB issued Interpretation No. 46 ("FIN 46"), "Consolidation of Variable Interest Entities." FIN 46 is effective for variable interest entities created after January 31, 2003 and is required to be adopted for variable interest entities that existed prior to February 1, 2003 by December 31, 2003. FIN 46 is an interpretation of Accounting Research Bulletin No. 51, "Consolidated Financial Statements." FIN 46 requires a variable interest entity to be consolidated by a company if that company is subject to a majority of the risk of loss from the variable interest entity's activities, entitled to receive a majority of the entity's residual returns or both. The adoption of this interpretation did not have a significant impact on Mannatech's consolidated financial condition, results of operations, or cash flows.

FIN 46R. In December 2003, FASB issued a revision to FIN 46 ("FIN 46R"), to clarify some of the provisions and to exempt certain entities from its requirements. Under the new guidance, special effective date provisions apply to enterprises that have fully or partially applied FIN 46 prior to issuance of the revised interpretation. Otherwise, application of FIN 46R is required in financial statements of public entities that have interests in structures that are commonly referred to as special-purpose entities ("SPE's") for periods ending after December 15, 2003. Application by public entities, other than business issuers, for all other types of variable interest entities other than SPE's is required in financial statements for periods ending after March 15, 2004. Mannatech does not have interest in structures commonly referred to as SPE's, therefore the adoption of FIN 46R is not expected to have a material impact on Mannatech's consolidated financial position, results of operations or cash flows.

SFAS 132R. In December 2003, FASB issued a revision to Statement of Financial Accounting Standards No. 132 ("SFAS 132R"), "Employers' Disclosure about Pensions and Other Postretirement Benefits, an amendment of FASB Statements No. 87, 88 and 106." SFAS 132R requires additional disclosures to those required in the original SFAS 132 about the assets, obligations, cash flows, and net periodic benefit cost of defined benefit pension plans and other defined benefit postretirement plans. The provisions of SFAS 132 remain in effect until the provisions of SFAS 132R are adopted. SFAS 132R is effective for company's with interim periods beginning after December 15, 2003. The adoption of SFAS 132R is not expected to have a material impact on Mannatech's consolidated financing position, results of operations or cash flows.

SFAS 149. In April 2003, FASB issued Statement of Financial Accounting Standards No. 149 ("SFAS 149"), "Amendment of Statement 133 on Derivative Instruments and Hedging Activities." SFAS 149 amends SFAS 133 "Accounting for Derivative Instruments and Hedging Activities" and the related implementation guidance and is effective for contracts entered into or modified after September 30, 2003, except for hedging relationships designated after September 30, 2003. SFAS 149 clarifies the definition of a derivative and amends the financial accounting and reporting required for derivative instruments, including certain derivative instruments embedded in other contracts and for hedging activities. In addition, SFAS 149 improves the financial reporting requirements by requiring more consistent reporting of contracts as either derivatives or hybrid instruments. The adoption of SFAS 149 did not have a significant impact on Mannatech's consolidated financial condition, results of operations, or cash flows.

SFAS 150. In May 2003, FASB issued Statement of Financial Accounting Standards No. 150 (“SFAS 150”), “Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity.” SFAS 150 broadens the definition of financial instruments and establishes standards for how an issuer classifies and measures certain financial instruments with characteristics of both liabilities and equity. SFAS 150 also requires that an issuer classify a financial instrument that is within its scope as an asset or as a liability. SFAS 150 is effective for financial instruments entered into or modified after May 31, 2003 and is otherwise effective at the beginning of the first interim period beginning after June 15, 2003. The adoption of SFAS 150 did not have a significant impact on Mannatech’s consolidated financial condition, results of operations, or cash flows.

Quantitative and Qualitative Disclosures about Market Risk

Mannatech does not engage in trading market risk sensitive instruments and does not purchase investments as hedges or for purposes “other than trading” that are likely to expose it to certain types of market risk, including interest rate, commodity price, or equity price risk. Although Mannatech has some short- and long-term investments, there has been no material change in its exposure to interest rate risk. Mannatech has not issued any debt instruments, entered into any forward or futures contracts, purchased any options, or entered into any swaps.

Mannatech is exposed to certain other market risks, including changes in currency exchange rates as measured against the United States dollar. The value of the United States dollar may affect Mannatech’s financial results. Changes in exchange rates could positively or negatively affect its financial results, as expressed in United States dollars. When the United States dollar strengthens against currencies in which products are sold or weakens against currencies in which Mannatech incurs costs, net sales and costs could be adversely affected.

Mannatech believes inflation has not had a material impact on its operations or profitability. Mannatech expanded into Australia in 1998, into the United Kingdom in 1999, into Japan in 2000, and into New Zealand in 2002. Revenues and expenses in foreign markets are currently translated using historical and weighted-average currency exchange rates.

Mannatech has established policies, procedures, and internal processes that it believes help monitor any significant market risks. Mannatech currently does not use any financial instruments to manage its exposure to such risks. The sensitivity of earnings and cash flows to variability in currency exchange rates is assessed by applying an appropriate range of potential rate fluctuations to Mannatech’s assets, obligations, and projected transactions denominated in foreign currencies. Mannatech cautions that it cannot predict with any certainty its future exposure to such currency exchange rate fluctuations or the impact, if any, such fluctuations may have on its future business, product pricing, consolidated financial condition, results of operations, or cash flows. However to combat such risk, Mannatech closely monitors current fluctuations for exposure to such market risk. The foreign currencies in which Mannatech currently has exposure to foreign currency exchange rate risk include the currencies of Canada, Australia, the United Kingdom, Japan, New Zealand, South Korea, and Taiwan. The low and high currency exchange rates to the United States dollar, for each of these countries, for the year ended December 31, 2003 are as follows:

Country/Currency	*Low*	*High*
Australia/Dollar	$0.56150	$0.74950
Canada/Dollar	$0.63370	$0.77270
Japan/Yen	$0.00823	$0.00935
New Zealand/Dollar	$0.52290	$0.65470
South Korea/Won	$0.00080	$0.00088
Taiwan/Dollar	$0.02858	$0.02984
United Kingdom/British Pound	$1.55430	$1.77850

Controls and Procedures

Mannatech’s management, with the participation of its Chairman of the Board and Chief Executive Officer (our principal executive officer) and its Chief Financial Officer (our principal financial officer) has concluded, based on their evaluation as of the end of the period covered by this report, that its disclosure controls and procedures are effective to ensure that information required to be disclosed by Mannatech and its reports filed or submitted by it under the Securities Exchange Act of 1934, as amended, is recorded, processed, summarized and reported within the time periods specified in the SEC’s rules and forms, and include controls and procedures designed to ensure that information required to be disclosed by Mannatech in such reports is accumulated and communicated to its management, including its principal executive officer and financial officer, as appropriate to allow timely decisions regarding required disclosure.

There were no changes in our internal controls during the fourth quarter of 2003 that have materially affected or are reasonably likely to materially affect its internal controls over financial reporting.

REPORT OF INDEPENDENT AUDITORS

To the Board of Directors and Shareholders of
Mannatech, Incorporated

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of operations, changes in shareholders' equity and cash flows present fairly, in all material respects, the financial position of Mannatech, Incorporated and its subsidiaries at December 31, 2002 and 2003, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2003 in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America, which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

PricewaterhouseCoopers LLP

Dallas, Texas
March 12, 2004

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

	December 31, 2002	December 31, 2003
ASSETS		
Cash and cash equivalents	$17,693	$28,291
Restricted cash	—	2,140
Accounts receivable	632	134
Income tax receivable	307	—
Current portion of notes receivable from shareholders	143	55
Inventories	5,515	7,861
Prepaid expenses and other current assets	759	2,084
Deferred tax assets	1,013	2,363
Total current assets	**26,062**	**42,928**
Property and equipment, net	7,467	5,514
Long-term investments	—	9,994
Notes receivable from shareholders, excluding current portion	247	150
Deferred tax assets	—	631
Other assets	1,040	806
Total assets	**$34,816**	**$60,023**
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current portion of capital leases and notes payable	$136	$16
Accounts payable	1,846	2,687
Accrued expenses	12,659	19,940
Deferred revenue	1,080	3,142
Current portion of accrued severance related to former executives	810	953
Total current liabilities	**16,531**	**26,738**
Capital leases and notes payable, excluding current portion	8	32
Accrued severance related to former executives, excluding current portion	150	359
Long-term liabilities	—	106
Deferred tax liabilities	77	—
Total liabilities	**16,766**	**27,235**
Commitments and contingencies (Note 12)	—	—
Shareholders' equity:		
Preferred stock, $0.01 par value, 1,000,000 shares authorized, no shares issued and outstanding	—	—
Common stock, $0.0001 par value, 99,000,000 shares authorized, 25,162,541 shares issued and 25,134,840 outstanding in 2002 and 26,227,171 shares issued and 26,183,422 outstanding in 2003	3	3
Additional paid-in capital	18,168	24,175
Retained earnings	481	9,271
Accumulated other comprehensive loss	(502)	(422)
	18,150	**33,027**
Less treasury stock, at cost, 27,701 shares in 2002 and 43,749 shares in 2003	(100)	(239)
Total shareholders' equity	**18,050**	**32,788**
Total liabilities and shareholders' equity	**$34,816**	**$60,023**

See accompanying notes to consolidated financial statements.

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

	For the Year Ended December 31,		
	2001	2002	2003
Net sales	**$128,736**	**$140,948**	**$191,019**
Cost of sales	23,523	24,419	30,884
Commissions and incentives	51,995	59,357	79,577
	75,518	83,776	110,461
Gross profit	**53,218**	**57,172**	**80,558**
Operating expenses:			
Selling and administrative expenses	30,816	32,777	39,993
Other operating costs	22,906	21,417	26,956
Severance expenses related to former executives	3,420	—	2,017
Total operating expenses	57,142	54,194	68,966
Income (loss) from operations	**(3,924)**	**2,978**	**11,592**
Interest income	275	285	348
Interest expense	(32)	(19)	(44)
Other income (expense), net	(83)	98	842
Income (loss) before income taxes	**(3,764)**	**3,342**	**12,738**
Income tax (expense) benefit	104	(1,454)	(3,948)
Net income (loss)	**($ 3,660)**	**$ 1,888**	**$ 8,790**
Earnings (loss) per common share:			
Basic	($ 0.15)	$ 0.08	$ 0.34
Diluted	($ 0.15)	$ 0.07	$ 0.34
Weighted-average common shares outstanding:			
Basic	24,730	25,135	25,494
Diluted	24,730	25,265	26,175

See accompanying notes to consolidated financial statements.

MANNATECH, INCORPORATED
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2001, 2002, AND 2003

(in thousands, except per share information)

	Common stock		Additional	Note receivable	Retained earnings	Accumulated other	Treasury stock		Total
	Issued shares	Par value	paid in capital	from shareholder	(accumulated deficit)	comprehensive income (loss)	Shares	Amounts	shareholders' equity
Balance at December 31, 2000	**25,051**	**$3**	**$17,949**	**($167)**	**$2,798**	**($321)**	**122**	**($1,537)**	**$18,725**
Proceeds from stock option exercises/warrants	37	—	82	—	—	—	—	—	82
Tax benefit from exercise stock options	—	—	19	—	—	—	—	—	19
Charge related to stock options and warrants	—	—	54	—	—	—	—	—	54
Repayment of note receivable from shareholder	—	—	—	167	—	—	53	(167)	—
Repurchase of common stock per shareholder agreement	—	—	—	—	—	—	590	—	—
Release of commitment to repurchase common stock from shareholder	—	—	—	—	—	—	—	417	417
Repurchase of common stock from separation agreement	—	—	—	—	—	—	50	(73)	(73)
Sale of treasury stock to a related party	—	—	—	—	(545)	—	(815)	1,360	815
Tender of common stock for exercise of stock options	74	—	100	—	—	—	27	(100)	—
Components of comprehensive loss:									
Foreign currency translation	—	—	—	—	—	(287)	—	—	(287)
Net loss	—	—	—	—	(3,660)	—	—	—	(3,660)
Total comprehensive loss									(3,947)
Balance at December 31, 2001	**25,162**	**3**	**18,204**	**—**	**(1,407)**	**(608)**	**27**	**(100)**	**16,092**
Benefit related to stock options and warrants	—	—	(36)	—	—	—	—	—	(36)
Components of comprehensive income:									
Foreign currency translation	—	—	—	—	—	106	—	—	106
Net income	—	—	—	—	1,888	—	—	—	1,888
Total comprehensive income									1,994
Balance at December 31, 2002	**25,162**	**3**	**18,168**	**—**	**481**	**(502)**	**27**	**(100)**	**18,050**
Proceeds from stock option exercises	976	—	2,917	—	—	—	—	—	2,917
Tax benefit from exercise of stock options	—	—	1,459	—	—	—	—	—	1,459
Tender of common stock for exercise of stock options	89	—	139	—	—	—	17	(139)	—
Charge related to stock options and warrants	—	—	1,492	—	—	—	—	—	1,492
Components of comprehensive income:									
Foreign currency translation	—	—	—	—	—	82	—	—	82
Unrealized loss from investments classified as available-for-sale, net of tax of $2	—	—	—	—	—	(2)	—	—	(2)
Net income	—	—	—	—	8,790	—		—	8,790
Total comprehensive income									8,870
Balance at December 31, 2003	**26,227**	**$3**	**$24,175**	**$ —**	**$9,271**	**($422)**	**44**	**($ 239)**	**$32,788**

See accompanying notes to consolidated financial statements.

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

	For the Year Ended December 31,		
	2001	2002	2003
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income (loss)	($3,660)	$ 1,888	$ 8,790
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Depreciation and amortization	3,916	3,991	3,177
Provision for doubtful accounts	—	31	—
Write-down of inventories	1,235	124	154
Loss on disposal of assets	146	52	19
Tax benefit from exercise of stock options	19	—	1,459
Charge (benefit) related to stock options and warrants granted	54	(36)	1,492
Deferred income taxes	(1,706)	219	(2,057)
Changes in operating assets and liabilities:			
Decrease in accounts receivable	15	29	515
(Increase) decrease in income tax receivable	2,300	(307)	307
(Increase) decrease in inventories	3,541	2,784	(2,433)
(Increase) decrease in prepaid expenses and other current assets	458	816	(1,320)
(Increase) decrease in other assets	273	48	(84)
Increase (decrease) in accounts payable	(2,293)	1,097	823
Increase in accrued expenses	675	44	6,949
Increase in deferred revenue	258	646	2,062
Increase (decrease) in accrued severance	2,182	(1,722)	352
Net cash provided by operating activities	**7,413**	**9,704**	**20,205**
CASH FLOWS FROM INVESTING ACTIVITIES:			
Acquisition of property and equipment	(1,316)	(983)	(892)
Cash proceeds from sale of property and equipment	—	7	—
Increase in restricted cash	—	(345)	(1,795)
Repayment by shareholders/related parties	124	32	185
Maturities (purchases) of investments	1	—	(9,994)
Net cash used in investing activities	**(1,191)**	**(1,289)**	**(12,496)**
CASH FLOWS FROM FINANCING ACTIVITIES:			
Book overdrafts	(1,451)	—	—
Proceeds from stock options exercised	82	—	2,917
Proceeds from sale of treasury stock	815	—	—
Purchase of common stock from shareholder	(656)	—	—
Repayment of capital lease obligations	(298)	(39)	(6)
Repayment of notes payable	(516)	(660)	(129)
Net cash provided by (used) in financing activities	**(2,024)**	**(699)**	**2,782**
Effect of exchange rate changes on cash and cash equivalents	(8)	51	107
Net increase in cash and cash equivalents	**4,190**	**7,767**	**10,598**
CASH AND CASH EQUIVALENTS:			
Beginning of year	5,736	9,926	17,693
End of year	$9,926	$17,693	$28,291
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:			
Income taxes paid	$ —	$ 2,077	$ 1,890
Interest paid	$ 32	$ 19	$ 44
SUMMARY OF NON-CASH INVESTING AND FINANCING ACTIVITIES:			
Assets acquired through notes payable and capital lease	$ 801	$ —	$ 40
Commitment (cancellation of commitment) to repurchase common stock from a shareholder	($ 417)	$ 535	$ —
Treasury shares received for the payment of a note receivable due from a shareholder	$ 167	$ —	$ —
Treasury shares tendered to exercise stock options	$ 100	$ —	$ 139
Asset retirement obligations related to operating leases	$ —	$ —	$ 250

See accompanying notes to consolidated financial statements.

NOTE 1: ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Mannatech, Incorporated (the "Company") was incorporated in the state of Texas on November 4, 1993 and is located in Coppell, Texas. The Company develops and sells high-quality, proprietary nutritional supplements, topical products, and weight-management products primarily through a network-marketing system operating in the United States, Canada, Australia, the United Kingdom, Japan, and New Zealand. Independent associates ("associates") purchase the Company's products at published wholesale prices for the primary purpose of personal consumption and selling to retail customers. Members ("members") purchase the Company's products at a discount from published retail prices. Only independent associates are eligible to earn commissions and incentives on their downline growth and sales volume. The Company has ten wholly-owned subsidiaries although only the following are currently active:

Wholly-owned subsidiary name	*Date incorporated*	*Location of subsidiary*	*Date operations began*
Mannatech Australia Pty Limited	April 1998	St. Leonards, Australia	October 1998
Mannatech Ltd.	November 1998	Aldermaston, Berkshire U.K.	November 1999
Mannatech Japan, Inc.	January 2000	Tokyo, Japan	June 2000

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.

Use of Estimates. In preparing consolidated financial statements in conformity with generally accepted accounting principles, management is required to make certain estimates and assumptions that could affect the reported amounts of assets, liabilities, revenues, and expenses during the reporting periods. Actual results could differ from such estimates.

Reclassification. Certain prior years' balances have been reclassified to conform to the Company's 2003 consolidated financial statement presentation.

Cash and Cash Equivalents. The Company considers all highly liquid investments with original maturities of three months or less to be cash equivalents.

Accounts Receivable. At December 31, 2002, accounts receivable primarily consisted of the overpayment of consumption tax paid in Japan, a refund of value added tax from the United Kingdom, and payments due from manufacturers for the purchase of raw material inventories. At December 31, 2003, accounts receivable primarily consisted of payments due from manufacturers for purchases of raw material inventories and from customers.

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

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

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

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

Other Assets. Other assets consist primarily of deposits for building leases in various locations and two restricted term deposits in an Australian bank, one of which matures in March 2004 and the other matures in August 2004. Both term deposits are required as collateral for the Company's Australian building lease and are expected to be renewed. The Australian building lease expires in August 2004, but the Company is expecting to renew the building lease with substantially the same terms. Therefore, the Company classified the Australian term deposits as long-term assets.

Income Taxes. The Company accounts for income taxes using the asset and liability approach for financial accounting and reporting. The Company evaluates the probability of realizing the future benefits of its deferred tax assets and provides a valuation allowance for the portion of any deferred tax assets where the likelihood of realizing an income tax benefit in the future does not meet the more likely than not criteria for recognition.

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

The Company defers all revenue received for customer shipments until its customers receive their shipments. Total deferred revenue related to undelivered shipments at December 31, 2002 and 2003 was $0.8 million and $2.7 million, respectively.

The Company also defers a portion of its revenue from the sale of its starter and renewal packs related to a one-year magazine subscription offered in some of its packs and from revenue from each pack that exceeds the total average wholesale value of all individual components included in such packs. The Company amortizes this deferred revenue over twelve months. Deferred revenue related to magazine subscriptions and revenue exceeding the total average wholesale value was $0.3 million and $0.4 million at December 31, 2002 and 2003, respectively.

Shipping and Handling Cost. The Company records freight and shipping revenue collected from associates and members as revenue. The Company records shipping and handling costs associated with customer shipments as selling and administrative expenses. Total shipping and handling costs included in selling and administrative expenses were approximately $7.0 million, $7.2 million and $9.6 million for 2001, 2002, and 2003, respectively.

Advertising Costs. Advertising and promotional expenses are included in selling and administrative expenses and are charged to operations when incurred. Advertising and promotional expenses were approximately $3.4 million, $3.1 million, and $4.6 million for 2001, 2002, and 2003, respectively. Literature and promotional items, called sales aids, are sold to associates to assist in their sales efforts and are generally included in inventories and charged to cost of sales when sold.

Accounting for Stock-Based Compensation. The Company has three stock-based compensation plans, which are described more fully in Note 11. The Company generally grants stock options to its employees and board members at the fair market value of the stock on the date of grant. The stock options usually vest over three years and are exercisable for ten years. Stock options granted to shareholders who own five percent or more of the Company's outstanding stock are granted at an exercise price that may not be less than 110% of the fair market value of the Company's common stock on the date of grant and have a term no greater than five years.

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

For stock-based compensation issued to employees and members of its board of directors, the Company elected to follow Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" ("APB 25") and its related interpretations. Under the recognition and measurement principles of APB 25, no compensation expense is recognized unless the market price of the stock option exceeds the exercise price on the date of grant.

The fair value of each option granted was estimated on the date of grant using the Black-Scholes option-pricing model with the following weighted-average assumptions during 2001, 2002, and 2003:

	2001	*2002*	*2003*
Dividend yield	0%	0%	0%
Expected volatility	94.0%	87.2%	87.0%
Risk-free rate of return	4.8%	5.0%	3.4%
Expected life (in years)	7	7	4 or 7

For disclosure purposes only, the Company estimated the fair value for all of its stock options granted to employees and board members on the date of grant using the Black-Scholes option-pricing model and estimated the amount of expense that it would have recognized for each stock option granted over its vesting period. The following table illustrates the effect on the Company's net income (loss) and earnings (loss) per share if the Company had applied the fair value recognition provisions of SFAS 123 to all of its stock options, in thousands, except for per share information:

	For the year ended December 31,		
	2001	*2002*	*2003*
Consolidated net income (loss), as reported	($3,660)	$1,888	$8,790
Add (Subtract): Stock-based employee compensation expense included in reported net income (loss), net of related tax effect	34	(24)	918
Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards net of related tax effect	(1,101)	(1,116)	(1,067)
Pro forma net income (loss)	**($4,727)**	**$ 748**	**$8,641**
Basic Earnings (Loss) Per Share:			
As reported	($ 0.15)	$ 0.08	$ 0.34
Pro forma	($ 0.19)	$ 0.03	$ 0.34
Diluted Earnings (Loss) Per Share:			
As reported	($ 0.15)	$ 0.07	$ 0.34
Pro forma	($ 0.19)	$ 0.03	$ 0.33

Research and Development Costs. The Company expenses research and development costs when incurred. Research and development costs related to new product development, enhancing existing products, clinical studies and trials, Food and Drug Administration compliance studies, general supplies, internal salaries, third party contractors, and consulting fees were approximately $3.5 million, $3.4 million, and $4.0 million in 2001, 2002, and 2003, respectively. Salaries and contract labor are included in selling and administrative expenses and all other research and development costs are included in other operating expenses.

Software Development Costs. The Company capitalizes qualifying payroll and contracting costs related to the development of internal use software after the conceptual formulation stage has been completed. Such costs are amortized over the estimated useful life of the software, which is generally three to five years. Capitalized software costs were approximately $561,000, $280,000, and $56,000 in 2001, 2002, and 2003 respectively. Amortization expense related to its capitalized software was approximately $1.0 million, $1.1 million, and $0.7 million in 2001, 2002, and 2003, respectively.

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

Earnings Per Share. Basic Earnings Per Share ("EPS") calculations are based on the weighted-average number of the Company's common shares outstanding during the period, while diluted EPS calculations are calculated using the weighted-average number of common shares and dilutive common share equivalents outstanding during each period. The Company uses its weighted-average close price of its stock to determine the dilution of its stock options and warrants related to its EPS calculation.

Concentrations of Credit Risk. Financial instruments, which potentially subject the Company to concentrations of credit risk, consist principally of cash, cash equivalents, investments, receivables from related parties, and restricted cash. The Company utilizes financial institutions that the Company considers to be of high credit quality. The Company believes its notes receivables from shareholders are fully collectible.

Fair Value of Financial Instruments. The fair value of the Company's financial instruments, including cash and cash equivalents, restricted cash, time deposits, notes receivable, notes payable, capital leases, deferred revenues, and accrued expenses, approximate their recorded values due to their relatively short maturities.

Foreign Currency Translation. The Company's Australian and United Kingdom subsidiaries are operating as limited service providers and the United States dollar is considered to be their functional currency. As a result, nonmonetary assets and liabilities are translated at historical rates, monetary assets and liabilities are translated at exchange rates in effect at the end of the year, and revenues and expenses are translated at weighted-average exchange rates for the year. Translation (gains) and losses totaled approximately $86,000, ($113,000), and ($862,000) in 2001, 2002, and 2003, respectively.

Accumulated Other Comprehensive Income (Loss). The Company considers the Japanese Yen the functional currency of its Japanese subsidiary because it conducts substantially all of its business in Japanese Yen. The Company's Japanese subsidiary's assets and liabilities are translated into United States dollars at exchange rates existing at the balance sheet dates, revenues and expenses are translated at weighted-average exchange rates, and shareholders' equity and intercompany accounts are translated at historical exchange rates. The foreign currency translation adjustment is recorded as a separate component of shareholders' equity and is included as accumulated other comprehensive income (loss).

Commissions and Incentives. Associates are paid commissions and incentives based on their direct and indirect commissionable net sales and downline growth. Commissions and incentives are earned over 13 business periods and each business period is four weeks long. Commissions and incentives are accrued when earned. Some of the commissions and incentives related to product sales are paid three weeks following the business period end and the commissions and incentives related to pack sales are paid five weeks following the business period end.

NOTE 2: RECENT ACCOUNTING PRONOUNCEMENTS

SFAS 143. In June 2001, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards No. 143 ("SFAS 143") "Accounting for Asset Retirement Obligations." SFAS 143 is effective for fiscal years beginning after June 15, 2002. SFAS 143 requires that the fair value of a liability for an asset retirement obligation be recognized in the period in which it is incurred if a reasonable estimate of fair value can be determined. In addition, SFAS 143 requires the related asset retirement costs to be capitalized as part of the carrying amount of the long-lived asset and to be amortized over the life of the lease. On January 1, 2003, the Company adopted SFAS 143, which resulted in an increase in its leasehold improvements and long-term liabilities of $250,000 for the estimated restoration costs of its Japanese leased facilities. The Company considered the cumulative effect of this adjustment and the impact on its consolidated net income to be insignificant.

FIN 46. In January 2003, FASB issued Interpretation No. 46 ("FIN 46"), "Consolidation of Variable Interest Entities." FIN 46 is effective for variable interest entities created after January 31, 2003 and is required to be adopted for variable interest entities that existed prior to February 1, 2003 by December 31, 2003. FIN 46 is an interpretation of Accounting Research Bulletin No. 51, "Consolidated Financial Statements." FIN 46 requires a variable interest entity to be consolidated by a company if that company is subject to a majority of the risk of loss from the variable interest entity's activities, entitled to receive a majority of the entity's residual returns or both. The adoption of this interpretation did not have a significant impact on the Company's consolidated financial condition, results of operations, or cash flows.

FIN 46R. In December 2003, FASB issued a revision to FIN 46 ("FIN 46R"), to clarify some of the provisions and to exempt certain entities from its requirements. Under the new guidance, special effective date provisions apply to enterprises that have fully or partially applied FIN 46 prior to issuance of the revised interpretation. Otherwise, application of FIN 46R is required in financial statements of public entities that have interests in structures that are commonly referred to as special-purpose entities ("SPE's") for periods ending after December 15, 2003. Application by public entities, other than business issuers, for all other types of variable interest entities other than SPE's is required in financial statements for periods ending after March 15, 2004. The Company does not have interest in structures commonly referred to as SPE's, therefore the adoption of FIN 46R is not expected to have a material impact on the Company's consolidated financial position, results of operations or cash flows.

SFAS 132R. In December 2003, FASB issued a revision to Statement of Financial Accounting Standards No. 132 ("SFAS 132R"), "Employers' Disclosure about Pensions and Other Postretirement Benefits, an amendment of FASB Statements No. 87, 88 and 106." SFAS 132R requires additional disclosures to those required in the original SFAS 132 about the assets, obligations, cash flows, and net periodic benefit cost of defined benefit pension plans and other defined benefit postretirement plans. The provisions of SFAS 132 remain in effect until the provisions of SFAS 132R are adopted. SFAS 132R is effective for companies with interim periods beginning after December 15, 2003. The adoption of SFAS 132R is not expected to have a material impact on the Company's consolidated financing position, results of operations or cash flows.

SFAS 149. In April 2003, FASB issued Statement of Financial Accounting Standards No. 149 ("SFAS 149"), "Amendment of Statement 133 on Derivative Instruments and Hedging Activities." SFAS 149 amends SFAS 133 "Accounting for Derivative Instruments and Hedging Activities" and the related implementation guidance and is effective for contracts entered into or modified after September 30, 2003, except for hedging relationships designated after September 30, 2003. SFAS 149 clarifies the definition of a derivative and amends the financial accounting and reporting required for derivative instruments, including certain derivative instruments embedded in other contracts and for hedging activities. In addition, SFAS 149 improves the financial reporting requirements by requiring more consistent reporting of contracts as either derivatives or hybrid instruments. The adoption of SFAS 149 did not have a significant impact on the Company's consolidated financial condition, results of operations, or cash flows.

SFAS 150. In May 2003, FASB issued Statement of Financial Accounting Standards No. 150 ("SFAS 150"), "Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity." SFAS 150 broadens the definition of financial instruments and establishes standards for classifying and measuring certain financial instruments that have characteristics of both liabilities and equity. SFAS 150 also requires that an issuer classify a financial instrument that is within its scope as an asset or a liability. SFAS 150 is effective for financial instruments entered into or modified after May 31, 2003 and is otherwise effective at the beginning of the first interim period beginning after June 15, 2003. The adoption of SFAS 150 did not have a significant impact on the Company's consolidated financial condition, results of operations, or cash flows.

NOTE 3: INVESTMENTS

The Company began investing in investments in 2003 and has classified its investments as available for sale. At December 31, 2003, the Company's investments consisted of the following:

	Amortized cost	*Gross unrealized loss*	*Fair Value*
		(in thousands)	
Short-term:			
Federal National Mortgage Association	$ 2,140	$ —	$ 2,140
Long-term:			
Federal Home Loan Bank	3,998	(4)	3,994
Corporate asset-based obligations	5,000	—	5,000
State regulated utility company obligation	1,000	—	1,000
	9,998	(4)	9,994
Total investments	**$12,138**	**($ 4)**	**$12,134**

The Company's fair value of investments by contractual maturity at December 31, 2003, in thousands are as follows:

Due in one year or less	$ 2,140
Due between one and three years	3,994
Due after three years	6,000
	$12,134

NOTE 4: INVENTORIES

At December 31, 2002, the Company established a provision for slow-moving and obsolete inventory of $124,000. In 2003, the Company increased its inventory provision by $213,000 and wrote-off inventories of $91,000. Inventories consisted of the following (in thousands):

	December 31,	
	2002	*2003*
Raw materials	$1,481	$1,517
Finished goods, less inventory reserves for obsolescence of $124 in 2002 and $246 in 2003	4,034	6,344
	$5,515	**$7,861**

NOTE 5: PROPERTY AND EQUIPMENT

At December 31, 2002 and 2003, property and equipment consisted of the following (in thousands):

	Estimated useful life	*2002*	*2003*
Office furniture and equipment	5 to 7 years	$5,749	$6,027
Computer hardware and software	3 to 5 years	11,683	11,995
Automobiles	3 or 5 years	28	63
Leasehold improvements	2 to 10 years	5,700	6,135
		23,160	24,220
Less accumulated depreciation		(15,830)	(18,717)
		7,330	5,503
Construction in progress		137	11
		$7,467	**$5,514**

The Company had a capital lease relating to warehouse equipment of $32,000, at December 31, 2002 and 2003. At December 31, 2003, the Company also leased a $40,000 automobile for an Australian employee. In 2002, construction in progress consisted of internally developed software and in 2003 construction in progress consisted of software installation costs.

NOTE 6: ACCRUED EXPENSES

At December 31, 2002 and 2003, accrued expenses consisted of the following (in thousands):

	2002	*2003*
Commissions and incentives payable	$ 4,734	$ 6,865
Accrued inventory purchases	2,112	2,902
Sales and other taxes payable	1,670	1,814
Income taxes payable	110	2,506
Accrued royalties and compensation	1,868	3,104
Customer deposits and sales returns	1,184	799
Accrued legal and accounting	215	352
Other accrued expenses	766	1,598
	$12,659	**$19,940**

NOTE 7: NOTES PAYABLE AND CAPITAL LEASE OBLIGATIONS

In 2001, the Company entered into various finance agreements totaling $503,000, to finance premiums of its product liability, directors and officers and international insurance. One of the notes was payable in monthly installments of $28,000 through October 2002 and the other note was payable in monthly installments of $33,000 through April 2003. Both notes earned interest at 9.15% and were paid in full.

In January 2002, the Company leased a forklift, totaling $32,000, of which $25,000 was financed through a three-year capital lease. The capital lease earns interest at 6.0%, expires in December 2004, and contains a bargain purchase option. In 2003, the Company's Australian operations leased an automobile totaling $40,000 through a three-year capital lease. The capital lease earns interest at 5% and expires in July 2006.

In March 2003, the Company entered into a one-year $2.0 million line-of-credit with one of its primary banking institutions, JPMorganChase Bank. The Company has not drawn on its line-of-credit. The line-of-credit agreement does not contain any financial covenants or any commitment fees; however, the Company is required to restrict $2.1 million of its cash as collateral for this line-of-credit. The Company expects to renew this line-of-credit in 2004.

NOTE 8: INCOME TAXES

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

	2001	*2002*	*2003*
United States	($ 484)	$3,917	$ 9,922
Foreign	(3,280)	(575)	2,816
	($3,764)	**$3,342**	**$12,738**

The components of the Company's income tax provision for 2001, 2002, and 2003 are as follows:

	2001	*2002*	*2003*
Current provision:			
Federal	$1,522	$1,049	$5,161
State	—	96	394
Foreign	80	90	123
	1,602	1,235	5,678
Deferred provision:			
Federal	(1,721)	178	(1,560)
State	15	41	(170)
	(1,706)	219	(1,730)
	($ 104)	**$1,454**	**$3,948**

A reconciliation of the Company's effective tax rate and the U.S. federal statutory rate is summarized as follows:

	For the year ended December 31,		
	2001	*2002*	*2003*
Federal statutory income taxes	34.0%	34.0%	35.0%
State income taxes, net of federal benefit	(0.3)	2.7	1.8
Difference in foreign and United States tax on foreign operations	13.2	(5.9)	(0.3)
Effect of changes in its valuation allowance	(44.6)	9.9	(5.3)
Nondeductible expenses	(1.4)	1.2	0.5
Other	1.9	1.6	(0.8)
	2.8%	**43.5%**	**30.9%**

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

	2002	2003
DEFERRED TAX ASSETS:		
Current:		
Deferred revenue	$ 400	$1,210
Inventory capitalization	114	139
Inventory reserves	86	52
Accrued expenses	204	592
Current portion of severance expenses	207	367
Other	2	3
Total current deferred tax assets	**1,013**	**2,363**
Noncurrent:		
Depreciation and amortization	—	286
Net operating losses carryforward for the Japan subsidiary	2,936	2,258
Non-cash accounting charge related to stock options and warrants	—	195
Severance expenses, net of current portion	56	136
Capital loss carryforward	19	14
Total noncurrent deferred tax assets	3,011	2,889
Total deferred tax assets	**4,024**	**5,252**
Valuation allowance	(2,936)	(2,258)
Total deferred tax assets, net of valuation allowance	**$1,088**	**$2,994**
DEFERRED TAX LIABILITIES:		
Noncurrent:		
Depreciation and amortization	($ 124)	$ —
Other	(28)	—
Total deferred tax liabilities	**($ 152)**	**$ —**

At December 31, 2002 and 2003, the Company's valuation allowance was $2.9 million and $2.3 million, respectively. The valuation allowance represents a reserve against the deferred tax asset related to Japan's net operating loss carryforwards, as the Company believes that the likelihood of realizing an income benefit in the future does not meet the more likely than not criteria for recognition.

Net deferred tax assets (liabilities) are classified in the accompanying consolidated financial statements as follows (in thousands):

	2002	2003
Current deferred tax assets	$1,013	$2,363
Noncurrent deferred tax assets	—	631
Noncurrent deferred tax liabilities	(77)	—
Net deferred tax assets	**$ 936**	**$2,994**

A provision was not made for any U.S. or additional foreign taxes on approximately $0.6 million of undistributed earnings related to the Company's foreign subsidiaries as these earnings were and are expected to continue to be permanently reinvested. If the Company identifies an exception to its general reinvestment policy of undistributed earnings, additional taxes will be provided.

NOTE 9: TRANSACTIONS WITH RELATED PARTIES AND AFFILIATES

On February 17, 1999, the Company signed five separate notes receivable agreements with five shareholders who were also affiliates of the Company. The notes bear interest at 6.0%, with installments due annually through February 17, 2004. In 2001, the Company agreed to modify the terms of one of these affiliates, Mr. Charles Fioretti's, note receivable as part of his separation and release agreement. Mr. Fioretti is a former Chairman and Chief Executive Officer of the Company. Under the terms of the modified agreement dated June 4, 2001, Mr. Fioretti's remaining principal balance of $127,121 continues to accrue interest and is due on the earlier of February 17, 2011 or thirteen days after the date in which Mr. Fioretti no longer owns at least 100,000 shares of the Company's common stock. As of December 31, 2003, Mr. Fioretti owed principal and interest related to this note of approximately $150,000 and the Company has classified this note as noncurrent. As of December 31, 2003, the balance of the remaining notes, excluding Mr. Fioretti's, was approximately $55,000 and was paid in full by the two shareholders in February 2004.

On August 8, 2000, the Company loaned Mr. Charles Fioretti $500,000. The loan was collateralized by 174,570 shares of Mr. Fioretti's stock and was repaid in six successive monthly installments of 26,455 shares of his common stock beginning on September 3, 2000 and continuing through February 3, 2001. During 2000, Mr. Fioretti exchanged 105,820 shares of his stock with the Company to reduce the loan to him by $333,000. During 2001, Mr. Fioretti exchanged 52,910 shares of his stock with the Company to pay off the remaining balance of his loan.

On August 8, 2000, the Company also entered into a lockup and repurchase agreement with Mr. Charles Fioretti. Under the terms of the agreement, the Company agreed to buy up to $1.0 million worth of his stock. On a monthly basis, beginning on March 3, 2001 and continuing through February 3, 2002, the Company agreed to buy $83,333.33 worth of his stock, valued at 90% of the fair market value price on the close of that business day. During 2001, the Company purchased 589,971 shares from Mr. Fioretti valued at $583,333 relating to this lockup and repurchase agreement. On September 24, 2001, the Company amended this agreement with Mr. Fioretti to release him from his lockup and repurchase agreement so that Mr. Fioretti could sell 3,500,000 of his common shares to Mr. J. Stanley Fredrick, shareholder and board member, and the Company subsequently discontinued stock repurchases from Mr. Fioretti.

In 2001, 2002, and 2003, the Company recorded commission expense for a former major shareholder and executive officer, Mr. William Fioretti, of approximately $117,000, $85,000 and $18,000, respectively. Mr. William Fioretti is the cousin of Mr. Charles Fioretti.

On September 28, 2001, the Company entered into an agreement with Mr. Ray Robbins, a high-level associate, shareholder, board member, and Company co-founder, to sell him 815,009 shares of the Company's treasury stock at a price of $1.00 per share.

In October 2001, the Company entered into an agreement with Mr. J. Stanley Fredrick, a board member, to pay him $185,000 per year for consulting services and a lock-up provision, which prohibited him from selling his Mannatech stock while the agreement was in effect. In June 2003, the Company modified this agreement to increase the annual payment to Mr. Fredrick to $285,000 because he was providing additional advice and performing various functions for the Company. In November 2003, the Company cancelled this modified agreement and entered into a new Lock-Up Agreement whereby the Company pays Mr. Fredrick $185,000 per year. In addition, on November 6, 2003, the Company agreed to pay Mr. Fredrick $100,000 annually, to act as a lead director for its board of directors.

On June 4, 2002, Dr. John Axford was elected to the Company's board of directors. The Company paid Dr. Axford $35,000, $20,000 and $8,000 during 2001, 2002, and 2003, respectively, related to various research and development consulting fees. In October 2002, the Company signed a three-year agreement with St. Georges' Hospital, the employer of Dr. Axford, to fund a grant for $148,000, to help fund a clinical trial. St. Georges Hospital is located in London, England where Dr. Axford is the principal investigator in the clinical trial funded by the Company for St. George's Hospital.

NOTE 10: EMPLOYMENT AGREEMENTS

Effective September 1, 1998, the Company entered into a five-year employment agreement with Dr. Bill H. McAnalley, its Chief Science Officer and Senior Vice President of Research and Development. The employment agreement expired in August 2003. In August 2003, the Company entered into a new two-year employment agreement with Dr. McAnalley. Under the terms of this new two-year agreement, Dr. McAnalley's annual salary was increased to $330,000 and he is also eligible to participate in all employee benefits available to other Company executives. If the Company cancels the employment agreement without cause, the Company is required to pay his remaining annual salary for the duration of the agreement.

On November 1, 1999, the Company entered into a three-year employment agreement with Mr. Terry L. Persinger, its Chief Operating Officer, President and board member. The employment agreement specifies an annual salary and provides that either party can cancel the agreement. If the Company cancels the employment agreement without cause, the Company is required to pay his annual salary for the remaining duration of the agreement. Mr. Persinger is also eligible to participate in all employee benefits available to other Company executives. On November 1, 2001, the Company amended this employment agreement to extend the term to December 31, 2004 and to increase his annual salary to $340,000 beginning on January 1, 2002.

On May 5, 2000, Mr. Samuel L. Caster resigned as the Company's President. On June 1, 2000, the Company entered into a consulting agreement with Mr. Caster. Under the terms of the agreement, the Company agreed to pay Mr. Caster $50,000 per month plus automobile lease expenses, insurance, and other expenses. During 2000, 2001, and 2002, the Company incurred expenses related to this agreement of approximately $312,000, $628,000, and $162,000. On March 5, 2002, the Company's board of directors elected to terminate the consulting agreement with Mr. Caster and hire him as an employee. In October 2002, the Company entered into a written employment agreement with Mr. Caster whereby Mr. Caster is employed by the Company until December 31, 2005 and is paid an annual salary of $600,000. Mr. Caster is also eligible to participate in all employee benefits available to other Company executives. The Company is obligated to pay the remainder of the agreement until December 31, 2005, except in the case of resignation, death, incapacitation, or termination with cause.

On June 4, 2001, Mr. Charles Fioretti resigned as the Company's Chairman of the Board and as an employee and the Company entered into a separation agreement and full and final release agreement with him. Under the terms of the separation agreement, the Company agreed to purchase 50,000 shares of Mr. Fioretti's common stock valued at $1.45 per share and pay him $600,000 on June 11, 2001 and $600,000 on June 11, 2002.

On December 29, 2000, the Company entered into a separation agreement with Mr. Anthony Canale, who resigned as its Chief Operating Officer of International Operations as of February 28, 2001. The Company agreed to pay Mr. Canale $400,000 on March 1, 2001, $250,000 on February 28, 2002, and $250,000 on February 28, 2003. In addition, on March 1, 2001, the Company agreed to grant Mr. Canale a total of 213,333 fully vested warrants, which are exercisable for seven years at prices ranging from $1.75 to $4.00 per share. As of December 31, 2003, none of his warrants had been exercised.

In the second quarter of 2001, the Company recorded a severance charge of $3.4 million related to severance agreements with several former officers of the Company including, among others, Ms. Deanne Varner and Mr. Patrick Cobb. Under the terms of their agreements, the executives are bound by certain non-compete and confidentiality clauses and the Company agreed to pay Ms. Varner and Mr. Cobb an aggregate amount of $817,000 in 2001, $624,000 in 2002, $544,000 in 2003, and $150,000 in 2004. The payments consist of various charges including compensation related to the cancellation of their employment agreements, health insurance, and automobile expenses. The Company also agreed to grant Ms. Varner a total of 163,333 stock options and Mr. Patrick Cobb a total of 60,000 stock options, all at exercise prices ranging from $1.75 to $4.00 per share. The stock options vested on the date they were granted and as of December 31, 2003, all of Mr. Cobb's stock options were exercised and all but 500 stock options were exercised by Ms. Varner.

In July 2002, the Company entered into a Non-Compete and Confidentiality Agreement with Dr. H. Reginald McDaniel, a former employee who resigned from the Company in June 2002. Under the terms of the Non-Compete and Confidentiality Agreement, the Company agreed to pay Dr. McDaniel $25,000 a month, as consideration for his continued compliance with the non-compete clause of this agreement. In July 2003, the Company agreed to renew the term of this Non-Compete and Confidentiality Agreement for an additional year and continue to pay Dr. McDaniel $25,000 a month through June 2004.

On April 15, 2003, Robert M. Henry resigned from the Company as its Chief Executive Officer and as a member of its Board of Directors, and the Company entered into a Separation Agreement with Mr. Henry. Under the terms of the Separation Agreement, the Company was required to pay Mr. Henry a total of $1.4 million, of which $0.8 million remained unpaid at December 31, 2003. The Company will pay Mr. Henry $0.4 million in 2004 and the remaining $0.4 million in 2005. The severance payments primarily related to the Company's contractual obligations of Mr. Henry's terminated employment agreement, which would have expired in 2004, outplacement fees, attorney fees, relocation fees, health and life insurance, and title to his leased vehicle. In addition, the Company extended the term of Mr. Henry's 266,667 vested stock options to the earlier of ten years from the original date of grant or one year after Mr. Henry's death and recorded a one-time non-cash compensation charge of $0.6 million. As of December 31, 2003, Mr. Henry had exercised 108,333 of his stock options. Pursuant to the Separation Agreement, Mr. Henry agreed to provide certain consulting services to the Company through December 31, 2005 and is prohibited from being affiliated with another dietary supplement network-marketing company that specializes in products that are glyconutritional or aloe-based for a specified period.

In September 2003, the Company recorded a severance charge of $0.4 million related to the resignation of Mr. Brad Wayment, its Senior Vice President of Marketing. During 2003, the Company also paid $0.2 million to various employees related to various severance agreements, which primarily related to salary and benefits. Subsequently, in October 2003, the Company entered into an agreement with Mr. Wayment whereby the Company agreed to accelerate the vesting period for 16,666 of Mr. Wayment's stock options and to extend the term of Mr. Wayment's 100,000 stock options from November 1, 2003 until October 13, 2004. The change in Mr. Wayment's stock options resulted in the Company recording an additional non-cash compensation charge of $0.3 million in the fourth quarter of 2003. As of December 31, 2003, Mr. Wayment had exercised all but 10,000 of his stock options.

NOTE 11: EMPLOYEE BENEFIT PLANS

Employee Retirement Plan

Effective May 9, 1997, the Company adopted a Defined Contribution 401(k) and Profit Sharing Plan (the "Plan") for its United States employees. The Plan covers all full-time employees who have completed three months of service and attained the age of twenty-one. United States Employees can contribute up to 100% of their annual compensation, but are limited to the maximum dollar allowable under the Internal Revenue Code. The Company matches 25% of the first 6% contributed and may also make discretionary contributions to the Plan, which may not exceed 100% of the first 15% of the employees' annual compensation. Company contributions, to the United States employees, vest ratably over a five-year period. During 2001, 2002, and 2003, the Company contributed approximately $185,000, $288,000 and $129,000, respectively, to the Plan.

The Company sponsors a retirement plan for its full-time employees of its Japanese operations. The Company accrued $0.1 million related to the estimated pension plan benefit, which is primarily related to the participants' compensation and years of credited service. Pursuant to FAS 87 and FAS 132R, the Company has not made additional disclosures related to this retirement plan, due to lack of materiality of this obligation.

Stock Option Plans

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

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

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

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

	2001		2002		2003	
	Shares (000s)	*Weighted average exercise price*	*Shares (000s)*	*Weighted average exercise price*	*Shares (000s)*	*Weighted average exercise price*
Outstanding at beginning of year	3,553	$4.44	3,371	$3.65	3,366	$3.64
Granted	1,060	$2.55	100	$2.50	297	$7.04
Exercised	(111)	$1.53	—	$ —	(1,065)	$2.87
Canceled	(1,131)	$5.30	(105)	$2.76	(285)	$2.76
Outstanding at end of year	**3,371**	**$3.65**	**3,366**	**$3.64**	**2,313**	**$4.53**
Options exercisable at year end	**1,462**	**$4.27**	**2,437**	**$4.02**	**1,978**	**$4.33**
Weighted-average fair value of options granted during the year		**$2.04**		**$1.98**		**$4.72**

The following table summarizes information with respect to options outstanding and exercisable at December 31, 2003, in thousands, except per share information:

		Options outstanding		Options exercisable	
	Number of shares (000s)	*Weighted average exercise price*	*Weighted average remaining contractual life (in years)*	*Number of shares (000s)*	*Weighted average exercise price*
$1.07 – $2.00	154	$1.17	4.8	137	$1.61
$2.25 – $2.69	1,209	$2.64	6.7	1,114	$2.63
$3.49 – $5.46	122	$3.81	7.3	84	$3.69
$7.00 – $8.20	828	$7.96	5.8	643	$7.92
$1.07 – $8.20	**2,313**	**$4.53**	**6.4**	**1,978**	**$4.33**

As discussed in Note 10, during 2001, the Company issued 223,333 stock options and 213,333 warrants to former executives as part of their severance agreements. The stock options and warrants are exercisable immediately at prices ranging from $1.75 to $4.00 per share and have terms of seven to ten years. As of December 31, 2003, all but 500 of the stock options were exercised but none of the warrants had been exercised. The stock options and warrants requires variable accounting treatment, which requires the Company to record a compensation charge equal to the difference between the fair market price and the exercise price of these options each quarter. In 2001, 2002, and 2003, the Company recorded compensation expense (income) related to these stock options and warrants totaling $53,680, ($53,680), and $1.5 million, respectively.

The Company, as part of compensation to its board of directors, issues stock options to its new independent board members. In June 2002, the Company issued 50,000 stock options to Alan Kennedy and John Axford, respectively, who were elected as independent directors. The stock options vest immediately, are exercisable at an exercise price of $2.50 per share and have a term of ten years. In June 2003, the Company issued 50,000 stock options to Gerald Gilbert, an independent director, the stock options vest over three years, are exercisable at an exercise price of $3.49 per share and have a term of ten years. In November 2003, the Company issued 25,000 stock options to Patricia Wier, an independent director, the stock options vest over three years, are exercisable at a price of $7.45 per share, and have a term of ten years. In November 2003, the Company also issued 200,000 stock options to Samuel Caster, its Chairman and CEO and who is also a 22.0% owner of the Company's stock. Twenty percent of Mr. Casters' stock options vested immediately, thereafter his remaining stock options vest ratably over four years and are exercisable at an exercise price of $8.195 per share and has a term of 5 years.

NOTE 12: COMMITMENTS AND CONTINGENCIES

Operating Leases

The Company leases certain office space, automobiles, and computer hardware and warehouse equipment under various noncancelable operating leases. Some of these leases have options to renew. The leases expire at various times through January 2007. The Company also leases equipment under various month-to-month cancelable operating leases. Total rent expense was approximately $2.1 million, $2.0 million, and $2.1 million in 2001, 2002, and 2003, respectively. During 2002, the Company entered into a master lease to lease approximately $300,000 of computer hardware under a noncancelable master lease. The master lease contained seven separate three-year operating leases that expire at various times through October 2005. In April 2003, the Company obtained an additional master operating lease with a financial institution to lease additional computer hardware in an amount of $0.4 million that is payable through October 2006. In February 2004, the Company entered into a master operating lease line-of-credit with a financing company to lease up to $1.0 million in computer hardware. As of March 1, 2004, the Company had not used this lease line-of-credit.

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

Year ending December 31,	
2004	$1,902
2005	1,089
2006	894
January 2007	308
	$4,193

Purchase Commitments

The Company maintains a purchase commitment with one of its suppliers to purchase its raw material, called Manapol®. In December 2003, the Company renewed its purchase commitment. Under the terms of the new purchase commitment, the Company and its manufacturers are collectively required to purchase from this supplier, a minimum monthly volume of $0.3 million of raw materials at an agreed upon price through November 2004.

Royalty Agreements

The Company maintains a royalty agreement with Jett, a high level associate and a 4.8% shareholder whereby the Company agreed to pay Jett a total of $1.6 million related to certain royalties. The Company agreed to pay him a royalty of $5.00 for each specific training material and sales aid that is developed by him and sold by the Company. At December 31, 2002 and 2003, the Company paid Jett royalties associated with this agreement of $0.1 million and $0.4 million, respectively, which accumulated to $0.5 million.

On August 7, 2003, the Company entered into a royalty agreement with Dr. Bill McAnalley. While Dr. McAnalley is employed by the Company, the Company agreed to pay him the greater of his annual royalties or an annual executive bonus. In 2003, the Company accrued $0.1 million related to this royalty agreement. After employment with the Company ceases, the Company would be required to pay Dr. McAnalley, or his heirs, royalties that are based on its global product sales in excess of $105.4 million. This royalty agreement is effective during the course of Dr. McAnalley's employment with the Company plus ten years thereafter.

The Company also utilizes royalty agreements with individuals and entities to provide compensation for items such as reprints of articles or speeches relating to the Company, sales of promotional videos featuring sports personalities, and promotional efforts used by the Company for product sales or attracting new associates. Total royalties expenses for such royalty agreements were approximately $0.4 million, $0.5 million, and $0.4 million in 2001, 2002, and 2003, respectively.

NOTE 13: CAPITAL STOCK

Preferred Stock

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

Treasury Stock

During 2000 and 2001, the Company acquired an aggregate of 798,701 shares of common stock from Mr. Charles Fioretti for a total cost of $1.2 million as described more fully in Notes 9 and 10. As described in Note 9, in September 2001, the Company agreed to sell 815,009 shares of the Company's treasury stock to Mr. Ray Robbins. In December 2001, Dr. Bill McAnalley tendered 27,701 shares of his common stock to the Company, at the current market price on the date of transfer, in order to exercise 74,074 of his stock options. In September 2003, Dr. McAnalley tendered another 12,422 shares of his common stock to the Company, at the current market price on the date of transfer, in order to exercise an additional 74,074 of his stock options. In November 2003, an executive officer of the Company tendered 3,626 shares of their common stock to the Company, at the current market price on the date of transfer, in order to exercise 15,000 of her stock options.

NOTE 14: LITIGATION

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

In February 2003, the Australian Therapeutic Goods Administration, referred to as the TGA, notified the Company that it was the subject of an investigation. In March 2003, the Company was further notified that the allegations by the TGA related to four separate incidents over the period from November 2002 through March 2003. The notification by the TGA alleged that the Company and/or its independent associates made certain claims or representations in Australia relating to the Company's products that either breached the Therapeutic Goods Advertising Code or resulted in violations of the Therapeutic Goods Act 1989. As a result, the Company took certain corrective actions, including initiating investigative compliance complaint procedures against certain of its independent associates alleged to have breached the Company's associates' policies and procedures. In June 2003, the Company received a letter from the TGA stating that subject to additional information about the specific outcomes of the complaint procedures, the TGA did not intend to take any further action against the Company and as a result, the Company considers this matter to be closed.

On November 21, 2003, the Company was again contacted by the TGA with regard to several associate promotional materials that were submitted to the TGA. The Company continues to work with the TGA in resolving these complaints and has asked for additional information from the TGA, so it can initiate any appropriate action in accordance with its associate policies and procedures. As of March 1, 2004, the Company had not received any further response from the TGA and therefore, the Company is unable to determine the scope of the TGA inquiry or the facts giving rise to a potential violation.

The Company has several pending claims incurred in the normal course of business. In the opinion of management such claims, including those referred to above, can be resolved without any material affect on the Company's consolidated financial condition or results of operations.

NOTE 15: EARNINGS PER SHARE

The following data shows the amounts used in computing EPS and their effect on the Company's weighted-average number of common shares and dilutive common share equivalents for the years ended December 31, 2001, 2002 and 2003. At December 31, 2001, all of the Company's 3.4 million common stock options and 213,333 warrants were excluded from its diluted EPS calculation using a weight-average close price of $1.50 per share, as their effect was antidiluted. At December 31, 2002, 2.9 million of the Company's common stock options and 213,333 warrants were excluded from its diluted EPS calculation using a weighted-average close price of $1.56 per share, as their effect was antidiluted. At December 31, 2003, 0.8 million of the Company's common stock options were excluded from its diluted EPS calculation using a weighted-average close price of $5.34 per share, as their effect were antidilutive. The amounts are rounded to the nearest thousands, except for per share amounts.

	2001			2002			2003		
	Loss (Numerator)	Shares (Denominator)	Per Share Amount	Income (Numerator)	Shares (Denominator)	Per Share Amount	Income (Numerator)	Shares (Denominator)	Per Share Amount
Basic EPS:									
Net income (loss) available to common shareholders	($3,660)	24,730	($0.15)	$1,888	25,135	$0.08	$8,790	25,494	$0.34
Effect of dilutive securities –									
Stock options	—	—	—	—	130	(0.01)	—	635	—
Stock warrants	—	—	—	—	—	—	—	46	—
Diluted EPS:									
Net income (loss) available to common shareholders plus assumed conversions	**($3,660)**	**24,730**	**($0.15)**	**$1,888**	**25,265**	**$0.07**	**$8,790**	**26,175**	**$0.34**

NOTE 16: SEGMENT INFORMATION

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

The Company aggregates its operating segments because it operates as a single reportable segment as a seller of nutritional supplements through its network-marketing distribution channels operating in six different countries. In each country, the Company markets their products and pays commissions and incentives in similar environments. The Company's management reviews its financial information by country and concentrates its internal reporting and analysis of revenues on pack sales and product sales. The Company sells its products through its independent associates and distributes its products through similar distribution channels in each country. Each of the Company's operations sells primarily the same products and possesses similar economic characteristics such as similar gross margins. The Company's Canadian operations is serviced through its United States corporate facility and its products are shipped through a third party distribution facility located in Canada. The Company's New Zealand operations is serviced through its Australian operations and its products are shipped through a third party distribution facility located in Australia. None of its other foreign operations exceed 10% of consolidated net sales or assets. Net sales by country and pack and product information are as follows:

Year	United States		Canada		Australia		United Kingdom		Japan		New Zealand *		Totals
2001	$ 99.3	77.1%	$18.1	14.1%	$ 4.4	3.4%	$1.2	1.0%	$ 5.7	4.4%	$ —	—%	$128.7
2002	$105.0	74.5%	$16.4	11.6%	$ 6.6	4.7%	$1.6	1.1%	$ 9.0	6.4%	$2.3	1.7%	$140.9
2003	**$127.8**	**67.0%**	**$16.7**	**8.7%**	**$15.6**	**8.2%**	**$5.0**	**2.6%**	**$18.6**	**9.7%**	**$7.3**	**3.8%**	**$191.0**

* New Zealand began operations in June 2002.

	Twelve months ended December 31, 2001	2002 (in millions)	2003
Consolidated Product sales	$102.4	$105.5	$144.3
Consolidated Pack sales	19.5	29.2	39.0
Consolidated Other, including freight	6.8	6.2	7.7
Total	**$128.7**	**$140.9**	**$191.0**

Canada and New Zealand operations operate through offices in the United States and Australia, respectively. Long-lived assets by country includes property, plant and equipment and for the year ended December 31, 2001, 2002, and 2003 are as follows (in millions):

Country	2001	2002	2003
Australia	$ 0.4	$0.3	$0.3
Japan	0.7	0.5	0.5
United Kingdom	0.3	0.2	0.1
United States	9.0	6.5	4.6
	$10.4	**$7.5**	**$5.5**

Special Note Regarding Forward-Looking Statements

This report contains "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933, as amended, Section 21E of the Securities Exchange Act of 1934, as amended, and the Private Securities Litigation Reform Act of 1995. These forward-looking statements generally can be identified by use of phrases or terminology such as "may," "believes," and "plans," or other similar words or the negative of such terminology. Similarly, descriptions of Mannatech's objectives, strategies, plans, goals, or targets contained herein are also considered forward-looking statements. Mannatech cautions its readers that these forward-looking statements speak only of the date of this report and are subject to certain known and unknown events, risks, uncertainties, and other factors. Some of these factors include, among others, Mannatech's inability to attract and retain associates and members, increases in competition, litigation, regulatory changes, and its planned growth into new international markets. Although Mannatech believes that its expectations, statements, and assumptions reflected in these forward-looking statements are reasonable, it cautions its readers to always consider all of the risk factors and any other cautionary statements carefully in evaluating each forward-looking statement in this report. For further discussion of these and other factors that could affect Mannatech's future results, readers of this report should refer to the various reports and documents filed with the Securities and Exchange Commission.

CORPORATE INFORMATION

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www.mannatech.com

Investor Relations:
For investor information, inquiries, reports and filings with the SEC email request to IR@mannatech.com or call (972) 471-6512.

Independent Auditors:
PricewaterhouseCoopers LLP
2001 Ross Avenue, Suite 1800
Dallas, Texas 75201

Registrar and Transfer Agent:
EquiServe Trust Company N.A.
(877) 498-8861
www.equiserve.com

Annual Shareholders' Meeting:
Mannatech's annual shareholder' meeting will be held at 10:00 a.m. Central Daylight Time on June 7, 2004, for shareholders of record on April 20, 2004.

Stock Listing:
Mannatech's stock is listed on the NASDAQ National Market under the symbol "MTEX".

COMMON STOCK PRICES

	Low	*High*
2002:		
First Quarter	$1.56	$ 3.15
Second Quarter	$2.11	$ 3.43
Third Quarter	$1.33	$ 2.69
Fourth Quarter	$1.15	$ 2.75
2003:		
First Quarter	$1.49	$ 5.56
Second Quarter	$2.12	$ 7.93
Third Quarter	$5.04	$ 8.68
Fourth Quarter	$5.52	$14.00

As of March 8, 2004, there were approximately 4,600 shareholders of record and the total number of outstanding shares of its common stock was 26,232,052. Mannatech did not pay any dividends in 2002 or 2003. On January 21, 2004, Mannatech's Board of Directors declared a $0.10 per common share dividend, payable on March 12, 2004 for shareholders owning shares on the close of business on February 20, 2004. Thereafter, Mannatech's Board of Directors will periodically reevaluate its dividend policy based on its consolidated results of operations, financial condition, cash requirements, and other relevant factors. Any payments of dividends are subject to certain limitations under the Texas Business Corporation Act.

Board of Directors

Samuel L. Caster
Chairman of the Board and
Chief Executive Officer,
Mannatech, Incorporated
(3,4#,5)

J. Stanley Fredrick
Lead Director,
Owner of Fredrick Consulting Services
(1#,2*,3*,4*)

Terry L. Persinger
President and
Chief Operating Officer,
Mannatech, Incorporated
(3,5)

Marlin Ray Robbins
Independent Associate,
Mannatech, Incorporated
(3,5)

Alan D. Kennedy**
Retired, President Worldwide
for Tupperware Corporation
(1,2,4,5,6)

Gerald E. Gilbert**
Of Counsel, Hogan and
Hartson, L.L.P.
(1,2,4,5,6*)

Dr. John Stewart Axford**
Member of the Faculty at St.
George's Hospital and Medical
School, University of London
(5*)

Patricia A. Wier**
Owner of Patricia
Wier, Inc.
(1*,2,6)

*(1) Audit Committee, (2) Compensation and Stock Option Plan Committee, (3) Executive Committee,
(4) Nominating and Governance Committee, (5) Science Committee, (6) Qualified Legal Compliance Committee*
**Committee Chairman, #Non-voting Member, ** Independent Director*

10 YEARS ON THE CUTTING EDGE

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